METLIFE INC
Form ARS
March 25, 2014
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Chairman s Letter

To my fellow shareholders:

When I became CEO in May of 2011, my mandate was clear: Improve the profitability and risk profile of the business. MetLife was the largest life insurer in the United States with a great brand and a nearly 145-year history of keeping its promises to policyholders, but we had taken on too much risk in certain parts of our business and our profitability was in the middle of the pack relative to industry peers.

The first order of business for the executive group in 2011 was to develop a strategy to achieve our goal. It is not easy to turn a ship as large as MetLife, especially in an industry where profits emerge slowly over time. The strategy we launched in 2012 was not a one- or two-year strategy. It was a five-year strategy to raise our return on equity, reduce our cost of equity, and return capital to shareholders.

Even though we have faced both economic and regulatory headwinds along the way, I am pleased to report that we are ahead of schedule on our plan to increase the profitability of MetLife s business while also decreasing its level of risk.

A Very Good Year

Our progress was clearly evident in 2013. Operating earnings increased 11% over the prior year, exceeding our plan.[1] Premiums, fees and other revenues increased 2% on a reported basis and 5% on a constant currency basis solid top-line growth in light of our efforts to improve MetLife s risk profile. And most important, operating return on equity in 2013 came in at 12%, hitting the low end of our 2016 target range three years ahead of schedule.

The four cornerstones of MetLife s strategy have held constant: Refocus the U.S. Business; Grow Emerging Markets; Build a Global Employee Benefits Business; and Drive Toward Customer Centricity and a Global Brand. We have made significant progress on implementing the strategy over the past year:

- We have refocused and de-risked the U.S. business while increasing operating earnings by more than 40% from 2011.

- We are well on our way toward our 2016 goal of having emerging markets contribute 20% of MetLife s operating earnings and believe the high-growth, high-return potential of these businesses is a key differentiator relative to peers.

- We are on track to achieve our target of $1 billion in gross expense saves while reinvesting $400 million in the business, much of it in technology to improve the customer experience an imperative to realize our goal of becoming a world-class organization.

One element of our 2013 performance requires a word of explanation. While operating earnings grew by 11%, operating earnings per share increased by 7%. Our growth on a per-share basis was dampened by the conversion of equity units issued in 2010 to fund the acquisition of Alico. Of the $3 billion in equity units issued to help fund the deal, $2 billion have now converted into common shares, with the final $1 billion scheduled to convert in 2014.

We originally anticipated repurchasing these shares as they converted, but we have grown more cautious due to uncertainty over the level of capital MetLife will be required to hold if we are named a non-bank systemically important financial institution (SIFI). Even though we are holding more capital, the strength of our franchise and strong execution of our strategy have lifted operating return on equity from 9.8% in 2010 to 12% in 2013.

[1] See Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP and Other Financial Disclosures for non-GAAP definitions and financial information.

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Running a Business for the Long Term

Like all publicly traded companies, we sometimes face pressure to manage the business for the short term. We do not believe this is in the best interest of MetLife s customers, employees or shareholders. In the life insurance business, we generally sell policies that represent long-term promises to our customers. An excessive near-term focus could lead us to take actions contrary to the long-term health of the business. Our decision to replace operating earnings per share guidance for 2014 with a more detailed multi-year outlook for investors should be viewed in this light (see sidebar).

More on Our Guidance Decision

After careful study and deliberation, we determined that operating EPS guidance no longer makes sense for MetLife. Others in the financial services industry agree, as half of our North American peers, most of our global peers, and all of the largest U.S. banks do not provide operating earnings guidance. In December 2013, we provided an outlook for operating earnings over the next one-to-three-year period as well as over the long term. This new approach to communicating with you reflects our internal emphasis on long-term strategic and financial goals and has shifted the external discussion to our business model, which is the real driver of shareholder value over time.

Our multi-year outlook provides significant new information to the market, including a more comprehensive discussion of key financial metrics and business drivers. In combination with our discussion of operating earnings sensitivities, the new information will contribute to a more informed view of MetLife s future prospects. We believe higher-quality information and more transparency should have a positive impact on our cost of equity capital and valuation multiples over time.

We have demonstrated that we will not make decisions that put the business at risk simply to boost earnings today. For example, we continue to intentionally limit our variable annuity sales despite a strong bull market in equities. We want to limit our exposure to any one risk factor even when current returns look attractive, and we must always be mindful of the size of our in-force business when establishing risk budgets.

Similarly, we have exited the market for universal life with secondary guarantees and announced the sale of our pension risk-transfer subsidiary in the United Kingdom because we were not confident these businesses could earn their cost of capital. As I said in my first letter to shareholders two years ago, MetLife will not pursue growth for growth s sake. Businesses that cannot earn their long-term cost of capital destroy shareholder value and do not belong in our portfolio.

Even our decision to refrain from more aggressive capital management should be viewed from a longer-term perspective. This decision has probably impacted our operating return on equity by 100 basis points over the near term, but I believe it was the correct course of action given the risk of an adverse regulatory outcome.

Running a business this way takes patience and a recognition that what managers choose not to do is often just as important as what they choose to do. Waiting for the right moment and only then acting with conviction is a key ingredient of success over time. This was true pre-crisis when MetLife s decision to pass on aggressive M&A deals helped position us to buy Alico from AIG in 2010. And it is true today, as our patience for the right opportunity allowed us to pay $2 billion in cash for ProVida, the largest private pension fund administrator in Chile.

We closed the ProVida deal on October 1, 2013, at a compelling valuation of 10 times projected earnings. ProVida is a great strategic fit and should increase our emerging markets business from 14% of total operating earnings to approximately 17%, halfway toward our goal of 20%. Because it earns fees on salaries as opposed to assets under management, ProVida is not heavily dependent on the capital markets. This is exactly what we want: low capital intensity to help balance MetLife s risk profile and strong free cash flow to provide greater capital management flexibility in the future.

It is this approach to the business establishing a consistent pattern of sound financial decisions over many years that I believe charts the clearest path to shareholder value creation.

An Attractive Portfolio of Businesses

With upward moves in equity markets and interest rates, investors are starting to shift their focus from risk toward growth. We welcome this change in focus for two reasons. First, we thought the market was overly concerned in recent years with MetLife s balance sheet risk, which is why we worked diligently to illustrate our ability to manage downside scenarios. Second, we think we have a good story to tell on both our level of growth and quality of earnings going forward.

As MetLife s Chief Investment Officer from 2005 through April 2011, my goal was to maximize investment returns within well-defined risk limits. Achieving that goal required an attractive portfolio of securities. Now, as CEO, my job is to develop and manage an attractive portfolio of businesses.

