METLIFE INC
Form 10-Q
May 07, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-Q**

**(Mark One)**

| | |
|---|---|
| þ | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009** |
| | **OR** |
| o | **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** | **13-4075851** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **200 Park Avenue, New York, NY** | **10166-0188** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**(212) 578-2211**
*(Registrant s telephone number, including area code)*

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 þ No o

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

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 þ | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |

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

At May 1, 2009, 818,509,959 shares of the registrant s common stock, $0.01 par value per share, were outstanding.

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## Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, 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 futur 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 Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q and MetLife, Inc. s other public filings, which are available without charge through the SEC s website at www.sec.gov.

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**Part I Financial Information**

**Item 1.** ***Financial Statements***

**MetLife, Inc.**

**Interim Condensed Consolidated Balance Sheets**
**March 31, 2009 (Unaudited) and December 31, 2008**

**(In millions, except share and per share data)**

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: $214,610 and $209,508, respectively) | $ 191,415 | $ 188,251 |
| Equity securities available-for-sale, at estimated fair value (cost: $3,987 and $4,131, respectively) | 2,817 | 3,197 |
| Trading securities, at estimated fair value (cost: $1,083 and $1,107, respectively) | 922 | 946 |
| Mortgage and consumer loans: | | |
| Held-for-investment, at amortized cost (net of valuation allowances of $428 and $304, respectively) | 49,074 | 49,352 |
| Held-for-sale, principally at estimated fair value | 3,970 | 2,012 |
| Mortgage and consumer loans, net | 53,044 | 51,364 |
| Policy loans | 9,851 | 9,802 |
| Real estate and real estate joint ventures held-for-investment | 7,380 | 7,585 |
| Real estate held-for-sale | 1 | 1 |
| Other limited partnership interests | 5,365 | 6,039 |
| Short-term investments | 10,896 | 13,878 |
| Other invested assets | 15,130 | 17,248 |
| Total investments | 296,821 | 298,311 |
| Cash and cash equivalents | 19,424 | 24,207 |
| Accrued investment income | 3,142 | 3,061 |
| Premiums and other receivables | 18,514 | 16,973 |
| Deferred policy acquisition costs and value of business acquired | 20,754 | 20,144 |
| Deferred income tax assets | 6,349 | 4,927 |
| Goodwill | 5,010 | 5,008 |
| Other assets | 7,028 | 7,262 |
| Assets of subsidiaries held-for-sale | | 946 |
| Separate account assets | 114,366 | 120,839 |

| | | | | |
|---|---|---|---|---|
| Total assets | $ | 491,408 | $ | 501,678 |
| **Liabilities and Stockholders Equity** | | | | |
| **Liabilities:** | | | | |
| Future policy benefits | $ | 131,609 | $ | 130,555 |
| Policyholder account balances | | 148,568 | | 149,805 |
| Other policyholder funds | | 8,136 | | 7,762 |
| Policyholder dividends payable | | 846 | | 1,023 |
| Short-term debt | | 5,878 | | 2,659 |
| Long-term debt | | 11,042 | | 9,667 |
| Collateral financing arrangements | | 5,242 | | 5,192 |
| Junior subordinated debt securities | | 2,691 | | 3,758 |
| Current income tax payable | | 635 | | 342 |
| Payables for collateral under securities loaned and other transactions | | 24,341 | | 31,059 |
| Other liabilities | | 14,625 | | 14,284 |
| Liabilities of subsidiaries held-for-sale | | | | 748 |
| Separate account liabilities | | 114,366 | | 120,839 |
| Total liabilities | | 467,979 | | 477,693 |
| **Contingencies, Commitments and Guarantees (Note 11)** | | | | |
| **Stockholders Equity (Note 1):** | | | | |
| MetLife, Inc. s stockholders equity: | | | | |
| Preferred stock, par value $0.01 per share; 200,000,000 shares authorized; 84,000,000 shares issued and outstanding; $2,100 aggregate liquidation preference | | 1 | | 1 |
| Common stock, par value $0.01 per share; 3,000,000,000 shares authorized; 822,359,818 shares and 798,016,664 shares issued at March 31, 2009 and December 31, 2008, respectively; 818,086,270 shares and 793,629,070 shares outstanding at March 31, 2009 and December 31, 2008, respectively | | 8 | | 8 |
| Additional paid-in capital | | 16,860 | | 15,811 |
| Retained earnings | | 21,829 | | 22,403 |
| Treasury stock, at cost; 4,273,548 shares and 4,387,594 shares at March 31, 2009 and December 31, 2008, respectively | | (230) | | (236) |
| Accumulated other comprehensive loss | | (15,358) | | (14,253) |
| Total MetLife, Inc. s stockholders equity | | 23,110 | | 23,734 |
| Noncontrolling interests | | 319 | | 251 |
| Total equity | | 23,429 | | 23,985 |
| Total liabilities and stockholders equity | $ | 491,408 | $ | 501,678 |

**See accompanying notes to the interim condensed consolidated financial statements.**

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**MetLife, Inc.**

**Interim Condensed Consolidated Statements of Income**
**For the Three Months Ended March 31, 2009 and 2008 (Unaudited)**

**(In millions, except per share data)**

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| **Revenues** | | |
| Premiums | $ 6,122 | $ 6,291 |
| Universal life and investment-type product policy fees | 1,183 | 1,397 |
| Net investment income | 3,263 | 4,297 |
| Other revenues | 554 | 369 |
| Net investment gains (losses) | (906) | (730) |
| Total revenues | 10,216 | 11,624 |
| **Expenses** | | |
| Policyholder benefits and claims | 6,582 | 6,583 |
| Interest credited to policyholder account balances | 1,168 | 1,233 |
| Policyholder dividends | 424 | 429 |
| Other expenses | 3,002 | 2,547 |
| Total expenses | 11,176 | 10,792 |
| Income (loss) from continuing operations before provision for income tax | (960) | 832 |
| Provision for income tax expense (benefit) | (376) | 207 |
| Income (loss) from continuing operations, net of income tax | (584) | 625 |
| Income from discontinued operations, net of income tax | 36 | 35 |
| Net income (loss) | (548) | 660 |
| Less: Net income (loss) attributable to noncontrolling interests | (4) | 12 |
| Net income (loss) attributable to MetLife, Inc. | (544) | 648 |
| Less: Preferred stock dividends | 30 | 33 |
| Net income (loss) available to MetLife, Inc.   s common shareholders | $ (574) | $ 615 |
| Income (loss) from continuing operations, net of income tax, available to MetLife, Inc.   s common shareholders per common share: | | |
| Basic | $ (0.75) | $ 0.82 |
| Diluted | $ (0.75) | $ 0.81 |

| | | | | |
|---|---|---|---|---|
| Net income (loss) available to MetLife, Inc. s common shareholders per common share: | | | | |
| Basic | $ | (0.71) | $ | 0.85 |
| Diluted | $ | (0.71) | $ | 0.84 |

**See accompanying notes to the interim condensed consolidated financial statements.**

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**MetLife, Inc.**

**Interim Condensed Consolidated Statement of Stockholders Equity**
**For the Three Months Ended March 31, 2009 (Unaudited)**

**(In millions)**

| | | | | | | Accumulated Other Comprehensive Loss | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock at Cost | Net Unrealized Investment Gains (Losses) | Foreign Currency Translation Adjustments | Defined Benefit Plans Adjustment | Total MetLife, Inc. s Stockholders Equity | Noncontrolling Interests | To Eq |
| e at December 31, Note 1) | $ 1 | $ 8 | $ 15,811 | $ 22,403 | $ (236) | $ (12,564) | $ (246) | $ (1,443) | $ 23,734 | $ 251 | $ 2 |
| on stock issuance issued shares | | | 1,035 | | | | | | 1,035 | | |
| ry stock tions, net | | | 20 | | 6 | | | | 26 | | |
| al of stock-based nsation | | | (6) | | | | | | (6) | | |
| nds on preferred | | | | (30) | | | | | (30) | | |
| e in equity of trolling interests | | | | | | | | | | 80 | |
| ehensive income: | | | | | | | | | | | |
| s | | | | (544) | | | | | (544) | (4) | |
| comprehensive | | | | | | | | | | | |
| ized gains (losses) vative nents, net of e tax | | | | | | 19 | | | 19 | | |
| ized investment losses), net of offsets and e tax | | | | | | (924) | | | (924) | (8) | |
| n currency tion adjustments, ncome tax | | | | | | | (240) | | (240) | | |
| d benefit plans nent, net of e tax | | | | | | | | 40 | 40 | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| comprehensive | | | | | | | | | (1,105) | (8) | ( |
| ehensive loss | | | | | | | | | (1,649) | (12) | ( |
| e at March 31, | $ 1 | $ 8 | $ 16,860 | $ 21,829 | $ (230) | $ (13,469) | $ (486) | $ (1,403) | $ 23,110 | $ 319 | $ 2 |

**See accompanying notes to the interim condensed consolidated financial statements.**

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**MetLife, Inc.**

**Interim Condensed Consolidated Statement of Stockholders Equity**
**For the Three Months Ended March 31, 2008 (Unaudited) (Continued)**

**(In millions)**

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock at Cost | Accumulated Other Comprehensive Loss: Net Unrealized Investment Gains (Losses) | Accumulated Other Comprehensive Loss: Foreign Currency Translation Adjustment | Accumulated Other Comprehensive Loss: Defined Benefit Plans Adjustment | Total MetLife, Inc. s Stockholders Equity | Noncontrolling Interests: Discontinued Operations | Noncontrolling Interests: Continuing Operations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| December 31, 1) | $ 1 | $ 8 | $ 17,098 | $ 19,884 | $ (2,890) | $ 971 | $ 347 | $ (240) | $ 35,179 | $ 1,534 | $ 272 |
| effect of accounting net of income | | | | 27 | | (10) | | | 17 | | |
| January 1, | 1 | 8 | 17,098 | 19,911 | (2,890) | 961 | 347 | (240) | 35,196 | 1,534 | 272 |
| ock , net | | | 502 | | (1,218) | | | | (716) | | |
| on preferred | | | | (33) | | | | | (33) | | |
| on subsidiary ock | | | | | | | | | | (13) | |
| equity of ing interests | | | | | | | | | | 11 | (30) |
| sive income: | | | | | | | | | | | |
| | | | | 648 | | | | | 648 | 15 | (3) |
| prehensive | | | | | | | | | | | |
| gains (losses) ve , net of | | | | | | (60) | | | (60) | | |
| investment s), net of ets and | | | | | | (2,188) | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | (2,188) | (70) | |
| rency adjustments, ne tax | | | | | | | 153 | | 153 | (8) | |
| nefit plans net of | | | | | | | | (1) | (1) | | |
| prehensive | | | | | | | | | (2,096) | (78) | |
| sive loss | | | | | | | | | (1,448) | (63) | (3) |
| March 31, 1) | $ 1 | $ 8 | $ 17,600 | $ 20,526 | $ (4,108) | $ (1,287) | $ 500 | $ (241) | $ 32,999 | $ 1,469 | $ 239 |

**See accompanying notes to the interim condensed consolidated financial statements.**

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**MetLife, Inc.**

**Interim Condensed Consolidated Statements of Cash Flows**
**For the Three Months Ended March 31, 2009 and 2008 (Unaudited)**

