
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO
Commission file number: 001-15787

MetLife, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-4075851
(I.R.S. Employer
Identification No.)

200 Park Avenue, New York, NY
(Address of principal executive offices)

10166-0188
(Zip Code)

(212) 578-9500

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01	MET	New York Stock Exchange
Floating Rate Non-Cumulative Preferred Stock, Series A, par value \$0.01	MET PRA	New York Stock Exchange
Depository Shares each representing a 1/1000th interest in a share of 5.625% Non-Cumulative Preferred Stock, Series E	MET PRE	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At October 31, 2019, 919,631,257 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

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As used in this Form 10-Q, “MetLife,” the “Company,” “we,” “our” and “us” refer to MetLife, Inc., a Delaware corporation incorporated in 1999, its subsidiaries and affiliates.

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words and terms such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “will,” and other words and terms of similar meaning, or are tied to future periods, in connection with a discussion of future 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.

Many factors will be important in determining the results of MetLife, Inc., its subsidiaries and affiliates. Forward-looking statements are based on our assumptions and current expectations, which may be inaccurate, and on the current economic environment, which may change. These statements are not guarantees of future performance. They involve a number of risks and uncertainties that are difficult to predict. Results could differ materially from those expressed or implied in the forward-looking statements. Risks, uncertainties, and other factors that might cause such differences include the risks, uncertainties and other factors identified in MetLife, Inc.’s filings with the U.S. Securities and Exchange Commission. These factors include: (1) difficult economic conditions, including risks relating to interest rates, credit spreads, equity, real estate, obligors and counterparties, currency exchange rates, derivatives, and terrorism and security; (2) adverse global capital and credit market conditions, which may affect our ability to meet liquidity needs and access capital, including through our credit facilities; (3) downgrades in our claims paying ability, financial strength or credit ratings; (4) availability and effectiveness of reinsurance, hedging or indemnification arrangements; (5) increasing cost and limited market capacity for statutory life insurance reserve financings; (6) the impact on us of changes to and implementation of the wide variety of laws and regulations to which we are subject; (7) regulatory, legislative or tax changes relating to our operations that may affect the cost of, or demand for, our products or services; (8) adverse results or other consequences from litigation, arbitration or regulatory investigations; (9) legal, regulatory and other restrictions affecting MetLife, Inc.’s ability to pay dividends and repurchase common stock; (10) MetLife, Inc.’s primary reliance, as a holding company, on dividends from subsidiaries to meet free cash flow targets and debt payment obligations and the applicable regulatory restrictions on the ability of the subsidiaries to pay such dividends; (11) investment losses, defaults and volatility; (12) potential liquidity and other risks resulting from our participation in a securities lending program and other transactions; (13) changes to investment valuations, allowances and impairments taken on investments, and methodologies, estimates and assumptions; (14) differences between actual claims experience and underwriting and reserving assumptions; (15) political, legal, operational, economic and other risks relating to our global operations; (16) competitive pressures, including with respect to pricing, entry of new competitors, consolidation of distributors, the development of new products by new and existing competitors, and for personnel; (17) the impact of technological changes on our businesses; (18) catastrophe losses; (19) a deterioration in the experience of the closed block established in connection with the reorganization of Metropolitan Life Insurance Company; (20) impairment of goodwill or other long-lived assets, or the establishment of a valuation allowance against our deferred income tax asset; (21) changes in assumptions related to deferred policy acquisition costs, deferred sales inducements or value of business acquired; (22) exposure to losses related to guarantees in certain products; (23) ineffectiveness of risk management policies and procedures or models; (24) a failure in our cybersecurity systems or other information security systems or our disaster recovery plans; (25) any failure to protect the confidentiality of client information; (26) changes in accounting standards; (27) our associates taking excessive risks; (28) difficulties in marketing and distributing products through our distribution channels; (29) increased expenses relating to pension and other postretirement benefit plans; (30) inability to protect our intellectual property rights or claims of infringement of others’ intellectual property rights; (31) difficulties, unforeseen liabilities, asset impairments, or rating agency actions arising from business acquisitions and dispositions, joint ventures, or other legal entity reorganizations; (32) unanticipated or adverse developments that could adversely affect our expected operational or other benefits from the separation of Brighthouse Financial, Inc. and its subsidiaries; (33) the possibility that MetLife, Inc.’s Board of Directors may influence the outcome of stockholder votes through the voting provisions of the MetLife Policyholder Trust; (34) provisions of laws and our incorporation documents that may delay, deter or prevent takeovers and corporate combinations involving MetLife; and (35) other risks and uncertainties described from time to time in MetLife, Inc.’s filings with the U.S. Securities and Exchange Commission.

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

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Corporate Information

We announce financial and other information about MetLife to our investors on our website (www.metlife.com) through the MetLife Investor Relations web page (<https://investor.metlife.com>), as well as in U.S. Securities and Exchange Commission filings, news releases, public conference calls and webcasts. MetLife encourages investors to visit the Investor Relations web page from time to time, as information is updated and new information is posted. The information found on our website is not incorporated by reference into this Quarterly Report on Form 10-Q or in any other report or document we file with the U.S. Securities and Exchange Commission, and any references to our website are intended to be inactive textual references only.

Note Regarding Reliance on Statements in Our Contracts

See “Exhibits — Note Regarding Reliance on Statements in Our Contracts” for information regarding agreements included as exhibits to this Quarterly Report on Form 10-Q.

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Part I — Financial Information
Item 1. Financial Statements

MetLife, Inc.
Interim Condensed Consolidated Balance Sheets
September 30, 2019 and December 31, 2018 (Unaudited)
(In millions, except share and per share data)

	September 30, 2019	December 31, 2018
Assets		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: \$293,130 and \$286,816, respectively)	\$ 326,049	\$ 298,265
Equity securities, at estimated fair value	1,341	1,440
Contractholder-directed equity securities and fair value option securities, at estimated fair value (includes \$3 and \$4, respectively, relating to variable interest entities)	12,671	12,616
Mortgage loans (net of valuation allowances of \$350 and \$342, respectively; includes \$218 and \$299, respectively, under the fair value option)	78,959	75,752
Policy loans	9,671	9,699
Real estate and real estate joint ventures (includes \$250 and \$0, respectively, of real estate held-for-sale)	10,246	9,698
Other limited partnership interests	7,441	6,613
Short-term investments, principally at estimated fair value	3,536	3,937
Other invested assets (includes \$2,352 and \$2,300, respectively, of leveraged and direct financing leases and \$258 and \$141, respectively, relating to variable interest entities)	21,979	18,190
Total investments	471,893	436,210
Cash and cash equivalents, principally at estimated fair value (includes \$15 and \$52, respectively, relating to variable interest entities)	19,452	15,821
Accrued investment income	3,561	3,582
Premiums, reinsurance and other receivables (includes \$5 and \$3, respectively, relating to variable interest entities)	20,723	19,644
Deferred policy acquisition costs and value of business acquired	17,382	18,895
Goodwill	9,278	9,422
Other assets (includes \$2 and \$2, respectively, relating to variable interest entities)	10,166	8,408
Separate account assets	190,357	175,556
Total assets	\$ 742,812	\$ 687,538
Liabilities and Equity		
Liabilities		
Future policy benefits	\$ 193,310	\$ 186,780
Policyholder account balances	189,060	183,693
Other policy-related balances	16,960	16,529
Policyholder dividends payable	692	677
Policyholder dividend obligation	2,370	428
Payables for collateral under securities loaned and other transactions	28,443	24,794
Short-term debt	142	268
Long-term debt (includes \$5 and \$5, respectively, at estimated fair value, relating to variable interest entities)	13,443	12,829
Collateral financing arrangement	1,013	1,060
Junior subordinated debt securities	3,149	3,147
Current income tax payable	31	441
Deferred income tax liability	10,153	5,414
Other liabilities (includes \$1 and \$1, respectively, relating to variable interest entities)	25,070	22,964
Separate account liabilities	190,357	175,556
Total liabilities	674,193	634,580
Contingencies, Commitments and Guarantees (Note 16)		
Equity		
MetLife, Inc.'s stockholders' equity:		
Preferred stock, par value \$0.01 per share; \$3,405 aggregate liquidation preference	—	—
Common stock, par value \$0.01 per share; 3,000,000,000 shares authorized; 1,176,847,734 and 1,171,824,242 shares issued, respectively; 919,601,779 and 958,613,542 shares outstanding, respectively	12	12
Additional paid-in capital	32,639	32,474
Retained earnings	32,948	28,926
Treasury stock, at cost; 257,245,955 and 213,210,700 shares, respectively	(12,428)	(10,393)
Accumulated other comprehensive income (loss)	15,197	1,722
Total MetLife, Inc.'s stockholders' equity	68,368	52,741

Noncontrolling interests	251	217
Total equity	68,619	52,958
Total liabilities and equity	\$ 742,812	\$ 687,538

See accompanying notes to the interim condensed consolidated financial statements.

MetLife, Inc.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Three Months and Nine Months Ended September 30, 2019 and 2018 (Unaudited)

(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
Premiums	\$ 10,781	\$ 10,242	\$ 30,315	\$ 34,573
Universal life and investment-type product policy fees	1,440	1,343	4,217	4,105
Net investment income	4,623	4,486	14,224	12,704
Other revenues	419	479	1,391	1,428
Net investment gains (losses)	161	117	237	(443)
Net derivative gains (losses)	1,254	(378)	2,093	(88)
Total revenues	18,678	16,289	52,477	52,279
Expenses				
Policyholder benefits and claims	10,648	10,080	29,713	33,664
Interest credited to policyholder account balances	1,500	1,334	4,976	3,527
Policyholder dividends	296	327	898	933
Other expenses	3,443	3,469	10,058	10,319
Total expenses	15,887	15,210	45,645	48,443
Income (loss) before provision for income tax	2,791	1,079	6,832	3,836
Provision for income tax expense (benefit)	601	164	1,511	770
Net income (loss)	2,190	915	5,321	3,066
Less: Net income (loss) attributable to noncontrolling interests	6	3	15	10
Net income (loss) attributable to MetLife, Inc.	2,184	912	5,306	3,056
Less: Preferred stock dividends	32	32	121	84
Net income (loss) available to MetLife, Inc.'s common shareholders	\$ 2,152	\$ 880	\$ 5,185	\$ 2,972
Comprehensive income (loss)	\$ 5,759	\$ (940)	\$ 18,780	\$ (4,273)
Less: Comprehensive income (loss) attributable to noncontrolling interests, net of income tax	9	2	20	10
Comprehensive income (loss) attributable to MetLife, Inc.	\$ 5,750	\$ (942)	\$ 18,760	\$ (4,283)
Net income (loss) available to MetLife, Inc.'s common shareholders per common share:				
Basic	\$ 2.31	\$ 0.89	\$ 5.49	\$ 2.93
Diluted	\$ 2.30	\$ 0.88	\$ 5.45	\$ 2.91

See accompanying notes to the interim condensed consolidated financial statements.

MetLife, Inc.

Interim Condensed Consolidated Statements of Equity
For the Nine Months Ended September 30, 2019 and 2018 (Unaudited)
(In millions)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income (Loss)	Total MetLife, Inc.'s Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2018	\$ —	\$ 12	\$ 32,474	\$ 28,926	\$ (10,393)	\$ 1,722	\$ 52,741	\$ 217	\$ 52,958
Cumulative effects of changes in accounting principles, net of income tax (Note 1)				74		21	95		95
Balance at January 1, 2019	—	12	32,474	29,000	(10,393)	1,743	52,836	217	53,053
Treasury stock acquired in connection with share repurchases					(1,250)		(1,250)		(1,250)
Stock-based compensation			128				128		128
Dividends on preferred stock				(89)			(89)		(89)
Dividends on common stock				(824)			(824)		(824)
Change in equity of noncontrolling interests							—	7	7
Net income (loss)				3,122			3,122	9	3,131
Other comprehensive income (loss), net of income tax						9,888	9,888	2	9,890
Balance at June 30, 2019	—	12	32,602	31,209	(11,643)	11,631	63,811	235	64,046
Treasury stock acquired in connection with share repurchases					(785)		(785)		(785)
Stock-based compensation			37				37		37
Dividends on preferred stock				(32)			(32)		(32)
Dividends on common stock				(413)			(413)		(413)
Change in equity of noncontrolling interests							—	7	7
Net income (loss)				2,184			2,184	6	2,190
Other comprehensive income (loss), net of income tax						3,566	3,566	3	3,569
Balance at September 30, 2019	\$ —	\$ 12	\$ 32,639	\$ 32,948	\$ (12,428)	\$ 15,197	\$ 68,368	\$ 251	\$ 68,619

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income (Loss)	Total MetLife, Inc.'s Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	\$ —	\$ 12	\$ 31,111	\$ 26,527	\$ (6,401)	\$ 7,427	\$ 58,676	\$ 194	\$ 58,870
Cumulative effects of changes in accounting principles, net of income tax				(905)		912	7		7
Balance at January 1, 2018	—	12	31,111	25,622	(6,401)	8,339	58,683	194	58,877
Preferred stock issuance			1,274				1,274		1,274
Treasury stock acquired in connection with share repurchases					(2,156)		(2,156)		(2,156)
Stock-based compensation			69				69		69
Dividends on preferred stock				(52)			(52)		(52)
Dividends on common stock				(844)			(844)		(844)
Change in equity of noncontrolling interests							—	(3)	(3)
Net income (loss)				2,144			2,144	7	2,151
Other comprehensive income (loss), net of income tax						(5,485)	(5,485)	1	(5,484)
Balance at June 30, 2018	—	12	32,454	26,870	(8,557)	2,854	53,633	199	53,832
Preferred stock issuance			—				—		—
Treasury stock acquired in connection with share repurchases					(636)		(636)		(636)
Stock-based compensation			21				21		21
Dividends on preferred stock				(32)			(32)		(32)
Dividends on common stock				(419)			(419)		(419)
Change in equity of noncontrolling interests							—	(17)	(17)
Net income (loss)				912			912	3	915
Other comprehensive income (loss), net of income tax						(1,854)	(1,854)	(1)	(1,855)
Balance at September 30, 2018	\$ —	\$ 12	\$ 32,475	\$ 27,331	\$ (9,193)	\$ 1,000	\$ 51,625	\$ 184	\$ 51,809

See accompanying notes to the interim condensed consolidated financial statements.

MetLife, Inc.
Interim Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2019 and 2018 (Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2019	2018
Net cash provided by (used in) operating activities	\$ 8,605	\$ 10,437
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturity securities available-for-sale	57,024	78,227
Equity securities	220	323
Mortgage loans	7,935	6,878
Real estate and real estate joint ventures	552	561
Other limited partnership interests	548	514
Purchases and originations of:		
Fixed maturity securities available-for-sale	(62,803)	(84,014)
Equity securities	(89)	(118)
Mortgage loans	(11,417)	(10,624)
Real estate and real estate joint ventures	(1,097)	(912)
Other limited partnership interests	(1,166)	(1,047)
Cash received in connection with freestanding derivatives	2,977	3,130
Cash paid in connection with freestanding derivatives	(3,294)	(3,745)
Net change in policy loans	6	(62)
Net change in short-term investments	481	(301)
Net change in other invested assets	(241)	174
Other, net	(129)	24
Net cash provided by (used in) investing activities	<u>(10,493)</u>	<u>(10,992)</u>
Cash flows from financing activities		
Policyholder account balances:		
Deposits	69,645	72,037
Withdrawals	(64,655)	(67,869)
Payables for collateral under securities loaned and other transactions:		
Net change in payables for collateral under securities loaned and other transactions	3,703	644
Cash received for other transactions with tenors greater than three months	125	75
Cash paid for other transactions with tenors greater than three months	(200)	—
Long-term debt issued	1,382	24
Long-term debt repaid	(901)	(1,311)
Collateral financing arrangement repaid	(47)	(48)
Financing element on certain derivative instruments and other derivative related transactions, net	18	(15)
Treasury stock acquired in connection with share repurchases	(2,035)	(2,792)
Preferred stock issued, net of issuance costs	—	1,274
Dividends on preferred stock	(121)	(84)
Dividends on common stock	(1,237)	(1,263)
Other, net	(100)	(141)
Net cash provided by (used in) financing activities	<u>5,577</u>	<u>531</u>
Effect of change in foreign currency exchange rates on cash and cash equivalents balances	(58)	(187)
Change in cash and cash equivalents	<u>3,631</u>	<u>(211)</u>
Cash and cash equivalents, beginning of period	15,821	12,701
Cash and cash equivalents, end of period	<u>\$ 19,452</u>	<u>\$ 12,490</u>
Supplemental disclosures of cash flow information		
Net cash paid (received) for:		
Interest	<u>\$ 647</u>	<u>\$ 809</u>
Income tax	<u>\$ 842</u>	<u>\$ 695</u>

Non-cash transactions:		
Fixed maturity securities available-for-sale received in connection with pension risk transfer transactions	\$ 410	\$ 3,016
Brighthouse common stock exchange transaction:		
Reduction of long-term debt	\$ —	\$ 944
Reduction of fair value option securities	\$ —	\$ 1,030
Reclassification of certain equity securities to other invested assets	\$ —	\$ 791

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” and the “Company” refer to MetLife, Inc., a Delaware corporation incorporated in 1999, its subsidiaries and affiliates. MetLife is one of the world’s leading financial services companies, providing insurance, annuities, employee benefits and asset management. MetLife is organized into five segments: U.S.; Asia; Latin America; Europe, the Middle East and Africa (“EMEA”); and MetLife Holdings.

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 on the interim condensed consolidated financial statements. In applying these policies and estimates, management makes subjective and complex judgments that frequently require assumptions 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 business and operations. Actual results could differ from these estimates.

The accompanying interim condensed consolidated financial statements are unaudited and reflect all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in conformity with GAAP. Interim results are not necessarily indicative of full year performance. The December 31, 2018 consolidated balance sheet data was derived from audited consolidated financial statements included in MetLife, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Annual Report”), which include 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 2018 Annual Report.

Consolidation

The accompanying interim condensed consolidated financial statements include the accounts of MetLife, Inc. and its subsidiaries, as well as partnerships and joint ventures in which the Company has control, and variable interest entities (“VIEs”) for which the Company is the primary beneficiary. Intercompany accounts and transactions have been eliminated.

The Company uses the equity method of accounting for real estate joint ventures and other limited partnership interests (“investee”) when it has more than a minor ownership interest or more than a minor influence over the investee’s operations. The Company generally recognizes its share of the investee’s earnings in net investment income on a three-month lag in instances where the investee’s financial information is not sufficiently timely or when the investee’s reporting period differs from the Company’s reporting period.

Reclassifications

Certain amounts in the prior year periods’ interim condensed consolidated financial statements and related footnotes thereto have been reclassified to conform to the 2019 presentation as discussed throughout the Notes to the Interim Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of accounting standards updates (“ASUs”) to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. The following tables provide a description of new ASUs issued by the FASB and the impact of the adoption on the Company’s consolidated financial statements.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Pronouncements

Except as noted below, the ASUs adopted by the Company effective January 1, 2019 did not have a material impact on its consolidated financial statements.

Standard	Description	Effective Date and Method of Adoption	Impact on Financial Statements
ASU 2017-12, <i>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i> , as clarified and amended by ASU 2019-04, <i>Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments</i>	The new guidance simplifies the application of hedge accounting in certain situations and amends the hedge accounting model to enable entities to better portray the economics of their risk management activities in their financial statements.	January 1, 2019. The Company adopted using a modified retrospective approach.	The adoption of the guidance resulted in an \$18 million, net of income tax, increase to accumulated other comprehensive income (loss) ("AOCI") with a corresponding decrease to retained earnings due to the reclassification of hedge ineffectiveness for cash flow hedging relationships existing as of January 1, 2019. The Company has included the expanded disclosures within Note 7.
ASU 2016-02, <i>Leases (Topic 842)</i> , as clarified and amended by ASU 2018-10, <i>Codification Improvements to Topic 842, Leases</i> , ASU 2018-11, <i>Leases (Topic 842): Targeted Improvements</i> , and ASU 2018-20, <i>Leases (Topic 842): Narrow-Scope Improvements for Lessors</i>	The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Leases are classified as finance or operating leases and both types of leases are recognized on the balance sheet. Lessor accounting remains largely unchanged from previous guidance except for certain targeted changes. The new guidance also requires new qualitative and quantitative disclosures. In July 2018, two amendments to the new guidance were issued. The amendments provide the option to adopt the new guidance prospectively without adjusting comparative periods. Also, the amendments provide lessors with a practical expedient not to separate lease and non-lease components for certain operating leases. In December 2018, an amendment was issued to clarify lessor accounting relating to taxes, certain lessor's costs and variable payments related to both lease and non-lease components.	January 1, 2019. The Company adopted using a modified retrospective approach.	The Company elected the package of practical expedients allowed under the transition guidance. This allowed the Company to carry forward its historical lease classification. In addition, the Company elected all other practical expedients that were allowed under the new guidance and were applicable, including the practical expedient to combine lease and non-lease components into one lease component for certain real estate leases. The adoption of this guidance resulted in the recording of additional net right-of-use ("ROU") assets and lease liabilities of approximately \$1.5 billion and \$1.7 billion, respectively, as of January 1, 2019. The reduction of the ROU assets was a result of adjustments for prepaid/deferred rent, unamortized initial direct costs and impairment of certain ROU assets based on the net present value of the remaining minimum lease payments and sublease revenues. In addition, retained earnings increased by \$95 million, net of income tax, as a result of the recognition of deferred gains on previous sale leaseback transactions. The guidance did not have a material impact on the Company's consolidated net income and cash flows. The Company has included expanded disclosures on the consolidated balance sheets and in Notes 6 and 9.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)

Future Adoption of New Accounting Pronouncements

ASUs not listed below were assessed and either determined to be not applicable or are not expected to have a material impact on the Company's consolidated financial statements. ASUs issued but not yet adopted as of September 30, 2019 that are currently being assessed and may or may not have a material impact on the Company's consolidated financial statements are summarized in the table below.

Standard	Description	Effective Date and Method of Adoption	Impact on Financial Statements
ASU 2018-15, <i>Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract</i>	The new guidance requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as an asset and which costs to expense as incurred. Implementation costs that are capitalized under the new guidance are required to be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use.	January 1, 2020. The new guidance can be applied either prospectively to eligible costs incurred on or after the guidance is first applied, or retrospectively to all periods presented.	The new guidance will not have a material impact on the Company's consolidated financial statements and will be adopted prospectively.
ASU 2018-14, <i>Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans</i>	The new guidance removes certain disclosures that no longer are considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant for employers that sponsor defined benefit pension or other postretirement plans.	December 31, 2020, to be applied on a retrospective basis to all periods presented (with early adoption permitted).	The new guidance will not have a material impact on the Company's consolidated financial statements.
ASU 2018-13, <i>Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement</i>	The new guidance modifies the disclosure requirements on fair value by removing some requirements, modifying others, adding changes in unrealized gains and losses included in other comprehensive income (loss) ("OCI") for recurring Level 3 fair value measurements, and under certain circumstances, providing the option to disclose certain other quantitative information with respect to significant unobservable inputs in lieu of a weighted average.	January 1, 2020. Amendments related to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively.	As of December 31, 2018, the Company early adopted the provisions of the guidance that removed the requirements relating to transfers between fair value hierarchy levels and certain disclosures about valuation processes for Level 3 fair value measurements. The Company will adopt the remainder of the new guidance at the effective date. The new guidance will not have a material impact on the Company's consolidated financial statements.
ASU 2018-12, <i>Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts</i>	The new guidance (i) prescribes the discount rate to be used in measuring the liability for future policy benefits for traditional and limited payment long-duration contracts, and requires assumptions for those liability valuations to be updated after contract inception, (ii) requires more market-based product guarantees on certain separate account and other account balance long-duration contracts to be accounted for at fair value, (iii) simplifies the amortization of deferred policy acquisition costs ("DAC") for virtually all long-duration contracts, and (iv) introduces certain financial statement presentation requirements, as well as significant additional quantitative and qualitative disclosures.	January 1, 2021, to be applied retrospectively to January 1, 2019 (with early adoption permitted).	The Company has started its implementation efforts and is currently evaluating the impact of the new guidance. Given the nature and extent of the required changes to a significant portion of the Company's operations, the adoption of this guidance is expected to have a material impact on its consolidated financial statements.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)

Standard	Description	Effective Date and Method of Adoption	Impact on Financial Statements
ASU 2017-04, <i>Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment</i>	The new guidance simplifies the current two-step goodwill impairment test by eliminating Step 2 of the test. The new guidance requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any.	January 1, 2020, to be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.	The new guidance will reduce the complexity involved with the evaluation of goodwill for impairment. The impact of the new guidance will depend on the outcomes of future goodwill impairment tests.
ASU 2016-13, <i>Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i> , as clarified and amended by ASU 2018-19, <i>Codification Improvements to Topic 326, Financial Instruments—Credit Losses</i> , ASU 2019-04, <i>Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging</i> , and ASU 2019-05, <i>Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief</i>	This new guidance requires an allowance for credit losses based on the expectation of lifetime credit losses on financing receivables carried at amortized cost, including, but not limited to, mortgage loans, premium receivables, reinsurance receivables and certain leases. The current model for other-than-temporary impairment (“OTTI”) on available-for-sale (“AFS”) debt securities has been modified and requires the recording of an allowance for credit losses rather than a reduction of the carrying value. Any improvements in expected future cash flows will no longer be reflected as a prospective yield adjustment, but rather as a reduction in the allowance. The new guidance also replaces the model for purchased credit impaired debt securities and financing receivables and requires the establishment of an allowance for credit losses at acquisition, which is added to the purchase price to establish the initial amortized cost. The new guidance also requires enhanced disclosures.	January 1, 2020, to be applied on a modified retrospective basis, which requires transition adjustments to be recorded as a cumulative effect adjustment to retained earnings.	The Company is finalizing the development of the credit loss models for its financing receivables carried at amortized cost. The development of these credit loss models has resulted in data input validations, enhanced policies and controls and continued updates to information systems. The Company has begun testing these models and information systems and expects to complete testing in the fourth quarter of 2019. At September 30, 2019, the allowance for credit losses was approximately 0.50% of the amortized cost of financing receivables in scope. The Company estimates that if the new guidance was effective at September 30, 2019, the allowance for credit losses would have been less than 1.00% of the amortized cost of financing receivables in scope. The increase in the allowance for credit losses primarily relates to the Company's residential mortgage loan portfolio. The Company continues to evaluate the transition requirements for purchased credit impaired debt securities. Additionally, the Company is in the process of preparing the required disclosures.

2. Segment Information

MetLife is organized into five segments: U.S.; Asia; Latin America; EMEA; and MetLife Holdings. In addition, the Company reports certain of its results of operations in Corporate & Other.

U.S.

The U.S. segment offers a broad range of protection products and services aimed at serving the financial needs of customers throughout their lives. These products are sold to corporations and their respective employees, other institutions and their respective members, as well as individuals. The U.S. segment is organized into three businesses: Group Benefits, Retirement and Income Solutions (“RIS”) and Property & Casualty.

- The Group Benefits business offers life, dental, group short- and long-term disability, individual disability, accidental death and dismemberment, vision and accident & health coverages, as well as prepaid legal plans. This business also sells administrative services-only arrangements to some employers.
- The RIS business offers a broad range of life and annuity-based insurance and investment products, including stable value and pension risk transfer products, institutional income annuities, tort settlements, and capital markets investment products, as well as solutions for funding postretirement benefits and company-, bank- or trust-owned life insurance.
- The Property & Casualty business offers personal and commercial lines of property and casualty insurance, including private passenger automobile, homeowners' and personal excess liability insurance. In addition, Property & Casualty offers to small business owners property, liability and business interruption insurance.

MetLife, Inc.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)****2. Segment Information (continued)*****Asia***

The Asia segment offers a broad range of products to both individuals and corporations, as well as to other institutions, and their respective employees, which include whole and term life, endowments, universal and variable life, accident & health insurance and fixed and variable annuities.

Latin America

The Latin America segment offers a broad range of products to both individuals and corporations, as well as to other institutions, and their respective employees, which include life insurance, retirement and savings products, accident & health insurance and credit insurance.

EMEA

The EMEA segment offers a broad range of products to both individuals and corporations, as well as to other institutions, and their respective employees, which include life insurance, accident & health insurance, retirement and savings products and credit insurance.

MetLife Holdings

The MetLife Holdings segment consists of operations relating to products and businesses, previously included in MetLife's former retail business, that the Company no longer actively markets in the United States, such as variable, universal, term and whole life insurance, variable, fixed and index-linked annuities, and long-term care insurance, as well as the assumed variable annuity guarantees from the Company's former operating joint venture in Japan.

Corporate & Other

Corporate & Other contains the excess capital, as well as certain charges and activities, not allocated to the segments, including external integration and disposition costs, internal resource costs for associates committed to acquisitions and dispositions, enterprise-wide strategic initiative restructuring charges and various start-up and developing businesses (including the investment management business through which the Company, as a manager of assets such as global fixed income and real estate, provides differentiated investment solutions to institutional investors worldwide). Additionally, Corporate & Other includes run-off businesses. Corporate & Other also includes interest expense related to the majority of the Company's outstanding debt, as well as expenses associated with certain legal proceedings and income tax audit issues. In addition, Corporate & Other includes the elimination of intersegment amounts, which generally relate to affiliated reinsurance, investment expenses and intersegment loans, which bear interest rates commensurate with related borrowings.

Financial Measures and Segment Accounting Policies

Adjusted earnings is used by management to evaluate performance and allocate resources. Consistent with GAAP guidance for segment reporting, adjusted earnings is also the Company's GAAP measure of segment performance and is reported below. Adjusted earnings should not be viewed as a substitute for net income (loss). The Company believes the presentation of adjusted earnings, as the Company measures it for management purposes, enhances the understanding of its performance by highlighting the results of operations and the underlying profitability drivers of the business.

Adjusted earnings is defined as adjusted revenues less adjusted expenses, net of income tax.

The financial measures of adjusted revenues and adjusted expenses focus on the Company's primary businesses principally by excluding the impact of market volatility, which could distort trends, and revenues and costs related to non-core products and certain entities required to be consolidated under GAAP. Also, these measures exclude results of discontinued operations under GAAP and other businesses that have been or will be sold or exited by MetLife but do not meet the discontinued operations criteria under GAAP and are referred to as divested businesses. Divested businesses also includes the net impact of transactions with exited businesses that have been eliminated in consolidation under GAAP and costs relating to businesses that have been or will be sold or exited by MetLife that do not meet the criteria to be included in results of discontinued operations under GAAP. Adjusted revenues also excludes net investment gains (losses) and net derivative gains (losses). Adjusted expenses also excludes goodwill impairments.

MetLife, Inc.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)****2. Segment Information (continued)**

The following additional adjustments are made to revenues, in the line items indicated, in calculating adjusted revenues:

- Universal life and investment-type product policy fees excludes the amortization of unearned revenue related to net investment gains (losses) and net derivative gains (losses) and certain variable annuity guaranteed minimum income benefits (“GMIBs”) fees (“GMIB fees”);
- Net investment income: (i) includes adjustments for earned income on derivatives and amortization of premium on derivatives that are hedges of investments or that are used to replicate certain investments, but do not qualify for hedge accounting treatment, (ii) excludes post-tax adjusted earnings adjustments relating to insurance joint ventures accounted for under the equity method, (iii) excludes certain amounts related to contractholder-directed equity securities, (iv) excludes certain amounts related to securitization entities that are VIEs consolidated under GAAP and (v) includes distributions of profits from certain other limited partnership interests that were previously accounted for under the cost method, but are now accounted for at estimated fair value, where the change in estimated fair value is recognized in net investment gains (losses) under GAAP; and
- Other revenues is adjusted for settlements of foreign currency earnings hedges and excludes fees received in association with services provided under transition service agreements (“TSA fees”).

The following additional adjustments are made to expenses, in the line items indicated, in calculating adjusted expenses:

- Policyholder benefits and claims and policyholder dividends excludes: (i) amortization of basis adjustments associated with de-designated fair value hedges of future policy benefits, (ii) changes in the policyholder dividend obligation related to net investment gains (losses) and net derivative gains (losses), (iii) inflation-indexed benefit adjustments associated with contracts backed by inflation-indexed investments and amounts associated with periodic crediting rate adjustments based on the total return of a contractually referenced pool of assets and other pass-through adjustments, (iv) benefits and hedging costs related to GMIBs (“GMIB costs”) and (v) market value adjustments associated with surrenders or terminations of contracts (“Market value adjustments”);
- Interest credited to policyholder account balances includes adjustments for earned income on derivatives and amortization of premium on derivatives that are hedges of policyholder account balances but do not qualify for hedge accounting treatment and excludes certain amounts related to net investment income earned on contractholder-directed equity securities;
- Amortization of DAC and value of business acquired (“VOBA”) excludes amounts related to: (i) net investment gains (losses) and net derivative gains (losses), (ii) GMIB fees and GMIB costs and (iii) Market value adjustments;
- Amortization of negative VOBA excludes amounts related to Market value adjustments;
- Interest expense on debt excludes certain amounts related to securitization entities that are VIEs consolidated under GAAP; and
- Other expenses excludes: (i) noncontrolling interests, (ii) implementation of new insurance regulatory requirement costs and (iii) acquisition, integration and other costs. Other expenses includes TSA fees.

Adjusted earnings also excludes the recognition of certain contingent assets and liabilities that could not be recognized at acquisition or adjusted for during the measurement period under GAAP business combination accounting guidance.

The tax impact of the adjustments mentioned above are calculated net of the U.S. or foreign statutory tax rate, which could differ from the Company’s effective tax rate. Additionally, the provision for income tax (expense) benefit also includes the impact related to the timing of certain tax credits, as well as certain tax reforms.

Set forth in the tables below is certain financial information with respect to the Company’s segments, as well as Corporate & Other, for the three months and nine months ended September 30, 2019 and 2018. The segment accounting policies are the same as those used to prepare the Company’s consolidated financial statements, except for adjusted earnings adjustments as defined above. In addition, segment accounting policies include the method of capital allocation described below.

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

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

2. Segment Information (continued)

The Company's economic capital model, coupled with considerations of local capital requirements, aligns segment allocated equity with emerging standards and consistent risk principles. The model applies statistics-based risk evaluation principles to the material risks to which the Company is exposed. These consistent risk principles include calibrating required economic capital shock factors to a specific confidence level and time horizon while applying an industry standard method for the inclusion of diversification benefits among risk types. The Company's management is responsible for the ongoing production and enhancement of the economic capital model and reviews its approach periodically to ensure that it remains consistent with emerging industry practice standards.

Segment net investment income is credited or charged based on the level of allocated equity; however, changes in allocated equity do not impact the Company's consolidated net investment income, net income (loss), or adjusted earnings.

Net investment income is based upon the actual results of each segment's specifically identifiable investment portfolios adjusted for allocated equity. Other costs are allocated to each of the segments based upon: (i) a review of the nature of such costs; (ii) time studies analyzing the amount of employee compensation costs incurred by each segment; and (iii) cost estimates included in the Company's product pricing.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
2. Segment Information (continued)

Three Months Ended September 30, 2019	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total	Adjustments	Total Consolidated
(In millions)									
Revenues									
Premiums	\$ 6,903	\$ 1,654	\$ 703	\$ 526	\$ 925	\$ 35	\$ 10,746	\$ 35	\$ 10,781
Universal life and investment-type product policy fees	264	430	256	117	284	1	1,352	88	1,440
Net investment income	1,760	915	295	73	1,316	114	4,473	150	4,623
Other revenues	224	14	8	13	52	36	347	72	419
Net investment gains (losses)	—	—	—	—	—	—	—	161	161
Net derivative gains (losses)	—	—	—	—	—	—	—	1,254	1,254
Total revenues	9,151	3,013	1,262	729	2,577	186	16,918	1,760	18,678
Expenses									
Policyholder benefits and claims and policyholder dividends	6,759	1,264	656	291	1,856	32	10,858	86	10,944
Interest credited to policyholder account balances	507	440	74	25	228	—	1,274	226	1,500
Capitalization of DAC	(131)	(498)	(102)	(128)	(9)	(3)	(871)	(11)	(882)
Amortization of DAC and VOBA	121	353	58	128	94	2	756	41	797
Amortization of negative VOBA	—	(2)	—	(2)	—	—	(4)	—	(4)
Interest expense on debt	3	—	—	—	2	218	223	—	223
Other expenses	1,004	955	356	341	223	320	3,199	110	3,309
Total expenses	8,263	2,512	1,042	655	2,394	569	15,435	452	15,887
Provision for income tax expense (benefit)	181	152	65	21	34	(192)	261	340	601
Adjusted earnings	\$ 707	\$ 349	\$ 155	\$ 53	\$ 149	\$ (191)	1,222		
Adjustments to:									
Total revenues							1,760		
Total expenses							(452)		
Provision for income tax (expense) benefit							(340)		
Net income (loss)							\$ 2,190		\$ 2,190

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
2. Segment Information (continued)

Three Months Ended September 30, 2018	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total	Adjustments	Total Consolidated
(In millions)									
Revenues									
Premiums	\$ 6,431	\$ 1,689	\$ 692	\$ 514	\$ 949	\$ (33)	\$ 10,242	\$ —	\$ 10,242
Universal life and investment-type product policy fees	252	428	229	105	286	—	1,300	43	1,343
Net investment income	1,787	830	339	73	1,375	58	4,462	24	4,486
Other revenues	206	12	7	15	70	86	396	83	479
Net investment gains (losses)	—	—	—	—	—	—	—	117	117
Net derivative gains (losses)	—	—	—	—	—	—	—	(378)	(378)
Total revenues	8,676	2,959	1,267	707	2,680	111	16,400	(111)	16,289
Expenses									
Policyholder benefits and claims and policyholder dividends	6,219	1,354	670	281	1,766	(38)	10,252	155	10,407
Interest credited to policyholder account balances	457	381	102	24	238	—	1,202	132	1,334
Capitalization of DAC	(116)	(478)	(97)	(109)	(8)	(2)	(810)	—	(810)
Amortization of DAC and VOBA	128	366	5	110	13	2	624	108	732
Amortization of negative VOBA	—	(4)	(1)	(2)	—	—	(7)	—	(7)
Interest expense on debt	2	—	2	—	2	246	252	15	267
Other expenses	982	943	351	333	264	314	3,187	100	3,287
Total expenses	7,672	2,562	1,032	637	2,275	522	14,700	510	15,210
Provision for income tax expense (benefit)	209	131	65	15	78	(206)	292	(128)	164
Adjusted earnings	\$ 795	\$ 266	\$ 170	\$ 55	\$ 327	\$ (205)	1,408		
Adjustments to:									
Total revenues							(111)		
Total expenses							(510)		
Provision for income tax (expense) benefit							128		
Net income (loss)							\$ 915		\$ 915

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
2. Segment Information (continued)

Nine Months Ended September 30, 2019	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total	Adjustments	Total Consolidated
(In millions)									
Revenues									
Premiums	\$ 18,704	\$ 4,984	\$ 2,122	\$ 1,619	\$ 2,776	\$ 75	\$ 30,280	\$ 35	\$ 30,315
Universal life and investment-type product policy fees	808	1,255	820	325	844	2	4,054	163	4,217
Net investment income	5,274	2,739	951	220	3,941	183	13,308	916	14,224
Other revenues	668	43	31	40	184	212	1,178	213	1,391
Net investment gains (losses)	—	—	—	—	—	—	—	237	237
Net derivative gains (losses)	—	—	—	—	—	—	—	2,093	2,093
Total revenues	25,454	9,021	3,924	2,204	7,745	472	48,820	3,657	52,477
Expenses									
Policyholder benefits and claims and policyholder dividends	18,233	3,862	2,043	867	5,207	70	30,282	329	30,611
Interest credited to policyholder account balances	1,512	1,267	254	72	681	—	3,786	1,190	4,976
Capitalization of DAC	(372)	(1,449)	(296)	(371)	(23)	(9)	(2,520)	(11)	(2,531)
Amortization of DAC and VOBA	352	972	215	327	237	5	2,108	2	2,110
Amortization of negative VOBA	—	(18)	—	(6)	—	—	(24)	—	(24)
Interest expense on debt	8	—	2	—	6	715	731	—	731
Other expenses	3,006	2,865	1,074	1,029	687	831	9,492	280	9,772
Total expenses	22,739	7,499	3,292	1,918	6,795	1,612	43,855	1,790	45,645
Provision for income tax expense (benefit)	552	458	184	70	185	(538)	911	600	1,511
Adjusted earnings	\$ 2,163	\$ 1,064	\$ 448	\$ 216	\$ 765	\$ (602)	4,054		
Adjustments to:									
Total revenues							3,657		
Total expenses							(1,790)		
Provision for income tax (expense) benefit							(600)		
Net income (loss)							\$ 5,321		\$ 5,321

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
2. Segment Information (continued)

Nine Months Ended September 30, 2018	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total	Adjustments	Total Consolidated
(In millions)									
Revenues									
Premiums	\$ 22,950	\$ 5,091	\$ 2,079	\$ 1,611	\$ 2,856	\$ (14)	\$ 34,573	\$ —	\$ 34,573
Universal life and investment-type product policy fees	772	1,221	786	324	901	—	4,004	101	4,105
Net investment income	5,168	2,464	942	221	4,056	157	13,008	(304)	12,704
Other revenues	613	40	24	51	205	246	1,179	249	1,428
Net investment gains (losses)	—	—	—	—	—	—	—	(443)	(443)
Net derivative gains (losses)	—	—	—	—	—	—	—	(88)	(88)
Total revenues	29,503	8,816	3,831	2,207	8,018	389	52,764	(485)	52,279
Expenses									
Policyholder benefits and claims and policyholder dividends	22,590	3,934	1,976	861	5,022	(38)	34,345	252	34,597
Interest credited to policyholder account balances	1,303	1,094	295	75	709	—	3,476	51	3,527
Capitalization of DAC	(336)	(1,438)	(282)	(348)	(28)	(7)	(2,439)	(1)	(2,440)
Amortization of DAC and VOBA	357	993	136	324	214	5	2,029	103	2,132
Amortization of negative VOBA	—	(31)	(1)	(12)	—	—	(44)	(1)	(45)
Interest expense on debt	8	—	5	—	6	798	817	45	862
Other expenses	2,908	2,871	1,052	1,023	815	805	9,474	336	9,810
Total expenses	26,830	7,423	3,181	1,923	6,738	1,563	47,658	785	48,443
Provision for income tax expense (benefit)	554	437	195	62	248	(599)	897	(127)	770
Adjusted earnings	\$ 2,119	\$ 956	\$ 455	\$ 222	\$ 1,032	\$ (575)	4,209		
Adjustments to:									
Total revenues							(485)		
Total expenses							(785)		
Provision for income tax (expense) benefit							127		
Net income (loss)							\$ 3,066		\$ 3,066

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
2. Segment Information (continued)

The following table presents total assets with respect to the Company's segments, as well as Corporate & Other, at:

	September 30, 2019		December 31, 2018	
	(In millions)			
U.S.	\$	267,428	\$	248,174
Asia		160,798		146,278
Latin America		75,640		70,417
EMEA		26,418		27,829
MetLife Holdings		176,410		166,872
Corporate & Other		36,118		27,968
Total	\$	742,812	\$	687,538

Revenues derived from any customer did not exceed 10% of consolidated premiums, universal life and investment-type product policy fees and other revenues for the three months and nine months ended September 30, 2019. Revenues derived from one U.S. segment customer were \$6.0 billion for the nine months ended September 30, 2018, which represented 15% of consolidated premiums, universal life and investment-type product policy fees and other revenues. The revenue was from a single premium received for a pension risk transfer. Revenues derived from any other customer did not exceed 10% of consolidated premiums, universal life and investment-type product policy fees and other revenues for the three months and nine months ended September 30, 2018.