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In November of 2011, roughly one year after we acquired Alico, we reorganized MetLife into three broad regions the Americas, Asia, and Europe, Middle East & Africa (EMEA). From a portfolio point of view, all three regions have different risk profiles, which aids diversification, and all three regions are expected to increase earnings over time. Combined with our strategy to shift the business mix from market-sensitive, capital-intensive products toward protection-oriented, capital-efficient products, we believe we are well positioned for profitable growth.

Our outlook for MetLife s biggest region, the Americas, is mid-single-digit operating earnings growth over the long term. While the United States is a mature life insurance market, we still see a number of attractive growth opportunities. We believe the voluntary and worksite businesses within Group, Voluntary & Worksite Benefits hold particularly strong promise, and we expect heightened demand for pension closeouts to fuel growth in Corporate Benefit Funding. Our Retail business is expected to grow more modestly but with a dramatically improved risk profile. In Latin America, we expect growth rates in the low teens. We have market-leading positions in Mexico and Chile and a growing presence in markets such as Brazil and Colombia. All of our markets in Latin America feature an attractive combination of relatively low insurance penetration rates and a growing middle class.

In Asia, we see long-term operating earnings growth in the high-single to low-double digits, with the upper end of the range dependent on our success in emerging markets. Today, our earnings are predominantly sourced from Japan. Although Japan is a mature market, our diverse distribution platform, enhanced customer centricity, and opportunities within risk and protection products should allow us to achieve a 5-to-7% top-line growth rate, faster than the low-single-digit growth rate for the overall market. Overall, we saw the Asia region deliver 12% growth in premiums, fees and other revenues last year on a constant currency basis. Looking ahead, we see Southeast Asian markets contributing to our growth story. In 2013, we expanded our footprint in the region by signing joint ventures with leading banks in Malaysia and Vietnam and establishing a representative office in Myanmar.

In EMEA, we see long-term operating earnings growth in the low teens. Key earnings contributors in the region include Poland and the Gulf States. With 30 markets overall, EMEA is well diversified not just from a product and distribution standpoint but also in terms of geopolitical risk. We believe that rigorous analysis combined with broad country diversification is the best way to manage political risk in emerging markets. What makes these markets so attractive is that the product mix generally has a more favorable risk-return profile than products sold in mature markets.

Focus on Cash

One of the tangible ways our strategy will demonstrate success is by generating an increasing amount of free cash flow.[2] We currently anticipate that the ratio of free cash flow to operating earnings will improve from approximately 35% today to a range of 45% to 55% during 2015-2016, assuming a reasonable regulatory environment and a gradual rise in interest rates.

One of the lessons from my career in private equity and fixed income is the importance of cash flow. In private equity, cash flow expectations drive the investment decision-making process, and success or failure often hinges on the accuracy of these forecasts. In fixed income, you learn quickly that companies service debt with cash flow, not GAAP earnings. For a life insurance company, free cash flow is meaningful not only because it determines what can be distributed to shareholders in the form of dividends and share repurchases, but also because it provides a reality check on the quality of operating earnings. Life insurance companies have complex financial statements that can lead to valuation discounts in the marketplace. We believe a higher ratio of free cash flow to operating earnings will improve our valuation over time.

No discussion of cash would be complete without some commentary on capital management. I know that a number of our shareholders are frustrated with our cautious approach to returning cash during this period of regulatory uncertainty. We share your frustration.

[2] Free cash flow is defined as cash generated by subsidiaries less expenses and other net flows at the holding company and potentially available for dividends, stock buybacks, debt reduction and M&A, subject to our target of maintaining an AA financial strength rating.

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If we are named a SIFI, we will be subject to enhanced prudential standards by the Federal Reserve. However, those standards have not yet been written, and the Fed maintains that its ability to tailor capital standards for insurers is limited by the Collins Amendment to the Dodd-Frank Act. It is taking much longer for clarity on the capital rules than anyone had anticipated, and in the meantime MetLife s capital continues to grow.

To be clear, MetLife is still taking capital actions. In the second quarter of 2013, we increased our common stock dividend by 49%. Our philosophy is that excess capital belongs to our shareholders. The challenge is to strike the right balance between adherence to our philosophy and recognition that required capital levels for MetLife are still unknown and might increase. Any capital actions we take in 2014 must reflect both of these realities.

Sound Regulation

To no one s surprise, the regulatory mantra in the post-financial-crisis world is more capital for financial institutions. However, sound regulation of life insurers must achieve two goals simultaneously: ensure that companies are adequately capitalized and preserve affordable products for consumers. Leaning too far in the direction of more capital will limit access to the kinds of financial protection that only life insurers can provide.

If federal capital rules for life insurers do not appropriately reflect the business model of insurance, we could be forced to raise prices to consumers or exit markets entirely. All regulatory decisions involve trade-offs, and regulators in Washington must recognize that imposing higher capital requirements on certain life insurance companies is not cost-free. The costs will be borne by consumers with an urgent need for financial protection and stable retirement income, especially at a time when government social safety nets are under increasing pressure.

Conclusion

Just as MetLife s achievements in 2012 raised the bar for our performance in 2013, once again your company delivered improved results and raised the bar for 2014 and beyond. I cannot promise that every year will be better than the last, but I *can* promise you that we are more focused than ever on growing operating earnings, improving free cash flow, and ensuring that we earn an appropriate risk-adjusted return on the capital you have invested in MetLife.

On behalf of the entire MetLife team, thank you for the continued trust you place in us to run your company.

Sincerely,

Steven A. Kandarian

Chairman of the Board, President and Chief Executive Officer

MetLife, Inc.

March 18, 2014

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As used in this Annual Report, MetLife, the Company, we, our and us refer to MetLife, Inc., a Delaware corporation incorporated in 1999, its subsidiaries and affiliates.

