

METLIFE INC  
Form 10-K  
March 02, 2009

**Table of Contents**

**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, 2008**

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:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$0.01	New York Stock Exchange
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
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

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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 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

Accelerated filer

Non-accelerated filer

Smaller reporting

(Do not check if a smaller reporting company)

company

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 as of June 30, 2008 was approximately \$37 billion. As of February 20, 2009, 818,081,294 shares of the registrant's common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

**The information required to be furnished pursuant to part of Item 10 and Item 11 through Item 14 of Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 28, 2009, 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, 2008.**

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**Table Of Contents**

	<b>Page Number</b>
<b><u>Part I</u></b>	
<u>Item 1.</u> <u>Business</u>	3
<u>Item 1A.</u> <u>Risk Factors</u>	31
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	59
<u>Item 2.</u> <u>Properties</u>	59
<u>Item 3.</u> <u>Legal Proceedings</u>	60
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	65
<b><u>Part II</u></b>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	66
<u>Item 6.</u> <u>Selected Financial Data</u>	68
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	72
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	237
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	247
<u>Item 9.</u> <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	248
<u>Item 9A.</u> <u>Controls and Procedures</u>	248
<u>Item 9B.</u> <u>Other Information</u>	250
<b><u>Part III</u></b>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	251
<u>Item 11.</u> <u>Executive Compensation</u>	251
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	251
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	252
<u>Item 14.</u> <u>Principal Accountant Fees and Services</u>	252
<b><u>Part IV</u></b>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	253
<b><u>Signatures</u></b>	254
<b><u>Exhibit Index</u></b>	E-1
<u>EX-4.5: FIFTH SUPPLEMENTAL INDENTURE</u>	
<u>EX-4.6: SIXTH SUPPLEMENTAL INDENTURE</u>	
<u>EX-10.4: FORM OF MANAGEMNET STOCK OPTION AGREEMENT</u>	
<u>EX-10.7: FORM OF DIRECTOR STOCK OPTION AGREEMENT</u>	
<u>EX-10.41: METLIFE DEFERRED COMPENSATION PLAN FOR OFFICERS</u>	
<u>EX-10.47: AMENDMENT NO. 2 TO LEADERSHIP DEFERRED COMPENSATION PLAN</u>	
<u>EX-10.48: DEFERRED COMPENSATION PLAN FOR OUTSIDE DIRECTORS</u>	
<u>EX-10.53: NON-MANAGEMENT DIRECTOR DEFERRED COMPENSATION PLAN</u>	

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EX-10.58: AMENDMENT #1 TO AUXILIARY PENSION PLAN

EX-10.59: AMENDMENT NO. 2 TO THE AUXILIARY PENSION PLAN

EX-10.69: AMENDMENT NO. 18 TO THE MPTA

EX-10.70: AMENDMENT NO. 19 TO THE MPTA

EX-10.71: AMENDMENT NO. 20 TO THE MPTA

EX-10.72: AMENDMENT NO. 21 TO THE MPTA

EX-12.1: STATEMENT RE: COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

EX-21.1: SUBSIDIARIES OF THE REGISTRANT

EX-23.1: CONSENT OF DELOITTE & TOUCHE LLP

EX-31.1: CERTIFICATION

EX-31.2: CERTIFICATION

EX-32.1: CERTIFICATION

EX-32.2: CERTIFICATION

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**Table of Contents**

**Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K, including the 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. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about MetLife, Inc., its subsidiaries or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

may apply standards of materiality in a way that is different from what may be viewed as material to investors; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about MetLife, Inc. and its subsidiaries may be found elsewhere in this Annual Report on Form 10-K and MetLife, Inc.'s other public filings, which are available without charge through the SEC's website at [www.sec.gov](http://www.sec.gov).

**Table of Contents**

**Part I**

**Item 1. Business**

As used in this Form 10-K, MetLife, the Company, we, our and us refer to MetLife, Inc., a Delaware corporation incorporated in 1999 (the Holding Company ), and its subsidiaries, including Metropolitan Life Insurance Company ( MLIC ).

We are a leading provider of individual insurance, employee benefits and financial services with operations throughout the United States and the regions of Latin America, Europe, and Asia Pacific. Through our subsidiaries and affiliates, we offer life insurance, annuities, automobile and homeowners insurance, retail banking and other financial services to individuals, as well as group insurance and retirement & savings products and services to corporations and other institutions.

We are one of the largest insurance and financial services companies in the United States. Our franchises and brand names uniquely position us to be the preeminent provider of protection and savings and investment products in the United States. In addition, our international operations are focused on markets where the demand for insurance and savings and investment products is expected to grow rapidly in the future.

Our well-recognized brand names, 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 specific strategies to achieve our goals:

*Build on widely recognized brand names*

*Capitalize on a large customer base*

*Enhance capital efficiency*

*Expand distribution channels*

*Continue to introduce innovative and competitive products*

*Focus on international operations*

*Maintain balanced focus on asset accumulation and protection products*

*Manage operating expenses commensurate with revenue growth*

*Further commit to a diverse workplace*

*Capitalize on retirement income needs*

We are organized into four operating segments: Institutional, Individual, International and Auto & Home, as well as Corporate & Other. Revenues derived from any customer, or from any class of similar products or services, within

each of these segments did not exceed 10% of consolidated revenues in any of the last three years. Financial information, including revenues, expenses, income and loss, and total assets by segment, is provided in Note 22 of the Notes to the Consolidated Financial Statements.

## Overview

### *2008 Market and Economic Events Impacting Our Business*

The U.S. and global financial markets experienced extraordinary dislocations during 2008, especially in the second half of the year, producing challenges for our company and the financial services industry generally. Concerns which had originally arisen over the value of subprime mortgage loans backing certain classes of mortgage-backed securities and other financial products and investment vehicles spread during the year to the financial services sector as a whole, as investors questioned the asset quality and capital strength of banks and other financial institutions that held these investments or were otherwise exposed to them. Beginning in the summer and continuing through the end of the year, these concerns in turn led to a dramatic increase in credit spreads,



**Table of Contents**

particularly in the financial sector, and sharp drops in the market value of a wide range of financial instruments. Concerns over the creditworthiness of banks and other financial institutions also led to a severe contraction in lending activity, both among financial institutions and more generally, as lenders sought to increase their own liquidity to bolster their ability to withstand the stresses in the financial markets and to protect themselves against the loss of credit from other institutions. Many investors reduced or eliminated their holdings of asset-backed and corporate securities and purchased Treasury securities and other securities viewed as offering greater liquidity and credit quality, while investors in hedge funds and other collective investment vehicles sought to redeem their investments, requiring the funds to sell assets to satisfy redemption requests. During the third quarter and especially the fourth quarter, trading markets for certain kinds of financial instruments contracted severely or dried up altogether, further contributing to price declines, while concerns over the health of the economy and the possibility of defaults and bankruptcies also weighed on the value of debt securities. The application of fair value accounting principles in conditions of a dislocated market and low levels of liquidity brought into question the accuracy of fair valuations of certain securities.

As the crisis worsened, a number of significant, well-known financial institutions failed or required extraordinary government assistance to keep from failing. Investor concerns over the financial strength and solvency of financial institutions and the impact of the credit crisis on the economy also resulted in sharp declines in equity prices both within the financial services sector and in the broader stock market, especially in the last third of the year. The Standard & Poor's 500 Index fell 37% during the year, with the most dramatic declines occurring in the second half, and volatility of stock prices reached extraordinarily high levels. The stock prices of major life insurance companies, including ours, registered sharp declines, especially in the fourth quarter, driven by investor concerns over the quality of their investment assets, exposures to guarantees that protect the customer against declines in equity markets and their overall liquidity and financial strength.

Interest rates dropped significantly during the year and the yield curve grew steeper. The Federal Funds rate fell from 4.25% at the beginning of 2008 to a range of 0.0% to 0.25% at the end of 2008, while the yield on ten-year Treasury obligations decreased from 3.91% at the beginning of the year to 2.25% at the end of the year.

The financial market stress and concerns over economic weakness led the United States government and governments around the world to take unprecedented actions to shore up their economies and financial markets, including, in the United States, the reduction of the Federal Funds rate, a series of increasingly aggressive actions by the Federal Reserve to provide liquidity and avert failures of major financial institutions, the enactment of the Emergency Economic Stabilization Act of 2008 in October and the enactment of the American Recovery and Reinvestment Act, an economic stimulus bill, in February 2009. A number of foreign governments also took actions to support their economies and banking systems, while in Argentina the government nationalized their private pension system.

The stress in the financial markets and the impact of certain of these government stimulus measures may result in inflation or deflation, although at this point the ultimate outcome cannot be predicted.

During the second half of the year, the value of the dollar appreciated sharply against the British pound, the Euro, the Canadian dollar and other foreign currencies relevant to our operations, including the Mexican peso and the Korean won, while depreciating substantially against the Japanese yen.

Late in 2008, the National Bureau of Economic Research announced that the United States economy was in a recession that had started in December 2007. Globally, economic growth declined from 5.2% in 2007 to an estimated 3.4% in 2008, and is currently predicted to fall to 0.5% in 2009. In the United States, economic growth fell from 2.3% in 2007 to an estimated -0.2% in 2008, and is currently projected to decline to -2.0% in 2009. Unemployment rose during 2008 from just below 5% at the beginning of the year to 7.6% at the end of 2008 with unemployment forecasted to rise to above 8.5% by the end of 2009.

***Impact of 2008 Market and Economic Events on Our Business***

The financial market movements and economic events of 2008 had a significant impact on our results for the year. The impacts of the credit and equity markets had the most significant impact with the recession beginning to impact our business fundamentals.

**Table of Contents**

*Credit Market Impacts.* The widening of credit spreads on corporate debt instruments and concerns over the quality of assets underlying various mortgage-backed and asset-backed securities resulted in significant declines in the market value of many investment assets and a substantial increase in our gross unrealized losses on investments, especially in the third and fourth quarters. The conditions of reduced liquidity that prevailed toward the end of 2008 presented challenges in determining when a decline in the market price of a security was due to reduced liquidity or an actual deterioration in creditworthiness of the issuer. As described below, we recognized impairment charges when we made a determination that the decline in market value of our investments was other than temporary. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Investments.

*Equity Market Impacts.* Declines in the equity markets had a number of significant effects on our results. First, these declines increased the costs of guaranteed minimum benefits on certain annuity contracts, which led to increases in policyholder benefits and claims in our Individual segment and caused significant losses on embedded derivatives in our Individual and International segments, which are reflected in net investment gains and losses as discussed in greater detail below. We have put in place freestanding derivatives to hedge our economic exposure to these embedded derivatives. In addition, equity market declines reduced separate account values, resulting in a decrease in fee income and an increase in amortization of deferred policy acquisition costs within our Individual segment. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Policyholder Liabilities; Summary of Critical Accounting Estimates – Deferred Policy Acquisition Costs and Value of Business Acquired; and Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations.

*Foreign Currency Impacts.* The appreciation of the dollar against other currencies in the second half of 2008, especially the British pound, the Euro and the Canadian dollar, had the effect of reducing our liabilities and assets for obligations denominated in those currencies. The appreciation of the dollar against the Mexican peso and the Korean won tended to reduce our equity in and net income from our international operations when translated back into dollars. In the case of the Japanese yen, the depreciation of the dollar in the second half of the year had the effect of increasing our losses on embedded derivatives associated with certain variable annuities when translated into dollars. We use derivatives to manage our exposure to foreign currency exchange rates. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Year Ended December 31, 2008 compared with the Year Ended December 31, 2007 – The Company – Revenues and Expenses – Net Investment Gains and Losses and Management's Discussion and Analysis of Financial Condition and Results of Operations – International.

*Impact on Net Investment Gains (Losses).* We recognized substantial gains on freestanding derivatives that we entered into to hedge our exposures to interest rate risk, foreign currency exchange rate risk and equity price risk. These derivative gains outweighed the losses on embedded derivatives related to guaranteed minimum benefits on variable annuities (which would have been larger if not offset by adjustments due to the widening of our own credit spread as described below) and losses on fixed maturity and equity securities (which were primarily driven by impairments on holdings of financial institutions) and resulted in significant net investment gains for the year. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Year Ended December 31, 2008 compared with the Year Ended December 31, 2007 – The Company – Revenues and Expenses – Net Investment Gains and Losses.

*Impact of Credit Spread Widening and Fair Value Accounting.* The widening of our own credit spread in the third and fourth quarters had a beneficial effect on our results, particularly in our Individual and International segments, by dampening the impact of declines in equity market prices on the valuation of our embedded derivatives associated with guarantees on variable annuities. The substantial decreases in equity prices during the year increased the liability for guaranteed minimum benefits on variable annuities, which is reflected as a loss on embedded derivatives in net investment gains and losses. Because we carry that liability at fair value under SFAS No. 157, *Fair Value Measurements*, ( SFAS 157 ), which we adopted effective January 1, 2008, we take our own credit spread into account in determining the fair value. The widening of our own credit spread during 2008 substantially reduced the amount of

the loss on embedded derivatives. A narrowing of our own credit spread in the future could result in net investment losses as the derivative gain is reduced. See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Year Ended December 31,

**Table of Contents**

2008 compared with the Year Ended December 31, 2007    The Company    Revenues and Expenses    Net Investment Gains and Losses.

*Pension and Postretirement Benefit Plan Obligation Impacts.* The dramatic deterioration in the credit and equity markets produced significant declines in the market value of the assets supporting our pension and postretirement benefit plan obligations, resulting in changes in the funded status of such plans which will affect our results of operations in 2009. See    Management's Discussion and Analysis of Financial Condition and Results of Operations    Pensions and Other Postretirement Benefit Plans.

*Goodwill Impacts.* In addition to our annual goodwill impairment tests performed during the third quarter of 2008 based upon data as of June 30, 2008, we performed an interim goodwill impairment test as of December 31, 2008, in light of current economic conditions, the sustained low level of equity markets, declining market capitalizations in the insurance industry and lower operating earnings projections, particularly for the Individual segment. Based upon the tests performed, management concluded no impairment of goodwill had occurred for any of the Company's reporting units at December 31, 2008. See    Management's Discussion and Analysis of Financial Condition and Results of Operations    Goodwill.

*Impact on Net Investment Income.* Investment yields declined in many asset classes, principally other limited partnerships (including hedge funds), real estate joint ventures, cash and short-term investments, and mortgage loans, causing net investment income to decrease from 2007 levels. Our results on securities lending were higher than in the prior year. See    Management's Discussion and Analysis of Financial Condition and Results of Operations    Results of Operations    Year Ended December 31, 2008 compared with the Year Ended December 31, 2007    The Company    Revenues and Expenses    Net Investment Income.

*Business Fundamentals and Other Events.* Although financial market factors had the largest impact on our performance in 2008, some factors not related to financial market developments also affected our results. Top-line growth was strong, with particularly large increases in premiums, fees and other revenues in our Institutional segment and our International segment. Net interest margins decreased in our Individual segment and in the retirement & savings business in our Institutional segment but increased in the group life business of Institutional. Less favorable underwriting results than in 2007 affected our Institutional and Individual segments, while the Auto & Home segment was impacted by increased catastrophe losses compared to 2007. The effects of pension reform in Argentina in 2007 and the nationalization of the Argentine pension business in 2008 affected our International results. In Corporate & Other, results were affected by increases in revenues and expenses resulting from the growth of MetLife Bank, National Association ( MetLife Bank or MetLife Bank, N.A. ) and increased expenses associated with implementation of an enterprise-wide cost reduction and revenue enhancement initiative, higher corporate support expenses and increased interest expense. During 2008, we also completed the split-off of our majority ownership stake in Reinsurance Group of America, Incorporated. See    Management's Discussion and Analysis of Financial Condition and Results of Operations    Results of Operations    Year Ended December 31, 2008 compared with the Year Ended December 31, 2007    The Company.

*Securities Lending Program.* As institutional investors sought greater liquidity during the third and fourth quarter of 2008 in response to the turbulent credit markets and financial institution crisis, we systematically reduced the size of our securities lending program in-line with demand. The drop in the securities lending volume was more than offset, however, by an increase in the rates charged for securities lending transactions. See    Management's Discussion and Analysis of Financial Condition and Results of Operations    Liquidity and Capital Resources.

*Liquidity Position.* We purposefully enhanced own liquidity position in the second half of the year by holding historically high levels of cash, cash equivalents and short-term investments, which further pressured net investment income with the substantial decline in short-term interest rates over the year. To manage liquidity across our

businesses we utilized intersegment transfers of assets rather than selling assets into the marketplace and we have participated, to a limited extent, in certain of the government programs. We are managing our increased levels of liquidity and their impact on the matching of our assets and liabilities through our well established asset/liability management processes. For a comprehensive description of the impact of 2008 events on our liquidity see

Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Extraordinary Market Conditions.

**Table of Contents**

*Capital Transactions.* In the midst of these extraordinary market conditions, we were able to raise capital through offerings of common stock and senior debt. In October 2008, we issued 86,250,000 shares of common stock at a price of \$26.50 per share for gross proceeds of \$2.3 billion in order to strengthen our capital position and increase our cushion against potential realized and unrealized losses. In August 2008 and February 2009, we successfully remarketed a total of \$2,070 million of ten-year senior debt, with coupon rates of 6.817% for notes maturing in August 2018 and 7.717% for notes maturing in February 2019. The proceeds of both remarketings were used to satisfy holders' obligations to purchase common stock of the Company under the stock purchase contracts forming part of our common equity units issued in 2005. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

*Ratings.* Rating agencies continue to monitor insurance companies, including ours, as described in Company Ratings.

***Continuing Effects of Market and Economic Conditions on Our Business***

During 2009, management expects that the United States and international economies will continue to feel the impact of the extraordinary economic and financial market movements and events of 2008, with a continuation of financial market volatility, as the effects of recession on our business become more pronounced. More specifically, management anticipates the following impacts on MetLife's businesses in 2009:

a modest increase (on a constant exchange rate basis) in premiums, fees and other revenues in 2009, with mixed results across MetLife's segments, including (i) lower fee income from separate accounts businesses, including variable annuity and life products in the Individual segment; (ii) a possible decline in payroll-linked revenue from the Institutional segment's group insurance customers; (iii) a reduction in the demand for certain retirement and savings products from the International and Institutional segments; and (iv) as a result of the impact of the recession on the housing market and the auto industry, a decrease in premiums from the Auto and Home segment;

continued downward pressure on net income across the enterprise, specifically net investment income, resulting from lower returns from other limited partnerships, real estate joint ventures and securities lending and ongoing uncertainty over the direction of interest rates, together with difficulty predicting the impact of the financial markets on net investment gains (losses) and unrealized investment gains (losses), as well as the effects of MetLife's own credit, as it varies greatly and the exposure is not hedged;

the potential need to establish additional insurance-related liabilities, both those associated with guarantees (which are offset to some extent through hedging) and those not; and

the possible increase in certain expenses, including those associated with (i) the Company's Operational Excellence initiative; (ii) impairments to goodwill, specifically in the Individual segment; (iii) the Company's pension-related expense and (iv) DAC amortization.

In response to the challenges presented by the unusual economic environment, management continues to focus on disciplined underwriting, pricing and hedging strategies, as well as focused expense management.

The ongoing financial turbulence and the governmental responses have affected the competitive environment and may lead to consolidation within the life insurance industry as well as further consolidation in the broader financial services industry. The precise impacts of such events on our business are difficult to predict.

A more detailed discussion of management's view of the outlook for 2009 for each of the Company's operating segments and for Corporate & Other appears in Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Outlook.

**Institutional**

Our Institutional segment offers a broad range of group insurance and retirement & savings products and services to corporations and other institutions and their respective employees. 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 United States.



## **Table of Contents**

Group insurance products and services include group life insurance, non-medical health insurance products and related administrative services, as well as other benefits and services, such as employer-sponsored auto and homeowners insurance provided through the Auto & Home segment and prepaid legal services plans. Non-medical health insurance is comprised of products such as accidental death and dismemberment ( AD&D ), long-term care ( LTC ), short- and long-term disability, individual disability income, dental insurance, and prepaid legal services. 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. Revenues applicable to these group insurance products and services were \$16 billion and \$14 billion, in 2008 and 2007, respectively, representing 31% and 30% of our total revenues in 2008 and 2007, respectively.

Our retirement & savings products and services include an array of annuity and investment products, including, guaranteed interest products and other stable value products, accumulation and income annuities, and separate account contracts for the investment management of defined benefit and defined contribution plan assets. Revenues applicable to our retirement & savings products were \$8 billion in both 2008 and 2007 representing 16% and 17% of our total revenues in 2008 and 2007, respectively.

### ***Marketing and Distribution***

Our Institutional segment markets our products and services through sales forces, comprised of MetLife employees, for both our group insurance and retirement & savings lines.

We distribute our group insurance products and services through a sales force that is segmented by the size of the target customer. Marketing representatives sell either directly to Corporate & Other institutional customers or through an intermediary, such as a broker or consultant. Voluntary products are sold through the same sales channels, as well as by specialists for these products. Employers have been emphasizing such voluntary products and, as a result, we have increased our focus on communicating and marketing to such employees in order to further foster sales of those products. As of December 31, 2008, the group insurance sales channels had 357 marketing representatives, which represented a decrease of 10% from 398 marketing representatives as of the end of the prior year.

Our retirement & savings organization markets retirement, savings, investment and payout annuity products and services to sponsors and advisors of benefit plans of all sizes. These products and services are offered to private and public pension plans, collective bargaining units, nonprofit organizations, recipients of structured settlements and the current and retired members of these and other institutions.

We distribute retirement & savings products and services through dedicated sales teams and relationship managers located in 9 offices around the country. In addition, the retirement & savings organization works with the distribution channels in the Individual segment and in the group insurance area to better reach and service customers, brokers, consultants and other intermediaries.

We have entered into several joint ventures and other arrangements with third parties to expand the marketing and distribution opportunities of institutional products and services. We also seek to sell our institutional products and services through sponsoring organizations and affinity groups. For example, we are the provider of LTC products for the National Long-Term Care Coalition, a group of some of the nation's largest employers. In addition, the Company, together with John Hancock Financial Services, Inc., a wholly-owned subsidiary of Manulife Financial Corporation, is a provider for the Federal Long-Term Care Insurance program. The program, available to most federal employees and their families, is the largest employer-sponsored LTC insurance program in the country based on the number of enrollees. In addition, we also provide life and dental coverage to federal employees.

### ***Group Insurance Products and Services***

Our group insurance products and services include:

*Group Life.* Group life insurance products and services include group term life (both employer-paid basic life and employee-paid supplemental life), group universal life, group variable universal life, dependent life and survivor income benefits. These products and services are offered as standard products or may be

## **Table of Contents**

tailored to meet specific customer needs. This category also includes specialized life insurance products designed specifically to provide solutions for non-qualified benefit and retiree benefit funding purposes.

*Non-Medical Health.* Non-medical health insurance consists of short- and long-term disability, individual disability income, critical illness, LTC, dental and AD&D coverages. As a result of an acquisition in 2008, we now offer a dental managed care product in select markets. We also sell administrative services-only arrangements to some employers.

*Other Products and Services.* Other products and services include employer-sponsored auto and homeowners insurance provided through the Auto & Home segment and prepaid legal plans.

### ***Retirement & Savings Products and Services***

Our retirement & savings products and services include:

*Guaranteed Interest and Stable Value Products.* We offer guaranteed interest contracts ( GICs ), including separate account GICs, funding agreements and similar products.

*Accumulation and Income Annuities.* We also sell fixed and variable annuity products, generally in connection with the termination of pension plans, both domestically and in the United Kingdom, or the funding of structured settlements. Annuity products include single premium buyouts, terminal funding contracts and structured settlement annuities.

*Other Retirement & Savings Products and Services.* Other retirement & savings products and services include separate account contracts for the investment management of defined benefit and defined contribution plan assets on behalf of corporations and other institutions.

### **Individual**

Our Individual segment offers a wide variety of protection and asset accumulation products aimed at serving the financial needs of our customers throughout their entire life cycle. Products offered by Individual include insurance products, such as traditional, variable and universal life insurance, and variable and fixed annuities. In addition, Individual sales representatives distribute disability insurance and long-term care (LTC) insurance products offered by our Institutional segment, investment products such as mutual funds and wealth advisory services, as well as other products offered by our other businesses.

Our broadly recognized brand names and strong distribution channels have allowed us to become the second largest provider of individual life insurance and annuities in the United States, with \$17 billion of total statutory individual life and annuity premiums and deposits through September 30, 2008, the latest period for which OneSource, a database that aggregates United States insurance company statutory financial statements, is available. According to research performed by the Life Insurance Marketing and Research Association ( LIMRA ), based on sales through September 30, 2008, we are the sixth largest issuer of individual variable life insurance in the United States and the fifth largest issuer of all individual life insurance products in the United States. In addition, according to research done by LIMRA and based on new annuity deposits through September 30, 2008, we are the third largest annuity writer in the United States.

During the period from 2004 to 2008, our first year statutory deposits for life products increased at a compound annual growth rate of approximately 1%. Life deposits represented approximately 28% and 32% of total statutory premiums and deposits for Individual in 2008 and 2007, respectively. During the period from 2004 to 2008, the

statutory deposits for annuity products increased at a compound annual growth rate of approximately 14%. Annuity deposits represented approximately 72% and 68% of total statutory premiums and deposits for Individual in 2008 and 2007, respectively. Individual had \$15.6 billion and \$15.4 billion of total revenues, or 31% and 33% of our total revenues, in 2008 and 2007, respectively. These premiums, deposits and revenues can and will fluctuate with market volatility as noted and discussed in the Risk Factors section of this document.

In 2008 we realigned resources, which did not change our product reporting groups, into the Life and Protection Solutions Group, the Retirement and Wealth Strategies Group, the Individual Distribution group, and the Strategic Architecture & Business Performance group. In this new organizational structure, we will focus

## **Table of Contents**

even more on the key factors that will ensure continued success in growing markets, profitable products, diverse distribution and efficient management of our resources.

### ***Marketing and Distribution***

Our Individual segment 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.

Life and Protection Solutions products are sold through MetLife's Individual Distribution organization and also through various third party organizations utilizing two models. In the coverage model, wholesalers sell to 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. In the point of sale model, wholesalers sell through financial intermediaries, including regional broker dealers, brokerage firms, financial planners and banks.

Retirement and Wealth Strategies products are sold through MetLife's Individual Distribution organization and also through various third party organizations such as regional broker dealers, New York Stock Exchange ( NYSE ) brokerage firms, financial planners and banks.

*Individual Distribution.* The Individual Distribution organization 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.

*MetLife Distribution Channel.* The MetLife Distribution Channel had 6,362 MetLife agents under contract in 98 agencies at December 31, 2008 as compared to 6,243 agents under contract in 98 agencies at December 31, 2007. The 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.

*New England Financial Distribution Channel.* At December 31, 2008, the New England Financial Distribution Channel included 43 general agencies providing support to 2,278 general agents and a network of independent brokers throughout the United States. 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.* MetLife Resources, a focused distribution channel of MetLife, markets retirement, annuity and other financial products on a national basis through 660 MetLife agents and independent brokers at December 31, 2008. MetLife Resources targets the nonprofit, educational and healthcare markets.

*Discontinued Distribution Channel.* MetLife, Inc. has entered into an agreement to sell Texas Life Insurance Company ( Texas Life ) in early 2009. At December 31, 2008, the results of Texas Life are reported as discontinued operations. Texas Life's premiums and deposits were less than 2% of total premiums and deposits for 2008 and 2007.

### ***Products***

We offer a wide variety of individual insurance, as well as annuities and investment-type products, aimed at serving our customers' financial needs throughout their entire life cycle.

### ***Life and Protection Solution Products***

Our individual insurance products include variable life products, universal life products, traditional life products, including whole life and term life, and other individual products, including individual disability and LTC insurance.

We continually review and update our products. We have introduced new products and features designed to increase the competitiveness of our portfolio and the flexibility of our products to meet the broad range of asset accumulation, life-cycle protection and distribution needs of our customers.

**Table of Contents**

*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 accounts or directed to the Company's general account. In the separate accounts, the policyholder bears the entire risk of the investment results. We collect specified fees for the management of these various investment accounts and any net return is credited directly to the policyholder's account. In some instances, third-party money management firms manage investment accounts that support variable insurance products. 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 and interest, 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.

*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.

*Term Life.* Term life provides 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. Decreasing coverage is used principally to provide for loan repayment in the event of death. 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.

*Other Individual Products.* Individual 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.

Our LTC insurance provides a fixed benefit for certain costs associated with nursing home care and other services that may be provided to individuals unable to perform certain activities of daily living.

In addition to these products, our Individual segment supports a group of low face amount life insurance policies, known as industrial policies that its agents sold until 1964.

*Retirement and Wealth Strategies Products*

We offer a variety of individual annuities and investment products, including variable and fixed annuities, and mutual funds and securities.



## **Table of Contents**

*Variable Annuities.* We offer variable annuities for both asset accumulation and asset distribution needs. Variable annuities allow the contractholder to make deposits into various investment accounts, as determined by the contractholder. The investment accounts are separate accounts and risks associated with such investments are borne entirely by the contractholder. 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.

*Fixed Annuities.* Fixed annuities are used 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 ten years. Fixed income annuities provide a guaranteed monthly income for a specified period of years and/or for the life of the annuitant.

*Mutual Funds and Securities.* Through our broker-dealer affiliates, we offer a full range of mutual funds and other securities products.

## **International**

International provides life insurance, accident and health insurance, credit insurance, annuities, endowment and retirement & savings products to both individuals and groups. We focus on emerging markets primarily within the Latin America, Europe and Asia Pacific regions. We operate in international markets through subsidiaries and joint ventures. See *Risk Factors* Fluctuations in Foreign Currency Exchange Rates and Foreign Securities Markets Could Negatively Affect Our Profitability, and *Risk Factors* Our International Operations Face Political, Legal, Operational and Other Risks that Could Negatively Affect Those Operations or Our Profitability, and *Quantitative and Qualitative Disclosures About Market Risk*.

### ***Latin America***

We operate in the Latin America region in the following countries: Mexico, Chile, Argentina, Brazil and Uruguay. The operations in Mexico and Chile represented 82% of the total premiums and fees in this region for the year ended December 31, 2008. The Mexican operation is the largest life insurance company in both the individual and group businesses in Mexico. The Chilean operation is the largest annuity company in Chile, based on market share. The Chilean operation also offers individual life insurance and group insurance products. In 2008, our Argentine pension business, which was the second largest in the market ceased to exist as a result of the nationalization of the private pension system by the Argentine government. We also actively market individual life insurance, group insurance products and credit life coverage in Argentina, but the nationalization of the pension system substantially reduces our presence in Argentina. The business environment in Argentina has been, and may continue to be, affected by governmental and legal actions which impact our results of operations.

### ***Europe***

We operate in Europe in the following countries: the United Kingdom, Belgium, Poland and Ireland. The results of our operation in India are also included in this region. The operation in the United Kingdom represented 54% of the total premiums and fees in this region for the year ended December 31, 2008. The United Kingdom operation underwrites risk in its home market and fourteen other countries across Europe offering credit insurance coverage.

*Asia Pacific*

We operate in the Asia Pacific region in the following countries: South Korea, Taiwan, Australia, Japan, Hong Kong and China. The activities in the region are primarily focused on individual business. The operations in South Korea and Taiwan represented 70% of the total premiums and fees in this region for the year ended December 31, 2008. The South Korean operation has significant sales of variable universal life and annuity products. The

## **Table of Contents**

Taiwanese operation has significant sales of annuity and endowment products. In 2007, we completed the sale of our Australia annuities and pension businesses to a third party. The Japanese joint venture operation offers fixed and guaranteed variable annuities and variable life products. We have a quota share reinsurance agreement with the joint venture in Japan, whereby we assume 100% of the living and death benefit guarantee riders associated with the variable annuity business written after April 2005 by the joint venture. The operating results of the joint venture operations in Japan and China are reflected in net investment income and are not consolidated in the financial results. Also, in 2007 we acquired the remaining 50% interest in a joint venture in Hong Kong resulting in the joint venture becoming a consolidated subsidiary.