3. Pending Disposition

In June 2019, the Company entered into a definitive agreement to sell its two wholly-owned subsidiaries, MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited (collectively, "MetLife Hong Kong"). As a result of the agreement, a loss of \$140 million, net of income tax, was recorded for the nine months ended September 30, 2019. This loss is comprised of an expected \$100 million pre-tax loss, which is reflected in net investment gains (losses) and includes allocated goodwill of \$75 million. Additionally, the \$140 million loss includes a \$40 million net tax charge, which was recorded in the provision for income tax expense (benefit) and includes previously deferred tax items and losses which are not recognized for tax purposes. At September 30, 2019, MetLife Hong Kong reported \$2.9 billion of total assets in the Asia segment. MetLife Hong Kong's results of operations are included in continuing operations. For the three months ended September 30, 2019, Hong Kong's results of operations were no longer reported in the Asia segment adjusted earnings. See Note 2 for information on divested businesses. The transaction is expected to close in 2020 and is subject to regulatory approvals and satisfaction of other closing conditions.

4. Insurance
Guarantees

As discussed in Notes 1 and 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report, the Company issues directly and assumes through reinsurance variable annuity products with guaranteed minimum benefits. Guaranteed minimum accumulation benefits ("GMABs"), the non-life contingent portion of guaranteed minimum withdrawal benefits ("GMWBs") and certain non-life contingent portions of GMIBs are accounted for as embedded derivatives in policyholder account balances and are further discussed in Note 7.

The Company also issues other annuity contracts that apply a lower rate on funds deposited if the contractholder elects to surrender the contract for cash and a higher rate if the contractholder elects to annuitize. These guarantees include benefits that are payable in the event of death, maturity or at annuitization. Certain other annuity contracts contain guaranteed annuitization benefits that may be above what would be provided by the current account value of the contract. Additionally, the Company issues universal and variable life contracts where the Company contractually guarantees to the contractholder a secondary guarantee or a guaranteed paid-up benefit.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
4. Insurance (continued)

Information regarding the Company's guarantee exposure, which includes direct and assumed business, but excludes offsets from hedging or ceded reinsurance, if any, was as follows at:

	September 30, 2019		December 31, 2018	
	In the Event of Death	At Annuitization	In the Event of Death (8)	At Annuitization (8)
(Dollars in millions)				
Annuity Contracts:				
Variable Annuity Guarantees:				
Total account value (1), (2), (3)	\$ 63,613	\$ 23,703	\$ 63,381	\$ 23,174
Separate account value (1)	\$ 40,373	\$ 21,940	\$ 38,888	\$ 21,385
Net amount at risk (2)	\$ 1,744 (4)	\$ 658 (5)	\$ 3,197 (4)	\$ 511 (5)
Average attained age of contractholders	67 years	65 years	66 years	64 years
Other Annuity Guarantees:				
Total account value (1), (3)	N/A	\$ 5,616	N/A	\$ 5,787
Net amount at risk	N/A	\$ 402 (6)	N/A	\$ 549 (6)
Average attained age of contractholders	N/A	51 years	N/A	50 years
	September 30, 2019		December 31, 2018	
	Secondary Guarantees	Paid-Up Guarantees	Secondary Guarantees (8)	Paid-Up Guarantees
(Dollars in millions)				
Universal and Variable Life Contracts:				
Total account value (1), (3)	\$ 11,512	\$ 2,970	\$ 11,205	\$ 3,070
Net amount at risk (7)	\$ 86,696	\$ 14,743	\$ 93,028	\$ 15,539
Average attained age of policyholders	53 years	64 years	52 years	64 years

- (1) The Company's annuity and life contracts with guarantees may offer more than one type of guarantee in each contract. Therefore, the amounts listed above may not be mutually exclusive.
- (2) Includes amounts, which are not reported on the interim condensed consolidated balance sheets, from assumed variable annuity guarantees from the Company's former operating joint venture in Japan.
- (3) Includes the contractholder's investments in the general account and separate account, if applicable.
- (4) Defined as the death benefit less the total account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date and includes any additional contractual claims associated with riders purchased to assist with covering income taxes payable upon death.
- (5) Defined as the amount (if any) that would be required to be added to the total account value to purchase a lifetime income stream, based on current annuity rates, equal to the minimum amount provided under the guaranteed benefit. This amount represents the Company's potential economic exposure to such guarantees in the event all contractholders were to annuitize on the balance sheet date, even though the contracts contain terms that allow annuitization of the guaranteed amount only after the 10th anniversary of the contract, which not all contractholders have achieved.
- (6) Defined as either the excess of the upper tier, adjusted for a profit margin, less the lower tier, as of the balance sheet date or the amount (if any) that would be required to be added to the total account value to purchase a lifetime income stream, based on current annuity rates, equal to the minimum amount provided under the guaranteed benefit. These amounts represent the Company's potential economic exposure to such guarantees in the event all contractholders were to annuitize on the balance sheet date.
- (7) Defined as the guarantee amount less the account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

4. Insurance (continued)

- (8) The Company's guarantee exposure amounts at December 31, 2018 as reported in the 2018 Annual Report have been revised. They conform to the 2019 presentation, which includes certain contracts with guarantees that were previously excluded. They include the following increases from the amounts reported in the 2018 Annual Report: (i) variable annuity guarantees in the event of death: \$7.1 billion from \$56.2 billion for total account value, \$1.5 billion from \$37.3 billion for separate account value and \$429 million from \$2.8 billion for net amount at risk; (ii) variable annuity guarantees at annuitization: \$1.5 billion from \$21.6 billion for total account value, \$1.5 billion from \$19.8 billion for separate account value and \$28 million from \$483 million for net amount at risk; (iii) other annuity guarantees: \$4.5 billion from \$1.3 billion for total account value and \$60 million from \$489 million for net amount at risk; and (iv) universal and variable life contract secondary guarantees: \$2.3 billion from \$8.9 billion for total account value and \$28.9 billion from \$64.2 billion for net amount at risk.

Additionally, the average attained age of contractholders at annuitization for variable annuity guarantees decreased by one year from 65 years and the average attained age of policyholders with universal and variable life contract secondary guarantees decreased by five years from 57 years.

Liabilities for Unpaid Claims and Claim Expenses

Rollforward of Claims and Claim Adjustment Expenses

Information regarding the liabilities for unpaid claims and claim adjustment expenses was as follows:

	Nine Months Ended September 30,	
	2019	2018
	(In millions)	
Balance, beginning of period	\$ 17,788	\$ 17,094
Less: Reinsurance recoverables	2,332	2,198
Net balance, beginning of period	15,456	14,896
Incurred related to:		
Current period	20,236	18,386
Prior periods (1)	146	256
Total incurred	20,382	18,642
Paid related to:		
Current period	(14,203)	(13,033)
Prior periods	(4,960)	(4,896)
Total paid	(19,163)	(17,929)
Net balance, end of period	16,675	15,609
Add: Reinsurance recoverables	2,392	2,189
Balance, end of period (included in future policy benefits and other policy-related balances)	\$ 19,067	\$ 17,798

- (1) For both the nine months ended September 30, 2019 and 2018, claims and claim adjustment expenses associated with prior periods increased due to events incurred in prior periods but reported in the current period.

5. Closed Block

On April 7, 2000 (the "Demutualization Date"), Metropolitan Life Insurance Company ("MLIC") converted from a mutual life insurance company to a stock life insurance company and became a wholly-owned subsidiary of MetLife, Inc. The conversion was pursuant to an order by the New York Superintendent of Insurance approving MLIC's plan of reorganization, as amended (the "Plan of Reorganization"). On the Demutualization Date, MLIC established a closed block for the benefit of holders of certain individual life insurance policies of MLIC.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
5. Closed Block (continued)

Experience within the closed block, in particular mortality and investment yields, as well as realized and unrealized gains and losses, directly impact the policyholder dividend obligation. Amortization of the closed block DAC, which resides outside of the closed block, is based upon cumulative actual and expected earnings within the closed block. Accordingly, the Company's net income continues to be sensitive to the actual performance of the closed block.

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.

Information regarding the closed block liabilities and assets designated to the closed block was as follows at:

	September 30, 2019	December 31, 2018
	(In millions)	
Closed Block Liabilities		
Future policy benefits	\$ 39,477	\$ 40,032
Other policy-related balances	438	317
Policyholder dividends payable	453	431
Policyholder dividend obligation	2,370	428
Deferred income tax liability	61	28
Other liabilities	116	328
Total closed block liabilities	42,915	41,564
Assets Designated to the Closed Block		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value	26,365	25,354
Equity securities, at estimated fair value	63	61
Contractholder-directed equity securities and fair value option securities, at estimated fair value	50	43
Mortgage loans	6,910	6,778
Policy loans	4,493	4,527
Real estate and real estate joint ventures	540	544
Other invested assets	822	643
Total investments	39,243	37,950
Cash and cash equivalents	154	—
Accrued investment income	438	443
Premiums, reinsurance and other receivables	66	83
Current income tax recoverable	81	69
Total assets designated to the closed block	39,982	38,545
Excess of closed block liabilities over assets designated to the closed block	2,933	3,019
Amounts included in AOCI:		
Unrealized investment gains (losses), net of income tax	2,596	1,089
Unrealized gains (losses) on derivatives, net of income tax	169	86
Allocated to policyholder dividend obligation, net of income tax	(1,872)	(338)
Total amounts included in AOCI	893	837
Maximum future earnings to be recognized from closed block assets and liabilities	\$ 3,826	\$ 3,856

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
5. Closed Block (continued)

Information regarding the closed block policyholder dividend obligation was as follows:

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018
	(In millions)	
Balance, beginning of period	\$ 428	\$ 2,121
Change in unrealized investment and derivative gains (losses)	1,942	(1,693)
Balance, end of period	\$ 2,370	\$ 428

Information regarding the closed block revenues and expenses was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In millions)			
Revenues				
Premiums	\$ 396	\$ 405	\$ 1,153	\$ 1,202
Net investment income	428	443	1,303	1,318
Net investment gains (losses)	3	7	(2)	(46)
Net derivative gains (losses)	11	2	23	12
Total revenues	838	857	2,477	2,486
Expenses				
Policyholder benefits and claims	564	641	1,666	1,808
Policyholder dividends	229	241	688	723
Other expenses	27	29	84	88
Total expenses	820	911	2,438	2,619
Revenues, net of expenses before provision for income tax expense (benefit)	18	(54)	39	(133)
Provision for income tax expense (benefit)	3	(12)	7	(29)
Revenues, net of expenses and provision for income tax expense (benefit)	\$ 15	\$ (42)	\$ 32	\$ (104)

MLIC charges the closed block with federal income taxes, state and local premium taxes and other state or local taxes, as well as investment management expenses relating to the closed block as provided in the Plan of Reorganization. MLIC also charges the closed block for expenses of maintaining the policies included in the closed block.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

6. Investments

Fixed Maturity Securities Available-for-Sale

Fixed Maturity Securities Available-for-Sale by Sector

The following table presents the fixed maturity securities AFS by sector. U.S. corporate and foreign corporate sectors include redeemable preferred stock. Residential mortgage-backed securities (“RMBS”) includes Agency, prime, alternative and sub-prime mortgage-backed securities. Asset-backed securities (“ABS”) includes securities collateralized by corporate loans and consumer loans. Municipals includes taxable and tax-exempt revenue bonds and, to a much lesser extent, general obligations of states, municipalities and political subdivisions. Commercial mortgage-backed securities (“CMBS”) primarily includes securities collateralized by multiple properties. RMBS, ABS and CMBS are collectively, “Structured Securities.”

	September 30, 2019						December 31, 2018					
	Amortized Cost	Gross Unrealized			Estimated Fair Value	Amortized Cost	Gross Unrealized			Estimated Fair Value		
		Gains	Temporary Losses	OTTI Losses (1)			Gains	Temporary Losses	OTTI Losses (1)			
	(In millions)											
U.S. corporate	\$ 78,243	\$ 9,194	\$ 323	\$ —	\$ 87,114	\$ 77,761	\$ 3,467	\$ 2,280	\$ —	\$ 78,948		
Foreign government	58,318	9,663	434	—	67,547	56,353	6,406	471	—	62,288		
Foreign corporate	58,699	5,523	1,122	—	63,100	56,290	2,438	2,025	—	56,703		
U.S. government and agency	34,963	5,853	14	—	40,802	37,030	2,756	464	—	39,322		
RMBS	27,889	1,728	63	(37)	29,591	27,409	920	394	(26)	27,961		
ABS	14,319	111	85	—	14,345	12,552	74	153	1	12,472		
Municipals	10,600	2,348	6	—	12,942	10,376	1,228	71	—	11,533		
CMBS	10,099	544	35	—	10,608	9,045	115	122	—	9,038		
Total fixed maturity securities AFS	\$ 293,130	\$ 34,964	\$ 2,082	\$ (37)	\$ 326,049	\$ 286,816	\$ 17,404	\$ 5,980	\$ (25)	\$ 298,265		

- (1) Noncredit OTTI losses included in AOCI in an unrealized gain position are due to increases in estimated fair value subsequent to initial recognition of noncredit losses on such securities. See also “— Net Unrealized Investment Gains (Losses).”

The Company held non-income producing fixed maturity securities AFS with an estimated fair value of \$35 million and \$15 million, and unrealized gains (losses) of \$1 million and (\$1) million at September 30, 2019 and December 31, 2018, respectively.

Maturities of Fixed Maturity Securities AFS

The amortized cost and estimated fair value of fixed maturity securities AFS, by contractual maturity date, were as follows at September 30, 2019:

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years	Structured Securities	Total Fixed Maturity Securities AFS
(In millions)						
Amortized cost	\$ 17,217	\$ 48,060	\$ 58,619	\$ 116,927	\$ 52,307	\$ 293,130
Estimated fair value	\$ 17,280	\$ 50,027	\$ 63,869	\$ 140,329	\$ 54,544	\$ 326,049

Actual maturities may differ from contractual maturities due to the exercise of call or prepayment options. Fixed maturity securities AFS not due at a single maturity date have been presented in the year of final contractual maturity. Structured Securities are shown separately, as they are not due at a single maturity.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)
Continuous Gross Unrealized Losses for Fixed Maturity Securities AFS by Sector

The following table presents the estimated fair value and gross unrealized losses of fixed maturity securities AFS in an unrealized loss position by sector and aggregated by length of time that the securities have been in a continuous unrealized loss position at:

	September 30, 2019				December 31, 2018			
	Less than 12 Months		Equal to or Greater than 12 Months		Less than 12 Months		Equal to or Greater than 12 Months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(Dollars in millions)								
U.S. corporate	\$ 3,320	\$ 110	\$ 2,361	\$ 213	\$ 32,430	\$ 1,663	\$ 5,826	\$ 617
Foreign government	2,504	314	1,312	120	4,392	243	2,902	228
Foreign corporate	4,079	199	7,398	923	19,564	1,230	5,765	795
U.S. government and agency	1,860	11	149	3	6,813	58	8,937	406
RMBS	1,912	11	813	15	6,506	120	6,423	248
ABS	4,949	39	3,083	46	8,230	138	392	16
Municipals	205	3	31	3	1,380	46	349	25
CMBS	1,138	5	438	30	3,893	67	707	55
Total fixed maturity securities AFS	<u>\$ 19,967</u>	<u>\$ 692</u>	<u>\$ 15,585</u>	<u>\$ 1,353</u>	<u>\$ 83,208</u>	<u>\$ 3,565</u>	<u>\$ 31,301</u>	<u>\$ 2,390</u>
Total number of securities in an unrealized loss position	<u>1,869</u>		<u>1,414</u>		<u>6,913</u>		<u>2,335</u>	

Evaluation of Fixed Maturity Securities AFS for OTTI and Evaluating Temporarily Impaired Fixed Maturity Securities AFS

As described more fully in Notes 1 and 8 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report, the Company performs a regular evaluation of all investment classes for impairment, including fixed maturity securities AFS and perpetual hybrid securities, in accordance with its impairment policy, in order to evaluate whether such investments are other-than-temporarily impaired.

Current Period Evaluation

Based on the Company's current evaluation of its securities in an unrealized loss position in accordance with its impairment policy, and the Company's current intentions and assessments (as applicable to the type of security) about holding, selling and any requirements to sell these securities, the Company concluded that these securities were not other-than-temporarily impaired at September 30, 2019. Future OTTI will depend primarily on economic fundamentals, issuer performance (including changes in the present value of future cash flows expected to be collected), and changes in credit ratings, collateral valuation and foreign currency exchange rates. If economic fundamentals deteriorate or if there are adverse changes in the above factors, OTTI may be incurred in upcoming periods.

Gross unrealized losses on fixed maturity securities AFS decreased \$3.9 billion for the nine months ended September 30, 2019 to \$2.0 billion. The decrease in gross unrealized losses for the nine months ended September 30, 2019 was primarily attributable to decreases in interest rates, narrowing credit spreads and to a lesser extent, the impact of weakening foreign currencies on certain foreign currency denominated fixed maturity securities AFS.

At September 30, 2019, \$176 million of the total \$2.0 billion of gross unrealized losses were from 51 fixed maturity securities AFS with an unrealized loss position of 20% or more of amortized cost for six months or greater.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

6. Investments (continued)

Investment Grade Fixed Maturity Securities AFS

Of the \$176 million of gross unrealized losses on fixed maturity securities AFS with an unrealized loss of 20% or more of amortized cost for six months or greater, \$101 million, or 57%, were related to gross unrealized losses on 17 investment grade fixed maturity securities AFS. Unrealized losses on investment grade fixed maturity securities AFS are principally related to widening credit spreads since purchase and, with respect to fixed-rate fixed maturity securities AFS, rising interest rates since purchase.

Below Investment Grade Fixed Maturity Securities AFS

Of the \$176 million of gross unrealized losses on fixed maturity securities AFS with an unrealized loss of 20% or more of amortized cost for six months or greater, \$75 million, or 43%, were related to gross unrealized losses on 34 below investment grade fixed maturity securities AFS. Unrealized losses on below investment grade fixed maturity securities AFS are principally related to U.S. and foreign corporate securities (primarily industrial and financial institutions) and foreign government securities and are the result of significantly wider credit spreads resulting from higher risk premiums since purchase, largely due to economic and market uncertainty. Management evaluates U.S. corporate and foreign corporate securities based on factors such as expected cash flows, financial condition and near-term and long-term prospects of the issuers. Management evaluates foreign government securities based on factors impacting the issuers such as expected cash flows and financial condition of the issuers and any country-specific economic conditions or public sector programs.

Equity Securities

Equity securities are summarized as follows at:

	September 30, 2019		December 31, 2018	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
(Dollars in millions)				
Common stock	\$ 938	69.9%	\$ 1,037	72.0%
Non-redeemable preferred stock	403	30.1	403	28.0
Total equity securities	<u>\$ 1,341</u>	<u>100.0%</u>	<u>\$ 1,440</u>	<u>100.0%</u>

Contractholder-Directed Equity Securities and Fair Value Option Securities

As described more fully in Note 1 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report, contractholder-directed equity securities and fair value option (“FVO”) securities (“FVO Securities”) (collectively, “Unit-linked and FVO Securities”) include three categories of investments for which the FVO has been elected, or are otherwise required to be carried at estimated fair value.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)
Mortgage Loans
Mortgage Loans by Portfolio Segment

Mortgage loans are summarized as follows at:

	September 30, 2019		December 31, 2018	
	Carrying Value	% of Total	Carrying Value	% of Total
(Dollars in millions)				
Mortgage loans:				
Commercial	\$ 49,898	63.2 %	\$ 48,463	64.0 %
Agricultural	15,752	19.9	14,905	19.7
Residential	13,441	17.0	12,427	16.4
Total recorded investment	79,091	100.1	75,795	100.1
Valuation allowances	(350)	(0.4)	(342)	(0.5)
Subtotal mortgage loans, net	78,741	99.7	75,453	99.6
Residential — FVO (1)	218	0.3	299	0.4
Total mortgage loans, net	\$ 78,959	100.0 %	\$ 75,752	100.0 %

- (1) Information on residential mortgage loans — FVO is presented in Note 8. The Company elects the FVO for certain residential mortgage loans that are managed on a total return basis.

The amount of net discounts, included within total recorded investment, primarily residential, was \$887 million and \$944 million at September 30, 2019 and December 31, 2018, respectively.

Purchases of mortgage loans, primarily residential, were \$1.1 billion and \$3.0 billion for the three months and nine months ended September 30, 2019, respectively, and \$724 million and \$1.7 billion for the three months and nine months ended September 30, 2018, respectively.

Mortgage Loans, Valuation Allowance and Impaired Loans by Portfolio Segment

Mortgage loans by portfolio segment, by method of evaluation of credit loss, impaired mortgage loans including those modified in a troubled debt restructuring, and the related valuation allowances, were as follows at:

	Evaluated Individually for Credit Losses				Evaluated Collectively for Credit Losses		Impaired Loans
	Impaired Loans with a Valuation Allowance			Impaired Loans without a Valuation Allowance			
	Unpaid Principal Balance	Recorded Investment	Valuation Allowances	Unpaid Principal Balance	Recorded Investment	Recorded Investment	Carrying Value
(In millions)							
September 30, 2019							
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 49,898	\$ —
Agricultural	13	13	1	195	194	15,545	206
Residential	—	—	—	517	414	13,027	414
Total	\$ 13	\$ 13	\$ 1	\$ 712	\$ 608	\$ 78,470	\$ 620
December 31, 2018							
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 48,463	\$ —
Agricultural	31	31	3	169	169	14,705	197
Residential	—	—	—	431	386	12,041	386
Total	\$ 31	\$ 31	\$ 3	\$ 600	\$ 555	\$ 75,209	\$ 583

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

The average recorded investment for impaired commercial, agricultural and residential mortgage loans was \$0, \$214 million and \$409 million, respectively, for the three months ended September 30, 2019, and \$0, \$188 million and \$401 million, respectively, for the nine months ended September 30, 2019.

The average recorded investment for impaired commercial, agricultural and residential mortgage loans was \$0, \$124 million and \$370 million, respectively, for the three months ended September 30, 2018, and \$0, \$104 million and \$350 million, respectively, for the nine months ended September 30, 2018.

Valuation Allowance Rollforward by Portfolio Segment

The changes in the valuation allowance, by portfolio segment, were as follows:

	Nine Months Ended September 30,							
	2019				2018			
	Commercial	Agricultural	Residential	Total	Commercial	Agricultural	Residential	Total
(In millions)								
Balance, beginning of period	\$ 238	\$ 46	\$ 58	\$ 342	\$ 214	\$ 41	\$ 59	\$ 314
Provision (release)	7	7	6	20	18	1	9	28
Charge-offs, net of recoveries	—	(5)	(7)	(12)	—	—	(6)	(6)
Balance, end of period	<u>\$ 245</u>	<u>\$ 48</u>	<u>\$ 57</u>	<u>\$ 350</u>	<u>\$ 232</u>	<u>\$ 42</u>	<u>\$ 62</u>	<u>\$ 336</u>

Credit Quality of Commercial Mortgage Loans

The credit quality of commercial mortgage loans was as follows at:

	Recorded Investment							
	Debt Service Coverage Ratios						Estimated Fair Value	% of Total
	> 1.20x	1.00x - 1.20x	< 1.00x	Total	% of Total			
(Dollars in millions)								
September 30, 2019								
Loan-to-value ratios:								
Less than 65%	\$ 41,317	\$ 754	\$ 512	\$ 42,583	85.3%	\$ 44,529		85.7%
65% to 75%	5,708	54	208	5,970	12.0	6,150		11.8
76% to 80%	368	17	265	650	1.3	634		1.2
Greater than 80%	461	234	—	695	1.4	671		1.3
Total	\$ 47,854	\$ 1,059	\$ 985	\$ 49,898	100.0%	\$ 51,984		100.0%
December 31, 2018								
Loan-to-value ratios:								
Less than 65%	\$ 40,360	\$ 827	\$ 101	\$ 41,288	85.2%	\$ 41,599		85.3%
65% to 75%	5,790	—	25	5,815	12.0	5,849		12.0
76% to 80%	423	209	56	688	1.4	664		1.4
Greater than 80%	496	176	—	672	1.4	635		1.3
Total	\$ 47,069	\$ 1,212	\$ 182	\$ 48,463	100.0%	\$ 48,747		100.0%

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)
Credit Quality of Agricultural Mortgage Loans

The credit quality of agricultural mortgage loans was as follows at:

	September 30, 2019		December 31, 2018	
	Recorded Investment	% of Total	Recorded Investment	% of Total
(Dollars in millions)				
Loan-to-value ratios:				
Less than 65%	\$ 14,711	93.4%	\$ 13,704	92.0%
65% to 75%	952	6.0	1,145	7.7
76% to 80%	78	0.5	33	0.2
Greater than 80%	11	0.1	23	0.1
Total	<u>\$ 15,752</u>	<u>100.0%</u>	<u>\$ 14,905</u>	<u>100.0%</u>

Credit Quality of Residential Mortgage Loans

The credit quality of residential mortgage loans was as follows at:

	September 30, 2019		December 31, 2018	
	Recorded Investment	% of Total	Recorded Investment	% of Total
(Dollars in millions)				
Performance indicators:				
Performing	\$ 13,007	96.8%	\$ 11,956	96.2%
Nonperforming (1)	434	3.2	471	3.8
Total	<u>\$ 13,441</u>	<u>100.0%</u>	<u>\$ 12,427</u>	<u>100.0%</u>

(1) Includes residential mortgage loans in process of foreclosure of \$118 million and \$140 million at September 30, 2019 and December 31, 2018, respectively.

Past Due and Nonaccrual Mortgage Loans

The Company has a high quality, well performing mortgage loan portfolio, with 99% of all mortgage loans classified as performing at both September 30, 2019 and December 31, 2018. The Company defines delinquency consistent with industry practice, when mortgage loans are past due as follows: commercial and residential mortgage loans — 60 days and agricultural mortgage loans — 90 days. The past due and nonaccrual mortgage loans at recorded investment, prior to valuation allowances, by portfolio segment, were as follows at:

	Past Due		Greater than 90 Days Past Due and Still Accruing Interest		Nonaccrual	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
(In millions)						
Commercial	\$ —	\$ 9	\$ —	\$ 9	\$ 176	\$ 176
Agricultural	202	204	129	109	88	105
Residential	434	471	37	35	397	436
Total	<u>\$ 636</u>	<u>\$ 684</u>	<u>\$ 166</u>	<u>\$ 153</u>	<u>\$ 661</u>	<u>\$ 717</u>

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)
Real Estate and Real Estate Joint Ventures

The Company's real estate investment portfolio is diversified by property type, geography and income stream, including income from operating leases, operating income and equity method income from real estate joint ventures. Real estate investments, by income type, as well as income earned, are as follows at and for the periods indicated:

			Three Months Ended September 30,		Nine Months Ended September 30,	
	September 30, 2019	December 31, 2018	2019	2018	2019	2018
	Carrying Value		Income			
	(In millions)					
Leased real estate investments	\$ 4,516	\$ 4,132	\$ 103	\$ 103	\$ 285	\$ 311
Other real estate investments	488	461	45	45	135	135
Real estate joint ventures	5,242	5,105	33	27	70	92
Total real estate and real estate joint ventures	\$ 10,246	\$ 9,698	\$ 181	\$ 175	\$ 490	\$ 538

The carrying value of real estate investments acquired through foreclosure was \$43 million and \$45 million at September 30, 2019 and December 31, 2018, respectively. Depreciation expense on real estate investments was \$28 million and \$76 million for the three months and nine months ended September 30, 2019, respectively, and \$22 million and \$69 million for the three months and nine months ended September 30, 2018, respectively. Real estate investments were net of accumulated depreciation of \$1.0 billion and \$931 million at September 30, 2019 and December 31, 2018, respectively.

Leases
Leased Real Estate Investments - Operating Leases

The Company, as lessor, leases investment real estate, principally commercial real estate for office and retail use, through a variety of operating lease arrangements, which typically include tenant reimbursement for property operating costs and options to renew or extend the lease. In some circumstances, leases may include an option for the lessee to purchase the property. In addition, certain leases of retail space may stipulate that a portion of the income earned is contingent upon the level of the tenants' revenues. The Company has elected a practical expedient of not separating non-lease components related to reimbursement of property operating costs from associated lease components. These property operating costs have the same timing and pattern of transfer as the related lease component, because they are incurred over the same period of time as the operating lease. Therefore, the combined component is accounted for as an operating lease. Risk is managed through lessee credit analysis, property type diversification, and geographic diversification, primarily across the United States. Leased real estate investments and income earned, by property type, are as follows at and for the periods indicated:

			Three Months Ended September 30,		Nine Months Ended September 30,	
	September 30, 2019	December 31, 2018	2019	2018	2019	2018
	Carrying Value		Income			
	(In millions)					
Leased real estate investments:						
Office	\$ 2,098	\$ 1,999	\$ 45	\$ 42	\$ 131	\$ 131
Retail	1,151	1,006	32	21	81	72
Apartment	255	253	6	23	16	60
Industrial	304	223	11	10	33	29
Land	533	489	5	5	15	14
Hotel	94	94	2	1	5	1
Other	81	68	2	1	4	4
Total leased real estate investments	\$ 4,516	\$ 4,132	\$ 103	\$ 103	\$ 285	\$ 311

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

Future contractual receipts under operating leases at September 30, 2019 are \$77 million for the remainder of 2019, \$246 million in 2020, \$193 million in 2021, \$163 million in 2022, \$142 million in 2023, \$992 million thereafter, and in total are \$1.8 billion.

Leveraged and Direct Financing Leases

The Company has diversified leveraged lease and direct financing lease portfolios. Its leveraged leases principally include renewable energy generation facilities, rail cars, commercial real estate and commercial aircraft, and its direct financing leases principally include commercial real estate. These assets are leased through a variety of lease arrangements, which may include options to renew or extend the lease and options for the lessee to purchase the property. Residual values are estimated using available third-party data at inception of the lease. Risk is managed through lessee credit analysis, asset allocation, geographic diversification, and ongoing reviews of estimated residual values, using available third-party data and, in certain leases, linking the amount of future rental receipts to changes in inflation rates. Generally, estimated residual values are not guaranteed by the lessee or a third party.

Investment in leveraged and direct financing leases consisted of the following at:

	September 30, 2019		December 31, 2018	
	Leveraged Leases	Direct Financing Leases	Leveraged Leases	Direct Financing Leases
	(In millions)			
Lease receivables, net (1)	\$ 700	\$ 1,891	\$ 715	\$ 1,855
Estimated residual values	786	42	807	42
Subtotal	1,486	1,933	1,522	1,897
Unearned income	(378)	(689)	(414)	(705)
Investment in leases	\$ 1,108	\$ 1,244	\$ 1,108	\$ 1,192

- (1) Future contractual receipts under direct financing leases at September 30, 2019 are \$30 million for the remainder of 2019, \$104 million in 2020, \$102 million in 2021, \$124 million in 2022, \$109 million in 2023, \$1.4 billion thereafter, and in total \$1.9 billion.

Lease receivables are generally due in periodic installments. The payment periods for leveraged leases generally range from one to 15 years but in certain circumstances can be over 25 years, while the payment periods for direct financing leases generally range from one to 25 years but in certain circumstances can be over 25 years. For lease receivables, the primary credit quality indicator is whether the lease receivable is performing or nonperforming, which is assessed monthly. The Company generally defines nonperforming lease receivables as those that are 90 days or more past due. At both September 30, 2019 and December 31, 2018, all leveraged lease receivables were performing and over 99% of direct financing lease receivables were performing.

The Company's deferred income tax liability related to leveraged leases was \$500 million and \$519 million at September 30, 2019 and December 31, 2018, respectively.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

The components of income from investment in leveraged and direct financing leases, excluding net investment gains (losses), were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Leveraged Leases	Direct Financing Leases	Leveraged Leases	Direct Financing Leases	Leveraged Leases	Direct Financing Leases	Leveraged Leases	Direct Financing Leases
	(In millions)							
Lease investment income	\$ 12	\$ 28	\$ 12	\$ 27	\$ 36	\$ 75	\$ 35	\$ 74
Less: Income tax expense	3	6	2	6	8	16	7	16
Lease investment income, net of income tax	<u>\$ 9</u>	<u>\$ 22</u>	<u>\$ 10</u>	<u>\$ 21</u>	<u>\$ 28</u>	<u>\$ 59</u>	<u>\$ 28</u>	<u>\$ 58</u>

Cash Equivalents

The carrying value of cash equivalents, which includes securities and other investments with an original or remaining maturity of three months or less at the time of purchase, was \$11.6 billion and \$9.0 billion at September 30, 2019 and December 31, 2018, respectively.

Net Unrealized Investment Gains (Losses)

Unrealized investment gains (losses) on fixed maturity securities AFS and derivatives and the effect on DAC, VOBA, deferred sales inducements (“DSI”), future policy benefits and the policyholder dividend obligation, that would result from the realization of the unrealized gains (losses), are included in net unrealized investment gains (losses) in AOCI.

The components of net unrealized investment gains (losses), included in AOCI, were as follows:

	September 30, 2019	December 31, 2018
	(In millions)	
Fixed maturity securities AFS	\$ 32,849	\$ 11,356
Fixed maturity securities AFS with noncredit OTTI losses included in AOCI	37	25
Total fixed maturity securities AFS	<u>32,886</u>	<u>11,381</u>
Derivatives	3,675	2,127
Other	312	290
Subtotal	<u>36,873</u>	<u>13,798</u>
Amounts allocated from:		
Future policy benefits	(1,713)	31
DAC, VOBA and DSI	(3,012)	(1,231)
Policyholder dividend obligation	(2,370)	(428)
Subtotal	<u>(7,095)</u>	<u>(1,628)</u>
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	(5)	(3)
Deferred income tax benefit (expense)	<u>(7,427)</u>	<u>(3,502)</u>
Net unrealized investment gains (losses)	22,346	8,665
Net unrealized investment gains (losses) attributable to noncontrolling interests	<u>(16)</u>	<u>(10)</u>
Net unrealized investment gains (losses) attributable to MetLife, Inc.	<u>\$ 22,330</u>	<u>\$ 8,655</u>

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

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

	Nine Months Ended September 30, 2019
	(In millions)
Balance, beginning of period	\$ 8,655
Cumulative effects of changes in accounting principles, net of income tax (Note 1)	21
Fixed maturity securities AFS on which noncredit OTTI losses have been recognized	12
Unrealized investment gains (losses) during the period	23,037
Unrealized investment gains (losses) relating to:	
Future policy benefits	(1,744)
DAC, VOBA and DSI	(1,781)
Policyholder dividend obligation	(1,942)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	(2)
Deferred income tax benefit (expense)	(3,920)
Net unrealized investment gains (losses)	22,336
Net unrealized investment gains (losses) attributable to noncontrolling interests	(6)
Balance, end of period	\$ 22,330
Change in net unrealized investment gains (losses)	\$ 13,681
Change in net unrealized investment gains (losses) attributable to noncontrolling interests	(6)
Change in net unrealized investment gains (losses) attributable to MetLife, Inc.	\$ 13,675

Concentrations of Credit Risk

Investments in any counterparty that were greater than 10% of the Company's equity, other than the U.S. government and its agencies, at estimated fair value at September 30, 2019 and December 31, 2018, were in fixed income securities of the Japanese government and its agencies of \$33.6 billion and \$30.2 billion, respectively, and in fixed income securities of the South Korean government and its agencies of \$7.4 billion and \$7.1 billion, respectively.

Securities Lending and Repurchase Agreements
Securities, Collateral and Reinvestment Portfolio

A summary of the securities lending and repurchase agreements transactions is as follows:

	September 30, 2019						December 31, 2018									
	Securities on Loan (1)				Cash Collateral Received from Counterparties (2), (3)	Reinvestment Portfolio at Estimated Fair Value	Securities on Loan (1)				Cash Collateral Received from Counterparties (2), (3)	Reinvestment Portfolio at Estimated Fair Value				
	Amortized Cost	Estimated Fair Value					Amortized Cost	Estimated Fair Value								
	(In millions)															
Securities lending	\$	15,994	\$	18,688	\$	19,001	\$	19,415	\$	16,969	\$	17,724	\$	18,005	\$	18,074
Repurchase agreements	\$	1,609	\$	1,881	\$	1,833	\$	1,868	\$	1,033	\$	1,093	\$	1,067	\$	1,069

- (1) Securities on loan in connection with securities lending are included within fixed maturities securities AFS, short-term investments and cash equivalents and securities on loan in connection with repurchase agreements are included within fixed maturities securities AFS, short-term investments and cash equivalents.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

- (2) In connection with securities lending, in addition to cash collateral received, the Company received from counterparties security collateral of \$105 million and \$78 million at September 30, 2019 and December 31, 2018, respectively, which may not be sold or re-pledged, unless the counterparty is in default, and is not reflected on the consolidated financial statements.
- (3) The securities lending liability for cash collateral is included within payables for collateral under securities loaned and other transactions, and the repurchase agreements liability for cash collateral is included within payables for collateral under securities loaned and other transactions and other liabilities.