**(In millions)**

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ (548) | $ 660 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization expenses | 129 | 221 |
| Amortization of premiums and accretion of discounts associated with investments, net | (1) | (252) |
| (Gains) losses from sales of investments and businesses, net | 855 | 865 |
| Undistributed equity earnings of real estate joint ventures and other limited partnership interests | 753 | 55 |
| Interest credited to policyholder account balances | 1,171 | 1,311 |
| Interest credited to bank deposits | 43 | 45 |
| Universal life and investment-type product policy fees | (1,197) | (1,417) |
| Change in accrued investment income | (80) | 248 |
| Change in premiums and other receivables | (877) | (123) |
| Change in deferred policy acquisition costs, net | 248 | (351) |
| Change in insurance-related liabilities | 1,090 | 2,091 |
| Change in trading securities | (128) | (136) |
| Change in residential mortgage loans held-for-sale, net | (1,939) | |
| Change in mortgage servicing rights | (214) | |
| Change in income tax payable | (462) | 54 |
| Change in other assets | 332 | 6 |
| Change in other liabilities | (189) | 251 |
| Other, net | 29 | 15 |
| Net cash (used in) provided by operating activities | (985) | 3,543 |
| **Cash flows from investing activities** | | |
| Sales, maturities and repayments of: | | |
| Fixed maturity securities | 18,118 | 22,117 |
| Equity securities | 356 | 351 |
| Mortgage and consumer loans | 1,105 | 1,832 |
| Real estate and real estate joint ventures | 37 | 87 |
| Other limited partnership interests | 394 | 258 |
| Purchases of: | | |
| Fixed maturity securities | (24,229) | (27,223) |
| Equity securities | (481) | (299) |

| | | |
|---|---|---|
| Mortgage and consumer loans | (984) | (2,702) |
| Real estate and real estate joint ventures | (174) | (311) |
| Other limited partnership interests | (162) | (391) |
| Net change in short-term investments | 2,982 | 49 |
| Purchases of businesses, net of cash received of $0 and $23, respectively | | (305) |
| Sales of businesses, net of cash disposed of $180 and $0, respectively | (46) | |
| Net change in other invested assets | 1,570 | (857) |
| Net change in policy loans | (49) | (320) |
| Other, net | (55) | (24) |
| Net cash used in investing activities | $ (1,618) | $ (7,738) |

**See accompanying notes to the interim condensed consolidated financial statements.**

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**MetLife, Inc.**

**Interim Condensed Consolidated Statements of Cash Flows (Continued)**
**For the Three Months Ended March 31, 2009 and 2008 (Unaudited)**

**(In millions)**

| | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Policyholder account balances: | | |
| Deposits | $ 24,886 | $ 13,893 |
| Withdrawals | (24,955) | (10,546) |
| Net change in short-term debt | 3,219 | (35) |
| Long-term debt issued | 469 | 80 |
| Long-term debt repaid | (112) | (62) |
| Collateral financing arrangements issued | 50 | 60 |
| Debt issuance costs | (3) | |
| Net change in payables for collateral under securities loaned and other transactions | (6,718) | 2,513 |
| Stock options exercised | | 17 |
| Common stock issued to settle stock forward contracts | 1,035 | |
| Treasury stock acquired | | (1,250) |
| Dividends on preferred stock | (30) | (33) |
| Other, net | (9) | 17 |
| Net cash (used in) provided by financing activities | (2,168) | 4,654 |
| Effect of change in foreign currency exchange rates on cash balances | (44) | 47 |
| Change in cash and cash equivalents | (4,815) | 506 |
| Cash and cash equivalents, beginning of period | 24,239 | 10,368 |
| **Cash and cash equivalents, end of period** | $ 19,424 | $ 10,874 |
| Cash and cash equivalents, subsidiaries held-for-sale, beginning of period | $ 32 | $ 408 |
| **Cash and cash equivalents, subsidiaries held-for-sale, end of period** | $ | $ 314 |
| Cash and cash equivalents, from continuing operations, beginning of period | $ 24,207 | $ 9,960 |
| **Cash and cash equivalents, from continuing operations, end of period** | $ 19,424 | $ 10,560 |
| **Supplemental disclosures of cash flow information:** | | |
| Net cash paid during the period for: | | |
| Interest | $ 113 | $ 161 |

| | | | | |
|---|---|---|---|---|
| Income tax | $ | 85 | $ | 151 |
| Non-cash transactions during the period: | | | | |
| Business acquisitions: | | | | |
| Assets acquired | $ | | $ | 1,270 |
| Cash paid | | | | (328) |
| Liabilities assumed | $ | | $ | 942 |
| Business disposition: | | | | |
| Assets disposed | $ | 841 | $ | |
| Less: liabilities disposed | | 740 | | |
| Net assets disposed | | 101 | | |
| Less: cash disposed | | 180 | | |
| Business disposition, net of cash disposed | $ | (79) | $ | |
| Remarketing of debt securities: | | | | |
| Fixed maturity securities redeemed | $ | 32 | $ | |
| Long-term debt issued | $ | 1,035 | $ | |
| Junior subordinated debt securities redeemed | $ | 1,067 | $ | |
| Real estate acquired in satisfaction of debt | $ | 1 | $ | |

**See accompanying notes to the interim condensed consolidated financial statements.**

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**

## 1. Business, Basis of Presentation, and Summary of Significant Accounting Policies

### *Business*

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 ). MetLife is a leading provider of insurance, employee benefits and financial services with operations throughout the United States and the Latin America, Europe, and Asia Pacific regions. Through its subsidiaries and affiliates, MetLife offers life insurance, annuities, auto and home 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.

### *Basis of Presentation*

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 interim condensed 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 deferred policy acquisition costs ( DAC ) and the establishment and amortization of value of business acquired ( 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 income tax assets;

(xi) accounting for reinsurance transactions;

(xii) accounting for employee benefit plans; and

(xiii) the liability for litigation and regulatory matters.

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.

The accompanying interim condensed consolidated financial statements include the accounts of the Holding Company and its subsidiaries as well as partnerships and joint ventures in which the Company has control. Closed block assets, liabilities, revenues and expenses are combined on a line-by-line basis with the assets, liabilities, revenues and expenses outside the closed block based on the nature of the particular item. See Note 8. Intercompany accounts and transactions have been eliminated.

In addition, the Company has invested in certain structured transactions that are variable interest entities ( 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*. These structured

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

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 Company reconsiders whether it is the primary beneficiary for investments designated as VIEs on a quarterly basis.

The Company uses the equity method of accounting for investments in equity securities in which it has a significant influence or more than a 20% interest and for real estate joint ventures and other limited partnership interests in which it has more than a minor equity interest or more than a minor influence over the joint venture s or partnership s operations, but does not have a controlling interest and is not the primary beneficiary. The Company uses 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 venture s or the partnership s operations.

Certain amounts in the prior year periods interim condensed consolidated financial statements have been reclassified to conform with the 2009 presentation. Such reclassifications include $47 million for the three months ended March 31, 2008 relating to the effect of change in foreign currency exchange rates on cash balances. These amounts were reclassified from cash flows from operating activities in the consolidated statements of cash flows for the three months ended March 31, 2008. See also Note 17 for reclassifications related to discontinued operations.

The accompanying interim condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary to present fairly the consolidated financial position of the Company at March 31, 2009, its consolidated results of operations for the three months ended March 31, 2009 and 2008, its consolidated cash flows for the three months ended March 31, 2009 and 2008, and its consolidated statements of stockholders equity for the three months ended March 31, 2009 and 2008, in conformity with GAAP. Interim results are not necessarily indicative of full year performance. The December 31, 2008 consolidated balance sheet data was derived from audited consolidated financial statements included in MetLife s Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Annual Report ) filed with the U.S. Securities and Exchange Commission ( SEC ), which includes all disclosures required by GAAP. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company included in the 2008 Annual Report.

***Adoption of New Accounting Pronouncements***

*Business Combinations and Noncontrolling Interests*

Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 141 (revised 2007), *Business Combinations A Replacement of FASB Statement No. 141* ( SFAS 141(r) ), FASB Staff Position ( FSP ) 141(r)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* ( FSP 141(r)-1 ) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* ( SFAS 160 ). Under this new guidance:

All business combinations (whether full, partial or step acquisitions) result in all assets and liabilities of an acquired business being recorded at fair value, with limited exceptions.

Acquisition costs are generally expensed as incurred; restructuring costs associated with a business combination are generally expensed as incurred subsequent to the acquisition date.

The fair value of the purchase price, including the issuance of equity securities, is determined on the acquisition date.

Assets acquired and liabilities assumed in a business combination that arise from contingencies are recognized at fair value if the acquisition-date fair value can be reasonably determined. If the fair value is not estimable, an asset or liability is recorded if existence or incurrence at the acquisition date is probable and its amount is reasonably estimable.

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

Changes in deferred income tax asset valuation allowances and income tax uncertainties after the acquisition date generally affect income tax expense.

Noncontrolling interests (formerly known as minority interests ) are valued at fair value at the acquisition date and are presented as equity rather than liabilities.

Net income includes amounts attributable to noncontrolling interests.

When control is attained on previously noncontrolling interests, the previously held equity interests are remeasured at fair value and a gain or loss is recognized.

Purchases or sales of equity interests that do not result in a change in control are accounted for as equity transactions.

When control is lost in a partial disposition, realized gains or losses are recorded on equity ownership sold and the remaining ownership interest is remeasured and holding gains or losses are recognized.

The adoption of SFAS 141(r) and FSP 141(r)-1 on a prospective basis did not have an impact on the Company s consolidated financial statements. As a result of the implementation of SFAS 160, which required retrospective application of presentation requirements, total equity at December 31, 2008 and 2007, increased by $251 million and $1,806 million, respectively, representing noncontrolling interest, and other liabilities and total liabilities at December 31, 2008 and 2007 decreased by $251 million and $1,806 million, respectively, as a result of the elimination of minority interest. Also as a result of the adoption of SFAS 160, for the three months ended March 31, 2008, income from continuing operations increased by $12 million and net income attributable to noncontrolling interests increased by $12 million.

Effective January 1, 2009, the Company adopted prospectively Emerging Issues Task Force ( EITF ) Issue No. 08-6, *Equity Method Investment Accounting Considerations* ( EITF 08-6 ). EITF 08-6 addresses a number of issues associated with the impact that SFAS 141(r) and SFAS 160 might have on the accounting for equity method investments, including how an equity method investment should initially be measured, how it should be tested for impairment, and how changes in classification from equity method to cost method should be treated. The adoption of EITF 08-6 did not have an impact on the Company s consolidated financial statements.

Effective January 1, 2009, the Company adopted prospectively EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets* ( EITF 08-7 ). EITF 08-7 requires that an acquired defensive intangible asset (i.e., an asset an entity does not intend to actively use, but rather, intends to prevent others from using) be accounted for as a separate unit of accounting at time of acquisition, not combined with the acquirer s existing intangible assets. In addition, the EITF concludes that a defensive intangible asset may not be considered immediately abandoned following its acquisition or have indefinite life. The adoption of EITF 08-7 did not have an impact on the Company s consolidated financial statements.

Effective January 1, 2009, the Company adopted prospectively FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(r) and other GAAP. The Company will determine useful lives and provide all of the material required disclosures prospectively on intangible assets acquired on or after January 1, 2009.

*Other Pronouncements*

Effective January 1, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133* ( SFAS 161 ). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)   (Continued)**

features in derivative agreements. The Company has provided all of the material required disclosures in its consolidated financial statements.

Effective January 1, 2009, the Company implemented guidance of SFAS No. 157, *Fair Value Measurements* (  SFAS 157  ), for certain nonfinancial assets and liabilities that are recorded at fair value on a nonrecurring basis. This guidance which applies to such items as (i) nonfinancial assets and nonfinancial liabilities initially measured at estimated fair value in a business combination, (ii) reporting units measured at estimated fair value in the first step of a goodwill impairment test and (iii) indefinite-lived intangible assets measured at estimated fair value for impairment assessment, was previously deferred under FSP 157-2, *Effective Date of FASB Statement No. 157.*

Effective January 1, 2009, the Company adopted prospectively EITF Issue No. 08-5, *Issuer  s Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement* (  EITF 08-5  ). EITF 08-5 concludes that an issuer of a liability with a third-party credit enhancement should not include the effect of the credit enhancement in the fair value measurement of the liability. In addition, EITF 08-5 requires disclosures about the existence of any third-party credit enhancement related to liabilities that are measured at fair value. The adoption of EITF 08-5 did not have an impact on the Company  s consolidated financial statements.