## **Auto & Home**

Auto & Home, operating through Metropolitan Property and Casualty Insurance Company and its subsidiaries ( MPC ), offers personal lines property and casualty insurance directly to employees at their employer's worksite, as well as to individuals through a variety of retail distribution channels, including independent agents, property and casualty specialists, direct response marketing and the agency distribution group. Auto & Home primarily sells auto insurance, which represented 69% of Auto & Home's total net earned premiums in 2008, and homeowners and other insurance, which represented 31% of Auto & Home's total net earned premiums in 2008.

## ***Products***

Auto & Home's insurance products include auto, homeowners, renters, condominium and dwelling, and other personal lines.

*Auto Coverages.* Auto insurance policies include coverages for private passenger automobiles, utility automobiles and vans, motorcycles, motor homes, antique or classic automobiles and trailers. Auto & Home offers traditional coverages such as liability, uninsured motorist, no fault or personal injury protection and collision and comprehensive.

*Homeowners and Other Coverages.* Homeowners insurance provides 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 coverages for recreational vehicles and boat owners.

Traditional insurance policies for dwellings represent the majority of Auto & Home's homeowners' policies providing protection for loss on a replacement cost basis. These policies provide additional coverage for reasonable, normal living expenses incurred by policyholders that have been displaced from their homes.

## ***Marketing and Distribution***

Personal lines auto and homeowners insurance products are directly marketed to employees at their employer's worksite. Auto & Home products are also marketed and sold to individuals by independent agents, property and casualty specialists, through a direct response channel and through the agency distribution group. Current economic conditions have impacted the ability to sell new policies. Declines in a variety of economic factors, most notably falling new and existing home sales as well as declines in auto sales, have reduced the number of potential shopping points strongly associated with new policy sales. Sales to employees at their employer's worksite was the only distribution sector to record increased sales during 2008 over those achieved in 2007.

## ***Employer Worksite Programs***

Auto & Home is a leading provider of auto and homeowners products offered to employees at their employer's worksite. Net earned premiums increased by \$27 million, or 2.6%, to \$1.0 billion for the year ended December 31, 2008 as compared to the prior year. At December 31, 2008, 2,136 employers offered MetLife Auto & Home products to their employees.

Institutional marketing representatives market the Auto & Home program to employers through a variety of means, including broker referrals and cross-selling to MetLife group customers. Once permitted by the employer,

## **Table of Contents**

MetLife commences marketing efforts to employees. Employees who are interested in the auto and homeowners products can call a toll-free number to request a quote, to purchase coverage and to request payroll deduction over the telephone. Auto & Home has also developed proprietary software that permits an employee in most states to obtain a quote for auto insurance through Auto & Home's Internet website.

### ***Retail Distribution Channels***

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

*Agency Distribution Group Career Agency System.* The agency distribution group career agency system had 1,610 agents at December 31, 2008, that sold Auto & Home insurance products, representing a 6% decrease from 1,720 agents in the prior year.

*Independent Agencies.* At December 31, 2008, Auto & Home maintained contracts with more than 4,580 agencies and brokers, representing a 2% increase of 80 agencies.

*Property and Casualty Specialists.* At December 31, 2008, Auto & Home had 500 specialists located in 35 states as compared to 550 specialists located in 37 states in the prior year. Auto & Home's strategy is to utilize property and casualty specialists, who are Auto & Home employees, in geographic markets that are underserved by MetLife career agents.

*Other Distribution Channels.* Auto & Home also utilizes a direct response marketing channel which permits sales to be generated through sources such as target mailings, career agent referrals and the Internet.

In 2008, Auto & Home's business was concentrated in the following states, as measured by net earned premiums: New York \$383 million, or 13%; Massachusetts \$304 million, or 10%; Illinois \$205 million, or 7%; Florida \$188 million, or 6%; Connecticut \$144 million, or 5%; and Texas \$119 million, or 4%.

### ***Claims***

At December 31, 2008, Auto & Home's claims department included 2,400 employees located in Auto & Home's Warwick, Rhode Island home office, nine field claim offices, five in-house counsel offices, drive-in inspection sites and other sites throughout the United States. These employees included claim adjusters, appraisers, attorneys, managers, medical specialists, investigators, customer service representatives, claim financial analysts and support staff. Claim adjusters, representing the majority of employees, investigate, evaluate and settle over 700,000 claims annually.

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

Corporate & Other contains the excess capital not allocated to the business segments, which is invested to optimize investment spread and to fund company initiatives, various start-up entities, MetLife Bank which includes the 2008 acquisitions of a residential mortgage originating and servicing business and a reverse mortgage company, and run-off entities. Corporate & Other also includes interest expense related to the majority of our outstanding debt and expenses associated with certain legal proceedings. The elimination of all intersegment transactions from activity between segments occurs within Corporate & Other. In addition, Corporate & Other contains the restructuring costs of Operational Excellence, a corporate initiative further described below.

*Operational Excellence Initiative*

As a result of a strategic review which began in 2007, the Company has initiated an enterprise-wide cost reduction and revenue enhancement initiative referred to as Operational Excellence. This initiative is focused on reducing complexity, leveraging scale, increasing productivity, improving the effectiveness of the Company's operations as well as providing a foundation for future growth.

Restructuring costs for Operational Excellence will encompass costs related to workforce reductions, lease consolidation, and asset impairments. Operational Excellence restructuring costs will occur in phases. In 2008, the

## **Table of Contents**

restructuring charge, primarily related to severance costs associated with workforce reductions, was \$101 million. Additional restructuring charges including costs associated with severance and lease and asset impairments are expected to be incurred in 2009 and 2010. However, the 2009 and 2010 plans are not sufficiently developed to enable the Company to make an estimate of such restructuring charges at December 31, 2008. In addition to the restructuring costs, there have been and will continue to be external consulting costs incurred throughout the execution of the initiative. The consultants support our project teams in terms of strategic direction and implementation. Costs incurred in connection with Operational Excellence are reflected in Corporate & Other as it is an enterprise-wide corporate initiative.

The scope and timing of this enterprise-wide initiative could be impacted by continued adverse economic conditions, capital market volatility and changes in strategic priorities.

## **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. We compute the amounts for actuarial liabilities reported in our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ). For more details on Policyholder Liabilities see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Liability for Future Policy Benefits and Management's Discussion and Analysis of financial Condition and Results of Operations Insurance Liabilities.

Pursuant to state insurance laws, the Holding Company'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 generally differ from actuarial liabilities for future policy benefits determined using GAAP.

The New York Insurance Law and regulations require certain MetLife entities to submit to the New York Superintendent of Insurance (the Superintendent) 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 amounts, make adequate provision for their statutory liabilities with respect to these obligations. See Regulation Insurance Regulation Policy and Contract Reserve Sufficiency Analysis.

## **Underwriting and Pricing**

### ***Institutional, Individual and International Insurance Products***

Our underwriting for the Institutional, Individual and International segments generally involves an evaluation of applications for life, non-medical health, retirement & savings, products and services by a professional staff of underwriters and actuaries, who determine the type and the amount of risk that we are willing to accept. In addition to the products described above, the International segment, also offers credit insurance and in a limited number of countries major medical products to both individual and institutional customers. 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.

Individual 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, employees 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 generally a policy is not issued unless the particular risk or group has been examined and approved by our underwriters.



## **Table of Contents**

Our remote underwriting offices, intermediaries as well as our corporate underwriting office are periodically reviewed via continuous ongoing internal underwriting audits to maintain high-standards of underwriting and consistency across the company. 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.

### ***Individual, Institutional and International Pricing***

Pricing for the Institutional, Individual and International segments has traditionally reflected our corporate underwriting standards. Product pricing of insurance products is based on the expected payout of benefits calculated through the use of assumptions for mortality, 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 Institutional segment and for institutional business sold within the International segment, 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 the Company. 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 the Company to recoup certain losses or distribute certain gains back to the policyholder based on actual prior years experience.

We continually review our underwriting and pricing guidelines so that our policies remain competitive and supportive of our marketing strategies and profitability goals. The current economic environment, with its volatility and uncertainty in interest rates, equity markets, asset valuations and unemployment trends has impacted or will most likely impact the pricing of our products.

For the Institutional segment and for the institutional business sold within the International segment, rates for group life and group non-medical and health products are based on anticipated results for the book of business being underwritten. Renewals are generally re-evaluated annually or biannually and are re-priced to reflect actual experience on such products. Retirement & savings type products are priced frequently and are very responsive to bond yields, and such prices include additional margin in periods of market uncertainty. This business is predominantly illiquid, because policyholders have no contractual rights to cash values and no options to change the form of the product's benefits.

For the Individual segment and for individual business sold within the International segment, pricing of life insurance products is highly regulated and must be approved by the individual state regulators where the product is sold. Generally such products are renewed annually and may include pricing terms that are guaranteed for a certain period of time. Fixed and variable annuity products are also highly regulated and approved by the individual state 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. The Company periodically reevaluates the costs associated with such options and will periodically adjust pricing levels on its guarantees. Further, the Company from time to time may also reevaluate the type and level of guarantee features currently being offered.

### ***Auto & Home***

Auto & Home s underwriting function has six principal aspects:

evaluating potential worksite marketing employer accounts and independent agencies;

establishing guidelines for the binding of risks;

**Table of Contents**

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 Auto & Home to issue 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 Auto & Home's distribution channels, as well as in our Institutional segment, have binding authority for risks which fall within Auto & Home's 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, Auto & Home generally has the right within a specified period (usually the first 60 days) to cancel any policy.

Auto & Home establishes prices for its major lines of insurance based on its proprietary database, rather than relying on rating bureaus. Auto & Home determines 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), 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 insured's personal financial management. Auto & Home's ability to set and change rates is subject to regulatory oversight.

As a condition of our license to do business in each state, Auto & Home, like all other automobile insurers, is required to write or share the cost of private passenger automobile 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.

We continually review our underwriting and pricing guidelines so that our policies remain competitive and supportive of our marketing strategies and profitability goals. The current economic environment, with its volatility and uncertainty is not expected to materially impact the pricing of our products.

**Reinsurance Activity**

We cede premiums to reinsurers under various agreements 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 the risk and minimize the effect of losses. The amount of each risk retained by us depends on our evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on the characteristics of coverages. We also cede first dollar mortality risk under certain contracts. We obtain reinsurance when capital requirements and the economic terms of the reinsurance make it appropriate to do so. We reinsure our business through a diversified group of reinsurers.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the ceded amount in the event the claim is paid. However, we remain liable to our policyholders with respect to ceded reinsurance should any reinsurer be unable to meet its obligations under these agreements. Since we bear the risk of nonpayment by one or more of our reinsurers, we primarily cede reinsurance to well-capitalized, highly rated reinsurers. We evaluate the financial strength of our reinsurers by monitoring their ratings and analyzing their financial statements. We also analyze recent trends in arbitration and litigation outcomes in disputes, if any, with our reinsurers. Recoverability of reinsurance recoverable balances are evaluated based on these analyses. We generally secure large reinsurance recoverable balances with various forms of collateral, including irrevocable letters of credit, secured trusts and funds withheld accounts.

## **Table of Contents**

### ***Individual***

Our life insurance operations participate in reinsurance activities in order to limit losses, minimize exposure to large risks, and provide additional capacity for future growth. We have historically reinsured the mortality risk on new individual life insurance policies primarily on an excess of retention basis or a quota share basis. Until 2005, we reinsured up to 90% of the mortality risk for all new individual life insurance policies that we wrote through our various franchises. This practice was initiated by the different franchises for different products starting at various points in time between 1992 and 2000. During 2005, we changed our retention practices for certain individual life insurance policies. Amounts reinsured in prior years remain reinsured under the original reinsurance; however, under the new retention guidelines, we reinsure up to 90% of the mortality risk in excess of \$1 million for most new individual life insurance policies that we write through our various franchises and for certain individual life policies the retention limits remained unchanged. On a case by case basis, we may retain up to \$20 million per life and reinsure 100% of amounts in excess of our retention limits. We evaluate our reinsurance programs routinely and may increase or decrease our retention at any time. In addition, we reinsure a significant portion of the mortality risk on our individual universal life policies issued since 1983. Placement of reinsurance is done primarily on an automatic basis and also on a facultative basis for risks with specific characteristics.

We also reinsure a portion of the living and death benefit riders issued in connection with our variable annuities. Under these reinsurance agreements, we pay a reinsurance premium generally based on rider fees collected from policyholders and receive reimbursements for benefits paid or accrued in excess of account values, subject to certain limitations. We enter into similar agreements for new or in-force business depending on market conditions.

In addition to reinsuring mortality risk as described above, we reinsure other risks, as well as specific coverages. We routinely reinsure certain classes of risks in order to limit our exposure to particular travel, avocation and lifestyle hazards. We have exposure to catastrophes, which could contribute to significant fluctuations in our results of operations. We use excess of retention and quota share reinsurance arrangements to provide greater diversification of risk and minimize exposure to larger risks.

### ***Institutional***

The Institutional segment generally retains most of its risks and does not significantly utilize reinsurance. We may, on certain client arrangements, cede particular risks to reinsurers.

### ***Auto & Home***

Auto & Home purchases reinsurance to control our exposure to large losses (primarily catastrophe losses) and to protect statutory surplus. Auto & Home cedes to reinsurers a portion of losses and cedes premiums based upon the risk and exposure of the policies subject to reinsurance.

To control our exposure to large property and casualty losses, Auto & Home utilizes property catastrophe, casualty, and property per risk excess of loss agreements.

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

We also reinsure through 100% quota-share reinsurance agreements certain long-term care and workers compensation business written by MetLife Insurance Company of Connecticut ( MICC ), a subsidiary of the Company, prior to our acquisition of MICC. These run-off businesses have been included within Corporate & Other since the acquisition of MICC.



**Table of Contents*****Reinsurance Recoverables***

Information regarding ceded reinsurance recoverable balances, included in premiums and other receivables in the consolidated balance sheet is as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In millions)</b>	
Future policy benefit recoverables	\$ 8,258	\$ 6,842
Deposit recoverables	2,258	2,616
Claim recoverables	319	271
All other recoverables	232	48
Total	\$ 11,067	\$ 9,777

Our five largest reinsurers account for \$7,651 million, or 69%, of our total reinsurance recoverable balances of \$11,067 million at December 31, 2008. Of these reinsurance recoverable balances, \$5,194 million were secured by funds held in trust as collateral and \$209 million were secured through irrevocable letters of credit issued by various financial institutions. We evaluate the collectibility of reinsurance recoverable balances as described previously and at December 31, 2008 allowances for uncollectible balances were not material.

**Regulation*****Insurance Regulation***

Metropolitan Life Insurance Company is licensed to transact insurance business in, and is subject to regulation and supervision by, all 50 states, the District of Columbia, Guam, Puerto Rico, Canada, the U.S. Virgin Islands and Northern Mariana Islands. Each of MetLife's insurance subsidiaries is licensed and regulated in each U.S. and international jurisdiction where they conduct insurance business. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurers, including standards of solvency, statutory reserves, reinsurance and capital adequacy, and the business conduct of insurers. In addition, statutes and regulations usually require the licensing of insurers and their agents, the approval of policy forms and certain other related materials and, for certain lines of insurance, the approval of rates. Such statutes and regulations also prescribe the permitted types and concentration of investments. The New York Insurance Law limits both the amounts of agent compensation throughout the United States, as well as the sales commissions and certain other marketing expenses that may be incurred in connection with the sale of life insurance policies and annuity contracts.

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.

The National Association of Insurance Commissioners ( NAIC ) has established a program of accrediting state insurance departments. NAIC accreditation contemplates that accredited states will conduct periodic examinations of insurers domiciled in such states. NAIC-accredited states will not accept reports of examination of insurers from

unaccredited states, except under limited circumstances. As a direct result, insurers domiciled in unaccredited states may be subject to financial examination by accredited states in which they are licensed, in addition to any examinations conducted by their domiciliary states. The New York State Department of Insurance (the Department), MLIC's principal insurance regulator, has not received accreditation. Historically, the lack of accreditation has resulted from the New York legislature's failure to adopt certain model NAIC laws, although legislation enacted by the New York legislature in 2007 may have removed any statutory barriers to the Department pursuing accreditation. While the Department may seek to become accredited in the future, it is not certain whether other impediments to accreditation remain. We do not believe that the absence of this accreditation will have a significant impact upon our ability to conduct our insurance businesses.



## **Table of Contents**

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 the Holding Company 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 Legal Proceedings.

*Holding Company Regulation.* The Holding Company and its insurance subsidiaries are subject to regulation under the insurance holding company laws of various 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 The Holding Company Liquidity and Capital Sources Dividends. The New York Insurance Law and the regulations thereunder also restrict the aggregate amount of investments MLIC may make in non-life insurance subsidiaries, and provide for detailed periodic reporting on subsidiaries.

*Guaranty Associations and Similar Arrangements.* Most of the jurisdictions in which the Company's insurance subsidiaries are admitted to transact business require life and property and casualty insurers doing business within the jurisdiction to participate in guaranty associations, 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 for assessments with respect to insurers that are currently subject to insolvency proceedings. See Management's Discussion and Analysis of Financial Condition and Results of Operations Insolvency Assessments.

*Statutory Insurance Examination.* 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. During the three-year period ended December 31, 2008, MetLife has not received any material adverse findings resulting from state insurance department examinations of its insurance subsidiaries conducted during this three-year period.

Regulatory authorities in a small number of states have had investigations or inquiries relating to MLIC's, New England Life Insurance Company's (NELICO) or General American Life Insurance Company's (GALIC) sales of individual life insurance policies or annuities. Over the past several years, these and a number of investigations by other regulatory authorities were resolved for monetary payments and certain other relief. We may continue to resolve investigations in a similar manner.

*Policy and Contract Reserve Sufficiency Analysis.* Annually, MetLife's U.S. insurance subsidiaries are required to conduct an analysis of the sufficiency of all statutory reserves. In each case, a qualified actuary must submit an

opinion which states that the statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, the insurer must set up additional reserves by moving funds from surplus. Since inception of this requirement, the Company's insurance subsidiaries which are required by their states of domicile to provide these opinions have provided such opinions without qualifications.

**Table of Contents**

*Surplus and Capital.* The Company's U.S. insurance subsidiaries are subject to the supervision of the regulators in each jurisdiction in which they are licensed to transact business. Regulators have discretionary authority, in connection with the continued licensing of these insurance subsidiaries, to limit or prohibit 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. See Risk-Based Capital.

*Risk-Based Capital ( RBC ).* Each of the Company's U.S. insurance subsidiaries is subject to certain RBC requirements and reports its RBC based on a formula calculated by applying factors to various asset, premium and statutory reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate 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 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 these subsidiaries 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 adopted the Codification of Statutory Accounting Principles ( Codification ) in 2001. Codification was intended to standardize regulatory accounting and reporting to state insurance departments. However, statutory accounting principles continue to be established by individual state laws and permitted practices. The Department has adopted Codification with certain modifications for the preparation of statutory financial statements of insurance companies domiciled in New York. Modifications by the various state insurance departments may impact the effect of Codification on the statutory capital and surplus of the Company's insurance subsidiaries.

*Regulation of Investments.* Each of the Company's U.S. insurance subsidiaries are subject to state laws and regulations that require diversification of its 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 the Company's insurance subsidiaries complied, in all material respects, with such regulations at December 31, 2008.

*Federal Initiatives.* Although the federal government generally does not directly regulate the insurance business, 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; the potential for this resides primarily in the tax-writing committees. At the present time, we do not know of any federal legislative initiatives that, if enacted, would adversely impact our business, results of operations or financial condition. These federal measures may have an adverse impact on our business, results of operations or financial condition. See Risk Factors There Can be No Assurance that actions of the U.S. Government, Federal Reserve Bank of New York and Other Governmental and Regulatory Bodies for the Purpose of Stabilizing the Financial Markets Will Achieve the Intended Effect.

*Legislative Developments.* On August 17, 2006, President Bush signed the Pension Protection Act of 2006 ( PPA ) into law. This act is considered to be the most sweeping pension legislation since the adoption of the Employee Retirement Income Security Act of 1974 ( ERISA ) on September 2, 1974. The provisions of the PPA, some of which were effective immediately and some which become effective through 2012, may, over time, have a significant impact on demand for pension, retirement savings, and lifestyle protection products in both the institutional and retail markets. The impact of the legislation may have a positive effect on the life insurance and financial services industries in the future. In the short-term, regulations on a number of key provisions have either been issued in proposed or final form. The final default investment regulations were issued in October 2007. Final regulations were proposed on investment

advice in October 2008 and final regulations on the selection of annuity providers for defined contribution plans were issued in October 2008, becoming effective in December 2008. As these regulations are likely to interact with one another as plan sponsors evaluate them, we cannot predict whether

## **Table of Contents**

these regulations will be adopted as proposed, or what impact, if any, such proposals may have on our business, results of operations or financial condition.

On December 23, 2008, President Bush signed into law the Worker, Retiree and Employer Recovery Act which, among other things, eases the transition to the new funding requirements contained in the PPA for defined benefit plans.

On February 8, 2006, President Bush signed into law the Deficit Reduction Act which, among other things, created the ability for states to implement an LTC partnership program. States are currently implementing the partnership program. While implementation has generated an increased level of awareness regarding the need to fund long-term care, it is still too early to quantify what effect, if any, this legislation will have on our LTC business.

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.

### ***Governmental Responses to Extraordinary Market Conditions***

*U.S. Federal Governmental Responses.* Throughout 2008 and continuing in 2009, Congress, the Federal Reserve Bank of New York, the U.S. Treasury and other agencies of the Federal government took a number of increasingly aggressive actions (in addition to continuing a series of interest rate reductions that began in the second half of 2007) intended to provide liquidity to financial institutions and markets, to avert a loss of investor confidence in particular troubled institutions and to prevent or contain the spread of the financial crisis. These measures have included:

- expanding the types of institutions that have access to the Federal Reserve Bank of New York's discount window;

- providing asset guarantees and emergency loans to particular distressed companies;

- a temporary ban on short selling of shares of certain financial institutions (including, for a period, MetLife);

- programs intended to reduce the volume of mortgage foreclosures by modifying the terms of mortgage loans for distressed borrowers;

- temporarily guaranteeing money market funds; and

- programs to support the mortgage-backed securities market and mortgage lending.

In addition to these actions, pursuant to the Emergency Economic Stabilization Act of 2008 ( EESA ), enacted in October 2008, the U.S. Treasury has been injecting capital into selected banking institutions and their holding companies. At December 31, 2008, \$250 billion of the total \$700 billion available under EESA had been dedicated to making such capital infusions. EESA also authorizes the U.S. Treasury to purchase up mortgage-backed and other securities from financial institutions as part of the overall \$700 billion available for the purpose of stabilizing the financial markets, although at December 31, 2008, the U.S. Treasury had indicated a general intention not to acquire mortgage-backed and similar securities. The Federal government, the Federal Reserve Bank of New York, the Federal Deposit Insurance Corporation ( FDIC ) and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. For example, the Federal Reserve Bank of New York has been making funds available to commercial and financial companies under a number of programs, including the Commercial Paper Funding Facility (the CPFF ), and the FDIC has established the Temporary Liquidity Guarantee

Program (the FDIC Program ), as discussed further below.

In February 2009, the Treasury Department outlined a financial stability plan with additional measures to provide capital relief to institutions holding troubled assets, including a capital assistance program for banks that have undergone a stress test (the Capital Assistance Program ) and a public-private investment fund to purchase troubled assets from financial institutions. The administration has also announced its Homeowner Affordability and Stability Plan, which includes a number of elements intended to reduce the number of mortgage foreclosures. Further details of this plan are expected to be announced in March. The U.S. government may also establish additional programs to improve liquidity in the financial markets, support asset prices and recapitalize the financial sector. There can be no assurance as to the form of any such additional programs or the impact that these additional

## **Table of Contents**

measures or any existing governmental programs will have on the financial markets, whether on the levels of volatility currently being experienced, the levels of lending by financial institutions, the prices buyers are willing to pay for financial assets or otherwise. The choices made by the U.S. Treasury in its distribution of amounts available under the EESA, the Capital Assistance Program and other programs could have the effect of supporting some aspects of the financial services industry more than others or providing advantages to some of our competitors. See Risk Factors Competitive Factors May Adversely Affect Our Market Share and Profitability.

In addition to the various measures to foster liquidity and recapitalize the banking sector, the Federal government also passed the American Recovery and Reinvestment Act in February 2009 that provides for nearly \$790 billion in additional federal spending, tax cuts and federal aid intended to spur economic activity.

MetLife, Inc. and some or all of its affiliates may be eligible to sell assets to the U.S. Treasury under one or more of the programs established under EESA, and some of their assets may be among those the U.S. Treasury or the public-private investment partnership proposed by the U.S. Treasury offers to purchase, either directly or through auction. Furthermore, as a bank holding company, MetLife, Inc. was eligible to apply for and could be selected to participate in the capital infusion program established under EESA, pursuant to which the U.S. Treasury purchases preferred shares of banking institutions or their holding companies and acquires warrants for their common shares. If we choose to participate in this capital infusion program, we will become subject to requirements and restrictions on our business. Issuing preferred shares and warrants could dilute the ownership interests of stockholders or affect our ability to raise capital in other transactions. We could also become subject to restrictions on the compensation that we can offer or pay to certain executive employees, including incentives or performance-based compensation. These restrictions could hinder or prevent us from attracting and retaining management with the talent and experience to manage our business effectively. Limits on our ability to deduct certain compensation paid to executive employees will also be imposed. The U.S. Treasury may also impose additional restrictions in the future, and such restrictions may apply to institutions receiving government assistance or financial institutions generally. In January 2009, Congress released the remaining \$350 billion (of the \$700 billion) authorized by the EESA. The stimulus legislation enacted in February 2009 contains additional restrictions on executive compensation for companies that have received or will receive Federal financial assistance under EESA, and Congress could impose additional requirements and conditions could be imposed on firms receiving Federal assistance.

Two of our commercial paper programs have been accepted for the CPFF. The CPFF is intended to improve liquidity in short-term funding markets by increasing the availability of term commercial paper funding to issuers and by providing greater assurance to both issuers and investors that firms will be able to rollover their maturing commercial paper. MetLife Short Term Funding LLC, an issuer of commercial paper under a program supported by funding agreements issued by Metropolitan Life Insurance Company and MetLife Insurance Company of Connecticut, was accepted in October 2008 for the CPFF and may issue a maximum amount of \$3.8 billion under the CPFF. At December 31, 2008, MetLife Short Term Funding LLC had used \$1,650 million of its available capacity under the CPFF, and such amount was deposited under the related funding agreements. MetLife Funding, Inc. was accepted in November 2008 for the CPFF and may issue a maximum amount of \$1 billion under the CPFF. No drawdown by MetLife Funding, Inc. has taken place under this facility as of the date hereof.

MetLife, Inc. and MetLife Bank may issue debt guaranteed by the FDIC under the FDIC Program. Under the terms of the FDIC Program, the FDIC will guarantee through June 2012 (or maturity, if earlier) the payment of certain newly-issued senior unsecured debt of MetLife, Inc. or MetLife Bank (or any other eligible affiliate approved to participate by the FDIC) issued prior to October 31, 2009. We have elected the option of excluding specified senior unsecured debt maturing after June 30, 2012, from the guarantee before reaching the limits on the amount of guaranteed debt under the FDIC Program (\$398 million for MetLife, Inc. and \$178 million for MetLife Bank, which may issue debt under its limit, as well as any unused amounts under MetLife, Inc.'s limit). In addition, MetLife Bank has opted out of the component of the FDIC Program that guarantees non-interest bearing deposit transaction

accounts. As of the date hereof, neither MetLife, Inc. nor MetLife Bank has issued debt guaranteed under the FDIC Program. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Extraordinary Market Conditions.



## **Table of Contents**

MetLife Bank has the capacity to borrow from the Federal Reserve Bank of New York's Discount Window and from the Federal Reserve Bank of New York under the Term Auction Facility. As of December 31, 2008, MetLife Bank had borrowed \$950 million under the Term Auction Facility.

*State Insurance Regulatory Responses.* In January 2009, the NAIC considered, but declined, a number of reserve and capital relief requests made by the American Council of Life Insurers, acting on behalf of its member companies. These requests, if adopted, would have generally resulted in lower statutory reserve and capital requirements, effective December 31, 2008, for life insurance companies. However, notwithstanding the NAIC's action on these requests, insurance companies have the right to approach the insurance regulator in their respective state of domicile and request relief. Several MetLife insurance entities requested and were granted relief, with a beneficial impact on capital as of December 31, 2008. We understand that various competitors have also requested and were sometimes granted relief, but we cannot quantify or project the impact on the competitive landscape of such relief or any subsequent regulatory relief that may be granted.

*Foreign Governmental Responses.* In an effort to strengthen the financial condition of key financial institutions or avert their collapse, and to forestall or reduce the effects of reduced lending activity, a number of foreign governments have also taken actions similar to some of those taken by the U.S. Federal government, including injecting capital into domestic financial institutions in exchange for ownership stakes. We cannot predict whether these actions will achieve their intended purpose or how they will impact competition in the financial services industry.

### ***Broker-Dealer and Securities Regulation***

Some of the Company's subsidiaries and their activities in offering and selling variable insurance products are subject to extensive regulation under the federal securities laws administered by the U.S. Securities and Exchange Commission (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 of 1940, as amended (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 the separate accounts are registered with the SEC under the Securities Act of 1933, as amended (the Securities Act). 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 the Financial Industry Regulatory Authority (FINRA). Further, some of the Company's subsidiaries are registered as investment advisers with the SEC under the Investment Advisers Act of 1940, as amended (the Investment Advisers Act), and are also registered as investment advisers in various states, as applicable. Certain variable contract separate accounts sponsored by the Company's 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 the Holding Company 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. 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

**Table of Contents**

be acquired through foreclosure. We cannot provide assurance that unexpected environmental liabilities will not arise. However, based on information currently available to management, management believes 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.

***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, the Internal Revenue Service and the Pension Benefit Guaranty Corporation (PBGC).

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.

***Financial Holding Company Regulation***

*Regulatory Agencies.* In connection with its acquisition of a federally-chartered commercial bank, MetLife, Inc. became a bank holding company and financial holding company on February 28, 2001. As such, the Holding Company is subject to regulation under the Bank Holding Company Act of 1956, as amended (the BHC Act), and to inspection, examination, and supervision by the Board of Governors of the Federal Reserve Bank of New York System (the FRB). In addition, the Holding Company's banking subsidiary is subject to regulation and examination primarily by the Office of the Comptroller of the Currency (OCC) and secondarily by the FRB and the FDIC. The Office of Thrift Supervision has granted our request to suspend processing of our pending applications to convert MetLife Bank, N.A. from a national association to a federal savings bank and to convert MetLife, Inc. from a financial holding company to a savings and loan holding company.

*Financial Holding Company Activities.* As a financial holding company, MetLife, Inc. s activities and investments are restricted by the BHC Act, as amended by the Gramm-Leach-Bliley Act of 1999 (the GLB Act ), to those that are financial in nature or incidental or complementary to such financial activities. Activities that are financial in nature include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking and activities that the FRB has

## **Table of Contents**

determined to be closely related to banking. In addition, under the insurance company investment portfolio provision of the GLB Act, financial holding companies are authorized to make investments in other financial and non-financial companies, through their insurance subsidiaries, that are in the ordinary course of business and in accordance with state insurance law, provided the financial holding company does not routinely manage or operate such companies except as may be necessary to obtain a reasonable return on investment.

*Other Restrictions and Limitations on Bank Holding Companies and Financial Holding Companies Capital.* MetLife, Inc. and its insured depository institution subsidiary, MetLife Bank, are subject to risk-based and leverage capital guidelines issued by the federal banking regulatory agencies for banks and financial holding companies. The federal banking regulatory agencies are required by law to take specific prompt corrective actions with respect to institutions that do not meet minimum capital standards. At December 31, 2008, MetLife, Inc. and MetLife Bank were in compliance with the aforementioned guidelines.

*Other Restrictions and Limitations on Bank Holding Companies and Financial Holding Companies Consumer Protection Laws.* Numerous other federal and state laws also affect the Holding Company's and MetLife Bank's earnings and activities, including federal and state consumer protection laws. The GLB Act included consumer privacy provisions that, among other things, require disclosure of a financial institution's privacy policy to customers. In addition, these provisions permit states to adopt more extensive privacy protections through legislation or regulation.