Contractual Maturities

A summary of the remaining contractual maturities of securities lending agreements and repurchase agreements is as follows:

	September 30, 2019				December 31, 2018			
	Remaining Maturities				Remaining Maturities			
	Open (1)	1 Month or Less	Over 1 to 6 Months	Total	Open (1)	1 Month or Less	Over 1 to 6 Months	Total
	(In millions)							
Cash collateral liability by loaned security type:								
Securities lending:								
U.S. government and agency	\$ 3,968	\$ 7,903	\$ 6,046	\$ 17,917	\$ 2,736	\$ 8,995	\$ 5,220	\$ 16,951
Foreign government	—	287	730	1,017	—	214	761	975
Agency RMBS	—	67	—	67	—	79	—	79
Total	<u>\$ 3,968</u>	<u>\$ 8,257</u>	<u>\$ 6,776</u>	<u>\$ 19,001</u>	<u>\$ 2,736</u>	<u>\$ 9,288</u>	<u>\$ 5,981</u>	<u>\$ 18,005</u>
Repurchase agreements:								
U.S. government and agency	\$ —	\$ 1,760	\$ —	\$ 1,760	\$ —	\$ 1,000	\$ —	\$ 1,000
All other corporate and government	—	34	39	73	—	—	67	67
Total	<u>\$ —</u>	<u>\$ 1,794</u>	<u>\$ 39</u>	<u>\$ 1,833</u>	<u>\$ —</u>	<u>\$ 1,000</u>	<u>\$ 67</u>	<u>\$ 1,067</u>

- (1) The related loaned security could be returned to the Company on the next business day, which would require the Company to immediately return the cash collateral. The estimated fair value of the securities on loan related to this cash collateral at September 30, 2019 was \$3.9 billion, all of which were U.S. government and agency securities which, if put back to the Company, could be immediately sold to satisfy the cash requirement.

If the Company is required to return significant amounts of cash collateral on short notice and is forced to sell securities to meet the return obligation, it may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than what otherwise would have been realized under normal market conditions, or both.

The securities lending and repurchase agreements reinvestment portfolios acquired with the cash collateral consist principally of high quality, liquid, publicly-traded fixed maturity securities AFS, short-term investments, cash equivalents or held in cash. If the securities on loan or the reinvestment portfolio become less liquid, the Company has the liquidity resources of most of its general account available to meet any potential cash demands when securities on loan are put back to the Company.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

6. Investments (continued)

Federal Home Loan Bank of Boston Advance Agreements

At September 30, 2019, a subsidiary of the Company had pledged municipals and CMBS with an estimated fair value of \$1.2 billion and \$11 million, respectively, as collateral and received \$800 million in cash advances under short-term advance agreements with the Federal Home Loan Bank (“FHLB”) of Boston. At December 31, 2018, a subsidiary of the Company had pledged municipals with an estimated fair value of \$1.2 billion and received \$800 million in cash advances. The liability to return the cash advances is included within payables for collateral under securities loaned and other transactions. The estimated fair value of the reinvestment portfolio acquired with the cash advances was \$840 million and \$799 million at September 30, 2019 and December 31, 2018, respectively, and consisted primarily of Structured Securities, U.S. and foreign corporate securities and U.S. government and agency securities. At both September 30, 2019 and December 31, 2018, the reinvestment portfolio also included a \$33 million, at redemption value, required investment in FHLB of Boston common stock. The subsidiary is permitted to withdraw any portion of the pledged collateral over the minimum collateral requirement at any time, other than in the event of a default by the subsidiary.

The cash advance liability by loaned security type and remaining contractual maturities of the agreements was as follows at:

	September 30, 2019				December 31, 2018			
	Remaining Maturities			Total	Remaining Maturities			Total
	1 Month or Less	Over 1 to 6 Months	6 Months to 1 Year		1 Month or Less	Over 1 to 6 Months	6 Months to 1 Year	
(In millions)								
Cash advance liability by loaned security type:								
Municipals	\$ 250	\$ 475	\$ 75	\$ 800	\$ 150	\$ 650	\$ —	\$ 800

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

Invested assets on deposit, held in trust and pledged as collateral are presented below at estimated fair value for all asset classes, except mortgage loans, which are presented at carrying value, at:

	September 30, 2019	December 31, 2018
	(In millions)	
Invested assets on deposit (regulatory deposits)	\$ 1,976	\$ 1,788
Invested assets held in trust (collateral financing arrangement and reinsurance agreements)	3,017	2,971
Invested assets pledged as collateral (1)	24,442	24,168
Total invested assets on deposit, held in trust and pledged as collateral	\$ 29,435	\$ 28,927

(1) The Company has pledged invested assets in connection with various agreements and transactions, including funding agreements, secured debt, a collateral financing arrangement (see Notes 4, 12 and 13 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report) and derivative transactions (see Note 7).

See “— Securities Lending and Repurchase Agreements” for information regarding securities supporting securities lending and repurchase agreement transactions and Note 5 for information regarding investments designated to the closed block. In addition, the restricted investment in FHLB common stock was \$800 million and \$793 million, at redemption value, at September 30, 2019 and December 31, 2018, respectively.

Variable Interest Entities

The Company has invested in legal entities that are VIEs. In certain instances, the Company holds both the power to direct the most significant activities of the entity, as well as an economic interest in the entity and, as such, is deemed to be the primary beneficiary or consolidator of the entity. The determination of the VIE’s primary beneficiary requires an evaluation of the contractual and implied rights and obligations associated with each party’s relationship with or involvement in the entity, an estimate of the entity’s expected losses and expected residual returns and the allocation of such estimates to each party involved in the entity.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)
Consolidated VIEs

Creditors or beneficial interest holders of VIEs where the Company is the primary beneficiary have no recourse to the general credit of the Company, as the Company's obligation to the VIEs is limited to the amount of its committed investment.

The following table presents the total assets and total liabilities relating to investment-related VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated at:

	September 30, 2019		December 31, 2018	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
(In millions)				
Renewable energy partnership (1)	\$ 101	\$ —	\$ 102	\$ —
Investment funds (2)	162	1	79	1
Other investments (1)	20	5	21	5
Total	<u>\$ 283</u>	<u>\$ 6</u>	<u>\$ 202</u>	<u>\$ 6</u>

- (1) Assets of the renewable energy partnership and other investments primarily consisted of other invested assets.
- (2) Assets of the investment funds primarily consisted of other invested assets at September 30, 2019 and cash and cash equivalents at December 31, 2018.

Unconsolidated VIEs

The carrying amount and maximum exposure to loss relating to VIEs in which the Company holds a significant variable interest but is not the primary beneficiary and which have not been consolidated were as follows at:

	September 30, 2019		December 31, 2018	
	Carrying Amount	Maximum Exposure to Loss (1)	Carrying Amount	Maximum Exposure to Loss (1)
(In millions)				
Fixed maturity securities AFS:				
Structured Securities (2)	\$ 52,710	\$ 52,710	\$ 47,874	\$ 47,874
U.S. and foreign corporate	1,568	1,568	932	932
Foreign government	136	136	—	—
Other limited partnership interests	6,357	11,498	5,641	9,888
Other invested assets	1,528	1,662	1,906	2,063
Other investments	428	430	296	300
Total	<u>\$ 62,727</u>	<u>\$ 68,004</u>	<u>\$ 56,649</u>	<u>\$ 61,057</u>

- (1) The maximum exposure to loss relating to fixed maturity securities AFS is equal to their carrying amounts or the carrying amounts of retained interests. The maximum exposure to loss relating to other limited partnership interests is equal to the carrying amounts plus any unfunded commitments. For certain of its investments in other invested assets, the Company's return is in the form of income tax credits which are guaranteed by creditworthy third parties. For such investments, the maximum exposure to loss is equal to the carrying amounts plus any unfunded commitments, reduced by income tax credits guaranteed by third parties of \$12 million and \$94 million at September 30, 2019 and December 31, 2018, respectively. Such a maximum loss would be expected to occur only upon bankruptcy of the issuer or investee.
- (2) For these variable interests, the Company's involvement is limited to that of a passive investor in mortgage-backed or asset-backed securities issued by trusts that do not have substantial equity.

As described in Note 16, the Company makes commitments to fund partnership investments in the normal course of business. Excluding these commitments, the Company did not provide financial or other support to investees designated as VIEs for both the nine months ended September 30, 2019 and 2018.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

The Company securitizes certain residential mortgage loans and acquires an interest in the related RMBS issued. While the Company has a variable interest in the issuer of the securities, it is not the primary beneficiary of the issuer of the securities since it does not have any rights to remove the servicer or veto rights over the servicer's actions. The resulting gain (loss) from the securitization is included within net investment gains (losses). The estimated fair value of the related RMBS acquired in connection with the securitizations is included in the carrying amount and maximum exposure to loss for Structured Securities presented in the table above.

For the nine months ended September 30, 2019, the carrying value and the estimated fair value of mortgage loans securitized were \$443 million and \$467 million, respectively, resulting in a gain of \$24 million. The estimated fair value of the RMBS acquired in connection with the securitizations was \$136 million at September 30, 2019.

For both the three months and nine months ended September 30, 2018, the carrying value and the estimated fair value of mortgage loans securitized were \$451 million and \$478 million, respectively, resulting in a gain of \$27 million. The estimated fair value of the RMBS acquired in connection with the securitizations was \$102 million at September 30, 2018.

See Note 8 for information on how the estimated fair value of mortgage loans and RMBS is determined, the valuation approaches and key inputs, their placement in the fair value hierarchy, and for certain RMBS, quantitative information about the significant unobservable inputs and the sensitivity of their estimated fair value to changes in those inputs.

Net Investment Income

The components of net investment income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In millions)			
Investment income:				
Fixed maturity securities AFS	\$ 2,924	\$ 3,056	\$ 8,887	\$ 8,966
Equity securities	13	15	45	46
FVO Securities (1)	59	11	152	25
Mortgage loans	930	859	2,785	2,466
Policy loans	129	130	386	381
Real estate and real estate joint ventures	181	175	490	538
Other limited partnership interests	277	227	643	554
Cash, cash equivalents and short-term investments	117	112	358	279
Operating joint ventures	10	2	66	34
Other	95	83	244	283
Subtotal	4,735	4,670	14,056	13,572
Less: Investment expenses	362	333	1,079	950
Subtotal, net	4,373	4,337	12,977	12,622
Unit-linked investments (1)	250	149	1,247	82
Net investment income	\$ 4,623	\$ 4,486	\$ 14,224	\$ 12,704

- (1) Changes in estimated fair value subsequent to purchase for investments still held as of the end of the respective periods included in net investment income were principally from contractholder-directed equity securities supporting unit-linked variable annuity type liabilities ("Unit-linked investments"), and were \$185 million and \$850 million for the three months and nine months ended September 30, 2019, respectively, and \$109 million and (\$59) million for the three months and nine months ended September 30, 2018, respectively.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

The Company invests in real estate joint ventures, other limited partnership interests and tax credit and renewable energy partnerships, and also does business through certain operating joint ventures, the majority of which are accounted for under the equity method. Net investment income from other limited partnership interests and operating joint ventures, accounted for under the equity method, and real estate joint ventures and tax credit and renewable energy partnerships, primarily accounted for under the equity method, totaled \$266 million and \$596 million for the three months and nine months ended September 30, 2019, respectively, and \$180 million and \$482 million for the three months and nine months ended September 30, 2018, respectively.

Net Investment Gains (Losses)
Components of Net Investment Gains (Losses)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Total gains (losses) on fixed maturity securities AFS:				
Total OTTI losses recognized — by sector and industry:				
U.S. and foreign corporate securities — by industry:				
Consumer	\$ —	\$ (1)	\$ —	\$ (1)
Finance	(1)	(7)	(1)	(7)
Industrial	(8)	—	(16)	—
Total U.S. and foreign corporate securities	(9)	(8)	(17)	(8)
Foreign government	(11)	(9)	(11)	(9)
RMBS	—	—	(2)	—
OTTI losses on fixed maturity securities AFS recognized in earnings	(20)	(17)	(30)	(17)
Fixed maturity securities AFS — net gains (losses) on sales and disposals	102	123	226	(18)
Total gains (losses) on fixed maturity securities AFS	82	106	196	(35)
Total gains (losses) on equity securities:				
Equity securities — net gains (losses) on sales and disposals	4	(58)	51	58
Change in estimated fair value of equity securities (1)	13	76	71	(37)
Total gains (losses) on equity securities	17	18	122	21
Mortgage loans	(16)	4	(17)	(32)
Real estate and real estate joint ventures	96	40	102	154
Other limited partnership interests	3	1	3	9
Other (2), (3)	(31)	12	(141)	(176)
Subtotal	151	181	265	(59)
Change in estimated fair value of other limited partnership interests and real estate joint ventures	(1)	12	(13)	6
Non-investment portfolio gains (losses) (4)	11	(76)	(15)	(390)
Subtotal	10	(64)	(28)	(384)
Total net investment gains (losses)	\$ 161	\$ 117	\$ 237	\$ (443)

- Changes in estimated fair value subsequent to purchase for equity securities still held as of the end of the period included in net investment gains (losses) were \$27 million and \$111 million for the three months and nine months ended September 30, 2019, respectively, and \$15 million and \$12 million for the three months and nine months ended September 30, 2018, respectively.
- Other gains (losses) included tax credit partnership impairment losses of \$92 million and a renewable energy partnership disposal gain of \$46 million for the nine months ended September 30, 2019.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
6. Investments (continued)

- (3) Other gains (losses) included renewable energy partnership disposal losses of \$83 million and leveraged lease impairment losses of \$105 million for the nine months ended September 30, 2018.
- (4) Non-investment portfolio gains (losses) for the nine months ended September 30, 2018, included a loss of \$327 million, which represents both the change in estimated fair value of Brighthouse Financial, Inc. common stock ("FVO Brighthouse Common Stock") held by the Company through date of disposal and the loss on disposal in June 2018.

Gains (losses) from foreign currency transactions included within net investment gains (losses) were (\$30) million and \$9 million for the three months and nine months ended September 30, 2019, respectively, and (\$100) million and (\$82) million for the three months and nine months ended September 30, 2018, respectively.

Sales or Disposals and Impairments of Fixed Maturity Securities AFS

Sales of securities are determined on a specific identification basis. Proceeds from sales or disposals and the components of net investment gains (losses) were as shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Proceeds	\$ 9,510	\$ 19,003	\$ 39,230	\$ 58,256
Gross investment gains	\$ 165	\$ 234	\$ 632	\$ 489
Gross investment losses	(63)	(111)	(406)	(507)
OTTI losses	(20)	(17)	(30)	(17)
Net investment gains (losses)	\$ 82	\$ 106	\$ 196	\$ (35)

Credit Loss Rollforward of Fixed Maturity Securities AFS

The table below presents a rollforward of the cumulative credit loss component of OTTI loss recognized in earnings on fixed maturity securities AFS still held for which a portion of the OTTI loss was recognized in OCI:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Balance, beginning of period	\$ 77	\$ 111	\$ 89	\$ 138
Sales (maturities, pay downs or prepayments) of securities previously impaired as credit loss OTTI	(3)	(4)	(14)	(30)
Increase in cash flows — accretion of previous credit loss OTTI	—	—	(1)	(1)
Balance, end of period	\$ 74	\$ 107	\$ 74	\$ 107

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

7. Derivatives***Accounting for Derivatives******Freestanding Derivatives***

Freestanding derivatives are carried on the Company's balance sheet either as assets within other invested assets or as liabilities within other liabilities at estimated fair value. The Company does not offset the estimated fair value amounts recognized for derivatives executed with the same counterparty under the same master netting agreement.

Accruals on derivatives are generally recorded in accrued investment income or within other liabilities. However, accruals that are not scheduled to settle within one year are included with the derivative's carrying value in other invested assets or other liabilities.

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 reported in net derivative gains (losses) except as follows:

Statement of Operations Presentation:	Derivative:
Policyholder benefits and claims	• Economic hedges of variable annuity guarantees included in future policy benefits
Net investment income	• Economic hedges of equity method investments in joint ventures • Derivatives held within Unit-linked investments

Hedge Accounting

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. Hedge designation and financial statement presentation of changes in estimated fair value of the hedging derivatives are as follows:

- **Fair value hedge** - a hedge of the estimated fair value of a recognized asset or liability - in the same line item as the earnings effect of the hedged item. The carrying value of the hedged recognized asset or liability is adjusted for changes in its estimated fair value due to the hedged risk.
- **Cash flow hedge** - 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 - in OCI and reclassified into the statement of operations when the Company's earnings are affected by the variability in cash flows of the hedged item.
- **Net investment in a foreign operation ("NIFO") hedge** - in OCI, consistent with the translation adjustment for the hedged net investment in the foreign operation.

The changes in estimated fair values of the hedging derivatives are exclusive of any accruals that are separately reported on the statement of operations within interest income or interest expense to match the location of the hedged item. Accruals on derivatives in net investment hedges are recognized in OCI.

In its hedge 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. 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 at least quarterly throughout the life of the designated hedging relationship. Assessments of hedge effectiveness 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 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 transaction will occur; or (iv) the derivative is de-designated as a hedging instrument.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)**7. Derivatives (continued)**

When hedge accounting is discontinued because it is determined that the derivative is not highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item, the derivative continues to be carried on the balance sheet at its estimated fair value, with changes in estimated fair value recognized in net derivative 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 occurring, the changes in estimated fair value of derivatives recorded in OCI related to discontinued cash flow hedges are released into the statement of operations 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 on the anticipated date or within two months of that date, the derivative continues to be carried on the balance sheet at its estimated fair value, with changes in estimated fair value recognized currently in net derivative gains (losses). Deferred gains and losses of a derivative recorded in OCI pursuant to the discontinued cash flow hedge of a forecasted transaction that is no longer probable of occurring 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 balance sheet, with changes in its estimated fair value recognized in the current period as net derivative gains (losses).

Embedded Derivatives

The Company issues certain products, which include variable annuities, and investment contracts and is a party to certain reinsurance agreements that have embedded derivatives. The Company assesses each identified embedded derivative to determine whether it is required to be bifurcated. The embedded derivative is bifurcated from the host contract and accounted for as a freestanding derivative if:

- the combined instrument is not accounted for in its entirety at estimated fair value with changes in estimated fair value recorded in earnings;
- the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract; and
- a separate instrument with the same terms as the embedded derivative would qualify as a derivative instrument.

Such embedded derivatives are carried on the balance sheet at estimated fair value with the host contract and changes in their estimated fair value are generally reported in net derivative gains (losses). 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 net investment income. 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 net investment income if that contract contains an embedded derivative that requires bifurcation. At inception, the Company attributes to the embedded derivative a portion of the projected future guarantee fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits. Any additional fees represent "excess" fees and are reported in universal life and investment-type product policy fees.

See Note 8 for information about the fair value hierarchy for derivatives.

Derivative Strategies

The Company is exposed to various risks relating to its ongoing business operations, including interest rate, foreign currency exchange rate, credit and equity market. The Company uses a variety of strategies to manage these risks, including the use of derivatives.

Derivatives are financial instruments with values derived from interest rates, foreign currency exchange rates, credit spreads and/or other financial indices. Derivatives may be exchange-traded or contracted in the over-the-counter ("OTC") market. Certain of the Company's OTC derivatives are cleared and settled through central clearing counterparties ("OTC-cleared"), while others are bilateral contracts between two counterparties ("OTC-bilateral"). The types of derivatives the Company uses include swaps, forwards, futures and option contracts. To a lesser extent, the Company uses credit default swaps and structured interest rate swaps to synthetically replicate investment risks and returns which are not readily available in the cash markets.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

7. Derivatives (continued)

Interest Rate Derivatives

The Company uses a variety of interest rate derivatives to reduce its exposure to changes in interest rates, including interest rate swaps, interest rate total return swaps, caps, floors, swaptions, futures and forwards.

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 amount. The Company utilizes interest rate swaps in fair value, cash flow and nonqualifying hedging relationships.

The Company uses structured interest rate swaps to synthetically create investments that are either more expensive to acquire or otherwise unavailable in the cash markets. These transactions are a combination of a derivative and a cash instrument such as a U.S. government and agency, or other fixed maturity securities AFS. Structured interest rate swaps are included in interest rate swaps and are not designated as hedging instruments.

Interest rate total return swaps are swaps whereby the Company agrees with another party to exchange, at specified intervals, the difference between the economic risk and reward of an asset or a market index and a benchmark interest rate, calculated by reference to an agreed notional amount. No cash is exchanged at the outset of the contract. Cash is paid and received over the life of the contract based on the terms of the swap. 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. Interest rate total return swaps are used by the Company to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). The Company utilizes interest rate total return swaps in nonqualifying hedging relationships.

The Company purchases interest rate caps 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, and interest rate floors primarily to protect its minimum rate guarantee liabilities against declines in interest rates below a specified level. 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 nonqualifying 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, to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts and to pledge initial margin based on futures exchange requirements. 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, to hedge against changes in interest rates on anticipated liability issuances by replicating Treasury or swap curve performance, and to hedge minimum guarantees embedded in certain variable annuity products issued by the Company. The Company utilizes exchange-traded interest rate futures in nonqualifying hedging relationships.

Swaptions are used by the Company to hedge interest rate risk associated with the Company's long-term liabilities and invested assets. 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. The Company utilizes swaptions in nonqualifying hedging relationships. Swaptions are included in interest rate options.

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 utilizes interest rate forwards in cash flow and nonqualifying hedging relationships.

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 contractholder owns the underlying assets. The Company guarantees a rate of return on those assets for a premium. Synthetic GICs are not designated as hedging instruments.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

7. Derivatives (continued)

Foreign Currency Exchange Rate Derivatives

The Company uses foreign currency exchange rate derivatives, including foreign currency swaps, foreign currency forwards, currency options and exchange-traded currency futures, 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 derivatives to hedge the foreign currency exchange rate 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 notional amount. The notional 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 and nonqualifying 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 at the specified future date. The Company utilizes foreign currency forwards in fair value, NIFO hedges and nonqualifying hedging relationships.

The Company enters into currency options 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 currency 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 also uses currency options as an economic hedge of foreign currency exposure related to the Company's non-U.S. subsidiaries. The Company utilizes currency options in NIFO hedges and nonqualifying hedging relationships.

To a lesser extent, the Company uses exchange-traded currency futures to hedge currency mismatches between assets and liabilities, and to hedge minimum guarantees embedded in certain variable annuity products issued by the Company. The Company utilizes exchange-traded currency futures in nonqualifying hedging relationships.

Credit Derivatives

The Company enters into purchased credit default swaps to hedge against credit-related changes in the value of its investments. In a credit default swap transaction, the Company agrees with another party to pay, at specified intervals, a premium to hedge credit risk. If a credit event occurs, as defined by the contract, the contract may be cash settled or it may be settled gross by the delivery of par quantities of the referenced investment equal to the specified swap notional amount in exchange for the payment of cash amounts by the counterparty equal to the par value of the investment surrendered. Credit events vary by type of issuer but typically include bankruptcy, failure to pay debt obligations and involuntary restructuring for corporate obligors, as well as repudiation, moratorium or governmental intervention for sovereign obligors. In each case, payout on a credit default swap is triggered only after the Credit Derivatives Determinations Committee of the International Swaps and Derivatives Association, Inc. ("ISDA") deems that a credit event has occurred. The Company utilizes credit default swaps in nonqualifying hedging relationships.

The Company enters into written credit default swaps to synthetically create credit investments that are either more expensive to acquire or otherwise unavailable in the cash markets. These transactions are a combination of a derivative and one or more cash instruments, such as U.S. government and agency, or other fixed maturity securities AFS. These credit default swaps are not designated as hedging instruments.

The Company enters into forwards to lock in the price to be paid for forward purchases of certain securities. The price is agreed upon at the time of the contract and payment for the contract is made at a specified future date. When the primary purpose of entering into these transactions is to hedge against the risk of changes in purchase price due to changes in credit spreads, the Company designates these transactions as credit forwards. The Company utilizes credit forwards in cash flow hedging relationships.

Equity Derivatives

The Company uses a variety of equity derivatives to reduce its exposure to equity market risk, including equity index options, equity variance swaps, exchange-traded equity futures and equity total return swaps.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)**7. Derivatives (continued)**

Equity index options are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products issued by the Company. To hedge against adverse changes in equity indices, the Company enters into contracts to sell the underlying equity index within a limited time at a contracted price. The contracts will be net settled in cash based on differentials in the indices at the time of exercise and the strike price. Certain of these contracts may also contain settlement provisions linked to interest rates. In certain instances, the Company may enter into a combination of transactions to hedge adverse changes in equity indices within a pre-determined range through the purchase and sale of options. The Company utilizes equity index options in nonqualifying hedging relationships.

Equity variance swaps are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products issued by the Company. In an equity variance swap, the Company agrees with another party to exchange amounts in the future, based on changes in equity volatility over a defined period. The Company utilizes equity variance swaps in nonqualifying hedging relationships.

In exchange-traded equity 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 equity securities, to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts and to pledge initial margin based on futures exchange requirements. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded equity futures are used primarily to hedge minimum guarantees embedded in certain variable annuity products issued by the Company. The Company utilizes exchange-traded equity futures in nonqualifying hedging relationships.

In an equity total return swap, the Company agrees with another party to exchange, at specified intervals, the difference between the economic risk and reward of an asset or a market index and a benchmark interest rate, calculated by reference to an agreed notional amount. No cash is exchanged at the outset of the contract. Cash is paid and received over the life of the contract based on the terms of the swap. The Company uses equity total return swaps to hedge its equity market guarantees in certain of its insurance products. Equity total return swaps can be used as hedges or to synthetically create investments. The Company utilizes equity total return swaps in nonqualifying hedging relationships.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)
Primary Risks Managed by Derivatives

The following table presents the primary underlying risk exposure, gross notional amount, and estimated fair value of the Company's derivatives, excluding embedded derivatives, held at:

Primary Underlying Risk Exposure		September 30, 2019			December 31, 2018		
		Gross Notional Amount	Estimated Fair Value		Gross Notional Amount	Estimated Fair Value	
			Assets	Liabilities		Assets	Liabilities
(In millions)							
Derivatives Designated as Hedging Instruments:							
Fair value hedges:							
Interest rate swaps	Interest rate	\$ 2,305	\$ 2,847	\$ 3	\$ 2,446	\$ 2,197	\$ 2
Foreign currency swaps	Foreign currency exchange rate	1,155	72	—	1,233	54	—
Foreign currency forwards	Foreign currency exchange rate	2,396	13	16	2,140	28	18
Subtotal		5,856	2,932	19	5,819	2,279	20
Cash flow hedges:							
Interest rate swaps	Interest rate	3,724	200	—	3,515	143	1
Interest rate forwards	Interest rate	6,983	242	16	3,022	—	216
Foreign currency swaps	Foreign currency exchange rate	35,668	2,449	1,666	35,931	1,796	1,831
Subtotal		46,375	2,891	1,682	42,468	1,939	2,048
NIFO hedges:							
Foreign currency forwards	Foreign currency exchange rate	436	18	1	960	4	27
Currency options	Foreign currency exchange rate	3,950	27	90	5,137	3	202
Subtotal		4,386	45	91	6,097	7	229
Total qualifying hedges		56,617	5,868	1,792	54,384	4,225	2,297
Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate swaps	Interest rate	56,457	3,160	194	54,891	1,796	175
Interest rate floors	Interest rate	12,701	212	—	12,701	102	—
Interest rate caps	Interest rate	55,638	14	6	54,575	154	1
Interest rate futures	Interest rate	1,967	4	1	2,353	1	3
Interest rate options	Interest rate	29,919	1,542	—	26,690	416	—
Interest rate forwards	Interest rate	235	15	—	234	1	15
Interest rate total return swaps	Interest rate	1,048	48	8	1,048	33	2
Synthetic GICs	Interest rate	28,098	—	—	25,700	—	—
Foreign currency swaps	Foreign currency exchange rate	13,235	920	498	11,388	884	458
Foreign currency forwards	Foreign currency exchange rate	13,213	111	296	13,417	198	213
Currency futures	Foreign currency exchange rate	891	—	3	847	4	—
Currency options	Foreign currency exchange rate	1,861	1	—	2,040	7	—
Credit default swaps — purchased	Credit	2,635	9	84	1,903	25	39
Credit default swaps — written	Credit	11,583	231	2	11,391	95	13
Equity futures	Equity market	4,128	7	16	2,992	13	77
Equity index options	Equity market	28,783	759	684	27,707	884	550
Equity variance swaps	Equity market	2,292	41	94	2,269	40	87
Equity total return swaps	Equity market	836	3	2	929	91	—
Total non-designated or nonqualifying derivatives		265,520	7,077	1,888	253,075	4,744	1,633
Total		\$ 322,137	\$ 12,945	\$ 3,680	\$ 307,459	\$ 8,969	\$ 3,930

MetLife, Inc.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)****7. Derivatives (continued)**

Based on gross notional amounts, a substantial portion of the Company's derivatives was not designated or did not qualify as part of a hedging relationship at both September 30, 2019 and December 31, 2018. The Company's use of derivatives includes (i) derivatives that serve as macro hedges of the Company's exposure to various risks and that generally do not qualify for hedge accounting due to the criteria required under the portfolio hedging rules; (ii) derivatives that economically hedge insurance liabilities that contain mortality or morbidity risk and that generally do not qualify for hedge accounting because the lack of these risks in the derivatives cannot support an expectation of a highly effective hedging relationship; (iii) derivatives that economically hedge embedded derivatives that do not qualify for hedge accounting because the changes in estimated fair value of the embedded derivatives are already recorded in net income; and (iv) written credit default swaps and interest rate swaps that are used to synthetically create investments and that do not qualify for hedge accounting because they do not involve a hedging relationship. For these nonqualified derivatives, changes in market factors can lead to the recognition of fair value changes on the statement of operations without an offsetting gain or loss recognized in earnings for the item being hedged.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)
The Effects of Derivatives on the Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

The following table presents the consolidated financial statement location and amount of gain (loss) recognized on fair value, cash flow, NIFO, nonqualifying hedging relationships and embedded derivatives:

Three Months Ended September 30, 2019							
	Net Investment Income	Net Investment Gains (Losses)	Net Derivative Gains (Losses)	Policyholder Benefits and Claims	Interest Credited to Policyholder Account Balances	Other Expenses	OCI
(In millions)							
Gain (Loss) on Fair Value Hedges:							
Interest rate derivatives:							
Derivatives designated as hedging instruments (1)	\$ (1)	\$ —	\$ —	\$ 223	\$ 1	\$ —	N/A
Hedged items	—	—	—	(237)	—	—	N/A
Foreign currency exchange rate derivatives:							
Derivatives designated as hedging instruments (1)	37	(6)	—	—	—	—	N/A
Hedged items	(30)	5	—	—	—	—	N/A
Amount excluded from the assessment of hedge effectiveness	—	(16)	—	—	—	—	N/A
Subtotal	6	(17)	—	(14)	1	—	N/A
Gain (Loss) on Cash Flow Hedges:							
Interest rate derivatives: (1)							
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	\$ 526
Amount of gains (losses) reclassified from AOCI into income	5	1	—	—	—	1	(7)
Foreign currency exchange rate derivatives: (1)							
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	132
Amount of gains (losses) reclassified from AOCI into income	—	(344)	—	—	—	—	344
Foreign currency transaction gains (losses) on hedged items	—	336	—	—	—	—	—
Credit derivatives: (1)							
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	—
Amount of gains (losses) reclassified from AOCI into income	—	—	—	—	—	—	—
Subtotal	5	(7)	—	—	—	1	995
Gain (Loss) on NIFO Hedges:							
Foreign currency exchange rate derivatives (1)							
	N/A	N/A	N/A	N/A	N/A	N/A	25
Non-derivative hedging instruments							
	N/A	N/A	N/A	N/A	N/A	N/A	1
Subtotal	N/A	N/A	N/A	N/A	N/A	N/A	26
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate derivatives (1)							
	(2)	—	1,298	46	—	—	N/A
Foreign currency exchange rate derivatives (1)							
	—	—	110	(3)	—	—	N/A
Credit derivatives — purchased (1)							
	—	—	(5)	—	—	—	N/A
Credit derivatives — written (1)							
	—	—	(4)	—	—	—	N/A
Equity derivatives (1)							
	—	—	(51)	(7)	—	—	N/A
Foreign currency transaction gains (losses) on hedged items							
	—	—	(7)	—	—	—	N/A
Subtotal	(2)	—	1,341	36	—	—	N/A
Earned income on derivatives	66	—	131	35	(42)	—	—
Embedded derivatives (2)	N/A	N/A	(218)	—	N/A	N/A	N/A
Total	\$ 75	\$ (24)	\$ 1,254	\$ 57	\$ (41)	\$ 1	\$ 1,021

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)

	Three Months Ended September 30, 2018							
	Net Investment Income	Net Investment Gains (Losses)	Net Derivative Gains (Losses)	Policyholder Benefits and Claims	Interest Credited to Policyholder Account Balances	Other Expenses	OCI	
	(In millions)							
Gain (Loss) on Fair Value Hedges:								
Interest rate derivatives:								
Derivatives designated as hedging instruments (1)	\$ —	\$ —	\$ (107)	\$ —	\$ —	\$ —	N/A	
Hedged items	—	—	108	—	—	—	N/A	
Foreign currency exchange rate derivatives:								
Derivatives designated as hedging instruments (1)	—	—	(56)	—	—	—	N/A	
Hedged items	—	—	48	—	—	—	N/A	
Amount excluded from the assessment of hedge effectiveness	—	—	(7)	—	—	—	N/A	
Subtotal	—	—	(14)	—	—	—	N/A	
Gain (Loss) on Cash Flow Hedges:								
Interest rate derivatives: (1)								
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	\$ (177)	
Amount of gains (losses) reclassified from AOCI into income	5	—	(2)	—	—	—	(3)	
Foreign currency exchange rate derivatives: (1)								
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	(118)	
Amount of gains (losses) reclassified from AOCI into income	(1)	—	(6)	—	—	—	7	
Foreign currency transaction gains (losses) on hedged items	—	—	11	—	—	—	—	
Credit derivatives: (1)								
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	—	
Amount of gains (losses) reclassified from AOCI into income	—	—	—	—	—	—	—	
Subtotal	4	—	3	—	—	—	(291)	
Gain (Loss) on NIFO Hedges:								
Foreign currency exchange rate derivatives (1)	N/A	N/A	N/A	N/A	N/A	N/A	4	
Non-derivative hedging instruments	N/A	N/A	N/A	N/A	N/A	N/A	—	
Subtotal	N/A	N/A	N/A	N/A	N/A	N/A	4	
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:								
Interest rate derivatives (1)	—	—	(364)	(9)	—	—	N/A	
Foreign currency exchange rate derivatives (1)	—	—	(115)	(1)	—	—	N/A	
Credit derivatives — purchased (1)	—	—	(9)	—	—	—	N/A	
Credit derivatives — written (1)	—	—	70	—	—	—	N/A	
Equity derivatives (1)	—	—	(254)	(31)	—	—	N/A	
Foreign currency transaction gains (losses) on hedged items	—	—	(3)	—	—	—	N/A	
Subtotal	—	—	(675)	(41)	—	—	N/A	
Earned income on derivatives	85	—	141	3	(28)	(2)	—	
Embedded derivatives (2)	N/A	N/A	167	—	N/A	N/A	N/A	
Total	\$ 89	\$ —	\$ (378)	\$ (38)	\$ (28)	\$ (2)	\$ (287)	

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)

	Nine Months Ended September 30, 2019							
	Net Investment Income	Net Investment Gains (Losses)	Net Derivative Gains (Losses)	Policyholder Benefits and Claims	Interest Credited to Policyholder Account Balances	Other Expenses	OCI	
	(In millions)							
Gain (Loss) on Fair Value Hedges:								
Interest rate derivatives:								
Derivatives designated as hedging instruments (1)	\$ (5)	\$ —	\$ —	\$ 555	\$ 1	\$ —	N/A	
Hedged items	5	—	—	(571)	—	—	N/A	
Foreign currency exchange rate derivatives:								
Derivatives designated as hedging instruments (1)	17	39	—	—	—	—	N/A	
Hedged items	(12)	(37)	—	—	—	—	N/A	
Amount excluded from the assessment of hedge effectiveness	—	(54)	—	—	—	—	N/A	
Subtotal	5	(52)	—	(16)	1	—	N/A	
Gain (Loss) on Cash Flow Hedges:								
Interest rate derivatives: (1)								
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	\$	1,136
Amount of gains (losses) reclassified from AOCI into income	16	(1)	—	—	—	2	(17)	
Foreign currency exchange rate derivatives: (1)								
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	191	
Amount of gains (losses) reclassified from AOCI into income	(3)	(236)	—	—	—	1	238	
Foreign currency transaction gains (losses) on hedged items	—	211	—	—	—	—	—	
Credit derivatives: (1)								
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	—	
Amount of gains (losses) reclassified from AOCI into income	—	—	—	—	—	—	—	
Subtotal	13	(26)	—	—	—	3	1,548	
Gain (Loss) on NIFO Hedges:								
Foreign currency exchange rate derivatives (1)	N/A	N/A	N/A	N/A	N/A	N/A	(18)	
Non-derivative hedging instruments	N/A	N/A	N/A	N/A	N/A	N/A	(6)	
Subtotal	N/A	N/A	N/A	N/A	N/A	N/A	(24)	
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:								
Interest rate derivatives (1)	(4)	—	2,564	77	—	—	N/A	
Foreign currency exchange rate derivatives (1)	—	—	104	(4)	—	—	N/A	
Credit derivatives — purchased (1)	—	—	(25)	—	—	—	N/A	
Credit derivatives — written (1)	—	—	182	—	—	—	N/A	
Equity derivatives (1)	—	—	(900)	(133)	—	—	N/A	
Foreign currency transaction gains (losses) on hedged items	—	—	(36)	—	—	—	N/A	
Subtotal	(4)	—	1,889	(60)	—	—	N/A	
Earned income on derivatives	182	—	375	100	(110)	—	—	
Embedded derivatives (2)	N/A	N/A	(171)	—	N/A	N/A	N/A	
Total	\$ 196	\$ (78)	\$ 2,093	\$ 24	\$ (109)	\$ 3	\$	1,524

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)

	Nine Months Ended September 30, 2018												
	Net Investment Income	Net Investment Gains (Losses)	Net Derivative Gains (Losses)	Policyholder Benefits and Claims	Interest Credited to Policyholder Account Balances	Other Expenses	OCI						
	(In millions)												
Gain (Loss) on Fair Value Hedges:													
Interest rate derivatives:													
Derivatives designated as hedging instruments (1)	\$	—	\$	—	\$	(385)	\$	—	\$	—	N/A		
Hedged items		—		—		388		—		—	N/A		
Foreign currency exchange rate derivatives:													
Derivatives designated as hedging instruments (1)		—		—		57		—		—	N/A		
Hedged items		—		—		(60)		—		—	N/A		
Amount excluded from the assessment of hedge effectiveness		—		—		(27)		—		—	N/A		
Subtotal		—		—		(27)		—		—	N/A		
Gain (Loss) on Cash Flow Hedges:													
Interest rate derivatives: (1)													
Amount of gains (losses) deferred in AOCI		N/A		N/A		N/A		N/A		N/A	\$ (511)		
Amount of gains (losses) reclassified from AOCI into income		15		—		18		—		—	(34)		
Foreign currency exchange rate derivatives: (1)													
Amount of gains (losses) deferred in AOCI		N/A		N/A		N/A		N/A		N/A	5		
Amount of gains (losses) reclassified from AOCI into income		(2)		—		(342)		—		—	343		
Foreign currency transaction gains (losses) on hedged items		—		—		351		—		—	—		
Credit derivatives: (1)													
Amount of gains (losses) deferred in AOCI		N/A		N/A		N/A		N/A		N/A	—		
Amount of gains (losses) reclassified from AOCI into income		—		—		—		—		—	—		
Subtotal		13		—		27		—		—	(197)		
Gain (Loss) on NIFO Hedges:													
Foreign currency exchange rate derivatives (1)		N/A		N/A		N/A		N/A		N/A	(72)		
Non-derivative hedging instruments		N/A		N/A		N/A		N/A		N/A	—		
Subtotal		N/A		N/A		N/A		N/A		N/A	(72)		
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:													
Interest rate derivatives (1)		4		—		(674)		(21)		—	N/A		
Foreign currency exchange rate derivatives (1)		—		—		271		(4)		—	N/A		
Credit derivatives — purchased (1)		—		—		2		—		—	N/A		
Credit derivatives — written (1)		—		—		(9)		—		—	N/A		
Equity derivatives (1)		1		—		(330)		(52)		—	N/A		
Foreign currency transaction gains (losses) on hedged items		—		—		(110)		—		—	N/A		
Subtotal		5		—		(850)		(77)		—	N/A		
Earned income on derivatives		259		—		407		8		(79)	(8)	—	
Embedded derivatives (2)		N/A		N/A		355		—		N/A	N/A	N/A	
Total	\$	277	\$	—	\$	(88)	\$	(69)	\$	(79)	\$	(6)	\$ (269)

(1) Excludes earned income on derivatives.