Note Regarding Forward-Looking Statements

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

Any or all forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the actual future results of MetLife, Inc., its subsidiaries and affiliates. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Risks, uncertainties, and other factors that might cause such differences include the risks, uncertainties and other factors identified in MetLife, Inc. s filings with the U.S. Securities and Exchange Commission (the SEC). These factors include: (1) difficult conditions in the global capital markets; (2) increased volatility and disruption of the capital and credit markets, which may affect our ability to meet liquidity needs and access capital, including through our credit facilities, generate fee income and market-related revenue and finance statutory reserve requirements and may require us to pledge collateral or make payments related to declines in value of specified assets, including assets supporting risks ceded to certain of our captive reinsurers or hedging arrangements associated with those risks; (3) exposure to financial and capital market risks, including as a result of the disruption in Europe; (4) impact of comprehensive financial services regulation reform on us, as a potential non-bank systemically important financial institution, or otherwise; (5) numerous rulemaking initiatives required or permitted by the Dodd-Frank Wall Street Reform and Consumer Protection Act which may impact how we conduct our business, including those compelling the liquidation of certain financial institutions; (6) regulatory, legislative or tax changes relating to our insurance, international, or other operations that may affect the cost of, or demand for, our products or services, or increase the cost or administrative burdens of providing benefits to employees; (7) adverse results or other consequences from litigation, arbitration or regulatory investigations; (8) potential liquidity and other risks resulting from our participation in a securities lending program and other transactions; (9) investment losses and defaults, and changes to investment valuations; (10) changes in assumptions related to investment valuations, deferred policy acquisition costs, deferred sales inducements, value of business acquired or goodwill; (11) impairments of goodwill and realized losses or market value impairments to illiquid assets; (12) defaults on our mortgage loans; (13) the defaults or deteriorating credit of other financial institutions that could adversely affect us; (14) economic, political, legal, currency and other risks relating to our international operations, including with respect to fluctuations of exchange rates; (15) downgrades in our claims paying ability, financial strength or credit ratings; (16) a deterioration in the experience of the closed block established in connection with the reorganization of Metropolitan Life Insurance Company; (17) availability and effectiveness of reinsurance or indemnification arrangements, as well as any default or failure of counterparties to perform; (18) differences between actual claims experience and underwriting and reserving assumptions; (19) ineffectiveness of risk management policies and procedures; (20) catastrophe losses; (21) increasing cost and limited market capacity for statutory life insurance reserve financings; (22) heightened competition, including with respect to pricing, entry of new competitors, consolidation of distributors, the development of new products by new and existing competitors, and for personnel; (23) exposure to losses related to variable annuity guarantee benefits, including from significant and sustained downturns or extreme volatility in equity markets, reduced interest rates, unanticipated policyholder behavior, mortality or longevity, and the adjustment for nonperformance risk; (24) our ability to address difficulties, unforeseen liabilities, asset impairments, or rating agency actions arising from business acquisitions, including our acquisition of American Life Insurance Company and Delaware American Life Insurance Company, and integrating and managing the growth of such acquired businesses, or arising from dispositions of businesses or legal entity reorganizations; (25) the dilutive impact on our stockholders resulting from the settlement of our outstanding common equity units; (26) regulatory and other restrictions affecting MetLife, Inc. s ability to pay dividends and repurchase common stock; (27) 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; (28) the possibility that MetLife, Inc. s Board of Directors may influence the outcome of stockholder votes through the voting provisions of the MetLife Policyholder Trust; (29) changes in accounting standards, practices and/or policies; (30) increased expenses relating to pension and postretirement benefit plans, as well as health care and other employee benefits; (31) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (32) inability to attract and retain sales representatives; (33) provisions of laws and our incorporation documents may delay, deter or prevent takeovers and corporate combinations involving MetLife; (34) the effects of business disruption or economic contraction due to disasters such as terrorist attacks, cyberattacks, other hostilities, or natural catastrophes, including any related impact on the value of our investment portfolio, our disaster recovery systems, cyber- or other information security systems and management continuity planning; (35) the effectiveness of our programs and practices in avoiding giving our associates incentives to take excessive risks; and (36) 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.

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Selected Financial Data

The following selected financial data has been derived from the Company s audited consolidated financial statements. The statement of operations data for the years ended December 31, 2013, 2012 and 2011, and the balance sheet data at December 31, 2013 and 2012 have been derived from the Company s audited consolidated financial statements included elsewhere herein (the Consolidated Financial Statements). The statement of operations data for the years ended December 31, 2010 and 2009, and the balance sheet data at December 31, 2011, 2010 and 2009 have been derived from the Company s audited consolidated financial statements not included herein. The selected financial data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and related notes included elsewhere herein.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(In millions, except per share data)				
Statement of Operations Data (1)					
Revenues					
Premiums	$ 37,674	$ 37,975	$ 36,361	$ 27,071	$ 26,157
Universal life and investment-type product policy fees	9,451	8,556	7,806	6,028	5,197
Net investment income	22,232	21,984	19,585	17,493	14,726
Other revenues	1,920	1,906	2,532	2,328	2,329
Net investment gains (losses)	161	(352)	(867)	(408)	(2,901)
Net derivative gains (losses)	(3,239)	(1,919)	4,824	(265)	(4,866)
Total revenues	68,199	68,150	70,241	52,247	40,642
Expenses					
Policyholder benefits and claims	38,107	37,987	35,471	29,187	28,005
Interest credited to policyholder account balances	8,179	7,729	5,603	4,919	4,845
Policyholder dividends	1,259	1,369	1,446	1,485	1,649
Goodwill impairment		1,868			
Other expenses	16,602	17,755	18,537	12,927	10,761
Total expenses	64,147	66,708	61,057	48,518	45,260
Income (loss) from continuing operations before provision for income tax	4,052	1,442	9,184	3,729	(4,618)
Provision for income tax expense (benefit)	661	128	2,793	1,110	(2,107)
Income (loss) from continuing operations, net of income tax	3,391	1,314	6,391	2,619	(2,511)
Income (loss) from discontinued operations, net of income tax	2	48	24	44	64
Net income (loss)	3,393	1,362	6,415	2,663	(2,447)
Less: Net income (loss) attributable to noncontrolling interests	25	38	(8)	(4)	(36)
Net income (loss) attributable to MetLife, Inc.	3,368	1,324	6,423	2,667	(2,411)
Less: Preferred stock dividends	122	122	122	122	122
Preferred stock redemption premium			146		
Net income (loss) available to MetLife, Inc. s common shareholders	$ 3,246	$ 1,202	$ 6,155	$ 2,545	$ (2,533)
EPS Data (1), (2)					
Income (loss) from continuing operations available to MetLife, Inc. s common shareholders per common share:					
Basic	$ 2.94	$ 1.08	$ 5.79	$ 2.83	$ (3.17)
Diluted	$ 2.91	$ 1.08	$ 5.74	$ 2.81	$ (3.17)
Income (loss) from discontinued operations per common share:					
Basic	$	$ 0.04	$ 0.02	$ 0.05	$ 0.08
Diluted	$	$ 0.04	$ 0.02	$ 0.05	$ 0.08
Net income (loss) available to MetLife, Inc. s common shareholders per common share:					
Basic	$ 2.94	$ 1.12	$ 5.81	$ 2.88	$ (3.09)
Diluted	$ 2.91	$ 1.12	$ 5.76	$ 2.86	$ (3.09)