*Other Restrictions and Limitations on Bank Holding Companies and Financial Holding Companies Change of Control.* Because MetLife, Inc. is a financial holding company and bank holding company under the federal banking laws, no person may acquire control of MetLife, Inc. without the prior approval of the FRB. A change of control is conclusively presumed upon acquisitions of 25% or more of any class of voting securities and rebuttably presumed upon acquisitions of 10% or more of any class of voting securities. Further, 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.

## **Competition**

Our management believes that competition faced by our business segments is based on a number of factors, including service, product features, scale, price, financial strength, claims-paying ratings, credit ratings, ebusiness capabilities and name recognition. We compete 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, 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. Many of our insurance products, particularly those offered by our Institutional segment, 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 turbulence in financial markets that began in the latter half of 2008, 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 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 many companies in our industry to re-examine the pricing and features of the products they offer. 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.

## **Table of Contents**

We must attract and retain productive sales representatives to sell our insurance, annuities and investment products. Strong competition exists among insurance companies 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 [Individual Marketing and Distribution](#). We continue to undertake several initiatives to grow our career agency force, while continuing to enhance the efficiency and production of our existing sales force. We cannot provide assurance that these initiatives will succeed in attracting and retaining new 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 agents.

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. See [Regulation and Risk Factors Changes in U.S. Federal and State Securities Laws May Affect Our Operations and Our Profitability](#).

## **Company Ratings**

Insurer financial strength ratings represent the opinions of rating agencies, including A.M. Best Company ( [A.M. Best](#) ), Fitch Ratings ( [Fitch](#) ), Moody's Investors Service ( [Moody's](#) ) and Standard & Poor's Ratings Services ( [S&P](#) ), regarding the ability of an insurance company to meet its financial obligations to policyholders and contract holders. Credit ratings represent the opinions of rating agencies regarding an issuer's ability to repay its indebtedness.

## ***Rating Stability Indicators***

Rating agencies use an outlook statement of positive, stable, negative or developing to indicate a medium- or long-term trend in credit fundamentals which, if continued, may lead to a rating change. A rating may have a stable outlook to indicate that the rating is not expected to change; however, a stable rating does not preclude a rating agency from changing a rating at any time, without notice. See [Risk Factors 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](#).

## ***Rating Actions***

In September and October 2008, A.M. Best, Fitch, Moody's, and S&P each revised its outlook for the U.S. life insurance sector to negative from stable. In January 2009, S&P reiterated its negative outlook on the U.S. life insurance sector. Management believes that the rating agencies may heighten the level of scrutiny that they apply to such institutions, may increase the frequency and scope of their credit reviews, may request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels.

In November 2008, A.M. Best downgraded the insurer financial strength rating for Texas Life Insurance Company from A to A-.

At December 31, 2008, A.M. Best, Fitch, Moody's and S&P each had MetLife and its Subsidiaries' insurer financial strength and credit ratings on stable outlook; however, (i) on February 9, 2009, Moody's revised its outlook to negative, (ii) on February 11, 2009, Fitch revised its outlook to negative and anticipates completing its review within the next several weeks and will reflect those results in the ratings at that time, (iii) on February 20, 2009, A.M. Best downgraded the credit ratings of MetLife, Inc. and certain of its subsidiaries with a stable outlook, and (iv) on February 26, 2009, S&P downgraded the insurer financial strength and credit ratings of MetLife, Inc. and certain of its subsidiaries, with a negative outlook.

Our insurer financial strength ratings and credit ratings as of the date of this filing are listed in the tables below:



**Table of Contents****Insurer Financial Strength Ratings**

	<b>A.M. Best (1)</b>	<b>Fitch (2)</b>	<b>Moody s (3)</b>	<b>S&amp;P (4)</b>
First MetLife Investors Insurance Company	A+	N/R	N/R	AA-
General American Life Insurance Company	A+	AA	Aa2	AA-
MetLife Insurance Company of Connecticut	A+	AA	Aa2	AA-
MetLife Investors Insurance Company	A+	AA	Aa2	AA-
MetLife Investors USA Insurance Company	A+	AA	Aa2	AA-
Metropolitan Casualty Insurance Company	A	N/R	N/R	N/R
Metropolitan Direct Property and Casualty Insurance Company	A	N/R	N/R	N/R
Metropolitan General Insurance Company	A	N/R	N/R	N/R
Metropolitan Group Property & Casualty Insurance Company	A	N/R	N/R	N/R
Metropolitan Life Insurance Company	A+	AA	Aa2	AA-
Metropolitan Lloyds Insurance Company of Texas	A	N/R	N/R	N/R
Metropolitan Property and Casualty Insurance Company	A	N/R	N/R	N/R
Metropolitan Tower Life Insurance Company	A+	N/R	Aa3	N/R
New England Life Insurance Company	A+	AA	Aa2	AA-
Texas Life Insurance Company	A-	N/R	N/R	N/R

**Credit Ratings**

	<b>A.M. Best (1)</b>	<b>Fitch (2)</b>	<b>Moody s (3)</b>	<b>S&amp;P (4)</b>
General American Life Insurance Company (Surplus Notes)	a	N/R	A1	A
MetLife Capital Trust IV & X (Trust Securities)	bbb	A-	Baa1	BBB
MetLife Funding, Inc. (Commercial Paper)	AMB-1+	F1+	P-1	A-1+
MetLife Short Term Funding LLC (Commercial Paper)	N/R	N/R	P-1	A-1+
MetLife, Inc. (Commercial Paper)	AMB-1	F1	P-1	A-2
MetLife, Inc. (Senior Unsecured Debt)	a-	A	A2	A-
MetLife, Inc. (Subordinated Debt)	bbb+	N/R	A3	NR
MetLife, Inc. (Junior Subordinated Debt)	bbb	A-	Baa1	BBB
MetLife, Inc. (Preferred Stock)	bbb	A-	Baa1	BBB
MetLife, Inc. (Non-Cumulative Preferred Stock)	bbb	A-	Baa1	BBB-
Metropolitan Life Insurance Company (Surplus Notes)	a	A+	A1	A
Metropolitan Life Global Funding I (Senior Secured Debt)	aa-	NR	Aa2	AA-
MetLife Institutional Funding I, LLC (Senior Secured Debt)	aa-	NR	Aa2	AA-

(1) A.M. Best financial strength ratings range from A++ (superior) to S (Suspended). Ratings of A+ and A are in the superior and excellent categories, respectively.

A.M. Best's long-term credit ratings range from aaa (exceptional) to d (in default). A + or - may be appended to ratings from aa to ccc to indicate relative position within a category. Ratings of a and bbb are in the strong and adequate categories.

A.M. Best's short-term credit ratings range from A-1 (strongest) to D (in default).

- (2) Fitch insurer financial strength ratings range from AAA (exceptionally strong) to C (ceased or interrupted payments imminent). A + or - may be appended to ratings from AA to CCC to indicate relative position within a category. A rating of AA is in the very strong category.

Fitch long-term credit ratings range from AAA (highest credit quality), to D (default). A + or - may be appended to ratings from AA to CCC to indicate relative position within a category. Ratings of A and BBB are in the strong and adequate categories, respectively.

## **Table of Contents**

Fitch short-term credit ratings range from F1+ (exceptionally strong credit quality) to D (in default). A rating of F1 is in the highest credit quality category.

- (3) Moody's insurance financial strength ratings range from Aaa (exceptional) to C (extremely poor). A numeric modifier may be appended to ratings from Aa to Caa to indicate relative position within a category, with 1 being the highest and 3 being the lowest. A rating of Aa is in the excellent category. Moody's long-term credit ratings range from Aaa (highest quality) to C (typically in default). A numeric modifier may be appended to ratings from Aa to Caa to indicate relative position within a category, with 1 being the highest and 3 being the lowest. Ratings of A and Baa are in the upper-medium grade and medium-grade categories, respectively.

Moody's short-term credit ratings range from P-1 (superior) to NP (not prime).

- (4) S&P long-term insurer financial strength ratings range from AAA (extremely strong) to R (under regulatory supervision). A + or may be appended to ratings from AA to CCC to indicate relative position within a category. A rating of AA is in the very strong category.

S&P long-term credit ratings range from AAA (extremely strong) to D (payment default). A + or may be appended to ratings from AA to CCC to indicate relative position within a category. A rating of A is in the strong category. A rating of BBB has adequate protection parameters and is considered investment grade.

S&P short-term credit ratings range from A-1+ (extremely strong) to D (payment default). A rating of A-1 is in the strong category.

N/R indicates not rated.

The foregoing insurer financial strength ratings reflect each rating agency's opinion of MLIC and the Holding Company's other insurance subsidiaries' financial characteristics with respect to their ability to pay obligations under insurance policies and contracts in accordance with their terms, and are not evaluations directed toward the protection of investors in the Holding Company's securities. Credit ratings are opinions of each agency with respect to specific securities and contractual financial obligations and the issuer's ability and willingness to meet those obligations when due. Neither insurer financial strength nor credit ratings are statements of fact nor are they recommendations to purchase, hold or sell any security, contract or policy. Each rating should be evaluated independently of any other rating.

A ratings downgrade (or the potential for such a downgrade) of MLIC or any of the Holding Company's other insurance subsidiaries could potentially, among other things, increase the number of policies surrendered and withdrawals by policyholders of cash values from their policies, adversely affect relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services, negatively impact new sales, and adversely affect our ability to compete and thereby have a material adverse effect on our business, results of operations and financial condition. See also Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Extraordinary Market Conditions for a more complete description of the impact of a ratings downgrade.

## **Employees**

At December 31, 2008, we had approximately 57,000 employees. We believe that our relations with our employees are satisfactory.

## **Executive Officers of the Registrant**

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

**C. Robert Henrikson**, age 61, has been Chairman, President and Chief Executive Officer of MetLife, Inc. and MLIC since April 25, 2006. Previously, he was President and Chief Executive Officer of MetLife, Inc. and MLIC from March 1, 2006, President and Chief Operating Officer of MetLife, Inc. from June 2004, and President of the U.S. Insurance and Financial Services businesses of MetLife, Inc. and MLIC from July 2002 to June 2004. He served as President of Institutional Business of MetLife, Inc. from September 1999 to July 2002 and President of Institutional Business of MLIC from May 1999 through June 2002. He was Senior Executive Vice President,

**Table of Contents**

Institutional Business, of MLIC from December 1997 to May 1999, Executive Vice President, Institutional Business, from January 1996 to December 1997, and Senior Vice President, Pensions, from January 1991 to January 1995. He is a director of MetLife, Inc. and MLIC.

**Steven A. Kandarian**, age 56, has been Executive Vice President and Chief Investment Officer of MetLife, Inc. and MLIC since April 2005. Previously, he was the executive director of the Pension Benefit Guaranty Corporation from 2001 to 2004. Before joining the Pension Benefit Guaranty Corporation, Mr. Kandarian was founder and managing partner of Orion Capital Partners, LP, where he managed a private equity fund specializing in venture capital and corporate acquisitions for eight years.

**James L. Lipscomb**, age 62, has been Executive Vice President and General Counsel of MetLife, Inc. and MLIC since July 2003. He was Senior Vice President and Deputy General Counsel from July 2001 to July 2003. Mr. Lipscomb was President and Chief Executive Officer of Conning Corporation, a former subsidiary of MLIC, from March 2000 to July 2001, prior to which he served in various senior management positions with MLIC for more than five years.

**Maria R. Morris**, age 46, has been Executive Vice President, Technology and Operations, of MetLife, Inc. and MLIC since January 2008. Previously, she was Executive Vice President of MLIC from December 2005 to January 2008, Senior Vice President of MLIC from October 2004 to December 2005, and Vice President of MLIC from March 1995 to October 2004.

**William J. Mullaney**, age 49, has been President, Institutional Business, of MetLife, Inc. and MLIC since January 2007. Previously, he was President of Metropolitan Property and Casualty Insurance Company from January 2005 to January 2007, Senior Vice President of Metropolitan Property and Casualty Insurance Company from July 2002 to December 2004, Senior Vice President, Institutional Business, of MLIC from August 2001 to July 2002, and a Vice President of MLIC for more than five years. He is a director of MetLife Bank, N.A. and MetLife Insurance Company of Connecticut.

**William J. Toppeta**, age 60, has been President, International, of MetLife, Inc. and MLIC since June 2001. He was President of Client Services and Chief Administrative Officer of MetLife, Inc. from September 1999 to June 2001 and President of Client Services and Chief Administrative Officer of MLIC from May 1999 to June 2001. He was Senior Executive Vice President, Head of Client Services, of MLIC from March 1999 to May 1999, Senior Executive Vice President, Individual, from February 1998 to March 1999, Executive Vice President, Individual Business, from July 1996 to February 1998, Senior Vice President from October 1995 to July 1996 and President and Chief Executive Officer of its Canadian Operations from July 1993 to October 1995.

**Lisa M. Weber**, age 46, has been President, Individual Business, of MetLife, Inc. and MLIC since June 2004. Previously, she was Senior Executive Vice President and Chief Administrative Officer of MetLife, Inc. and MLIC from June 2001 to June 2004. She was Executive Vice President of MetLife, Inc. and MLIC from December 1999 to June 2001 and was head of Human Resources of MLIC from March 1998 to December 2003. She was Senior Vice President of MetLife, Inc. from September 1999 to November 1999 and Senior Vice President of MLIC from March 1998 to November 1999. Previously, she was Senior Vice President of Human Resources of PaineWebber Group Incorporated, where she was employed for ten years. Ms. Weber is a director of MetLife Bank, N.A. and MetLife Insurance Company of Connecticut.

**William J. Wheeler**, age 47, has been Executive Vice President and Chief Financial Officer of MetLife, Inc. and MLIC since December 2003, prior to which he was a Senior Vice President of MLIC from 1997 to December 2003. Previously, he was a Senior Vice President of Donaldson, Lufkin & Jenrette for more than five years. Mr. Wheeler is a director of MetLife Bank, N.A.

## 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 license to use the Peanuts characters in the area of financial services and healthcare benefit services in the United States and internationally under an advertising and premium agreement with United Feature Syndicate until December 31, 2012. Furthermore, we also have a non-exclusive license to use certain Citigroup-owned trademarks in connection

## **Table of Contents**

with the marketing, distribution or sale of life insurance and annuity products under a licensing agreement with Citigroup until June 30, 2015. 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](http://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](http://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.

### **Item 1A. Risk Factors**

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

The capital and credit markets have been experiencing extreme volatility and disruption. At times, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on availability of liquidity and credit capacity for certain issuers.

We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we will be forced to curtail our operations, and our business will suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds, cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include short-term instruments such as repurchase agreements and commercial paper. Sources of capital in normal markets include long-term instruments, medium- and long-term debt, junior subordinated debt securities, capital securities and equity securities.

In the event current resources do not satisfy our needs, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects if we incur large investment losses or if the level of our business activity decreased 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. For instance, we have funding agreements which can be put to us after a period of notice. The notice requirements vary; however, the shortest period is 90 days, applicable to approximately \$1 billion of such liabilities at December 31, 2008.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business, most significantly our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue different types of capital than we would 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. Recently our credit spreads have widened considerably. Our results of operations, financial condition,



**Table of Contents**

cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

***Difficult Conditions in the Global Capital Markets and the Economy Generally May Materially Adversely Affect Our Business and Results of Operations and These Conditions May Not Improve in the Near Future***

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the United States and elsewhere around the world. The stress experienced by global capital markets that began in the second half of 2007 continued and substantially increased during 2008. Concerns over the availability and cost of credit, the U.S. mortgage market, geopolitical issues, energy costs, inflation and a declining real estate market in the United States contributed to increased volatility and diminished expectations for the economy and the markets in the near term. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated a recession. In addition, the fixed-income markets have experienced a period of extreme volatility which negatively impacted market liquidity conditions. Initially, the concerns on the part of market participants were focused on the sub-prime segment of the mortgage-backed securities market. However, these concerns expanded to include a broad range of mortgage- and asset-backed and other fixed income securities, including those rated investment grade, the U.S. and international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes and sectors. Securities that are less liquid are more difficult to value and have less opportunity for disposal. Domestic and international equity markets have also experienced heightened volatility and turmoil, with issuers (such as our company) that have exposure to the real estate, mortgage and credit markets particularly affected. These events and continued market upheavals may have an adverse effect on us, in part because we have a large investment portfolio and are also dependent upon customer behavior. Our revenues are likely to decline in such circumstances and our profit margins could erode. In addition, in the event of extreme prolonged market events, such as the global credit crisis, we could incur significant losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility. See

Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Extraordinary Market Conditions.

We are a significant writer of variable annuity products. The account values of these products will be affected by the downturn in capital markets. Any decrease in account values will decrease the fees generated by our variable annuity products, cause the amortization of deferred acquisition costs to accelerate and may increase the level of reserves we must carry to support those variable annuities issued with any associated guarantees.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of our business. 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. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Adverse changes in the economy could affect earnings negatively and could have a material adverse effect on our business, results of operations and financial condition. The current crisis has also raised the possibility of future legislative and regulatory actions in addition to the recent enactment of the Emergency Economic Stabilization Act of 2008 (the EESA) that could further impact our business. We cannot predict whether or when such actions may occur, or what impact, if any, such actions could have on our business, results of operations and financial condition. See *There Can be No Assurance that Actions of the U.S. Government, Federal Reserve Bank of New York and Other Governmental and Regulatory Bodies for the Purpose of Stabilizing the Financial Markets Will Achieve the Intended Effect* and *Competitive Factors May Adversely Affect Our Market Share and Profitability*.

***There Can be No Assurance that Actions of the U.S. Government, Federal Reserve Bank of New York and Other Governmental and Regulatory Bodies for the Purpose of Stabilizing the Financial Markets Will Achieve the***

*Intended Effect*

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, President Bush signed the EESA into law.

**Table of Contents**

Pursuant to the EESA, the U.S. Treasury has the authority to, among other things, purchase up to \$700 billion of mortgage-backed and other securities from financial institutions for the purpose of stabilizing the financial markets. At December 31, 2008, \$250 billion of this amount had been dedicated to making capital infusions to banking institutions and their holding companies. The Federal Government, Federal Reserve Bank of New York, the Federal Deposit Insurance Corporation ( FDIC ) and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. For example, the Federal Reserve Bank of New York has been making funds available to commercial and financial companies under a number of programs, including the Commercial Paper Funding Facility and the FDIC's Temporary Liquidity Guarantee Program (the FDIC Program ), as discussed further below, and legislation is pending in Congress that will allow bankruptcy judges in certain bankruptcy proceedings to alter the terms of certain mortgages, including reducing the principal amount of the loan. There can be no assurance as to what impact such actions will have on the financial markets, whether on the levels of volatility currently being experienced, the levels of lending by financial institutions, the prices buyers are willing to pay for financial assets or otherwise. Continued volatility, low levels of credit availability and low prices for financial assets materially and adversely affect our business, financial condition and results of operations and the trading price of our common stock. Furthermore, if the mortgage-related legislation is passed, it could cause loss of principal on certain of our nonagency prime residential mortgage backed security holdings and could cause a ratings downgrade in such holdings which, in turn, would cause an increase in unrealized losses on such securities. See We Are Exposed to Significant Financial and Capital Markets Risk Which May Adversely Affect Our Results of Operations, Financial Condition and Liquidity, and Our Net Investment Income Can Vary from Period to Period. Finally, the choices made by the U.S. Treasury in its distribution of amounts available under the EESA could have the effect of supporting some parts of the financial system more than others. See Competitive Factors May Adversely Affect Our Market Share and Profitability.

MetLife, Inc. and some or all of its affiliates may be eligible to sell assets to the U.S. Treasury under one or more of the programs established under EESA, and some of their assets may be among those the U.S. Treasury offers to purchase, either directly or through auction. Furthermore, as a bank holding company, MetLife, Inc. could be selected to participate in the U.S. Treasury's capital infusion program, pursuant to which the U.S. Treasury purchases preferred shares of banking institutions or their holding companies and acquires warrants for their common shares. If we choose to participate in the capital infusion program of the U.S. Treasury, we will become subject to requirements and restrictions on our business. Issuing preferred shares and warrants could dilute the ownership interests of stockholders or affect our ability to raise capital in other transactions. We will also become subject to restrictions on the compensation that we can offer or pay to certain executive employees, including incentives or performance-based compensation. These restrictions could hinder or prevent us from attracting and retaining management with the talent and experience to manage our business effectively. Limits on our ability to deduct certain compensation paid to executive employees will also be imposed. The remaining \$350 billion authorized by the EESA has been made available to the U.S. Treasury. Congress and the current Administration are considering the imposition of additional requirements and conditions on the use of these additional funds. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Extraordinary Market Conditions.

On December 5, 2008, MetLife, Inc. elected to continue to participate in the debt guarantee component of the FDIC Program. Under the terms of the FDIC Program, the FDIC will guarantee through June 2012 (or maturity, if earlier) the payment of certain newly-issued senior unsecured debt of MetLife, Inc. and any eligible affiliates. We also notified the FDIC that we have elected the option of excluding specified senior unsecured debt maturing after June 30, 2012, from the guarantee before reaching the limits on the amount of guaranteed debt under the FDIC Program (\$398 million for MetLife, Inc. and \$178 million for its affiliate, MetLife Bank, N.A., which may issue guaranteed debt under its limit, as well as unused amounts under MetLife, Inc.'s limit). In addition, we opted out of the component of the FDIC Program that guarantees non-interest bearing deposit transaction accounts. We cannot predict how the markets may react to these elections or to any debt issued subject to the terms of the FDIC Program. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital

Resources Extraordinary Market Conditions.

**Table of Contents*****The Impairment 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 other investment funds and other 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, derivative transactions 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 and other intervention, could negatively impact these instruments, securities, transactions and investments. There can be no assurance that any such losses or impairments to the carrying value of these assets would not materially and adversely affect our business and results of operations.

***Our Participation in a Securities Lending Program Subjects Us to Potential Liquidity and Other Risks***

We participate in a securities lending program whereby blocks of securities, which are included in fixed maturity securities and short-term investments, are loaned to third parties, primarily major brokerage firms and commercial banks. We generally require collateral equal to 102% of the current estimated fair value of the loaned securities to be obtained at the inception of a loan, and maintained at a level greater than or equal to 100% for the duration of the loan. During the extraordinary market events occurring in the fourth quarter of 2008, we, in limited instances, accepted collateral less than 102% at the inception of certain loans, but never less than 100%, of the estimated fair value of such loaned securities. These loans involved U.S. Government Treasury Bills which we considered to have limited variation in their estimated fair value during the term of the loan. Securities with a cost or amortized cost of \$20.8 billion and \$41.1 billion and an estimated fair value of \$22.9 billion and \$42.1 billion were on loan under the program at December 31, 2008 and December 31, 2007, respectively. Securities loaned under such transactions may be sold or repledged by the transferee. We were liable for cash collateral under our control of \$23.3 billion and \$43.3 billion at December 31, 2008 and December 31, 2007, respectively.

Returns of loaned securities by the third parties would require us to return the cash collateral associated with such loaned securities. In addition, in some cases, the maturity of the securities held as invested collateral (i.e., securities that we have purchased with cash received from the third parties) may exceed the term of the related securities on loan and the estimated fair value may fall below the amount of cash received as collateral and invested. If we are required to return significant amounts of cash collateral on short notice and we are forced to sell securities to meet the return obligation, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both. In addition, under stressful capital market and economic conditions, such as those conditions we have experienced recently, liquidity broadly deteriorates, which may further restrict our ability to sell securities.

Of this \$23.3 billion of cash collateral at December 31, 2008, \$5.1 billion was on open terms, meaning that the related loaned security could be returned to us on the next business day requiring return of cash collateral and the following amounts are due within 30 days, and 60 days \$14.7 billion and \$3.5 billion, respectively. The estimated fair value of the securities related to the cash collateral on open at December 31, 2008 has been reduced to \$5.0 billion from \$15.8 billion as of November 30, 2008. Of the \$5.0 billion of estimated fair value of the securities related to the cash collateral on open at December 31, 2008, \$4.4 billion were U.S. Treasury and agency securities which, if put to us, can be immediately sold to satisfy the cash requirements. The remainder of the securities on loan are primarily U.S. Treasury and agency securities, and very liquid residential mortgage-backed securities. Within the U.S. Treasury

securities on loan, they are primarily holdings of on-the-run U.S. Treasury securities, the most liquid U.S. Treasury securities available. If these high quality securities that are on loan are put back to us, the proceeds from immediately selling these securities can be used to satisfy the related cash requirements. The estimated fair value of the reinvestment portfolio acquired with the cash collateral was \$19.5 billion at December 31, 2008, and consisted principally of fixed maturity securities (including residential mortgage-backed, asset-backed, U.S. corporate and foreign corporate securities). If the on loan securities or the

## **Table of Contents**

reinvestment portfolio become less liquid, we have the liquidity resources of most of our general account available to meet any potential cash demand when securities are put back to us. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Securities Lending.

If we decrease the amount of our securities lending activities over time, the amount of income generated by these activities will also likely decline.

### ***We Are Exposed to Significant Financial and Capital Markets Risk which May Adversely Affect Our Results of Operations, Financial Condition and Liquidity, and Our Net Investment Income Can 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, the performance of the economy in general, the performance of the specific obligors included in our portfolio and other factors outside our control. Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates will increase the net unrealized loss position of our fixed income investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of our life insurance businesses may be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate fixed income investments in an unrealized loss position. Due to the long-term nature of the liabilities associated with certain of our life insurance businesses, guaranteed benefits on variable annuities, and structured settlements, sustained declines in long-term interest rates may subject us to reinvestment risks and increased hedging costs. In other situations, declines in interest rates may result in increasing the duration of certain life insurance liabilities, creating asset liability duration mismatches. Our investment portfolio also contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would increase the net unrealized loss position of our fixed income investment portfolio, offset by our ability to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would decrease the net unrealized loss position of our fixed income investment portfolio, offset by lower rates of return on funds reinvested. Our mitigation efforts with respect to interest rate risk are primarily focused towards 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. However, our estimate of the liability cash flow profile may be inaccurate and we may be forced to liquidate fixed income investments prior to maturity at a loss in order to cover the liability. 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 also **Changes in Market Interest Rates May Significantly Affect Our Profitability.**

Our exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. A widening of credit spreads will increase the net unrealized loss position of the fixed income investment portfolio, will increase losses associated with credit based non-qualifying derivatives where we assume credit exposure, and, if issuer credit spreads increase significantly or for an extended period of time, would likely result in higher other-than-temporary impairments. Credit spread tightening will reduce net investment income associated with new purchases of fixed maturity securities. In addition, market volatility can make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period to period changes which could have a material adverse effect on our consolidated results of operations or financial condition. Credit spreads on both corporate and structured securities widened during 2008, resulting in continuing depressed pricing. Continuing challenges include continued weakness in the U.S. real estate market and increased mortgage delinquencies, investor anxiety over the U.S. economy, rating agency downgrades of various structured products and financial issuers, unresolved issues with structured investment vehicles and monoline financial guarantee insurers, deleveraging of financial institutions and hedge funds and a serious

dislocation in the inter-bank market. If significant, continued volatility, changes in interest rates, changes in credit spreads and defaults, a lack of pricing transparency, market liquidity, declines in equity prices, and the strengthening or weakening of foreign currencies against the U.S. dollar, individually or in tandem, could have a material adverse effect on our consolidated results of



**Table of Contents**

operations, financial condition or cash flows through realized losses, impairments, and changes in unrealized positions.

Our primary exposure to equity risk relates to the potential for lower earnings associated with certain of our insurance businesses, such as variable annuities, where fee income is earned based upon the estimated fair value of the assets under management. In addition, certain of our annuity products offer guaranteed benefits which increase our potential benefit exposure should equity markets decline. 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 post-retirement 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.

Our exposure to real estate risk relates to market price and cash flow variability associated with changes in real estate markets, default and bankruptcy rates, geographic and sector concentration as well as illiquidity of real estate investments. The current economic environment has led to significant weakening of the residential and commercial real estate markets, increases in foreclosures, bankruptcies and unsuccessful development projects as well as limited access to credit. Our real estate investments, including those held by joint ventures and real estate funds, may be negatively impacted by weakened local real estate conditions, such as oversupply, reduced demand and the availability and creditworthiness of current and prospective tenants and borrowers. In addition, real estate investments are relatively illiquid, and could limit our ability, and that of our joint venture partners and real estate fund managers, to sell assets to respond to changing economic, financial and investment conditions. Also, these factors could impact mortgage and consumer loan fundamentals which are further discussed under Defaults on Our Mortgage and Consumer Loans and Volatility in Performance May Adversely Affect Our Profitability. These factors and others beyond our control could have a material adverse effect on our consolidated results of operations, financial condition or cash flows through net investment income, realized losses and impairments.

Our primary foreign currency exchange risks are described under Fluctuations in Foreign Currency Exchange Rates and Foreign Securities Markets Could Negatively Affect our Profitability. Significant declines in equity prices, changes in U.S. interest rates, changes in credit spreads, and changes in foreign currency exchange rates could have a material adverse effect on our consolidated results of operations, financial condition or liquidity. Changes in these factors, which are significant risks to us, can affect our net investment income in any period, and such changes can be substantial.

We invest a portion of our invested assets in leveraged buy-out funds, hedge funds and other private equity funds reported within Other Limited Partnerships, many of which make private equity investments. The amount and timing of net investment income from such investment funds tends to be uneven as a result of the performance of the underlying investments, including private equity investments. The timing of distributions from the 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 that we record from these investments can vary substantially from quarter to quarter. Recent equity, real estate and credit market volatility have further reduced net investment income and related yields for these types of investments and we may continue to experience reduced net investment income due to continued volatility in the equity, real estate and credit markets in 2009. In addition, due to the normal lag in the preparation of and then receipt of periodic financial statements from other limited partnership interests and real estate joint ventures and funds, results from late 2008 during periods of volatility will be reported to us in 2009.

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

Many of our transactions with financial and other institutions specify the circumstances under which the parties are required to pledge collateral related to any decline in the value of the specified assets. In addition, under the terms of some of our transactions, we may be required to make payments to our counterparties related to any decline in the value of the 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, which could adversely affect our liquidity.

**Table of Contents**

In December 2007, we entered into an agreement with an unaffiliated financial institution that referenced \$2.5 billion of 35-year surplus notes issued by MetLife Reinsurance Company of Charleston ( MRC ). Based on the decline in the estimated fair value of MRC 's surplus notes, we have pledged collateral and made payments to the unaffiliated financial institution. We may in the future be required to pledge additional collateral or make additional payments to this unaffiliated financial institution based on any further declines in the estimated fair value of MRC 's surplus notes. Any collateral pledged by us under the agreement is required to be held in a segregated account and remains on our balance sheet. Any payments to the unaffiliated financial institution may reduce the amount under the agreement on which our interest payment was due but may not reduce the principal amount of the surplus notes. Such payments have been accounted for as a receivable and will not be realized until the termination of the agreement with the unaffiliated financial institution. Furthermore, with respect to any such payments, we have unsecured risk to the unaffiliated financial institution as these amounts are not required to be held in a third-party custodial account or segregated from the unaffiliated financial institution 's funds. Such collateral pledged and payments could have an adverse effect on our liquidity. See Management 's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources The Company Liquidity and Capital Uses Collateral Financing Arrangements and Note 11 of the Notes to the Consolidated Financial Statements.

***Our Statutory Reserve Financings May be Subject to Cost Increases and New Financings May be Subject to Limited Market Capacity***

To support our level premium term life and universal life with secondary guarantees businesses 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 our previously written business and have remaining capacity in existing facilities to support writings through the end of 2009 or later, 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.

Further, the capacity for these reserve funding structures available in the current marketplace is limited. If capacity continues to be limited for a prolonged period of time, our ability to obtain new funding for these structures may be hindered, and as a result, our ability to write additional business in a cost effective manner may be impacted.