(2) The valuation of guaranteed minimum benefits includes a nonperformance risk adjustment. The amounts included in net derivative gains (losses) in connection with this adjustment were \$29 million and (\$46) million for the three months and nine months ended September 30, 2019, respectively, and (\$20) million and (\$25) million for the three months and nine months ended September 30, 2018, respectively.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

7. Derivatives (continued)

Fair Value Hedges

The Company designates and accounts for the following as fair value hedges when they have met the requirements of fair value hedging: (i) interest rate swaps to convert fixed rate assets and liabilities to floating rate assets and liabilities; (ii) foreign currency swaps to hedge the foreign currency fair value exposure of foreign currency denominated assets and liabilities; and (iii) foreign currency forwards to hedge the foreign currency fair value exposure of foreign currency denominated investments.

The following table presents the balance sheet classification, carrying amount and cumulative fair value hedging adjustments for items designated and qualifying as hedged items in fair value hedges:

	September 30, 2019			
	Carrying Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets/(Liabilities) (1)	
Balance Sheet Line Item				
	(In millions)			
Fixed maturity securities AFS	\$	2,685	\$	(1)
Mortgage loans	\$	916	\$	15
Future policy benefits	\$	(4,623)	\$	(1,110)

(1) Includes (\$1) million of hedging adjustments on discontinued hedging relationships.

For the Company's foreign currency forwards, the change in the estimated fair value of the derivative related to the changes in the difference between the spot price and the forward price is excluded from the assessment of hedge effectiveness. The Company has elected to record changes in estimated fair value of excluded components in earnings. For all other derivatives, all components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

Cash Flow Hedges

The Company designates and accounts for the following as cash flow hedges when they have met the requirements of cash flow hedging: (i) interest rate swaps to convert floating rate assets and liabilities to fixed rate assets and liabilities; (ii) foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated assets and liabilities; (iii) interest rate forwards and credit forwards to lock in the price to be paid for forward purchases of investments; (iv) interest rate swaps and interest rate forwards to hedge the forecasted purchases of fixed-rate investments; and (v) interest rate swaps and interest rate forwards to hedge forecasted fixed-rate borrowings.

In certain instances, the Company discontinued cash flow hedge accounting because the forecasted transactions were no longer probable of occurring. Because certain of the forecasted transactions also were not probable of occurring within two months of the anticipated date, the Company reclassified amounts from AOCI into net investment gains (losses). These amounts were (\$1) million and \$57 million for the three months and nine months ended September 30, 2019, respectively, and less than \$1 million and \$6 million for the three months and nine months ended September 30, 2018, respectively.

At September 30, 2019 and December 31, 2018, the maximum length of time over which the Company was hedging its exposure to variability in future cash flows for forecasted transactions did not exceed nine years and four years, respectively.

At September 30, 2019 and December 31, 2018, the balance in AOCI associated with cash flow hedges was \$3.7 billion and \$2.1 billion, respectively.

All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

At September 30, 2019, the Company expected to reclassify \$125 million of deferred net gains (losses) on derivatives in AOCI to earnings within the next 12 months.

FIFO Hedges

The Company uses foreign currency exchange rate derivatives, which may include foreign currency forwards and currency options, to hedge portions of its net investments in foreign operations against adverse movements in exchange rates. The Company also designates a portion of its foreign-denominated debt as a non-derivative hedging instrument of its net investments in foreign operations. The Company assesses hedge effectiveness of its derivatives based upon the change in forward rates and assesses

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

7. Derivatives (continued)

its non-derivative hedging instruments based upon the change in spot rates. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

When net investments in foreign operations are sold or substantially liquidated, the amounts in AOCI are reclassified to the statement of operations.

At September 30, 2019 and December 31, 2018, the cumulative foreign currency translation gain (loss) recorded in AOCI related to NIFO hedges was \$160 million and \$184 million, respectively. At September 30, 2019 and December 31, 2018, the carrying amount of debt designated as a non-derivative hedging instrument was \$389 million and \$0, respectively. See Note 10 for additional information on foreign-denominated debt.

Credit Derivatives

In connection with synthetically created credit investment transactions, the Company writes credit default swaps for which it receives a premium to insure credit risk. Such credit derivatives are included within the nonqualifying derivatives and derivatives for purposes other than hedging table. If a credit event occurs, as defined by the contract, the contract may be cash settled or it may be settled gross by the Company paying the counterparty the specified swap notional amount in exchange for the delivery of par quantities of the referenced credit obligation. The Company's maximum amount at risk, assuming the value of all referenced credit obligations is zero, was \$11.6 billion and \$11.4 billion at September 30, 2019 and December 31, 2018, respectively. The Company can terminate these contracts at any time through cash settlement with the counterparty at an amount equal to the then current estimated fair value of the credit default swaps. At September 30, 2019 and December 31, 2018, the Company would have received \$229 million and \$82 million, respectively, to terminate all of these contracts.

The following table presents the estimated fair value, maximum amount of future payments and weighted average years to maturity of written credit default swaps at:

Rating Agency Designation of Referenced Credit Obligations (1)	September 30, 2019			December 31, 2018		
	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)
(Dollars in millions)						
Aaa/Aa/A						
Single name credit default swaps (3)	\$ 4	\$ 315	1.6	\$ 4	\$ 354	1.7
Credit default swaps referencing indices	35	2,199	2.4	28	2,154	2.5
Subtotal	39	2,514	2.3	32	2,508	2.4
Baa						
Single name credit default swaps (3)	3	266	1.7	3	482	1.5
Credit default swaps referencing indices	167	8,504	5.3	40	8,056	5.0
Subtotal	170	8,770	5.2	43	8,538	4.8
Ba						
Single name credit default swaps (3)	—	—	—	—	15	2.0
Credit default swaps referencing indices	—	—	—	—	—	—
Subtotal	—	—	—	—	15	2.0
B						
Single name credit default swaps (3)	—	10	0.7	—	—	—
Credit default swaps referencing indices	20	289	4.7	7	330	5.0
Subtotal	20	299	4.6	7	330	5.0
Total	<u>\$ 229</u>	<u>\$ 11,583</u>	<u>4.5</u>	<u>\$ 82</u>	<u>\$ 11,391</u>	<u>4.3</u>

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

7. Derivatives (continued)

- (1) The rating agency designations are based on availability and the midpoint of the applicable ratings among Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P") and Fitch Ratings. If no rating is available from a rating agency, then an internally developed rating is used.
- (2) The weighted average years to maturity of the credit default swaps is calculated based on weighted average gross notional amounts.
- (3) Single name credit default swaps may be referenced to the credit of corporations, foreign governments, or municipalities.

Credit Risk on Freestanding Derivatives

The Company may be exposed to credit-related losses in the event of nonperformance by its counterparties to derivatives. Generally, the current credit exposure of the Company's derivatives is limited to the net positive estimated fair value of derivatives at the reporting date after taking into consideration the existence of master netting or similar agreements and any collateral received pursuant to such agreements.

The Company manages its credit risk related to derivatives by entering into transactions with creditworthy counterparties and establishing and monitoring exposure limits. The Company's OTC-bilateral derivative transactions are governed by ISDA Master Agreements which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties in the event of early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from the counterparty against payables to the same counterparty arising out of all included transactions. Substantially all of the Company's ISDA Master Agreements also include Credit Support Annex provisions which require both the pledging and accepting of collateral in connection with its OTC-bilateral derivatives.

The Company's OTC-cleared derivatives are effected through central clearing counterparties and its exchange-traded derivatives are effected through regulated exchanges. Such positions are marked to market and margined on a daily basis (both initial margin and variation margin), and the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivatives.

See Note 8 for a description of the impact of credit risk on the valuation of derivatives.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)

The estimated fair values of the Company's net derivative assets and net derivative liabilities after the application of master netting agreements and collateral were as follows at:

Derivatives Subject to a Master Netting Arrangement or a Similar Arrangement	September 30, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
(In millions)				
Gross estimated fair value of derivatives:				
OTC-bilateral (1)	\$ 12,419	\$ 3,615	\$ 8,805	\$ 3,758
OTC-cleared (1)	627	45	245	33
Exchange-traded	11	20	18	80
Total gross estimated fair value of derivatives presented on the interim condensed consolidated balance sheets (1)	13,057	3,680	9,068	3,871
Gross amounts not offset on the interim condensed consolidated balance sheets:				
Gross estimated fair value of derivatives: (2)				
OTC-bilateral	(2,787)	(2,787)	(2,570)	(2,570)
OTC-cleared	(15)	(15)	(25)	(25)
Exchange-traded	(1)	(1)	(1)	(1)
Cash collateral: (3), (4)				
OTC-bilateral	(6,091)	—	(4,709)	—
OTC-cleared	(587)	(11)	(145)	—
Exchange-traded	—	(5)	—	(57)
Securities collateral: (5)				
OTC-bilateral	(3,215)	(757)	(1,266)	(1,134)
OTC-cleared	—	(8)	—	(8)
Exchange-traded	—	(14)	—	(7)
Net amount after application of master netting agreements and collateral	\$ 361	\$ 82	\$ 352	\$ 69

- (1) At September 30, 2019 and December 31, 2018, derivative assets included income or (expense) accruals reported in accrued investment income or in other liabilities of \$112 million and \$99 million, respectively, and derivative liabilities included (income) or expense accruals reported in accrued investment income or in other liabilities of \$0 and (\$59) million, respectively.
- (2) Estimated fair value of derivatives is limited to the amount that is subject to set-off and includes income or expense accruals.
- (3) Cash collateral received by the Company for OTC-bilateral and OTC-cleared derivatives is included in cash and cash equivalents, short-term investments or in fixed maturity securities AFS, and the obligation to return it is included in payables for collateral under securities loaned and other transactions on the balance sheet.
- (4) The receivable for the return of cash collateral provided by the Company is inclusive of initial margin on exchange-traded and OTC-cleared derivatives and is included in premiums, reinsurance and other receivables on the balance sheet. The amount of cash collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements. At September 30, 2019 and December 31, 2018, the Company received excess cash collateral of \$204 million and \$135 million, respectively, and provided excess cash collateral of \$310 million and \$226 million, respectively, which is not included in the table above due to the foregoing limitation.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)

- (5) Securities collateral received by the Company is held in separate custodial accounts and is not recorded on the balance sheet. Subject to certain constraints, the Company is permitted by contract to sell or re-pledge this collateral, but at September 30, 2019, none of the collateral had been sold or re-pledged. Securities collateral pledged by the Company is reported in fixed maturity securities AFS on the balance sheet. Subject to certain constraints, the counterparties are permitted by contract to sell or re-pledge this collateral. The amount of securities collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements and cash collateral. At September 30, 2019 and December 31, 2018, the Company received excess securities collateral with an estimated fair value of \$81 million and \$70 million, respectively, for its OTC-bilateral derivatives, which are not included in the table above due to the foregoing limitation. At September 30, 2019 and December 31, 2018, the Company provided excess securities collateral with an estimated fair value of \$118 million and \$212 million, respectively, for its OTC-bilateral derivatives, and \$1.0 billion and \$601 million, respectively, for its OTC-cleared derivatives, and \$138 million and \$90 million, respectively, for its exchange-traded derivatives, which are not included in the table above due to the foregoing limitation.

The Company's collateral arrangements for its OTC-bilateral derivatives generally require the counterparty in a net liability position, after considering the effect of netting agreements, to pledge collateral when the collateral amount owed by that counterparty reaches a minimum transfer amount. Substantially all of the Company's netting agreements for derivatives contain provisions that require both the Company and the counterparty to maintain a specific investment grade credit rating from each of Moody's and S&P. If a party's credit or financial strength rating, as applicable, were to fall below that specific investment grade credit rating, that party would be in violation of these provisions, and the other party to the derivatives could terminate the transactions and demand immediate settlement and payment based on such party's reasonable valuation of the derivatives. A small number of these arrangements also include credit-contingent provisions that include a threshold above which collateral must be posted. Such agreements provide for a reduction of these thresholds (on a sliding scale that converges toward zero) in the event of downgrades in the credit ratings of MetLife, Inc. and/or the counterparty. At September 30, 2019, the amount of collateral not provided by the Company due to the existence of these thresholds was \$15 million.

The following table presents the estimated fair value of the Company's OTC-bilateral derivatives that were in a net liability position after considering the effect of netting agreements, together with the estimated fair value and balance sheet location of the collateral pledged. OTC-bilateral derivatives that are not subject to collateral agreements are excluded from this table.

	September 30, 2019			December 31, 2018		
	Derivatives Subject to Credit- Contingent Provisions	Derivatives Not Subject to Credit- Contingent Provisions	Total	Derivatives Subject to Credit- Contingent Provisions	Derivatives Not Subject to Credit- Contingent Provisions	Total
(In millions)						
Estimated Fair Value of Derivatives in a Net Liability Position (1)	\$ 783	\$ 45	\$ 828	\$ 1,148	\$ 40	\$ 1,188
Estimated Fair Value of Collateral Provided:						
Fixed maturity securities AFS	\$ 846	\$ —	\$ 846	\$ 1,218	\$ 9	\$ 1,227
Cash	\$ —	\$ —	\$ —	\$ 6	\$ —	\$ 6

- (1) After taking into consideration the existence of netting agreements.

Embedded Derivatives

The Company issues certain products or purchases certain investments that contain embedded derivatives that are required to be separated from their host contracts and accounted for as freestanding derivatives.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
7. Derivatives (continued)

The following table presents the estimated fair value and balance sheet location of the Company's embedded derivatives that have been separated from their host contracts at:

		Balance Sheet Location	September 30, 2019	December 31, 2018
(In millions)				
Embedded derivatives within asset host contracts:				
Ceded guaranteed minimum benefits	Premiums, reinsurance and other receivables	\$	64	\$ 71
Embedded derivatives within liability host contracts:				
Direct guaranteed minimum benefits	Policyholder account balances	\$	620	\$ 298
Assumed guaranteed minimum benefits	Policyholder account balances		415	495
Funds withheld on ceded reinsurance	Other liabilities		36	(41)
Fixed annuities with equity indexed returns	Policyholder account balances		109	58
Other	Policyholder account balances		8	—
Embedded derivatives within liability host contracts		\$	1,188	\$ 810

8. Fair Value

When developing estimated fair values, considerable judgment is often required in interpreting market data to develop estimates of fair value, and the use of different assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
8. Fair Value (continued)
Recurring Fair Value Measurements

The assets and liabilities measured at estimated fair value on a recurring basis and their corresponding placement in the fair value hierarchy, including those items for which the Company has elected the FVO, are presented below at:

	September 30, 2019							
	Fair Value Hierarchy			Total Estimated Fair Value				
	Level 1	Level 2	Level 3					
	(In millions)							
Assets								
Fixed maturity securities AFS:								
U.S. corporate	\$	—	\$	81,740	\$	5,374	\$	87,114
Foreign government		—		67,410		137		67,547
Foreign corporate		—		55,580		7,520		63,100
U.S. government and agency		20,145		20,657		—		40,802
RMBS		8		26,406		3,177		29,591
ABS		—		13,521		824		14,345
Municipals		—		12,934		8		12,942
CMBS		—		10,262		346		10,608
Total fixed maturity securities AFS		20,153		288,510		17,386		326,049
Equity securities		795		109		437		1,341
Unit-linked and FVO Securities (1)		10,270		1,902		499		12,671
Short-term investments (2)		929		1,556		374		2,859
Residential mortgage loans — FVO		—		—		218		218
Other investments		73		151		323		547
Derivative assets: (3)								
Interest rate		4		7,989		291		8,284
Foreign currency exchange rate		—		3,542		69		3,611
Credit		—		208		32		240
Equity market		7		754		49		810
Total derivative assets		11		12,493		441		12,945
Embedded derivatives within asset host contracts (4)		—		—		64		64
Separate account assets (5)		88,435		100,966		956		190,357
Total assets (6)	\$	120,666	\$	405,687	\$	20,698	\$	547,051
Liabilities								
Derivative liabilities: (3)								
Interest rate	\$	1	\$	203	\$	24	\$	228
Foreign currency exchange rate		3		2,485		82		2,570
Credit		—		86		—		86
Equity market		16		686		94		796
Total derivative liabilities		20		3,460		200		3,680
Embedded derivatives within liability host contracts (4)		—		—		1,188		1,188
Separate account liabilities (5)		1		30		9		40
Total liabilities	\$	21	\$	3,490	\$	1,397	\$	4,908

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

	December 31, 2018							
	Fair Value Hierarchy			Total Estimated Fair Value				
	Level 1	Level 2	Level 3					
	(In millions)							
Assets								
Fixed maturity securities AFS:								
U.S. corporate	\$	—	\$	74,874	\$	4,074	\$	78,948
Foreign government		—		62,150		138		62,288
Foreign corporate		—		50,310		6,393		56,703
U.S. government and agency		19,656		19,666		—		39,322
RMBS		—		24,734		3,227		27,961
ABS		—		11,775		697		12,472
Municipals		—		11,533		—		11,533
CMBS		—		8,696		342		9,038
Total fixed maturity securities AFS		19,656		263,738		14,871		298,265
Equity securities		916		105		419		1,440
Unit-linked and FVO Securities (1)		10,216		1,995		405		12,616
Short-term investments (2)		1,470		1,746		33		3,249
Residential mortgage loans — FVO		—		—		299		299
Other investments		80		118		39		237
Derivative assets: (3)								
Interest rate		1		4,809		33		4,843
Foreign currency exchange rate		4		2,922		52		2,978
Credit		—		91		29		120
Equity market		13		956		59		1,028
Total derivative assets		18		8,778		173		8,969
Embedded derivatives within asset host contracts (4)		—		—		71		71
Separate account assets (5)		79,726		94,886		944		175,556
Total assets (6)	\$	112,082	\$	371,366	\$	17,254	\$	500,702
Liabilities								
Derivative liabilities: (3)								
Interest rate	\$	3	\$	194	\$	218	\$	415
Foreign currency exchange rate		—		2,660		89		2,749
Credit		—		48		4		52
Equity market		77		550		87		714
Total derivative liabilities		80		3,452		398		3,930
Embedded derivatives within liability host contracts (4)		—		—		810		810
Separate account liabilities (5)		1		20		7		28
Total liabilities	\$	81	\$	3,472	\$	1,215	\$	4,768

- (1) Unit-linked and FVO Securities were primarily comprised of Unit-linked investments at both September 30, 2019 and December 31, 2018.
- (2) Short-term investments as presented in the tables above differ from the amounts presented on the consolidated balance sheets because certain short-term investments are not measured at estimated fair value on a recurring basis.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

- (3) Derivative assets are presented within other invested assets on the interim condensed consolidated balance sheets and derivative liabilities are presented within other liabilities on the interim condensed consolidated balance sheets. The amounts are presented gross in the tables above to reflect the presentation on the interim condensed consolidated balance sheets, but are presented net for purposes of the rollforward in the Fair Value Measurements Using Significant Unobservable Inputs (Level 3) tables.
- (4) Embedded derivatives within asset host contracts are presented within premiums, reinsurance and other receivables and other invested assets on the interim condensed consolidated balance sheets. Embedded derivatives within liability host contracts are presented within policyholder account balances and other liabilities on the interim condensed consolidated balance sheets.
- (5) Investment performance related to separate account assets is fully offset by corresponding amounts credited to contractholders whose liability is reflected within separate account liabilities. Separate account liabilities are set equal to the estimated fair value of separate account assets. Separate account liabilities presented in the tables above represent derivative liabilities.
- (6) Total assets included in the fair value hierarchy excluded other limited partnership interests that are measured at estimated fair value using the net asset value (“NAV”) per share (or its equivalent) practical expedient. At September 30, 2019 and December 31, 2018, the estimated fair value of such investments was \$103 million and \$145 million, respectively.

The following describes the valuation methodologies used to measure assets and liabilities at fair value.

Investments**Securities, Short-term Investments and Other Investments**

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

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data. When observable inputs are not available, the market standard valuation methodologies rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from, or corroborated by, observable market data. These unobservable inputs can be based in large part on management’s judgment or estimation and cannot be supported by reference to market activity. Even though these inputs are unobservable, management believes they are consistent with what other market participants would use when pricing such securities and are considered appropriate given the circumstances.

The estimated fair value of other investments is determined on a basis consistent with the methodologies described herein for securities.

The valuation approaches and key inputs for each category of assets or liabilities that are classified within Level 2 and Level 3 of the fair value hierarchy are presented below. The primary valuation approaches are the market approach, which considers recent prices from market transactions involving identical or similar assets or liabilities, and the income approach, which converts expected future amounts (i.e., cash flows) to a single current, discounted amount. The valuation of most instruments listed below is determined using independent pricing sources, matrix pricing, discounted cash flow methodologies or other similar techniques that use either observable market inputs or unobservable inputs.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Fixed maturity securities AFS		
U.S. corporate and Foreign corporate securities		
	Valuation Approaches: Principally the market and income approaches. Key Inputs: - quoted prices in markets that are not active - benchmark yields; spreads off benchmark yields; new issuances; issuer rating - trades of identical or comparable securities; duration - Privately-placed securities are valued using the additional key inputs: - market yield curve; call provisions - observable prices and spreads for similar public or private securities that incorporate the credit quality and industry sector of the issuer - delta spread adjustments to reflect specific credit-related issues	Valuation Approaches: Principally the market approach. Key Inputs: - illiquidity premium - delta spread adjustments to reflect specific credit-related issues - credit spreads - quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 - independent non-binding broker quotations
Foreign government securities, U.S. government and agency securities and Municipals		
	Valuation Approaches: Principally the market approach. Key Inputs: - quoted prices in markets that are not active - benchmark U.S. Treasury yield or other yields - the spread off the U.S. Treasury yield curve for the identical security - issuer ratings and issuer spreads; broker-dealer quotes - comparable securities that are actively traded	Valuation Approaches: Principally the market approach. Key Inputs: - independent non-binding broker quotations - quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 - credit spreads
Structured Securities		
	Valuation Approaches: Principally the market and income approaches. Key Inputs: - quoted prices in markets that are not active - spreads for actively traded securities; spreads off benchmark yields - expected prepayment speeds and volumes - current and forecasted loss severity; ratings; geographic region - weighted average coupon and weighted average maturity - average delinquency rates; debt-service coverage ratios - issuance-specific information, including, but not limited to: - collateral type; structure of the security; vintage of the loans - payment terms of the underlying assets - payment priority within the tranche; deal performance	Valuation Approaches: Principally the market and income approaches. Key Inputs: - credit spreads - quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 - independent non-binding broker quotations

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Equity securities		
	Valuation Approaches: Principally the market approach. Key Input: quoted prices in markets that are not considered active	Valuation Approaches: Principally the market and income approaches. Key Inputs: - credit ratings; issuance structures - quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 - independent non-binding broker quotations
Unit-linked and FVO Securities, Short-term investments and Other investments		
	- Unit-linked and FVO Securities include mutual fund interests without readily determinable fair values given prices are not published publicly. Valuation of these mutual funds is based upon quoted prices or reported NAV provided by the fund managers, which were based on observable inputs. - Short-term investments and other investments are of a similar nature and class to the fixed maturity securities AFS and equity securities described above; accordingly, the valuation approaches and observable inputs used in their valuation are also similar to those described above.	Unit-linked and FVO Securities, short-term investments and other investments are of a similar nature and class to the fixed maturity securities AFS and equity securities described above; accordingly, the valuation approaches and unobservable inputs used in their valuation are also similar to those described above.
Residential mortgage loans — FVO		
	N/A	Valuation Approaches: Principally the market approach. Valuation Techniques and Key Inputs: These investments are based primarily on matrix pricing or other similar techniques that utilize inputs from mortgage servicers that are unobservable or cannot be derived principally from, or corroborated by, observable market data.
Separate account assets and Separate account liabilities (1)		
Mutual funds and hedge funds without readily determinable fair values as prices are not published publicly		
	Key Input: quoted prices or reported NAV provided by the fund managers	N/A
Other limited partnership interests		
	N/A	Valued giving consideration to the underlying holdings of the partnerships and adjusting, if appropriate. Key Inputs: - liquidity; bid/ask spreads; performance record of the fund manager - other relevant variables that may impact the exit value of the particular partnership interest

- (1) Estimated fair value equals carrying value, based on the value of the underlying assets, including: mutual fund interests, fixed maturity securities, equity securities, derivatives, hedge funds, other limited partnership interests, short-term investments and cash and cash equivalents. Fixed maturity securities, equity securities, derivatives, short-term investments and cash and cash equivalents are similar in nature to the instruments described under “— Securities, Short-term Investments and Other Investments” and “— Derivatives — Freestanding Derivatives.”

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Derivatives

The estimated fair value of derivatives is determined through the use of quoted market prices for exchange-traded derivatives, or through the use of pricing models for OTC-bilateral and OTC-cleared derivatives. The determination of estimated fair value, when quoted market values are not available, is based on market standard valuation methodologies and inputs that management believes are consistent with what other market participants would use when pricing such instruments. Derivative valuations can be affected by changes in interest rates, foreign currency exchange rates, financial indices, credit spreads, default risk, nonperformance risk, volatility, liquidity and changes in estimates and assumptions used in the pricing models.

The significant inputs to the pricing models for most OTC-bilateral and OTC-cleared derivatives are inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data. Certain OTC-bilateral and OTC-cleared 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. 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 management believes they are consistent with what other market participants would use when pricing such instruments.

Most inputs for OTC-bilateral and OTC-cleared derivatives are mid-market inputs but, in certain cases, liquidity adjustments are made 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 OTC-bilateral and OTC-cleared derivatives, and any potential credit adjustment is based on the net exposure by counterparty after taking into account the effects of netting agreements and collateral arrangements. The Company values its OTC-bilateral and OTC-cleared derivatives using standard swap curves which may include a spread to the risk-free rate, depending upon specific collateral arrangements. This credit spread is appropriate for those parties that execute trades at pricing levels consistent with similar collateral arrangements. As the Company and its significant derivative counterparties generally execute trades at such pricing levels and hold sufficient collateral, additional credit risk adjustments are not currently required in the valuation process. 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. An evaluation of the requirement to make additional credit risk adjustments is performed by the Company each reporting period.

Freestanding DerivativesLevel 2 Valuation Approaches and Key Inputs:

This level includes all types of derivatives utilized by the Company with the exception of exchange-traded derivatives included within Level 1 and those derivatives with unobservable inputs as described in Level 3.

Level 3 Valuation Approaches and Key Inputs:

These valuation methodologies generally use the same inputs as described in the corresponding sections for Level 2 measurements of derivatives. However, these derivatives result in Level 3 classification because one or more of the significant inputs are not observable in the market or cannot be derived principally from, or corroborated by, observable market data.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Freestanding derivatives are principally valued using the income approach. Valuations of non-option-based derivatives utilize present value techniques, whereas valuations of option-based derivatives utilize option pricing models. Key inputs are as follows:

Instrument	Interest Rate	Foreign Currency Exchange Rate	Credit	Equity Market
Inputs common to Level 2 and Level 3 by instrument type	- swap yield curves - basis curves - interest rate volatility (1)	- swap yield curves - basis curves - currency spot rates - cross currency basis curves - currency volatility (1)	- swap yield curves - credit curves - recovery rates	- swap yield curves - spot equity index levels - dividend yield curves - equity volatility (1)
Level 3	- swap yield curves (2) - basis curves (2) - repurchase rates	- swap yield curves (2) - basis curves (2) - cross currency basis curves (2) - currency correlation - currency volatility (1)	- swap yield curves (2) - credit curves (2) - credit spreads - repurchase rates - independent non-binding broker quotations	- dividend yield curves (2) - equity volatility (1), (2) - correlation between model inputs (1)

(1) Option-based only.

(2) Extrapolation beyond the observable limits of the curve(s).

Embedded Derivatives

Embedded derivatives principally include certain direct, assumed and ceded variable annuity guarantees, annuity contracts, and investment risk within funds withheld related to certain reinsurance agreements. Embedded derivatives are recorded at estimated fair value with changes in estimated fair value reported in net income.

The Company issues certain variable annuity products with guaranteed minimum benefits. GMWBs, GMABs and certain GMIBs contain embedded derivatives, which are measured at estimated fair value separately from the host variable annuity contract, with changes in estimated fair value reported in net derivative gains (losses). These embedded derivatives are classified within policyholder account balances on the consolidated balance sheets.

The Company calculates the fair value of these embedded derivatives, which are estimated as the present value of projected future benefits minus the present value of projected future fees using actuarial and capital market assumptions including expectations concerning policyholder behavior. The calculation is based on in-force business, projecting future cash flows from the embedded derivative over multiple risk neutral stochastic scenarios using observable risk-free rates.

Capital market assumptions, such as risk-free rates and implied volatilities, are based on market prices for publicly traded instruments to the extent that prices for such instruments are observable. Implied volatilities beyond the observable period are extrapolated based on observable implied volatilities and historical volatilities. Actuarial assumptions, including mortality, lapse, withdrawal and utilization, are unobservable and are reviewed at least annually based on actuarial studies of historical experience.

The valuation of these guarantee liabilities includes nonperformance risk adjustments and adjustments for a risk margin related to non-capital market inputs. The nonperformance adjustment is determined by taking into consideration publicly available information relating to spreads in the secondary market for MetLife, Inc.'s debt, including related credit default swaps. These observable spreads are then adjusted, as necessary, to reflect the priority of these liabilities and the claims paying ability of the issuing insurance subsidiaries as compared to MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Risk margins are established to capture the non-capital market risks of the instrument which represent the additional compensation a market participant would require to assume the risks related to the uncertainties of such actuarial assumptions as annuitization, premium persistency, partial withdrawal and surrenders. The establishment of risk margins requires the use of significant management judgment, including assumptions of the amount and cost of capital needed to cover the guarantees. These guarantees may be more costly than expected in volatile or declining equity markets. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates; changes in nonperformance risk; and variations in actuarial assumptions regarding policyholder behavior, mortality and risk margins related to non-capital market inputs, may result in significant fluctuations in the estimated fair value of the guarantees that could materially affect net income.

The Company ceded the risk associated with certain of the GMIBs previously described. These reinsurance agreements contain embedded derivatives which are included within premiums, reinsurance and other receivables on the consolidated balance sheets with changes in estimated fair value reported in net derivative gains (losses) or policyholder benefits and claims depending on the statement of operations classification of the direct risk. The value of the embedded derivatives on the ceded risk is determined using a methodology consistent with that described previously for the guarantees directly written by the Company with the exception of the input for nonperformance risk that reflects the credit of the reinsurer.

The estimated fair value of the embedded derivatives within funds withheld related to certain ceded reinsurance is determined based on the change in estimated fair value of the underlying assets held by the Company in a reference portfolio backing the funds withheld liability. The estimated fair value of the underlying assets is determined as described in “— Investments — Securities, Short-term Investments and Other Investments.” The estimated fair value of these embedded derivatives is included, along with their funds withheld hosts, in other liabilities on the consolidated balance sheets with changes in estimated fair value recorded in net derivative gains (losses). Changes in the credit spreads on the underlying assets, interest rates and market volatility may result in significant fluctuations in the estimated fair value of these embedded derivatives that could materially affect net income.

The Company issues certain annuity contracts which allow the policyholder to participate in returns from equity indices. These equity indexed features are embedded derivatives which are measured at estimated fair value separately from the host fixed annuity contract, with changes in estimated fair value reported in net derivative gains (losses). These embedded derivatives are classified within policyholder account balances on the consolidated balance sheets.

The estimated fair value of the embedded equity indexed derivatives, based on the present value of future equity returns to the policyholder using actuarial and present value assumptions including expectations concerning policyholder behavior, is calculated by the Company’s actuarial department. The calculation is based on in-force business and uses standard capital market techniques, such as Black-Scholes, to calculate the value of the portion of the embedded derivative for which the terms are set. The portion of the embedded derivative covering the period beyond where terms are set is calculated as the present value of amounts expected to be spent to provide equity indexed returns in those periods. The valuation of these embedded derivatives also includes the establishment of a risk margin, as well as changes in nonperformance risk.

Embedded Derivatives Within Asset and Liability Host ContractsLevel 3 Valuation Approaches and Key Inputs:*Direct and assumed guaranteed minimum benefits*

These embedded derivatives are principally valued using the income approach. Valuations are based on option pricing techniques, which utilize significant inputs that may include swap yield curves, currency exchange rates and implied volatilities. These embedded derivatives result in Level 3 classification because one or more of the significant inputs are not observable in the market or cannot be derived principally from, or corroborated by, observable market data. Significant unobservable inputs generally include: the extrapolation beyond observable limits of the swap yield curves and implied volatilities, actuarial assumptions for policyholder behavior and mortality and the potential variability in policyholder behavior and mortality, nonperformance risk and cost of capital for purposes of calculating the risk margin.

Reinsurance ceded on certain guaranteed minimum benefits

These embedded derivatives are principally valued using the income approach. The valuation techniques and significant market standard unobservable inputs used in their valuation are similar to those described above in “— Direct and assumed guaranteed minimum benefits” and also include counterparty credit spreads.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Transfers between Levels

Overall, transfers between levels occur when there are changes in the observability of inputs and market activity.

Transfers into or out of Level 3:

Assets and liabilities are transferred into Level 3 when a significant input cannot be corroborated with market observable data. This occurs when market activity decreases significantly and underlying inputs cannot be observed, current prices are not available, and/or when there are significant variances in quoted prices, thereby affecting transparency. Assets and liabilities are transferred out of Level 3 when circumstances change such that a significant input can be corroborated with market observable data. This may be due to a significant increase in market activity, a specific event, or one or more significant input(s) becoming observable.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

The following table presents certain quantitative information about the significant unobservable inputs used in the fair value measurement, and the sensitivity of the estimated fair value to changes in those inputs, for the more significant asset and liability classes measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at:

	Valuation Techniques	Significant Unobservable Inputs	September 30, 2019			December 31, 2018			Impact of Increase in Input on Estimated Fair Value (2)		
			Range		Weighted Average (1)	Range		Weighted Average (1)			
Fixed maturity securities AFS (3)											
U.S. corporate and foreign corporate	• Matrix pricing	• Offered quotes (4)	50	-	147	114	85	-	134	104	Increase
	• Market pricing	• Quoted prices (4)	25	-	451	118	25	-	638	110	Increase
	• Consensus pricing	• Offered quotes (4)	95	-	113	103	100	-	110	102	Increase
RMBS	• Market pricing	• Quoted prices (4)	—	-	115	96	—	-	106	94	Increase (5)
ABS	• Market pricing	• Quoted prices (4)	3	-	124	97	3	-	116	97	Increase (5)
	• Consensus pricing	• Offered quotes (4)	96	-	105	102	100	-	103	101	Increase (5)
Derivatives											
Interest rate	• Present value techniques	• Swap yield (6)	164	-	221		268	-	317		Increase (7)
		• Repurchase rates (8)	(7)	-	5		(5)	-	6		Decrease (7)
Foreign currency exchange rate	• Present value techniques	• Swap yield (6)	(169)	-	328		(20)	-	328		Increase (7)
Credit	• Present value techniques	• Credit spreads (9)	96	-	100		97	-	103		Decrease (7)
	• Consensus pricing	• Offered quotes (10)									
Equity market	• Present value techniques or option pricing models	• Volatility (11)	16%	-	24%		21%	-	26%		Increase (7)
		• Correlation (12)	10%	-	30%		10%	-	30%		
Embedded derivatives											
Direct, assumed and ceded guaranteed minimum benefits	• Option pricing techniques	• Mortality rates:									
		Ages 0 - 40	0%	-	0.18%		0%	-	0.18%		Decrease (13)
		Ages 41 - 60	0.03%	-	0.80%		0.03%	-	0.80%		Decrease (13)
		Ages 61 - 115	0.13%	-	100%		0.12%	-	100%		Decrease (13)
		• Lapse rates:									
		Durations 1 - 10	0.25%	-	100%		0.25%	-	100%		Decrease (14)
		Durations 11 - 20	0.50%	-	100%		2%	-	100%		Decrease (14)
		Durations 21 - 116	0.50%	-	100%		1.25%	-	100%		Decrease (14)
	• Utilization rates		0%	-	22%		0%	-	25%		Increase (15)
	• Withdrawal rates		0%	-	20%		0%	-	20%		(16)
	• Long-term equity volatilities		5.85%	-	30%		7.16%	-	30%		Increase (17)
	• Nonperformance risk spread		0.04%	-	1.52%		0.04%	-	1.77%		Decrease (18)

- (1) The weighted average for fixed maturity securities AFS is determined based on the estimated fair value of the securities.
- (2) The impact of a decrease in input would have resulted in the opposite impact on estimated fair value. For embedded derivatives, changes to direct and assumed guaranteed minimum benefits are based on liability positions; changes to ceded guaranteed minimum benefits are based on asset positions.
- (3) Significant increases (decreases) in expected default rates in isolation would have resulted in substantially lower (higher) valuations.
- (4) Range and weighted average are presented in accordance with the market convention for fixed maturity securities AFS of dollars per hundred dollars of par.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)**8. Fair Value (continued)**

- (5) Changes in the assumptions used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumptions used for prepayment rates.
- (6) Ranges represent the rates across different yield curves and are presented in basis points. The swap yield curves are utilized among different types of derivatives to project cash flows, as well as to discount future cash flows to present value. Since this valuation methodology uses a range of inputs across a yield curve to value the derivative, presenting a range is more representative of the unobservable input used in the valuation.
- (7) Changes in estimated fair value are based on long U.S. dollar net asset positions and will be inversely impacted for short U.S. dollar net asset positions.
- (8) Ranges represent different repurchase rates utilized as components within the valuation methodology and are presented in basis points.
- (9) Represents the risk quoted in basis points of a credit default event on the underlying instrument. Credit derivatives with significant unobservable inputs are primarily comprised of written credit default swaps.
- (10) At both September 30, 2019 and December 31, 2018, independent non-binding broker quotations were used in the determination of less than 1% of the total net derivative estimated fair value.
- (11) Ranges represent the underlying equity volatility quoted in percentage points. Since this valuation methodology uses a range of inputs across multiple volatility surfaces to value the derivative, presenting a range is more representative of the unobservable input used in the valuation.
- (12) Ranges represent the different correlation factors utilized as components within the valuation methodology. Presenting a range of correlation factors is more representative of the unobservable input used in the valuation. Increases (decreases) in correlation in isolation will increase (decrease) the significance of the change in valuations.
- (13) Mortality rates vary by age and by demographic characteristics such as gender. Mortality rate assumptions are based on company experience. A mortality improvement assumption is also applied. For any given contract, mortality rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (14) Base lapse rates are adjusted at the contract level based on a comparison of the actuarially calculated guaranteed values and the current policyholder account value, as well as other factors, such as the applicability of any surrender charges. A dynamic lapse function reduces the base lapse rate when the guaranteed amount is greater than the account value as in the money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. For any given contract, lapse rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (15) The utilization rate assumption estimates the percentage of contractholders with a GMIB or lifetime withdrawal benefit who will elect to utilize the benefit upon becoming eligible. The rates may vary by the type of guarantee, the amount by which the guaranteed amount is greater than the account value, the contract's withdrawal history and by the age of the policyholder. For any given contract, utilization rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (16) The withdrawal rate represents the percentage of account balance that any given policyholder will elect to withdraw from the contract each year. The withdrawal rate assumption varies by age and duration of the contract, and also by other factors such as benefit type. For any given contract, withdrawal rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. For GMWBs, any increase (decrease) in withdrawal rates results in an increase (decrease) in the estimated fair value of the guarantees. For GMABs and GMIBs, any increase (decrease) in withdrawal rates results in a decrease (increase) in the estimated fair value.
- (17) Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. For any given contract, long-term equity volatility rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (18) Nonperformance risk spread varies by duration and by currency. For any given contract, multiple nonperformance risk spreads will apply, depending on the duration of the cash flow being discounted for purposes of valuing the embedded derivative.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
8. Fair Value (continued)

The following is a summary of the valuation techniques and significant unobservable inputs used in the fair value measurement of assets and liabilities classified within Level 3 that are not included in the preceding table. Generally, all other classes of securities classified within Level 3, including those within separate account assets, embedded derivatives within funds withheld related to certain ceded reinsurance, and other investments, use the same valuation techniques and significant unobservable inputs as previously described for Level 3 securities. This includes matrix pricing and discounted cash flow methodologies, inputs such as quoted prices for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2, as well as independent non-binding broker quotations. The residential mortgage loans — FVO are valued using independent non-binding broker quotations and internal models including matrix pricing and discounted cash flow methodologies using current interest rates. The sensitivity of the estimated fair value to changes in the significant unobservable inputs for these other assets and liabilities is similar in nature to that described in the preceding table.