Cash dividends declared per common share	$ 1.01	$ 0.74	$ 0.74	$ 0.74	$ 0.74

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	December 31, 2013	2012	2011	2010	2009
			(In millions)		
Balance Sheet Data (1)					
Separate account assets (3)	$ 317,201	$ 235,393	$ 203,023	$ 183,138	$ 148,854
Total assets (3)	$ 885,296	$ 836,781	$ 796,226	$ 728,249	$ 537,531
Policyholder liabilities and other policy-related balances (3), (4)	$ 418,487	$ 438,191	$ 421,267	$ 399,135	$ 281,495
Short-term debt	$ 175	$ 100	$ 686	$ 306	$ 912
Long-term debt (3)	$ 18,653	$ 19,062	$ 23,692	$ 27,586	$ 13,220
Collateral financing arrangements	$ 4,196	$ 4,196	$ 4,647	$ 5,297	$ 5,297
Junior subordinated debt securities	$ 3,193	$ 3,192	$ 3,192	$ 3,191	$ 3,191
Separate account liabilities (3)	$ 317,201	$ 235,393	$ 203,023	$ 183,138	$ 148,854
Accumulated other comprehensive income (loss)	$ 5,104	$ 11,397	$ 6,083	$ 1,145	$ (3,049)
Total MetLife, Inc. s stockholders equity	$ 61,553	$ 64,453	$ 57,519	$ 46,853	$ 31,336
Noncontrolling interests	$ 543	$ 384	$ 370	$ 365	$ 371

	Years Ended December 31, 2013	2012	2011	2010	2009
Other Data (1), (5)					
Return on MetLife, Inc. s common equity	5.4%	2.0%	12.2%	6.9%	(9.9)%
Return on MetLife, Inc. s common equity, excluding accumulated other comprehensive income (loss)	6.2%	2.4%	13.2%	7.0%	(7.3)%

(1) On November 1, 2010, MetLife, Inc. acquired ALICO. Results of such acquisition are reflected in the selected financial data since the acquisition date. See Note 3 of the Notes to the Consolidated Financial Statements.

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

(3) Amounts relating to variable interest entities are as follows at:

	December 31, 2013	2012	2011
		(In millions)	
General account assets	$ 7,525	$ 6,692	$ 7,273
Separate account assets	$ 1,033	$	$
Policyholder liabilities and other policy-related balances	$ 695	$	$
Long-term debt	$ 1,868	$ 2,527	$ 3,068
Separate account liabilities	$ 1,033	$	$

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

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

Business

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

MetLife is organized into six segments, reflecting three broad geographic regions: Retail; Group, Voluntary & Worksite Benefits; Corporate Benefit Funding; and Latin America (collectively, the Americas); Asia; and Europe, the Middle East and Africa (EMEA). In addition, the Company reports certain of its results of operations in Corporate & Other, which includes MetLife Home Loans LLC (MLHL), the surviving, non-bank entity of the merger of MetLife Bank, National Association (MetLife Bank) with and into MLHL. See Note 2 of the Notes to the Consolidated Financial Statements for additional information about the Company s segments. See Note 3 of the Notes to the Consolidated Financial Statements for information regarding MetLife Bank s exit from substantially all of its businesses (the MetLife Bank Divestiture) and other business activities.

On October 1, 2013, MetLife, Inc. completed its previously announced acquisition of Administradora de Fondos de Pensiones Provida S.A. (ProVida), the largest private pension fund administrator in Chile based on assets under management and number of pension fund contributors. The acquisition of ProVida supports the Company s growth strategy in emerging markets and further strengthens the Company s overall position in Chile. See Note 3 of the Notes to the Consolidated Financial Statements for further information on the acquisition of ProVida.

In the second quarter of 2013, MetLife, Inc. announced its plans to merge three U.S.-based life insurance companies and an offshore reinsurance subsidiary to create one larger U.S.-based and U.S.-regulated life insurance company (the Mergers). The companies to be merged are MetLife Insurance Company of Connecticut (MICC), MetLife Investors USA Insurance Company and MetLife Investors Insurance Company, each a U.S. insurance company that issues variable annuity products in addition to other products, and Exeter Reassurance Company, Ltd., a reinsurance company that mainly reinsures guarantees associated with variable annuity products. MICC, which is expected to be renamed and domiciled in Delaware, will be

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the surviving entity. The Mergers are expected to occur in the fourth quarter of 2014, subject to regulatory approvals. See Management s Discussion and Analysis of Financial Condition and Results of Operations Executive Summary for further information on the Mergers.

Management continues to evaluate the Company s segment performance and allocated resources and may adjust related measurements in the future to better reflect segment profitability. For example, starting in the first quarter of 2013, the Latin America segment includes U.S. sponsored direct business, comprised of group and individual products sold through sponsoring organizations and affinity groups. Products included are life, dental, group short- and long-term disability, accidental death & dismemberment (AD&D) coverages, property & casualty and other accident and health coverages, as well as non-insurance products such as identity protection. See Note 2 of the Notes to the Consolidated Financial Statements for further information on the Company s segments and Corporate & Other.

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

Certain international subsidiaries have a fiscal year-end of November 30. Accordingly, the Company s consolidated financial statements reflect the assets and liabilities of such subsidiaries as of November 30, 2013 and 2012 and the operating results of such subsidiaries for the years ended November 30, 2013, 2012 and 2011.

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

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

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

In Asia, Latin America, and EMEA, we market our products and services through a multi-distribution strategy which varies by geographic region and stage of market development. The various distribution channels include: career agency, bancassurance, direct marketing, brokerage, other third-party distribution, and e-commerce. In developing countries, the career agency channel covers the needs of the emerging middle class with primarily traditional products (e.g., whole life, term, endowment and accident & health). In more developed and mature markets, career agents, while continuing to serve their existing customers to keep pace with their developing financial needs, also target upper middle class and mass affluent customer bases with a more sophisticated product set including more investment-sensitive products, such as universal life insurance, unit-linked life insurance, mutual funds and single premium deposit insurance. In the bancassurance channel, we leverage partnerships that span all regions and have developed extensive and far reaching capabilities in all regions. Our direct marketing operations, the largest of which is in Japan, deploy both broadcast marketing approaches (e.g. direct response TV, web-based lead generation) and traditional direct marketing techniques such as inbound and outbound telemarketing.

Revenues derived from any customer did not exceed 10% of consolidated premiums, universal life and investment-type product policy fees and other revenues for the years ended December 31, 2013, 2012 and 2011. Financial information, including revenues, expenses, operating earnings, and total assets by segment, as well as premiums, universal life and investment-type product policy fees and other revenues by major product groups, is provided in Note 2 of the Notes to the Consolidated Financial Statements. Operating revenues and operating earnings are performance measures that are not based on accounting principles generally accepted in the United States of America (GAAP). See Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP and Other Financial Disclosures for definitions of such measures.