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

Our mortgage and consumer loans face default risk and are principally collateralized by commercial, agricultural and residential properties, as well as automobiles. The carrying value of mortgage and consumer loans is stated at original cost net of repayments, amortization of premiums, accretion of discounts and valuation allowances, except for residential mortgage loans held-for-sale accounted for under the fair value option which are carried at estimated fair value, as determined on a recurring basis and certain commercial and residential mortgage loans carried at the lower of cost or estimated fair value, as determined on a nonrecurring basis. We establish valuation allowances for estimated impairments as of the balance sheet date. Such valuation allowances are based on the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan 's original effective interest rate, the value of the loan 's collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or the loan 's estimated fair value if the loan is held-for-sale. We also establish allowances for loan losses when a loss contingency exists for pools of loans with similar characteristics, such as mortgage loans based on similar property types or loan to value risk factors. At December 31, 2008, loans that were either delinquent or in the process of foreclosure totaled less than 0.5% of our mortgage and consumer loan investments. The performance of our mortgage and consumer loan investments, however, may fluctuate in the future. In addition, substantially all of our mortgage loans held-for-investment have balloon payment maturities. An increase in the default rate of our mortgage and consumer loan investments could have a material adverse effect on our business, results of operations and financial condition.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Mortgage and Consumer Loans.

Further, any geographic or sector concentration of our mortgage or consumer loans may have adverse effects on our investment portfolios and consequently on our consolidated results of operations or financial condition.

**Table of Contents**

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.

***Our Investments are Reflected Within the Consolidated Financial Statements Utilizing Different Accounting Basis and Accordingly We May Not Have Recognized Differences, Which May Be Significant, Between Cost and Estimated Fair Value in our Consolidated Financial Statements***

Our principal investments are in fixed maturity and equity securities, trading securities, short-term investments, mortgage and consumer loans, policy loans, real estate, real estate joint ventures and other limited partnerships and other invested assets. The carrying value of such investments is as follows:

Fixed maturity and equity securities are classified as available-for-sale, except for trading securities, and are reported at their estimated fair value. Unrealized investment gains and losses on these securities are recorded as a separate component of other comprehensive income (loss), net of policyholder related amounts and deferred income taxes.

Trading securities are recorded at estimated fair value with subsequent changes in estimated fair value recognized in net investment income.

Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are stated at amortized cost, which approximates estimated fair value.

The carrying value of mortgage and consumer loans is stated at original cost net of repayments, amortization of premiums, accretion of discounts and valuation allowances, except for residential mortgage loans held-for-sale accounted for under the fair value option which are carried at estimated fair value, as determined on a recurring basis and certain commercial and residential mortgage loans carried at the lower of cost or estimated fair value, as determined on a nonrecurring basis.

Policy loans are stated at unpaid principal balances.

Real estate held-for-investment, including related improvements, is stated at cost, less accumulated depreciation.

Real estate joint ventures and other limited partnership interests in which we have more than a minor equity interest or more than a minor influence over the joint ventures or partnership's operations, but where we do not have a controlling interest and are not the primary beneficiary, are carried using the equity method of accounting. We use the cost method of accounting for investments in real estate joint ventures and other limited partnership interests in which it has a minor equity investment and virtually no influence over the joint ventures or the partnership's operations.

Other invested assets consist principally of freestanding derivatives with positive estimated fair values and leveraged leases. Freestanding derivatives are carried at estimated fair value with changes in estimated fair value reflected in income for both non-qualifying derivatives and derivatives in fair value hedging

relationships. Derivatives in cash flow hedging relationships are reflected as a separate component of other comprehensive income (loss). Leveraged leases are recorded net of non-recourse debt.

Investments not carried at estimated fair value in our consolidated financial statements principally, mortgage and consumer loans held-for-investment, policy loans, real estate, real estate joint ventures, other limited partnerships and leveraged leases may have estimated fair values which are substantially higher or lower than the carrying value reflected in our consolidated financial statements. Each of such asset classes is regularly evaluated for impairment under the accounting guidance appropriate to the respective asset class.

**Table of Contents*****Our Valuation of Fixed Maturity, Equity and Trading Securities May Include Methodologies, Estimations and Assumptions Which Are Subject to Differing Interpretations and Could Result in Changes to Investment Valuations that May Materially Adversely Affect Our Results of Operations or Financial Condition***

Fixed maturity, equity, trading securities and short-term investments which are reported at estimated fair value on the consolidated balance sheet represent the majority of our total cash and invested assets. We have categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. SFAS 157 defines the input levels as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. We define active markets based on average trading volume for equity securities. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities.
- Level 2 Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At December 31, 2008, 11%, 80% and 9% of these securities represented Level 1, Level 2 and Level 3, respectively. The Level 1 securities primarily consist of certain U.S. Treasury and agency fixed maturity securities; exchange-traded common stock, and certain short-term investments. The Level 2 assets include fixed maturity securities priced principally through independent pricing services using observable inputs. These fixed maturity securities include most U.S. Treasury and agency securities as well as the majority of U.S. and foreign corporate securities, residential mortgage-backed securities, commercial mortgage-backed securities, state and political subdivision securities, foreign government securities, and asset-backed securities. Equity securities classified as Level 2 primarily consist principally of non-redeemable preferred securities and certain equity securities where market quotes are available but are not considered actively traded and are priced by independent pricing services. Management reviews the valuation methodologies used by the independent pricing services on an ongoing basis and ensures that any changes to valuation methodologies are justified. Level 3 assets include fixed maturity securities priced principally through independent non-binding broker quotations or market standard valuation methodologies using inputs that are not market observable or cannot be derived principally from or corroborated by observable market data. This level consists of less liquid fixed maturity securities with very limited trading activity or where less price transparency exists around the inputs to the valuation methodologies including: U.S. and foreign corporate securities including below investment grade private placements; residential mortgage-backed securities; and asset backed securities including all of those supported by sub-prime mortgage loans. Equity securities classified as Level 3 securities consist principally of common stock of privately held companies and non-redeemable preferred securities where there has been very limited trading activity or where less price transparency exists around the inputs to the valuation. See Note 24 of the Notes to the Consolidated Financial Statements for the estimated fair values of

these assets and liabilities by hierarchy level.

Prices provided by independent pricing services and independent non-binding broker quotations can vary widely even for the same security.



## **Table of Contents**

The determination of estimated fair values by management in the absence of quoted market prices is based on: (i) valuation methodologies; (ii) securities we deem to be comparable; and (iii) assumptions deemed appropriate given the circumstances. The fair value estimates are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. Factors considered in estimating fair value include: coupon rate, maturity, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer, and quoted market prices of comparable securities. The use of different methodologies and assumptions may have a material effect on 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, for example Alt-A and sub-prime mortgage-backed securities and commercial mortgage-backed securities, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated or require greater estimation thereby resulting in values which may be greater or less than the value at which the investments may be ultimately 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 value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

### ***Some of Our Investments Are Relatively Illiquid and Are in Asset Classes that Have Been Experiencing Significant Market Valuation Fluctuations***

We hold certain investments that may lack liquidity, such as privately placed fixed maturity securities; mortgage and consumer loans; policy loans and leveraged leases; equity real estate, including real estate joint ventures; and other limited partnership interests. These asset classes represented 33.7% of the carrying value of our total cash and invested assets at December 31, 2008. Even some of our very high quality assets have been more illiquid as a result of the recent challenging market conditions.

If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with our investment portfolio, derivatives transactions or securities lending activities, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described above and, at times, our high quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we will be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

### ***The Determination of the Amount of Allowances and Impairments Taken on Our Investments is Highly Subjective and Could Materially Impact Our Results of Operations or Financial Position***

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. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations

are revised. There can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our consolidated financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

For example, the cost of our fixed maturity and equity securities is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. The assessment of whether impairments

**Table of Contents**

have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value. The review of our fixed maturity and equity securities for impairments includes an analysis of the total gross unrealized losses by three categories of securities: (i) securities where the estimated fair value has declined and remained below cost or amortized cost by less than 20%; (ii) securities where the estimated fair value has declined and remained below cost or amortized cost by 20% or more for less than six months; and (iii) securities where the estimated fair value has declined and remained below cost or amortized cost by 20% or more for six months or greater.

Additionally, our management considers a wide range of factors about the security issuer and uses their 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 management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been below cost or amortized cost; (ii) the potential for impairments of securities when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; (vi) our ability and intent to hold the security for a period of time sufficient to allow for the recovery of its value to an amount equal to or greater than cost or amortized cost; (vii) unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities; and (viii) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

***Gross Unrealized Losses on Fixed Maturity and Equity Securities May be Realized or Result in Future Impairments, Resulting in a Reduction in Our Net Income***

Fixed maturity and equity securities classified as available-for-sale, except trading securities, are reported at their estimated fair value. Unrealized gains or losses on available-for-sale securities are recognized as a component of other comprehensive income (loss) and are, therefore, excluded from net income. Our gross unrealized losses on fixed maturity and equity securities at December 31, 2008 were \$29.8 billion. The portion of the \$29.8 billion of gross unrealized losses for fixed maturity and equity securities where the estimated fair value has declined and remained below amortized cost or cost by 20% or more for six months or greater was \$4.0 billion at December 31, 2008. The accumulated change in estimated fair value of these available-for-sale 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 is taken. Realized losses or impairments may have a material adverse affect on our net income in a particular quarterly or annual period.

***Changes in Market Interest Rates May Significantly Affect Our Profitability***

Some of our products, principally traditional whole life insurance, fixed annuities and guaranteed investment contracts (GICs), expose us to the risk that changes in interest rates will reduce our 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 are able to earn on general account investments intended to support obligations under the 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, reducing our investment margin. Moreover, borrowers may prepay or redeem the fixed-income securities, commercial mortgages and mortgage-backed securities in our investment portfolio with greater frequency in order to borrow at lower market rates, which exacerbates this risk. Lowering interest crediting rates can help offset decreases in investment margins on some products. However, 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 VOBA and 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, resulting in increased premium payments on products

**Table of Contents**

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. Accordingly, declining interest rates may materially adversely affect our results of operations, financial position and cash flows and significantly reduce our profitability.

The sufficiency of our reserves in Taiwan is highly sensitive to interest rates and other related assumptions. This is due to the sustained low interest rate environment in Taiwan coupled with long-term interest rate guarantees of approximately 6% embedded in the life and health contracts sold prior to 2003 and the lack of availability of long-duration assets in the Taiwanese capital markets to match such long-duration liabilities. The key assumptions utilized include that current Taiwan government bond yield rates increase from current levels of 1.6% to 2.7% over the next ten years, mortality and morbidity levels remain consistent with recent experience and that U.S. dollar assets make up 35% of total assets backing reserves. Current reserve adequacy analysis shows that provisions are adequate; however, adverse changes in key assumptions for interest rates, exchange rates, and mortality and morbidity levels or lapse rates could lead to a need to strengthen reserves and therefore for additional capital.

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 assets in MetLife's general account with higher yielding assets 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 rates rise. This process may result in cash outflows requiring that we sell invested assets at a time when the prices of those assets 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 would increase our current expenses and reduce 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.

***Consolidation of Distributors of Insurance Products May Adversely Affect the Insurance Industry and the Profitability of Our Business***

The insurance industry distributes many of its individual products through other financial institutions such as banks and broker-dealers. As capital, credit and equity markets continue to experience volatility, bank and broker-dealer consolidation activity may increase and 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.

***Industry Trends Could Adversely Affect the Profitability of Our Businesses***

Our business segments continue to be influenced by a variety of trends that affect the insurance industry, including intense competition with respect to product features, price, distribution capability, customer service and information technology. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Industry Trends. The impact on our business and on the life insurance industry generally of the volatility and instability of the financial markets is difficult to predict, and our business plans, financial condition and results of operations may be negatively impacted or affected in other unexpected ways. In addition, the life insurance industry is subject to state regulation, and, as complex products are introduced, regulators may refine capital requirements and introduce new reserving standards. Furthermore, regulators have undertaken market and sales practices reviews of several markets or products, including equity-indexed annuities, variable annuities and group products. The current market environment

may also lead to changes in regulation that may benefit or disadvantage us relative to some of our competitors. See Competitive Factors May Adversely Affect Our Market Share and Profitability and Business Competition.

**Table of Contents**

***A Decline in Equity Markets or an Increase in Volatility in Equity Markets May Adversely Affect Sales of Our Investment Products and Our Profitability***

Significant downturns and volatility in equity markets could have a material adverse effect on our financial condition and results of operations in three principal ways.

First, equity market downturns and volatility may discourage purchases of separate account products, such as variable annuities and variable life insurance that have underlying mutual funds with returns linked to the performance of the equity markets and may cause some of our existing customers to withdraw cash values or reduce investments in those products.

Second, downturns and volatility in equity markets can have a material adverse effect on the revenues and returns from our savings and investment products and services. Because these products and services depend on fees related primarily to the value of assets under management, a decline in the equity markets could reduce our revenues by reducing the value of the investment assets we manage. The retail annuity business in particular is highly sensitive to equity markets, and a sustained weakness in the equity markets will decrease revenues and earnings in variable annuity products.

Third, we provide certain guarantees within some of our products that protect policyholders against significant downturns in the equity markets. For example, we offer variable annuity products with guaranteed features, such as death benefits, withdrawal benefits, and minimum accumulation and income benefits. In volatile or declining equity market conditions, we may need to increase liabilities for future policy benefits and policyholder account balances, negatively affecting net income.

***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 represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the estimated fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the reporting unit to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The estimated fair value of the reporting unit is impacted by the performance of the business. The performance of our businesses may be adversely impacted by prolonged market declines. If it is determined that the goodwill has been impaired, MetLife must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Such write downs could have a material adverse effect on our results of operations or financial position. See Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Critical Accounting Estimates Goodwill.

Long-lived assets, including assets such as real estate, also require impairment testing to determine whether changes in circumstances indicate that MetLife will be unable to recover the carrying amount of the asset group through future operations of that asset group or market conditions that will impact the value of those assets. Such write downs 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.

Further or continued deterioration of financial market conditions could result in a decrease in the expected future earnings of our reporting units, which could lead to an impairment of some or all of the goodwill associated with them in future periods. Such deterioration could also result in the impairment of long-lived assets and the establishment of a valuation allowance on our deferred income tax assets.



**Table of Contents**

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

Our business segments are subject to intense competition. We believe that this competition 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 with a large number of other insurers, 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 insurers, have higher claims paying ability ratings. Some may also have greater financial resources with which to compete. National banks, which may sell annuity products of life insurers in some circumstances, also have pre-existing customer bases for financial services products.

Many of our insurance products, particularly those offered by our Institutional segment, 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. The effect of competition may, as a result, adversely affect the persistency of these and other products, as well as our ability to sell products in the future.

In addition, the investment management and securities brokerage businesses have relatively few barriers to entry and continually attract new entrants. Many of our competitors in these businesses offer a broader array of investment products and services and are better known than we are as sellers of annuities and other investment products. See Business Competition.

Finally, the choices made by the U.S. Treasury in the administration of EESA and in its distribution of amounts available thereunder could have the effect of supporting some parts of the financial system more than others. See

There Can be No Assurance that Actions of the U.S. Government, Federal Reserve Bank of New York and Other Governmental and Regulatory Bodies for the Purpose of Stabilizing the Financial Markets Will Achieve the Intended Effect.

***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. Strong competition exists among insurers 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 grow our career agency force while continuing to enhance the efficiency and production of our existing sales force. We cannot provide assurance that these initiatives will 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 agents. See Business Competition.

***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. 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 many 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 assets we purchase with the premiums we receive. We establish liabilities for property and casualty claims and benefits based on assumptions and estimates of damages and liabilities incurred. 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

**Table of Contents**

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 changes in the assumptions used to establish the liabilities, as well as our actual experience. We charge or credit changes in our liabilities to expenses in the period the liabilities are established or re-estimated. 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.

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

Management of risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events. We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our policies and procedures may not be comprehensive. 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. See Quantitative and Qualitative Disclosures About Market Risk.

***Change in Our Discount Rate, Expected Rate of Return and Expected Compensation Increase Assumptions 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 and expected increases in compensation levels and expected medical inflation. Changes in these assumptions may result in increased expenses and reduce our profitability. See Management's Discussion and Analysis of Financial Condition and Results of Operations Pensions and Other Postretirement Benefit Plans and Note 17 of the Notes to the Consolidated Financial Statements for details on how changes in these assumptions would affect plan costs.

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

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, but neither the likelihood, timing, nor the severity of a future pandemic can be predicted. 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.

Our Auto & Home business has experienced, and will likely in the future experience, catastrophe losses that may have a material adverse impact on the business, results of operations and financial condition of the Auto & Home segment. Although Auto & Home makes every effort to manage 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 pandemics, 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 catastrophe-related claims have related to homeowners coverages. However,

catastrophes may also affect other Auto & Home 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 be increasing, or may in the future increase, the frequency and severity of natural catastrophes such as hurricanes.

**Table of Contents**

Hurricanes and earthquakes are of particular note for our homeowners coverages. Areas of major hurricane exposure include coastal sections of the northeastern United States (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 United States and in the Pacific Northwest.

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, pandemics, hurricanes, earthquakes and man-made catastrophes may produce significant damage in larger areas, especially those that are heavily populated. Claims resulting from natural or man-made 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. Also, catastrophic events could harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries. Our ability to write new business could also be affected. It is possible that increases in the value, caused by the effects of inflation or other factors, and geographic concentration of insured property, could increase the severity of claims from catastrophic events in the future.

Most of the jurisdictions in which our insurance subsidiaries are admitted to transact business require life and property and casualty insurers doing business within the jurisdiction to participate in guaranty associations, which are organized to pay contractual 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. In addition, certain states have government owned or controlled organizations providing life and property and 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 Regulation Insurance Regulation Guaranty Associations and Similar Arrangements.

While in the past five years, the aggregate assessments levied against MetLife 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 for assessments with respect to insurers that are currently subject to insolvency proceedings, but additional liabilities may be necessary. See Management's Discussion and Analysis of Financial Condition and Results of Operations Insolvency Assessments.

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.

Our ability to manage this risk and the profitability of our property and 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 Reinsurance May Not Be Available, Affordable or Adequate to Protect Us Against Losses.

***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, which various Nationally Recognized Statistical Rating Organizations ( NRSROs ) publish as indicators of an insurance company s ability to meet contractholder and policyholder

**Table of Contents**

obligations, are important to maintaining public confidence in our products, our ability to market our products and our competitive position. See [Business Company Ratings](#) [Insurer Financial Strength Ratings](#).

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 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 are indicators of 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. See [Business Company Ratings](#) [Credit Ratings](#). Downgrades in our credit ratings could have a material adverse effect on our financial condition and results of operations in many ways, including adversely limiting our access to capital markets, potentially increasing the cost of debt, and requiring us to post collateral. A two-notch decrease in the financial strength ratings of our insurance company subsidiaries would require us to post less than \$200 million of collateral in connection with derivative collateral arrangements, to which we are a party and would have allowed holders of \$500 million aggregate account value of our funding agreements to terminate such funding agreements on 90 days' notice.

In view of the difficulties experienced recently by many financial institutions, including our competitors in the insurance industry, we believe it is possible that the NRSROs will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the NRSRO models for maintenance of certain ratings levels. Rating agencies use an outlook statement of positive, stable, negative or developing to indicate a medium- or long-term trend in credit fundamentals which, if continued, may lead to a ratings change. A rating may have a stable outlook to indicate that the rating is not expected to change; however, a stable rating does not preclude a rating agency from changing a rating at any time, without notice. Certain rating agencies have recently revised their outlook on the U.S. life insurance sector, as well as MetLife, Inc.'s and certain of its subsidiaries' insurer financial strength and credit ratings, from stable to negative. Furthermore, the insurer financial strength and credit ratings of MetLife, Inc. and certain of its subsidiaries have also been recently downgraded. See [Business Company Ratings](#) [Rating Actions](#).

We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without any notice by any NRSRO.

***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 have a \$2.85 billion five-year revolving credit facility that matures in June 2012, as well as other facilities which we enter into in the ordinary course of business. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity and Capital Sources—Credit Facilities and Committed Facilities.

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, particularly in the current market when alternative sources of credit are tight. The credit facilities contain certain administrative, reporting, legal and financial covenants. We must comply with certain covenants under our credit



**Table of Contents**

facilities (including the \$2.85 billion five-year revolving credit facility) that require us to maintain a specified minimum consolidated net worth.

Our right to make borrowings under these facilities is subject to the fulfillment of certain important conditions, including our compliance with all covenants, and our ability to borrow 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.

***Guarantees Within Certain of Our Products that Protect Policyholders Against Significant Downturns in Equity Markets May Decrease Our Earnings, Increase the Volatility of Our Results if Hedging or Risk Management Strategies Prove Ineffective, Result in Higher Hedging Costs, Expose Us to Increased Counterparty Risk and Result in Our Own Credit Exposure***

Certain of our variable annuity products include guaranteed benefit riders. These include guaranteed death benefits, guaranteed withdrawal benefits, lifetime withdrawal guarantees, guaranteed minimum accumulation benefits, and guaranteed minimum income benefit riders. 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 the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. We use reinsurance in combination with derivative instruments to mitigate the liability exposure and the volatility of net income associated with these liabilities, and while we believe that these and other actions have mitigated the risks related to these benefits, we remain liable for the guaranteed benefits in the event that reinsurers or derivative counterparties are unable or unwilling to pay. In addition, we are subject to the risk that hedging and other management procedures prove ineffective or that unanticipated policyholder behavior or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on net income, financial condition or liquidity. We are also subject to the risk that the cost of hedging these guaranteed minimum benefits increases, resulting in a reduction to net income. We also must consider our own credit standing, which is not hedged, in the valuation of certain of these liabilities. A decrease in our own credit spread could cause the value of these liabilities to increase, resulting in a reduction to net income.

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

We incur significant costs in connection with acquiring new and renewal business. Those costs that vary with and are primarily related to the production of new and renewal business are deferred and referred to as DAC. The recovery of DAC 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 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 the estimates of gross profits or margins were overstated, 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 the DAC 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.

VOBA reflects the estimated fair value of in-force contracts in a life insurance company acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the insurance and annuity contracts in-force at the acquisition date. VOBA is based on actuarially determined

**Table of Contents**

projections. Actual experience may vary from the projections. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in an impairment and a charge to income. Also, as VOBA is amortized similarly to DAC, an acceleration of the amortization of VOBA would occur if the estimates of gross profits or margins were overstated. Accordingly, 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. 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 for further consideration of DAC and VOBA and the impact of current market events during 2008.

***Defaults, Downgrades or Other Events Impairing the Value of Our Fixed Maturity Securities Portfolio May Reduce Our Earnings***

We are subject to the risk that the issuers, or guarantors, of fixed maturity securities we own may default on principal and interest payments they owe us. We are also subject to the risk that the underlying collateral within loan-backed securities, including mortgage-backed securities, may default on principal and interest payments causing an adverse change in cash flows paid to our investment. At December 31, 2008, the fixed maturity securities of \$188.3 billion in our investment portfolio represented 58.4% of our total cash and invested assets. The occurrence of a major economic downturn (such as the current downturn in the economy), acts of corporate malfeasance, widening risk spreads, or other events that adversely affect the issuers, guarantors or underlying collateral of these securities could cause the value of our fixed maturity securities portfolio and our net income to decline and 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 loan-backed security we hold could indicate the credit quality of that security has deteriorated. Any event reducing the value of these securities other than on a temporary basis could have a material adverse effect on our business, results of operations and financial condition. Levels of write down or impairment are impacted by our assessment of the intent and ability to hold securities which have declined in value until recovery. If we determine to reposition or realign portions of the portfolio so as not to hold certain securities in an unrealized loss position to recovery, then we will incur an other than temporary impairment charge in the period that the decision was made not to hold the security to recovery. In addition, in January, 2009, Moody's revised its loss projections for U.S. Alt-A residential mortgage-backed securities (RMBS), and it is anticipated that Moody's will be downgrading virtually all 2006 and 2007 Alt-A securities to below investment grade, which will increase the percentage of our portfolio that will be rated below investment grade.

***Fluctuations in Foreign Currency Exchange Rates and Foreign Securities Markets 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. These risks relate to potential decreases in value and income resulting from a strengthening or weakening in foreign exchange rates versus the U.S. dollar. In general, the weakening of foreign currencies versus the U.S. dollar will adversely affect the value of our non-U.S. dollar denominated investments and our investments in foreign subsidiaries. Although we use foreign currency swaps and forward contracts to mitigate foreign currency exchange rate risk, we cannot provide assurance that these methods will be effective or that our counterparties will perform their obligations. See Quantitative and Qualitative Disclosures About Market Risk.

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 exchange rate risk is exacerbated by our investments in emerging markets.

**Table of Contents**

We have matched substantially all of our foreign currency liabilities in our foreign subsidiaries with assets 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 consolidated financial statements. Although we take certain actions to address this risk, 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](#).

***Our International Operations Face Political, Legal, Operational and Other Risks that Could Negatively Affect Those Operations or Our Profitability***

Our international operations face political, legal, operational and other risks that we do not face in our domestic operations. We face the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and 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. Some of our foreign insurance operations are, and are likely to continue to be, in emerging markets where these risks are heightened. See [Quantitative and Qualitative Disclosures About Market Risk](#). In addition, 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 Japan, China and India we operate with local business partners with the resulting risk of managing partner relationships to the 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.

We are currently planning to expand our international operations in 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 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.

In recent years, the operating environment in Argentina has been very challenging. In Argentina, we are principally engaged in the pension business. In December 2008, the Argentine government nationalized private pensions and seized the pension funds' investments, eliminating the private pensions business in Argentina. As a result, we will experience a reduction in the operation's future revenues and cash flows. The Argentine government now controls all assets which previously were managed by our Argentine pension operations. Further governmental or legal actions related to our operations in Argentina could negatively impact our operations in Argentina and result in future losses.

See also [Changes in Market Interest Rates May Significantly Affect Our Profitability](#) regarding the impact of low interest rates on our Taiwanese operations.

***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. See [Business Reinsurance Activity](#). 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.

**Table of Contents**

***If the Counterparties to Our Reinsurance or Indemnification Arrangements or to the Derivative Instruments 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 derivative instruments 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. We cannot provide assurance that our reinsurers will pay the reinsurance recoverables owed to us or that indemnitors will honor their obligations now or in the future or that they will pay these recoverables on a timely basis. 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.

In addition, we use derivative instruments to hedge various business risks. We enter into a variety of derivative instruments, 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 derivative instruments, our hedges of the related risk will be ineffective. This is a more pronounced risk to us in view of the recent stresses suffered by financial institutions. Such failure could have a material adverse effect on our financial condition and results of operations.

***Our Insurance Businesses Are Heavily Regulated, and Changes in Regulation May Reduce Our Profitability and Limit Our Growth***

Our insurance operations are subject to a wide variety of insurance and other laws and regulations. See Business Regulation Insurance Regulation. State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and the states in which they are licensed. Our non-U.S. insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are domiciled and operate.

State laws in the United States 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;

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;

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;

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.



**Table of Contents**

State insurance guaranty associations have the right to assess insurance companies doing business in their state for funds to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, the liabilities that we have currently established for these potential liabilities may not be adequate. See [Business Regulation Insurance Regulation Guaranty Associations and Similar Arrangements](#).

State insurance regulators and the 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, are often made for the benefit of the consumer at the expense of the insurer and, thus, could have a material adverse effect on our financial condition and results of operations.

The NAIC and several states' legislatures have considered the need for regulations and/or laws to address agent or broker practices that have been the focus of investigations of broker compensation in the State of New York and in other jurisdictions. The NAIC adopted a Compensation Disclosure Amendment to its Producers Licensing Model Act which, if adopted by the states, would require disclosure by agents or brokers to customers that insurers will compensate such agents or brokers for the placement of insurance and documented acknowledgement of this arrangement in cases where the customer also compensates the agent or broker. Several states have enacted laws similar to the NAIC amendment. We cannot predict how many states may promulgate the NAIC amendment or alternative regulations or the extent to which these regulations may have a material adverse impact on our business.

Currently, the U.S. federal government does not directly regulate the business of insurance. However, federal legislation and administrative policies in several areas can significantly and adversely affect insurance companies. These areas include financial services regulation, securities regulation, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed. In view of recent events involving certain financial institutions and the financial markets, it is possible that the U.S. federal government will heighten its oversight of insurers such as us, including possibly through a federal system of insurance regulation and/or that the oversight responsibilities and mandates of existing or newly created regulatory bodies could change. We cannot predict whether these or other proposals will be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business, financial condition or results of operations.

Our international operations are subject to regulation in the jurisdictions in which they operate, which in many ways is similar to that of the state regulation outlined above. Many of our customers and independent sales intermediaries also operate in regulated environments. Changes in the regulations that affect their operations also may affect our business relationships with them and their ability to purchase or distribute our products. Accordingly, these changes could have a material adverse effect on our financial condition and results of operations. See [Our International Operations Face Political, Legal, Operational and Other Risks that Could Negatively Affect Those Operations or Our Profitability](#).

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.

From time to time, regulators raise issues during examinations or audits of MetLife, Inc.'s 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, including banking regulations, and may in the future become subject to additional regulations. See Business Regulation.

**Table of Contents**

***Litigation and Regulatory Investigations Are Increasingly Common in Our Businesses and May Result in Significant Financial Losses and 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 or indeterminate amounts, including punitive and treble damages, and the damages claimed and the amount of any probable and estimable liability, if any, may remain unknown for substantial periods of time. See *Legal Proceedings* and Note 16 of the Notes to the Consolidated Financial Statements.

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 be inherently impossible to ascertain with any degree of certainty. Inherent uncertainties can include how fact finders will view individually and in their totality documentary evidence, the credibility and effectiveness of witnesses' 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 relevant evidence and applicable law.

On a quarterly and annual basis, we review relevant information with respect to litigation and contingencies to be reflected in our consolidated financial statements. The review includes senior legal and financial personnel. Unless stated elsewhere herein, estimates of possible losses or ranges of loss for particular matters cannot in the ordinary course be made with a reasonable degree of certainty. See *Legal Proceedings* and Note 16 of the Notes to the Consolidated Financial Statements. Liabilities are established when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Liabilities have been established for a number of matters noted in *Legal Proceedings* and Note 16 of the Notes to the Consolidated Financial Statements. It is possible that some of the matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated at December 31, 2008.

MLIC and MetLife, Inc. have been named as defendants in several lawsuits brought in connection with MLIC's demutualization in 2000. Although most of these lawsuits have been dismissed, two have been certified as nationwide class action lawsuits. MLIC and its affiliates also are currently defendants in numerous lawsuits including class action lawsuits, alleging improper marketing or sales of individual life insurance policies, annuities, mutual funds or other products.

In addition, MLIC is a defendant in a large number of lawsuits seeking compensatory and punitive damages for personal injuries allegedly caused by exposure to asbestos or asbestos-containing products. These lawsuits principally have focused on allegations with respect to certain research, publication and other activities of one or more of MLIC's employees during the period from the 1920s through approximately the 1950s and have alleged that MLIC learned or should have learned of certain health risks posed by asbestos and, among other things, improperly publicized or failed to disclose those health risks. Additional litigation relating to these matters may be commenced in the future. The ability of MLIC to estimate its ultimate asbestos exposure is subject to considerable uncertainty, and the conditions impacting its liability can be dynamic and subject to change. The availability of reliable data is limited and it is difficult to predict with any certainty the numerous variables that can affect liability estimates, including 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 MLIC when exposure took place after the dangers of asbestos exposure were well known, and the impact of any possible future adverse verdicts and their amounts. The number of asbestos cases that may be brought or the aggregate amount of any liability that MLIC may incur, and the total amount paid in settlements in any given year are uncertain and may vary significantly from year to year. Accordingly, it is reasonably possible that our total exposure to asbestos claims may be materially greater than

**Table of Contents**

the liability recorded by us in our consolidated financial statements and that future charges to income may be necessary. The potential future charges could be material in the particular quarterly or annual periods in which they are recorded.

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 could have a material adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have a material adverse effect on our business, financial condition and results of operations, including our ability to attract new customers, retain our current customers and recruit and retain employees. Regulatory inquiries and litigation may cause volatility in the price of stocks of companies in our industry.