The following tables summarize the change of all assets and (liabilities) measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Fixed Maturity Securities AFS						
	Corporate (1)	Foreign Government	Structured Securities	Municipals	Equity Securities	Unit-linked and FVO Securities	
	(In millions)						
Three Months Ended September 30, 2019							
Balance, beginning of period	\$ 11,607	\$ 143	\$ 4,155	\$ 7	\$ 457	\$ 494	
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	(12)	(1)	11	—	1	(2)	
Total realized/unrealized gains (losses) included in AOCI	111	(5)	5	1	—	—	
Purchases (4)	922	—	525	—	1	74	
Sales (4)	(260)	(1)	(179)	—	(22)	(65)	
Issuances (4)	—	—	—	—	—	—	
Settlements (4)	—	—	—	—	—	—	
Transfers into Level 3 (5)	605	2	—	—	—	—	
Transfers out of Level 3 (5)	(79)	(1)	(170)	—	—	(2)	
Balance, end of period	<u>\$ 12,894</u>	<u>\$ 137</u>	<u>\$ 4,347</u>	<u>\$ 8</u>	<u>\$ 437</u>	<u>\$ 499</u>	
Three Months Ended September 30, 2018							
Balance, beginning of period	\$ 10,621	\$ 156	\$ 4,677	\$ 8	\$ 408	\$ 269	
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	2	—	30	—	(1)	(2)	
Total realized/unrealized gains (losses) included in AOCI	(176)	(4)	(15)	—	—	—	
Purchases (4)	594	4	746	—	6	48	
Sales (4)	(497)	(6)	(281)	—	(7)	(32)	
Issuances (4)	—	—	—	—	—	—	
Settlements (4)	—	—	—	—	—	—	
Transfers into Level 3 (5)	84	5	36	—	45	12	
Transfers out of Level 3 (5)	(295)	(15)	(977)	(8)	(8)	(69)	
Balance, end of period	<u>\$ 10,333</u>	<u>\$ 140</u>	<u>\$ 4,216</u>	<u>\$ —</u>	<u>\$ 443</u>	<u>\$ 226</u>	
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2019 (6)	<u>\$ (6)</u>	<u>\$ (1)</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ (6)</u>	
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2018 (6)	\$ 2	\$ —	\$ 27	\$ —	\$ —	\$ (2)	

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Short-term Investments	Residential Mortgage Loans — FVO	Other Investments	Net Derivatives (7)	Net Embedded Derivatives (8)	Separate Accounts (9)
(In millions)						
Three Months Ended September 30, 2019						
Balance, beginning of period	\$ 123	\$ 262	\$ 232	\$ 105	\$ (835)	\$ 925
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	—	2	—	27	(218)	5
Total realized/unrealized gains (losses) included in AOCI	(1)	—	—	216	1	—
Purchases (4)	255	—	91	—	—	107
Sales (4)	(3)	(39)	—	—	—	(88)
Issuances (4)	—	—	—	—	—	—
Settlements (4)	—	(7)	—	(107)	(72)	(2)
Transfers into Level 3 (5)	—	—	—	—	—	—
Transfers out of Level 3 (5)	—	—	—	—	—	—
Balance, end of period	<u>\$ 374</u>	<u>\$ 218</u>	<u>\$ 323</u>	<u>\$ 241</u>	<u>\$ (1,124)</u>	<u>\$ 947</u>
Three Months Ended September 30, 2018						
Balance, beginning of period	\$ 559	\$ 405	\$ —	\$ (267)	\$ (240)	\$ 1,138
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	—	4	—	(70)	167	2
Total realized/unrealized gains (losses) included in AOCI	(3)	—	—	(107)	9	—
Purchases (4)	102	—	—	—	—	148
Sales (4)	(2)	(70)	—	—	—	(215)
Issuances (4)	—	—	—	—	—	—
Settlements (4)	—	(16)	—	37	(75)	—
Transfers into Level 3 (5)	—	—	—	—	—	5
Transfers out of Level 3 (5)	(2)	—	—	—	—	(77)
Balance, end of period	<u>\$ 654</u>	<u>\$ 323</u>	<u>\$ —</u>	<u>\$ (407)</u>	<u>\$ (139)</u>	<u>\$ 1,001</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2019 (6)	<u>\$ —</u>	<u>\$ (8)</u>	<u>\$ —</u>	<u>\$ (22)</u>	<u>\$ (219)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2018 (6)	<u>\$ —</u>	<u>\$ (5)</u>	<u>\$ —</u>	<u>\$ (38)</u>	<u>\$ 168</u>	<u>\$ —</u>

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Fixed Maturity Securities AFS				Equity Securities	Unit-linked and FVO Securities
	Corporate (1)	Foreign Government	Structured Securities	Municipals		
	(In millions)					
Nine Months Ended September 30, 2019						
Balance, beginning of period	\$ 10,467	\$ 138	\$ 4,266	\$ —	\$ 419	\$ 405
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	(6)	—	36	—	29	21
Total realized/unrealized gains (losses) included in AOCI	717	(6)	65	1	—	—
Purchases (4)	2,073	4	948	7	49	117
Sales (4)	(618)	(6)	(508)	—	(60)	(41)
Issuances (4)	—	—	—	—	—	—
Settlements (4)	—	—	—	—	—	—
Transfers into Level 3 (5)	601	12	2	—	—	3
Transfers out of Level 3 (5)	(340)	(5)	(462)	—	—	(6)
Balance, end of period	<u>\$ 12,894</u>	<u>\$ 137</u>	<u>\$ 4,347</u>	<u>\$ 8</u>	<u>\$ 437</u>	<u>\$ 499</u>
Nine Months Ended September 30, 2018						
Balance, beginning of period	\$ 11,219	\$ 209	\$ 4,841	\$ —	\$ 428	\$ 362
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	13	1	73	—	(11)	(7)
Total realized/unrealized gains (losses) included in AOCI	(621)	(16)	1	—	—	—
Purchases (4)	1,606	5	919	—	11	77
Sales (4)	(1,366)	(21)	(788)	—	(20)	(162)
Issuances (4)	—	—	—	—	—	—
Settlements (4)	—	—	—	—	—	—
Transfers into Level 3 (5)	88	—	50	—	45	10
Transfers out of Level 3 (5)	(606)	(38)	(880)	—	(10)	(54)
Balance, end of period	<u>\$ 10,333</u>	<u>\$ 140</u>	<u>\$ 4,216</u>	<u>\$ —</u>	<u>\$ 443</u>	<u>\$ 226</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2019 (6)	<u>\$ (10)</u>	<u>\$ —</u>	<u>\$ 35</u>	<u>\$ —</u>	<u>\$ 21</u>	<u>\$ 17</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2018 (6)	\$ 3	\$ 1	\$ 66	\$ —	\$ —	\$ (8)

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
8. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Short-term Investments	Residential Mortgage Loans — FVO	Other Investments	Net Derivatives (7)	Net Embedded Derivatives (8)	Separate Accounts (9)
	(In millions)					
Nine Months Ended September 30, 2019						
Balance, beginning of period	\$ 33	\$ 299	\$ 39	\$ (225)	\$ (739)	\$ 937
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	—	8	—	48	(170)	10
Total realized/unrealized gains (losses) included in AOCI	(2)	—	—	439	(7)	—
Purchases (4)	372	—	284	4	—	147
Sales (4)	(31)	(64)	—	—	—	(146)
Issuances (4)	—	—	—	(1)	—	2
Settlements (4)	—	(25)	—	(24)	(208)	(3)
Transfers into Level 3 (5)	2	—	—	—	—	—
Transfers out of Level 3 (5)	—	—	—	—	—	—
Balance, end of period	<u>\$ 374</u>	<u>\$ 218</u>	<u>\$ 323</u>	<u>\$ 241</u>	<u>\$ (1,124)</u>	<u>\$ 947</u>
Nine Months Ended September 30, 2018						
Balance, beginning of period	\$ 33	\$ 520	\$ —	\$ (132)	\$ (274)	\$ 959
Total realized/unrealized gains (losses) included in net income (loss) (2), (3)	—	7	—	(151)	355	2
Total realized/unrealized gains (losses) included in AOCI	(7)	—	—	(228)	6	—
Purchases (4)	659	—	—	4	—	200
Sales (4)	(11)	(151)	—	—	—	(162)
Issuances (4)	—	—	—	—	—	(3)
Settlements (4)	—	(53)	—	100	(226)	—
Transfers into Level 3 (5)	—	—	—	—	—	81
Transfers out of Level 3 (5)	(20)	—	—	—	—	(76)
Balance, end of period	<u>\$ 654</u>	<u>\$ 323</u>	<u>\$ —</u>	<u>\$ (407)</u>	<u>\$ (139)</u>	<u>\$ 1,001</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2019 (6)	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ 27</u>	<u>\$ (173)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at September 30, 2018 (6)	<u>\$ —</u>	<u>\$ (13)</u>	<u>\$ —</u>	<u>\$ (66)</u>	<u>\$ 352</u>	<u>\$ —</u>

- (1) Comprised of U.S. and foreign corporate securities.
- (2) Amortization of premium/accretion of discount is included within net investment income. Impairments charged to net income (loss) on securities are included in net investment gains (losses), while changes in estimated fair value of residential mortgage loans — FVO are included in net investment income. Lapses associated with net embedded derivatives are included in net derivative gains (losses). Substantially all realized/unrealized gains (losses) included in net income (loss) for net derivatives and net embedded derivatives are reported in net derivative gains (losses).
- (3) Interest and dividend accruals, as well as cash interest coupons and dividends received, are excluded from the rollforward.
- (4) Items purchased/issued and then sold/settled in the same period are excluded from the rollforward. Fees attributed to embedded derivatives are included in settlements.
- (5) Items transferred into and then out of Level 3 in the same period are excluded from the rollforward.
- (6) Changes in unrealized gains (losses) included in net income (loss) relate to assets and liabilities still held at the end of the respective periods. Substantially all changes in unrealized gains (losses) included in net income (loss) for net derivatives and net embedded derivatives are reported in net derivative gains (losses).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

- (7) Freestanding derivative assets and liabilities are presented net for purposes of the rollforward.
- (8) Embedded derivative assets and liabilities are presented net for purposes of the rollforward.
- (9) Investment performance related to separate account assets is fully offset by corresponding amounts credited to contractholders within separate account liabilities. Therefore, such changes in estimated fair value are not recorded in net income (loss). For the purpose of this disclosure, these changes are presented within net investment gains (losses). Separate account assets and liabilities are presented net for the purposes of the rollforward.

Fair Value Option

The Company elects the FVO for certain residential mortgage loans that are managed on a total return basis. The following table presents information for residential mortgage loans, which are accounted for under the FVO and were initially measured at fair value.

	September 30, 2019	December 31, 2018
	(In millions)	
Unpaid principal balance	\$ 245	\$ 344
Difference between estimated fair value and unpaid principal balance	(27)	(45)
Carrying value at estimated fair value	<u>\$ 218</u>	<u>\$ 299</u>
Loans in nonaccrual status	\$ 58	\$ 89
Loans more than 90 days past due	\$ 23	\$ 41
Loans in nonaccrual status or more than 90 days past due, or both — difference between aggregate estimated fair value and unpaid principal balance	\$ (24)	\$ (36)

Fair Value of Financial Instruments Carried at Other Than Fair Value

The following tables provide fair value information for financial instruments that are carried on the balance sheet at amounts other than fair value. These tables exclude the following financial instruments: cash and cash equivalents, accrued investment income, payables for collateral under securities loaned and other transactions, short-term debt and those short-term investments that are not securities, such as time deposits, and therefore are not included in the three-level hierarchy table disclosed in the “— Recurring Fair Value Measurements” section. The estimated fair value of the excluded financial instruments, which are primarily classified in Level 2, approximates carrying value as they are short-term in nature such that the Company believes there is minimal risk of material changes in interest rates or credit quality. All remaining balance sheet amounts excluded from the tables below are not considered financial instruments subject to this disclosure.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

8. Fair Value (continued)

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows at:

	September 30, 2019					
	Fair Value Hierarchy					Total Estimated Fair Value
	Carrying Value	Level 1	Level 2	Level 3		
	(In millions)					
Assets						
Mortgage loans	\$ 78,741	\$ —	\$ —	\$ 81,906	\$ 81,906	
Policy loans	\$ 9,671	\$ —	\$ 329	\$ 11,512	\$ 11,841	
Other invested assets	\$ 1,143	\$ —	\$ 800	\$ 343	\$ 1,143	
Premiums, reinsurance and other receivables	\$ 3,632	\$ —	\$ 957	\$ 2,886	\$ 3,843	
Other assets	\$ 277	\$ —	\$ 129	\$ 146	\$ 275	
Liabilities						
Policyholder account balances	\$ 116,170	\$ —	\$ —	\$ 120,840	\$ 120,840	
Long-term debt	\$ 13,313	\$ —	\$ 15,715	\$ —	\$ 15,715	
Collateral financing arrangement	\$ 1,013	\$ —	\$ —	\$ 826	\$ 826	
Junior subordinated debt securities	\$ 3,149	\$ —	\$ 4,297	\$ —	\$ 4,297	
Other liabilities	\$ 3,091	\$ —	\$ 1,484	\$ 2,487	\$ 3,971	
Separate account liabilities	\$ 114,274	\$ —	\$ 114,274	\$ —	\$ 114,274	
December 31, 2018						
	Fair Value Hierarchy					Total Estimated Fair Value
	Carrying Value	Level 1	Level 2	Level 3		
	(In millions)					
Assets						
Mortgage loans	\$ 75,453	\$ —	\$ —	\$ 76,379	\$ 76,379	
Policy loans	\$ 9,699	\$ —	\$ 338	\$ 11,028	\$ 11,366	
Other invested assets	\$ 1,177	\$ —	\$ 793	\$ 383	\$ 1,176	
Premiums, reinsurance and other receivables	\$ 3,658	\$ —	\$ 903	\$ 2,894	\$ 3,797	
Other assets	\$ 326	\$ —	\$ 164	\$ 186	\$ 350	
Liabilities						
Policyholder account balances	\$ 114,040	\$ —	\$ —	\$ 114,924	\$ 114,924	
Long-term debt	\$ 12,820	\$ —	\$ 13,611	\$ —	\$ 13,611	
Collateral financing arrangement	\$ 1,060	\$ —	\$ —	\$ 853	\$ 853	
Junior subordinated debt securities	\$ 3,147	\$ —	\$ 3,738	\$ —	\$ 3,738	
Other liabilities	\$ 2,963	\$ —	\$ 1,324	\$ 2,194	\$ 3,518	
Separate account liabilities	\$ 104,010	\$ —	\$ 104,010	\$ —	\$ 104,010	

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

9. Leases

The Company, as lessee, has entered into various lease and sublease agreements for office space and other equipment. At contract inception, the Company determines that an arrangement contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts that contain a lease, the Company recognizes the ROU asset in Other assets and the lease liability in Other liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are determined using the Company's incremental borrowing rate based upon information available at commencement date to recognize the present value of lease payments over the lease term. The ROU asset also includes lease payments and excludes lease incentives. Lease terms may include options to extend or terminate the lease and are included in the lease measurement when it is reasonably certain that the Company will exercise that option.

The Company has lease agreements with lease and non-lease components. The Company elected the practical expedient to not separate lease and non-lease components and accounted for these items as a single lease component for all asset classes.

The majority of the Company's leases and subleases are operating leases related to office space. The Company recognizes lease expense for operating leases on a straight-line basis over the lease term.

The Company has operating leases with remaining lease terms of less than one year to 16 years. The remaining lease terms for the subleases are less than one year to 10 years.

ROU Asset and Lease Liability

The ROU assets and lease liabilities for operating leases were:

	September 30, 2019	
	(In millions)	
ROU asset (1)	\$	1,543
Lease liability (1)	\$	1,639

(1) Assets and liabilities include amounts recognized upon adoption of new guidance. See Note 1.

Lease Costs

The components of operating lease costs were as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,
	2019	
	(In millions)	
Operating lease cost	\$ 75	\$ 219
Variable lease cost	9	32
Sublease income	(22)	(65)
Net lease cost	\$ 62	\$ 186

Operating lease expense was \$86 million and \$257 million for the three months and nine months ended September 30, 2018, respectively. Non-cancelable sublease income was \$23 million and \$53 million for the three months and nine months ended September 30, 2018, respectively.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
9. Leases (continued)
Other Information

Supplemental other information related to operating leases was as follows:

	September 30, 2019
	(Dollars in millions)
Cash paid for amounts included in the measurement of lease liability - operating cash flows	\$ 208
ROU assets obtained in exchange for new lease liabilities	\$ 272
Weighted-average remaining lease term	8 years
Weighted-average discount rate	3.3%

Maturities of Lease Liabilities

Maturities of operating lease liabilities were as follows:

	September 30, 2019
	(In millions)
Remainder of 2019	\$ 86
2020	281
2021	253
2022	217
2023	204
Thereafter	853
Total undiscounted cash flows	1,894
Less: interest	255
Present value of lease liability	\$ 1,639

Future minimum gross rental payments relating to lease arrangements in effect as determined prior to the adoption of ASU 2016-02 are as follows:

	December 31, 2018
	(In millions)
2019	\$ 292
2020	282
2021	260
2022	224
2023	209
Thereafter	859
Total	\$ 2,126

See Note 6 for information about the Company's investments in leased real estate and leveraged and direct financing leases.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
10. Long Term Debt
Senior Notes

In June 2019, MetLife, Inc. redeemed for cash and canceled its \$400 million (\$509 million at repayment) aggregate principal amount 5.250% senior notes due June 2020 and the remaining \$368 million aggregate principal amount of its 4.750% senior notes due February 2021. The Company recorded a premium of \$40 million paid in excess of the debt principal and accrued and unpaid interest to other expenses for the nine months ended September 30, 2019.

In May 2019, MetLife, Inc. issued the following fixed rate senior notes ("Senior Notes"), interest on which is payable semi-annually beginning in November 2019:

- ¥25.2 billion (\$230 million at issuance) due May 2026 which bear interest annually at 0.495%;
- ¥64.9 billion (\$591 million at issuance) due May 2029 which bear interest annually at 0.769%;
- ¥10.7 billion (\$98 million at issuance) due May 2031 which bear interest annually at 0.898%;
- ¥26.5 billion (\$241 million at issuance) due May 2034 which bear interest annually at 1.189%; and
- ¥24.4 billion (\$222 million at issuance) due May 2039 which bear interest annually at 1.385%.

In connection with the issuances, MetLife, Inc. incurred \$9 million of related costs which are amortized over the applicable term of each series of the Senior Notes. MetLife, Inc. may redeem each series of the Senior Notes at its option, in whole, but not in part, at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest thereon, if certain events occur affecting the U.S. tax treatment of the Senior Notes.

11. Equity
Preferred Stock

Preferred stock authorized, issued and outstanding was as follows at both September 30, 2019 and December 31, 2018:

Series	Shares Authorized	Shares Issued	Shares Outstanding
Floating Rate Non-Cumulative Preferred Stock, Series A	27,600,000	24,000,000	24,000,000
5.25% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series C	1,500,000	1,500,000	1,500,000
5.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series D	500,000	500,000	500,000
5.625% Non-Cumulative Preferred Stock, Series E	32,200	32,200	32,200
Series A Junior Participating Preferred Stock	10,000,000	—	—
Not designated	160,367,800	—	—
Total	200,000,000	26,032,200	26,032,200

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
11. Equity (continued)

The declaration, record and payment dates, as well as per share and aggregate dividend amounts, for MetLife, Inc.'s preferred stock were as follows for the nine months ended September 30, 2019 and 2018:

			Preferred Stock Dividend							
			Series A		Series C		Series D		Series E	
Declaration Date	Record Date	Payment Date	Per Share	Aggregate	Per Share	Aggregate	Per Share	Aggregate	Per Share	Aggregate
(In millions, except per share data)										
August 15, 2019	September 1, 2019	September 16, 2019	\$ 0.253	\$ 6	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
August 15, 2019	August 31, 2019	September 16, 2019	—	—	—	—	29.375	15	351.563	11
May 15, 2019	May 31, 2019	June 17, 2019	0.261	6	26.250	39	—	—	351.563	12
March 5, 2019	February 28, 2019	March 15, 2019	0.250	6	—	—	—	—	—	—
February 15, 2019	February 28, 2019	March 15, 2019	—	—	—	—	29.375	15	351.563	11
Total			\$ 0.764	\$ 18	\$ 26.250	\$ 39	\$ 58.750	\$ 30	\$ 1,054.689	\$ 34
August 15, 2018	August 31, 2018	September 17, 2018	\$ 0.256	\$ 6	\$ —	\$ —	\$ 28.233	\$ 14	\$ 394.531	\$ 12
May 15, 2018	May 31, 2018	June 15, 2018	0.256	7	26.250	39	—	—	—	—
March 5, 2018	February 28, 2018	March 15, 2018	0.250	6	—	—	—	—	—	—
Total			\$ 0.762	\$ 19	\$ 26.250	\$ 39	\$ 28.233	\$ 14	\$ 394.531	\$ 12

Common Stock

For the nine months ended September 30, 2019 and 2018, MetLife, Inc. repurchased 44,035,255 shares and 59,602,926 shares of its common stock, respectively, through open market purchases for \$2.0 billion and \$2.8 billion, respectively.

MetLife, Inc. announced that its Board of Directors authorized common stock repurchases as follows:

Announcement Date	Authorization Amount	Authorization Remaining at September 30, 2019
(In millions)		
July 31, 2019	\$ 2,000	\$ 1,235
November 1, 2018	\$ 2,000	—
May 22, 2018	\$ 1,500	—
November 1, 2017	\$ 2,000	—

Under these authorizations, MetLife, Inc. may purchase its common stock from the MetLife Policyholder Trust in the open market (including pursuant to the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 ("Exchange Act")), and in privately negotiated transactions. Common stock repurchases are subject to the discretion of MetLife, Inc.'s Board of Directors and will depend upon the Company's capital position, liquidity, financial strength and credit ratings, general market conditions, the market price of MetLife, Inc.'s common stock compared to management's assessment of the stock's underlying value, applicable regulatory approvals, and other legal and accounting factors.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
11. Equity (continued)

The declaration, record and payment dates, as well as per share and aggregate dividend amounts, for MetLife, Inc.'s common stock were as follows for the nine months ended September 30, 2019 and 2018:

Declaration Date	Record Date	Payment Date	Common Stock Dividend	
			Per Share	Aggregate
(In millions, except per share data)				
July 8, 2019	August 6, 2019	September 13, 2019	\$ 0.440	\$ 413
April 23, 2019	May 7, 2019	June 13, 2019	\$ 0.440	419
January 7, 2019	February 5, 2019	March 13, 2019	\$ 0.420	405
				\$ 1,237
July 6, 2018	August 6, 2018	September 13, 2018	\$ 0.420	\$ 419
April 24, 2018	May 7, 2018	June 13, 2018	\$ 0.420	428
January 5, 2018	February 5, 2018	March 13, 2018	\$ 0.400	416
				\$ 1,263

See Note 17 for information on a common stock dividend declared subsequent to September 30, 2019.

Stock-Based Compensation Plans
Performance Shares and Performance Units

Final Performance Shares are paid in shares of MetLife, Inc. common stock. Final Performance Units are payable in cash equal to the closing price of MetLife, Inc. common stock on a date following the last day of the three-year performance period. The performance factor for the January 1, 2016 – December 31, 2018 performance period was 87.7%, which was determined within a possible range from 0% to 175%. This factor has been applied to the 1,594,846 Performance Shares and 212,464 Performance Units associated with that performance period that vested on December 31, 2018. As a result, in the first quarter of 2019, MetLife, Inc. issued 1,398,680 shares of its common stock (less withholding for taxes and other items, as applicable), excluding shares that payees choose to defer, and MetLife, Inc. or its affiliates paid the cash value of 186,331 Performance Units (less withholding for taxes and other items, as applicable).

Dividend Restrictions
Insurance Operations

For the nine months ended September 30, 2019, American Life Insurance Company paid a dividend of \$600 million to MetLife, Inc., for which regulatory approval was obtained as required.

See Note 15 of the Notes to Consolidated Financial Statements included in the 2018 Annual Report for additional information on dividend restrictions.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
11. Equity (continued)
Accumulated Other Comprehensive Income (Loss)

Information regarding changes in the balances of each component of AOCI attributable to MetLife, Inc. was as follows:

	Three Months Ended September 30, 2019					
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Defined Benefit Plans Adjustment	Total	
	(In millions)					
Balance, beginning of period	\$ 16,340	\$ 2,041	\$ (4,766)	\$ (1,984)	\$ 11,631	
OCI before reclassifications	4,064	658	(404)	—	4,318	
Deferred income tax benefit (expense)	(829)	(140)	(2)	—	(971)	
AOCI before reclassifications, net of income tax	19,575	2,559	(5,172)	(1,984)	14,978	
Amounts reclassified from AOCI	(84)	337	—	29	282	
Deferred income tax benefit (expense)	18	(75)	—	(6)	(63)	
Amounts reclassified from AOCI, net of income tax	(66)	262	—	23	219	
Balance, end of period	\$ 19,509	\$ 2,821	\$ (5,172)	\$ (1,961)	\$ 15,197	

	Three Months Ended September 30, 2018					
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Defined Benefit Plans Adjustment	Total	
	(In millions)					
Balance, beginning of period	\$ 8,538	\$ 1,165	\$ (4,670)	\$ (2,179)	\$ 2,854	
OCI before reclassifications	(1,953)	(295)	(240)	131	(2,357)	
Deferred income tax benefit (expense)	436	(22)	15	(27)	402	
AOCI before reclassifications, net of income tax	7,021	848	(4,895)	(2,075)	899	
Amounts reclassified from AOCI	(30)	4	—	31	5	
Deferred income tax benefit (expense)	7	96	—	(7)	96	
Amounts reclassified from AOCI, net of income tax	(23)	100	—	24	101	
Balance, end of period	\$ 6,998	\$ 948	\$ (4,895)	\$ (2,051)	\$ 1,000	

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
11. Equity (continued)

	Nine Months Ended September 30, 2019				
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Defined Benefit Plans Adjustment	Total
(In millions)					
Balance, beginning of period	\$ 7,042	\$ 1,613	\$ (4,905)	\$ (2,028)	\$ 1,722
OCI before reclassifications	16,263	1,305	(266)	(2)	17,300
Deferred income tax benefit (expense)	(3,634)	(287)	(1)	—	(3,922)
AOCI before reclassifications, net of income tax	19,671	2,631	(5,172)	(2,030)	15,100
Amounts reclassified from AOCI	(213)	221	—	88	96
Deferred income tax benefit (expense)	48	(49)	—	(19)	(20)
Amounts reclassified from AOCI, net of income tax	(165)	172	—	69	76
Cumulative effects of changes in accounting principles	4	22	—	—	26
Deferred income tax benefit (expense), cumulative effects of changes in accounting principles	(1)	(4)	—	—	(5)
Cumulative effects of changes in accounting principles, net of income tax (2)	3	18	—	—	21
Balance, end of period	\$ 19,509	\$ 2,821	\$ (5,172)	\$ (1,961)	\$ 15,197

	Nine Months Ended September 30, 2018				
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Defined Benefit Plans Adjustment	Total
(In millions)					
Balance, beginning of period	\$ 12,757	\$ 905	\$ (4,390)	\$ (1,845)	\$ 7,427
OCI before reclassifications	(8,860)	(506)	(657)	130	(9,893)
Deferred income tax benefit (expense)	1,977	77	24	(27)	2,051
AOCI before reclassifications, net of income tax	5,874	476	(5,023)	(1,742)	(415)
Amounts reclassified from AOCI	98	309	—	93	500
Deferred income tax benefit (expense)	(22)	(47)	—	(20)	(89)
Amounts reclassified from AOCI, net of income tax	76	262	—	73	411
Cumulative effects of changes in accounting principles	(425)	—	—	—	(425)
Deferred income tax benefit (expense), cumulative effects of changes in accounting principles	1,473	210	36	(382)	1,337
Cumulative effects of changes in accounting principles, net of income tax (3)	1,048	210	36	(382)	912
Sale of subsidiary (4)	—	—	92	—	92
Balance, end of period	\$ 6,998	\$ 948	\$ (4,895)	\$ (2,051)	\$ 1,000

- (1) See Note 6 for information on offsets to investments related to future policy benefits, DAC, VOBA and DSI, and the policyholder dividend obligation.
- (2) See Note 1 for further information on adoption of new accounting pronouncements.
- (3) See Note 1 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for further information on adoption of new accounting pronouncements.
- (4) See Note 3 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
11. Equity (continued)

Information regarding amounts reclassified out of each component of AOCI was as follows:

AOCI Components	Amounts Reclassified from AOCI				Consolidated Statements of Operations and Comprehensive Income (Loss) Locations
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2019	2018	2019	2018	
	(In millions)				
Net unrealized investment gains (losses):					
Net unrealized investment gains (losses)	\$ 84	\$ 101	\$ 200	\$ (36)	Net investment gains (losses)
Net unrealized investment gains (losses)	(12)	9	(15)	9	Net investment income
Net unrealized investment gains (losses)	12	(80)	28	(71)	Net derivative gains (losses)
Net unrealized investment gains (losses), before income tax	84	30	213	(98)	
Income tax (expense) benefit	(18)	(7)	(48)	22	
Net unrealized investment gains (losses), net of income tax	66	23	165	(76)	
Unrealized gains (losses) on derivatives - cash flow hedges:					
Interest rate derivatives	5	5	16	15	Net investment income
Interest rate derivatives	1	—	(1)	—	Net investment gains (losses)
Interest rate derivatives	—	(2)	—	18	Net derivative gains (losses)
Interest rate derivatives	1	—	2	1	Other expenses
Foreign currency exchange rate derivatives	—	(1)	(3)	(2)	Net investment income
Foreign currency exchange rate derivatives	(344)	—	(236)	—	Net investment gains (losses)
Foreign currency exchange rate derivatives	—	(6)	—	(342)	Net derivative gains (losses)
Foreign currency exchange rate derivatives	—	—	1	1	Other expenses
Gains (losses) on cash flow hedges, before income tax	(337)	(4)	(221)	(309)	
Income tax (expense) benefit	75	(96)	49	47	
Gains (losses) on cash flow hedges, net of income tax	(262)	(100)	(172)	(262)	
Defined benefit plans adjustment: (1)					
Amortization of net actuarial gains (losses)	(36)	(37)	(108)	(108)	
Amortization of prior service (costs) credit	7	6	20	15	
Amortization of defined benefit plan items, before income tax	(29)	(31)	(88)	(93)	
Income tax (expense) benefit	6	7	19	20	
Amortization of defined benefit plan items, net of income tax	(23)	(24)	(69)	(73)	
Total reclassifications, net of income tax	\$ (219)	\$ (101)	\$ (76)	\$ (411)	

(1) These AOCI components are included in the computation of net periodic benefit costs. See Note 13.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
12. Other Revenues and Other Expenses
Other Revenues

Information on other revenues, which primarily includes fees related to service contracts from customers, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In millions)			
Prepaid legal plans	\$ 87	\$ 74	\$ 259	\$ 220
Fee-based investment management	67	74	213	219
Recordkeeping and administrative services (1)	52	56	154	170
Administrative services-only contracts	53	53	159	162
Other revenue from service contracts from customers	54	72	189	208
Total revenues from service contracts from customers	313	329	974	979
Other	106	150	417	449
Total other revenues	<u>\$ 419</u>	<u>\$ 479</u>	<u>\$ 1,391</u>	<u>\$ 1,428</u>

(1) Related to products and businesses no longer actively marketed by the Company.

Other Expenses

Information on other expenses was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In millions)			
Employee related costs (1)	\$ 876	\$ 921	\$ 2,714	\$ 2,752
Third party staffing costs	425	435	1,214	1,217
General and administrative expenses	273	290	733	884
Pension, postretirement and postemployment benefit costs	57	45	170	141
Premium taxes, other taxes, and licenses & fees	164	193	508	559
Commissions and other variable expenses	1,514	1,403	4,433	4,257
Capitalization of DAC	(882)	(810)	(2,531)	(2,440)
Amortization of DAC and VOBA	797	732	2,110	2,132
Amortization of negative VOBA	(4)	(7)	(24)	(45)
Interest expense on debt	223	267	731	862
Total other expenses	<u>\$ 3,443</u>	<u>\$ 3,469</u>	<u>\$ 10,058</u>	<u>\$ 10,319</u>

(1) Includes (\$59) million and (\$176) million for the three months and nine months ended September 30, 2019, respectively, and (\$40) million and (\$57) million for the three months and nine months ended September 30, 2018, respectively, for the net change in cash surrender value of investments in certain life insurance policies, net of premiums paid.

MetLife, Inc.
Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)
12. Other Revenues and Other Expenses (continued)
Restructuring Charges

The Company commenced in 2016 a unit cost improvement program related to the Company's refreshed enterprise strategy. This global strategy focuses on transforming the Company to become more digital, driving efficiencies and innovation to achieve competitive advantage, and simplified, decreasing the costs and risks associated with the Company's highly complex industry to customers and shareholders. Restructuring charges related to this program are included in other expenses. As the expenses relate to an enterprise-wide initiative, they are reported in Corporate & Other. Such restructuring charges were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Severance			
	(In millions)			
Balance, beginning of period	\$ 20	\$ 20	\$ 23	\$ 22
Restructuring charges	40	17	61	35
Cash payments	(13)	(17)	(37)	(37)
Balance, end of period	\$ 47	\$ 20	\$ 47	\$ 20
Total restructuring charges incurred since inception of initiative	\$ 197	\$ 108	\$ 197	\$ 108

Management anticipates further restructuring charges through the year ending December 31, 2019 and expects to bring the program to a close at that time. While management anticipates final restructuring charges in the fourth quarter, program assumptions, which include a significant amount of variability, are still being evaluated and finalized. Therefore, management is unable to make an estimate of remaining restructuring charges at September 30, 2019.

13. Employee Benefit Plans
Pension and Other Postretirement Benefit Plans

Certain subsidiaries of MetLife, Inc. sponsor and/or administer a U.S. qualified and various U.S. and non-U.S. nonqualified defined benefit pension plans and other postretirement employee benefit plans covering employees who meet specified eligibility requirements. These subsidiaries also provide certain postemployment benefits and certain postretirement medical and life insurance benefits for U.S. and non-U.S. retired employees.

The components of net periodic benefit costs, reported in other expenses, were as follows:

	Three Months Ended September 30,			
	2019		2018	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
	(In millions)			
Service costs	\$ 59	\$ 2	\$ 58	\$ 1
Interest costs	104	13	95	13
Expected return on plan assets	(122)	(16)	(133)	(18)
Amortization of net actuarial (gains) losses	49	(13)	46	(9)
Amortization of prior service costs (credit)	(4)	(3)	(1)	(5)
Net periodic benefit costs (credit)	\$ 86	\$ (17)	\$ 65	\$ (18)

	Nine Months Ended September 30,			
	2019		2018	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
	(In millions)			
Service costs	\$ 174	\$ 4	\$ 176	\$ 4
Interest costs	312	39	287	39
Expected return on plan assets	(367)	(50)	(400)	(54)

Amortization of net actuarial (gains) losses	145	(37)	134	(26)
Amortization of prior service costs (credit)	(12)	(8)	(1)	(14)
Net periodic benefit costs (credit)	<u>\$ 252</u>	<u>\$ (52)</u>	<u>\$ 196</u>	<u>\$ (51)</u>

14. Income Tax

For both the three months and nine months ended September 30, 2019, the effective tax rate on income (loss) before provision for income tax was 22%. The Company's effective tax rate for the three months ended September 30, 2019 differed from the U.S. statutory rate primarily due to tax charges from foreign earnings taxed at different rates than the U.S. statutory rate, partially offset by tax benefits related to non-taxable investment income and tax credits. The Company's effective tax rate for the nine months ended September 30, 2019 differed from the U.S. statutory rate primarily due to tax charges from foreign earnings taxed at different rates than the U.S. statutory rate and the impact from the definitive agreement to sell MetLife Hong Kong, partially offset by tax benefits related to non-taxable investment income and tax credits.

For the three months ended September 30, 2018, the effective tax rate on income (loss) before provision for income tax was 15%. The Company's effective tax rate differed from the U.S. statutory rate primarily due to tax benefits related to non-taxable investment income and tax credits, partially offset by tax charges from foreign earnings taxed at different rates than the U.S. statutory rate. For the nine months ended September 30, 2018, the effective tax rate on income (loss) before provision for income tax was 20%. The Company's effective tax rate differed from the U.S. statutory rate primarily due to tax benefits related to non-taxable investment income, tax credits and a non-cash transfer of assets from a wholly-owned United Kingdom investment subsidiary to its U.S. parent. These tax benefits were partially offset by tax charges from foreign earnings taxed at different rates than the U.S. statutory rate, a non-deductible loss incurred on the mark-to-market and disposition of FVO Brighthouse Common Stock and a tax adjustment in Chile.

MetLife, Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

15. Earnings Per Common Share

The following table presents the weighted average shares, basic earnings per common share and diluted earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions, except per share data)				
Weighted Average Shares:				
Weighted average common stock outstanding - basic	929.6	992.7	944.0	1,014.6
Incremental common shares from assumed exercise or issuance of stock-based awards	6.8	8.0	6.8	8.2
Weighted average common stock outstanding - diluted	936.4	1,000.7	950.8	1,022.8
Net Income (Loss):				
Net income (loss)	\$ 2,190	\$ 915	\$ 5,321	\$ 3,066
Less: Net income (loss) attributable to noncontrolling interests	6	3	15	10
Less: Preferred stock dividends	32	32	121	84
Net income (loss) available to MetLife, Inc.'s common shareholders	\$ 2,152	\$ 880	\$ 5,185	\$ 2,972
Basic	\$ 2.31	\$ 0.89	\$ 5.49	\$ 2.93
Diluted	\$ 2.30	\$ 0.88	\$ 5.45	\$ 2.91

16. Contingencies, Commitments and Guarantees

Contingencies

Litigation

The Company is a defendant in a large number of litigation matters. Putative or certified class action litigation and other litigation and claims and assessments against the Company, in addition to those discussed below and those otherwise provided for in the Company's consolidated financial statements, have arisen in the course of the Company's business, including, but not limited to, in connection with its activities as an insurer, mortgage lending bank, employer, investor, investment advisor, broker-dealer, and taxpayer.

The Company also receives and responds to subpoenas or other inquiries seeking a broad range of information from state regulators, including state insurance commissioners; state attorneys general or other state governmental authorities; federal regulators, including the U.S. Securities and Exchange Commission ("SEC"); federal governmental authorities, including congressional committees; and the Financial Industry Regulatory Authority, as well as from local and national regulators and government authorities in jurisdictions outside the United States where the Company conducts business. The issues involved in information requests and regulatory matters vary widely, but can include inquiries or investigations concerning the Company's compliance with applicable insurance and other laws and regulations. The Company cooperates in these inquiries.

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

16. Contingencies, Commitments and Guarantees (continued)

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings. The Company establishes liabilities for litigation and regulatory loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Liabilities have been established for a number of the matters noted below. It is possible that some of the matters could require the Company to pay damages or make other expenditures or establish accruals in amounts that could not be reasonably estimated at September 30, 2019. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known to management, management does not believe any such charges are likely to have a material effect on the Company's financial position. Given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on the Company's consolidated net income or cash flows in particular quarterly or annual periods.

Matters as to Which an Estimate Can Be Made

For some of the matters disclosed below, the Company is able to estimate a reasonably possible range of loss. For matters where a loss is believed to be reasonably possible, but not probable, the Company has not made an accrual. As of September 30, 2019, the Company estimates the aggregate range of reasonably possible losses in excess of amounts accrued for these matters to be \$0 to \$275 million.