MetLife s operations in the United States and in other jurisdictions are subject to regulation. Each of MetLife s insurance subsidiaries operating in the United States is licensed and regulated in each U.S. jurisdiction where it conducts insurance business. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects and business conduct of insurers. MetLife, Inc. and its U.S. insurance subsidiaries are subject to regulation under the insurance holding company laws of various U.S. jurisdictions. The insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require a controlled insurance company (insurers that are subsidiaries of insurance holding companies) to register with state regulatory authorities and to file with those authorities certain reports, including information concerning its capital structure, ownership, financial condition, certain intercompany transactions and general business operations. State insurance statutes also typically place restrictions and limitations on the amount of dividends or other distributions payable by insurance company subsidiaries to their parent companies, as well as on transactions between an insurer and its affiliates. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources MetLife, Inc. Liquidity and Capital Sources Dividends from Subsidiaries.

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

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In connection with the MetLife Bank Divestiture referred to above, on January 11, 2013, MetLife Bank and MetLife, Inc. completed the sale of the depository business of MetLife Bank to GE Capital Retail Bank. Subsequently, MetLife Bank terminated its deposit insurance and MetLife, Inc. deregistered as a bank holding company. Additionally, in August 2013, MetLife Bank merged with and into MLHL, a non-bank affiliate. As a result, MetLife is no longer regulated as a bank holding company or subject to enhanced supervision and prudential standards as a bank holding company with assets of $50 billion or more. However, if, in the future, MetLife, Inc. is designated by the FSOC as a non-bank systemically important financial institution (non-bank SIFI), it could once again be subject to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve Board) and to enhanced supervision and prudential standards. See Business Enhanced Prudential Standards for Non-Bank SIFIs in MetLife s Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K).

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Management s Discussion and Analysis of Financial Condition and Results of Operations

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Forward-Looking Statements and Other Financial Information

For purposes of this discussion, MetLife, the Company, we, our and us refer to MetLife, Inc., a Delaware corporation incorporated in 1999, its subsidiaries affiliates. Following this summary is a discussion addressing the consolidated results of operations and financial condition of the Company for the periods indicated. This discussion should be read in conjunction with Note Regarding Forward-Looking Statements, Selected Financial Data, Quantitative and Qualitative Disclosures About Market Risk and the Company s consolidated financial statements included elsewhere herein, and Risk Factors included in the 2013 Form 10-K.

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 of similar meaning, or are tied to future periods, in connecti discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results. Any or all forward-looking statements may turn out to be wrong. Actual results could differ materially from those expressed or implied in the forward-looking statements. See Note Regarding Forward-Looking Statements.

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

Executive Summary

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

MetLife is organized into six segments, reflecting three broad geographic regions: Retail; Group, Voluntary & Worksite Benefits; Corporate Benefit Funding; and Latin America (collectively, the Americas); Asia; and Europe, the Middle East and Africa (EMEA). In addition, the Company reports certain of its results of operations in Corporate & Other, which includes MetLife Home Loans LLC (MLHL), the surviving, non-bank entity of the merger of MetLife Bank, National Association (MetLife Bank) with and into MLHL. See Note 3 of the Notes to the Consolidated Financial Statements for information regarding MetLife Bank s exit from substantially all of its businesses (the MetLife Bank Divestiture) and other business activities. See Business in the 2013 Form 10-K for further information on the Company s segments and Corporate & Other.

On October 1, 2013, MetLife, Inc. completed its previously announced acquisition of Administradora de Fondos de Pensiones Provida S.A. (ProVida), the largest private pension fund administrator in Chile based on assets under management and number of pension fund contributors. The acquisition of ProVida supports the Company s growth strategy in emerging markets and further strengthens the Company s overall position in Chile. See Note 3 of the Notes to the Consolidated Financial Statements for further information on the acquisition of ProVida.

In the second quarter of 2013, MetLife, Inc. announced its plans to merge three U.S.-based life insurance companies and an offshore reinsurance subsidiary to create one larger U.S.-based and U.S.-regulated life insurance company (the Mergers). The companies to be merged are MetLife Insurance Company of Connecticut (MICC), MetLife Investors USA Insurance Company (MLI-USA) and MetLife Investors Insurance Company (MLIIC), each a U.S. insurance company that issues variable annuity products in addition to other products, and Exeter Reassurance Company, Ltd. (Exeter), a reinsurance company that mainly reinsures guarantees associated with variable annuity products. MICC, which is expected to be renamed and domiciled in Delaware, will be the surviving entity. Exeter, formerly a Cayman Islands company, was re-domesticated to Delaware in October 2013, resulting in a redistribution of assets held in trust and the cancellation of outstanding letters of credit which were no longer required. See Liquidity and Capital Resources The Company Liquidity and Capital Sources Credit and Committed Facilities. Effective January 1, 2014, following receipt of New York State Department of Financial Services (Department of Financial Services) approval, MICC withdrew its license to issue insurance policies and annuity contracts in New York. Also effective January 1, 2014, MICC reinsured with an affiliate all existing New York insurance policies and annuity contracts that include a separate account feature; on December 31, 2013, MICC deposited investments with an estimated fair market value of $6.3 billion into a custodial account, which became restricted on January 1, 2014, to secure MICC s remaining New York policyholder liabilities not covered by such reinsurance. The Mergers are expected to occur in the fourth quarter of 2014, subject to regulatory approvals.

The Mergers (i) may mitigate to some degree the impact of any restrictions on the use of captive reinsurers that could be adopted by the Department of Financial Services or other state insurance regulators by reducing our exposure to and use of captive reinsurers; (ii) will alleviate the need to use holding company cash to fund derivative collateral requirements; (iii) will increase transparency relative to our capital allocation and variable annuity risk management; and (iv) may impact the aggregate amount of dividends permitted to be paid without insurance regulatory approval. See Business U.S. Regulation Holding Company Regulation Insurance Regulatory Examinations in the 2013 Form 10-K and Liquidity and Capital Resources MetLife, Inc. Liquidity and Capital Sources Dividends from Subsidiaries and Note 8 of the Notes to the Consolidated Financial Statements elsewhere herein for further information on the impact of these Mergers and see Liquidity and Capital Resources The Company Capital Affiliated Captive Reinsurance Transactions for information on our use of captive reinsurers. See also

Risk Factors Acquisition-Related Risks We Could Face Difficulties, Unforeseen Liabilities, Asset Impairments or Rating Actions Arising from Business Acquisitions or Integrating and Managing Growth of Such Businesses, Dispositions of Businesses, or Legal Entity Reorganizations in the 2013 Form 10-K for information regarding the potential impact on our operations if the Mergers or related regulatory approvals are prevented or delayed.