We cannot give assurance that current claims, litigation, unasserted claims probable of assertion, investigations and other proceedings against us will not 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. In addition, increased regulatory scrutiny and any resulting investigations or proceedings could result in new legal actions and precedents and industry-wide regulations that could adversely affect our business, financial condition and results of operations.

***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 authoritative bodies, including the Financial Accounting Standards Board. Market conditions have prompted accounting standard setters to expose new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our annual and quarterly reports on Form 10-K and Form 10-Q. 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. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

Further, the federal government, under the EESA, conducted an investigation of fair value accounting during the fourth quarter of 2008 and has granted the SEC the authority to suspend fair value accounting for any registrant or group of registrants at its discretion. The impact of such actions on registrants who apply fair value accounting cannot be readily determined at this time; however, actions taken by the federal government could have a material adverse effect on the financial condition and results of operations of companies, including ours, that apply fair value accounting.

***Changes in U.S. Federal and State Securities Laws and Regulations 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. 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 the separate accounts are registered with the SEC under the Securities Act. Other subsidiaries are registered with the SEC as

**Table of Contents**

broker-dealers under 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, and are also registered as investment advisers in various states, as applicable.

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, as well as 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. Changes to these laws or regulations that restrict the conduct of our business could have a material adverse effect on our financial condition and results of operations. In particular, changes in the regulations governing the registration and distribution of variable insurance products, such as changes in the regulatory standards for suitability of variable annuity contracts or variable life insurance policies, could have such a material adverse effect.

***Changes in Tax Laws, Tax Regulations, or Interpretations of Such Laws or Regulations Could Increase Our Corporate Taxes; Changes in Tax Laws Could Make Some of Our Products Less Attractive to Consumers***

Changes in tax laws, tax regulations, or interpretations of such laws or regulations could increase our corporate taxes. Changes in corporate tax rates could affect the value of deferred tax assets and deferred tax liabilities. Furthermore, the value of deferred tax assets could be impacted by future earnings levels.

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 would reduce our income from sales of these products, as well as the assets upon which we earn investment income.

We cannot predict whether any tax legislation impacting corporate taxes or insurance products will be enacted, what the specific terms of any such legislation will be or whether, if at all, any legislation would 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), 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 9 of the Notes to the Consolidated Financial Statements. We allocated assets to the closed block in 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. We cannot provide assurance that 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 will be sufficient to provide for the benefits guaranteed under these policies. If they are not sufficient, 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 revenue from the policies in the closed block will benefit only the holders of those policies. 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.



**Table of Contents**

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

The continued threat of terrorism, both within the United States 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. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and reduced economic activity caused by the continued threat of terrorism. We cannot predict whether, and the extent to which, companies in which we maintain investments may suffer losses as a result of financial, commercial or economic disruptions, or how any such disruptions might affect the ability of those companies to pay interest or principal on their securities. The continued threat of terrorism also could result in increased reinsurance prices and reduced insurance coverage and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. Terrorist actions also could disrupt our operations centers in the United States or abroad. In addition, the occurrence of terrorist actions could result in higher claims under our insurance policies than anticipated. See [Difficult Conditions in the Global Capital Markets and the Economy Generally May Materially Adversely Affect Our Business and Results of Operations and These Conditions May Not Improve in the Near Future](#).

***The Occurrence of Events Unanticipated In Our Disaster Recovery Systems and Management Continuity Planning Could Impair Our Ability to Conduct Business Effectively***

In the event of a disaster such as a natural catastrophe, an epidemic, an industrial accident, a blackout, a computer virus, a terrorist attack 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. We depend heavily upon computer systems to provide reliable service. Despite our implementation of a variety of security measures, our computer systems could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering. In addition, in the event that a significant number of our managers were unavailable in the event of 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.

***We Face Unforeseen Liabilities or Asset Impairments Arising from Possible Acquisitions and Dispositions of Businesses or Difficulties Integrating Such Businesses***

We have engaged in dispositions and acquisitions of businesses in the past, and expect to continue to do so in the future. 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 due diligence investigations on each business that we have acquired or may acquire. Furthermore, the use of our own funds as consideration in any acquisition would consume capital resources that would no longer be available for other corporate purposes.

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 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.

**Table of Contents*****Guarantees Within Certain of Our Variable Annuity Guarantee Riders that Protect Policyholders Against Significant Downturns in Equity Markets May Increase the Volatility of Our Results Related to the Inclusion of an Own Credit Adjustment in the Estimated Fair Value of the Liability for These Riders***

In determining the valuation of certain variable annuity guarantee rider liabilities that are carried at estimated fair value, we must consider our own credit standing, which is not hedged. A decrease in our own credit spread could cause the value of these liabilities to increase, resulting in a reduction to net income. An increase in our own credit spread could cause the value of these liabilities to decrease, resulting in an increase to net income. Because this credit adjustment is determined, at least in part, by taking into consideration publicly available information relating to our publicly-traded debt (including related credit default swap spreads), the overall condition of fixed income markets may impact this adjustment. The credit premium implied in our publicly-traded debt instruments may not always necessarily reflect our actual credit rating or our claims paying ability. Recently, the fixed-income markets have experienced a period of extreme volatility which negatively impacted market liquidity and increased credit spreads. The increase in credit default swap spreads has at times been even more pronounced than in the fixed income cash markets. In a broad based market downturn, this increase in our own credit spread could result in net income being relatively flat when a deterioration in other market inputs required for the estimate of fair value would otherwise result in a significant reduction in net income. The inclusion of our own credit standing in this case has the effect of muting the actual net income losses recognized. In subsequent periods, if our credit spreads improve relative to the overall market, we could have a reduction of net income in an overall improving market.

***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 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 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. See [Business Regulation Insurance Regulation](#) and Note 18 of the Notes to the Consolidated Financial Statements and [Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources The Holding Company Liquidity and Capital Sources Dividends](#).

Any payment of interest, dividends, distributions, loans or advances by our foreign subsidiaries 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 [Our International Operations Face Political, Legal, Operational and Other Risks That Could Negatively Affect Those Operations or Our Profitability](#).

***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 (the [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 20, 2009,

241,743,740 shares, or 29.6%, of the outstanding shares of MetLife, Inc. common stock, are held in the Trust. Because of the number of shares held in the Trust and the voting provisions of the Trust, 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

**Table of Contents**

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 those 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 the 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.

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.

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

State 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, they 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 which may delay, deter or prevent a takeover attempt that stockholders of MetLife, Inc. might consider in their best interests. First, the insurance laws and regulations of the various states in which MetLife, Inc.'s insurance subsidiaries are organized may delay or impede a business combination involving us. State insurance laws prohibit an entity from acquiring control of an insurance company without the prior approval of the domestic insurance regulator. Under most states' statutes, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company or its parent company. We are also subject to banking regulations, and may in the future become subject to additional regulations. In addition, the Investment Company Act would 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. Finally, FINRA approval would be necessary for a change

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

In addition, Section 203 of the Delaware General Corporation Law may affect the ability of an interested stockholder to engage in certain business combinations, including mergers, consolidations or acquisitions of additional shares, for a period of three years following the time that the stockholder becomes an interested

## **Table of Contents**

stockholder. An interested stockholder is defined to include persons owning, directly or indirectly, 15% or more of the outstanding voting stock of a corporation.

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. These provisions may adversely affect prevailing market prices for MetLife, Inc.'s common stock and include: classification of MetLife, Inc.'s Board of Directors into three classes; 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 stockholder rights plan adopted by MetLife, Inc.'s Board of Directors may also have anti-takeover effects. The stockholder rights plan is designed to protect MetLife, Inc.'s stockholders in the event of unsolicited offers to acquire us and other coercive takeover tactics which, in the opinion of MetLife, Inc.'s Board of Directors, could impair its ability to represent stockholder interests. The provisions of the stockholder rights plan may render an unsolicited takeover more difficult or less likely to occur or might prevent such a takeover, even though such takeover may offer MetLife, Inc.'s stockholders the opportunity to sell their stock at a price above the prevailing market price and may be favored by a majority of MetLife, Inc.'s stockholders.

### **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***

In December 2006, we signed a lease for 410,000 rentable square feet of which 100,000 rentable square feet are available for sublease in Manhattan, New York to be located on 12 floors. The term of the lease commenced during 2008 and will continue for 21 years. We moved certain operations (including certain associates working in the Institutional, Individual and International segments, as well as Corporate & Other), from Long Island City, New York, to Manhattan in late 2008, but continue to maintain an on-going presence in Long Island City. Our lease in Long Island City, New York, covers 686,000 rentable square feet, under a long-term lease arrangement. In connection with the move of certain operations to Manhattan, in late 2008 we subleased 80,000 rentable square feet to two subtenants, each of which has met our standards of review with respect to creditworthiness. Additionally, 180,000 rentable square feet are available for sublease. As a result of this movement of operations, and current market conditions, the Company incurred a lease impairment charge of \$38 million.

In November 2006, we sold our Peter Cooper Village and Stuyvesant Town properties located in Manhattan, New York to a group led by Tishman Speyer and BlackRock Realty, the real estate arm of BlackRock, Inc., for \$5.4 billion. The gain of \$3.0 billion is included in income from discontinued operations in the accompanying consolidated statements of income.

In connection with the 2005 sale of the 200 Park Avenue property, 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. Associates located in the 200 Park Avenue office, our headquarters, include those working in the Institutional and Individual segments.

We continue to own 15 other buildings in the United States that we use in the operation of our business. These buildings contain 4.2 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 797 other locations throughout the United States, and these leased facilities consist of 8.7 million rentable square feet. Approximately 66% of these leases are occupied as sales offices for the Individual segment, for MetLife Bank included within Corporate & Other, and the balance for our other business activities. We also own nine buildings outside the United States, comprising 300,000 rentable square feet including one building 192,000 square feet. condominium unit in Mexico that we use in the operation of our business. We lease 3.0 million rentable square



## **Table of Contents**

feet in various locations outside the United States. Management believes that these properties are suitable and adequate for our current and anticipated business operations.

We arrange for property and 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 coverage including coverage for terrorism on our real estate portfolio through May 15, 2009, its renewal date.

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

The Company is a defendant in a large number of litigation matters. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Modern pleading practice in the United States permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding reasonable possible verdicts in the jurisdiction for similar matters. This variability in pleadings, together with the actual experience of the Company in litigating or resolving through settlement numerous claims over an extended period of time, demonstrate to management that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value. Thus, unless stated below, the specific monetary relief sought is not noted.

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 inherently impossible to ascertain with any degree of certainty. Inherent uncertainties can include how fact finders will view individually and in their totality documentary evidence, the credibility and effectiveness of witnesses' 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 relevant evidence and applicable law.

On a quarterly and annual basis, the Company reviews relevant information with respect to litigation and contingencies to be reflected in the Company's consolidated financial statements. In 2007, the Company received \$39 million upon the resolution of an indemnification claim associated with the 2000 acquisition of General American Life Insurance Company ( GALIC ), and the Company reduced legal liabilities by \$38 million after the settlement of certain cases. The review includes senior legal and financial personnel. Unless stated below, estimates of possible losses or ranges of loss for particular matters cannot in the ordinary course be made with a reasonable degree of certainty. Liabilities are established when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Liabilities have been established for a number of the matters noted below; in 2007 the Company increased legal liabilities for pending sales practices, employment, property and casualty and intellectual property litigation matters against the Company. It is possible that some of the matters could require the Company to pay damages or make other expenditures or establish accruals in amounts that could not be estimated at December 31, 2008.

#### *Demutualization Actions*

Several lawsuits were brought in 2000 challenging the fairness of the Plan and the adequacy and accuracy of MLIC's disclosure to policyholders regarding the Plan. The actions discussed below name as defendants some or all of MLIC, the Holding Company, and individual directors. MLIC, the Holding Company, and the individual directors believe they have meritorious defenses to the plaintiffs' claims and are contesting vigorously all of the plaintiffs' claims in these actions.

*Fiala, et al. v. Metropolitan Life Ins. Co., et al. (Sup. Ct., N.Y. County, filed March 17, 2000).* The plaintiffs in the consolidated state court class action seek compensatory relief and punitive damages against MLIC, the Holding Company, and individual directors. The court has certified a litigation class of present and former policyholders on plaintiffs' claim that defendants violated section 7312 of the New York Insurance Law. Pursuant to the court's order, plaintiffs have given notice to the class of the pendency of this action. Defendants' motion for summary judgment is pending.

**Table of Contents**

*In re MetLife Demutualization Litig. (E.D.N.Y., filed April 18, 2000).* In this class action against MLIC and the Holding Company, plaintiffs served a second consolidated amended complaint in 2004. Plaintiffs assert violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 in connection with the Plan, claiming that the Policyholder Information Booklets failed to disclose certain material facts and contained certain material misstatements. They seek rescission and compensatory damages. By orders dated July 19, 2005 and August 29, 2006, the federal trial court certified a litigation class of present and former policyholders. The court has directed the manner and form of notice to the class, but plaintiffs have not yet distributed the notice. MLIC and the Holding Company have moved for summary judgment, and plaintiffs have moved for partial summary judgment. The court heard oral argument on the parties' motions for summary judgment on September 19, 2008.

*Asbestos-Related Claims*

MLIC is and has been a defendant in a large number of asbestos-related suits filed primarily in state courts. These suits principally allege that the plaintiff or plaintiffs suffered personal injury resulting from exposure to asbestos and seek both actual and punitive damages. MLIC has never engaged in the business of manufacturing, producing, distributing or selling asbestos or asbestos-containing products nor has MLIC issued liability or workers' compensation insurance to companies in the business of manufacturing, producing, distributing or selling asbestos or asbestos-containing products. The lawsuits principally have focused on allegations with respect to certain research, publication and other activities of one or more of MLIC's employees during the period from the 1920's through approximately the 1950's and allege that MLIC learned or should have learned of certain health risks posed by asbestos and, among other things, improperly publicized or failed to disclose those health risks. MLIC believes that it should not have legal liability in these cases. The outcome of most asbestos litigation matters, however, is uncertain and can be impacted by numerous variables, including differences in legal rulings in various jurisdictions, the nature of the alleged injury, and factors unrelated to the ultimate legal merit of the claims asserted against MLIC. MLIC employs a number of resolution strategies to manage its asbestos loss exposure, including seeking resolution of pending litigation by judicial rulings and settling individual or groups of claims or lawsuits under appropriate circumstances.

Claims asserted against MLIC have included negligence, intentional tort and conspiracy concerning the health risks associated with asbestos. MLIC's defenses (beyond denial of certain factual allegations) include that: (i) MLIC owed no duty to the plaintiffs—it had no special relationship with the plaintiffs and did not manufacture, produce, distribute or sell the asbestos products that allegedly injured plaintiffs; (ii) plaintiffs did not rely on any actions of MLIC; (iii) MLIC's conduct was not the cause of the plaintiffs' injuries; (iv) plaintiffs' exposure occurred after the dangers of asbestos were known; and (v) the applicable time with respect to filing suit has expired. During the course of the litigation, certain trial courts have granted motions dismissing claims against MLIC, while other trial courts have denied MLIC's motions to dismiss. There can be no assurance that MLIC will receive favorable decisions on motions in the future. While most cases brought to date have settled, MLIC intends to continue to defend aggressively against claims based on asbestos exposure, including defending claims at trials.

The approximate total number of asbestos personal injury claims pending against MLIC as of the dates indicated, the approximate number of new claims during the years ended on those dates and the approximate total settlement payments made to resolve asbestos personal injury claims at or during those years are set forth in the following table:

	<b>December 31,</b>		
<b>2008</b>	<b>2007</b>	<b>2006</b>	
<b>(In millions, except number of claims)</b>			

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Asbestos personal injury claims at year end	74,027	79,717	87,070
Number of new claims during the year	5,063	7,161	7,870
Settlement payments during the year (1)	\$ 99.0	\$ 28.2	\$ 35.5

(1) Settlement payments represent payments made by MLIC during the year in connection with settlements made in that year and in prior years. Amounts do not include MLIC's attorneys' fees and expenses and do not reflect amounts received from insurance carriers.

**Table of Contents**

In 2005, MLIC received approximately 18,500 new claims, ending the year with a total of approximately 100,250 claims, and paid approximately \$74.3 million for settlements reached in 2005 and prior years. In 2004, MLIC received approximately 23,900 new claims, ending the year with a total of approximately 108,000 claims, and paid approximately \$85.5 million for settlements reached in 2004 and prior years. In 2003, MLIC received approximately 58,750 new claims, ending the year with a total of approximately 111,700 claims, and paid approximately \$84.2 million for settlements reached in 2003 and prior years. The number of asbestos cases that may be brought, the aggregate amount of any liability that MLIC may incur, and the total amount paid in settlements in any given year are uncertain and may vary significantly from year to year.

The ability of MLIC to estimate its ultimate asbestos exposure is subject to considerable uncertainty, and the conditions impacting its liability can be dynamic and subject to change. The availability of reliable data is limited and it is difficult to predict with any certainty the numerous variables that can affect liability estimates, including 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 MLIC 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.

The ability to make estimates regarding ultimate asbestos exposure declines significantly as the estimates relate to years further in the future. In the Company's judgment, there is a future point after which losses cease to be probable and reasonably estimable. It is reasonably possible that the Company's total exposure to asbestos claims may be materially greater than the asbestos liability currently accrued and that future charges to income may be necessary. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on the Company's financial position.

During 1998, MLIC paid \$878 million in premiums for excess insurance policies for asbestos-related claims. The excess insurance policies for asbestos-related claims provided for recovery of losses up to \$1.5 billion in excess of a \$400 million self-insured retention. The Company's initial option to commute the excess insurance policies for asbestos-related claims would have arisen at the end of 2008. On September 29, 2008, MLIC entered into agreements commuting the excess insurance policies as of September 30, 2008. As a result of the commutation of the policies, MLIC received cash and securities totaling \$632 million. Of this total, MLIC received \$115 million in fixed maturity securities on September 26, 2008, \$200 million in cash on October 29, 2008, and \$317 million in cash on January 29, 2009. MLIC recognized a loss on commutation of the policies in the amount of \$35.3 million during 2008.

In the years prior to commutation, the excess insurance policies for asbestos-related claims were subject to annual and per claim sublimits. Amounts exceeding the sublimits during 2007, 2006 and 2005 were approximately \$16 million, \$8 million and \$0, respectively. Amounts were recoverable under the policies annually with respect to claims paid during the prior calendar year. Each asbestos-related policy contained an experience fund and a reference fund that provided for payments to MLIC at the commutation date if the reference fund was greater than zero at commutation or pro rata reductions from time to time in the loss reimbursements to MLIC if the cumulative return on the reference fund was less than the return specified in the experience fund. The return in the reference fund was tied to performance of the S&P 500 Index and the Lehman Brothers Aggregate Bond Index. A claim with respect to the prior year was made under the excess insurance policies in each year from 2003 through 2008 for the amounts paid with respect to asbestos litigation in excess of the retention. The foregone loss reimbursements were approximately \$62.2 million with respect to claims for the period of 2002 through 2007. Because the policies were commuted as of September 30, 2008, there will be no claims under the policies or foregone loss reimbursements with respect to payments made in 2008 and thereafter.

The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for asbestos-related claims. MLIC's recorded asbestos liability is based on its estimation of the following elements, as informed by the facts presently known to it, its understanding of current law, and its past experiences: (i) the probable and reasonably estimable liability for asbestos claims already asserted against MLIC, including claims settled but not yet paid; (ii) the probable and reasonably estimable liability

**Table of Contents**

for asbestos claims not yet asserted against MLIC, but which MLIC believes are reasonably probable of assertion; and (iii) the legal defense costs associated with the foregoing claims. Significant assumptions underlying MLIC's analysis of the adequacy of its recorded liability with respect to asbestos litigation include: (i) the number of future claims; (ii) the cost to resolve claims; and (iii) the cost to defend claims.

MLIC reevaluates on a quarterly and annual basis its exposure from asbestos litigation, including studying its claims experience, reviewing external literature regarding asbestos claims experience in the United States, assessing relevant trends impacting asbestos liability and considering numerous variables that can affect its asbestos liability exposure on an overall or per claim basis. These variables include bankruptcies of other companies involved in asbestos litigation, legislative and judicial developments, the number of pending claims involving serious disease, the number of new claims filed against it and other defendants, and the jurisdictions in which claims are pending. As previously disclosed, in 2002 MLIC increased its recorded liability for asbestos-related claims by \$402 million from approximately \$820 million to \$1,225 million. Based upon its regular reevaluation of its exposure from asbestos litigation, MLIC has updated its liability analysis for asbestos-related claims through December 31, 2008.

*Regulatory Matters*

The Company receives and responds to subpoenas or other inquiries from state regulators, including state insurance commissioners; state attorneys general or other state governmental authorities; federal regulators, including the SEC; federal governmental authorities, including congressional committees; and the Financial Industry Regulatory Authority seeking a broad range of information. The issues involved in information requests and regulatory matters vary widely. Certain regulators have requested information and documents regarding contingent commission payments to brokers, the Company's awareness of any sham bids for business, bids and quotes that the Company submitted to potential customers, incentive agreements entered into with brokers, or compensation paid to intermediaries. Regulators also have requested information relating to market timing and late trading of mutual funds and variable insurance products and, generally, the marketing of products. The Company has received a subpoena from the Office of the U.S. Attorney for the Southern District of California asking for documents regarding the insurance broker Universal Life Resources. The Company has been cooperating fully with these inquiries.

Regulatory authorities in a small number of states have had investigations or inquiries relating to sales of individual life insurance policies or annuities or other products by MLIC; New England Mutual Life Insurance Company, New England Life Insurance Company and New England Securities Corporation (collectively "New England"); GALIC; Walnut Street Securities, Inc. ("Walnut Street Securities") and MetLife Securities, Inc. ("MSI"). Over the past several years, these and a number of investigations by other regulatory authorities were resolved for monetary payments and certain other relief. The Company may continue to resolve investigations in a similar manner.

MSI is a defendant in two regulatory matters brought by the Illinois Department of Securities. In 2005, MSI received a notice from the Illinois Department of Securities asserting possible violations of the Illinois Securities Act in connection with sales of a former affiliate's mutual funds. A response has been submitted and in January 2008, MSI received notice of the commencement of an administrative action by the Illinois Department of Securities. In May 2008, MSI's motion to dismiss the action was denied. In the second matter, in December 2008 MSI received a Notice of Hearing from the Illinois Department of Securities based upon a complaint alleging that MSI failed to reasonably supervise one of its former registered representatives in connection with the sale of variable annuities to Illinois investors. MSI intends to vigorously defend against the claims in these matters.

In June 2008, the Environmental Protection Agency issued a Notice of Violation ("NOV") regarding the operations of the Homer City Generating Station, an electrical generation facility. The NOV alleges, among other things, that the electrical generation facility is being operated in violation of certain federal and state Clean Air Act requirements. Homer City OL6 LLC, an entity owned by MLIC, is a passive investor with a minority interest in the electrical

generation facility, which is solely operated by the lessee, EME Homer City Generation L.P. ( EME Homer ). Homer City OL6 LLC and EME Homer are among the respondents identified in the NOV. EME Homer has been notified of its obligation to indemnify Homer City OL6 LLC and MLIC for any claims resulting from the NOV and has expressly acknowledged its obligation to indemnify Homer City OL6 LLC.



**Table of Contents***Other Litigation*

*Jacynthe Evoy-Larouche v. Metropolitan Life Ins. Co. (Que. Super. Ct., filed March 1998).* This putative class action lawsuit involving sales practices claims is pending against MLIC in Canada. Plaintiff alleges misrepresentations regarding dividends and future payments for life insurance policies and seeks unspecified damages.

*Travelers Ins. Co., et al. v. Banc of America Securities LLC (S.D.N.Y., filed December 13, 2001).* On January 6, 2009, after a jury trial, the district court entered a judgment in favor of The Travelers Insurance Company, now known as MetLife Insurance Company of Connecticut, in the amount of approximately \$42 million in connection with securities and common law claims against the defendant. The defendant has filed a post judgment motion seeking a judgment in its favor or, in the alternative, a new trial. If this motion is denied, the defendant will likely file an appeal. As it is possible that the judgment could be affected during the post judgment motion practice or upon appeal, and the Company has not collected any portion of the judgment, the Company has not recognized any award amount in its consolidated financial statements.

*Shipley v. St. Paul Fire and Marine Ins. Co. and Metropolitan Property and Casualty Ins. Co. (Ill. Cir. Ct., Madison County, filed February 26 and July 2, 2003).* Two putative nationwide class actions have been filed against Metropolitan Property and Casualty Insurance Company in Illinois. One suit claims breach of contract and fraud due to the alleged underpayment of medical claims arising from the use of a purportedly biased provider fee pricing system. The second suit currently alleges breach of contract arising from the alleged use of preferred provider organizations to reduce medical provider fees covered by the medical claims portion of the insurance policy. Motions for class certification have been filed and briefed in both cases. A third putative nationwide class action relating to the payment of medical providers, *Innovative Physical Therapy, Inc. v. MetLife Auto & Home, et ano (D. N.J., filed November 12, 2007)*, was filed against Metropolitan Property and Casualty Insurance Company in federal court in New Jersey. The court granted the defendants' motion to dismiss, and plaintiff appealed the dismissal. The Company is vigorously defending against the claims in these matters.

*The American Dental Association, et al. v. MetLife Inc., et al. (S.D. Fla., filed May 19, 2003).* The American Dental Association and three individual providers have sued the Holding Company, MLIC and other non-affiliated insurance companies in a putative class action lawsuit. The plaintiffs purport to represent a nationwide class of in-network providers who allege that their claims are being wrongfully reduced by downcoding, bundling, and the improper use and programming of software. The complaint alleges federal racketeering and various state law theories of liability. On February 10, 2009, the district court granted the Company's motion to dismiss plaintiffs' second amended complaint, dismissing all of plaintiffs' claims except for breach of contract claims. Plaintiffs have been provided with an opportunity to re-plead the dismissed claims by February 26, 2009.

*In Re Ins. Brokerage Antitrust Litig. (D. N.J., filed February 24, 2005).* In this multi-district class action proceeding, plaintiffs' complaint alleged that the Holding Company, MLIC, several non-affiliated insurance companies and several insurance brokers violated the Racketeer Influenced and Corrupt Organizations Act ( RICO ), the Employee Retirement Income Security Act of 1974 ( ERISA ), and antitrust laws and committed other misconduct in the context of providing insurance to employee benefit plans and to persons who participate in such employee benefit plans. In August and September 2007 and January 2008, the court issued orders granting defendants' motions to dismiss with prejudice the federal antitrust, the RICO, and the ERISA claims. In February 2008, the court dismissed the remaining state law claims on jurisdictional grounds. Plaintiffs' appeal from the orders dismissing their RICO and federal antitrust claims is pending with the U.S. Court of Appeals for the Third Circuit. A putative class action alleging that the Holding Company and other non-affiliated defendants violated state laws was transferred to the District of New Jersey but was not consolidated with other related actions. Plaintiffs' motion to remand this action to state court in Florida is pending.

*MetLife v. Park Avenue Securities, et. al. (FINRA Arbitration, filed May 2006).* MetLife commenced an action against Park Avenue Securities LLC., a registered investment adviser and broker-dealer that is an indirect wholly-owned subsidiary of The Guardian Life Insurance Company of America, alleging misappropriation of confidential and proprietary information and use of prohibited methods to solicit MetLife customers and recruit MetLife financial services representatives. On February 12, 2009, a Financial Industry Regulatory Authority

**Table of Contents**

( FINRA ) arbitration panel awarded MetLife \$21 million in damages, including punitive damages and attorneys fees. Park Avenue Securities may appeal the award.

*Thomas, et al. v. Metropolitan Life Ins. Co., et al. (W.D. Okla., filed January 31, 2007).* A putative class action complaint was filed against MLIC and MSI. Plaintiffs assert legal theories of violations of the federal securities laws and violations of state laws with respect to the sale of certain proprietary products by the Company's agency distribution group. Plaintiffs seek rescission, compensatory damages, interest, punitive damages and attorneys' fees and expenses. In January and May 2008, the court issued orders granting the defendants' motion to dismiss in part, dismissing all of plaintiffs' claims except for claims under the Investment Advisers Act. Defendants' motion to dismiss claims under the Investment Advisers Act was denied. The Company will vigorously defend against the remaining claims in this matter.

*Sales Practices Claims.* Over the past several years, MLIC, New England, GALIC, Walnut Street Securities and MSI have faced numerous claims, including class action lawsuits, alleging improper marketing or sales of individual life insurance policies, annuities, mutual funds or other products. Some of the current cases seek substantial damages, including punitive and treble damages and attorneys' fees. At December 31, 2008, there were approximately 125 sales practices litigation matters pending against the Company. The Company continues to vigorously defend against the claims in these matters. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for sales practices claims against MLIC, New England, GALIC, MSI and Walnut Street Securities.

*Summary*

Putative or certified class action litigation and other litigation and claims and assessments against the Company, in addition to those discussed previously and those otherwise provided for in the Company's consolidated financial statements, have arisen in the course of the Company's business, including, but not limited to, in connection with its activities as an insurer, employer, investor, investment advisor and taxpayer. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning the Company's compliance with applicable insurance and other laws and regulations.

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings or provide reasonable ranges of potential losses, except as noted previously in connection with specific matters. In some of the matters referred to previously, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Although in light of these considerations it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's financial position, based on information currently known by the Company's management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect. However, given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's consolidated net income or cash flows in particular quarterly or annual periods.

**Item 4. *Submission of Matters to a Vote of Security Holders***

No matter was submitted to a vote of security holders during the fourth quarter of 2008.

**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:

	<b>2008</b>			
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
<b>Common Stock Price</b>				
<b>High</b>	\$ 61.52	\$ 62.88	\$ 63.00	\$ 48.15
<b>Low</b>	\$ 54.62	\$ 52.77	\$ 43.75	\$ 16.48

	<b>2007</b>			
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
<b>Common Stock Price</b>				
<b>High</b>	\$ 65.92	\$ 69.04	\$ 69.92	\$ 70.87
<b>Low</b>	\$ 59.10	\$ 63.29	\$ 59.62	\$ 60.46

As of February 20, 2009, there were 88,239 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:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend</b>	
			<b>Per Share</b>	<b>Aggregate (In millions, except per share data)</b>
October 28, 2008	November 10, 2008	December 15, 2008	\$ 0.74	\$ 592
October 23, 2007	November 6, 2007	December 14, 2007	\$ 0.74	\$ 541

Future common stock dividend decisions will be determined by the Company's Board of Directors after taking into consideration factors such as our current earnings, expected medium-term and long-term earnings, financial condition,

regulatory capital position, and applicable governmental regulations and policies. Furthermore, the payment of dividends and other distributions to the Company by its insurance subsidiaries is regulated by insurance laws and regulations. See Business Regulation Insurance Regulation, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources The Holding Company Liquidity and Capital Sources Dividends and Note 18 of the Notes to the Consolidated Financial Statements.

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

Purchases of common stock made by or on behalf of the Company or its affiliates during the quarter ended December 31, 2008 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, 2008	35,629	\$ 34.02		\$ 1,260,735,127
November 1- November 30, 2008	13,386	\$ 30.76		\$ 1,260,735,127
December 1- December 31, 2008	18,433	\$ 35.01		\$ 1,260,735,127
<b>Total</b>	<b>67,448</b>	<b>\$ 33.64</b>		<b>\$ 1,260,735,127</b>

- (1) During the periods October 1 – October 31, 2008, November 1 – November 30, 2008 and December 1 – December 31, 2008, separate account affiliates of the Company purchased 35,629 shares, 13,386 shares and 18,433 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 other than through a publicly announced plan or program.
- (2) In April 2008, the Company’s Board of Directors authorized an additional \$1 billion common stock repurchase program, which will begin after the completion of the January 2008 \$1 billion common stock repurchase program, of which \$261 million remained outstanding at December 31, 2008. At December 31, 2008, the Company had \$1,261 million remaining under its common stock repurchase program authorization. Under these authorizations, the Company 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 Exchange Act) and in privately negotiated transactions.

See also Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – The Holding Company – Liquidity and Capital Uses – Share Repurchases for further information relating to common stock repurchases.