Matters as to Which an Estimate Cannot Be Made

For other matters disclosed below, the Company is not currently able to estimate the reasonably possible loss or range of loss. The Company is often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts, and the progress of settlement negotiations. On a quarterly and annual basis, the Company reviews relevant information with respect to litigation contingencies and updates its accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

Asbestos-Related Claims

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

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)**16. Contingencies, Commitments and Guarantees (continued)**

As reported in the 2018 Annual Report, MLIC received approximately 3,359 asbestos-related claims in 2018. For the nine months ended September 30, 2019 and 2018, MLIC received approximately 2,493 and 2,558 new asbestos-related claims, respectively. See Note 20 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for historical information concerning asbestos claims and MLIC's update in its recorded liability at December 31, 2018. The number of asbestos cases that may be brought, the aggregate amount of any liability that MLIC may incur, and the total amount paid in settlements in any given year are uncertain and may vary significantly from year to year.

The ability of MLIC to estimate its ultimate asbestos exposure is subject to considerable uncertainty, and the conditions impacting its liability can be dynamic and subject to change. The availability of reliable data is limited and it is difficult to predict the numerous variables that can affect liability estimates, including the number of future claims, the cost to resolve claims, the disease mix and severity of disease in pending and future claims, the impact of the number of new claims filed in a particular jurisdiction and variations in the law in the jurisdictions in which claims are filed, the possible impact of tort reform efforts, the willingness of courts to allow plaintiffs to pursue claims against MLIC when exposure to asbestos took place after the dangers of asbestos exposure were well known, and the impact of any possible future adverse verdicts and their amounts.

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

The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for asbestos-related claims. MLIC's recorded asbestos liability is based on its estimation of the following elements, as informed by the facts presently known to it, its understanding of current law and its past experiences: (i) the probable and reasonably estimable liability for asbestos claims already asserted against MLIC, including claims settled but not yet paid; (ii) the probable and reasonably estimable liability for asbestos claims not yet asserted against MLIC, but which MLIC believes are reasonably probable of assertion; and (iii) the legal defense costs associated with the foregoing claims. Significant assumptions underlying MLIC's analysis of the adequacy of its recorded liability with respect to asbestos litigation include: (i) the number of future claims; (ii) the cost to resolve claims; and (iii) the cost to defend claims.

MLIC reevaluates on a quarterly and annual basis its exposure from asbestos litigation, including studying its claims experience, reviewing external literature regarding asbestos claims experience in the United States, assessing relevant trends impacting asbestos liability and considering numerous variables that can affect its asbestos liability exposure on an overall or per claim basis. These variables include bankruptcies of other companies involved in asbestos litigation, legislative and judicial developments, the number of pending claims involving serious disease, the number of new claims filed against it and other defendants and the jurisdictions in which claims are pending. Based upon its regular reevaluation of its exposure from asbestos litigation, MLIC has updated its liability analysis for asbestos-related claims through September 30, 2019.

Sun Life Assurance Company of Canada Indemnity Claim

In 2006, Sun Life Assurance Company of Canada ("Sun Life"), as successor to the purchaser of MLIC's Canadian operations, filed a lawsuit in Toronto, seeking a declaration that MLIC remains liable for "market conduct claims" related to certain individual life insurance policies sold by MLIC that were subsequently transferred to Sun Life. In January 2010, the court found that Sun Life had given timely notice of its claim for indemnification but, because it found that Sun Life had not yet incurred an indemnifiable loss, granted MLIC's motion for summary judgment. In September 2010, Sun Life notified MLIC that a purported class action lawsuit was filed against Sun Life in Toronto alleging sales practices claims regarding the policies sold by MLIC and transferred to Sun Life (the "Ontario Litigation"). On August 30, 2011, Sun Life notified MLIC that another purported class action lawsuit was filed against Sun Life in Vancouver, BC alleging sales practices claims regarding certain of the same policies sold by MLIC and transferred to Sun Life. Sun Life contends that MLIC is obligated to indemnify Sun Life for some or all of the claims in these lawsuits. In September 2018, the Court of Appeal for Ontario affirmed the lower court's decision to not certify the sales practices claims in the Ontario Litigation. These sales practices cases against Sun Life are ongoing, and the Company is unable to estimate the reasonably possible loss or range of loss arising from this litigation.

MetLife, Inc.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)****16. Contingencies, Commitments and Guarantees (continued)****City of Westland Police and Fire Retirement System v. MetLife, Inc., et. al. (S.D.N.Y., filed January 12, 2012)**

Plaintiff filed this class action on behalf of a class of persons who either purchased MetLife, Inc. common shares between February 9, 2011, and October 6, 2011, or purchased or acquired MetLife, Inc. common stock in the Company's August 3, 2010 offering or the Company's March 4, 2011 offering. Plaintiff alleges that MetLife, Inc. and several current and former directors and executive officers of MetLife, Inc. violated the Securities Act of 1933, as well as the Exchange Act and Rule 10b-5 promulgated thereunder by issuing, or causing MetLife, Inc. to issue, materially false and misleading statements concerning MetLife, Inc.'s potential liability for millions of dollars in insurance benefits that should have purportedly been paid to beneficiaries or escheated to the states. Plaintiff seeks unspecified compensatory damages and other relief. The defendants intend to defend this action vigorously.

Owens v. Metropolitan Life Insurance Company (N.D. Ga., filed April 17, 2014)

Plaintiff filed this class action lawsuit on behalf of persons for whom MLIC established a Total Control Account ("TCA") to pay death benefits under an Employee Retirement Income Security Act of 1974 ("ERISA") plan. The action alleges that MLIC's use of the TCA as the settlement option for life insurance benefits under some group life insurance policies violates MLIC's fiduciary duties under ERISA. As damages, plaintiff seeks disgorgement of profits that MLIC realized on accounts owned by members of the class. In addition, plaintiff, on behalf of a subgroup of the class, seeks interest under Georgia's delayed settlement interest statute, alleging that the use of the TCA as the settlement option did not constitute payment. On September 27, 2016, the court denied MLIC's summary judgment motion in full and granted plaintiff's partial summary judgment motion. On September 29, 2017, the court certified a nationwide class. The court also certified a Georgia subclass. On July 29, 2019, the court preliminarily approved a proposed settlement in which MLIC has agreed to pay \$80 million to resolve the claims of all class members. The settlement does not include or constitute an admission, concession, or finding of any fault, liability, or wrongdoing by MLIC. The Company accrued the full amount of the settlement payment in prior periods.

Martin v. Metropolitan Life Insurance Company (Superior Court of the State of California, County of Contra Costa, filed December 17, 2015)

Plaintiffs filed this putative class action lawsuit on behalf of themselves and all California persons who have been charged compound interest by MLIC in life insurance policy and/or premium loan balances within the last four years. Plaintiffs allege that MLIC has engaged in a pattern and practice of charging compound interest on life insurance policy and premium loans without the borrower authorizing such compounding, and that this constitutes an unlawful business practice under California law. Plaintiffs assert causes of action for declaratory relief, violation of California's Unfair Competition Law and Usury Law, and unjust enrichment. Plaintiffs seek declaratory and injunctive relief, restitution of interest, and damages in an unspecified amount. On April 12, 2016, the court granted MLIC's motion to dismiss. Plaintiffs appealed this ruling to the United States Court of Appeals for the Ninth Circuit. The Company intends to defend this action vigorously.

Newman v. Metropolitan Life Insurance Company (N.D. Ill., filed March 23, 2016)

Plaintiff filed this putative class action alleging causes of action for breach of contract, fraud, and violations of the Illinois Consumer Fraud and Deceptive Business Practices Act, on behalf of herself and all persons over age 65 who selected a Reduced Pay at Age 65 payment feature on their long-term care insurance policies and whose premium rates were increased after age 65. Plaintiff seeks unspecified compensatory, statutory and punitive damages, as well as recessionary and injunctive relief. On April 12, 2017, the court granted MLIC's motion to dismiss the action. Plaintiff appealed this ruling and the United States Court of Appeals for the Seventh Circuit reversed and remanded the case to the district court for further proceedings. On November 1, 2019, plaintiff filed a motion with the United States District Court Northern District of Illinois seeking preliminary approval of a class settlement and for certification of a nationwide settlement class. The Company accrued the full amount of the settlement payment in prior periods.

MetLife, Inc.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)****16. Contingencies, Commitments and Guarantees (continued)****Julian & McKinney v. Metropolitan Life Insurance Company (S.D.N.Y., filed February 9, 2017)**

Plaintiffs filed this putative class and collective action on behalf of themselves and all current and former long-term disability (“LTD”) claims specialists between February 2011 and the present for alleged wage and hour violations under the Fair Labor Standards Act, the New York Labor Law, and the Connecticut Minimum Wage Act. The suit alleges that MLIC improperly reclassified the plaintiffs and similarly situated LTD claims specialists from non-exempt to exempt from overtime pay in November 2013. As a result, they and members of the putative class were no longer eligible for overtime pay even though they allege they continued to work more than 40 hours per week. Plaintiffs seek unspecified compensatory and punitive damages, as well as other relief. On March 22, 2018, the Court conditionally certified the case as a collective action, requiring that notice be mailed to LTD claims specialists who worked for the Company from February 8, 2014 to the present. The Company intends to defend this action vigorously.

Total Asset Recovery Services, LLC. v. MetLife, Inc., et al. (Supreme Court of the State of New York, County of New York, filed December 27, 2017)

Total Asset Recovery Services (“The Relator”) brought an action under the qui tam provision of the New York False Claims Act (the “Act”) on behalf of itself and the State of New York. The Relator originally filed this action under seal in 2010, and the complaint was unsealed on December 19, 2017. The Relator alleges that MetLife, Inc., MLIC, and several other insurance companies violated the Act by filing false unclaimed property reports with the State of New York from 1986 to 2017, to avoid having to escheat the proceeds of more than 25,000 life insurance policies, including policies for which the defendants escheated funds as part of their demutualizations in the late 1990s. The Relator seeks treble damages and other relief. On April 3, 2019, the Court granted MetLife, Inc.’s and MLIC’s motion to dismiss and dismissed the complaint in its entirety. The Relator filed a notice of appeal with the Appellate Division of the New York State Supreme Court, First Division.

Regulatory and Litigation Matters Related to Group Annuity Benefits

In 2018, the Company announced that it identified a material weakness in its internal control over financial reporting related to the practices and procedures for estimating reserves for certain group annuity benefits. The Company is exposed to lawsuits and regulatory investigations, and could be exposed to additional legal actions relating to these issues. These may result in payments, including damages, fines, penalties, interest and other amounts assessed or awarded by courts or regulatory authorities under applicable escheat, tax, securities, ERISA, or other laws or regulations. The Company could incur significant costs in connection with these actions.

Regulatory Matters

The Division of Enforcement of the SEC is investigating this issue and several additional regulators have made similar inquiries. It is possible that other jurisdictions may pursue similar investigations or inquiries.

Litigation Matters**Parchmann v. MetLife, Inc., et. al. (E.D.N.Y., filed February 5, 2018)**

Plaintiff filed this putative class action seeking to represent a class of persons who purchased MetLife, Inc. common stock from February 27, 2013 through January 29, 2018. Plaintiff alleges that MetLife, Inc., its Chief Executive Officer and Chairman of the Board, and its Chief Financial Officer violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by issuing materially false and/or misleading financial statements. Plaintiff alleges that MetLife’s practices and procedures for estimating reserves for certain group annuity benefits were inadequate, and that MetLife had inadequate internal control over financial reporting. Plaintiff seeks unspecified compensatory damages and other relief. Defendants intend to defend this action vigorously.

MetLife, Inc.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)****16. Contingencies, Commitments and Guarantees (continued)****Derivative Actions and Demands**

Shareholders, seeking to sue derivatively on behalf of MetLife, Inc., commenced three separate actions against certain current and former members of the MetLife, Inc. Board of Directors and/or certain current and former officers of MetLife, Inc., alleging that, among other things, they breached their fiduciary and other duties to the Company. In *Kates v. Kandarian, et al.* (E.D.N.Y., filed January 18, 2019) and *Felt, et al. v. Grise, et al.* (D. Del., filed April 29, 2019), plaintiffs allege that the defendants disseminated or approved public statements that failed to disclose that MetLife's practices and procedures for estimating reserves for certain group annuity benefits were inadequate and that MetLife had inadequate internal control over financial reporting. In *Lifschitz v. Kandarian, et al.* (Del. Ch., filed June 19, 2019), plaintiff alleges that the MetLife, Inc. Board of Directors knew or should have known that MetLife's practices and procedures for estimating reserves for certain group annuity benefits were inadequate. In all three actions, plaintiffs allege that because of the defendants' breaches of duty, MetLife, Inc. has incurred damage to its reputation and has suffered other unspecified damages. The defendants intend to defend this action vigorously.

The MetLife, Inc. Board of Directors received five letters, dated March 28, 2018, May 11, 2018, July 16, 2018, December 20, 2018 and February 5, 2019, written on behalf of individual stockholders, demanding that MetLife, Inc. take action against current and former directors and officers for alleged breaches of fiduciary duty and/or investigate, remediate, and recover damages allegedly suffered by the Company as a result of (i) the Company's allegedly inadequate practices and procedures for estimating reserves for certain group annuity benefits, (ii) the Company's allegedly inadequate internal controls over financial reporting and corporate governance practices and procedures, and (iii) the alleged dissemination of false or misleading information related to these issues. The MetLife, Inc. Board of Directors appointed a special committee to investigate the allegations set forth in these five letters.

Regulatory Inquiry Related to Assumed Variable Annuity Guarantee Reserves

In 2018, the Company announced that it identified a material weakness in its internal control over financial reporting related to the calculation of reserves associated with certain variable annuity guarantees assumed from the former operating joint venture in Japan. The Division of Enforcement of the SEC is investigating this issue and the Company has informed other regulators. It is possible that other regulators may pursue similar investigations or inquiries. The Company is exposed to lawsuits and regulatory investigations, and could be exposed to additional legal actions relating to these issues. These may result in payments, including damages, fines, penalties, interest and other amounts assessed or awarded by courts or regulatory authorities under applicable laws or regulations. The Company could incur significant costs in connection with these actions.

Commitments**Mortgage Loan Commitments**

The Company commits to lend funds under mortgage loan commitments. The amounts of these mortgage loan commitments were \$4.4 billion and \$4.0 billion at September 30, 2019 and December 31, 2018, respectively.

Commitments to Fund Partnership Investments, Bank Credit Facilities, Bridge Loans and Private Corporate Bond Investments

The Company commits to fund partnership investments and to lend funds under bank credit facilities, bridge loans and private corporate bond investments. The amounts of these unfunded commitments were \$7.5 billion and \$7.7 billion at September 30, 2019 and December 31, 2018, respectively.

MetLife, Inc.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)****16. Contingencies, Commitments and Guarantees (continued)*****Guarantees***

In the normal course of its business, the Company has provided certain indemnities, guarantees and commitments to third parties such that it may be required to make payments now or in the future. In the context of acquisition, disposition, investment and other transactions, the Company has provided indemnities and guarantees, including those related to tax, environmental and other specific liabilities and other indemnities and guarantees that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. In addition, in the normal course of business, the Company provides indemnifications to counterparties in contracts with triggers similar to the foregoing, as well as for certain other liabilities, such as third-party lawsuits. These obligations are often subject to time limitations that vary in duration, including contractual limitations and those that arise by operation of law, such as applicable statutes of limitation. In some cases, the maximum potential obligation under the indemnities and guarantees is subject to a contractual limitation ranging from less than \$1 million to \$329 million, with a cumulative maximum of \$634 million, while in other cases such limitations are not specified or applicable. Since certain of these obligations are not subject to limitations, the Company does not believe that it is possible to determine the maximum potential amount that could become due under these guarantees in the future. Management believes that it is unlikely the Company will have to make any material payments under these indemnities, guarantees, or commitments.

In addition, the Company indemnifies its directors and officers as provided in its charters and by-laws. Also, the Company indemnifies its agents for liabilities incurred as a result of their representation of the Company's interests. Since these indemnities are generally not subject to limitation with respect to duration or amount, the Company does not believe that it is possible to determine the maximum potential amount that could become due under these indemnities in the future.

The Company also has minimum fund yield requirements on certain pension funds. Since these guarantees are not subject to limitation with respect to duration or amount, the Company does not believe that it is possible to determine the maximum potential amount that could become due under these guarantees in the future.

The Company's recorded liabilities were \$7 million at both September 30, 2019 and December 31, 2018 for indemnities, guarantees and commitments.

17. Subsequent Events***Common Stock Dividend***

On October 22, 2019, the MetLife, Inc. Board of Directors declared a fourth quarter 2019 common stock dividend of \$0.44 per share payable on December 13, 2019 to shareholders of record as of November 5, 2019. The Company estimates that the aggregate dividend payment will be \$406 million.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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Forward-Looking Statements and Other Financial Information

For purposes of this discussion, “MetLife,” the “Company,” “we,” “our” and “us” refer to MetLife, Inc., a Delaware corporation incorporated in 1999, its subsidiaries and affiliates. This discussion should be read in conjunction with MetLife, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Annual Report”), the cautionary language regarding forward-looking statements included below, the “Risk Factors” set forth in Part II, Item 1A, and the additional risk factors referred to therein, “Quantitative and Qualitative Disclosures About Market Risk” and the Company’s interim condensed consolidated financial statements included elsewhere herein.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See “Note Regarding Forward-Looking Statements” for cautionary language regarding forward-looking statements.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations includes references to our performance measures, adjusted earnings and adjusted earnings available to common shareholders, that are not based on accounting principles generally accepted in the United States of America (“GAAP”). See “— Non-GAAP and Other Financial Disclosures” for definitions and a discussion of these and other financial measures, and “— Results of Operations” for reconciliations of historical non-GAAP financial measures to the most directly comparable GAAP measures.

Executive Summary

Overview

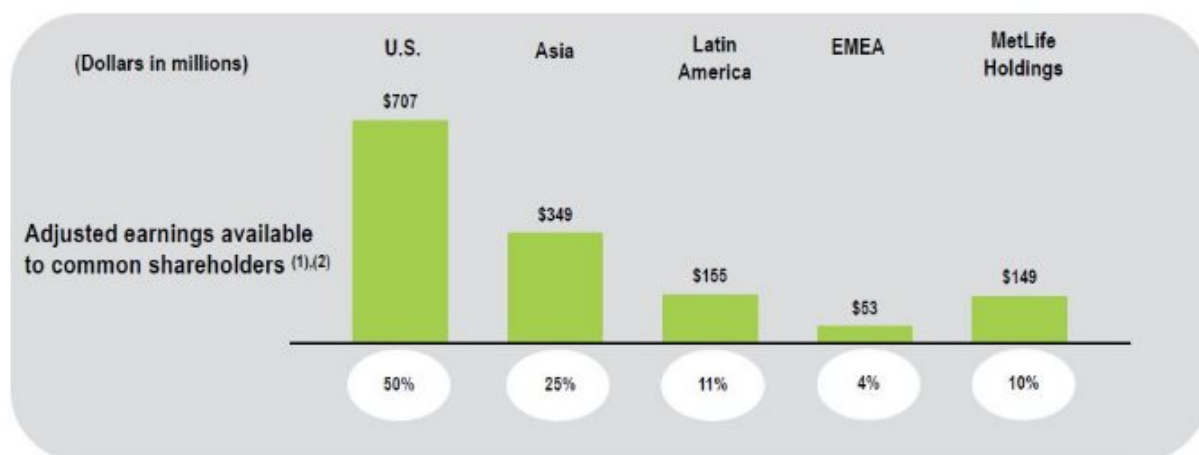
MetLife is one of the world’s leading financial services companies, providing insurance, annuities, employee benefits and asset management. MetLife is organized into five segments: U.S.; Asia; Latin America; Europe, the Middle East and Africa (“EMEA”); and MetLife Holdings. In addition, the Company reports certain of its results of operations in Corporate & Other. See Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements for further information on the Company’s segments and Corporate & Other. Management continues to evaluate the Company’s segment performance and allocated resources and may adjust related measurements in the future to better reflect segment profitability.

Current Period Highlights

During the three months ended September 30, 2019, overall sales increased compared to the prior period as improved sales in our Retirement and Income Solutions (“RIS”) business, as well as in Latin America and EMEA more than offset lower sales in Asia. Positive net flows drove an increase in our investment portfolio; however, investment yields declined and interest credited rates were higher. Underwriting experience was unfavorable compared to the prior period and results in both periods included a charge due to the impact of our annual actuarial assumption review. A favorable change in net derivative gains (losses) was primarily the result of a decline in interest rates.

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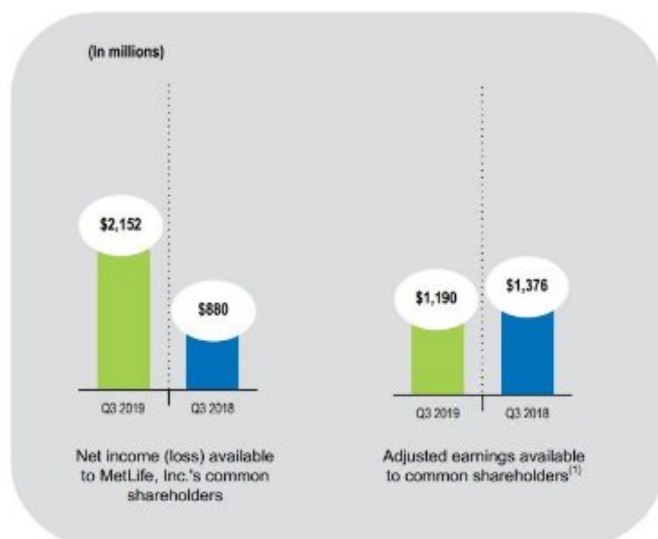
The following represents segment level results and percentage contributions to total segment level adjusted earnings available to common shareholders for the three months ended September 30, 2019:



(1) Excludes Corporate & Other adjusted loss available to common shareholders of \$223 million.

(2) Consistent with GAAP guidance for segment reporting, adjusted earnings is our GAAP measure of segment performance. For additional information, see Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements.

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018



Consolidated Results - Highlights

Net income (loss) available to MetLife, Inc.'s common shareholders up \$1.3 billion:

- Favorable change in net derivative gains (losses) of \$1.6 billion (\$1.3 billion, net of income tax)

(1) See “— Results of Operations — Consolidated Results” and “— Non-GAAP and Other Financial Disclosures” for reconciliations and definitions of non-GAAP financial measures.

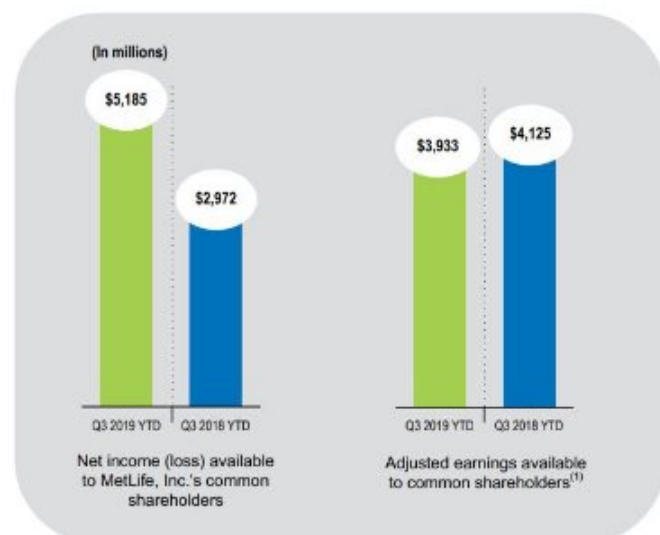
Consolidated Results - Adjusted Earnings Highlights

Adjusted earnings available to common shareholders down \$186 million.

- Our results for the three months ended September 30, 2019 included the following:
 - unfavorable impact from our annual actuarial assumption review of \$143 million, net of income tax
 - a \$17 million, net of income tax, charge due to an increase in our incurred but not reported (“IBNR”) long-term care reserves, reflecting enhancements to our methodology related to potential claims
 - expenses associated with our previously announced unit cost initiative of \$88 million, net of income tax
- Our results for the three months ended September 30, 2018 included the following:
 - unfavorable impact from our annual actuarial assumption review of \$42 million, net of income tax
 - expenses associated with our previously announced unit cost initiative of \$88 million, net of income tax
 - a \$63 million, net of income tax, charge due to an increase in our IBNR life reserves, reflecting enhancements to our processes related to potential claims
 - a \$37 million, net of income tax, favorable net insurance adjustment resulting from reserve and deferred policy acquisition costs (“DAC”) modeling improvements in our individual disability insurance business

For a more in-depth discussion of our consolidated results, see “— Results of Operations — Consolidated Results,” “— Results of Operations — Consolidated Results — Adjusted Earnings” and “— Results of Operations — Segment Results and Corporate & Other.”

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018



Consolidated Results - Highlights

Net income (loss) available to MetLife, Inc.'s common shareholders up \$2.2 billion:

- Favorable change in net derivative gains (losses) of \$2.2 billion (\$1.7 billion, net of income tax)
- Favorable change in net investment gains (losses) of \$680 million (\$537 million, net of income tax)

(1) See “— Results of Operations — Consolidated Results” and “— Non-GAAP and Other Financial Disclosures” for reconciliations and definitions of non-GAAP financial measures.

Consolidated Results - Adjusted Earnings Highlights

Adjusted earnings available to common shareholders down \$192 million.

- Our results for the nine months ended September 30, 2019 included the following:
 - unfavorable impact from our annual actuarial assumption review of \$143 million, net of income tax
 - a \$17 million, net of income tax, charge due to an increase in our IBNR long-term care reserves, reflecting enhancements to our methodology related to potential claims
 - expenses associated with our previously announced unit cost initiative of \$213 million, net of income tax
- Our results for the nine months ended September 30, 2018 included the following:
 - unfavorable impact from our annual actuarial assumption review of \$42 million, net of income tax
 - expenses associated with our previously announced unit cost initiative of \$184 million, net of income tax
 - favorable reserve adjustment of \$62 million, net of income tax, relating to certain variable annuity guarantees assumed from a former joint venture in Japan
 - a \$63 million, net of income tax, charge due to an increase in our IBNR life reserves, reflecting enhancements to our processes related to potential claims
 - a \$37 million, net of income tax, favorable net insurance adjustment resulting from reserve and DAC modeling improvements in our individual disability insurance business

For a more in-depth discussion of our consolidated results, see “— Results of Operations — Consolidated Results,” “— Results of Operations — Consolidated Results — Adjusted Earnings” and “— Results of Operations — Segment Results and Corporate & Other.”

Consolidated Company Outlook

The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Executive Summary — Consolidated Company Outlook” in Part II, Item 7, of the 2018 Annual Report. There have been no material changes to our consolidated company outlook from that previously discussed in the 2018 Annual Report except as noted below.

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Assuming interest rates follow the observable forward yield curves as of the year ended December 31, 2018, we expect the average ratio of free cash flow to adjusted earnings over the two-year period of 2019 and 2020 to be 65% to 75%, assuming a 10-year U.S. Treasury rate between 1.5% and 4.5%. We believe that free cash flow is a key determinant of common stock dividends and common stock repurchases.

Industry Trends

The following information on industry trends should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends” in Part II, Item 7, of the 2018 Annual Report.

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

Financial and Economic Environment

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility and disruptions in global capital markets, particular markets, or financial asset classes can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities and derivatives are sensitive to changing market factors. See “Risk Factors — Economic Environment and Capital Markets Risks — Difficult Economic Conditions May Adversely Affect Our Business, Results of Operations and Financial Condition” included in the 2018 Annual Report.

We have market presence in numerous countries and, therefore, our business operations are exposed to risks posed by local and regional economic conditions. For example, MetLife is the largest provider of benefits to Mexican federal government personnel and public officials, however, the new administration of President López Obrador of Mexico is implementing an austerity plan which, among other measures, has eliminated benefits such as major medical insurance and contributions to additional savings benefit insurance for such individuals. See “Business — Regulation — Fiscal Measures” and “Risk Factors — Economic Environment and Capital Markets Risks — Difficult Economic Conditions May Adversely Affect Our Business, Results of Operations and Financial Condition — Currency Exchange Rate Risk” included in the 2018 Annual Report.

We are closely monitoring political and economic conditions that might contribute to global market volatility and impact our business operations, investment portfolio and derivatives. For example, events following the United Kingdom’s (“U.K.”) referendum on June 23, 2016 and the uncertainties, including foreign currency exchange risks, associated with its planned withdrawal from the European Union (“EU”), have contributed to global market volatility. These factors could contribute to weakening Gross Domestic Product growth, primarily in the U.K. and, to a lesser degree, in continental Europe and beyond. The magnitude and longevity of the potential negative economic impacts would depend on the detailed agreements reached by the U.K. and the EU as a result of the negotiations regarding future trade and other arrangements. See “— Investments — Current Environment — Selected Country and Sector Investments.” We are also monitoring the imposition of tariffs or other barriers to international trade, changes to international trade agreements, and their potential impacts on our business, results of operations and financial condition. In addition, the possibility of additional government shutdowns or a failure to raise the debt ceiling, due to a policy impasse or otherwise, could adversely impact our business and liquidity. See “Business — Regulation — Cross-Border Trade” and “Business — Regulation — Fiscal Measures” included in the 2018 Annual Report. See also “Risk Factors — Economic Environment and Capital Markets Risks — Difficult Economic Conditions May Adversely Affect Our Business, Results of Operations and Financial Condition” and “Risk Factors — Business Risks — The Global Nature of Our Operations Exposes Us to a Variety of Political, Legal, Operational, Economic and Other Risks” included in the 2018 Annual Report.

Central banks around the world are using monetary policy to address regional economic conditions. In the United States, the Board of Governors of the Federal Reserve System, which had been tightening policy by raising the federal funds rate and shrinking the balance sheet, now has lowered rates to sustain the economic expansion. Similarly, in September 2019 the European Central Bank announced that quantitative easing would resume in November 2019 for as long as necessary, and lowered its deposit interest rate. In Japan, the Japanese government and the Bank of Japan are maintaining stimulus measures in order to boost inflation expectations and achieve sustainable economic growth in Japan. Such measures include the imposition of a negative rate on commercial bank deposits, continued government bond purchases and tax reform, including the lowering of the Japanese corporate tax rate. Going forward, Japan’s structural and demographic challenges may continue to limit its potential growth unless reforms that boost productivity are put into place. Japan’s high public sector debt levels are mitigated by low refinancing risks. Further actions by central banks in the future may affect interest rates and risk markets in the U.S., Europe, Japan and other developed and emerging economies, and may ultimately result in market volatility. We cannot predict with certainty the effect of these actions or the impact on our business operations, investment portfolio or derivatives. See “— Investments — Current Environment.”

Impact of a Sustained Low Interest Rate Environment

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

Our expectations regarding future margins are an important component impacting the amortization of certain intangible assets such as DAC and value of business acquired (“VOBA”). Significantly lower margins may cause us to accelerate the amortization, thereby reducing net income in the affected reporting period. Additionally, lower margins may also impact the recoverability of intangible assets such as goodwill, require the establishment of additional liabilities or trigger loss recognition events on certain policyholder liabilities. We review this long-term margin assumption, along with other assumptions, as part of our annual actuarial assumption review. See “— Results of Operations — Consolidated Results — Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018 — Actuarial Assumption Review” for further information.

Some of our separate account products, including variable annuities, have certain minimum guarantee benefits. Declining interest rates increase the reserves we need to set up to protect the guarantee benefits, thereby reducing net income in the affected reporting period.

We consider interest rate projections in formulating economic assumptions for valuation of our insurance contracts. During the third quarter of 2019, as part of our annual actuarial assumption review, we lowered our projected 10-year Treasury rate to 3.75% through 2027. Other than this assumption change, there are no changes to our Low Interest Rate Scenario as disclosed in the 2018 Annual Report, including the hypothetical impacts through 2021 discussed therein. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Impact of a Sustained Low Interest Rate Environment — Low Interest Rate Scenario” included in the 2018 Annual Report for further information.

Competitive Pressures

The life insurance industry remains highly competitive. See “Business — Competition” included in the 2018 Annual Report. Product development is focused on differentiation leading to more intense competition with respect to product features and services. Several of the industry’s products can be quite homogeneous and subject to intense price competition. Cost reduction efforts are a priority for industry players, with benefits resulting in price adjustments to favor customers and reinvestment capacity. Larger companies have the ability to invest in brand equity, product development, technology optimization, risk management, and innovation, which are among the fundamentals for sustained profitable growth in the life insurance industry. Insurers are focused on their core businesses, specifically in markets where they can achieve scale. Insurers are increasingly seeking alternative sources of revenue; there is a focus on monetization of assets, fee-based services, and opportunities to offer comprehensive solutions, which include providing value-added services along with traditional products. Financial strength and flexibility and technology modernization are prerequisites for sustainable growth in the life insurance industry. Larger market participants tend to have the capacity to invest in analytics, distribution, and information technology and have the capability to engage with the new digital entrants. There is a shift in distribution from proprietary to third party models in mature markets, due to the lower cost structure. Evolving customer expectations are having a significant impact on the competitive environment as insurers strive to offer the superior customer service demanded by an increasingly sophisticated industry client base. We believe that the continued volatility of the financial markets and its impact on the capital position of many competitors will continue to strain the competitive environment. Legislative and other changes affecting the regulatory environment can also affect the competitive environment within the life insurance industry and within the broader financial services industry. See “— Industry Trends — Regulatory Developments,” as well as “Business — Regulation” included in the 2018 Annual Report, as amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Regulatory Developments.” We believe that the aforementioned factors have highlighted financial strength, technology efficiency, and organizational agility as the most significant differentiators and, as a result, we believe the Company is well positioned to compete in this environment.

Regulatory Developments

The following discussion on regulatory developments should be read in conjunction with “Business — Regulation” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Regulatory Developments” included in the 2018 Annual Report, as amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Regulatory Developments.”

Insurance Regulation

Insurance Regulatory Examinations and Other Activities

On July 13, 2018, the Chilean insurance regulator requested information from us and other companies regarding sales practices related to our annuities business in Chile. We have provided the requested information. In addition, on February 1, 2017, the National Economic Prosecutor of Chile initiated an investigation of insurance companies in the Chilean market, including us, regarding fair competition in the insurance market, particularly bidding processes for mortgage insurance. We cooperated with the investigation and, in August 2019, the National Economic Prosecutor concluded the investigation with no findings regarding MetLife’s activities. In addition, the National Economic Prosecutor recommended to the Chilean Ministry of Finance and the Chilean insurance regulator certain amendments to the bidding regulations.

NAIC

In 2015, the National Association of Insurance Commissioners (“NAIC”) commenced an initiative to study variable annuity solvency regulations, with the goal of curtailing the use of variable annuity captives. In connection with this initiative, the NAIC engaged a third-party consultant to develop recommendations regarding reserve and capital requirements. Following several public exposures of the consultant’s recommendations, the NAIC adopted a new variable annuity framework, which is designed to reduce the level and volatility of the non-economic aspect of reserve and risk-based capital requirements for variable annuity products. The NAIC adopted technical language in 2019 to be included in various NAIC manuals and guidelines to implement the new framework. The new framework is expected to become effective on January 1, 2020. We have not determined the impact of this framework on our business, and we cannot predict if state insurance regulators will adopt standards different from the NAIC framework. The New York State Department of Financial Services (“NYDFS”) is also pursuing a variable annuity initiative that may deviate from the NAIC work product. At this time, we cannot predict the changes the NYDFS will propose in new variable annuity reserving standards or quantify the impact on Metropolitan Life Insurance Company (“MLIC”).

ERISA, Fiduciary Considerations, and Other Pension and Retirement Regulation

The U.S. Department of Labor (“DOL”) issued regulations that largely were applicable in 2017 that expanded the definition of “investment advice” and required an advisor to meet an impartial or “best interests” standard (“BICE”), but the regulations were formally vacated by the U.S. Court of Appeals for the Fifth Circuit in 2018. The Court of Appeals decision also vacated certain DOL amendments to prohibited transaction exemptions. The DOL has announced that it plans to issue revised fiduciary investment advice regulations in December 2019. At this time, we cannot predict what form those regulations may take or their potential impact on us.

In June 2019, the U.S. Securities and Exchange Commission (“SEC”) adopted rules and interpretations addressing the standards of conduct applicable to broker-dealers and investment advisers and their associated persons, including Regulation Best Interest. The conduct standards apply when providing brokerage and advisory products and services to benefit plans governed by the Employee Retirement Income Security Act of 1974 (“ERISA”) and Individual Retirement Accounts, as well as non-benefit plan retail clients. Under the SEC rules, broker-dealers are not deemed to be fiduciaries to their clients by virtue of making recommendations but must act in the best interest of individual investor retail clients when making a recommendation. The SEC’s best interest standard is not intended to track the DOL’s former BICE standard. Unlike the DOL rule that was vacated in 2018, there is no private right of action for violations under Regulation Best Interest. Two pending lawsuits, one by several states and the District of Columbia and the other by private advisory firms, were filed in September 2019, seeking to overturn Regulation Best Interest. The DOL is expected to adopt a new rule that will be consistent with the SEC’s rules, including the new best interest standard. In addition, the NAIC is amending its Suitability in Annuity Transactions Model Regulation to include a “best interest” standard. The NAIC intends to finalize the proposed amendments before the end of 2019.

Securities, Broker-Dealer and Investment Adviser Regulation

In June 2019, the SEC adopted rules and interpretations addressing the standards of conduct applicable to broker-dealers and investment advisers and their associated persons, including Regulation Best Interest, which are primarily focused on offerings of products and services to retail customers. As a result of the new rules, beginning June 30, 2020, broker-dealers recommending our variable products to retail customers will be required to comply with a “best interest” standard, which the SEC did not define but did confirm would be higher than the current suitability standard but not rise to the level of being a fiduciary, and provide disclosures about their standard of conduct and conflicts of interest, including a new standardized client relationship summary disclosure (“Form CRS”). Investment advisers to retail clients will also be required to file new Form CRS with the SEC and deliver copies of the Form to their retail clients. As noted above, the SEC rules do not include a private right of action. Two pending lawsuits, one by several states and the District of Columbia and the other by private advisory firms, were filed in September 2019, seeking to overturn Regulation Best Interest. In addition, the NAIC is amending its Suitability in Annuity Transactions Model Regulation to include a “best interest” standard. The NAIC intends to finalize the proposed amendments before the end of 2019. We are monitoring these developments and cannot at this time predict the effect they might have on our business.

Cross-Border Trade

The U.K.’s anticipated withdrawal from the EU remains subject to ongoing negotiations within the U.K. and between the U.K. and the EU. In October 2019, the U.K. and the EU extended the withdrawal agreement negotiation period until January 31, 2020 or the U.K.’s earlier ratification of a withdrawal agreement.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported on the Interim Condensed Consolidated Financial Statements. The most critical estimates include those used in determining:

- (i) liabilities for future policy benefits and the accounting for reinsurance;
- (ii) capitalization and amortization of DAC and the establishment and amortization of VOBA;
- (iii) estimated fair values of investments in the absence of quoted market values;
- (iv) investment impairments;
- (v) estimated fair values of freestanding derivatives and the recognition and estimated fair value of embedded derivatives requiring bifurcation;
- (vi) measurement of goodwill and related impairment;
- (vii) measurement of employee benefit plan liabilities;
- (viii) measurement of income taxes and the valuation of deferred tax assets; and
- (ix) liabilities for litigation and regulatory matters.

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

The above critical accounting estimates are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates” and Note 1 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Goodwill

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

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

In the third quarter of 2019, we tested the MetLife Holdings life insurance reporting unit for impairment using the actuarial based embedded value fair valuation approach. The estimated fair value of the reporting unit exceeded the carrying value by approximately 43% and, therefore, the reporting unit was not impaired. If we had assumed that the discount rate was 100 basis points higher than the discount rate used, the estimated fair value of the MetLife Holdings life insurance reporting unit would have been higher than the carrying value by approximately 22%. This reporting unit consists of operations relating to products and businesses we no longer actively market. As of September 30, 2019, the amount of goodwill allocated to this reporting unit was \$887 million.

We also performed our annual goodwill impairment tests of all other reporting units during the third quarter of 2019 using a qualitative assessment and/or quantitative assessments under the market multiple and discounted cash flow valuation approaches based on best available data as of June 30, 2019. We concluded that the estimated fair values of all such reporting units were substantially in excess of their carrying values and, therefore, goodwill was not impaired.