Effective January 1, 2009, the Company adopted EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity  s Own Stock* (  EITF 07-5  ). EITF 07-5 provides a framework for evaluating the terms of a particular instrument and whether such terms qualify the instrument as being indexed to an entity  s own stock. The adoption of EITF 07-5 did not have an impact on Company  s consolidated financial statements.

Effective January 1, 2009, the Company adopted prospectively FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (  FSP 140-3  ). FSP 140-3 provides guidance for evaluating whether to account for a transfer of a financial asset and repurchase financing as a single transaction or as two separate transactions. The adoption of FSP 140-3 did not have an impact on the Company  s consolidated financial statements.

***Future Adoption of New Accounting Pronouncements***

In April 2009, the FASB issued three FSPs providing additional guidance relating to fair value and other-than-temporary impairment (  OTTI  ) measurement and disclosure. The FSPs must be adopted by the second quarter of 2009.

FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (  FSP 157-4  ), provides guidance on (1) estimating the fair value of an asset or liability if there was a significant decrease in the volume and level of trading activity for these assets or liabilities and (2) identifying transactions that are not orderly. Further, the FSP 157-4 requires disclosure in the interim financial statements of the inputs and valuation techniques used to measure fair value. The Company is currently evaluating the impact of FSP 157-4 on its consolidated financial statements.

FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (  OTTI FSP  ), provides new guidance for determining whether an other-than-temporary impairment exists. The OTTI FSP requires a company to assess the likelihood of selling a security prior to recovering its cost basis. If a company intends to sell a security or it is more-likely-than-not that it will be required to sell a security prior to recovery of its cost basis, a security would be written down to fair value with the full charge recorded in earnings. If a company does not intend to sell a security and it is not more-likely-than-not that it would be required to sell the security prior to recovery, the security would not be considered other-than-temporarily impaired unless there are credit losses associated with the security. Where credit losses exist, the portion of the impairment related to those credit losses would be recognized in earnings. Any remaining difference between the fair value and the cost basis would be recognized as part of other comprehensive

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

income. The Company is currently evaluating the impact of the OTTI FSP on its consolidated financial statements.

FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, requires interim financial instrument fair value disclosures similar to those included in annual financial statements. The Company will provide all of the material required disclosures in future periods.

In December 2008, the FASB issued FSP No. FAS 132(r)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* ( FSP 132(r)-1 ). FSP 132(r)-1 amends SFAS No. 132(r), *Employers Disclosures about Pensions and Other Postretirement Benefits*, to enhance the transparency surrounding the types of assets and associated risks in an employer s defined benefit pension or other postretirement benefit plan. The FSP requires an employer to disclose information about the valuation of plan assets similar to that required under SFAS 157. FSP 132(r)-1 is effective for fiscal years ending after December 15, 2009. The Company will provide the required disclosures in the appropriate future annual periods.

## 2. Acquisitions and Dispositions

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

On March 2, 2009, the Company sold Cova Corporation ( Cova ), the parent company of Texas Life Insurance Company ( Texas Life ) to a third party for $134 million in cash consideration, excluding $1 million of transaction costs. The net assets sold were $101 million, resulting in a gain on disposal of $32 million, net of income tax. The Company has also reclassified $4 million, net of income tax, of the 2009 operations of Texas Life into discontinued operations in the consolidated financial statements. As a result, the Company recognized income from discontinued operations of $36 million, net of income tax, for the three months ended March 31, 2009. See also Note 17.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

## 3. Investments

***Fixed Maturity and Equity Securities Available-for-Sale***

The following tables present the cost or amortized cost, gross unrealized gain and loss, estimated fair value of the Company s fixed maturity and equity securities, and the percentage that each sector represents by the respective total holdings at:

| | March 31, 2009 | | | | |
|---|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value | % of Total |
| | (In millions) | | | | |
| U.S. corporate securities | $ 70,706 | $ 682 | $ 10,674 | $ 60,714 | 31.7% |
| Residential mortgage-backed securities | 41,401 | 1,153 | 4,439 | 38,115 | 19.9 |
| Foreign corporate securities | 34,834 | 472 | 5,901 | 29,405 | 15.4 |
| U.S. Treasury, agency and government guaranteed securities (1) | 22,345 | 2,341 | 37 | 24,649 | 12.9 |
| Commercial mortgage-backed securities | 16,312 | 30 | 3,361 | 12,981 | 6.8 |
| Asset-backed securities | 14,311 | 47 | 3,326 | 11,032 | 5.7 |
| Foreign government securities | 9,005 | 744 | 365 | 9,384 | 4.9 |
| State and political subdivision securities | 5,671 | 92 | 651 | 5,112 | 2.7 |
| Other fixed maturity securities | 25 | 1 | 3 | 23 | |
| Total fixed maturity securities (2), (3) | $ 214,610 | $ 5,562 | $ 28,757 | $ 191,415 | 100.0% |
| Common stock | $ 1,856 | $ 32 | $ 154 | $ 1,734 | 61.6% |
| Non-redeemable preferred stock (2) | 2,131 | | 1,048 | 1,083 | 38.4 |
| Total equity securities | $ 3,987 | $ 32 | $ 1,202 | $ 2,817 | 100.0% |

| | December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | Cost or Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value | % of Total |
| | (In millions) | | | | |
| U.S. corporate securities | $ 72,211 | $ 994 | $ 9,902 | $ 63,303 | 33.6% |
| Residential mortgage-backed securities | 39,995 | 753 | 4,720 | 36,028 | 19.2 |
| Foreign corporate securities | 34,798 | 565 | 5,684 | 29,679 | 15.8 |

| | | | | | |
|---|---|---|---|---|---|
| U.S. Treasury, agency and government guaranteed securities (1) | 17,229 | 4,082 | 1 | 21,310 | 11.3 |
| Commercial mortgage-backed securities | 16,079 | 18 | 3,453 | 12,644 | 6.7 |
| Asset-backed securities | 14,246 | 16 | 3,739 | 10,523 | 5.6 |
| Foreign government securities | 9,474 | 1,056 | 377 | 10,153 | 5.4 |
| State and political subdivision securities | 5,419 | 80 | 942 | 4,557 | 2.4 |
| Other fixed maturity securities | 57 | | 3 | 54 | |
| Total fixed maturity securities (2), (3) | $ 209,508 | $ 7,564 | $ 28,821 | $ 188,251 | 100.0% |
| Common stock | $ 1,778 | $ 40 | $ 133 | $ 1,685 | 52.7% |
| Non-redeemable preferred stock (2) | 2,353 | 4 | 845 | 1,512 | 47.3 |
| Total equity securities | $ 4,131 | $ 44 | $ 978 | $ 3,197 | 100.0% |

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(1) The Company has classified within the U. S. Treasury, agency and government guaranteed securities caption above certain corporate fixed maturity securities issued by U.S. financial institutions that are guaranteed by the Federal Deposit Insurance Corporation ( FDIC ) pursuant to the FDIC s Temporary Liquidity Guarantee Program of $1,913 million and $2 million at estimated fair value with unrealized gains and (losses) of $9 million and less than ($1) million at March 31, 2009 and December 31, 2008, respectively.

(2) The Company classifies perpetual securities that have attributes of both debt and equity as fixed maturity securities if the security has a punitive interest rate step-up feature as it believes in most instances this feature will compel the issuer to redeem the security at the specified call date. Perpetual securities that do not have a punitive interest rate step-up feature are classified as non-redeemable preferred stock. Many of such securities have been issued by non-U.S. financial institutions that are accorded Tier 1 and Upper Tier 2 capital treatment by their respective regulatory bodies and are commonly referred to as perpetual hybrid securities. Perpetual hybrid securities classified as non-redeemable preferred stock held by the Company at March 31, 2009 and December 31, 2008 had an estimated fair value of $883 million and $1,224 million, respectively. In addition, the Company held $200 million and $288 million at estimated fair value at March 31, 2009 and December 31, 2008, respectively, of other perpetual hybrid securities, primarily of U.S. financial institutions, also included in non-redeemable preferred stock. Perpetual hybrid securities held by the Company and included within fixed maturity securities (primarily within foreign corporate securities) at March 31, 2009 and December 31, 2008 had an estimated fair value of $1,562 million and $2,110 million, respectively. In addition, the Company held $57 million and $46 million at estimated fair value at March 31, 2009 and December 31, 2008, respectively, of other perpetual hybrid securities, primarily U.S. financial institutions, included in U.S. corporate securities.

(3) At March 31, 2009 and December 31, 2008, the Company also held $1,638 million and $2,052 million at estimated fair value, respectively, of redeemable preferred stock which have stated maturity dates. These securities are primarily issued by U.S. financial institutions, have cumulative interest deferral features and are commonly referred to as capital securities and are included within U.S. corporate securities which are included within fixed maturity securities.

*Below-Investment-Grade or Non-Rated Fixed Maturity Securities.* The Company held fixed maturity securities at estimated fair values that were below investment grade or not rated by an independent rating agency that totaled $14.9 billion and $12.4 billion at March 31, 2009 and December 31, 2008, respectively. These securities had net unrealized losses of $6.7 billion and $5.1 billion at March 31, 2009 and December 31, 2008, respectively.

*Non-Income Producing Fixed Maturity Securities.* Non-income producing fixed maturity securities at estimated fair value were $80 million and $75 million at March 31, 2009 and December 31, 2008, respectively. Net unrealized losses associated with non-income producing fixed maturity securities were $22 million and $19 million at March 31, 2009 and December 31, 2008, respectively.

*Fixed Maturity Securities Credit Enhanced by Financial Guarantee Insurers.* At March 31, 2009, $4.5 billion of the estimated fair value of the Company s fixed maturity securities were credit enhanced by financial guarantee insurers of which $2.1 billion, $1.6 billion and $0.8 billion are included within state and political subdivision securities, U.S. corporate securities and asset-backed securities, respectively, and 18% and 64% were guaranteed by financial guarantee insurers who were rated Aa and Baa, respectively. At December 31, 2008, $4.9 billion of the estimated fair value of the Company s fixed maturity securities were credit enhanced by financial guarantee insurers of which $2.0 billion, $2.0 billion and $0.9 billion are included within state and political subdivision securities, U.S. corporate securities, and asset-backed securities, respectively, and 15% and 68% were guaranteed by financial guarantee insurers who were rated Aa and Baa, respectively. Approximately 50% of the asset-backed securities held at March 31, 2009 that are credit enhanced by financial guarantee insurers are asset-backed securities which are backed by sub-prime mortgage loans.

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

*Concentrations of Credit Risk (Fixed Maturity Securities).* The following section contains a summary of the concentrations of credit risk related to fixed maturity securities holdings.

The Company is not exposed to any concentrations of credit risk of any single issuer greater than 10% of the Company s stockholders equity, other than securities of the U.S. government, certain U.S. government agencies, and certain securities guaranteed by the U.S. government. At March 31, 2009 and December 31, 2008, the Company s holdings in U.S. Treasury, agency and government guaranteed fixed maturity securities at estimated fair value were $24.6 billion and $21.3 billion, respectively. As shown in the sector table above, at March 31, 2009 the Company s three largest exposures in its fixed maturity security portfolio were U.S. corporate securities (31.7%), residential mortgage-backed securities (19.9%) and foreign corporate securities (15.4%); and at December 31, 2008 were U.S. corporate securities (33.6%), residential mortgage-backed securities (19.2%) and foreign corporate securities (15.8%).