**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 income data for the years ended December 31, 2008, 2007 and 2006, and the balance sheet data at December 31, 2008 and 2007 have been derived from the Company's audited financial statements included elsewhere herein. The statement of income data for the years ended December 31, 2005 and 2004, and the balance sheet data at December 31, 2006, 2005 and 2004 have been derived from the Company's audited 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 consolidated financial statements and related notes included elsewhere herein. Some previously reported amounts, most notably discontinued operations discussed in footnote 2, have been reclassified to conform with the presentation at and for the year ended December 31, 2008.

	2008	Years Ended December 31,			2004
		2007	2006	2005	
		(In millions)			
<b>Statement of Income Data (1)</b>					
Revenues (2), (3):					
Premiums	\$ 25,914	\$ 22,970	\$ 22,052	\$ 20,979	\$ 18,842
Universal life and investment-type product policy fees	5,381	5,238	4,711	3,775	2,819
Net investment income	16,296	18,063	16,247	14,064	11,627
Other revenues	1,586	1,465	1,301	1,221	1,152
Net investment gains (losses)	1,812	(578)	(1,382)	(112)	114
<b>Total revenues</b>	<b>50,989</b>	<b>47,158</b>	<b>42,929</b>	<b>39,927</b>	<b>34,554</b>
Expenses (2), (3):					
Policyholder benefits and claims	27,437	23,783	22,869	22,236	19,907
Interest credited to policyholder account balances	4,787	5,461	4,899	3,650	2,766
Policyholder dividends	1,751	1,723	1,698	1,678	1,664
Other expenses	11,924	10,429	9,537	8,259	6,833
<b>Total expenses</b>	<b>45,899</b>	<b>41,396</b>	<b>39,003</b>	<b>35,823</b>	<b>31,170</b>
Income from continuing operations before provision for income tax	5,090	5,762	3,926	4,104	3,384
Provision for income tax (2)	1,580	1,660	1,016	1,156	931
Income from continuing operations	3,510	4,102	2,910	2,948	2,453
Income (loss) from discontinued operations, net of income tax (2)	(301)	215	3,383	1,766	391
Income before cumulative effect of a change in accounting, net of income tax	3,209	4,317	6,293	4,714	2,844
Cumulative effect of a change in accounting, net of income tax (3)					(86)

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Net income	3,209	4,317	6,293	4,714	2,758
Preferred stock dividends	125	137	134	63	
Net income available to common shareholders	\$ 3,084	\$ 4,180	\$ 6,159	\$ 4,651	\$ 2,758



**Table of Contents**

	2008	2007	December 31, 2006 (In millions)	2005	2004
<b>Balance Sheet Data (1)</b>					
Assets:					
General account assets	\$ 380,839	\$ 399,007	\$ 383,758	\$ 354,857	\$ 271,137
Separate account assets	120,839	160,142	144,349	127,855	86,755
Total assets (2)	\$ 501,678	\$ 559,149	\$ 528,107	\$ 482,712	\$ 357,892
Liabilities:					
Life and health policyholder liabilities (4)	\$ 286,019	\$ 262,652	\$ 253,284	\$ 244,683	\$ 182,443
Property and casualty policyholder liabilities (4)	3,126	3,324	3,453	3,490	3,180
Short-term debt	2,659	667	1,449	1,414	1,445
Long-term debt	9,667	9,100	8,822	9,088	7,006
Collateral financing arrangements	5,192	4,882			
Junior subordinated debt securities	3,758	4,075	3,381	2,134	
Payables for collateral under securities loaned and other transactions	31,059	44,136	45,846	34,515	28,678
Other	15,625	34,992	33,725	30,432	25,561
Separate account liabilities	120,839	160,142	144,349	127,855	86,755
Total liabilities (2)	477,944	523,970	494,309	453,611	335,068
Stockholders' Equity					
Preferred stock, at par value	1	1	1	1	
Common stock, at par value	8	8	8	8	8
Additional paid-in capital	15,811	17,098	17,454	17,274	15,037
Retained earnings (5)	22,403	19,884	16,574	10,865	6,608
Treasury stock, at cost	(236)	(2,890)	(1,357)	(959)	(1,785)
Accumulated other comprehensive income (loss) (6)	(14,253)	1,078	1,118	1,912	2,956
Total stockholders' equity	23,734	35,179	33,798	29,101	22,824
Total liabilities and stockholders' equity	\$ 501,678	\$ 559,149	\$ 528,107	\$ 482,712	\$ 357,892

**Table of Contents**

	2008	Years Ended December 31,			2004
		2007	2006	2005	
		(In millions, except per share data)			
<b>Other Data (1)</b>					
Net income available to common shareholders	\$ 3,084	\$ 4,180	\$ 6,159	\$ 4,651	\$ 2,758
Return on common equity (7)	11.2%	12.9%	20.9%	18.6%	12.5%
Return on common equity, excluding accumulated other comprehensive income (loss)	9.1%	13.3%	22.1%	20.7%	14.4%
<b>EPS Data (1)</b>					
Income from Continuing Operations Available to Common Shareholders Per Common Share					
Basic	\$ 4.60	\$ 5.33	\$ 3.65	\$ 3.85	\$ 3.26
Diluted	\$ 4.54	\$ 5.20	\$ 3.60	\$ 3.82	\$ 3.24
Income (Loss) from Discontinued Operations Per Common Share					
Basic	\$ (0.41)	\$ 0.29	\$ 4.44	\$ 2.36	\$ 0.52
Diluted	\$ (0.40)	\$ 0.28	\$ 4.39	\$ 2.34	\$ 0.52
Cumulative Effect of a Change in Accounting Per Common Share (3)					
Basic	\$	\$	\$	\$	\$ (0.11)
Diluted	\$	\$	\$	\$	\$ (0.11)
Net Income Available to Common Shareholders Per Common Share					
Basic	\$ 4.19	\$ 5.62	\$ 8.09	\$ 6.21	\$ 3.67
Diluted	\$ 4.14	\$ 5.48	\$ 7.99	\$ 6.16	\$ 3.65
Dividends Declared Per Common Share	\$ 0.74	\$ 0.74	\$ 0.59	\$ 0.52	\$ 0.46

(1) On July 1, 2005, the Company completed the acquisition of The Travelers Insurance Company, excluding certain assets, most significantly, Primerica, from Citigroup Inc. ( Citigroup ), and substantially all of Citigroup s international insurance businesses. The 2005 selected financial data includes total revenues and total expenses of \$966 million and \$577 million, respectively, from the date of the acquisition.

(2) Discontinued Operations:

*Real Estate*

Income related to real estate sold or classified as held-for-sale is presented as discontinued operations. The following information presents the components of income from discontinued real estate operations:

	2008	Years Ended December 31,			2004
		2007	2006	2005	
		(In millions)			
Investment income	\$ 6	\$ 21	\$ 243	\$ 405	\$ 658
Investment expense	(3)	(9)	(151)	(246)	(392)

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Net investment gains (losses)	8	13	4,795	2,125	146
Total revenues	11	25	4,887	2,284	412
Interest expense					13
Provision for income tax	4	11	1,725	812	140
Income from discontinued operations, net of income tax	\$ 7	\$ 14	\$ 3,162	\$ 1,472	\$ 259

70

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**Table of Contents***Operations*

In the fourth quarter of 2008, the Company entered into an agreement to sell its wholly-owned subsidiary, Cova, to a third party to be completed in early 2009. In September 2008, the Company completed a tax-free split-off of its majority-owned subsidiary, Reinsurance Group of America, Incorporated ( RGA ). In September 2007, September 2005 and January 2005, the Company sold its MetLife Insurance Limited ( MetLife Australia ) annuities and pension businesses, P.T. Sejahtera ( MetLife Indonesia ) and SSRM Holdings, Inc. ( SSRM ), respectively. The assets, liabilities and operations of Cova, RGA, MetLife Australia, MetLife Indonesia and SSRM have been reclassified into discontinued operations for all years presented. The following tables present these discontinued operations:

	<b>Years Ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In millions)</b>				
Revenues	\$ 4,086	\$ 5,932	\$ 5,467	\$ 4,776	\$ 4,492
Expenses	3,915	5,640	5,179	4,609	4,286
Income before provision for income tax	171	292	288	167	206
Provision for income tax	57	101	99	60	74
Income from discontinued operations, net of income tax	114	191	189	107	132
Gain (loss) on sale of subsidiaries, net of income tax	(422)	10	32	187	
Income (loss) from discontinued operations, net of income tax	\$ (308)	\$ 201	\$ 221	\$ 294	\$ 132

	<b>December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In millions)</b>				
General account assets	\$ 946	\$ 22,866	\$ 21,918	\$ 20,150	\$ 16,852
Separate account assets		17	16	14	14
Total assets	\$ 946	\$ 22,883	\$ 21,934	\$ 20,164	\$ 16,866
Life and health policyholder liabilities (4)	721	15,780	15,557	15,109	12,210
Debt		528	307	401	425
Collateral financing arrangements		850	850		
Junior subordinated debt securities		399	399	399	
Shares subject to mandatory redemption		159	159	159	158
Other	27	2,945	2,676	2,195	2,179
Total liabilities	\$ 748	\$ 20,661	\$ 19,948	\$ 18,263	\$ 14,972

(3)

The cumulative effect of a change in accounting, net of income tax, of \$86 million for the year ended December 31, 2004, resulted from the adoption of SOP 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Account* ( SOP 03-1 ).

- (4) Policyholder liabilities include future policy benefits, other policyholder funds and bank deposits. The life and health policyholder liabilities also include policyholder account balances, policyholder dividends payable and the policyholder dividend obligation.
- (5) The cumulative effect of changes in accounting principles, net of income tax, of \$329 million, which decreased retained earnings at January 1, 2007, resulted from \$292 million related to the adoption of SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts*, and \$37 million related to the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. The cumulative effect of changes in accounting principles, net of income tax, of \$27 million, which increased retained earnings at January 1, 2008, resulted from the adoption of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ).

**Table of Contents**

- (6) The cumulative effect of a change in accounting, net of income tax, of \$744 million resulted from the adoption of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which decreased accumulated other comprehensive income (loss) at December 31, 2006. The cumulative effect of a change in accounting principle, net of income tax, of \$10 million resulted from the adoption of SFAS 159, which decreased accumulated other comprehensive income (loss) at January 1, 2008.
- (7) Return on common equity is defined as net income available to common shareholders divided by average common stockholders' equity.

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

For purposes of this discussion, MetLife or the Company refers to MetLife, Inc., a Delaware corporation incorporated in 1999 (the Holding Company), and its subsidiaries, including Metropolitan Life Insurance Company (MLIC). 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 the forward-looking statement information included below, 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 words and terms having 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 MetLife's actual future results. 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 (SEC). These factors include: (i) difficult and adverse conditions in the global and domestic capital and credit markets; (ii) continued volatility and further deterioration of the capital and credit markets, which may affect the Company's ability to seek financing or access its credit facilities; (iii) uncertainty about the effectiveness of the U.S. government's plan to stabilize the financial system by injecting capital into financial institutions, purchasing large amounts of illiquid, mortgage-backed and other securities from financial institutions, or otherwise; (iv) the impairment of other financial institutions; (v) potential liquidity and other risks resulting from MetLife's participation in a securities lending program and other transactions; (vi) exposure to financial and capital market risk; (vii) changes in general economic conditions, including the performance of financial markets and interest rates, which may affect the Company's ability to raise capital, generate fee income and market-related revenue and finance statutory reserve requirements and may require the Company to pledge collateral or make payments related to declines in value of specified assets; (viii) defaults on the Company's mortgage and consumer loans; (ix) investment losses and defaults, and changes to investment valuations; (x) impairments of goodwill and realized losses or market value impairments to illiquid assets; (xi) unanticipated changes in industry trends; (xii) 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; (xiii) discrepancies between actual claims experience and assumptions used in setting prices for the Company's products and establishing the liabilities for the Company's obligations for future policy benefits and claims; (xiv) discrepancies between actual experience and assumptions used in establishing liabilities related to other contingencies or obligations; (xv) ineffectiveness of risk management policies and procedures, including with respect to guaranteed benefit riders (which may be affected by fair value adjustments arising from changes in our

**Table of Contents**

own credit spread) on certain of the Company's variable annuity products; (xvi) increased expenses relating to pension and post-retirement benefit plans, (xvii) catastrophe losses; (xviii) changes in assumptions related to deferred policy acquisition costs ( DAC ), value of business acquired ( VOBA ) or goodwill; (xix) downgrades in MetLife, Inc.'s and its affiliates' claims paying ability, financial strength or credit ratings; (xx) economic, political, currency and other risks relating to the Company's international operations; (xxi) availability and effectiveness of reinsurance or indemnification arrangements, (xxii) regulatory, legislative or tax changes that may affect the cost of, or demand for, the Company's products or services; (xxiii) changes in accounting standards, practices and/or policies; (xxiiii) adverse results or other consequences from litigation, arbitration or regulatory investigations; (xxiv) deterioration in the experience of the closed block established in connection with the reorganization of MLIC; (xxv) the effects of business disruption or economic contraction due to terrorism, other hostilities, or natural catastrophes; (xxvi) MetLife's ability to identify and consummate on successful terms any future acquisitions, and to successfully integrate acquired businesses with minimal disruption; (xxvii) 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; and (xxviii) 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.

**Executive Summary**

MetLife is a leading provider of individual insurance, employee benefits and financial services with operations throughout the United States and the regions of Latin America, Europe, and Asia Pacific. Through its subsidiaries and affiliates, MetLife offers life insurance, annuities, automobile and homeowners insurance, retail banking and other financial services to individuals, as well as group insurance and retirement & savings products and services to corporations and other institutions. Subsequent to the disposition of Reinsurance Group of America, Incorporated ( RGA ) and the elimination of the Reinsurance segment, MetLife is organized into four operating segments: Institutional, Individual, Auto & Home and International, as well as Corporate & Other.

***Year Ended December 31, 2008 compared with the Year Ended December 31, 2007***

The Company reported \$3,084 million in net income available to common shareholders and net income per diluted common share of \$4.14 for the year ended December 31, 2008 compared to \$4,180 million in net income available to common shareholders and net income per diluted common share of \$5.48 for the year ended December 31, 2007. Net income available to common shareholders decreased by \$1,096 million, or 26%, for the year ended December 31, 2008 compared to the prior year.

The decrease in net income available to common shareholders was principally due to an increase in losses from discontinued operations of \$516 million. This was primarily the result of the split-off of substantially all of the Company's interest in RGA in September 2008 whereby stockholders of the Company were offered the opportunity to exchange their shares of MetLife, Inc. common stock for shares of RGA Class B common stock based upon a pre-determined exchange ratio.

The decrease in net income available to common shareholders was also driven by an increase in other expenses of \$972 million, net of income tax. The increase in other expenses was due to:

Higher DAC amortization in the Individual segment related to lower expected future gross profits due to separate account balance decreases resulting from recent market declines, higher net investment gains



primarily due to net derivative gains and the reduction on expected cumulative earnings of the closed block partially offset by a reduction in actual earnings of the closed block and changes in assumptions used to estimate future gross profits and margins. In addition, there is further offset in the Institutional segment due to a charge associated with the adoption of SOP 05-1 in the prior year.

An increase in corporate expenses primarily related to an enterprise-wide cost reduction and revenue enhancement initiative. As a result of a strategic review begun in 2007, the Company launched an enterprise

**Table of Contents**

initiative called Operational Excellence. This initiative began in April 2008 and management expects the initiative to be fully implemented by December 31, 2010. This initiative is focused on reducing complexity, leveraging scale, increasing productivity, improving the effectiveness of the Company's operations and providing a foundation for future growth. The Company recognized within Corporate & Other during the current period an initial accrual for post-employment related expenses.

Higher legal costs in Corporate & Other principally driven by costs associated with the commutation of three asbestos insurance policies and higher expenses in the Institutional and International segments as well as Corporate & Other associated with business growth and higher corporate support expenses.

Higher expenses in Corporate & Other relating to increased compensation, rent, and mortgage loan origination costs and servicing expenses associated with two acquisitions by MetLife Bank in 2008.

Premiums, fees and other revenues increased by \$2,085 million, net of income tax, across all of the Company's operating segments but most notably within the Institutional and International segments due to business growth. Policyholder benefits and claims and policyholder dividends increased commensurately by \$2,393 million, net of income tax; however, policyholder benefits and claims were also adversely impacted by an increase in catastrophe losses in the Auto & Home segment, a charge within the Institutional segment resulting from a liability adjustment in the group annuity business, and business growth.

Net investment losses decreased by \$1,554 million, net of income tax, to a gain of \$1,178 million, net of income tax, for the year ended December 31, 2008 from a loss of \$376 million, net of income tax, for the comparable 2007 period. The decrease in net investment losses is due to an increase in gains on derivatives partially offset by losses primarily on fixed maturity and equity securities. Derivative gains were driven by gains on freestanding derivatives that were partially offset by losses on embedded derivatives primarily associated with variable annuity riders. Gains on freestanding derivatives increased by \$4,225 million, net of income tax, and were primarily driven by: i) gains on certain interest rate swaps, floors and swaptions which were economic hedges of certain investment assets and liabilities, ii) gains from foreign currency derivatives primarily due to the U.S. dollar strengthening as well as, iii) gains primarily from equity options, financial futures, and interest rate swaps hedging the embedded derivatives. The gains on these equity options, financial futures, and interest rate swaps substantially offset the change in the underlying embedded derivative liability that is hedged by these derivatives. Losses on the embedded derivatives increased by \$1,514 million, net of income tax, and were driven by declining interest rates and poor equity market performance throughout the year. These embedded derivative losses include a \$1,946 million, net of income tax, gain resulting from the effect of the widening of the Company's own credit spread which is required to be used in the valuation of these variable annuity rider embedded derivatives under SFAS No. 157, *Fair Value Measurements* (SFAS 157), which became effective January 1, 2008. The remaining change in net investment losses of \$1,157 million, net of income tax, is principally attributable to an increase in losses on fixed maturity and equity securities, and, to a lesser degree, an increase in losses on mortgage and consumer loans and other limited partnerships offset by an increase in foreign currency transaction gains. The increase in losses on fixed maturity and equity securities is primarily attributable to an increase in impairments associated with financial services industry holdings which experienced losses as a result of bankruptcies, FDIC receivership, and Federal government assisted capital infusion transactions in the third and fourth quarters of 2008. Losses on fixed maturity and equity securities were also driven by an increase in credit related impairments on communication and consumer sector security holdings, losses on asset-backed securities as well as an increase in losses on fixed maturity security holdings where the Company either lacked the intent to hold, or due to extensive credit widening, the Company was uncertain of its intent to hold these fixed maturity securities for a period of time sufficient to allow recovery of the market value decline.

Net investment income decreased by \$1,149 million, or 10%, net of income tax, to \$10,592 million for the year ended December 31, 2008 from \$11,741 million for the comparable 2007 period. Management attributes \$2,042 million, net

of income tax, of this change to a decrease in yields, partially offset by an increase of \$893 million due to growth in average invested assets. Average invested assets are calculated on a cost basis without unrealized gains and losses. The decrease in net investment income attributable to lower yields was primarily due to lower returns on other limited partnership interests, real estate joint ventures, short-term investments, fixed maturity securities, and mortgage loans, partially offset by improved securities lending results. Management anticipates that

**Table of Contents**

the significant volatility in the equity, real estate and credit markets will continue in 2009 which could continue to impact net investment income and yields on other limited partnerships and real estate joint ventures. Net investment income increased due to an increase in average invested assets, on an amortized cost basis, primarily within short-term investments, other invested assets including derivatives, mortgage loans, other limited partnership interests, and real estate joint ventures.

A decrease in interest credited to policyholder account balances of \$438 million, net of income tax, resulted from a decline in average crediting rates, which was largely due to the impact of lower short-term interest rates in the current period, offset by an increase from growth in the average policyholder account balance, primarily the result of continued growth in the global GIC and funding agreement products all of which occurred within the Institutional segment. There was also a decrease in interest credited in the International segment as a result of a reduction in unit-linked policyholder liabilities reflecting the losses of the trading portfolio backing these liabilities.

***Year Ended December 31, 2007 compared with the Year Ended December 31, 2006***

The Company reported \$4,180 million in net income available to common shareholders and earnings per diluted common share of \$5.48 for the year ended December 31, 2007 compared to \$6,159 million in net income available to common shareholders and earnings per diluted common share of \$7.99 for the year ended December 31, 2006. Net income available to common shareholders decreased by \$1,979 million, or 32%, for the year ended December 31, 2007 compared to the 2006 period.

The decrease in net income available to common shareholders was primarily due to a decrease in income from discontinued operations of \$3,168 million, net of income tax. This decrease in income from discontinued operations was principally driven by a gain on the sale of the Peter Cooper Village and Stuyvesant Town properties in Manhattan, New York, that was recognized during the year ended December 31, 2006. Also contributing to the decrease was lower net investment income and net investment gains (losses) from discontinued operations related to real estate properties sold or held-for-sale during the year ended December 31, 2007 as compared to the year ended December 31, 2006. Lower income from discontinued operations related to the sale of MetLife Insurance Limited ( MetLife Australia ) annuities and pension businesses to a third party in the third quarter of 2007 and lower income from discontinued operations related to the sale of SSRM Holdings, Inc. ( SSRM ) resulting from a reduction in additional proceeds from the sale received during the year ended December 31, 2007 as compared to the year December 31, 2006. This decrease was partially offset by higher income from discontinued operations related to RGA, which was reclassified to discontinued operations in the third quarter of 2008 as a result of a tax-free split-off. RGA's income was higher in 2007, primarily due to an increase in premiums, net of an increase in policyholder benefits and claims, due to additional in-force business from facultative and automatic treaties and renewal premiums on existing blocks of business combined with an increase in net investment income, net of interest credited to policyholder account balances, due to higher invested assets. These increases in RGA's income were offset by an increase in net investment losses resulting from a decline in the estimated fair value of embedded derivatives associated with the reinsurance of annuity products on a funds withheld basis.

The decrease in net income available to common shareholders was also driven by an increase in other expenses of \$580 million, net of income tax. The increase in other expenses was primarily due to higher amortization of deferred policy acquisition costs ( DAC ) resulting from business growth, lower net investment losses in the current year and the net impact of revisions to management's assumption used to determine estimated gross profits and margins in both years. In addition, other expenses increased due to higher compensation, higher interest expense on debt and interest on tax contingencies, the net impact of revisions to certain liabilities in both periods, asset write-offs, higher general spending and expenses related to growth initiatives, partially offset by lower legal costs and integration costs incurred in 2006.

The net effect of increases in premiums, fees and other revenues of \$1,046 million, net of income tax, across all of the Company's operating segments and increases in policyholder benefit and claims and policyholder dividends of \$610 million, net of income tax, was attributable to overall business growth and increased net income available to common shareholders.

## **Table of Contents**

Net investment income increased by \$1,180 million, net of income tax, or 11%, to \$11,741 million for the year ended December 31, 2007 from \$10,561 million for the comparable 2006 period. Management attributes \$700 million of this increase to growth in the average asset base and \$480 million to an increase in yields. Growth in the average asset base was primarily within fixed maturity securities, mortgage loans, real estate joint ventures and other limited partnership interests. Higher yields was primarily due to higher returns on fixed maturity securities, other limited partnership interests excluding hedge funds, equity securities and improved securities lending results, partially offset by lower returns on real estate joint ventures, cash, cash equivalents and short-term investments, hedge funds and mortgage loans.

Net investment losses decreased by \$522 million to a loss of \$376 million for the year ended December 31, 2007 from a loss of \$898 million for the comparable 2006 period. The decrease in net investment losses was primarily due to a reduction of losses on fixed maturity securities resulting principally from the 2006 portfolio repositioning in a rising interest rate environment, increased gains from asset-based foreign currency transactions due to a decline in the U.S. dollar year over year against several major currencies and increased gains on equity securities, partially offset by increased losses from the mark-to-market on derivatives and reduced gains on real estate and real estate joint ventures.

An increase in interest credited to policyholder account balances associated with an increase in the average policyholder account balance decreased net income available to common shareholders by \$365 million, net of income tax.

The remainder of the variance is due to the change in effective tax rates between periods.

## ***Consolidated Company Outlook***

The marketplace is still reacting and adapting to the unusual economic events that took place over the past year and management expects the volatility in the financial markets to continue in 2009. As a result, management expects a modest increase, on a constant exchange rate basis, in premiums, fees and other revenues in 2009, with mixed results across the various businesses. While the Company continues to gain market share in a number of product lines, premiums, fees and other revenues have and may continue to be impacted by the U.S. and global recession, which may be reflected by, but is not limited to:

- Lower fee income from separate account businesses, including variable annuity and life products in Individual Business.

- A potential reduction in payroll linked revenue from Institutional group insurance customers.

- A decline in demand for certain International and Institutional retirement & savings products.

- A decrease in Auto & Home premiums resulting from a depressed housing market and auto industry.

With the expectation of the turbulent financial markets continuing in 2009, management expects continued downward pressure on net income, specifically net investment income, as management expects lower returns from other limited partnerships, real estate joint ventures, and securities lending. In addition, the resulting impact of the financial markets on net investment gains (losses) and unrealized investment gains (losses) can and will vary greatly and therefore, it is difficult to predict. Also difficult to determine is the impact of own credit, as it varies significantly and this exposure is not hedged.

Certain insurance-related liabilities, specifically those associated with guarantees, are tied to market performance, which in times of depressed investment markets may require management to establish additional liabilities. However,

many of the risks associated with these guarantees are hedged. The turbulent financial markets, sustained over a period of time, may also necessitate management to strengthen insurance liabilities that are not associated with guarantees. Management does not anticipate significant changes in the underlying trends that drive underwriting results, with the possible exception of certain trends in the Auto & Home and disability businesses.

Certain expenses may increase due to initiatives such as Operational Excellence. Other charges are also possible as the combination of the downward pressure on net income coupled with the expectations of the financial markets, may necessitate a review of goodwill impairment, specifically within the Individual Business. The unusual

**Table of Contents**

financial market conditions will also likely cause an increase in the Company's pension-related expense and may cause an increase in DAC amortization.

In response to the challenges presented by the unusual economic environment, management continues to focus on disciplined underwriting, pricing, hedging strategies, as well as focused expense management.

***Institutional Business Outlook***

Management expects continued growth in premium, fees, and other revenues across the majority of the Institutional businesses. Revenues in many of the businesses can fluctuate based, in part, on the covered payroll of customers or changes in the amount of coverage they have purchased for current or former employees. As a result, in periods of high unemployment, revenue may be impacted. Revenue may also be negatively impacted as a result of customers reduction of coverage stemming from benefit plan changes, the elimination of retiree coverage or customer-related bankruptcies. Revenues in the retirement & savings business may experience some pressure as the demand for certain of these products can decline during periods of volatile credit and investment markets.

With the expectation of the turbulent financial markets continuing in 2009, management expects to see lower earnings resulting from depressed levels of net investment income, specifically as previously discussed in the consolidated outlook, which will put downward pressure on earnings from interest margins in the spread-related businesses. If there is an extended period of sustained, low long-term market interest rates, it is possible that strengthening certain long-term liabilities could be necessary. Management does not expect to see significant changes in the underlying trends that drive underwriting results, with the possible exception of the disability business. Management thinks the level of disability claims is correlated to the unemployment rate and therefore underwriting results in this business may be impacted if the recession continues to deepen and there is a continued rise in the unemployment rate.

In 2009, management will continue to focus on disciplined underwriting, pricing and aggressively managing expenses, while making deliberate investments in certain areas that Management expects will create long-term growth opportunities. The unusual financial market conditions previously mentioned, will also likely cause an increase in the Company's pension-related expense.

***Individual Business Outlook***

Management expects 2009 premium, fees and other revenues to be down slightly compared to 2008 results. Individual Business experienced a significant decline in asset-based fees in annuity and variable life products in the second half of 2008 due to equity market declines. This depressed level of fee revenue is expected to continue in 2009. However, Individual Business experienced a significant increase in fourth quarter 2008 fixed annuity sales, which management believes was partially the result of consumers recognizing the strength of MetLife's guarantees. While management believes fixed annuity sales will continue to be strong, future sales of all products could be impacted as the financial services industry adjusts to the economic environment and as anticipated industry consolidation occurs.

Management believes the investment and capital markets may continue to be turbulent in 2009, which would continue to exert downward pressure on net income, specifically net investment income as previously discussed in the consolidated outlook.

Certain annuity and life benefit guarantees are tied to market performance, which in times of depressed investment markets, may require management to establish additional liabilities. However, many of the risks associated with these guarantees are hedged. These pressures might result in potential modifications to product pricing strategies associated with acceptable returns for the underlying risks being covered.



Other charges are also possible as the combination of the downward pressure on net income coupled with the expectations of the financial markets, may necessitate a review of goodwill impairment. The unusual financial market conditions will also likely cause an increase in the Company's pension-related expense and may cause an increase in DAC amortization.

## **Table of Contents**

Management believes that its disciplined approach to underwriting, pricing, hedging and investment strategies will further strengthen MetLife's industry leadership position and mitigate the impacts from the ongoing uncertainty in the investment markets. Additionally, Management continues to focus on expense management by driving efficiency and productivity gains within the distribution and home office organizations.

### ***International Business Outlook***

Although management expects that premiums, fees and other revenues, on a constant exchange rate basis, will continue to increase across the regions in 2009, there is a risk of lower product demand as well as higher policy surrenders if the trend of higher unemployment, decreased individual income levels, and lower corporate earnings continues in 2009. To address this, various distribution channels and customer service operations initiatives are being implemented to expand relationships with existing distributors, develop new channel outlets and improve persistency management. In addition, market conditions have and may continue to cause an increase in the cost of related hedging programs and may result in a decrease in fee income from lower assets under management. Furthermore, the responses of governments and policymakers, in the countries in which the business operates, to the economic circumstances could have an unpredictable impact on results. Continued volatility in foreign currency exchange rates may adversely impact reported premiums, fees and other revenues as well as net income. Management continues to evaluate strategies to mitigate this risk.

Management expects continued turbulence in global capital markets during 2009, which may create downward pressure on net income, specifically net investment income as previously discussed in the consolidated outlook.

In the Asia region, certain annuity benefit guarantees are tied to market performance, which in times of depressed investment markets, may require management to establish additional liabilities. This exposure may result in modifications to our product pricing strategies in order to maintain acceptable returns for the underwriting risks being covered. The sufficiency of certain reserves in the Asia region is sensitive to interest rates and other related assumptions. Adverse changes in key assumptions for interest rates, exchange rates, mortality and morbidity levels or lapse rates could lead to a need to strengthen reserves.

Management continues to take a disciplined approach toward expense management, however, management will continue to invest in infrastructure and distribution improvements where such spending will enhance growth. The unusual financial market conditions may cause an increase in DAC amortization. Management believes that the ability to deliver quality risk & protection and retirement & savings products to the markets, coupled with the Company's financial strength and strong risk management expertise, will help achieve continued growth in this challenging environment.

Management continues to take a disciplined approach toward expense management. Operational excellence initiatives undertaken by management in 2008 and planned for 2009 will create expense efficiencies, however, management will continue to invest in infrastructure and distribution improvements where such spending will enhance growth. Management believes that the ability to deliver quality risk & protection and retirement & savings products to the markets, coupled with the Company's financial strength and strong risk management expertise, will help achieve continued growth in this challenging environment.

### ***Auto & Home Outlook***

Management expects premiums for the Auto & Home segment to grow slightly in 2009. The key sales triggers of new and existing home sales and auto sales dropped precipitously during 2008, contributing to large declines in new Homeowner and Auto policies written during 2008. However, these declines began to slow late in 2008. New business sales are expected to rebound modestly for both Auto and Homeowners, assuming overall economic conditions

improve, particularly as credit availability returns, and as a combination of various marketing and sales initiatives have been implemented. Retention ratios are expected to remain flat, or improve slightly, as specific underwriting initiatives to control exposures to catastrophe events were completed in the fourth quarter of 2008. Net premiums written for 2009 are expected to increase modestly with slightly larger increases in Auto premiums written and slightly smaller increases in Homeowners and other. A portion of this increase is expected to result from increases in exposures with the remaining change coming from increased average premium per policy.