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

Economic Capital

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

Our economic capital model, coupled with considerations of local capital requirements, aligns segment allocated equity with emerging standards and consistent risk principles. The model applies statistics-based risk evaluation principles to the material risks to which we are exposed. These consistent risk principles include calibrating required economic capital shock factors to a specific confidence level and time horizon while applying an industry standard method for the inclusion of diversification benefits among risk types. Economic capital-based risk estimation is an evolving science and industry best practices have emerged and continue to evolve. Areas of evolving industry best practices include stochastic liability valuation techniques, alternative methodologies for the calculation of diversification benefits, and the quantification of appropriate shock levels. MetLife's management is responsible for the ongoing production and enhancement of the economic capital model and reviews its approach periodically to ensure that it remains consistent with emerging industry practice standards.

Segment net investment income is credited or charged based on the level of allocated equity; however, changes in allocated equity do not impact our consolidated net investment income, net income (loss), or adjusted earnings.

Net investment income is based upon the actual results of each segment's specifically identifiable investment portfolios adjusted for allocated equity. Other costs are allocated to each of the segments based upon: (i) a review of the nature of such costs; (ii) time studies analyzing the amount of employee compensation costs incurred by each segment; and (iii) cost estimates included in our product pricing.

Acquisitions and Dispositions

For information regarding the Company's definitive agreement to sell its two wholly-owned subsidiaries, MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited (collectively, "MetLife Hong Kong"), see Note 3 of the Notes to the Interim Condensed Consolidated Financial Statements.

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Results of Operations

Consolidated Results

Business Overview. Overall sales for the three months ended September 30, 2019 increased from the prior period despite lower sales in certain of our businesses. In our U.S. segment, RIS sales improved as a result of pension risk transfers, stable value products and specialized benefit resources. This was partially offset by declines in sales in our Group Benefits and Property & Casualty businesses. Sales in our Asia segment decreased as a result of lower sales of foreign currency-denominated annuity and accident & health products in Japan, a large group case in Australia in the prior period, and the pending disposition of MetLife Hong Kong, partially offset by higher sales in Korea. Sales in our Latin America segment improved as a result of higher sales in Brazil, Mexico and Chile. In our EMEA segment, sales improved as a result of increases in our employee benefits business in Egypt and our credit life business in Turkey, partially offset by declines in our employee benefits and credit life businesses in the Gulf region.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Revenues				
Premiums	\$ 10,781	\$ 10,242	\$ 30,315	\$ 34,573
Universal life and investment-type product policy fees	1,440	1,343	4,217	4,105
Net investment income	4,623	4,486	14,224	12,704
Other revenues	419	479	1,391	1,428
Net investment gains (losses)	161	117	237	(443)
Net derivative gains (losses)	1,254	(378)	2,093	(88)
Total revenues	18,678	16,289	52,477	52,279
Expenses				
Policyholder benefits and claims and policyholder dividends	10,944	10,407	30,611	34,597
Interest credited to policyholder account balances	1,500	1,334	4,976	3,527
Capitalization of DAC	(882)	(810)	(2,531)	(2,440)
Amortization of DAC and VOBA	797	732	2,110	2,132
Amortization of negative VOBA	(4)	(7)	(24)	(45)
Interest expense on debt	223	267	731	862
Other expenses	3,309	3,287	9,772	9,810
Total expenses	15,887	15,210	45,645	48,443
Income (loss) before provision for income tax	2,791	1,079	6,832	3,836
Provision for income tax expense (benefit)	601	164	1,511	770
Net income (loss)	2,190	915	5,321	3,066
Less: Net income (loss) attributable to noncontrolling interests	6	3	15	10
Net income (loss) attributable to MetLife, Inc.	2,184	912	5,306	3,056
Less: Preferred stock dividends	32	32	121	84
Net income (loss) available to MetLife, Inc.'s common shareholders	\$ 2,152	\$ 880	\$ 5,185	\$ 2,972

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018

During the three months ended September 30, 2019, net income (loss) increased \$1.3 billion from the prior period, primarily driven by favorable changes in net derivative gains (losses).

Management of Investment Portfolio and Hedging Market Risks with Derivatives. We manage our investment portfolio using disciplined asset/liability management (“ALM”) principles, focusing on cash flow and duration to support our current and future liabilities. Our intent is to match the timing and amount of liability cash outflows with invested assets that have cash inflows of comparable timing and amount, while optimizing risk-adjusted net investment income and risk-adjusted total return. Our investment portfolio is heavily weighted toward fixed income investments, with over 80% of our portfolio invested in fixed maturity securities available-for-sale (“AFS”) and mortgage loans. These securities and loans have varying maturities and other characteristics which cause them to be generally well suited for matching the cash flow and duration of insurance liabilities. In addition, our general account investment portfolio includes, within contractholder-directed equity securities and fair value option securities (“FVO Securities”) (collectively, “Unit-linked and FVO Securities”), contractholder-directed equity securities supporting unit-linked variable annuity type liabilities (“Unit-linked investments”), which do not qualify as separate account assets. Returns on these Unit-linked investments, which can vary significantly from period to period, include changes in estimated fair value subsequent to purchase, inure to contractholders and are offset in earnings by a corresponding change in policyholder account balances through interest credited to policyholder account balances.

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

We also use derivatives as an integral part of our management of the investment portfolio and insurance liabilities to hedge certain risks, including changes in interest rates, foreign currency exchange rates, credit spreads and equity market levels. We use freestanding interest rate, equity, credit and currency derivatives to hedge certain invested assets and insurance liabilities. A portion of these hedges are designated and qualify as accounting hedges, which reduce volatility in earnings. For those hedges not designated as accounting hedges, changes in market factors lead to the recognition of fair value changes in net derivative gains (losses) generally without an offsetting gain or loss recognized in earnings for the item being hedged, which creates volatility in earnings. We actively evaluate market risk hedging needs and strategies to ensure our free cash flow and capital objectives are met under a range of market conditions.

Certain variable annuity products with guaranteed minimum benefits contain embedded derivatives that are measured at estimated fair value separately from the host variable annuity contract, with changes in estimated fair value recorded in net derivative gains (losses). We use freestanding derivatives to hedge the market risks inherent in these variable annuity guarantees. Ongoing refinement of the strategy may be required to take advantage of NAIC rules related to a statutory accounting election for derivatives that mitigate interest rate sensitivity related to variable annuity guarantees. The restructured hedge strategy is classified as a macro hedge program, included in the non-VA program derivatives section of the table below, to protect our overall statutory capital from significant adverse economic conditions. The valuation of these embedded derivatives includes a nonperformance risk adjustment, which is unhedged, and can be a significant driver of net derivative gains (losses) and volatility in earnings, but does not have an economic impact on us.

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

	Three Months Ended September 30,	
	2019	2018
	(In millions)	
Non-VA program derivatives		
Interest rate	\$ 1,323	\$ (270)
Foreign currency exchange rate	149	(44)
Credit	10	81
Equity	(4)	(74)
Non-VA embedded derivatives	(8)	(20)
Total non-VA program derivatives	1,470	(327)
VA program derivatives		
Market risks in embedded derivatives	(117)	368
Nonperformance risk adjustment on embedded derivatives	29	(20)
Other risks in embedded derivatives	(124)	(161)
Total embedded derivatives	(212)	187
Freestanding derivatives hedging embedded derivatives	(4)	(238)
Total VA program derivatives	(216)	(51)
Net derivative gains (losses)	\$ 1,254	\$ (378)

The favorable change in net derivative gains (losses) on non-VA program derivatives was \$1.8 billion (\$1.4 billion, net of income tax). This was primarily due to long-term U.S. interest rates decreasing in the current period and increasing in the prior period, favorably impacting swaptions and receive fixed interest rate swaps. In addition, the strengthening of the U.S. dollar relative to certain foreign currencies in the current period versus the prior period, favorably impacted foreign currency forwards, futures and swaps that primarily hedge foreign currency-denominated bonds.

The unfavorable change in net derivative gains (losses) on VA program derivatives was \$165 million (\$130 million, net of income tax). This was due to an unfavorable change of \$251 million (\$198 million, net of income tax) in market risks in embedded derivatives, net of freestanding derivatives hedging market risks in embedded derivatives, partially offset by a favorable change of \$49 million (\$39 million, net of income tax) in the nonperformance risk adjustment on embedded derivatives, and a favorable change of \$37 million (\$29 million, net of income tax) in other risks in embedded derivatives. Other risks relate primarily to the impact of policyholder behavior and other non-market risks that generally cannot be hedged.

The aforementioned \$251 million (\$198 million, net of income tax) unfavorable change reflects a \$485 million (\$383 million, net of income tax) unfavorable change in market risks in embedded derivatives, partially offset by a \$234 million (\$185 million, net of income tax) favorable change in freestanding derivatives hedging market risks in embedded derivatives.

The primary changes in market factors are summarized as follows:

- Long-term U.S. interest rates decreased in the current period and increased in the prior period, contributing to a favorable change in our freestanding derivatives and an unfavorable change in our embedded derivatives. For example, the 30-year U.S. swap rate decreased 50 basis points in the current period and increased 20 basis points in the prior period.
- Key equity index levels increased less in the current period versus the prior period, contributing to a favorable change in our freestanding derivatives and an unfavorable change in our embedded derivatives. For example, the S&P 500 Index increased 1% in the current period and 7% in the prior period.
- Changes in foreign currency exchange rates contributed to a favorable change in our freestanding derivatives and an unfavorable change in our embedded derivatives related to the assumed variable annuity guarantees from our former operating joint venture in Japan. For example, the Japanese yen strengthened against the euro by 4% in the current period and weakened by 2% in the prior period.

The aforementioned \$37 million (\$29 million, net of income tax) favorable change in other risks in embedded derivatives reflects actuarial assumption updates and a combination of factors, which include fees being deducted from accounts, changes in the benefit base, premiums, lapses, withdrawals and deaths.

The aforementioned \$49 million (\$39 million, net of income tax) favorable change in the nonperformance risk adjustment on embedded derivatives resulted from a favorable change of \$28 million, before income tax, as a result of model changes and changes in capital market inputs, such as long-term interest rates and key equity index levels, on variable annuity guarantees, in addition to a favorable change of \$21 million, before income tax, related to changes in our own credit spread.

When equity index levels decrease in isolation, the variable annuity guarantees become more valuable to policyholders, which results in an increase in the undiscounted embedded derivative liability. Discounting this unfavorable change by the risk adjusted rate yields a smaller loss than by discounting at the risk-free rate, thus creating a gain from including an adjustment for nonperformance risk.

When the risk-free interest rate decreases in isolation, discounting the embedded derivative liability produces a higher valuation of the liability than if the risk-free interest rate had remained constant. Discounting this unfavorable change by the risk adjusted rate yields a smaller loss than by discounting at the risk-free interest rate, thus creating a gain from including an adjustment for nonperformance risk.

When our own credit spread increases in isolation, discounting the embedded derivative liability produces a lower valuation of the liability than if our own credit spread had remained constant. As a result, a gain is created from including an adjustment for nonperformance risk. For each of these primary market drivers, the opposite effect occurs when the driver moves in the opposite direction.

Net Investment Gains (Losses). The favorable change in net investment gains (losses) of \$44 million (\$35 million, net of income tax) primarily reflects foreign currency transaction gains and higher gains on sales of real estate joint ventures, partially offset by lower gains on sales of fixed maturity securities AFS and losses on mortgage loans in the current period versus the prior period.

Divested Businesses. Income (loss) before provision for income tax related to the divested businesses, excluding net investment gains (losses) and net derivative gains (losses), increased \$14 million (\$10 million, net of income tax) to a loss of \$9 million (\$8 million, net of income tax) in the current period from a loss of \$23 million (\$18 million, net of income tax) in the prior period. Included in this increase was an increase in total revenues of \$59 million, before income tax, and an increase in total expenses of \$45 million, before income tax. Divested businesses primarily include activity related to the separation of Brighthouse Financial, Inc. (the "Separation") and the pending disposition of MetLife Hong Kong.

Taxes. For the three months ended September 30, 2019, our effective tax rate on income (loss) before provision for income tax was 22%. Our effective tax rate differed from the U.S. statutory rate primarily due to tax charges from foreign earnings taxed at different rates than the U.S. statutory rate, partially offset by tax benefits related to non-taxable investment income and tax credits. For the three months ended September 30, 2018, our effective tax rate on income (loss) before provision for income tax was 15%. Our effective tax rate differed from the U.S. statutory rate primarily due to tax benefits related to non-taxable investment income and tax credits, partially offset by tax charges from foreign earnings taxed at different rates than the U.S. statutory rate.

Actuarial Assumption Review and Certain Other Insurance Adjustments. Results for the current period include a \$201 million (\$162 million, net of income tax) charge associated with our annual review of actuarial assumptions related to reserves and DAC, of which a \$31 million loss (\$27 million, net of income tax) was recognized in net derivative gains (losses).

Of the \$201 million charge, \$49 million (\$37 million, net of income tax) was related to DAC and \$152 million (\$125 million, net of income tax) was associated with reserves. The portion of the \$201 million charge that is included in adjusted earnings is \$179 million (\$143 million, net of income tax).

The \$31 million loss (\$27 million, net of income tax) recognized in net derivative gains (losses) associated with our annual review of actuarial assumptions is included within the other risks in embedded derivatives line in the table above.

As a result of our annual review of actuarial assumptions, changes were made to economic, biometric, policyholder behavior, and operational assumptions. The most significant impacts were in the MetLife Holdings segment, driven by the projection of closed block results and economic updates. The breakdown of total current period results is summarized as follows:

- Economic assumption updates resulted in a net charge of \$151 million (\$117 million, net of income tax).
- Changes in biometric assumptions resulted in a net charge of \$21 million (\$15 million, net of income tax).
- Changes in policyholder behavior assumptions resulted in a favorable impact of \$16 million (\$14 million, net of income tax).
- Changes in operational assumptions, most notably related to closed block projections, resulted in a net charge of \$44 million (\$44 million, net of income tax).

Results for the prior period include a \$358 million (\$272 million, net of income tax) charge associated with our annual review of actuarial assumptions related to reserves and DAC, of which a \$131 million loss (\$94 million, net of income tax) was recognized in net derivative gains (losses). Of the \$358 million charge, \$20 million (\$20 million, net of income tax) was related to DAC and \$338 million (\$252 million, net of income tax) was associated with reserves. The portion of the \$358 million charge that is included in adjusted earnings is \$53 million (\$42 million, net of income tax).

Certain other insurance adjustments recorded in the current period include a \$22 million (\$17 million, net of income tax) charge due to a current period increase in our IBNR long-term care reserves reflecting enhancements to our methodology related to potential claims in our MetLife Holdings segment. Certain other insurance adjustments recorded in the prior period include a \$79 million (\$63 million, net of income tax) charge due to a prior period increase in our IBNR life reserves, reflecting enhancements to our processes related to potential claims in our MetLife Holdings segment, and a favorable net insurance adjustment of \$47 million (\$37 million, net of income tax) resulting from reserve and DAC modeling improvements in our individual disability insurance business in our U.S. segment. These adjustments are included in adjusted earnings.

Adjusted Earnings. As more fully described in “— Non-GAAP and Other Financial Disclosures,” we use adjusted earnings, which does not equate to net income (loss), as determined in accordance with GAAP, to analyze our performance, evaluate segment performance, and allocate resources. We believe that the presentation of adjusted earnings and other financial measures based on adjusted earnings, as we measure it for management purposes, enhances the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of the business. Adjusted earnings and other financial measures based on adjusted earnings allow analysis of our performance relative to our business plan and facilitate comparisons to industry results. Adjusted earnings should not be viewed as a substitute for net income (loss). Adjusted earnings available to common shareholders and adjusted earnings available to common shareholders on a constant currency basis should not be viewed as substitutes for net income (loss) available to MetLife, Inc.’s common shareholders. Adjusted earnings available to common shareholders decreased \$186 million, net of income tax, to \$1.2 billion, net of income tax, for the three months ended September 30, 2019 from \$1.4 billion, net of income tax, for the three months ended September 30, 2018.

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

During the nine months ended September 30, 2019, net income (loss) increased \$2.3 billion from the prior period, primarily driven by favorable changes in net derivative gains (losses) and net investment gains (losses).

Net Derivative Gains (Losses). The table below presents the impact on net derivative gains (losses) from non-VA program derivatives and VA program derivatives:

	Nine Months Ended September 30,	
	2019	2018
	(In millions)	
Non-VA program derivatives		
Interest rate	\$ 2,634	\$ (369)
Foreign currency exchange rate	203	245
Credit	211	48
Equity	(282)	(75)
Non-VA embedded derivatives	(138)	4
Total non-VA program derivatives	2,628	(147)
VA program derivatives		
Market risks in embedded derivatives	249	620
Nonperformance risk adjustment on embedded derivatives	(46)	(25)
Other risks in embedded derivatives	(238)	(244)
Total embedded derivatives	(35)	351
Freestanding derivatives hedging embedded derivatives	(500)	(292)
Total VA program derivatives	(535)	59
Net derivative gains (losses)	\$ 2,093	\$ (88)

The favorable change in net derivative gains (losses) on non-VA program derivatives was \$2.8 billion (\$2.2 billion, net of income tax). This was primarily due to a favorable change in interest rate impact due to long-term U.S. interest rates decreasing in the current period and increasing in the prior period, favorably impacting receive fixed interest rate swaps, options and total rate of return swaps. In addition, credit spreads narrowed in the current period and widened in the prior period, favorably impacting written credit default swaps used in replications. These favorable impacts were partially offset by the unfavorable impact of key equity markets increasing more in the current period versus the prior period, unfavorably impacting equity options acquired primarily as part of our macro hedge program. There was also a change in the value of the underlying assets, unfavorably impacting non-VA embedded derivatives related to funds withheld on a certain reinsurance agreement. Because certain of these hedging strategies are not designated or do not qualify as accounting hedges, the changes in the estimated fair value of these freestanding derivatives are recognized in net derivative gains (losses) without an offsetting gain or loss recognized in earnings for the items being hedged.

The unfavorable change in net derivative gains (losses) on VA program derivatives was \$594 million (\$469 million, net of income tax). This was due to an unfavorable change of \$579 million (\$457 million, net of income tax) in market risks in embedded derivatives, net of freestanding derivatives hedging market risks in embedded derivatives and an unfavorable change of \$21 million (\$17 million, net of income tax) in the nonperformance risk adjustment on embedded derivatives, partially offset by a favorable change of \$6 million, (\$5 million, net of income tax) in other risks in embedded derivatives. Other risks relate primarily to the impact of policyholder behavior and other non-market risks that generally cannot be hedged.

The aforementioned \$579 million (\$457 million, net of income tax) unfavorable change reflects a \$371 million (\$293 million, net of income tax) unfavorable change in market risks in embedded derivatives and a \$208 million (\$164 million, net of income tax) unfavorable change in freestanding derivatives hedging market risks in embedded derivatives.

The primary changes in market factors are summarized as follows:

- Long-term U.S. interest rates decreased in the current period and increased in the prior period, contributing to a favorable change in our freestanding derivatives and an unfavorable change in our embedded derivatives. For example, the 30-year U.S. swap rate decreased 113 basis points in the current period and increased 59 basis points in the prior period.
- Key equity index levels increased more in the current period versus the prior period, contributing to an unfavorable change in our freestanding derivatives and a favorable change in our embedded derivatives. For example, the S&P 500 Index increased 19% in the current period and 9% in the prior period.

The aforementioned \$6 million (\$5 million, net of income tax) favorable change in other risks in embedded derivatives reflects actuarial assumption updates and a combination of factors, which include fees being deducted from accounts, changes in the benefit base, premiums, lapses, withdrawals and deaths.

The aforementioned \$21 million (\$17 million, net of income tax) unfavorable change in the nonperformance risk adjustment on embedded derivatives resulted from an unfavorable change of \$49 million, before income tax, related to changes in our own credit spread, partially offset by a favorable change of \$28 million, before income tax, related to model changes and changes in capital market inputs, such as long-term interest rates and key equity index levels, on variable annuity guarantees.

Net Investment Gains (Losses). The favorable change in net investment gains (losses) of \$680 million (\$537 million, net of income tax) primarily reflects prior period losses on fair value of Brighthouse Financial, Inc. common stock (“FVO Brighthouse Common Stock”) disposed of in June 2018, as well as mark-to-market gains on equity securities in the current period, both of which were measured at fair value through net income. Additionally, there were gains on sales of fixed maturity securities AFS in the current period versus losses in the prior period. These favorable changes were partially offset by lower gains on sales of real estate joint ventures.

Divested Businesses. Income (loss) before provision for income tax related to the divested businesses, excluding net investment gains (losses) and net derivative gains (losses), increased \$93 million (\$72 million, net of income tax) to a loss of \$15 million (\$13 million, net of income tax) in the current period from a loss of \$108 million (\$85 million, net of income tax) in the prior period. Included in this increase was an increase in total revenues of \$52 million, before income tax, and a decrease in total expenses of \$41 million, before income tax. Divested businesses primarily include activity related to the Separation and the pending disposition of MetLife Hong Kong.

Taxes. For the nine months ended September 30, 2019, our effective tax rate on income (loss) before provision for income tax was 22%. Our effective tax rate differed from the U.S. statutory rate primarily due to tax charges from foreign earnings taxed at different rates than the U.S. statutory rate and the impact from the definitive agreement to sell MetLife Hong Kong, partially offset by tax benefits related to non-taxable investment income and tax credits. For the nine months ended September 30, 2018, our effective tax rate on income (loss) before provision for income tax was 20%. Our effective tax rate differed from the U.S. statutory rate primarily due to tax benefits related to non-taxable investment income, tax credits and a non-cash transfer of assets from a wholly-owned U.K. investment subsidiary to its U.S. parent. These tax benefits were partially offset by tax charges from foreign earnings taxed at different rates than the U.S. statutory rate, a non-deductible loss incurred on the mark-to-market and disposition of FVO Brighthouse Common Stock and a tax adjustment in Chile.

Actuarial Assumption Review and Certain Other Insurance Adjustments. For the results of our 2019 and 2018 annual assumption reviews and information regarding certain other insurance adjustments, see “— Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018 — Actuarial Assumption Review and Certain Other Insurance Adjustments.”

Adjusted Earnings. Adjusted earnings available to common shareholders decreased \$192 million, net of income tax, to \$3.9 billion, net of income tax, for the nine months ended September 30, 2019 from \$4.1 billion, net of income tax, for the nine months ended September 30, 2018.

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Reconciliation of net income (loss) to adjusted earnings available to common shareholders
Three Months Ended September 30, 2019

	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total
(In millions)							
Net income (loss) available to MetLife, Inc.'s common shareholders	\$ 977	\$ 689	\$ 69	\$ 108	\$ 566	\$ (257)	\$ 2,152
Add: Preferred stock dividends	—	—	—	—	—	32	32
Add: Net income (loss) attributable to noncontrolling interests	—	—	2	1	—	3	6
Net income (loss)	\$ 977	\$ 689	\$ 71	\$ 109	\$ 566	\$ (222)	\$ 2,190
Less: adjustments from net income (loss) to adjusted earnings available to common shareholders:							
Revenues:							
Net investment gains (losses)	31	155	18	(5)	(19)	(19)	161
Net derivative gains (losses)	370	339	(53)	7	562	29	1,254
Premiums	—	35	—	—	—	—	35
Universal life and investment-type product policy fees	—	64	—	1	23	—	88
Net investment income	(47)	34	—	196	(35)	2	150
Other revenues	—	3	—	—	—	69	72
Expenses:							
Policyholder benefits and claims and policyholder dividends	(17)	(40)	(74)	40	4	1	(86)
Interest credited to policyholder account balances	5	(46)	(17)	(168)	—	—	(226)
Capitalization of DAC	—	11	—	—	—	—	11
Amortization of DAC and VOBA	—	(40)	—	5	(6)	—	(41)
Amortization of negative VOBA	—	—	—	—	—	—	—
Interest expense on debt	—	—	—	—	—	—	—
Other expenses	—	(28)	3	(3)	—	(82)	(110)
Goodwill impairment	—	—	—	—	—	—	—
Provision for income tax (expense) benefit	(72)	(147)	39	(17)	(112)	(31)	(340)
Adjusted earnings	<u>\$ 707</u>	<u>\$ 349</u>	<u>\$ 155</u>	<u>\$ 53</u>	<u>\$ 149</u>	<u>\$ (191)</u>	<u>\$ 1,222</u>
Less: Preferred stock dividends						32	32
Adjusted earnings available to common shareholders						<u>\$ (223)</u>	<u>\$ 1,190</u>

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Three Months Ended September 30, 2018

	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total
(In millions)							
Net income (loss) available to MetLife, Inc.'s common shareholders	\$ 782	\$ (26)	\$ 197	\$ 56	\$ 62	\$ (191)	\$ 880
Add: Preferred stock dividends	—	—	—	—	—	32	32
Add: Net income (loss) attributable to noncontrolling interests	—	(1)	1	1	—	2	3
Net income (loss)	\$ 782	\$ (27)	\$ 198	\$ 57	\$ 62	\$ (157)	\$ 915
Less: adjustments from net income (loss) to adjusted earnings available to common shareholders:							
Revenues:							
Net investment gains (losses)	58	(72)	5	3	58	65	117
Net derivative gains (losses)	(17)	(339)	35	39	(164)	68	(378)
Premiums	—	—	—	—	—	—	—
Universal life and investment-type product policy fees	—	10	—	9	24	—	43
Net investment income	(63)	60	(3)	65	(38)	3	24
Other revenues	—	5	—	—	—	78	83
Expenses:							
Policyholder benefits and claims and policyholder dividends	6	1	6	(42)	(126)	—	(155)
Interest credited to policyholder account balances	1	(64)	(12)	(57)	—	—	(132)
Capitalization of DAC	—	—	—	—	—	—	—
Amortization of DAC and VOBA	—	(17)	—	(1)	(90)	—	(108)
Amortization of negative VOBA	—	—	—	—	—	—	—
Interest expense on debt	—	—	—	—	—	(15)	(15)
Other expenses	—	(3)	2	(8)	—	(91)	(100)
Goodwill impairment	—	—	—	—	—	—	—
Provision for income tax (expense) benefit	2	126	(5)	(6)	71	(60)	128
Adjusted earnings	\$ 795	\$ 266	\$ 170	\$ 55	\$ 327	\$ (205)	\$ 1,408
Less: Preferred stock dividends						32	32
Adjusted earnings available to common shareholders						\$ (237)	\$ 1,376
Adjusted earnings available to common shareholders on a constant currency basis (1)							
	\$ 795	\$ 262	\$ 162	\$ 54	\$ 327	\$ (237)	\$ 1,363

(1) Amounts on a reported basis for U.S., MetLife Holdings and Corporate & Other, as constant currency impact is not significant.

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Nine Months Ended September 30, 2019

	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total
(In millions)							
Net income (loss) available to MetLife, Inc.'s common shareholders	\$ 2,591	\$ 1,645	\$ 327	\$ 287	\$ 1,243	\$ (908)	\$ 5,185
Add: Preferred stock dividends	—	—	—	—	—	121	121
Add: Net income (loss) attributable to noncontrolling interests	—	—	7	2	—	6	15
Net income (loss)	\$ 2,591	\$ 1,645	\$ 334	\$ 289	\$ 1,243	\$ (781)	\$ 5,321
Less: adjustments from net income (loss) to adjusted earnings available to common shareholders:							
Revenues:							
Net investment gains (losses)	12	165	30	—	91	(61)	237
Net derivative gains (losses)	704	833	43	7	606	(100)	2,093
Premiums	—	35	—	—	—	—	35
Universal life and investment-type product policy fees	—	86	—	10	67	—	163
Net investment income	(159)	126	3	1,036	(98)	8	916
Other revenues	—	7	—	—	—	206	213
Expenses:							
Policyholder benefits and claims and policyholder dividends	(29)	(43)	(205)	59	(115)	4	(329)
Interest credited to policyholder account balances	14	(184)	(46)	(974)	—	—	(1,190)
Capitalization of DAC	—	11	—	—	—	—	11
Amortization of DAC and VOBA	—	(63)	—	7	54	—	(2)
Amortization of negative VOBA	—	—	—	—	—	—	—
Interest expense on debt	—	—	—	—	—	—	—
Other expenses	—	(29)	9	(28)	—	(232)	(280)
Goodwill impairment	—	—	—	—	—	—	—
Provision for income tax (expense) benefit	(114)	(363)	52	(44)	(127)	(4)	(600)
Adjusted earnings	\$ 2,163	\$ 1,064	\$ 448	\$ 216	\$ 765	\$ (602)	\$ 4,054
Less: Preferred stock dividends						121	121
Adjusted earnings available to common shareholders						\$ (723)	\$ 3,933

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Nine Months Ended September 30, 2018

	U.S.	Asia	Latin America	EMEA	MetLife Holdings	Corporate & Other	Total
(In millions)							
Net income (loss) available to MetLife, Inc.'s common shareholders	\$ 2,054	\$ 772	\$ 434	\$ 214	\$ 611	\$ (1,113)	\$ 2,972
Add: Preferred stock dividends	—	—	—	—	—	84	84
Add: Net income (loss) attributable to noncontrolling interests	—	—	4	2	—	4	10
Net income (loss)	\$ 2,054	\$ 772	\$ 438	\$ 216	\$ 611	\$ (1,025)	\$ 3,066
Less: adjustments from net income (loss) to adjusted earnings available to common shareholders:							
Revenues:							
Net investment gains (losses)	15	11	9	1	(114)	(365)	(443)
Net derivative gains (losses)	80	(257)	68	38	(113)	96	(88)
Premiums	—	—	—	—	—	—	—
Universal life and investment-type product policy fees	—	3	7	21	70	—	101
Net investment income	(191)	(19)	(26)	41	(117)	8	(304)
Other revenues	—	14	—	—	—	235	249
Expenses:							
Policyholder benefits and claims and policyholder dividends	12	2	(41)	(61)	(164)	—	(252)
Interest credited to policyholder account balances	3	(6)	(28)	(20)	—	—	(51)
Capitalization of DAC	—	—	1	—	—	—	1
Amortization of DAC and VOBA	—	(9)	—	1	(95)	—	(103)
Amortization of negative VOBA	—	1	—	—	—	—	1
Interest expense on debt	—	—	—	—	—	(45)	(45)
Other expenses	—	(7)	4	(24)	—	(309)	(336)
Goodwill impairment	—	—	—	—	—	—	—
Provision for income tax (expense) benefit	16	83	(11)	(3)	112	(70)	127
Adjusted earnings	\$ 2,119	\$ 956	\$ 455	\$ 222	\$ 1,032	\$ (575)	\$ 4,209
Less: Preferred stock dividends						84	84
Adjusted earnings available to common shareholders						\$ (659)	\$ 4,125
Adjusted earnings available to common shareholders on a constant currency basis (1)	\$ 2,119	\$ 930	\$ 432	\$ 202	\$ 1,032	\$ (659)	\$ 4,056

(1) Amounts on a reported basis for U.S., MetLife Holdings and Corporate & Other, as constant currency impact is not significant.

Consolidated Results —Adjusted Earnings**Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018**

Unless otherwise stated, all amounts discussed below are net of income tax.

Overview. The primary drivers of the decrease in adjusted earnings were the impact of our annual actuarial assumption review and unfavorable underwriting.

Foreign Currency. Changes in foreign currency exchange rates had a \$13 million negative impact on adjusted earnings for the third quarter of 2019 compared to the prior period. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. We benefited from positive net flows, which increased our invested asset base. Growth in the investment portfolios of our Asia and U.S. segments resulted in higher net investment income. However, consistent with the growth in average invested assets, interest credited expenses on certain insurance-related liabilities increased. Higher fee income in our Asia and EMEA segments was offset by lower fee income in our MetLife Holdings segment. Business growth also drove an increase in commissions, which was offset by higher DAC capitalization. A decrease in expenses was primarily due to the 2019 abatement of the annual health insurer fee under the Patient Protection and Affordable Care Act (“PPACA”). The combined impact of the items affecting our business growth, partially offset by higher DAC amortization, resulted in a \$63 million increase in adjusted earnings.

Market Factors. Market factors, including interest rate levels, variability in equity market returns, and foreign currency exchange rate fluctuations, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Excluding the impact of changes in foreign currency exchange rates on net investment income in our non-U.S. segments and changes in inflation rates on our inflation-indexed investments, investment yields decreased. Investment results were negatively affected by lower yields on fixed income securities, lower returns on tax credit partnerships and lower income from derivatives. In addition, lower earnings on our securities lending program resulted primarily from lower margins and balances. These decreases were partially offset by higher returns on FVO Securities, private equities and equity-linked notes. In addition, lower interest credited rates improved adjusted earnings. The changes in market factors discussed above resulted in a \$46 million decrease in adjusted earnings.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Unfavorable underwriting resulted in an \$85 million decrease in adjusted earnings, primarily as a result of higher claims and lapses in our Asia segment, unfavorable mortality in our U.S. and MetLife Holdings segments, unfavorable morbidity in our EMEA and MetLife Holding segments and higher catastrophe-related losses and increases in non-catastrophe and commercial claim costs in our Property & Casualty business. These unfavorable results were partially offset by favorable claims experience in our Group Benefits business. The impact in both periods of our annual actuarial assumption review resulted in a net decrease of \$101 million in adjusted earnings, primarily due to less favorable assumption changes in our MetLife Holdings segment. Refinements to DAC and certain insurance-related liabilities, which were recorded in both periods, resulted in a \$41 million decrease in adjusted earnings, primarily in our U.S. segment.

Interest Expense on Debt. Interest expense on debt decreased \$23 million, primarily due to the exchange of senior notes for FVO Brighthouse Common Stock and the redemption of senior notes for cash in 2018.

Expenses. Expenses increased compared to the prior period, which resulted in a \$13 million decrease in adjusted earnings, primarily due to increases in certain corporate-related and legal expenses and higher expenses associated with corporate initiatives and projects, including the continued investment in our unit cost initiative, partially offset by lower interest expenses on tax positions and employee-related costs, as well as a decline in costs as a result of certain other enterprise-wide initiatives.

Taxes. For the three months ended September 30, 2019 and 2018, our effective tax rate on adjusted earnings was 18% and 17%, respectively. Our effective tax rates differed from the U.S. statutory rate primarily due to tax benefits from non-taxable investment income and tax credits, partially offset by tax charges from foreign earnings taxed at different rates than the U.S. statutory rate.

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Overview. The primary drivers of the decrease in adjusted earnings were the impact of our annual actuarial assumption review and unfavorable underwriting.

Foreign Currency. Changes in foreign currency exchange rates had a \$69 million negative impact on adjusted earnings for the first nine months of 2019 compared to the prior period. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. We benefited from positive net flows from many of our businesses, which increased our invested asset base. Growth in the investment portfolios of our Asia and U.S. segments resulted in higher net investment income. However, this was partially offset by a corresponding increase in interest credited expenses on certain insurance-related liabilities. Higher fee income in our Asia, Latin America and EMEA segments was largely offset by lower fee income in our MetLife Holdings segment. Business growth also drove an increase in commissions, which was offset by higher DAC capitalization. A decrease in expenses was primarily due to the 2019 abatement of the annual health insurer fee under the PPACA. The combined impact of the items affecting our business growth, partially offset by higher DAC amortization, resulted in a \$202 million increase in adjusted earnings.

Market Factors. Market factors, including interest rate levels, variability in equity market returns, and foreign currency exchange rate fluctuations, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Excluding the impact of changes in foreign currency exchange rates on net investment income in our non-U.S. segments and changes in inflation rates on our inflation-indexed investments, investment yields decreased. Investment yields were negatively affected by lower yields on fixed income securities, lower income from derivatives and lower returns on tax credit partnerships. In addition, lower earnings on our securities lending program resulted primarily from lower margins and balances. These decreases were partially offset by higher returns on FVO Securities and equity-linked notes and higher prepayment fees. In addition, a net increase in interest credited expenses was due to the impact of interest rate fluctuations, period over period, which resulted in an increase in our average interest credited rates on deposit-type liabilities, partially offset by lower rates on long-duration liabilities. The changes in market factors discussed above, partially offset by lower DAC amortization, resulted in a \$62 million decrease in adjusted earnings.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Unfavorable underwriting resulted in a \$78 million decrease in adjusted earnings primarily as a result of higher claims and lapses in our Asia segment, unfavorable mortality in our MetLife Holdings and Latin America segments, and an increase in non-catastrophe claim costs in our Property & Casualty business, partially offset by favorable claims experience in our Group Benefits business, favorable mortality in our U.S. segment and lower catastrophe losses. The impact in both periods of our annual actuarial assumption review resulted in a net decrease of \$101 million in adjusted earnings, primarily due to less favorable assumption changes in our MetLife Holdings segment. Refinements to DAC and certain insurance-related liabilities, which were recorded in both periods, resulted in a \$74 million decrease in adjusted earnings, primarily driven by our MetLife Holdings and Asia segments.

Interest Expense on Debt. Interest expense on debt decreased by \$68 million, primarily due to the exchange of senior notes for FVO Brighthouse Common Stock and the redemption of senior notes for cash in 2018, partially offset by a premium paid in excess of the debt principal and accrued and unpaid interest due on senior notes redeemed in the current period.

Expenses. Expenses increased compared to the prior period, which resulted in a \$32 million decrease in adjusted earnings, primarily due to higher costs associated with corporate initiatives and projects, including the continued investment in our unit cost initiative and a prior period reduction of a litigation reserve in Argentina, partially offset by lower interest on uncertain tax positions and employee-related costs, as well as a decline in costs associated with certain other enterprise-wide initiatives.

Taxes. For the nine months ended September 30, 2019, our effective tax rate on adjusted earnings was 18%. Our effective tax rate differed from the U.S. statutory rate primarily due to tax benefits from non-taxable investment income and tax credits, partially offset by tax charges from foreign earnings taxed at different rates than the U.S. statutory rate. For the nine months ended September 30, 2018, our effective tax rate on adjusted earnings was 18%. Our effective tax rate differed from the U.S. statutory rate primarily due to tax benefits from non-taxable investment income, tax credits and a non-cash transfer of assets from a wholly-owned U.K. investment subsidiary to its U.S. parent, partially offset by tax charges from foreign earnings taxed at different rates than the U.S. statutory rate and a tax adjustment in Chile.

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Segment Results and Corporate & Other

U.S.

Business Overview. Sales were mixed across the segment for the three months ended September 30, 2019 compared to the prior period. RIS sales improved due to increases in pension risk transfer, stable value and specialized benefit resource sales. Changes in premiums for the RIS business were almost entirely offset by the related changes in policyholder benefits and claims. Sales decreased in both our Group Benefits and Property & Casualty businesses as compared to the prior period; however, Group Benefits sales are up 10% on a year-to-date basis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Adjusted revenues				
Premiums	\$ 6,903	\$ 6,431	\$ 18,704	\$ 22,950
Universal life and investment-type product policy fees	264	252	808	772
Net investment income	1,760	1,787	5,274	5,168
Other revenues	224	206	668	613
Total adjusted revenues	9,151	8,676	25,454	29,503
Adjusted expenses				
Policyholder benefits and claims and policyholder dividends	6,759	6,219	18,233	22,590
Interest credited to policyholder account balances	507	457	1,512	1,303
Capitalization of DAC	(131)	(116)	(372)	(336)
Amortization of DAC and VOBA	121	128	352	357
Interest expense on debt	3	2	8	8
Other expenses	1,004	982	3,006	2,908
Total adjusted expenses	8,263	7,672	22,739	26,830
Provision for income tax expense (benefit)	181	209	552	554
Adjusted earnings	\$ 707	\$ 795	\$ 2,163	\$ 2,119

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Business Growth. The impact of positive net flows from funding agreement issuances in the current period and the impact of a large pension risk transfer transaction in 2018 resulted in higher average invested assets, improving net investment income. However, consistent with the growth in average invested assets, interest credited expenses on long-duration liabilities increased. Higher volume-related expenses were partially offset by lower direct expenses, including certain employee-related expenses. This net increase in expenses, mostly offset by the decrease due to the 2019 abatement of the annual health insurer fee under the PPACA, was more than offset by a corresponding increase in premiums, fees and other revenues. The combined impact of the items affecting our business growth increased adjusted earnings by \$45 million.

Market Factors. Market factors, including interest rate levels, variability in equity market returns and foreign currency exchange rate fluctuations, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment yields decreased, primarily due to lower income from derivatives and lower yields from fixed income securities, as well as lower earnings on our securities lending program, primarily from lower margins and balances. However, net investment income increased from the impact of an increased crediting rate on interest on economic capital. Higher average interest credited rates on our deposit-type liabilities were offset by lower rates on our long-duration liabilities. The changes in market factors discussed above resulted in a \$54 million decrease in adjusted earnings.