Management continues to evaluate the Company s segment performance and allocated resources and may adjust related measurements in the future to better reflect segment profitability. For example, starting in the first quarter of 2013, the Latin America segment includes U.S. sponsored direct business, comprised of group and individual products sold through sponsoring organizations and affinity groups. Products included are life, dental, group short- and long-term disability, accidental death & dismemberment (AD&D) coverages, property & casualty and other accident and health coverages, as well as non-insurance products such as identity protection. See Note 2 of the Notes to the Consolidated Financial Statements for further information on the Company s segments and Corporate & Other.

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

Certain international subsidiaries have a fiscal year-end of November 30. Accordingly, the Company s consolidated financial statements reflect the assets and liabilities of such subsidiaries as of November 30, 2013 and 2012 and the operating results of such subsidiaries for the years ended November 30, 2013, 2012 and 2011.

We continue to experience an increase in sales in several of our businesses; however, global economic conditions continue to negatively impact the demand for certain of our products. Also, as a result of our continued focus on pricing discipline and risk management in this challenging economic environment, we adjusted certain product features of our variable annuity products which resulted in a decrease in sales of such products. An increase in average value of our separate accounts from both favorable equity market performance and positive net flows produced higher asset-based fee revenue. The sustained low interest rate environment reduced investment yields, but also reduced crediting rates. In addition, changes in long-term interest rates and foreign currency exchange rates resulted in an increase in derivative losses. Finally, the prior period included a goodwill impairment charge.

	Years Ended December 31,		
	2013	2012	2011
		(In millions)	
Income (loss) from continuing operations, net of income tax	$ 3,391	$ 1,314	$ 6,391
Less: Net investment gains (losses)	161	(352)	(867)
Less: Net derivative gains (losses)	(3,239)	(1,919)	4,824
Less: Goodwill impairment		(1,868)	
Less: Other adjustments to continuing operations (1)	(1,638)	(2,550)	(1,451)
Less: Provision for income tax (expense) benefit	1,698	2,195	(914)
Operating earnings	6,409	5,808	4,799
Less: Preferred stock dividends	122	122	122
Operating earnings available to common shareholders	$ 6,287	$ 5,686	$ 4,677

(1) See definitions of operating revenues and operating expenses under Non-GAAP and Other Financial Disclosures for the components of such adjustments.

Year Ended December 31, 2013 Compared with the Year Ended December 31, 2012

During the year ended December 31, 2013, income (loss) from continuing operations, net of income tax, increased $2.1 billion over 2012. The change was predominantly due to a non-cash charge in 2012 of $1.9 billion ($1.6 billion, net of income tax) for goodwill impairment associated with our U.S. Retail annuities business. In addition, operating earnings available to common shareholders increased by $601 million and net investment gains (losses) increased by $513 million ($333 million, net of income tax) primarily due to an increase in net gains on sales of fixed maturity securities in 2013 coupled with a decrease in impairments of fixed maturity securities. These increases were partially offset by an unfavorable change in net derivatives gains (losses) of $1.3 billion ($858 million, net of income tax) driven by changes in interest rates and foreign currency exchange rates. Also included in income (loss) from continuing operations, net of income tax, were the results of the discontinued operations and other businesses that have been or will be sold or exited by MetLife, Inc. (Divested Businesses), which improved $459 million ($294 million, net of income tax) over 2012.

The increase in operating earnings available to common shareholders was primarily driven by higher asset-based fee revenues due to growth in our average separate account assets and an increase in net investment income due to growth in our investment portfolio. The sustained low interest rate environment negatively impacted investment yields; however, it also resulted in lower crediting rates. These favorable results were partially offset by an increase in expenses. During the fourth quarter of 2013, we increased our litigation reserve related to asbestos by $101 million. During 2013, we also increased our other litigation reserves by $46 million. The fourth quarter 2013 acquisition of ProVida in Chile increased operating earnings available to common shareholders by $48 million, net of income tax. In addition, results for 2012 included a $52 million, net of income tax, charge representing a multi-state examination payment related to unclaimed property and our use of the U.S. Social Security Administration s Death Master File to identify potential life insurance claims, as well as the acceleration of benefit payments to policyholders under the settlements of such claims.

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

During the year ended December 31, 2012, income (loss) from continuing operations, net of income tax, decreased $5.1 billion from the year ended December 31, 2011. The change was predominantly due to a $6.7 billion ($4.4 billion, net of income tax), unfavorable change in net derivative gains (losses) primarily driven by changes in interest rates, the weakening of the U.S. dollar and Japanese yen, equity market movements, decreased volatility and the impact of a nonperformance risk adjustment. In addition, 2012 includes a $1.9 billion ($1.6 billion, net of income tax) non-cash charge for goodwill impairment associated with our U.S. Retail annuities business. Also, 2012 includes a $1.2 billion ($752 million, net of income tax) charge associated with the global review of assumptions related to deferred policy acquisition costs (DAC), reserves and certain intangibles, of which $526 million ($342 million, net of income tax) was reflected in net derivative gains (losses). Also included in income (loss) from continuing operations, net of income tax, were the unfavorable results of the Divested Businesses, which decreased $724 million ($476 million, net of income tax) from 2011. These declines were partially offset by a $1.0 billion, net of income tax, increase in operating earnings available to common shareholders.

The increase in operating earnings available to common shareholders was primarily driven by improved investment results and higher asset-based fee revenue as strong sales levels drove portfolio growth. In addition, the low interest rate environment resulted in lower average interest credited rates. Despite the impact of Superstorm Sandy, catastrophe losses were lower in 2012 as compared to the significant weather-related claims in 2011. In addition, 2011 included a $117 million, net of income tax, charge in connection with the Company s use of the U.S. Social Security Administration s Death Master File. Also, 2011 included $40 million, net of income tax, of expenses incurred related to a liquidation plan filed by the Department of

Financial Services for Executive Life Insurance Company of New York (ELNY). Results for 2012 include a $52 million, net of income tax, charge representing a multi-state examination payment related to unclaimed property and MetLife s use of the U.S. Social Security Administration s Death Master File to identify potential life insurance claims, as well as the expected acceleration of benefit payments to policyholders under the settlements. Also, 2012 includes a $50 million, net of income tax, impairment charge on an intangible asset related to a previously acquired dental business.

Consolidated Company Outlook

As part of an enterprise-wide strategic initiative, by 2016, we expect to increase our operating return on common equity, excluding accumulated other comprehensive income (AOCI), to the 12% to 14% range, driven by higher operating earnings. This target assumes that regulatory capital rules appropriately reflect the life insurance business model and that we have clarity on the rules in a reasonable time frame, allowing for meaningful share repurchases prior to 2016. If we are unable to engage in such repurchases, we expect the range of our operating return on common equity, excluding AOCI, to be 11% to 13%. Also, as part of this initiative, we will leverage our scale to improve the value we provide to customers and shareholders in order to achieve $1 billion in efficiencies, $600 million of which is expected to be related to net pre-tax expense savings, and $400 million of which we expect to be primarily reinvested in our technology, platforms and functionality to improve our current operations and develop new capabilities. We also continue to shift our product mix toward protection products and away from more capital-intensive products, in order to generate more predictable operating earnings and cash flows, and improve our risk profile and free cash flow.