## **Table of Contents**

Net investment income is also expected to be slightly lower in 2009, as previously discussed in the consolidated outlook, and cash from operations and maturing investments is reinvested at slightly lower rates. In addition, Management expects the expense ratio to decline slightly as Management continues to manage operating expenses.

Underwriting margins for both Auto and Homeowners are expected to remain under pressure as some carriers have been willing to accept higher combined ratios in an attempt to grow written premium. Auto results benefited primarily from lower severities during 2008. A reduction in miles driven, initially tied to higher gasoline prices and later in the year to the general economic slowdown, contributed to these improvements. A continuation of the trend towards lower frequencies is expected for 2009 with higher severities expected to more than offset the gains from frequencies. Management believes this will result in a slightly higher loss and loss adjusting expense ratio for 2009, compared to the same ratio for 2008, excluding prior year loss development. Homeowner margins for 2008, excluding catastrophes, were impacted by higher claims frequencies, primarily related to greater non-catastrophe weather-related losses, offset by lower severities. In 2009, a return to more normal weather patterns is expected and management believes will result in lower frequencies in 2009 partially offset by higher severities, resulting in a small expected drop in the Homeowner loss and loss adjusting ratio, excluding catastrophes, as compared to 2008. The unusual financial market conditions, previously discussed, will also likely cause an increase in the Company's pension-related expense. Management continues to aggressively look for ways to control costs in all other areas so it may maintain an appropriate expense ratio.

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

Management believes the investment and capital markets may continue to be turbulent in 2009, which would continue to exert downward pressure on net investment income, as previously discussed in the consolidated outlook, and earnings on excess surplus equity. Management expects that investment income could be adversely impacted by a continuation of increased liquidity levels due to the uncertain operating environment and lack of suitable investment opportunities. Current liquidity levels may position us to take advantage of any economic recovery, mitigating the impact that these levels have on net investment income.

Management does not expect a significant increase in interest expense. A portion of the Company's debt has a variable interest rate and the associated interest expense will fluctuate with market rates. However, this expense has a corresponding investment that is also tied to variable rates and therefore, generally should minimize the impact to net income. In addition, settlements for asbestos claims and other potential legal claims may have an adverse impact on net income.

Management expects that the MetLife Bank acquisitions completed in 2008 will be accretive to 2009 earnings with additional investment income and higher premiums, fees, and other income, partially offset with increased interest and operating expenses. MetLife Bank could be impacted by changes in the residential loan market.

### **Acquisitions and Dispositions**

#### ***Disposition of Reinsurance Group of America, Incorporated***

On September 12, 2008, the Company completed a tax-free split-off of its majority-owned subsidiary, RGA. The Company and RGA entered into a recapitalization and distribution agreement, pursuant to which the Company agreed to divest substantially all of its 52% interest in RGA to the Company's stockholders. The split-off was effected through the following:

A recapitalization of RGA common stock into two classes of common stock – RGA Class A common stock and RGA Class B common stock. Pursuant to the terms of the recapitalization, each outstanding share of RGA

common stock, including the 32,243,539 shares of RGA common stock beneficially owned by the Company and its subsidiaries, was reclassified as one share of RGA Class A common stock. Immediately thereafter, the Company and its subsidiaries exchanged 29,243,539 shares of its RGA Class A common stock which represented all of the RGA Class A common stock beneficially owned by the Company and its subsidiaries other than 3,000,000 shares of RGA Class A common stock with RGA for 29,243,539 shares of RGA Class B common stock.

**Table of Contents**

An exchange offer, pursuant to which the Company offered to acquire MetLife common stock from its stockholders in exchange for all of its 29,243,539 shares of RGA Class B common stock. The exchange ratio was determined based upon a ratio as more specifically described in the exchange offering document of the value of the MetLife and RGA shares during the three-day period prior to the closing of the exchange offer. The 3,000,000 shares of the RGA Class A common stock were not subject to the tax-free exchange.

As a result of completion of the recapitalization and exchange offer, the Company received from MetLife stockholders 23,093,689 shares of the Company's common stock with a market value of \$1,318 million and, in exchange, delivered 29,243,539 shares of RGA's Class B common stock with a net book value of \$1,716 million. The resulting loss on disposition, inclusive of transaction costs of \$60 million, was \$458 million. The 3,000,000 shares of RGA Class A common stock retained by the Company are marketable equity securities which do not constitute significant continuing involvement in the operations of RGA; accordingly, they have been classified within equity securities in the consolidated financial statements of the Company at a cost basis of \$157 million which is equivalent to the net book value of the shares. The cost basis will be adjusted to estimated fair value at each subsequent reporting date. The Company has agreed to dispose of the remaining shares of RGA within the next five years. In connection with the Company's agreement to dispose of the remaining shares, the Company also recognized, in its provision for income tax on continuing operations, a deferred tax liability of \$16 million which represents the difference between the book and taxable basis of the remaining investment in RGA.

The impact of the disposition of the Company's investment in RGA is reflected in the Company's consolidated financial statements as discontinued operations. The disposition of RGA results in the elimination of the Company's Reinsurance segment. The Reinsurance segment was comprised of the results of RGA, which at disposition became discontinued operations of Corporate & Other, and the interest on economic capital, which has been reclassified to the continuing operations of Corporate & Other.

***Disposition of Texas Life Insurance Company***

MetLife, Inc. has entered into an agreement to sell Cova Corporation, the parent company of Texas Life Insurance Company in early 2009. As a result of the sale agreement, the Company recognized gains from discontinued operations of \$37 million, net of income tax, in the fourth quarter of 2008. The gain was comprised of recognition of tax benefits of \$65 million relating to the excess of outside tax basis of Cova over its financial reporting basis offset by other than temporary impairments of \$28 million, net of income tax, relating to Cova's investments. The Company has reclassified the assets and liabilities of Cova as held-for-sale and its operations into discontinued operations for all periods presented in the consolidated financial statements.

***2008 Acquisitions***

During 2008, the Company made five acquisitions for \$783 million. As a result of these acquisitions, MetLife's Institutional segment increased its product offering of dental and vision benefit plans, MetLife Bank within Corporate & Other entered the mortgage origination and servicing business and the International segment increased its presence in Mexico and Brazil. The acquisitions were each accounted for using the purchase method of accounting, and accordingly, commenced being included in the operating results of the Company upon their respective closing dates. Total consideration paid by the Company for these acquisitions consisted of \$763 million in cash and \$20 million in transaction costs. The net fair value of assets acquired and liabilities assumed totaled \$527 million, resulting in goodwill of \$256 million. Goodwill increased by \$122 million, \$73 million and \$61 million in the International segment, Institutional segment and Corporate & Other, respectively. The goodwill is deductible for tax purposes. Value of customer relationships acquired (VOCRA), VOBA and other intangibles increased by \$137 million, \$7 million and \$6 million, respectively, as a result of these acquisitions.

***Other Acquisitions and Dispositions***

On June 28, 2007, the Company acquired the remaining 50% interest in a joint venture in Hong Kong, MetLife Fubon Limited ( MetLife Fubon ), for \$56 million in cash, resulting in MetLife Fubon becoming a consolidated subsidiary of the Company. The transaction was treated as a step acquisition, and at June 30, 2007, total assets and liabilities of MetLife Fubon of \$839 million and \$735 million, respectively, were included in the Company s

**Table of Contents**

consolidated balance sheet. The Company's investment for the initial 50% interest in MetLife Fubon was \$48 million. The Company used the equity method of accounting for such investment in MetLife Fubon. The Company's share of the joint venture's results for the six months ended June 30, 2007, was a loss of \$3 million. The fair value of the assets acquired and the liabilities assumed in the step acquisition at June 30, 2007, was \$427 million and \$371 million, respectively. No additional goodwill was recorded as a part of the step acquisition. As a result of this acquisition, additional VOBA and VODA of \$45 million and \$5 million, respectively, were recorded and both have a weighted average amortization period of 16 years. In June 2008, the Company revised the valuation of certain long-term liabilities, VOBA, and VODA based on new information received. As a result, the fair value of acquired insurance liabilities and VOBA were reduced by \$5 million and \$12 million, respectively, offset by an increase in VODA of \$7 million. The revised VOBA and VODA have a weighted average amortization period of 11 years.

On June 1, 2007, the Company completed the sale of its Bermuda insurance subsidiary, MetLife International Insurance, Ltd. ( MLII ), to a third party for \$33 million in cash consideration, resulting in a gain upon disposal of \$3 million, net of income tax. The net assets of MLII at disposal were \$27 million. A liability of \$1 million was recorded with respect to a guarantee provided in connection with this disposition.

On July 1, 2005, the Company completed the acquisition of Travelers for \$12.1 billion. The acquisition was accounted for using the purchase method of accounting. The net fair value of assets acquired and liabilities assumed totaled \$7.8 billion, resulting in goodwill of \$4.3 billion. The initial consideration paid by the Company in 2005 for the acquisition consisted of \$10.9 billion in cash and 22,436,617 shares of the Company's common stock with a market value of \$1.0 billion to Citigroup and \$100 million in other transaction costs. The Company revised the purchase price as a result of the finalization by both parties of their review of the June 30, 2005 financial statements and final resolution as to the interpretation of the provisions of the acquisition agreement which resulted in a payment of additional consideration of \$115 million by the Company to Citigroup in 2006.

**Industry Trends**

The Company's segments continue to be influenced by a variety of trends that affect the industry.

*Financial and Economic Environment.* Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the United States and elsewhere around the world. The stress experienced by global capital markets that began in the second half of 2007 has continued and substantially increased; since mid-September 2008, the global financial markets have experienced unprecedented disruption, adversely affecting the business environment in general, as well as the financial services industry, in particular. There is consensus in the economic community that the U.S. economy is in a recession.

Throughout 2008 and continuing in 2009, Congress, the Federal Reserve Bank of New York, the U.S. Treasury and other agencies of the Federal government took a number of increasingly aggressive actions (in addition to continuing a series of interest rate reductions that began in the second half of 2007) intended to provide liquidity to financial institutions and markets, to avert a loss of investor confidence in particular troubled institutions and to prevent or contain the spread of the financial crisis. How and to whom the U.S. Treasury distributes amounts available under the governmental programs could have the effect of supporting some aspects of the financial services industry more than others or provide advantages to some of our competitors. Governments in many of the foreign markets in which MetLife operates have also responded to address market imbalances and have taken meaningful steps intended to restore market confidence. We cannot predict whether the U.S. or foreign governments will establish additional governmental programs or the impact any additional measures or existing programs will have on the financial markets, whether on the levels of volatility currently being experienced, the levels of lending by financial institutions the prices buyers are willing to pay for financial assets or otherwise. See Business Regulation Governmental Responses to Extraordinary Market Conditions.



The economic crisis and the resulting recession have had and will continue to have an adverse effect on the financial results of companies in the financial services industry, including the Company. The declining financial markets and economic conditions have negatively impacted our investment income and the demand for and the cost and profitability of certain of our products, including variable annuities and guarantee riders. See Results of Operations and Liquidity and Capital Resources Extraordinary Market Conditions.

**Table of Contents**

*Demographics.* In the coming decade, a key driver shaping the actions of the life insurance industry will be the rising income protection, wealth accumulation and needs of the retiring Baby Boomers. As a result of increasing longevity, retirees will need to accumulate sufficient savings to finance retirements that may span 30 or more years. Helping the Baby Boomers to accumulate assets for retirement and subsequently to convert these assets into retirement income represents an opportunity for the life insurance industry.

Life insurers are well positioned to address the Baby Boomers' rapidly increasing need for savings tools and for income protection. The Company believes that, among life insurers, those with strong brands, high financial strength ratings and broad distribution, are best positioned to capitalize on the opportunity to offer income protection products to Baby Boomers.

Moreover, the life insurance industry's products and the needs they are designed to address are complex. The Company believes that individuals approaching retirement age will need to seek information to plan for and manage their retirements and that, in the workplace, as employees take greater responsibility for their benefit options and retirement planning, they will need information about their possible individual needs. One of the challenges for the life insurance industry will be the delivery of this information in a cost effective manner.

*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 turbulence in financial markets that began in the latter half of 2008, its impact on the capital position of many competitors, and subsequent actions by regulators and rating agencies have highlighted financial strength as the most significant differentiator from the perspective of customers and certain distributors. In addition, the financial market turbulence and the economic recession have led many companies in our industry to re-examine the pricing and features of the products they offer and may lead to consolidation in the life insurance industry.

*Regulatory Changes.* The life insurance industry is regulated 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 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. We expect the regulation of the financial services industry to receive renewed scrutiny as a result of the disruptions in the financial markets in 2008. It is possible that significant regulatory reforms could be implemented. We cannot predict whether any such reforms will be adopted, the form they will take or their effect upon us. We also cannot predict how the various government responses to the current financial and economic difficulties will affect the financial services and insurance industries or the standing of particular companies, including our Company, within those industries.

*Pension Plans.* On August 17, 2006, President Bush signed the Pension Protection Act of 2006 ( PPA ) into law. The PPA is a comprehensive reform of defined benefit and defined contribution plan rules. The provisions of the PPA may, over time, have a significant impact on demand for pension, retirement savings, and lifestyle protection products in both the institutional and retail markets. While the impact of the PPA is generally expected to be positive over time, these changes may have adverse short-term effects on the Company's business as plan sponsors may react to these

changes in a variety of ways as the new rules and related regulations begin to take effect. In response to the current financial and economic environment, President Bush signed into the law the Worker, Retiree and Employer Recovery Act (the Employer Recovery Act ) in December 2008. This Act is intended to, among other things, ease the transition of certain funding requirements of the PPA for defined benefit plans. The financial and economic environment and the enactment of the Employer Recovery Act may delay the timing or change the nature of qualified plan sponsor actions and, in turn, affect the Company's business.

**Table of Contents**

**Summary of Critical Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates include those used in determining:

- (i) the estimated fair value of investments in the absence of quoted market values;
- (ii) investment impairments;
- (iii) the recognition of income on certain investment entities;
- (iv) the application of the consolidation rules to certain investments;
- (v) the existence and estimated fair value of embedded derivatives requiring bifurcation;
- (vi) the estimated fair value of and accounting for derivatives;
- (vii) the capitalization and amortization of DAC and the establishment and amortization of VOBA;
- (viii) the measurement of goodwill and related impairment, if any;
- (ix) the liability for future policyholder benefits;
- (x) accounting for income taxes and the valuation of deferred tax assets;
- (xi) accounting for reinsurance transactions;
- (xii) accounting for employee benefit plans; and
- (xiii) the liability for litigation and regulatory matters.

The application of purchase 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 the aforementioned critical estimates. In applying the Company s accounting policies, management makes 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 the Company s businesses and operations. Actual results could differ from these estimates.

***Fair Value***

As described below, certain assets and liabilities are measured at estimated fair value on the Company s consolidated balance sheets. In addition, these footnotes to the consolidated financial statements include disclosures of estimated fair values. Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In many cases, the exit price and the transaction (or entry) price will be the same at initial recognition. However, in certain cases, the transaction

price may not represent fair value. Under SFAS 157, fair value of a liability is based on the amount that would be paid to transfer a liability to a third party with the same credit standing. SFAS 157 requires that fair value be a market-based measurement in which the fair value is determined based on a hypothetical transaction at the measurement date, considered from the perspective of a market participant. When quoted prices are not used to determine fair value, SFAS 157 requires consideration of three broad valuation techniques: (i) the market approach, (ii) the income approach, and (iii) the cost approach. The approaches are not new, but SFAS 157 requires that entities determine the most appropriate valuation technique to use, given what is being measured and the availability of sufficient inputs. SFAS 157 prioritizes the inputs to fair valuation techniques and allows for the use of unobservable inputs to the extent that observable inputs are not available. The Company has categorized its assets and liabilities measured at estimated fair value into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset

**Table of Contents**

or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. SFAS 157 defines the input levels as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. The Company defines active markets based on average trading volume for equity securities. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities.
- Level 2 Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation.

The measurement and disclosures under SFAS 157 in the accompanying financial statements and footnotes exclude certain items such as nonfinancial assets and nonfinancial liabilities initially measured at estimated fair value in a business combination, reporting units measured at estimated fair value in the first step of a goodwill impairment test and indefinite-lived intangible assets measured at estimated fair value for impairment assessment. The effective date for these items was deferred to January 1, 2009.

Prior to adoption of SFAS 157, estimated fair value was determined based solely upon the perspective of the reporting entity. Therefore, methodologies used to determine the estimated fair value of certain financial instruments prior to January 1, 2008, while being deemed appropriate under existing accounting guidance, may not have produced an exit value as defined in SFAS 157.

***Estimated Fair Values of Investments***

The Company's investments in fixed maturity and equity securities, investments in trading securities, certain short-term investments, most mortgage loans held-for-sale, and mortgage servicing rights (MSRs) are reported at their estimated fair value. In determining the estimated fair value of these investments, various methodologies, assumptions and inputs are utilized, as described further below.

When available, the estimated fair value of securities is based on quoted prices in active markets that are readily and regularly obtainable. Generally, these are the most liquid of the Company's securities holdings and valuation of these securities does not involve management judgment.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies. The market standard valuation methodologies utilized include: discounted cash flow methodologies, matrix pricing or other similar techniques. The assumptions and inputs in applying 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.

**Table of Contents**

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 are determined based on observable pricing of residential mortgage loans held-for-sale with similar characteristics, or observable pricing for securities backed by similar types of loans, adjusted to convert the securities prices to loan prices. Generally, quoted market prices are not available. When observable pricing for similar loans or securities that are backed by similar loans are not available, the estimated fair values of residential mortgage loans held-for-sale are determined using independent broker quotations, which is intended to approximate the amounts that would be received from third parties. Certain other mortgages have also been designated as held-for-sale which are recorded at the lower of amortized cost or estimated fair value less expected disposition costs determined on an individual loan basis. For these loans, estimated fair value is determined using independent broker quotations or, when the loan is in foreclosure or otherwise determined to be collateral dependent, the estimated fair value of the underlying collateral estimated using internal models.

Mortgage servicing rights (MSRs) are measured at estimated fair value and are either acquired or are generated from the sale of originated residential mortgage loans where the servicing rights are retained by the Company. The estimated fair value of MSRs is principally determined through the use of internal discounted cash flow models which utilize various assumptions as to discount rates, loan-prepayments, and servicing costs. The use of different valuation assumptions and inputs as well as assumptions relating to the collection of expected cash flows may have a material effect on MSRs estimated fair values.

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. The Company's 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.

***Investment Impairments***

One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value. The Company's review of its fixed maturity and equity securities for impairments includes an analysis of the total gross unrealized losses by three categories of securities: (i) securities where the estimated fair value had declined and remained below cost or amortized cost by less than 20%; (ii) securities where the estimated fair value had declined and remained below cost or amortized cost by 20% or more for less than six months; and (iii) securities where the estimated fair value had declined and remained below cost or amortized cost by 20% or more for six months or greater. 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 and the Company's evaluation of recoverability of all contractual cash flows, as well as the Company's ability and intent to hold the security, including holding the security until the earlier of a recovery in value, or until maturity. In contrast, for certain equity securities, greater weight and consideration are given by the Company to a decline in estimated fair value and the likelihood such estimated fair value decline will recover.



Additionally, management considers a wide range of factors about the security issuer and uses its 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 management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by the Company in the impairment evaluation process include, but are not limited to:

- (i) the length of time and the extent to which the estimated fair value has been below cost or amortized cost;

**Table of Contents**

- (ii) the potential for impairments of securities when the issuer is experiencing significant financial difficulties;
- (iii) the potential for impairments in an entire industry sector or sub-sector;
- (iv) the potential for impairments in certain economically depressed geographic locations;
- (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources;
- (vi) the Company's ability and intent to hold the security for a period of time sufficient to allow for the recovery of its value to an amount equal to or greater than cost or amortized cost;
- (vii) unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities; and
- (viii) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

The cost of fixed maturity and equity securities is adjusted for impairments in value deemed to be other-than temporary in the period in which the determination is made. These impairments are included within net investment gains (losses) and the cost basis of the fixed maturity and equity securities is reduced accordingly. The Company does not change the revised cost basis for subsequent recoveries in value.

The determination of the amount of allowances and impairments on other invested asset classes is highly subjective and is based upon the Company's 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. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised.

***Recognition of Income on Certain Investment Entities***

The recognition of income on certain investments (e.g. loan-backed securities, including mortgage-backed and asset-backed securities, certain structured investment transactions, trading securities, etc.) is dependent upon market conditions, which could result in prepayments and changes in amounts to be earned.

***Application of the Consolidation Rules to Certain Investments***

Additionally, the Company has invested in certain structured transactions that are VIEs under Financial Accounting Standards Board ( FASB ) Interpretation ( FIN ) No. 46(r), *Consolidation of Variable Interest Entities - An Interpretation of Accounting Research Bulletin No. 51* ( FIN 46(r) ). These structured transactions include reinsurance trusts, asset-backed securitizations, trust preferred securities, joint ventures, limited partnerships and limited liability companies. The Company is required to consolidate those VIEs for which it is deemed to be the primary beneficiary. The accounting rules under FIN 46(r) for the determination of when an entity is a VIE and when to consolidate a VIE are complex. The determination of the VIE's primary beneficiary requires an evaluation of the contractual rights and obligations associated with each party involved in the entity, an estimate of the entity's expected losses and expected residual returns and the allocation of such estimates to each party involved in the entity. FIN 46(r) defines the primary beneficiary as the entity that will absorb a majority of a VIE's expected losses, receive a majority of a VIE's expected residual returns if no single entity absorbs a majority of expected losses, or both.

When determining the primary beneficiary for structured investment products such as asset-backed securitizations and collateralized debt obligations, the Company uses historical default probabilities based on the credit rating of each issuer and other inputs including maturity dates, industry classifications and geographic location. Using computational algorithms, the analysis simulates default scenarios resulting in a range of expected losses and the probability associated with each occurrence. For other investment structures such as trust preferred securities, joint ventures, limited partnerships and limited liability companies, the Company gains an understanding of the design of the VIE and generally uses a qualitative approach to determine if it is the primary beneficiary. This approach includes an analysis of all contractual rights and obligations held by all parties including profit and loss allocations, repayment or residual value guarantees, put and call options and other derivative instruments. If the primary beneficiary of a VIE can not be identified using this qualitative approach, the Company calculates the

**Table of Contents**

expected losses and expected residual returns of the VIE using a probability-weighted cash flow model. The use of different methodologies, assumptions and inputs in the determination of the primary beneficiary could have a material effect on the amounts presented within the consolidated financial statements.

***Derivative Financial Instruments***

The Company enters into freestanding derivative transactions including swaps, forwards, futures and option contracts. The Company uses derivatives primarily to manage various risks. The risks being managed are variability in cash flows or changes in estimated fair values related to financial instruments and currency exposure associated with net investments in certain foreign operations. To a lesser extent, the Company uses credit derivatives, such as credit default swaps, to synthetically replicate investment risks and returns which are not readily available in the cash market.

The estimated fair value of derivatives is determined through the use of quoted market prices for exchange-traded derivatives and financial forwards to sell residential mortgage-backed securities or through the use of pricing models for over-the-counter derivatives. The determination of estimated fair value, when quoted market values are not available, is based on market standard valuation methodologies and inputs that are assumed to be 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 (including the counterparties to the contract), volatility, liquidity and changes in estimates and assumptions used in the pricing models.

The significant inputs to the pricing models for most over-the-counter derivatives are inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Significant inputs that are observable generally include: interest rates, foreign currency exchange rates, interest rate curves, credit curves, and volatility. However, certain over-the-counter derivatives may 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. Significant inputs that are unobservable generally include: independent broker quotes, credit correlation assumptions, references to emerging market currencies, and inputs that are outside the observable portion of the interest rate curve, credit curve, volatility, or other relevant market measure. These unobservable inputs may involve significant management judgment or estimation. 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 instruments. Most inputs for over-the-counter derivatives are mid market inputs but, in certain cases, bid level inputs are used when they are deemed more representative of exit value. Market liquidity as well as the use of different methodologies, assumptions and inputs may have a material effect on the estimated fair values of the Company's derivatives and could materially affect net income. Also, fluctuations in the estimated fair value of derivatives which have not been designated for hedge accounting may result in significant volatility in net income.

The credit risk of both the counterparty and the Company are considered in determining the estimated fair value for all over-the-counter derivatives after taking into account the effects of netting agreements and collateral arrangements. Credit risk is monitored and consideration of any potential credit adjustment is based on a net exposure by counterparty. This is due to the existence of netting agreements and collateral arrangements which effectively serve to mitigate credit risk. The Company values its derivative positions using the standard swap curve which includes a credit risk adjustment. This credit risk adjustment is appropriate for those parties that execute trades at pricing levels consistent with the standard swap curve. As the Company and its significant derivative counterparties consistently execute trades at such pricing levels, additional credit risk adjustments are not currently required in the valuation process. The need for such additional credit risk adjustments is monitored by the Company. The Company's ability to consistently execute at such pricing levels is in part due to the netting agreements and collateral arrangements that are in place with all of its significant derivative counterparties. The evaluation of the requirement to make an additional

credit risk adjustments is performed by the Company each reporting period.

The accounting for derivatives is complex and interpretations of the primary accounting standards continue to evolve in practice. Judgment is applied in determining the availability and application of hedge accounting designations and the appropriate accounting treatment under these accounting standards. If it was determined that

## **Table of Contents**

hedge accounting designations were not appropriately applied, reported net income could be materially affected. Differences in judgment as to the availability and application of hedge accounting designations and the appropriate accounting treatment may result in a differing impact on the consolidated financial statements of the Company from that previously reported. 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.

### ***Embedded Derivatives***

Embedded derivatives principally include certain variable annuity riders and certain guaranteed investment contracts with equity or bond indexed crediting rates. Embedded derivatives are recorded in the financial statements at estimated fair value with changes in estimated fair value adjusted through net income.

The Company issues certain variable annuity products with guaranteed minimum benefit riders. These include guaranteed minimum withdrawal benefit ( GMWB ) riders, guaranteed minimum accumulation benefit ( GMAB ) riders, and certain guaranteed minimum income benefit ( GMIB ) riders. GMWB, GMAB and certain GMIB riders are embedded derivatives, which are measured at estimated fair value separately from the host variable annuity contract, with changes in estimated fair value reported in net investment gains (losses).

The estimated fair value for these riders is estimated using the present value of future benefits minus the present value of future fees using actuarial and capital market assumptions related to the projected cash flows over the expected lives of the contracts. 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 riders are projected under multiple capital market scenarios using observable risk free rates. Beginning in 2008, the valuation of these embedded derivatives now includes an adjustment for the Company's own credit and risk margins for non-capital market inputs. The Company's own credit adjustment is determined taking into consideration publicly available information relating to the Company's debt as well as its claims paying ability. 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 of such actuarial assumptions as annuitization, premium persistency, partial withdrawal and surrenders. The establishment of risk margins requires the use of significant management judgment.

These riders 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 the Company's own credit standing; and variations in actuarial assumptions regarding policyholder behavior, and risk margins related to non-capital market inputs may result in significant fluctuations in the estimated fair value of the riders that could materially affect net income.

The Company ceded the risk associated with certain of the GMIB and GMAB riders 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 riders directly written by the Company.

The estimated fair value of the embedded equity and bond indexed derivatives contained in certain guaranteed investment contracts is determined using market standard swap valuation models and observable market inputs, including an adjustment for the Company's own credit that takes into consideration publicly available information relating to the Company's debt as well as its claims paying ability. Changes in equity and bond indices, interest rates and the Company's credit standing may result in significant fluctuations in estimated the fair value of these embedded derivatives that could materially affect net income.

The accounting for embedded derivatives is complex and interpretations of the primary accounting standards continue to evolve in practice. 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.

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

The Company incurs significant costs in connection with acquiring new and renewal insurance business. Costs that vary with and relate to the production of new business are deferred as DAC. Such costs consist principally of commissions and agency and policy issuance expenses. VOBA is an intangible asset that reflects the estimated fair value of in-force contracts in a life insurance company acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the business in-force at the acquisition date. VOBA 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 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. DAC and VOBA are aggregated in the financial statements for reporting purposes.

DAC for property and casualty insurance contracts, which is primarily composed of commissions and certain underwriting expenses, is amortized on a pro rata basis over the applicable contract term or reinsurance treaty.

DAC and VOBA on life insurance or investment-type contracts are amortized in proportion to gross premiums, gross margins or gross profits, depending on the type of contract as described below.

The Company amortizes DAC and VOBA related to non-participating and non-dividend-paying traditional contracts (term insurance, non-participating whole life insurance, non-medical health insurance, and traditional group life insurance) over the entire premium paying period in proportion to the present value of actual historic and expected future gross premiums. The present value of expected premiums is based upon the premium requirement of each policy and assumptions for mortality, morbidity, persistency, and investment returns at policy issuance, or policy acquisition, as it relates to VOBA, that include provisions for adverse deviation and are consistent with the assumptions used to calculate future policyholder benefit liabilities. These assumptions are not revised after policy issuance or acquisition unless the DAC or VOBA balance is deemed to be unrecoverable from future expected profits. Absent a premium deficiency, variability in amortization after policy issuance or acquisition is caused only by variability in premium volumes.

The Company amortizes DAC and VOBA related to participating, dividend-paying traditional contracts over the estimated lives of the contracts in proportion to actual and expected future gross margins. The amortization includes interest based on rates in effect at inception or acquisition of the contracts. The future gross margins are dependent principally on investment returns, policyholder dividend scales, mortality, persistency, expenses to administer the business, creditworthiness of reinsurance counterparties, and certain economic variables, such as inflation. For participating contracts (dividend paying traditional contracts within the closed block) future gross margins are also dependent upon changes in the policyholder dividend obligation. Of these factors, the Company anticipates that investment returns, expenses, persistency, and other factor changes and policyholder dividend scales are reasonably likely to impact significantly the rate of DAC and VOBA amortization. Each reporting period, the Company updates the estimated gross margins with the actual gross margins for that period. When the actual gross margins change from previously estimated gross margins, the cumulative DAC and VOBA amortization is re-estimated and adjusted by a cumulative charge or credit to current operations. When actual gross margins exceed those previously estimated, the DAC and VOBA amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross margins are below the previously estimated gross margins. Each reporting period, the Company also updates the actual amount of business in-force, which impacts expected future gross margins. When expected future gross margins are below those previously estimated, the DAC and VOBA amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the expected future gross margins are above the previously estimated expected future gross margins. Total DAC and VOBA amortization during a particular period may increase or decrease depending upon the relative size of the amortization change resulting from the



adjustment to DAC and VOBA for the update of actual gross margins and the re-estimation of expected future gross margins. Each period, the Company also reviews the estimated gross margins for each block of business to determine the recoverability of DAC and VOBA balances.

The Company amortizes DAC and VOBA related to fixed and variable universal life contracts and fixed and variable deferred annuity contracts over the estimated lives of the contracts in proportion to actual and expected future gross profits. The amortization includes interest based on rates in effect at inception or acquisition of the

**Table of Contents**

contracts. The amount of future gross profits is dependent principally upon returns in excess of the amounts credited to policyholders, mortality, persistency, interest crediting rates, expenses to administer the business, creditworthiness of reinsurance counterparties, the effect of any hedges used, and certain economic variables, such as inflation. Of these factors, the Company anticipates that investment returns, expenses, and persistency are reasonably likely to impact significantly the rate of DAC and VOBA amortization. Each reporting period, the Company updates the estimated gross profits with the actual gross profits for that period. When the actual gross profits change from previously estimated gross profits, the cumulative DAC and VOBA amortization is re-estimated and adjusted by a cumulative charge or credit to current operations. When actual gross profits exceed those previously estimated, the DAC and VOBA amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross profits are below the previously estimated gross profits. Each reporting period, the Company also updates the actual amount of business remaining in-force, which impacts expected future gross profits. When expected future gross profits are below those previously estimated, the DAC and VOBA amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the expected future gross profits are above the previously estimated expected future gross profits. Total DAC and VOBA amortization during a particular period may increase or decrease depending upon the relative size of the amortization change resulting from the adjustment to DAC and VOBA for the update of actual gross profits and the re-estimation of expected future gross profits. Each period, the Company also reviews the estimated gross profits for each block of business to determine the recoverability of DAC and VOBA balances.