*Concentrations of Credit Risk (Fixed Maturity Securities) U.S. and Foreign Corporate Securities.* At March 31, 2009 and December 31, 2008, the Company s holdings in U.S. corporate and foreign corporate securities at estimated fair value were $90.1 billion and $93.0 billion, respectively. The Company maintains a diversified portfolio of corporate securities across industries and issuers. The portfolio does not have exposure to any single issuer in excess of 1% of total investments. The largest exposure to a single issuer of corporate securities held at March 31, 2009 and December 31, 2008 was $1.0 billion and $1.5 billion, respectively. At March 31, 2009 and December 31, 2008, the Company s combined holdings in the ten issuers to which it had the greatest exposure totaled $7.1 billion and $8.4 billion, respectively, the total of these ten issuers being less than 3% of the Company s total investments at such dates. The table below shows the major industry types that comprise the corporate securities holdings at:

| | March 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Estimated Fair Value | % of Total | Estimated Fair Value | % of Total |
| | (In millions) | | | |
| Foreign (1) | $ 29,405 | 32.6% | $ 29,679 | 32.0% |
| Industrial | 13,960 | 15.5 | 13,324 | 14.3 |
| Consumer | 13,601 | 15.1 | 13,122 | 14.1 |
| Utility | 12,630 | 14.0 | 12,434 | 13.4 |
| Finance | 12,353 | 13.7 | 14,996 | 16.1 |
| Communications | 5,631 | 6.3 | 5,714 | 6.1 |
| Other | 2,539 | 2.8 | 3,713 | 4.0 |
| Total | $ 90,119 | 100.0% | $ 92,982 | 100.0% |

(1) Includes U.S. dollar-denominated debt obligations of foreign obligors, and other fixed maturity securities foreign investments.

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

*Concentrations of Credit Risk (Fixed Maturity Securities) Residential Mortgage-Backed Securities.* The Company s residential mortgage-backed securities consist of the following holdings at:

| | March 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Estimated Fair Value | % of Total | Estimated Fair Value | % of Total |
| | (In millions) | | | |
| Residential mortgage-backed securities: | | | | |
| Collateralized mortgage obligations | $ 24,288 | 63.7% | $ 26,025 | 72.2% |
| Pass-through securities | 13,827 | 36.3 | 10,003 | 27.8 |
| Total residential mortgage-backed securities | $ 38,115 | 100.0% | $ 36,028 | 100.0% |

Collateralized mortgage obligations are a type of mortgage-backed security that creates separate pools or tranches of pass-through cash flows for different classes of bondholders with varying maturities. Pass-through mortgage-backed securities are a type of asset-backed security that is secured by a mortgage or collection of mortgages. The monthly mortgage payments from homeowners pass from the originating bank through an intermediary, such as a government agency or investment bank, which collects the payments, and for a fee, remits or passes these payments through to the holders of the pass-through securities.

The Company s residential mortgage-backed securities portfolio consists of agency, prime and alternative residential mortgage loans ( Alt-A ) securities of 73%, 19% and 8% of the total holdings, respectively, at March 31, 2009 and 68%, 23% and 9% of the total holdings, respectively, at December 31, 2008. At March 31, 2009 and December 31, 2008, $33.6 billion and $33.3 billion, respectively, or 88% and 92%, respectively, of the residential mortgage-backed securities were rated Aaa/AAA by Moody s Investors Service ( Moody s ), Standard & Poor s Ratings Services ( S&P ) c Fitch Ratings ( Fitch ). The majority of the agency residential mortgage-backed securities are guaranteed or otherwise supported by the Federal National Mortgage Association ( FNMA ), the Federal Home Loan Mortgage Corporation ( FHLMC ) or the Government National Mortgage Association. In September 2008, the U.S. Treasury announced that FNMA and FHLMC had been placed into conservatorship. Prime residential mortgage lending includes the origination of residential mortgage loans to the most credit-worthy customers with high quality credit profiles. Alt-A residential mortgage loans are a classification of mortgage loans where the risk profile of the borrower falls between prime and sub-prime. At March 31, 2009 and December 31, 2008, the Company s Alt-A residential mortgage-backed securities holdings at estimated fair value was $3.0 billion and $3.4 billion, respectively, with an unrealized loss of $2.0 billion and $2.0 billion, respectively. At March 31, 2009 and December 31, 2008, $0.6 billion and $2.1 billion, respectively, or 20% and 63%, respectively, of the Company s Alt-A residential mortgage-backed securities were rated Aa/AA or better by Moody s, S&P or Fitch. In January 2009, certain Alt-A residential mortgage-backed securities experienced ratings downgrades from investment grade to below investment grade, contributing to the decrease cited above in the Company s Alt-A securities holdings rated Aa/AA or better. At March 31, 2009, the Company s Alt-A holdings are distributed by vintage year as follows at estimated fair value: 24% in the 2007 vintage year, 26% in the

2006 vintage year and 50% in the 2005 and prior vintage years. At December 31, 2008, the Company s Alt-A holdings are distributed by vintage year as follows at estimated fair value: 23% in the 2007 vintage year, 25% in the 2006 vintage year and 52% in the 2005 and prior vintage years. Vintage year refers to the year of origination and not to the year of purchase.

*Concentrations of Credit Risk (Fixed Maturity Securities)  Commercial Mortgage-Backed Securities.* At March 31, 2009 and December 31, 2008, the Company s holdings in commercial mortgage-backed securities were $13.0 billion and $12.6 billion, respectively, at estimated fair value. At March 31, 2009 and December 31, 2008, $12.0 billion and $11.8 billion, respectively, of the estimated fair value, or 92% and 93%, respectively, of the commercial mortgage-backed securities were rated Aaa/AAA by Moody s, S&P, or Fitch. At March 31, 2009, the rating distribution of the Company s commercial mortgage-backed securities holdings was as follows: 92% Aaa, 4% Aa, 2% A, 1% Baa, and 1% Ba or below. At December 31, 2008, the rating distribution of the Company s commercial mortgage-backed securities holdings was as follows: 93% Aaa, 4% Aa, 1% A, 1% Baa, and 1% Ba or

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**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

below. At March 31, 2009 and December 31, 2008, 86% and 84%, respectively, of the holdings are in the 2005 and prior vintage years. At March 31, 2009 and December 31, 2008, the Company had no exposure to CMBX securities and its holdings of commercial real estate collateralized debt obligations securities were $109 million and $121 million, respectively, at estimated fair value.

*Concentrations of Credit Risk (Fixed Maturity Securities) Asset-Backed Securities.* At March 31, 2009 and December 31, 2008, the Company s holdings in asset-backed securities were $11.0 billion and $10.5 billion, respectively, at estimated fair value. The Company s asset-backed securities are diversified both by sector and by issuer. At March 31, 2009 and December 31, 2008, $8.5 billion and $7.9 billion, respectively, or 77% and 75%, respectively, of total asset-backed securities were rated Aaa/AAA by Moody s, S&P or Fitch. At March 31, 2009, the largest exposures in the Company s asset-backed securities portfolio were credit card receivables, student loan receivables, automobile receivables and residential mortgage-backed securities backed by sub-prime mortgage loans of 53%, 13%, 9% and 9% of the total holdings, respectively. At December 31, 2008, the largest exposures in the Company s asset-backed securities portfolio were credit card receivables, student loan receivables, automobile receivables and residential mortgage-backed securities backed by sub-prime mortgage loans of 49%, 10%, 10% and 10% of the total holdings, respectively. Sub-prime mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles. At March 31, 2009 and December 31, 2008, the Company had exposure to fixed maturity securities backed by sub-prime mortgage loans with estimated fair values of $1.0 billion and $1.1 billion, respectively, and unrealized losses of $807 million and $730 million, respectively. At March 31, 2009 and December 31, 2008, 38% and 37%, respectively, of the asset-backed securities backed by sub-prime mortgage loans have been guaranteed by financial guarantee insurers, of which 20% and 19%, respectively, and 40% and 37%, respectively, were guaranteed by financial guarantee insurers who were Aa and Baa rated, respectively.

*Concentrations of Credit Risk (Equity Securities).* The Company is not exposed to any concentrations of credit risk of any single issuer greater than 10% of the Company s stockholders equity in its equity securities holdings.

***Net Unrealized Investment Gains (Losses)***

The components of net unrealized investment gains (losses), included in accumulated other comprehensive loss, are as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | (In millions) | |
| Fixed maturity securities | $ (23,195) | $ (21,246) |
| Equity securities | (1,170) | (934) |
| Derivatives | (83) | (2) |
| Other | 83 | 53 |
| Subtotal | (24,365) | (22,129) |
| Amounts allocated from: | | |

| | | | | |
|---|---|---|---|---|
| Insurance liability loss recognition | | (73) | | 42 |
| DAC and VOBA | | 3,876 | | 3,025 |
| Subtotal | | 3,803 | | 3,067 |
| Deferred income tax | | 7,095 | | 6,508 |
| Net unrealized investment gains (losses) | | (13,467) | | (12,554) |
| Net unrealized investment gains (losses) attributable to non-controlling interest | | (2) | | (10) |
| Net unrealized investment gains (losses) attributable to MetLife, Inc. | $ | (13,469) | $ | (12,564) |

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**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

The changes in net unrealized investment gains (losses) are as follows:

| | Three Months Ended March 31, 2009 (In millions) | |
|---|---|---|
| Balance, beginning of period | $ | (12,564) |
| Unrealized investment gains (losses) during the period | | (2,264) |
| Unrealized investment loss of subsidiary at the date of disposal | | 28 |
| Unrealized investment gains (losses) relating to: | | |
| Insurance liability gain (loss) recognition | | (115) |
| DAC and VOBA | | 861 |
| DAC and VOBA of subsidiary at date of disposal | | (10) |
| Deferred income tax | | 593 |
| Deferred income tax of subsidiary at date of disposal | | (6) |
| Change in net unrealized investment gains (losses) | | (13,477) |
| Change in net unrealized investment gains (losses) attributable to non-controlling interest | | 8 |
| Balance, end of period | $ | (13,469) |
| Change in net unrealized investment gains (losses) | $ | (913) |
| Change in net unrealized investment gains (losses) attributable to non-controlling interest | | 8 |
| Change in net unrealized investment gains (losses) attributable to MetLife, Inc. s common shareholders | $ | (905) |

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**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