We expect to achieve the 2016 target range on our operating return on common equity by primarily focusing on the following:

- Growth in premiums, fees and other revenues driven by:
  - Accelerated growth in Group, Voluntary & Worksite Benefits;
  - Increased fee revenue reflecting the benefit of higher equity markets on our separate account balances; and
  - Increases in our businesses outside of the U.S., notably accident & health, from continuing organic growth throughout our various geographic regions and leveraging of our multichannel distribution network.
- Expanding our presence in emerging markets, including potential merger and acquisition activity. We expect that by 2016, 20% or more of our operating earnings will come from emerging markets, with the acquisition of ProVida contributing to this increase.
- Focus on disciplined underwriting. We see no significant changes to the underlying trends that drive underwriting results; however, unanticipated catastrophes, similar to Superstorm Sandy, could result in a high volume of claims.
- Focus on expense management in the light of the low interest rate environment, and continued focus on expense control throughout the Company.
- Continued disciplined approach to investing and asset/liability management (ALM), through our enterprise risk and ALM governance process.

Impact of Superstorm Sandy

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

We did not incur any losses related to Superstorm Sandy in 2013, however, we may incur additional storm-related losses in future periods as claims are received from insureds and claims to reinsurers are processed. Reinsurance recoveries are dependent on the continued creditworthiness of the reinsurers, which may be affected by their other reinsured losses in connection with Superstorm Sandy and otherwise.

Industry Trends

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

Financial and Economic Environment

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility and disruptions in global capital markets, particular markets, or financial asset classes can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities are sensitive to changing market factors. Global market factors, including interest rates, credit spreads, equity prices, real estate markets, foreign currency exchange rates, consumer spending, business investment, government spending, the volatility and strength of the capital markets, deflation and inflation, all affect the business and economic environment and, ultimately, the amount and profitability of our business. Disruptions in one market or asset class can also spread to other markets or asset classes. Upheavals in the financial markets can also affect our business through their effects on general levels of economic activity, employment and customer behavior. While our diversified business mix and geographically diverse business operations partially mitigate these risks, correlation across regions, countries and global market factors may reduce the benefits of diversification. Financial markets have also been affected by concerns over U.S. fiscal and monetary policy, although recent signs of Congressional compromise, reflected in the passage of a two-year budget agreement in December 2013 and the approval on February 12, 2014 of a bill to raise the debt ceiling until March 2015, appear to have alleviated some of these concerns. However, unless long-term steps are taken to raise the debt ceiling and reduce the federal deficit, rating agencies have warned of the possibility of future downgrades of U.S. Treasury securities. These issues could, on their own, or combined with the possible slowing of the global economy generally, send the U.S. into a new recession, have severe repercussions to the U.S. and global credit and financial markets, further exacerbate concerns over sovereign debt of other countries and disrupt economic activity in the U.S. and elsewhere.

Concerns about the economic conditions, capital markets and the solvency of certain European Union (EU) member states, including Portugal, Ireland, Italy, Greece and Spain (Europe s perimeter region) and Cyprus, and of financial institutions that have significant direct or indirect exposure to debt issued by these countries, have been a cause of elevated levels of market volatility. However, after several tumultuous years, economic conditions in Europe s perimeter region seem to be stabilizing or improving, as evidenced by the stabilization of downward credit ratings momentum, particularly in Spain, Portugal and Ireland. This, combined with greater European Central Bank (ECB) support and improving macroeconomic conditions at the country level, has reduced the risk of default on the sovereign debt of Europe s perimeter region and Cyprus and the risk of possible withdrawal of one or more countries from the Euro zone. See Investments Current Environment for information regarding credit ratings downgrades, support programs for Europe s perimeter region and Cyprus and our exposure to obligations of European governments and private obligors.

The financial markets have also been affected by concerns that other EU member states could experience similar financial troubles, that some countries could default on their obligations, have to restructure their outstanding debt, or be unable or unwilling to comply with the terms of any aid provided to them, or that financial institutions with significant holdings of sovereign or private debt issued by borrowers in Europe s perimeter region or Cyprus could experience financial stress, any of which could have significant adverse effects on the European and global economies and on financial markets, generally. In September 2012, the ECB announced a new bond buying program, Outright Monetary Transactions (OMT), intended to stabilize the European financial crisis. This program involves the potential purchase by the ECB of unlimited quantities of sovereign bonds with maturities of one to three years. These large scale purchases of sovereign bonds are intended to provide a buyer of last resort in the event of market stress, raising the price of the bonds, and lowering their interest rates, making it less expensive for certain countries to borrow money. In the absence of the OMT, concerns over sovereign debt sustainability could arise, and private demand for sovereign debt could decrease, putting further upward pressure on sovereign yields. Countries must agree to strict levels of economic reform and oversight as a condition to participate in this program. The OMT has not been activated to date, but the possibility of its use by the ECB has succeeded in reducing investor concerns over the possible withdrawal of one or more countries from the Euro zone and has helped to lower sovereign yields in Europe s perimeter region and Cyprus. The Euro zone has emerged from its recession, but economic growth is expected to remain relatively muted, with concerns over low inflation becoming more pronounced as countries in Europe s perimeter region and Cyprus in particular continue to pursue policies to reduce their macroeconomic imbalances. See Risk Factors Economic Environment and Capital Markets-Related Risks We Are Exposed to Significant Financial and Capital Markets Risks Which May Adversely Affect Our Results of Operations, Financial Condition and Liquidity, and May Cause Our Net Investment Income to Vary from Period to Period, and Risk Factors Economic Environment and Capital Markets-Related Risks If Difficult Conditions in the Global Capital Markets and the Economy Generally Persist, They May Materially Adversely Affect Our Business and Results of Operations in the 2013 Form 10-K.