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. Returns that are higher than the Company's long-term expectation produce higher account balances, which increases the Company's future fee expectations and decreases future benefit payment expectations on minimum death and living benefit guarantees, resulting in higher expected future gross profits. The opposite result occurs when returns are lower than the Company's long-term expectation. The Company's 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. The Company monitors these changes and only changes the assumption when its 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 balances of approximately \$110 million with an offset to the Company's unearned revenue liability of approximately \$20 million for this factor. During 2008, the Company did not change its long-term expectation of equity market appreciation.

The Company also reviews periodically other long-term assumptions underlying the projections of estimated gross margins and profits. These include investment returns, policyholder dividend scales, interest crediting rates, mortality, persistency, and expenses to administer business. Management annually updates assumptions used in the calculation of estimated gross margins and profits which may have significantly changed. 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.

Over the last several years, the Company's most significant assumption updates resulting in a change to expected future gross margins and profits and the amortization of DAC and VOBA have been updated due to revisions to expected future investment returns, expenses, in-force or persistency assumptions and policyholder dividends on contracts included within the Individual segment. During 2008, the amount of net investment gains (losses) as well as the level of separate account balances also resulted in significant changes to expected future gross margins and profits impacting amortization of DAC and VOBA. The Company expects these assumptions to be the ones most reasonably likely to cause significant changes in the future. Changes in these assumptions can be offsetting and the Company is unable to predict their movement or offsetting impact over time.

Note 5 of the Notes to the Consolidated Financial Statements provides a rollforward of DAC and VOBA for the Company for each of the years ended December 31, 2008, 2007 and 2006 as well as a breakdown of DAC and VOBA by segment and reporting unit at December 31, 2008 and 2007. At December 31, 2008 and 2007, DAC and VOBA for the Company was \$20.1 billion and \$17.8 billion, respectively. A substantial portion, approximately

**Table of Contents**

80% of the Company's DAC and VOBA is associated with the Individual segment which had DAC and VOBA of \$16.5 billion and \$14.0 billion, respectively, at December 31, 2008 and 2007. Amortization of DAC and VOBA associated with the variable & universal life and the annuities reporting units within the Individual segment are significantly impacted by movements in equity markets. The following chart illustrates the effect on DAC and VOBA within the Company's Individual segment 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, 2008, 2007 and 2006. Increases (decreases) in DAC and VOBA balances, as presented below, result in a corresponding decrease (increase) in amortization.

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In millions)</b>		
Investment return	\$ 70	\$ (34)	\$ (50)
Separate account balances	(708)	8	9
Net investment gain (loss) related	(521)	126	233
Expense	61	(53)	45
In-force/Persistency	(159)	1	(34)
Policyholder dividends and other	(30)	(39)	(7)
<b>Total</b>	<b>\$ (1,287)</b>	<b>\$ 9</b>	<b>\$ 196</b>

Prior to 2008, fluctuations in the amounts presented in the table above arose principally from normal assumption reviews during the period. During 2008, there was a significant increase in DAC and VOBA amortization attributable to the following:

The decrease in equity markets during the year significantly lowered separate account balances resulting in a significant reduction in expected future gross profits on variable universal life contracts and variable deferred annuity contracts resulting in an increase of \$708 million in DAC and VOBA amortization.

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 reduction of DAC and VOBA amortization of \$1,047 million. This decrease in actual gross profits was mitigated by freestanding derivative gains associated with the hedging of such guarantee obligations which resulted in an increase in actual gross profits and an increase in DAC and VOBA amortization of \$625 million.

A change in valuation of guarantee liabilities, resulting from the adoption of SFAS 157 during 2008, also impacted the computation of actual gross profits and the related amortization of DAC and VOBA. The addition of risk margins increased the guarantee liability valuations, decreased actual gross profits and decreased amortization by \$100 million. Offsetting this was the addition of own credit to the valuation of guarantee liabilities. Own credit decreased guarantee liability valuations, increased actual gross profits and increased amortization by \$739 million. The inclusion of the Company's own credit in the valuation of these guarantee liabilities increases the volatility of these valuations, the related DAC and VOBA amortization, and the net income of the Company.

As more extensively described in Note 9 of the Notes to the Consolidated Financial Statements, reductions in both actual and expected cumulative earnings of the closed block resulting from recent experience in the closed block combined with changes in expected dividend scales resulted in an increase in closed block DAC amortization of \$195 million, \$175 million of which is related to net investment gains (losses).

The remainder of the impact of net investment gains (losses) on DAC amortization of \$129 million was attributable to numerous immaterial items.

Increases in amortization in 2008 resulting from changes in assumptions related to in-force/persistency of \$159 million were driven by higher than anticipated mortality and lower than anticipated premium persistency during the current year.

**Table of Contents**

The Company's 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 recognized. The significant increase in unrealized investment losses at December 31, 2008 resulted in an increase in DAC and VOBA of \$3.4 billion. Notes 3 and 5 of the Notes to the Consolidated Financial Statements include the DAC and VOBA offset to unrealized investment losses.

***Goodwill***

Goodwill is the excess of cost over the estimated fair value of net assets acquired. 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 there may be justification for conducting an interim test. The Company performs its annual goodwill impairment testing during the third quarter of each year based upon data as of the close of the second quarter.

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, if discrete financial information is prepared and regularly reviewed by management at that level. For purposes of goodwill impairment testing, a significant portion of goodwill within Corporate & Other is allocated to reporting units within the Company's business segments.

For purposes of goodwill impairment testing, if the carrying value of a reporting unit's goodwill exceeds its estimated fair value, there is an indication of impairment and the implied fair value of the goodwill is determined in the same manner as the amount of goodwill would be determined in a business acquisition. The excess of the carrying value of goodwill over the implied fair value of goodwill is recognized as an impairment and recorded as a charge against net income.

In performing its goodwill impairment tests, when management believes meaningful comparable market data are available, the estimated fair values of the reporting units are determined using a market multiple approach. When relevant comparables are not available, the Company uses a discounted cash flow model. For reporting units which are particularly sensitive to market assumptions, such as the annuities and variable & universal life reporting units within the Individual segment, the Company may corroborate its estimated fair values by using additional valuation methodologies.

The key inputs, judgments and assumptions necessary in determining fair value include projected operating earnings, current book value (with and without accumulated other comprehensive income), 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 management believes appropriate to the risk associated with the respective reporting unit. The estimated fair value of the annuity and variable & universal life reporting units are particularly sensitive to the equity market levels.

When testing goodwill for impairment, management also considers the Company's market capitalization in relation to its book value. Management believes that the overall decrease in the Company's current market capitalization is not representative of a long-term decrease in the value of the underlying reporting units.

Management applies significant judgment when determining the estimated fair value of the Company's reporting units and when assessing the relationship of market capitalization to the estimated fair value of its reporting units and their book value. 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 the Company's reporting units could result in goodwill impairments in future periods which could materially adversely affect the Company's results of operations or financial position.

Management continues to evaluate current market conditions that may affect the estimated fair value of the Company's reporting units to assess whether any goodwill impairment exists. Continued deteriorating or adverse

## **Table of Contents**

market conditions for certain reporting units may have a significant impact on the estimated fair value of these reporting units and could result in future impairments of goodwill.

See Management's Discussion and Analysis of Financial Condition and Results of Operations - Goodwill for further consideration of goodwill impairment testing during 2008.

### ***Liability for Future Policy Benefits***

The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, traditional annuities and non-medical health insurance. Generally, amounts 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. 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 assumptions, additional liabilities may be required, 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 and claim expenses for property and casualty insurance are included in future policyholder benefits and represent the amount estimated for claims that have been reported but not settled and claims incurred but not reported. Other policyholder funds include claims that have been reported but not settled and claims incurred but not reported on life and non-medical health insurance. Liabilities for unpaid claims are estimated based upon the Company's 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. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

Future policy benefit liabilities for minimum death and income benefit guarantees relating to certain annuity contracts and secondary and paid up guarantees relating to certain life policies are based on estimates of the expected value of benefits in excess of the projected account balance and 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 these 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 S&P experience.

The Company periodically reviews its estimates of actuarial liabilities for future policy benefits and compares them with its actual experience. Differences between actual experience and the assumptions used in pricing these policies, guarantees and riders and in the establishment of the related liabilities result in variances in profit and could result in losses. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

### ***Income Taxes***



Income taxes represent the net amount of income taxes that the Company expects to pay to or receive from various taxing jurisdictions in connection with its operations. The Company provides 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. The Company's accounting for income taxes represents management's best estimate of various events and transactions.

**Table of Contents**

Deferred tax assets and liabilities resulting from temporary differences between the financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. 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 consider the performance of the business including the 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.

The Company determines 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. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. The Company may be required to change its provision for income taxes when the ultimate deductibility of certain items is challenged by taxing authorities or 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.

***Reinsurance***

The Company enters into reinsurance agreements primarily as a purchaser of reinsurance for its various insurance products and also as a provider of reinsurance for some insurance products issued by third parties. 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. The Company periodically reviews actual and anticipated experience compared to the aforementioned assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluates the financial strength of counterparties to its reinsurance agreements using criteria similar to that evaluated in the security impairment process discussed previously. Additionally, for each of its reinsurance agreements, the Company determines if the agreement provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company reviews 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 the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting.

***Employee Benefit Plans***

Certain subsidiaries of the Holding Company (the *Subsidiaries*) sponsor and/or administer pension and other postretirement benefit plans covering employees who meet specified eligibility requirements. The obligations and expenses associated with these plans require an extensive use of assumptions such as the discount rate, expected rate

of return on plan assets, rate of future compensation increases, healthcare cost trend rates, as well as assumptions regarding participant demographics such as rate and age of retirements, withdrawal rates and mortality. Management, in consultation with its external consulting actuarial firm, determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data, and expected benefit payout streams. The assumptions used may differ materially from actual results

**Table of Contents**

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.

***Litigation Contingencies***

The Company is a party to a number of legal actions and is involved in a number of regulatory investigations. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's 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 the Company's 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 the Company's 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 the Company 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, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's consolidated financial statements. It is possible that an adverse outcome in certain of the Company's 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 the Company's consolidated net income or cash flows in particular quarterly or annual periods.

**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 MetLife's businesses. As a part of the economic capital process, a portion of net investment income is credited to the segments based on the level of allocated equity. This is in contrast to the standardized regulatory risk-based capital (RBC) formula, which is not as refined in its risk calculations with respect to the nuances of the Company's businesses.

**Table of Contents****Results of Operations****Discussion of Results**

The following table presents consolidated financial information for the Company for the years indicated:

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In millions)</b>		
<b>Revenues</b>			
Premiums	\$ 25,914	\$ 22,970	\$ 22,052
Universal life and investment-type product policy fees	5,381	5,238	4,711
Net investment income	16,296	18,063	16,247
Other revenues	1,586	1,465	1,301
Net investment gains (losses)	1,812	(578)	(1,382)
<b>Total revenues</b>	<b>50,989</b>	<b>47,158</b>	<b>42,929</b>
<b>Expenses</b>			
Policyholder benefits and claims	27,437	23,783	22,869
Interest credited to policyholder account balances	4,787	5,461	4,899
Policyholder dividends	1,751	1,723	1,698
Other expenses	11,924	10,429	9,537
<b>Total expenses</b>	<b>45,899</b>	<b>41,396</b>	<b>39,003</b>
Income from continuing operations before provision for income tax	5,090	5,762	3,926
Provision for income tax	1,580	1,660	1,016
Income from continuing operations	3,510	4,102	2,910
Income (loss) from discontinued operations, net of income tax	(301)	215	3,383
Net income	3,209	4,317	6,293
Preferred stock dividends	125	137	134
<b>Net income available to common shareholders</b>	<b>\$ 3,084</b>	<b>\$ 4,180</b>	<b>\$ 6,159</b>

**Year Ended December 31, 2008 compared with the Year Ended December 31, 2007 The Company**

Income from continuing operations decreased by \$592 million, or 14%, to \$3,510 million for the year ended December 31, 2008 from \$4,102 million for the comparable 2007 period.

The following table provides the change from the prior year in income from continuing operations by segment:

**Change**

	<b>(In millions)</b>
Institutional	\$ 423
Individual	(711)
International	(64)
Auto & Home	(161)
Corporate & Other	(79)
Total change, net of income tax	\$ (592)

The Institutional segment's income from continuing operations increased primarily due to a decrease in net investment losses and a decrease in policyholder benefits due to investment losses shared by policyholders. There was also a decrease in other expenses due in part to lower expenses related to DAC amortization which is primarily

**Table of Contents**

due to the impact of the implementation of SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* ( SOP 05-1 ) in the prior year and amortization refinements in the current year. These increases were offset by lower underwriting results in retirement & savings, non-medical health & other, and group life businesses. There was also a decrease in interest margins within the retirement & savings and non-medical health & other businesses, partially offset by an increase in the group life business.

The Individual segment's income from continuing operations decreased due to higher DAC amortization partially offset by a decrease in net investment losses due to an increase in gains on freestanding derivatives partially offset by losses primarily relating to embedded derivatives and fixed maturity securities including those resulting from intersegment transfers of securities. The embedded derivative losses are net of gains relating to the effect of the widening of the Company's own credit spread. Income from continuing operations also decreased due to decreases in interest margins, unfavorable underwriting results in life products, an increase in interest credited to policyholder account balances, higher annuity benefits, lower universal life and investment-type product policy fees combined with other revenues, and an increase in policyholder dividends. These decreases were partially offset by a decrease in other expenses as well as an increase in net investment income on blocks of business not driven by interest margins.

The International segment's decrease in income from continuing operations was primarily due to a decrease in income from continuing operations relating to Argentina and Japan. The decrease in Argentina's income from continuing operations was due to the negative impact the 2007 pension reform had on current year income from continuing operations. The decrease was partially offset by the net impact resulting from the Argentine nationalization of the private pension system as well as refinements to certain contingent and insurance liabilities associated with a Supreme Court ruling. The Company's earnings from its investment in Japan decreased due to an increase in losses on embedded derivatives associated with variable annuity riders, an increase in DAC amortization related to market performance and the impact of a refinement in assumptions for the guaranteed annuity business partially offset by the favorable impact from the utilization of the fair value option for certain fixed annuities. The Company's results were also impacted by a decrease in earnings from assumed reinsurance, offset by an increase in income from hedging activities associated with Japan's guaranteed annuity benefits. These decreases were offset by an increase in net investment gains which was due to an increase from gains on derivatives primarily in Japan partially offset by losses primarily on fixed maturity investments. There was also an increase in income from continuing operations relating to Hong Kong associated with the remaining 50% interest in MetLife Fubon acquired in the in the second quarter of 2007.

The Auto & Home segment's decrease in income from continuing operations was primarily attributable to an increase in net investment losses and an increase in policyholder benefits and claims. The increase in net investment losses was due to an increase in losses on fixed maturity and equity securities. The increase in policyholder benefits and claims was comprised primarily of an increase in catastrophe losses offset by a decrease in non-catastrophe policyholder benefits and claims. Offsetting these decreases was an increase in premiums.

Income from continuing operations for Corporate & Other decreased due to lower net investment income as well as higher corporate expenses, interest expense, legal costs and interest credited to policyholder account balances. These decreases were offset by an increase in net investment gains, higher other revenues, lower interest on uncertain tax positions, and lower interest credited to bankholder deposits. The increase in net investment gains was primarily due to an elimination of losses which were recognized by other segments, partially offset by losses on fixed maturity securities and derivatives.

***Revenues and Expenses******Premiums, Fees and Other Revenues***

Premiums, fees and other revenues increased by \$3,208 million, or 11%, to \$32,881 million for the year ended December 31, 2008 from \$29,673 million for the comparable 2007 period.



**Table of Contents**

The following table provides the change from the prior year in premiums, fees and other revenues by segment:

	<b>\$ Change (In millions)</b>	<b>% of Total \$ Change</b>
Institutional	\$ 2,705	84%
Individual	(70)	(2)
International	468	15
Auto & Home		
Corporate & Other	105	3
Total change	\$ 3,208	100%

The Institutional segment's increase in premiums, fees and other revenues was primarily due to increases in the retirement & savings, non-medical health & other and group life businesses. The increase in the retirement & savings business was primarily due to increases in premiums in the group institutional annuity, structured settlement and global GIC businesses. The increase in both group institutional annuity and the structured settlement businesses were primarily due to higher sales. The increase in the group institutional annuity business was primarily due to large domestic sales and the first significant sales in the United Kingdom business in the current year. The growth in the non-medical health & other business was largely due to increases in the dental, disability, accidental death & dismemberment ( AD&D ), and individual disability insurance ( IDI ) businesses. The increase in the dental business was primarily due to organic growth in the business and the impact of an acquisition that closed in the first quarter of 2008. The increase in group life business was primarily due to an increase in term life, which was largely attributable to business growth, partially offset by a decrease in assumed reinsurance.

The Individual segment's decrease in premiums, fees and other revenues was primarily attributable to decreases in universal life and investment-type product policy fees and other revenues. These decreases were due to lower average separate account balances due to unfavorable equity market performance during the current year, as well as revisions to management's assumptions used to determine estimated gross profits and margins. These decreases were partially offset by universal life business growth over the prior year.

The International segment's increase in premiums, fees and other revenues was primarily due to business growth in the Latin America region, as well as the impact of an acquisition in the Asia Pacific region, and the impact of foreign currency exchange rates. Chile's premiums, fees and other revenues increased primarily due to higher annuity sales, as well as higher institutional premiums from its traditional and bank distribution channels. Mexico's premiums, fees and other revenues increased primarily due to growth in its individual and institutional businesses, as well as the reinstatement of premiums from prior periods. Hong Kong's increase was due to the acquisition of the remaining 50% interest in MetLife Fubon in the second quarter of 2007 and the resulting consolidation of the operation beginning in the third quarter of 2007. The United Kingdom's premiums, fees and other revenues increased primarily due to growth in the reinsurance business as well as the prior year impact of an unearned premium calculation refinement. South Korea's premiums, fees and other revenues increased due to growth in its guaranteed annuity and variable universal life businesses, as well as in its traditional business. Australia's premiums, fees and other revenues increased primarily due to growth in the institutional business and an increase in retention levels. These increases in premiums, fees and other revenues were partially offset by a decrease in Argentina primarily due to a decrease in premiums in the pension business, for which pension reform eliminated the obligation of plan administrators to provide death and disability coverage effective January 1, 2008.

The Auto & Home segment reflected no change when compared to the prior year although a slight increase in premiums was offset by lower other revenues.

The increase in Corporate & Other premiums, fees and other revenues was primarily related to MetLife Bank loan origination and servicing fees from acquisitions in 2008 and an adjustment of surrender values on corporate-owned life insurance ( COLI ) policies in the prior year, partially offset by lower revenue from a prior year resolution of an indemnification claim associated with the 2000 acquisition of GALIC.

**Table of Contents***Net Investment Income*

Net investment income decreased by \$1,767 million, or 10%, to \$16,296 million for the year ended December 31, 2008 from \$18,063 million for the comparable 2007 period. Management attributes \$3,141 million of this change to a decrease in yields, partially offset by an increase of \$1,374 million due to growth in average invested assets. Average invested assets are calculated on cost basis without unrealized gains and losses. The decrease in net investment income attributable to lower yields was primarily due to lower returns on other limited partnership interests, real estate joint ventures, short-term investments, fixed maturity securities, and mortgage loans, partially offset by improved securities lending results. Management anticipates that the significant volatility in the equity, real estate and credit markets will continue in 2009 which could continue to impact net investment income and yields on other limited partnership interests and real estate joint ventures. The decrease in net investment income attributable to lower yields was partially offset by increased net investment income attributable to an increase in average invested assets on an amortized cost basis, primarily within short-term investments, mortgage loans, other limited partnership interests, and real estate joint ventures.

*Interest Margin*

Interest margin, which represents the difference between interest earned and interest credited to policyholder account balances decreased in the Individual segment for the year ended December 31, 2008 as compared to the prior year. The decrease in interest margin within the Individual segment was primarily attributable to a decline in net investment income due to lower returns on other limited partnership interests, real estate joint ventures, other invested assets including derivatives, and short term investments, all of which were partially offset by higher securities lending results. Interest margins decreased in the retirement & savings and non-medical health & other businesses, but increased within the group life business, all within the Institutional segment. Interest earned approximates net investment income on investable assets attributed to the segment with minor adjustments related to the consolidation of certain separate accounts and other minor non-policyholder elements. Interest credited is the amount attributed to insurance products, recorded in policyholder benefits and claims, and the amount credited to policyholder account balances for investment-type products, recorded in interest credited to policyholder account balances. Interest credited on insurance products reflects the current period impact of the interest rate assumptions established at issuance or acquisition. Interest credited to policyholder account balances is subject to contractual terms, including some minimum guarantees. This tends to move gradually over time to reflect market interest rate movements and may reflect actions by management to respond to competitive pressures and, therefore, generally does not introduce volatility in expense.

*Net Investment Gains (Losses)*

Net investment losses decreased by \$2,390 million to a gain of \$1,812 million for the year ended December 31, 2008 from a loss of \$578 million for the comparable 2007 period. The decrease in net investment losses is due to an increase in gains on derivatives partially offset by losses primarily on fixed maturity and equity securities. Derivative gains were driven by gains on freestanding derivatives that were partially offset by losses on embedded derivatives primarily associated with variable annuity riders. Gains on freestanding derivatives increased by \$6,499 million and were primarily driven by: i) gains on certain interest rate swaps, floors, and swaptions which were economic hedges of certain investment assets and liabilities, ii) gains from foreign currency derivatives primarily due to the U.S. dollar strengthening as well as, iii) gains primarily from equity options, financial futures and interest rate swaps hedging the embedded derivatives. The gains on these equity options, financial futures, and interest rate swaps substantially offset the change in the underlying embedded derivative liability that is hedged by these derivatives. Losses on the embedded derivatives increased by \$2,329 million and were driven by declining interest rates and poor equity market performance throughout the year. These embedded derivative losses include a \$2,994 million gain resulting from the effect of the widening of the Company's own credit spread which is required to be used in the valuation of these

variable annuity rider embedded derivatives under SFAS 157 which became effective January 1, 2008. The remaining change in net investment losses of \$1,780 million is principally attributable to an increase in losses on fixed maturity and equity securities, and, to a lesser degree, an increase in losses on mortgage and consumer loans and other limited partnership interests offset by an increase in foreign currency transaction gains. The increase in losses on fixed maturity and equity securities is primarily attributable to

**Table of Contents**

an increase in impairments associated with financial services industry holdings which experienced losses as a result of bankruptcies, FDIC receivership, and federal government assisted capital infusion transactions in the third and fourth quarters of 2008. Losses on fixed maturity and equity securities were also driven by an increase in credit related impairments on communication and consumer sector security holdings, losses on asset-backed securities as well as an increase in losses on fixed maturity security holdings where the Company either lacked the intent to hold, or due to extensive credit widening, the Company was uncertain of its intent to hold these fixed maturity securities for a period of time sufficient to allow recovery of the market value decline.

*Underwriting*

Underwriting results are generally the difference between the portion of premium and fee income intended to cover mortality, morbidity or other insurance costs, less claims incurred, and the change in insurance-related liabilities. Underwriting results are significantly influenced by mortality, morbidity or other insurance-related experience trends, as well as the reinsurance activity related to certain blocks of business. Consequently, results can fluctuate from year to year. Underwriting results, including catastrophes, in the Auto & Home segment were unfavorable for the year ended December 31, 2008, as the combined ratio, including catastrophes, increased to 91.2% from 88.4% for the year ended December 31, 2007. Underwriting results, excluding catastrophes, in the Auto & Home segment were favorable for the year ended December 31, 2008, as the combined ratio, excluding catastrophes, decreased to 83.1% from 86.3% for the year ended December 31, 2007. Underwriting results were less favorable in the non-medical health & other, retirement & savings and group life businesses in the Institutional segment. Underwriting results were unfavorable in the life products in the Individual segment.

*Other Expenses*

Other expenses increased by \$1,495 million, or 14%, to \$11,924 million for the year ended December 31, 2008 from \$10,429 million for the comparable 2007 period.

The following table provides the change from the prior year in other expenses by segment:

	<b>\$ Change (In millions)</b>
Institutional	\$ (31)
Individual	1,140
International	(78)
Auto & Home	(25)
Corporate & Other	489
Total change	\$ 1,495

The Institutional segment's decrease in other expenses was principally due to a decrease in DAC amortization primarily due to a charge associated with the impact of DAC and VOBA amortization from the implementation of SOP 05-1 in the prior year and a decrease mainly due to the impact of amortization refinements in the current year. This decrease was offset by increases in non-deferrable volume-related expenses and corporate support expenses. Also offsetting this decrease was the impact of revisions to certain pension and postretirement liabilities in the current year.

The Individual segment's increase in other expenses included higher DAC amortization primarily related to lower expected future gross profits due to separate account balance decreases resulting from recent market declines, higher net investment gains primarily due to net derivative gains and the reduction in expected cumulative earnings of the closed block partially offset by a reduction in actual earnings of the closed block and changes in assumptions used to estimate future gross profits and margins. There was an additional increase due to the impact of revisions to certain pension and postretirement liabilities in the current year. The increases in other expenses were offset by a decrease in nondeferrable volume-related expenses and by the write-off of a receivable from a joint-venture partner in the prior year.

**Table of Contents**

The International segment's decrease in other expenses was driven mainly by Argentina's prior year pension liability and the favorable impact of foreign currency exchange rates. The decrease in Argentina's other expenses was primarily due to the establishment in the prior year of a liability for pension servicing obligations due to pension reform, the elimination of the liability for pension servicing obligations and the elimination of DAC for the pension business in the current year as a result of the nationalization of the pension system, as well as the elimination of contingent liabilities for certain cases due to recent court decisions related to the pesification of insurance contracts by the government in 2002. This decrease was offset primarily by an increase in other expenses in South Korea, the United Kingdom, and other countries. South Korea's other expenses increased primarily due to an increase in DAC amortization related to market performance, as well as higher spending on advertising and marketing, offset by a refinement in DAC capitalization. The United Kingdom's other expenses increased due to business growth as well as lower DAC amortization in the prior year resulting from calculation refinements partially offset by foreign currency transaction gains. Other expenses increased in India, Chile and Mexico primarily due to growth initiatives. Contributions from the other countries accounted for the remainder of the change in other expenses.

The Auto & Home segment's decrease in other expenses was principally as a result of lower commissions, decrease in surveys and underwriting reports and other sales-related expenses, partially offset by an unfavorable change in DAC capitalization, net of amortization.

The increase in other expenses in Corporate & Other was primarily due to higher MetLife Bank costs, higher post-employment related costs in the current period associated with the implementation of an enterprise-wide cost reduction and revenue enhancement initiative, higher corporate support expenses including incentive compensation, rent, advertising and information technology costs. Corporate expenses also increased from lease impairments for Company use space that is currently vacant and higher costs from MetLife Foundation contributions, partially offset by a reduction in deferred compensation expenses. Interest expense was higher due to issuances of junior subordinated debt in December 2007 and April 2008 and collateral financing arrangements in May 2007 and December 2007, partially offset by rate reductions on variable rate collateral financing arrangements in 2008, the prepayment of shares subject to mandatory redemption in October 2007 and the reduction of commercial paper outstanding. Higher legal costs were principally driven by costs associated with the commutation of three asbestos-related excess insurance policies and decreases in prior year legal liabilities partially offset by current year decreases resulting from the resolution of certain matters. These increases were partially offset by a reduction in decreases in interest credited on bankholder deposits and interest on uncertain tax positions.

***Net Income***

Income tax expense for the year ended December 31, 2008 was \$1,580 million, or 31% of income from continuing operations before provision for income tax, versus \$1,660 million, or 29% of such income, for the comparable 2007 period. The 2008 and 2007 effective tax rates differ from the corporate tax rate of 35% primarily due to the impact of non-taxable investment income and tax credits for investments in low income housing. In addition, the decrease in the effective tax rate is primarily attributable to changes in the ratio of permanent differences to income before income taxes.

Income (loss) from discontinued operations, net of income tax, decreased by \$516 million to a loss of \$301 million for the year ended December 31, 2008 from income of \$215 million for the comparable 2007 period. The decrease was primarily the result of the split-off of substantially all of the Company's interest in RGA in September 2008 whereby stockholders of the Company were offered the ability to exchange their MetLife shares for shares of RGA Class B common stock. This resulted in a loss on disposal of discontinued operations of \$458 million, net of income tax. Income from discontinued operations related to RGA's operations also decreased by \$54 million, net of income tax, for the year ended December 31, 2008. During the fourth quarter of 2008, the Holding Company entered into an agreement to sell its wholly-owned subsidiary, Cova, which resulted in a gain on disposal of discontinued operations

of \$37 million, net of income tax. Income from discontinued operations related to Cova also decreased by \$14 million, net of income tax, for the year ended December 31, 2008. As compared to the prior year, there was a reduction in income from discontinued operations of \$15 million related to the sale of SSRM and of \$5 million related to the sale of MetLife Australia's annuities and pension businesses to a third party. There was also a decrease in income from discontinued real estate operations of \$7 million.



**Table of Contents*****Year Ended December 31, 2007 compared with the Year Ended December 31, 2006 The Company******Income from Continuing Operations***

Income from continuing operations increased by \$1,192 million, or 41%, to \$4,102 million for the year ended December 31, 2007 from \$2,910 million for the comparable 2006 period.

The following table provides the 2007 change in income from continuing operations by segment:

	<b>\$ Change (In millions)</b>	<b>% of Total \$ Change</b>
Institutional	\$ 317	26%
Individual	99	8
International	472	40
Auto & Home	20	2
Corporate & Other	284	24
Total change, net of income tax	\$ 1,192	100%

The Institutional segment's income from continuing operations increased primarily due to an increase in interest margins, an increase in underwriting results, lower net investment losses and the impact of revisions to certain expenses in both periods, partially offset by higher expenses due to an increase in non-deferrable volume-related and corporate support expenses and an increase in DAC amortization resulting from the implementation of SOP 05-1 in 2007.

The Individual segment's income from continuing operations increased primarily due to a decrease in net investment losses, higher fee income from separate account products, higher net investment income on blocks of business not driven by interest margins and an increase in interest margins, partially offset by higher DAC amortization, unfavorable underwriting results in life products, higher general expenses, the impact of revisions to certain liabilities in both years, the write-off of a receivable in 2007, an increase in the closed block-related policyholder dividend obligation, higher annuity benefits, increase in policyholder dividends, and an increase in interest credited to policyholder account balances.

The increase in the International segment's income from continuing operations was primarily attributable to the following factors:

An increase in Argentina's income from continuing operations primarily due to a net reduction of liabilities resulting from pension reform, a reduction in claim liabilities resulting from experience reviews in both 2007 and 2006 years, higher premiums resulting from higher pension contributions attributable to higher participant salaries, higher net investment income resulting from capital contributions in 2006, and a smaller increase in market indexed policyholder liabilities without a corresponding decrease in net investment income, partially offset by the reduction of cost of insurance fees as a result of the new pension system reform regulation, an increase in retention incentives related to pension reform, as well as lower trading portfolio income. Argentina also benefited, in both the current and prior years, from the utilization of tax loss carryforwards against which valuation allowances had been previously established.

Mexico's income from continuing operations increased primarily due to a decrease in certain policyholder liabilities caused by a decrease in the unrealized investment results on invested assets supporting those liabilities relative to 2006, the favorable impact of experience refunds during the first quarter of 2007, a reduction in claim liabilities resulting from experience reviews and the adverse impact in 2006 of an adjustment for experience refunds in its institutional business, a year over year decrease in DAC amortization resulting from management's update of assumptions used to determine estimated gross profits in both 2006 and 2007, a decrease in liabilities based on a review of outstanding remittances, and growth in its institutional and universal life businesses. These increases in Mexico's income from continuing operations were partially offset by lower fees resulting from management's update of assumptions used to determine estimated gross profits, the favorable impact in 2006 associated with a large group policy that was not renewed by the policyholder, a decrease in various one-time revenue items,

**Table of Contents**

lower investment yields, the favorable impact in 2006 of liabilities related to employment matters that were reduced, and the benefit 2006 from the elimination of