***Unrealized Loss for Fixed Maturity and Equity Securities Available-for-Sale***

The following tables present the estimated fair value and gross unrealized loss of the Company s fixed maturity (aggregated by sector) and equity securities in an unrealized loss position, aggregated by length of time that the securities have been in a continuous unrealized loss position at:

| | March 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | Equal to or Greater than 12 Months | | Total | |
| | Estimated Fair Value | Gross Unrealized Loss | Estimated Fair Value | Gross Unrealized Loss | Estimated Fair Value | Gross Unrealized Loss |
| | (In millions, except number of securities) | | | | | |
| U.S. corporate securities | $ 23,771 | $ 3,272 | $ 22,571 | $ 7,402 | $ 46,342 | $ 10,674 |
| Residential mortgage-backed securities | 3,039 | 699 | 9,757 | 3,740 | 12,796 | 4,439 |
| Foreign corporate securities | 12,716 | 2,397 | 8,395 | 3,504 | 21,111 | 5,901 |
| U.S. Treasury, agency and government guaranteed securities | 1,639 | 37 | | | 1,639 | 37 |
| Commercial mortgage-backed securities | 5,313 | 731 | 6,396 | 2,630 | 11,709 | 3,361 |
| Asset-backed securities | 4,888 | 613 | 4,809 | 2,713 | 9,697 | 3,326 |
| Foreign government securities | 1,782 | 226 | 311 | 139 | 2,093 | 365 |
| State and political subdivision securities | 1,664 | 171 | 1,603 | 480 | 3,267 | 651 |
| Other fixed maturity securities | 7 | 3 | 1 | | 8 | 3 |
| Total fixed maturity securities | $ 54,819 | $ 8,149 | $ 53,843 | $ 20,608 | $ 108,662 | $ 28,757 |
| Equity securities | $ 638 | $ 432 | $ 675 | $ 770 | $ 1,313 | $ 1,202 |
| Total number of securities in an unrealized loss position | 8,464 | | 4,407 | | | |

| | December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | Equal to or Greater than 12 Months | | Total | |
| | Estimated Fair Value | Gross Unrealized Loss | Estimated Fair Value | Gross Unrealized Loss | Estimated Fair Value | Gross Unrealized Loss |

| | (In millions, except number of securities) | | | | | |
|---|---|---|---|---|---|---|
| U.S. corporate securities | $ 30,076 | $ 4,479 | $ 18,011 | $ 5,423 | $ 48,087 | $ 9,902 |
| Residential mortgage-backed securities | 10,032 | 2,711 | 4,572 | 2,009 | 14,604 | 4,720 |
| Foreign corporate securities | 15,634 | 3,157 | 6,609 | 2,527 | 22,243 | 5,684 |
| U.S. Treasury, agency and government guaranteed securities | 106 | 1 | | | 106 | 1 |
| Commercial mortgage-backed securities | 9,259 | 1,665 | 3,093 | 1,788 | 12,352 | 3,453 |
| Asset-backed securities | 6,412 | 1,325 | 3,777 | 2,414 | 10,189 | 3,739 |
| Foreign government securities | 2,030 | 316 | 403 | 61 | 2,433 | 377 |
| State and political subdivision securities | 2,035 | 405 | 948 | 537 | 2,983 | 942 |
| Other fixed maturity securities | 20 | 3 | 2 | | 22 | 3 |
| Total fixed maturity securities | $ 75,604 | $ 14,062 | $ 37,415 | $ 14,759 | $ 113,019 | $ 28,821 |
| Equity securities | $ 727 | $ 306 | $ 978 | $ 672 | $ 1,705 | $ 978 |
| Total number of securities in an unrealized loss position | 9,066 | | 3,539 | | | |

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

***Aging of Gross Unrealized Loss for Fixed Maturity and Equity Securities Available-for-Sale***

The following tables present the cost or amortized cost, gross unrealized loss and number of securities for fixed maturity and equity securities, where the estimated fair value had declined and remained below cost or amortized cost by less than 20%, or 20% or more at:

| | March 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Cost or Amortized Cost | | Gross Unrealized Loss | | Number of Securities | |
| | Less than 20% | 20% or more | Less than 20% | 20% or more | Less than 20% | 20% or more |
| | (In millions, except number of securities) | | | | | |
| **Fixed Maturity Securities:** | | | | | | |
| Less than six months | $ 23,235 | $ 36,374 | $ 1,226 | $ 12,494 | 3,762 | 1,967 |
| Six months or greater but less than nine months | 13,614 | 11,481 | 1,113 | 5,692 | 1,051 | 611 |
| Nine months or greater but less than twelve months | 13,175 | 2,015 | 1,120 | 1,098 | 1,020 | 528 |
| Twelve months or greater | 33,484 | 4,041 | 3,492 | 2,522 | 2,328 | 319 |
| Total | $ 83,508 | $ 53,911 | $ 6,951 | $ 21,806 | | |
| **Equity Securities:** | | | | | | |
| Less than six months | $ 172 | $ 1,049 | $ 18 | $ 490 | 684 | 855 |
| Six months or greater but less than nine months | 11 | 541 | 2 | 330 | 17 | 34 |
| Nine months or greater but less than twelve months | 2 | 354 | | 230 | 11 | 16 |
| Twelve months or greater | 95 | 291 | 5 | 127 | 48 | 12 |
| Total | $ 280 | $ 2,235 | $ 25 | $ 1,177 | | |

| | December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Cost or Amortized Cost | | Gross Unrealized Loss | | Number of Securities | |
| | Less than 20% | 20% or more | Less than 20% | 20% or more | Less than 20% | 20% or more |
| | (In millions, except number of securities) | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Fixed Maturity Securities:** | | | | | | |
| Less than six months | $ 32,658 | $ 48,114 | $ 2,358 | $ 17,191 | 4,566 | 2,827 |
| Six months or greater but less than nine months | 14,975 | 2,180 | 1,313 | 1,109 | 1,314 | 157 |
| Nine months or greater but less than twelve months | 16,372 | 3,700 | 1,830 | 2,072 | 934 | 260 |
| Twelve months or greater | 23,191 | 650 | 2,533 | 415 | 1,809 | 102 |
| Total | $ 87,196 | $ 54,644 | $ 8,034 | $ 20,787 | | |
| **Equity Securities:** | | | | | | |
| Less than six months | $ 386 | $ 1,190 | $ 58 | $ 519 | 351 | 551 |
| Six months or greater but less than nine months | 33 | 413 | 6 | 190 | 8 | 32 |
| Nine months or greater but less than twelve months | 3 | 487 | | 194 | 5 | 15 |
| Twelve months or greater | 171 | | 11 | | 20 | |
| Total | $ 593 | $ 2,090 | $ 75 | $ 903 | | |

As described more fully in Note 1 of the Notes to the Consolidated Financial Statements included in the 2008 Annual Report, the Company performs a regular evaluation, on a security-by-security basis, of its investment holdings in accordance with its impairment policy in order to evaluate whether such securities are other-than-temporarily impaired. One of the criteria which the Company considers in its other-than-temporary impairment analysis is its intent and ability to hold securities for a period of time sufficient to allow for the recovery of their value to an amount equal to or greater than cost or amortized cost. The Company s intent and ability to hold securities considers broad portfolio management objectives such as asset/liability duration management, issuer and industry segment exposures, interest rate views and the overall total return focus. In following these portfolio

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

management objectives, changes in facts and circumstances that were present in past reporting periods may trigger a decision to sell securities that were held in prior reporting periods. Decisions to sell are based on current conditions or the Company s need to shift the portfolio to maintain its portfolio management objectives including liquidity needs or duration targets on asset/liability managed portfolios. The Company attempts to anticipate these types of changes and if a sale decision has been made on an impaired security and that security is not expected to recover prior to the expected time of sale, the security will be deemed other-than-temporarily impaired in the period that the sale decision was made and an other-than-temporary impairment loss will be recognized.

At March 31, 2009 and December 31, 2008, $7.0 billion and $8.0 billion, respectively, of unrealized losses related to fixed maturity securities with an unrealized loss position of less than 20% of cost or amortized cost, which represented 8% and 9%, respectively, of the cost or amortized cost of such securities. At March 31, 2009 and December 31, 2008, $25 million and $75 million, respectively, of unrealized losses related to equity securities with an unrealized loss position of less than 20% of cost, which represented 9% and 13%, respectively, of the cost of such securities.

At March 31, 2009, $21.8 billion and $1.2 billion of unrealized losses related to fixed maturity and equity securities, respectively, with an unrealized loss position of 20% or more of cost or amortized cost, which represented 40% and 53% of the cost or amortized cost of such fixed maturity and equity securities, respectively. Of such unrealized losses of $21.8 billion and $1.2 billion, $12.5 billion and $490 million related to fixed maturity and equity securities, respectively, that were in an unrealized loss position for a period of less than six months. At December 31, 2008, $20.8 billion and $903 million of unrealized losses related to fixed maturity and equity securities, respectively, with an unrealized loss position of 20% or more of cost or amortized cost, which represented 38% and 43% of the cost or amortized cost of such fixed maturity and equity securities, respectively. Of such unrealized losses of $20.8 billion and $903 million, $17.2 billion and $519 million related to fixed maturity and equity securities, respectively, that were in an unrealized loss position for a period of less than six months.

The Company held 711 fixed maturity securities and 38 equity securities, each with a gross unrealized loss at March 31, 2009 of greater than $10 million. These 711 fixed maturity securities represented 54% or $15.6 billion in the aggregate, of the gross unrealized loss on fixed maturity securities. These 38 equity securities represented 79% or $949 million in the aggregate, of the gross unrealized loss on equity securities. The Company held 699 fixed maturity securities and 33 equity securities, each with a gross unrealized loss at December 31, 2008 of greater than $10 million. These 699 fixed maturity securities represented 50% or $14.5 billion in the aggregate, of the gross unrealized loss on fixed maturity securities. These 33 equity securities represented 71% or $699 million in the aggregate, of the gross unrealized loss on equity securities. The fixed maturity and equity securities, each with a gross unrealized loss greater than $10 million, increased $1.4 billion during the three months ended March 31, 2009. These securities were included in the regular evaluation of whether such securities are other-than-temporarily impaired. Based upon the Company s current evaluation of these securities in accordance with its impairment policy, the cause of the decline being primarily attributable to a rise in market yields caused principally by an extensive widening of credit spreads which resulted from a lack of market liquidity and a short-term market dislocation versus a long-term deterioration in credit quality, and the Company s current intent and ability to hold the fixed maturity and equity securities with unrealized losses for a period of time sufficient for them to recover, the Company has concluded that these securities are not other-than-temporarily impaired.

In the Company s impairment review process, the duration of, and severity of, an unrealized loss position, such as unrealized losses of 20% or more for equity securities, which was $1,177 million and $903 million at March 31, 2009 and December 31, 2008, respectively, is given greater weight and consideration, than for fixed maturity securities. 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 an equity

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

security, greater weight and consideration is given by the Company to a decline in market value and the likelihood such market value decline will recover.

Equity securities with an unrealized loss of 20% or more for less than six months was $490 million at March 31, 2009, of which $353 million of the unrealized losses, or 72%, are for non-redeemable preferred securities, of which $269 million, of the unrealized losses, or 76%, are for investment grade non-redeemable preferred securities. Of the $269 million of unrealized losses for investment grade non-redeemable preferred securities, $257 million of the unrealized losses, or 96%, was comprised of unrealized losses on investment grade financial services industry non-redeemable preferred securities, of which 72% are rated A or higher.

Equity securities with an unrealized loss of 20% or more for six months or greater but less than twelve months was $560 million at March 31, 2009, of which $559 million of the unrealized losses, or 99%, are for non-redeemable preferred securities, of which, $480 million of the unrealized losses, or 86%, are investment grade and all of which are financial services industry non-redeemable preferred securities, of which 69% are rated A or higher.

Equity securities with an unrealized loss of 20% or more for twelve months or greater was $127 million at March 31, 2009, all of which are for investment grade financial services industry non-redeemable preferred securities that are rated A or higher.

In connection with the equity securities impairment review process as of March 31, 2009, the Company evaluated its holdings in non-redeemable preferred securities, particularly those of financial services industry companies. The Company considered several factors including whether there has been any deterioration in credit of the issuer and the likelihood of recovery in value of non-redeemable preferred securities with a severe or an extended unrealized loss. With respect to common stock holdings, the Company considered the duration and severity of the unrealized losses for securities in an unrealized loss position of 20% or more; and the duration of unrealized losses for securities in an unrealized loss position of 20% or less with in an extended unrealized loss position (i.e., 12 months or greater).

At March 31, 2009, there are $1,177 million of equity securities with an unrealized loss of 20% or more, of which $1,039 million of the unrealized losses, or 88%, were for non-redeemable preferred securities. At March 31, 2009, $876 million of the unrealized losses of 20% or more, or 84%, of the non-redeemable preferred securities were investment grade securities, of which $864 million of the unrealized losses of 20% or more, or 99%, are investment grade financial services industry non-redeemable preferred securities; and all non-redeemable preferred securities with unrealized losses of 20% or more, regardless of credit rating, have not deferred any dividend payments.