We face substantial exposure to the Japanese economy given our operations there. Despite a broad recovery in GDP growth and rising inflation over the last year, structural weaknesses and debt sustainability have yet to be addressed effectively. This leaves the economy vulnerable to further disruption. The global financial crisis and March 2011 earthquake and related events further pressured Japan s budget outcomes and public debt levels. Going forward, Japan s structural and demographic challenges may continue to limit its potential growth unless reforms that boost productivity are put into place. Japan s high public sector debt levels are mitigated by low refinancing risks and its nominal yields on government debt have remained at a lower level than that of any other advanced country. However, frequent changes in government have prevented policy makers from implementing fiscal reform measures to put public finances on a sustainable path. In January 2013, the government and the Bank of Japan pledged to strengthen policy coordination to end deflation and to achieve sustainable economic growth. This was followed by the announcement of a supplementary budget stimulus program totaling 2% of GDP and the adoption of a 2% inflation target by the Bank of Japan. In early April 2013, the Bank of Japan announced a new round of monetary easing measures including increased government bond purchases at longer maturities. In October 2013, the government agreed to raise the consumption tax from 5% to 8% effective April 1, 2014. While this was a positive step, the fiscal impact is likely to be neutral given the accompanying stimulus spending package. Although the yen has weakened, deflationary pressures have eased and the stock market has rallied on the back of these announcements, it is too soon to tell whether these actions will have a sustained impact on Japan s economy. Japan s public debt trajectory could continue to rise until a strategy to consolidate public finances and growth-enhancing reforms are implemented.

Impact of a Sustained Low Interest Rate Environment

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

On December 18, 2013, the Federal Reserve Board s Federal Open Market Committee (FOMC) decided to modestly reduce the pace of its purchases of agency mortgage-backed securities from $40 billion per month to $35 billion per month and the pace of its purchases of longer-term U.S. Treasury securities from $45 billion per month to $40 billion per month. On January 29, 2014, noting cumulative progress toward maximum employment and the improved outlook for the labor market, the FOMC determined to make a further measured reduction in the pace of its purchases of agency mortgage-backed securities from $35 billion per month to $30 billion per month and the pace of its purchases of longer-term U.S. Treasury securities from $40 billion per month to $35 billion per month, beginning in February 2014. These quantitative easing measures are intended to stimulate the economy by keeping interest rates at low levels. The FOMC will closely monitor economic and financial developments in determining when to further moderate these quantitative easing measures, including with respect to the rates of unemployment, inflation and long-term inflation. The FOMC has stated that it will likely reduce the pace of its bond purchases in further measured steps at future meetings if subsequent economic data remains broadly aligned with its current expectations for a strengthening in the U.S. economy. Any additional action by the Federal Reserve Board to reduce its quantitative easing program could potentially increase U.S. interest rates from recent historically low levels, with uncertain impacts on U.S. risk markets, and may affect interest rates and risk markets in other developed and emerging economies. Even after the quantitative easing program ends and the economy strengthens, the FOMC reaffirmed that it anticipates keeping the target range for the federal funds rate at 0 to .25%, again subject to certain unemployment, inflation and long-term inflation thresholds. While Janet Yellen, appointed on January 6, 2014 as the new Chairman of the Federal Reserve Board, has pledged continuity in the Federal Reserve Board s monetary policy, it is possible that the course of such policy could change under a new Chairman.

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

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

Our expectations regarding future margins are an important component impacting the amortization of certain intangible assets such as DAC and value of business acquired (VOBA). Significantly lower margins may cause us to accelerate the amortization, thereby reducing net income in the affected reporting period. Additionally, lower margins may also impact the recoverability of intangible assets such as goodwill, require the establishment of additional liabilities or trigger loss recognition events on certain policyholder liabilities. We review this long-term margin assumption, along with other

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assumptions, as part of our annual assumption review. Although the analysis shown below considers low interest rates in 2014 and 2015, it does not assume any change to our long-term assumption for margins. As a result, the impact of a hypothetical interest rate stress scenario described below does not capture the impact of any of the aforementioned items.

Mitigating Actions

The Company continues to be proactive in its investment and interest crediting rate strategies, as well as its product design and product mix. To mitigate the risk of unfavorable consequences from the low interest rate environment in the U.S., the Company applies disciplined ALM strategies, including the use of derivatives, primarily interest rate swaps, floors and swaptions. A significant portion of these derivatives were entered into prior to the onset of the current low U.S. interest rate environment. In some cases, the Company has entered into offsetting positions as part of its overall ALM strategy and to reduce volatility in net income. Lowering interest crediting rates on some products, or adjusting the dividend scale on traditional products, can help offset decreases in investment margins on some products. Our ability to lower interest crediting rates could be limited by competition, requirements to obtain regulatory approval, or contractual guarantees of minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our margins could decrease or potentially become negative. We are able to limit or close certain products to new sales in order to manage exposures. Business actions, such as shifting the sales focus to less interest rate sensitive products, can also mitigate this risk. In addition, the Company is well diversified across product, distribution, and geography. Certain of our non-U.S. businesses, reported within our Latin America and EMEA segments, which accounted for approximately 14% of our operating earnings in 2013, are not significantly interest rate or market sensitive; in particular, they do not have any direct sensitivity to U.S. interest rates. The Company s primary exposure within these segments is insurance risk. We expect our non-U.S. businesses to grow faster than our U.S. businesses and, over time, to become a larger percentage of our total business. As a result of the foregoing, the Company expects to be able to substantially mitigate the negative impact of a sustained low interest rate environment in the U.S. on the Company s profitability. Based on a near to intermediate term analysis of a sustained lower interest rate environment in the U.S., the Company anticipates operating earnings will continue to increase, although at a slower growth rate.

Interest Rate Stress Scenario

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

The hypothetical interest rate stress scenario is based on a constant set of U.S. interest rates and credit spreads in the U.S., as compared to our business plan interest rates and credit spreads, which are based on consensus interest rate view and credit spreads as of August 2013. For example, our business plan assumes a 10-year treasury rate of 2.88% at December 31, 2013 to rise during 2014 to 3.36% by December 31, 2014 and rise to 3.93% by December 31, 2015. The hypothetical interest rate stress scenario assumes the 10-year treasury rate to be 2.50% at December 31, 2013 and remain constant at that level until December 31, 2015. We make similar assumptions for interest rates at other maturities, and hold this interest rate curve constant through December 31, 2015. In addition, in the interest rate stress scenario, we assume credit spreads remain constant from December 2013 through the end of 2015, as compared to our business plan which assumes rising credit spreads through 2014 and thereafter remaining constant through the end of 2015. Further, we also include the impact of low interest rates on our pension and postretirement plan expenses. We allocate this impact across our segments and it is included in the segment discussion below. The discount rate used to value these plans is tied to high quality corporate bond yields. Accordingly, an extended low interest rate environment will result in increased pension and other postretirement benefit liabilities and expenses. Higher total return on the fixed income portfolio of pension and other postretirement benefit plan assets will partially offset this increase in pension and other postretirement plan liabilities.

Based on the above assumptions, we estimate the impact of the hypothetical U.S. interest rate stress scenario on our consolidated operating earnings to be a decrease of approximately $75 million and $205 million in 2014 and 2015, respectively.

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