Also, the Company believes the unrealized loss position is not necessarily predictive of the ultimate performance of these securities, and with respect to fixed maturity securities, it has the ability and intent to hold until the earlier of the recovery in value, or until maturity, and with respect to equity securities, it has the ability and intent to hold until the recovery in value.

Future other-than-temporary impairments will depend primarily on economic fundamentals, issuer performance, changes in credit rating, changes in collateral valuation, changes in interest rates, and changes in credit spreads. If economic fundamentals and any of the above factors continue to deteriorate, additional other-than-temporary impairments may be incurred in upcoming quarters.

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**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

At March 31, 2009 and December 31, 2008, the Company s gross unrealized losses related to its fixed maturity and equity securities of $30.0 billion and $29.8 billion, respectively, were concentrated, calculated as a percentage of gross unrealized loss, by sector/industry is as follows:

| | March 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| **Sector:** | | | | |
| U.S. corporate securities | 36 | % | 33 | % |
| Foreign corporate securities | 20 | | 19 | |
| Residential mortgage-backed securities | 15 | | 16 | |
| Asset-backed securities | 11 | | 13 | |
| Commercial mortgage-backed securities | 11 | | 11 | |
| State and political subdivision securities | 2 | | 3 | |
| Foreign government securities | 1 | | 1 | |
| Other | 4 | | 4 | |
| Total | 100 | % | 100 | % |
| **Industry:** | | | | |
| Finance | 30 | % | 24 | % |
| Mortgage-backed | 26 | | 27 | |
| Asset-backed | 11 | | 13 | |
| Consumer | 9 | | 11 | |
| Utility | 7 | | 8 | |
| Communications | 4 | | 5 | |
| Industrial | 3 | | 4 | |
| Foreign government | 1 | | 1 | |
| Other | 9 | | 7 | |
| Total | 100 | % | 100 | % |

***Net Investment Gains (Losses)***

The components of net investment gains (losses) are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| | (In millions) | |

| | | |
|---|---|---|
| Fixed maturity securities | $ (609 ) | $ (203 ) |
| Equity securities | (269 ) | (10 ) |
| Mortgage and consumer loans | (148 ) | (28 ) |
| Real estate and real estate joint ventures | (25 ) | (2 ) |
| Other limited partnership interests | (97 ) | (3 ) |
| Freestanding derivatives | (1,050 ) | 58 |
| Embedded derivatives | 1,217 | (426 ) |
| Other | 75 | (116 ) |
| Net investment gains (losses) | $ (906 ) | $ (730 ) |

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**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

Proceeds from sales or disposals of fixed maturity and equity securities and the components of fixed maturity and equity securities net investment gains (losses) are as follows:

| | Fixed Maturity Securities | | Equity Securities | | Total | |
|---|---|---|---|---|---|---|
| | Three Months Ended March 31, | | | | | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | (In millions) | | | | | |
| Proceeds | $ 11,778 | $ 12,791 | $ 58 | $ 272 | $ 11,836 | $ 13,063 |
| Gross investment gains | $ 356 | $ 159 | $ 7 | $ 77 | $ 363 | $ 236 |
| Gross investment losses | (412) | (288) | (18) | (26) | (430) | (314) |
| Writedowns | | | | | | |
| Credit-related | (483) | (74) | (98) | | (581) | (74) |
| Other than credit-related (1) | (70) | | (160) | (61) | (230) | (61) |
| Total writedowns | (553) | (74) | (258) | (61) | (811) | (135) |
| Net investment gains (losses) | $ (609) | $ (203) | $ (269) | $ (10) | $ (878) | $ (213) |

(1) Other than credit-related writedowns include items such as equity securities and non-redeemable preferred securities classified within fixed maturity securities where the primary reason for the writedown was the severity and/or the duration of an unrealized loss position and fixed maturity securities where an interest-rate related writedown was taken.

The Company periodically disposes of fixed maturity and equity securities at a loss. Generally, such losses are insignificant in amount or in relation to the cost basis of the investment, are attributable to declines in fair value occurring in the period of the disposition or are as a result of management s decision to sell securities based on current conditions or the Company s need to shift the portfolio to maintain its portfolio management objectives.

Losses from fixed maturity and equity securities deemed other-than-temporarily impaired, included within net investment gains (losses), were $811 million and $135 million for the three months ended March 31, 2009 and 2008, respectively. The substantial increase in the three months ended March 31, 2009 was driven in part by writedowns totaling $351 million of financial services industry securities holdings, comprised of $121 million of fixed maturity securities and $230 million of equity securities. These financial services industry impairments included $293 million of perpetual hybrid securities, some classified as fixed maturity securities and some classified as non-redeemable preferred stock, where there had been a deterioration in the credit rating of the issuer to below investment grade and due to a severe and extended unrealized loss position. In addition, there were increased credit-related impairments in the fixed maturity securities portfolio across several industries as shown in the table below. The circumstances that gave rise to these impairments were financial restructurings, bankruptcy filings, ratings downgrades or difficult underlying operating environments for the entities concerned.

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

The $553 million and $74 million of fixed maturity security writedowns in the three months ended March 31, 2009 and 2008, respectively, related to the following:

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| | (In millions) | |
| Communications | $ 142 | 17 |
| Finance | 121 | 31 |
| Consumer | 90 | |
| Asset-backed | 66 | 24 |
| Mortgage-backed | 60 | |
| Utility | 33 | |
| Industrial | 17 | |
| Other | 24 | 2 |
| Total | $ 553 | $ 74 |

Included within the $258 million of writedowns on equity securities in the three months ended March 31, 2009 are $230 million of writedowns related to financial services industry holdings and $28 million of writedowns across several industries including communications and consumer. Equity security impairments in the three months ended March 31, 2009 included impairments totaling $200 million related to financial services industry perpetual hybrid securities where there had been a deterioration in the credit rating of the issuer to below investment grade and due to a severe and extended unrealized loss position.

***Net Investment Income***

The components of net investment income are as follows:

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| | (In millions) | |
| Fixed maturity securities | $ 2,818 | $ 3,547 |
| Equity securities | 38 | 68 |
| Trading securities (1) | 17 | (51) |
| Mortgage and consumer loans | 682 | 702 |

| | | |
|---|---|---|
| Policy loans | 157 | 148 |
| Real estate and real estate joint ventures (2) | (85) | 174 |
| Other limited partnership interests (3) | (253) | 132 |
| Cash, cash equivalents and short-term investments | 48 | 110 |
| International joint ventures (4) | 7 | (4) |
| Other | 75 | 76 |
| Total investment income | 3,504 | 4,902 |
| Less: Investment expenses | 241 | 605 |
| Net investment income | $ 3,263 | $ 4,297 |

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(1) Net investment income from trading securities includes interest and dividends earned on trading securities in addition to the net realized and unrealized gains (losses) recognized on trading securities and the short sale agreements liabilities. During the three months ended March 31, 2008, unrealized losses recognized on trading securities, due to the volatility in the equity and credit markets, were in excess of interest and dividends earned and net realized gains (losses) on securities sold.

(2) Net investment income from real estate joint ventures within the real estate and real estate joint ventures caption represents distributions for investments accounted for under the cost method and equity in earnings for investments accounted for under the equity method. Overall, for the three months ended March 31, 2009, the net amount recognized was a loss of $85 million resulting primarily from declining property valuations on real estate held by certain real estate investment funds that carry their real estate at fair value and operating losses incurred on real estate properties that were developed for sale by real estate development joint ventures, in excess of earnings from wholly-owned real estate. The commercial real estate properties underlying real estate investment funds have experienced lower occupancy rates which has led to declining property valuations, while the real estate development joint ventures have experienced fewer property sales due to declining real estate market fundamentals and decreased availability of real estate lending to finance transactions.

(3) Net investment income from other limited partnership interests, including hedge funds, represents distributions from other limited partnership interests accounted for under the cost method and equity in earnings from other limited partnership interests accounted for under the equity method. Overall for the three months ended March 31, 2009, the net amount recognized was a loss of $253 million resulting principally from losses on equity method investments. Such earnings and losses recognized for other limited partnership interests are impacted by volatility in the equity and credit markets.

(4) Net of changes in estimated fair value of derivatives related to economic hedges of these equity method investments that do not qualify for hedge accounting of ($24) million and $41 million for the three months ended March 31, 2009 and 2008, respectively.

***Securities Lending***

The Company participates in securities lending programs 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. The Company generally obtains collateral in an amount equal to 102% of the estimated fair value of the securities loaned. Securities with a cost or amortized cost of $18.5 billion and $20.8 billion and an estimated fair value of $19.7 billion and $22.9 billion were on loan under the program at March 31, 2009 and December 31, 2008, respectively. Securities loaned under such transactions may be sold or repledged by the transferee. The Company was liable for cash collateral under its control of $20.0 billion and $23.3 billion at March 31, 2009 and December 31, 2008, respectively. Of this $20.0 billion of cash collateral at March 31, 2009, $3.0 billion was on open terms, meaning that the related loaned security could be returned to the Company on the next business day requiring return of cash collateral, and $11.9 billion, $3.8 billion, $0.2 billion and $1.1 billion, respectively, were due within 30 days, 60 days, 90 days and over 90 days. Of the $2.9 billion of estimated fair value of the securities related to the cash collateral on open terms at March 31, 2009, $2.8 billion were U.S. Treasury, agency and government guaranteed securities which, if put to the Company, can be immediately sold to satisfy the cash requirements. The remainder of the securities on loan are primarily U.S. Treasury, agency and government guaranteed securities, and very liquid residential mortgage-backed securities. The estimated fair value of the reinvestment portfolio acquired with the cash collateral was $16.2 billion at March 31, 2009, and consisted principally of fixed maturity securities (including residential mortgage-backed, asset-backed, U.S. corporate and foreign corporate securities).

Security collateral of $36 million and $279 million on deposit from counterparties in connection with the securities lending transactions at March 31, 2009 and December 31, 2008, respectively, may not be sold or repledged, unless the counterparty is in default, and is not reflected in the consolidated financial statements.

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**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

***Assets on Deposit, Held in Trust and Pledged as Collateral***

The assets on deposit, assets held in trust and assets pledged as collateral are summarized in the table below. The amounts presented in the table below are at estimated fair value for cash, fixed maturity and equity securities and at carrying value for mortgage loans.

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | (In millions) | |
| Assets on deposit: | | |
| Regulatory agencies (1) | $ 1,256 | $ 1,282 |
| Assets held in trust: | | |
| Collateral financing arrangements (2) | 5,209 | 4,754 |
| Reinsurance arrangements (3) | 1,517 | 1,714 |
| Assets pledged as collateral: | | |
| Debt and funding agreements FHLB of NY (4) | 23,059 | 20,880 |
| Debt and funding agreements FHLB of Boston (4) | 939 | 1,284 |
| Funding agreements Farmer MAC (5) | 2,875 | 2,875 |
| Federal Reserve Bank of New York (6) | 2,708 | 1,577 |
| Collateral financing arrangements Holding Company (7) | 641 | 316 |
| Derivative transactions (8) | 1,742 | 1,744 |
| Short sale agreements (9) | 424 | 346 |
| Other | 180 | 180 |
| Total assets on deposit, held in trust and pledged as collateral | $ 40,550 | $ 36,952 |

(1) The Company had investment assets on deposit with regulatory agencies consisting primarily of fixed maturity and equity securities.

(2) The Company held in trust cash and securities, primarily fixed maturity and equity securities to satisfy collateral requirements. The Company has also pledged certain fixed maturity securities in support of the collateral financing arrangements described in Note 10.

(3) The Company has pledged certain investments, primarily fixed maturity securities, in connection with certain reinsurance transactions.

(4) The Company has pledged fixed maturity securities in support of its debt and funding agreements with the Federal Home Loan Bank of New York ( FHLB of NY ) and the Federal Home Loan Bank of Boston ( FHLB of Boston ).

(5) The Company has pledged certain agricultural real estate mortgage loans in connection with funding agreements with the Federal Agricultural Mortgage Corporation ( Farmer MAC ).

(6) The Company has pledged qualifying mortgage loans and securities in connection with collateralized borrowings from the Federal Reserve Bank of New York s Term Auction Facility. The nature of these Federal Home Loan Bank, Farmer MAC and Federal Reserve Bank of New York arrangements is described in Note 9.

(7) The Holding Company has pledged certain collateral in support of the collateral financing arrangements described in Note 10.

(8) Certain of the Company s invested assets are pledged as collateral for various derivative transactions as described in Note 4.

(9) Certain of the Company s trading securities are pledged to secure liabilities associated with short sale agreements in the trading securities portfolio as described in the following section.

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

See also the immediately preceding section Securities Lending for the amount of the Company s cash and invested assets received from and due back to counterparties pursuant to the securities lending program.

***Trading Securities***

The Company has a trading securities portfolio to support investment strategies that involve the active and frequent purchase and sale of securities, the execution of short sale agreements and asset and liability matching strategies for certain insurance products. Trading securities and short sale agreement liabilities are recorded at estimated fair value with subsequent changes in estimated fair value recognized in net investment income.

At March 31, 2009 and December 31, 2008, trading securities at estimated fair value were $922 million and $946 million, respectively, and liabilities associated with the short sale agreements in the trading securities portfolio, which were included in other liabilities, were $130 million and $57 million, respectively. The Company had pledged $424 million and $346 million of its assets, at estimated fair value, consisting of trading securities and cash and cash equivalents, as collateral to secure the liabilities associated with the short sale agreements in the trading securities portfolio at March 31, 2009 and December 31, 2008, respectively.

Interest and dividends earned on trading securities in addition to the net realized and unrealized gains (losses) recognized on the trading securities and the related short sale agreement liabilities included within net investment income totaled $17 million and ($51) million for the three months ended March 31, 2009 and 2008, respectively. Included within unrealized gains (losses) on such trading securities and short sale agreement liabilities are changes in estimated fair value of $13 million and ($42) million for the three months ended March 31, 2009 and 2008, respectively.

***Mortgage Servicing Rights***

The following table presents the changes in capitalized mortgage servicing rights ( MSRs ), which are included in other invested assets, for the three months ended March 31, 2009:

| | Carrying Value (In millions) |
|---|---|
| Fair value, beginning of period | $ 191 |
| Acquisition of mortgage servicing rights | 235 |
| Reduction due to loan payments | (25) |
| Reduction due to sales | |
| Changes in fair value due to: | |
| Changes in valuation model inputs or assumptions | 3 |
| Other changes in fair value | 1 |
| Fair value, end of period | $ 405 |

The Company recognizes the rights to service residential mortgage loans as MSRs. MSRs are either acquired or are generated from the sale of originated residential mortgage loans where the servicing rights are retained by the Company. MSRs are carried at estimated fair value and changes in estimated fair value, primarily due to changes in valuation inputs and assumptions and to the collection of expected cash flows, are reported in other revenues in the period in which the change occurs. See also Note 18 for further information about how the estimated fair value of MSRs is determined and other related information.

**MetLife, Inc.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

***Variable Interest Entities***

The following table presents the total assets and total liabilities relating to VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated in the Company s financial statements at March 31, 2009 and December 31, 2008. Generally, creditors or beneficial interest holders of VIEs where the Company is the primary beneficiary have no recourse to the general credit of the Company.

| | March 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Total Assets | Total Liabilities | Total Assets | Total Liabilities |
| | (In millions) | | | |
| MRSC collateral financing arrangement (1) | $ 2,781 | $ | $ 2,361 | $ |
| Real estate joint ventures (2) | 30 | 16 | 26 | 15 |
| Other limited partnership interests (3) | 163 | 50 | 20 | 3 |
| Other invested assets (4) | 28 | 2 | 10 | 3 |
| Total | $ 3,002 | $ 68 | $ 2,417 | $ 21 |

(1) See Note 10 for a description of the MetLife Reinsurance Company of South Carolina ( MRSC ) collateral financing arrangement. At March 31, 2009 and December 31, 2008, these assets are reflected at estimated fair value and consist of the following:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | (In millions) | |
| Fixed maturity securities available-for-sale: | | |
| U.S. corporate securities | $ 858 | $ 948 |
| Residential mortgage-backed securities | 563 | 561 |
| U.S. Treasury, agency and government guaranteed securities | 501 | |
| Asset-backed securities | 465 | 409 |
| Commercial mortgage-backed securities | 101 | 98 |
| Foreign corporate securities | 99 | 95 |
| State and political subdivision securities | 21 | 21 |
| Foreign government securities | 5 | 5 |
| Cash and cash equivalents (including cash held in trust of $0 and $60 million, respectively) | 168 | 224 |
| Total | $ 2,781 | $ 2,361 |

(2) Real estate joint ventures include partnerships and other ventures which engage in the acquisition, development, management and disposal of real estate investments. Upon consolidation, the assets and liabilities are reflected at the VIE s carrying amounts. At March 31, 2009 and December 31, 2008, the assets consist of $24 million and $20 million, respectively, of real estate and real estate joint ventures held-for-investment, $5 million and $5 million, respectively, of cash and cash equivalents and $1 million and $1 million, respectively, of other assets. At March 31, 2009, liabilities consist of $14 million and $2 million of other liabilities and long-term debt, respectively. At December 31, 2008, liabilities consist of $15 million of other liabilities.

(3) Other limited partnership interests include partnerships established for the purpose of investing in public and private debt and equity securities. Upon consolidation, the assets and liabilities are reflected at the VIE s carrying amounts. At March 31, 2009 and December 31, 2008, the assets of $163 million and $20 million, respectively, are included within other limited partnership interests while the liabilities of $50 million and $3 million, respectively, are included within other liabilities.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

(4) Other invested assets includes tax-credit partnerships and other investments established for the purpose of investing in low-income housing and other social causes, where the primary return on investment is in the form of tax credits. Upon consolidation, the assets and liabilities are reflected at the VIE s carrying amounts. At March 31, 2009 and December 31, 2008, the assets of $28 million and $10 million, respectively, are included within other invested assets. At March 31, 2009 and December 31, 2008, the liabilities consist of $1 million and $2 million, respectively, of long-term debt and less than $1 million and $1 million, respectively, of other liabilities.

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which the Company holds significant variable interests but is not the primary beneficiary and which have not been consolidated at March 31, 2009 and December 31, 2008:

| | March 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Amount (1) | Maximum Exposure to Loss (2) | Carrying Amount (1) | Maximum Exposure to Loss (2) |
| | (In millions) | | | |
| Fixed maturity securities available-for-sale: | | | | |
| Foreign corporate securities | $ 465 | $ 465 | $ 1,080 | $ 1,080 |
| U.S. corporate securities | 338 | 338 | 992 | 992 |
| Real estate joint ventures | 32 | 32 | 32 | 32 |
| Other limited partnership interests | 2,616 | 2,992 | 3,496 | 4,004 |
| Other invested assets | 351 | 167 | 318 | 108 |
| Total | $ 3,802 | $ 3,994 | $ 5,918 | $ 6,216 |

(1) See Note 1 of the Notes to the Consolidated Financial Statements included in the 2008 Annual Report for further discussion of the Company s accounting policies with respect to the basis for determining carrying value of these investments.

(2) The maximum exposure to loss relating to the fixed maturity securities available-for-sale is equal to the carrying amounts or carrying amounts of retained interests. The maximum exposure to loss relating to the real estate joint ventures and other limited partnership interests is equal to the carrying amounts plus any unfunded commitments. Such a maximum loss would be expected to occur only upon bankruptcy of the issuer or investee. For certain of its investments in other invested assets, the Company s return is in the form of tax credits which are guaranteed by a creditworthy third party. For such investments, the maximum exposure to loss is equal to the carrying amounts plus any unfunded commitments, reduced by tax credits guaranteed by third parties of $268 million and $278 million at March 31, 2009 and December 31, 2008, respectively.

As described in Note 11, the Company makes commitments to fund partnership investments in the normal course of business. Excluding these commitments, MetLife did not provide financial or other support to investees designated as VIEs during the three months ended March 31, 2009.

## 4. Derivative Financial Instruments

### *Accounting for Derivative Financial Instruments*

Derivatives are financial instruments whose values are derived from interest rates, foreign currency exchange rates, or other financial indices. Derivatives may be exchange-traded or contracted in the over-the-counter market. The Company uses a variety of derivatives, including swaps, forwards, futures and option contracts, to manage the risk associated with variability in cash flows or changes in estimated fair values related to the Company s financial instruments. The Company also uses derivative instruments to hedge its currency exposure associated with net investments in certain foreign operations. To a lesser extent, the Company uses credit derivatives, such as credit

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default swaps, to synthetically replicate investment risks and returns which are not readily available in the cash market. The Company also purchases certain securities, issues certain insurance policies and investment contracts and engages in certain reinsurance contracts that have embedded derivatives.

Freestanding derivatives are carried on the Company s consolidated balance sheet either as assets within other invested assets or as liabilities within other liabilities at estimated fair value as determined through the use of quoted market prices for exchange-traded derivatives and interest rate 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.

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.

Pursuant to FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, the Company s policy is to not offset the fair value amounts recognized for derivatives executed with the same counterparty under the same master netting agreement.

If a derivative is not designated as an accounting hedge or its use in managing risk does not qualify for hedge accounting, changes in the estimated fair value of the derivative are generally reported in net investment gains (losses) except for those (i) in policyholder benefits and claims for economic hedges of liabilities embedded in certain variable annuity products offered by the Company, (ii) in net investment income for economic hedges of equity method investments in joint ventures, or for all derivatives held in relation to the trading portfolios and (iii) in

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other revenues for derivatives held in connection with the Company s mortgage banking activities. The fluctuations in estimated fair value of derivatives which have not been designated for hedge accounting can result in significant volatility in net income.

To qualify for hedge accounting, at the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction, as well as its designation of the hedge as either (i) a hedge of the estimated fair value of a recognized asset or liability or an unrecognized firm commitment ( fair value hedge ); (ii) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ( cash flow hedge ); or (iii) a hedge of a net investment in a foreign operation. In this documentation, the Company sets forth how the hedging instrument is expected to hedge the designated risks related to the hedged item and sets forth the method that will be used to retrospectively and prospectively assess the hedging instrument s effectiveness and the method which will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship. Assessments of hedge effectiveness and measurements of ineffectiveness are also subject to interpretation and estimation and different interpretations or estimates may have a material effect on the amount reported in net income.

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 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.

Under a fair value hedge, changes in the estimated fair value of the hedging derivative, including amounts measured as ineffectiveness, and changes in the estimated fair value of the hedged item related to the designated risk being hedged, are reported within net investment gains (losses). The estimated fair values of the hedging derivatives are exclusive of any accruals that are separately reported in the consolidated statement of income within interest income or interest expense to match the location of the hedged item. However, balances that are not scheduled to settle until maturity are included in the estimated fair value of derivatives.

Under a cash flow hedge, changes in the estimated fair value of the hedging derivative measured as effective are reported within other comprehensive income (loss), a separate component of stockholders equity, and the deferred gains or losses on the derivative are reclassified into the consolidated statement of income when the Company s earnings are affected by the variability in cash flows of the hedged item. Changes in the estimated fair value of the hedging instrument measured as ineffectiveness are reported within net investment gains (losses). The estimated fair values of the hedging derivatives are exclusive of any accruals that are separately reported in the consolidated statement of income within interest income or interest expense to match the location of the hedged item. However, balances that are not scheduled to settle until maturity are included in the estimated fair value of derivatives.

In a hedge of a net investment in a foreign operation, changes in the estimated fair value of the hedging derivative that are measured as effective are reported within other comprehensive income (loss) consistent with the translation adjustment for the hedged net investment in the foreign operation. Changes in the estimated fair value of the hedging instrument measured as ineffectiveness are reported within net investment gains (losses).

The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivative is no longer highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item; (ii) the derivative expires, is sold, terminated, or exercised; (iii) it is no longer probable that the hedged forecasted

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transaction will occur; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; or (v) the derivative is de-designated as a hedging instrument.

When hedge accounting is discontinued because it is determined that the derivative is not highly effective in offsetting changes in the estimate fair value or cash flows of a hedged item, the derivative continues to be carried on the consolidated balance sheet at its estimated fair value, with changes in estimated fair value recognized currently in net investment gains (losses). The carrying value of the hedged recognized asset or liability under a fair value hedge is no longer adjusted for changes in its estimated fair value due to the hedged risk, and the cumulative adjustment to its carrying value is amortized into income over the remaining life of the hedged item. Provided the hedged forecasted transaction is still probable of occurrence, the changes in estimated fair value of derivatives recorded in other comprehensive income (loss) related to discontinued cash flow hedges are released into the consolidated statement of income when the Company s earnings are affected by the variability in cash flows of the hedged item.

When hedge accounting is discontinued because it is no longer probable that the forecasted transactions will occur by the end of the specified time period or the hedged item no longer meets the definition of a firm commitment, the derivative continues to be carried on the consolidated balance sheet at its estimated fair value, with changes in estimated fair value recognized currently in net investment gains (losses). Any asset or liability associated with a recognized firm commitment is derecognized from the consolidated balance sheet, and recorded currently in net investment gains (losses). Deferred gains and losses of a derivative recorded in other comprehensive income (loss) pursuant to the cash flow hedge of a forecasted transaction are recognized immediately in net investment gains (losses).

In all other situations in which hedge accounting is discontinued, the derivative is carried at its estimated fair value on the consolidated balance sheet, with changes in its estimated fair value recognized in the current period as net investment gains (losses).

The Company is also a party to financial instruments that contain terms which are deemed to be embedded derivatives. The Company assesses each identified embedded derivative to determine whether it is required to be bifurcated. If the instrument would not be accounted for in its entirety at estimated fair value and it is determined that the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for as a freestanding derivative. Such embedded derivatives are carried on the consolidated balance sheet at estimated fair value with the host contract and changes in their estimated fair value are reported currently in net investment gains (losses) or in policyholder benefits and claims. If the Company is unable to properly identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at estimated fair value, with changes in estimated fair value recognized in the current period in net investment gains (losses) or in policyholder benefits and claims. Additionally, the Company may elect to carry an entire contract on the balance sheet at estimated fair value, with changes in estimated fair value recognized in the current period in net investment gains (losses) or in policyholder benefits and claims if that contract contains an embedded derivative that requires bifurcation. There is a risk that embedded derivatives requiring bifurcation may not be identified and reported at estimated fair value in the consolidated financial statements and that their related changes in estimated fair value could materially affect reported net income.

See Note 18 for information about the fair value hierarchy for derivatives.

***Primary Risks Managed by Derivative Financial Instruments and Non Derivative Financial Instruments***

The Company is exposed to various risks relating to its ongoing business operations, including interest rate risk, foreign currency risk, credit risk, and equity market risk. The Company uses a variety of strategies to manage these risks, including the use of derivative instruments. The following table presents the notional amount, estimated

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

fair value, and primary underlying risk exposure of Company s derivative financial instruments, excluding embedded derivatives held at:

| | | March 31, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|---|
| | | | Current Market or Fair Value (1) | | | Current Market or Fair Value (1) | |
| Primary Underlying Risk Exposure | Instrument Type | Notional Amount | Assets | Liabilities | Notional Amount | Assets | Liabilities |
| | | (In millions) | | | | | |
| Interest rate | Interest rate swaps | $ 34,678 | $ 3,204 | $ 1,248 | $ 34,060 | $ 4,617 | $ 1,468 |
| | Interest rate floors | 29,191 | 875 | 81 | 48,517 | 1,748 | |
| | Interest rate caps | 20,136 | 46 | | 24,643 | 11 | |
| | Interest rate futures | 11,573 | 21 | 22 | 13,851 | 44 | 117 |
| | Interest rate options | | | | 2,365 | 939 | 35 |
| | Interest rate forwards | 17,071 | 75 | 70 | 16,616 | 49 | 70 |
| | Synthetic GICs | 4,297 | | | 4,260 | | |
| Foreign currency | Foreign currency swaps | 18,665 | 1,653 | 1,606 | 19,438 | 1,953 | 1,866 |
| | Foreign currency forwards | 5,800 | 68 | 214 | 5,167 | 153 | 129 |
| | Currency options | 878 | 46 | | 932 | 73 | |
| | Non-derivative hedging instruments (2) | 351 | | 317 | 351 | | 323 |
| Credit | Swap spreadlocks | 955 | | 61 | 2,338 | | 99 |
| | Credit default swaps | 6,188 | 247 | 67 | 5,219 | 152 | 69 |
| Equity market | Equity futures | 6,148 | 108 | 63 | 6,057 | 1 | 88 |
| | Equity options | 14,189 | 2,623 | 451 | 5,153 | 2,150 | |
| | Variance swaps | 9,402 | 385 | 4 | 9,222 | 416 | |
| | Other | 250 | | 122 | 250 | | 101 |
| | Total | $ 179,772 | $ 9,351 | $ 4,326 | $ 198,439 | $ 12,306 | $ 4,365 |

(1) The estimated fair value of all derivatives in an asset position is reported within other invested assets in the consolidated balance sheets and the estimated fair value of all derivatives in a liability position is reported within other liabilities in the consolidated balance sheets.

(2) The estimated fair value of non-derivative hedging instruments represents the amortized cost of the instruments, as adjusted for foreign currency transaction gains or losses. Non-derivative hedging instruments are reported within policyholder account balances in the consolidated balance sheets.

Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). In an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional principal amount. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by the counterparty at each due date. The Company utilizes interest rate swaps in fair value, cash flow, and non-qualifying hedging relationships.

The Company also enters into basis swaps to better match the cash flows from assets and related liabilities. In a basis swap, both legs of the swap are floating with each based on a different index. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. A single net payment is usually made by one counterparty at each due date. Basis swaps are included in interest rate swaps in the preceding table. The Company utilizes basis swaps in non-qualifying hedging relationships.

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Inflation swaps are used as an economic hedge to reduce inflation risk generated from inflation-indexed liabilities. Inflation swaps are included in interest rate swaps in the preceding table. The Company utilizes inflation swaps in non-qualifying hedging relationships.

Implied volatility swaps are used by the Company primarily as economic hedges of interest rate risk associated with the Company s investments in mortgage-backed securities. In an implied volatility swap, the Company exchanges fixed payments for floating payments that are linked to certain market volatility measures. If implied volatility rises, the floating payments that the Company receives will increase, and if implied volatility falls, the floating payments that the Company receives will decrease. Implied volatility swaps are included in interest rate swaps in the preceding table. The Company utilizes implied volatility swaps in non-qualifying hedging relationships.

The Company purchases interest rate caps and floors primarily to protect its floating rate liabilities against rises in interest rates above a specified level, and against interest rate exposure arising from mismatches between assets and liabilities (duration mismatches), as well as to protect its minimum rate guarantee liabilities against declines in interest rates below a specified level, respectively. In certain instances, the Company locks in the economic impact of existing purchased caps and floors by entering into offsetting written caps and floors. The Company utilizes interest rate caps and floors in non-qualifying hedging relationships.

In exchange-traded interest rate (Treasury and swap) futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different classes of interest rate securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded interest rate (Treasury and swap) futures are used primarily to hedge mismatches between the duration of assets in a portfolio and the duration of liabilities supported by those assets, to hedge against changes in value of securities the Company owns or anticipates acquiring, and to hedge against changes in interest rates on anticipated liability issuances by replicating Treasury or swap curve performance. The value of interest rate futures is substantially impacted by changes in interest rates and they can be used to modify or hedge existing interest rate risk. The Company utilizes exchange-traded interest rate futures in non-qualifying hedging relationships.

Swaptions are used by the Company to hedge interest rate risk associated with the Company s long-term liabilities. A swaption is an option to enter into a swap with a forward starting effective date. In certain instances, the Company locks in the economic impact of existing purchased swaptions by entering into offsetting written swaptions. The Company pays a premium for purchased swaptions and receives a premium for written swaptions. Swaptions are included in interest rate options in the preceding table. The Company utilizes swaptions in non-qualifying hedging relationships.

The Company enters into interest rate forwards to buy and sell securities. The price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. The Company also uses interest rate forwards to sell securities as economic hedges against the risk of changes in the fair value of mortgage loans held for sale and interest rate lock commitments. The Company utilizes interest rate forwards in non-qualifying hedging relationships.

Interest rate lock commitments are short-term commitments to fund mortgage loan applications in process (the pipeline) for a fixed term at a fixed price. During the term of an interest rate lock commitment, the Company is exposed to the risk that interest rates will change from the rate quoted to the potential borrower. Interest rate lock commitments to fund mortgage loans that will be held for sale are considered derivatives pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging* ( SFAS 133 ). Interest rate lock commitments are included in interest rate forwards in the preceding table. Interest rate lock commitments are not designated as hedging instruments.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (Continued)**

A synthetic guaranteed interest contract ( GIC ) is a contract that simulates the performance of a traditional GIC through the use of financial instruments. Under a synthetic GIC, the policyholder owns the underlying assets. The Company guarantees a rate return on those assets for a premium. Synthetic GICs are not designated as hedging instruments.

Foreign currency derivatives, including foreign currency swaps, foreign currency forwards and currency option contracts, are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. The Company also uses foreign currency forwards and swaps to hedge the foreign currency risk associated with certain of its net investments in foreign operations.

In a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a fixed exchange rate, generally set at inception, calculated by reference to an agreed upon principal amount. The principal amount of each currency is exchanged at the inception and termination of the currency swap by each party. The Company utilizes foreign currency swaps in fair value, cash flow, net investment in foreign operations, and non-qualifying hedging relationships.

In a foreign currency forward transaction, the Company agrees with another party to deliver a specified amount of an identified currency at a specified future date. The price is agreed upon at the time of the contract and payment for such a contract is made in a different currency at the specified future date. The Company utilizes foreign currency forwards in net investment in foreign operations and non-qualifying hedging relationships.

The Company enters into currency option contracts that give it the right, but not the obligation, to sell the foreign currency amount in exchange for a functional currency amount within a limited time at a contracted price. The contracts may also be net settled in cash, based on differentials in the foreign exchange rate and the strike price. The Company uses currency options to hedge against the foreign currency exposure inherent in certain of its variable annuity products. The Company utilizes currency options in non-qualifying hedging relationships.

The Company uses certain of its foreign denominated GICs to hedge portions of its net investments in foreign operations against adverse movements in exchange rates. Such contracts are included in non-derivative hedging instruments in the preceding table.

Swap spread locks are used by the Company to hedge invested assets on an economic basis against the risk of changes in credit spreads. Swap spread locks are forward transactions between two parties whose underlying reference index is a forward starting interest rate swap where the Company agrees to pay a coupon based on a predetermined reference swap spread in exchange for receiving a coupon based on a floating rate. The Company has the option to cash settle with the counterparty in lieu of maintaining the swap after the effective date. The Company utilizes swap spread locks in non-qualifying hedging relationships.