Underwriting and Other Insurance Adjustments. In our Property & Casualty business, higher catastrophe-related losses, coupled with increases in non-catastrophe and commercial claim costs, resulted in a \$22 million decrease in adjusted earnings. Non-catastrophe claim costs were driven by higher severities and frequencies in both our auto and homeowner businesses. Less favorable mortality in our universal life and pension risk transfer businesses resulted in a \$17 million decrease in adjusted earnings. Favorable claims experience in our Group Benefits business resulted in a \$14 million increase in adjusted earnings. This is primarily due to favorable prior period development and renewal experience in the group disability business. In addition, in our accident & health business, the impact of growth in the business and favorable claims experience also contributed to the increase in adjusted earnings. These increases were partially offset by an increase in utilization in our dental business. Refinements to certain insurance and other liabilities, which were recorded in both periods, resulted in a \$54 million decrease in adjusted earnings, which included a prior period favorable net insurance adjustment resulting from reserve and DAC modeling improvements in our individual disability insurance business.

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Business Growth. The impact of positive flows from funding agreement issuances in the current period and the impact of a large pension risk transfer transaction in the prior period resulted in higher average invested assets, improving net investment income. However, consistent with the growth in average invested assets, interest credited expenses on long-duration liabilities increased. Higher volume-related and premium tax expenses were partially offset by lower direct expenses, including certain employee-related expenses. This net increase in expenses, mostly offset by the decrease due to the 2019 abatement of the annual health insurer fee under the PPACA, was more than offset by a corresponding increase in premiums, fees and other revenues. The combined impact of the items affecting our business growth increased adjusted earnings by \$135 million.

Market Factors. Market factors, including interest rate levels, variability in equity market returns and foreign currency exchange rate fluctuations, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment yields decreased primarily due to lower income from derivatives, lower yields on fixed income securities and real estate investments, and lower earnings on our securities lending program, primarily from lower margins and balances. These decreases were partially offset by higher yields on mortgage loans and higher prepayment fees. In addition, net investment income increased as a result of the impact of an increased crediting rate on interest on economic capital. The impact of interest rate fluctuations, period over period, resulted in an increase in our average interest credited rates on deposit-type liabilities, partially offset by lower rates on our long-duration liabilities, which drove a net increase in interest credited expenses. The changes in market factors discussed above resulted in a \$137 million decrease in adjusted earnings.

Underwriting and Other Insurance Adjustments. Favorable claims experience and the impact of growth in our Group Benefits business resulted in a \$42 million increase in adjusted earnings. This was primarily driven by lower claim severity, favorable renewal results and an increase in recoveries in our group disability business. In both our accident & health and individual disability businesses, the impact of growth in the business and favorable claims experience also contributed to the increase in adjusted earnings. These favorable results were partially offset by less favorable dental results, driven by an increase in utilization and the impact of unfavorable prior period development in the current period. Favorable mortality, driven by claims experience in our term life business, primarily due to lower severity in the current period and the unfavorable impact of the influenza virus in the prior period, partially offset by less favorable mortality in our universal life, pension risk transfer and structured settlement businesses, resulted in a \$31 million increase in adjusted earnings. In our Property & Casualty business, adjusted earnings decreased \$25 million as a result of higher non-catastrophe claims costs driven by higher severities in both our auto and homeowner businesses and an increase in frequencies in our auto business, coupled with higher losses in the commercial business, partially offset by lower catastrophe costs and favorable prior period development. Refinements to certain insurance and other liabilities recorded in both periods resulted in a slight decrease to adjusted earnings, which included a prior period favorable net insurance adjustment resulting from reserve and DAC modeling improvements in our individual disability insurance business.

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Asia

Business Overview. Sales for the three months ended September 30, 2019 decreased compared to the prior period, primarily driven by lower sales of foreign currency-denominated annuity and accident & health products in Japan, a large group case in Australia in the prior period, and the pending disposition of MetLife Hong Kong, partially offset by higher sales in Korea due to higher sales of retirement products and a new life product launch.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Adjusted revenues				
Premiums	\$ 1,654	\$ 1,689	\$ 4,984	\$ 5,091
Universal life and investment-type product policy fees	430	428	1,255	1,221
Net investment income	915	830	2,739	2,464
Other revenues	14	12	43	40
Total adjusted revenues	3,013	2,959	9,021	8,816
Adjusted expenses				
Policyholder benefits and claims and policyholder dividends	1,264	1,354	3,862	3,934
Interest credited to policyholder account balances	440	381	1,267	1,094
Capitalization of DAC	(498)	(478)	(1,449)	(1,438)
Amortization of DAC and VOBA	353	366	972	993
Amortization of negative VOBA	(2)	(4)	(18)	(31)
Other expenses	955	943	2,865	2,871
Total adjusted expenses	2,512	2,562	7,499	7,423
Provision for income tax expense (benefit)	152	131	458	437
Adjusted earnings	\$ 349	\$ 266	\$ 1,064	\$ 956

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Foreign Currency. Changes in foreign currency exchange rates decreased adjusted earnings by \$4 million for the third quarter of 2019 compared to the prior period, primarily due to the weakening of the Korean won and Australia dollar against the U.S. dollar. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. Asia's premiums, fees and other revenues decreased as compared to the prior period, mainly driven by the pending disposition of MetLife Hong Kong. Positive net flows in Japan and Korea resulted in higher average invested assets, which improved net investment income. The increase in net investment income was partially offset by a corresponding increase in interest credited expenses on certain insurance liabilities. The combined impact of the items affecting our business growth improved adjusted earnings by \$34 million.

Market Factors. Market factors, including interest rate levels and variability in equity market returns, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment results were favorably impacted by higher derivative income, returns on private equities and hedge funds, yields on mortgage loans and earnings from our operating joint venture in China. These increases were partially offset by lower yields on fixed income securities supporting U.S. dollar-denominated products sold in Japan. In addition, lower interest credited rates improved adjusted earnings. The changes in market factors discussed above increased adjusted earnings by \$15 million.

Underwriting and Actuarial Assumption Review. Higher claims and lapses in Japan decreased adjusted earnings by \$29 million. The impact in both periods of our annual actuarial assumption review resulted in a net increase of \$67 million in adjusted earnings.

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Foreign Currency. Changes in foreign currency exchange rates decreased adjusted earnings by \$26 million for the first nine months of 2019 compared to the prior period, primarily due to the weakening of the Japanese yen and Korean won against the U.S. dollar. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. Asia's premiums, fees and other revenues increased from the prior period mainly driven by growth in accident & health and foreign currency-denominated life products, partially offset by a decrease in premiums from yen-denominated life products in Japan and the pending disposition of MetLife Hong Kong. The decrease in premiums from yen-denominated life products was partially offset by a related decline in policyholder benefits. Positive net flows in Japan and Korea resulted in higher average invested assets, which improved net investment income. The increase in net investment income was partially offset by a corresponding increase in interest credited expenses on certain insurance liabilities. The combined impact of the items affecting our business growth improved adjusted earnings by \$100 million.

Market Factors. Market factors, including interest rate levels and variability in equity market returns, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment results were favorably impacted by higher derivative income, earnings from our operating joint venture in China (mainly driven by a regulatory change), returns from hedge funds and real estate investments, and yields on mortgage loans. These increases were partially offset by lower returns on private equities and yields on fixed income securities in Korea and Bangladesh. The changes in market factors discussed above increased adjusted earnings by \$55 million.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Higher claims and lapses in Japan decreased adjusted earnings by \$64 million. The impact in both periods of our annual actuarial assumption review resulted in a net increase of \$67 million in adjusted earnings. Refinements to certain insurance liabilities and other liabilities that were recorded in both periods resulted in an \$18 million decrease in adjusted earnings. Our prior period results include a favorable liability refinement of \$24 million in Japan, partially offset by an unfavorable liability refinement of \$10 million in Bangladesh.

Expenses and Taxes. Expenses increased as compared to the prior period, which reduced adjusted earnings by \$5 million. Our current period results include a charge of \$6 million related to a withholding tax provision on dividends from our operating joint venture in China.

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Latin America

Business Overview. Sales for the three months ended September 30, 2019 increased compared to the prior period, primarily driven by higher sales of group and individual accident & health products in Mexico, Chile and Brazil, retirement products in Brazil and individual life products in Chile and Brazil.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Adjusted revenues				
Premiums	\$ 703	\$ 692	\$ 2,122	\$ 2,079
Universal life and investment-type product policy fees	256	229	820	786
Net investment income	295	339	951	942
Other revenues	8	7	31	24
Total adjusted revenues	1,262	1,267	3,924	3,831
Adjusted expenses				
Policyholder benefits and claims and policyholder dividends	656	670	2,043	1,976
Interest credited to policyholder account balances	74	102	254	295
Capitalization of DAC	(102)	(97)	(296)	(282)
Amortization of DAC and VOBA	58	5	215	136
Amortization of negative VOBA	—	(1)	—	(1)
Interest expense on debt	—	2	2	5
Other expenses	356	351	1,074	1,052
Total adjusted expenses	1,042	1,032	3,292	3,181
Provision for income tax expense (benefit)	65	65	184	195
Adjusted earnings	\$ 155	\$ 170	\$ 448	\$ 455

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Foreign Currency. Changes in foreign currency exchange rates decreased adjusted earnings by \$8 million for the third quarter of 2019 compared to the prior period, mainly due to the weakening of the Chilean and Mexican pesos against the U.S. dollar. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. Latin America experienced growth across several lines of business primarily within Chile and Mexico. This growth resulted in increased premiums and policy fee income, which was partially offset by related changes in policyholder benefits. A decrease in average invested assets, primarily from Mexico, partially offset in Chile, resulted in lower net investment income. Although business growth drove an increase in commissions, net of DAC capitalization, this was more than offset by decreases in interest credited expense on certain insurance liabilities and other variable expenses. The combined impact of the items affecting business growth, including higher DAC amortization, resulted in a slight decrease to adjusted earnings.

Market Factors. Market factors, including interest rate levels and variability in equity market returns, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment yields increased driven by higher returns on FVO Securities, due to the favorable impact of equity markets on our Chilean encaje, fixed income securities in Chile and Argentina and higher derivative income in Mexico. These increases were partially offset by decreases in yields on fixed income securities in Mexico and lower derivative income in Chile. The changes in market factors discussed above increased adjusted earnings by \$11 million.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Favorable underwriting resulted in a slight increase to adjusted earnings. The impact in both periods of our annual actuarial assumption review resulted in a net decrease of \$18 million in adjusted earnings. In addition, refinements to certain insurance liabilities and other adjustments in both periods, primarily in Chile and Mexico, resulted in a \$4 million increase to adjusted earnings.

Taxes. Certain tax-related adjustments in both periods resulted in a net decrease in adjusted earnings of \$6 million.

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Foreign Currency. Changes in foreign currency exchange rates decreased adjusted earnings by \$23 million for the first nine months of 2019 compared to the prior period, mainly due to the weakening of the Argentinian and Chilean pesos against the U.S. dollar. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. Latin America experienced growth across several lines of business primarily within Chile and Mexico. This growth resulted in increased premiums and policy fee income, which was partially offset by related changes in policyholder benefits. Positive net flows, primarily from Chile and Argentina, partially offset by Mexico, resulted in an increase in average invested assets and generated higher net investment income. Although business growth drove an increase in commissions, net of DAC capitalization, this was more than offset by decreases in interest credited expense on certain insurance liabilities and other variable expenses. The combined impact of the items affecting business growth, including higher DAC amortization, increased adjusted earnings by \$35 million.

Market Factors. Market factors, including interest rate levels and variability in equity market returns, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment yields increased driven by higher yields on FVO Securities, due to the favorable impact of equity markets on our Chilean encaje and fixed income securities in Chile, Mexico and Argentina. These increases in investment yields were partially offset by lower derivative income in Chile and Mexico and lower yields on mortgage loans in Chile. The changes in market factors discussed above increased adjusted earnings by \$55 million.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Unfavorable underwriting resulted in a \$12 million decrease to adjusted earnings primarily driven by higher claims experience across the region. The impact in both periods of our annual actuarial assumption review resulted in a net decrease of \$18 million in adjusted earnings. In addition, refinements to certain insurance liabilities and other adjustments in both periods, primarily in Brazil, Mexico and Chile, resulted in a \$3 million increase to adjusted earnings.

Expenses and Taxes. A \$51 million increase in expenses was primarily the result of a prior period reduction of a litigation reserve in Argentina, along with various other expense increases. Tax-related adjustments in both periods, primarily related to foreign exchange volatility in Argentina, resulted in a net decrease in adjusted earnings of \$21 million. Prior period results also include tax expenses of \$23 million primarily driven by a \$17 million tax charge related to a tax adjustment in Chile and a \$5 million tax charge in Colombia to establish a deferred tax liability due to a change in tax status.

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EMEA

Business Overview. Sales for the three months ended September 30, 2019 increased compared to the prior period, primarily driven by increases in our employee benefits business in Egypt, our credit life business in Turkey and our life insurance business in the Gulf region, partially offset by declines in our employee benefits and credit life businesses in the Gulf region.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Adjusted revenues				
Premiums	\$ 526	\$ 514	\$ 1,619	\$ 1,611
Universal life and investment-type product policy fees	117	105	325	324
Net investment income	73	73	220	221
Other revenues	13	15	40	51
Total adjusted revenues	729	707	2,204	2,207
Adjusted expenses				
Policyholder benefits and claims and policyholder dividends	291	281	867	861
Interest credited to policyholder account balances	25	24	72	75
Capitalization of DAC	(128)	(109)	(371)	(348)
Amortization of DAC and VOBA	128	110	327	324
Amortization of negative VOBA	(2)	(2)	(6)	(12)
Other expenses	341	333	1,029	1,023
Total adjusted expenses	655	637	1,918	1,923
Provision for income tax expense (benefit)	21	15	70	62
Adjusted earnings	\$ 53	\$ 55	\$ 216	\$ 222

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Foreign Currency. Changes in foreign currency exchange rates resulted in a slight decrease in adjusted earnings for the third quarter of 2019 as compared to the prior period. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. A decrease in our pensions business in Romania due to regulatory changes and a decline in our residual in-force wealth management business in the U.K., largely offset by growth in our accident & health business across several European markets and our credit life business in Turkey, resulted in a slight decrease in adjusted earnings.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Unfavorable underwriting, primarily in our employee benefits businesses in the U.K., the Gulf, and Greece, decreased adjusted earnings by \$9 million. The impact in both periods of our annual actuarial assumption review resulted in a net increase of \$10 million in adjusted earnings. Refinements to certain insurance-related assets and liabilities that were recorded in both periods resulted in a \$5 million decrease in adjusted earnings.

Expenses and Taxes. Adjusted earnings increased by \$8 million due to lower costs associated with enterprise-wide initiatives. Adjusted earnings decreased \$4 million due to an unfavorable change in tax expenses mainly in the Gulf, U.K., Russia and Slovakia due to changes in business mix among tax jurisdictions.

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Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Foreign Currency. Changes in foreign currency exchange rates decreased adjusted earnings by \$20 million for the first nine months of 2019 as compared to the prior period, primarily driven by the strengthening of the U.S. dollar against the Turkish lira, the euro, the British pound and the Polish zloty. Unless otherwise stated, all amounts discussed below are net of foreign currency fluctuations. Foreign currency fluctuations can result in significant variances in the financial statement line items.

Business Growth. Growth from our accident & health and credit life businesses in Turkey and across several European markets, partially offset by a decrease in our pensions business in Romania due to regulatory changes, increased adjusted earnings by \$5 million.

Market Factors. Market factors, including interest rate levels and variability in equity market returns, impacted our results favorably by \$7 million primarily due to higher investment yields in Turkey and Ukraine.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Favorable underwriting, primarily in our accident & health business in the Gulf and Turkey, increased adjusted earnings by \$5 million. The impact in both periods of our annual actuarial assumption review resulted in a net increase of \$10 million in adjusted earnings. Refinements to certain insurance-related assets and liabilities that were recorded in both periods resulted in a \$2 million increase in adjusted earnings.

Expenses and Taxes. Adjusted earnings decreased by \$7 million, primarily due to the prior period release of provisions arising from the finalization of historic corporate tax filings, partially offset by lower costs associated with enterprise-wide initiatives. Adjusted earnings decreased \$8 million due to an unfavorable change in tax expenses mainly in the Gulf, U.K., Russia and Slovakia due to changes in business mix among tax jurisdictions, as well as an unfavorable revision to a tax asset in Greece.

MetLife Holdings

Business Overview. Our MetLife Holdings segment consists of operations relating to products and businesses, previously included in our former retail business, that we no longer actively market in the United States. We anticipate an average decline in premiums, fees and other revenues of approximately 5% per year from expected business run-off.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In millions)			
Adjusted revenues				
Premiums	\$ 925	\$ 949	\$ 2,776	\$ 2,856
Universal life and investment-type product policy fees	284	286	844	901
Net investment income	1,316	1,375	3,941	4,056
Other revenues	52	70	184	205
Total adjusted revenues	2,577	2,680	7,745	8,018
Adjusted expenses				
Policyholder benefits and claims and policyholder dividends	1,856	1,766	5,207	5,022
Interest credited to policyholder account balances	228	238	681	709
Capitalization of DAC	(9)	(8)	(23)	(28)
Amortization of DAC and VOBA	94	13	237	214
Interest expense on debt	2	2	6	6
Other expenses	223	264	687	815
Total adjusted expenses	2,394	2,275	6,795	6,738
Provision for income tax expense (benefit)	34	78	185	248
Adjusted earnings	\$ 149	\$ 327	\$ 765	\$ 1,032

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Business Growth. The negative net flows in our deferred annuities business and a decrease in universal life deposits resulted in lower fee income. Lower net investment income, resulting from a reduced invested asset base, also decreased adjusted earnings. The combined impact of the items affecting our business growth, partially offset by lower DAC amortization, resulted in a \$15 million decrease in adjusted earnings.

Market Factors. Market factors, including interest rate levels, variability in equity market returns, and foreign currency exchange rate fluctuations, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment yields decreased primarily due to a decline in yields on fixed income securities, lower returns on real estate investments, as well as decreased prepayments. The decrease in investment yields was partially offset by higher returns on private equities. In our deferred annuity business, higher equity returns drove an increase in asset-based fee income. The changes in market factors discussed above, partially offset by lower DAC amortization, resulted in a \$31 million decrease in adjusted earnings.

Underwriting, Actuarial Assumption Review, and Other Insurance Adjustments. Adjusted earnings decreased \$23 million, primarily driven by less favorable underwriting in our long-term care and traditional life businesses, partially offset by favorable underwriting in our annuity business. The impact in both periods of our annual actuarial assumption review resulted in a net decrease of \$160 million in adjusted earnings. Changes mainly in mortality, economic assumptions, and operational assumptions, including updates to closed block projections, were less favorable in the current period. Refinements to DAC and certain insurance related liabilities that were recorded in both periods resulted in a \$15 million increase in adjusted earnings. This includes a current period charge due to an increase in our IBNR long-term care reserves reflecting enhancements to our methodology related to potential claims. This also includes the following prior period refinements: (i) a benefit resulting from modeling improvements in our life business; and (ii) a charge due to an increase in our IBNR life reserves, reflecting enhancements to our processes related to potential claims.

Expenses. Adjusted earnings increased by \$27 million due to declines in employee-related costs and lower operational expenses as a result of enterprise-wide initiatives.

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Business Growth. The negative net flows in our deferred annuities business and a decrease in universal life deposits resulted in lower fee income. Lower net investment income, resulting from a reduced invested asset base, primarily in fixed income securities, decreased adjusted earnings. The reduced invested asset base is primarily the result of negative net flows in our deferred annuities and life businesses. This decline was partially offset by invested asset growth from our long-term care business. The combined impact of the items affecting our business growth, partially offset by lower DAC amortization, resulted in a \$66 million decrease in adjusted earnings.

Market Factors. Market factors, including interest rate levels, variability in equity market returns, and foreign currency exchange rate fluctuations, continued to impact our results; however, certain impacts were mitigated by derivatives used to hedge these risks. Investment yields decreased primarily due to lower yields on fixed income securities and lower returns on real estate investments. The decline in investment yields was partially offset by increased prepayment fees and higher returns on FVO Securities. In our deferred annuity business, higher equity returns drove an increase in asset-based fee income. The changes in market factors discussed above, partially offset by lower DAC amortization, resulted in a \$45 million decrease in adjusted earnings.

Underwriting, Actuarial Assumption Review, and Other Insurance Adjustments. Adjusted earnings decreased \$54 million, primarily driven by less favorable underwriting in our traditional life and long-term care businesses. The impact in both periods of our annual actuarial assumption review resulted in a net decrease of \$160 million in adjusted earnings. Changes mainly in mortality, economic assumptions, and operational assumptions, including updates to closed block projections, were less favorable in the current period. Refinements to DAC and certain insurance-related liabilities that were recorded in both periods resulted in a \$60 million decrease in adjusted earnings. This includes a current period charge due to an increase in our IBNR long-term care reserves reflecting enhancements to our methodology related to potential claims. This also includes the following prior period refinements: (i) a favorable reserve adjustment relating to certain variable annuity guarantees assumed from a former joint venture in Japan; (ii) a benefit resulting from modeling improvements in our life business; and (iii) a charge due to an increase in our IBNR life reserves, reflecting enhancements to our processes related to potential claims.

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Expenses. Adjusted earnings increased by \$100 million due to declines in employee-related costs and lower operational expenses as a result of enterprise-wide initiatives.

Corporate & Other

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Adjusted revenues				
Premiums	\$ 35	\$ (33)	\$ 75	\$ (14)
Universal life and investment-type product policy fees	1	—	2	—
Net investment income	114	58	183	157
Other revenues	36	86	212	246
Total adjusted revenues	186	111	472	389
Adjusted expenses				
Policyholder benefits and claims and policyholder dividends	32	(38)	70	(38)
Capitalization of DAC	(3)	(2)	(9)	(7)
Amortization of DAC and VOBA	2	2	5	5
Interest expense on debt	218	246	715	798
Other expenses	320	314	831	805
Total adjusted expenses	569	522	1,612	1,563
Provision for income tax expense (benefit)	(192)	(206)	(538)	(599)
Adjusted earnings	(191)	(205)	(602)	(575)
Less: Preferred stock dividends	32	32	121	84
Adjusted earnings available to common shareholders	\$ (223)	\$ (237)	\$ (723)	\$ (659)

The table below presents adjusted earnings available to common shareholders by source:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Business activities	\$ 25	\$ 13	\$ 50	\$ 31
Net investment income	114	107	189	214
Interest expense on debt	(229)	(256)	(748)	(831)
Corporate initiatives and projects	(151)	(132)	(368)	(268)
Other	(142)	(101)	(263)	(278)
Provision for income tax (expense) benefit and other tax-related items	192	164	538	557
Preferred stock dividends	(32)	(32)	(121)	(84)
Adjusted earnings available to common shareholders	\$ (223)	\$ (237)	\$ (723)	\$ (659)

Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Business Activities. Adjusted earnings from business activities increased \$9 million. This was primarily related to improved results from our start-up operations.

Net Investment Income. Higher returns on FVO Securities and equity-linked notes favorably impacted net investment income. These increases were partially offset by lower income on fixed income securities and higher losses on tax credit partnerships, resulting in an increase of \$6 million in net investment income.

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Interest Expense on Debt. Interest expense on debt decreased \$21 million, primarily due to the exchange of senior notes for FVO Brighthouse Common Stock and the redemption of senior notes for cash in 2018.

Corporate Initiatives and Projects. Adjusted earnings decreased \$15 million due to higher expenses associated with corporate initiatives and projects, most notably, costs associated with the continued investment in our unit cost initiative, partially offset by lower costs associated with certain other enterprise-wide initiatives.

Provision for Income Tax (Expense) Benefit and Other Tax-Related Items. An unfavorable change in Corporate & Other's effective tax rate was primarily due to lower utilization of tax preferenced items, which include non-taxable investment income, tax credits, and foreign earnings taxed at different rates than the U.S. statutory rate. The prior period provision for income tax (expense) benefit and other tax related items included a reduction in adjusted earnings related to certain tax impacts on tax credit partnership investments.

Other. Adjusted earnings decreased \$32 million, primarily as a result of increases in certain corporate-related and legal expenses, partially offset by lower interest expenses on tax positions.

Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018

Unless otherwise stated, all amounts discussed below are net of income tax.

Business Activities. Adjusted earnings from business activities increased \$15 million. This was primarily related to improved results from our start-up operations.

Net Investment Income. Higher losses on tax credit partnerships, decreased income on mortgage loans and derivatives, and lower returns on both real estate investments and private equities unfavorably impacted net investment income. In addition, there were lower earnings on our securities lending program. These decreases were partially offset by increased returns on FVO Securities and equity-linked notes, resulting in a decrease of \$19 million in net investment income.

Interest Expense on Debt. Interest expense on debt decreased by \$66 million, primarily due to the exchange of senior notes for FVO Brighthouse Common Stock and the redemption of senior notes for cash in 2018, partially offset by a premium paid in excess of the debt principal and accrued and unpaid interest due on senior notes redeemed in the current period.

Corporate Initiatives and Projects. Adjusted earnings decreased \$79 million due to higher expenses associated with corporate initiatives and projects, most notably, costs associated with the continued investment in our unit cost initiative, partially offset by lower costs associated with certain other enterprise-wide initiatives.

Provision for Income Tax (Expense) Benefit and Other Tax-Related Items. An unfavorable change in Corporate & Other's effective tax rate was primarily due to a prior period tax benefit related to a non-cash transfer of assets from a wholly-owned U.K. investment subsidiary to its U.S. parent and lower utilization of tax preferenced items, which include non-taxable investment income, tax credits, and foreign earnings taxed at different rates than the U.S. statutory rate. The prior period provision for income tax (expense) benefit and other tax related items included a reduction in adjusted earnings related to certain tax impacts on tax credit partnership investments.

Other. Adjusted earnings increased \$13 million, primarily as a result of lower interest expenses on tax positions, lower legal expenses and declines in various other expenses, partially offset by a loss related to the sale of a run-off business that was previously reinsured, as well as increases in certain corporate-related expenses.

Preferred Stock Dividends. Preferred stock dividends increased \$37 million as a result of the issuance of Series D preferred stock in March 2018 and Series E preferred stock in June 2018.

Investments

Investment Risks

Our primary investment objective is to optimize, net of income tax, risk-adjusted net investment income and risk-adjusted total return while ensuring that assets and liabilities are managed on a cash flow and duration basis. The Investments Department, led by the Chief Investment Officer, manages investment risks through the Investments Risk Committee using a risk control framework comprised of policies, procedures and limits. This committee reviews and monitors investment risk limits and tolerances. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Investment Risks” included in the 2018 Annual Report for an explanation of investment risks and our risk control framework.

Current Environment

As a global insurance company, we continue to be impacted by the changing global financial and economic environment, as well as the monetary policy of central banks around the world. See “— Industry Trends — Financial and Economic Environment.” Measures taken by central banks, including with respect to the level of interest rates, may have an impact on the pricing levels of risk-bearing investments and may adversely impact our business operations, investment portfolio and derivatives. The current environment continues to impact our net investment income, net investment gains (losses), net derivative gains (losses), level of unrealized gains (losses) within the various asset classes in our investment portfolio, and our level of investment in lower yielding cash equivalents, short-term investments and government securities. See “Risk Factors — Economic Environment and Capital Markets Risks — Difficult Economic Conditions May Adversely Affect Our Business, Results of Operations and Financial Condition” included in the 2018 Annual Report.

European Investments

To support our European insurance operations and related policyholder liabilities, we maintain general account investments in Europe and certain of our non-European operations invest in Europe for diversification. We have proactively mitigated risk in both direct and indirect European exposures by investing in a diversified portfolio of high quality investments with a focus on the higher-rated countries, including the U.K., France, Germany, the Netherlands, Poland, Belgium and Ireland. The sovereign and agency debt of these countries have investment grade credit ratings from major rating agencies. European sovereign and agency fixed maturity securities AFS and perpetual hybrid securities classified as non-redeemable preferred stock are invested in a diversified portfolio of primarily non-financial services securities. At September 30, 2019, our exposure to such securities, including loan-backed securities, totaled \$43.5 billion, at estimated fair value, of which \$8.3 billion was in sovereign and agency fixed maturity securities AFS. See “— Fixed Maturity Securities AFS and Equity Securities,” as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Current Environment — European Investments” included in the 2018 Annual Report for further information.

Selected Country and Sector Investments

We have exposure to volatility from both maintaining general account investments to support our insurance operations and related policyholder liabilities where we operate and through our global portfolio diversification. This includes exposure to volatility in the U.K., China, Hong Kong SAR, Turkey and Argentina. Our investment in sovereign fixed maturity securities AFS of these governments was \$829 million, at estimated fair value, at September 30, 2019. Such exposure to sovereign fixed maturity securities AFS net of purchased credit default swaps was \$809 million at September 30, 2019. The notional value and estimated fair value of the sovereign purchased credit default swaps was \$23 million and \$3 million, respectively, at September 30, 2019. Our exposure to total fixed maturity securities AFS of the U.K., China, Hong Kong SAR, Turkey and Argentina, including corporate and loan-backed securities was \$18.1 billion, at estimated fair value, and \$17.9 billion, at amortized cost, at September 30, 2019.

We also have sector specific exposure to volatility, including the impact of variability in oil prices on the energy sector. Our investment in energy sector fixed maturity securities AFS was \$9.8 billion, at estimated fair value, and \$9.0 billion, at amortized cost, at September 30, 2019.

We manage direct and indirect investment exposure in the selected countries and the energy sector through fundamental credit analysis and we continually monitor and adjust our level of investment exposure. We do not expect that our general account investments in these countries or the energy sector will have a material adverse effect on our results of operations or financial condition.

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Investment Portfolio Results

The reconciliation of net investment income under GAAP to net investment income, as reported on an adjusted earnings basis, is presented below.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
(In millions)				
Net investment income — GAAP basis	\$ 4,623	\$ 4,486	\$ 14,224	\$ 12,704
Investment hedge adjustments	121	125	344	354
Unit-linked contract income	(250)	(149)	(1,247)	(82)
Other	(21)	—	(13)	32
Net investment income, as reported on an adjusted basis (1)	<u>\$ 4,473</u>	<u>\$ 4,462</u>	<u>\$ 13,308</u>	<u>\$ 13,008</u>

- (1) See “— Non-GAAP and Other Financial Disclosures — Adjusted earnings and related measures — Adjusted revenues and adjusted expenses — Net investment income” for a discussion of the adjustments made to net investment income under GAAP in calculating net investment income, as reported on an adjusted basis.

The following yield table presents our investment portfolio results for the periods indicated. We calculate yields on our investment portfolio using the non-GAAP performance metric of net investment income, as reported on an adjusted basis, which includes the impact of changes in foreign currency exchange rates. This yield table presentation is consistent with how we measure our investment performance for management purposes, and we believe it enhances understanding of our investment portfolio results.

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Yield % (1)	Amount	Yield % (1)	Amount	Yield % (1)	Amount	Yield % (1)	Amount
(Dollars in millions)								
Fixed maturity securities AFS (2), (3)	4.15 %	\$ 2,901	4.30 %	\$ 2,980	4.23 %	\$ 8,778	4.26 %	\$ 8,764
Mortgage loans (3)	4.74 %	929	4.80 %	859	4.76 %	2,784	4.64 %	2,466
Real estate and real estate joint ventures	3.53 %	91	3.67 %	90	3.08 %	233	3.84 %	282
Policy loans	5.33 %	129	5.35 %	130	5.32 %	386	5.23 %	381
Equity securities	4.62 %	13	4.74 %	14	5.07 %	45	4.41 %	45
Other limited partnership interests	15.37 %	279	14.86 %	229	12.51 %	653	13.15 %	589
Cash and short-term investments	2.31 %	62	2.79 %	71	2.58 %	206	2.33 %	178
Other invested assets		226		211		654		670
Investment income	4.57 %	4,630	4.65 %	4,584	4.55 %	13,739	4.57 %	13,375
Investment fees and expenses	(0.13) %	(134)	(0.12) %	(121)	(0.14) %	(408)	(0.13) %	(366)
Net investment income including divested businesses (4)	<u>4.44 %</u>	<u>4,496</u>	<u>4.53 %</u>	<u>4,463</u>	<u>4.41 %</u>	<u>13,331</u>	<u>4.44 %</u>	<u>13,009</u>
Less: net investment income from divested businesses (4)		23		1		23		1
Net investment income, as reported on an adjusted basis	<u>\$</u>	<u>4,473</u>	<u>\$</u>	<u>4,462</u>	<u>\$</u>	<u>13,308</u>	<u>\$</u>	<u>13,008</u>

- (1) Yields are calculated as investment income as a percent of average quarterly asset carrying values. Investment income excludes recognized gains and losses. Asset carrying values exclude unrealized gains (losses), collateral received in connection with our securities lending program, annuities funding structured settlement claims, freestanding derivative assets, collateral received from derivative counterparties, the effects of consolidating certain variable interest entities (“VIEs”) under GAAP that are treated as consolidated securitization entities (“CSEs”) and Unit-linked investments. A yield is not presented for other invested assets, as it is not considered a meaningful measure of performance for this asset class.
- (2) Investment income from fixed maturity securities AFS includes amounts from FVO Securities of \$59 million and \$152 million for the three months and nine months ended September 30, 2019, respectively, and \$11 million and \$25 million for the three months and nine months ended September 30, 2018, respectively.

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- (3) Investment income from fixed maturity securities AFS and mortgage loans includes prepayment fees.
- (4) See “— Non-GAAP and Other Financial Disclosures — Adjusted earnings and related measures — Adjusted revenues and adjusted expenses” for discussion of divested businesses.

See “— Results of Operations — Consolidated Results — Adjusted Earnings” for an analysis of the period over period changes in investment portfolio results.

Fixed Maturity Securities AFS and Equity Securities

The following table presents fixed maturity securities AFS and equity securities by type (public or private) and information about perpetual and redeemable securities held at:

	September 30, 2019		December 31, 2018	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
(Dollars in millions)				
Fixed maturity securities AFS				
Publicly-traded	\$ 268,734	82.4 %	\$ 249,595	83.7 %
Privately-placed	57,315	17.6	48,670	16.3
Total fixed maturity securities AFS	\$ 326,049	100.0 %	\$ 298,265	100.0 %
Percentage of cash and invested assets	66.4%		66.0%	
Equity securities				
Publicly-traded	\$ 1,162	86.7 %	\$ 1,282	89.0 %
Privately-held	179	13.3	158	11.0
Total equity securities	\$ 1,341	100.0 %	\$ 1,440	100.0 %
Percentage of cash and invested assets	0.3%		0.3%	
Perpetual and redeemable securities				
Perpetual securities included within fixed maturity securities AFS and equity securities	\$ 349		\$ 367	
Redeemable preferred stock with a stated maturity included within fixed maturity securities AFS	\$ 545		\$ 911	

Included within fixed maturity securities AFS are structured securities including residential mortgage-backed securities (“RMBS”), asset-backed securities (“ABS”) and commercial mortgage-backed securities (“CMBS”) (collectively, “Structured Securities”).

Perpetual securities are included within fixed maturity securities AFS and equity securities. Upon acquisition, we classify perpetual securities that have attributes of both debt and equity as fixed maturity securities AFS if the securities have an interest rate step-up feature which, when combined with other qualitative factors, indicates that the securities have more debt-like characteristics; while those with more equity-like characteristics are classified as equity securities. Many of such securities, commonly referred to as “perpetual hybrid securities,” have been issued by non-U.S. financial institutions that are accorded the highest two capital treatment categories by their respective regulatory bodies (i.e. core capital, or “Tier 1 capital” and perpetual deferrable securities, or “Upper Tier 2 capital”).

Redeemable preferred stock with a stated maturity is included within fixed maturity securities AFS. These securities, which are commonly referred to as “capital securities,” primarily have cumulative interest deferral features and are primarily issued by U.S. financial institutions.

See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Fixed Maturity Securities AFS and Equity Securities — Valuation of Securities” included in the 2018 Annual Report for further information on the processes used to value securities and the related controls.

Fair Value of Fixed Maturity Securities AFS and Equity Securities

Fixed maturity securities AFS and equity securities measured at estimated fair value on a recurring basis and their corresponding fair value pricing sources are as follows:

	September 30, 2019					
	Fixed Maturity Securities AFS		Equity Securities			
	(Dollars in millions)					
Level 1						
Quoted prices in active markets for identical assets	\$	20,153	6.2 %	\$	795	59.3 %
Level 2						
Independent pricing sources		286,514	87.9		74	5.5
Internal matrix pricing or discounted cash flow techniques		1,996	0.6		35	2.6
Significant other observable inputs		288,510	88.5		109	8.1
Level 3						
Independent pricing sources		13,088	4.0		325	24.2
Internal matrix pricing or discounted cash flow techniques		4,002	1.2		92	6.9
Independent broker quotations		296	0.1		20	1.5
Significant unobservable inputs		17,386	5.3		437	32.6
Total estimated fair value	\$	326,049	100.0 %	\$	1,341	100.0 %

See Note 8 of the Notes to the Interim Condensed Consolidated Financial Statements for the fixed maturity securities AFS and equity securities fair value hierarchy.

The majority of the Level 3 fixed maturity securities AFS and equity securities were concentrated in three sectors at September 30, 2019: foreign corporate securities, U.S. corporate securities and RMBS. During the three months ended September 30, 2019, Level 3 fixed maturity securities AFS increased by \$1.5 billion, or 9%. The increase was driven by purchases in excess of sales, transfers into Level 3 in excess of transfers out of Level 3 and by an increase in estimated fair value recognized in other comprehensive income (loss) ("OCI"). During the nine months ended September 30, 2019, Level 3 fixed maturity securities AFS increased by \$2.5 billion, or 17%. The increase was driven by purchases in excess of sales and by an increase in estimated fair value recognized in OCI, partially offset by transfers out of Level 3 in excess of transfers into Level 3.

See Note 8 of the Notes to the Interim Condensed Consolidated Financial Statements for a rollforward of the fair value measurements for securities measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs; transfers into and/or out of Level 3; and further information about the valuation approaches and inputs by level by major classes of invested assets that affect the amounts reported above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates — Estimated Fair Value of Investments" included in the 2018 Annual Report for further information on the estimates and assumptions that affect the amounts reported above.

Fixed Maturity Securities AFS

See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for information about fixed maturity securities AFS by sector, contractual maturities, continuous gross unrealized losses, evaluation for other-than-temporary impairment ("OTTI"), evaluation of temporarily impaired securities, OTTI losses incurred and gross gains and gross losses on sales and disposals.

Fixed Maturity Securities AFS Credit Quality — Ratings

See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Investments — Fixed Maturity Securities AFS and Equity Securities — Fixed Maturity Securities Credit Quality — Ratings" included in the 2018 Annual Report for a discussion of the credit quality ratings assigned by Nationally Recognized Statistical Rating Organizations ("NRSRO"), credit quality designations assigned by and methodologies used by the Securities Valuation Office of the NAIC for fixed maturity securities AFS and the revised methodologies adopted by the NAIC for certain Structured Securities.

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The following table presents total fixed maturity securities AFS by NRSRO rating and the applicable NAIC designation from the NAIC published comparison of NRSRO ratings to NAIC designations, except for certain Structured Securities, which are presented using the revised NAIC methodologies, as well as the percentage, based on estimated fair value that each NAIC designation is comprised of at:

NAIC Designation	NRSRO Rating	September 30, 2019				December 31, 2018			
		Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value	% of Total	Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value	% of Total
(Dollars in millions)									
1	Aaa/Aa/A	\$ 203,057	\$ 26,047	\$ 229,104	70.3 %	\$ 197,604	\$ 11,202	\$ 208,806	70.0 %
2	Baa	74,669	6,809	81,478	25.0	72,482	659	73,141	24.5
	Subtotal investment grade	277,726	32,856	310,582	95.3	270,086	11,861	281,947	94.5
3	Ba	11,096	304	11,400	3.5	11,249	(91)	11,158	3.7
4	B	3,413	10	3,423	1.0	4,745	(247)	4,498	1.6
5	Caa and lower	861	(252)	609	0.2	720	(73)	647	0.2
6	In or near default	34	1	35	—	16	(1)	15	—
	Subtotal below investment grade	15,404	63	15,467	4.7	16,730	(412)	16,318	5.5
	Total fixed maturity securities AFS	\$ 293,130	\$ 32,919	\$ 326,049	100.0 %	\$ 286,816	\$ 11,449	\$ 298,265	100.0 %

The following tables present total fixed maturity securities AFS, based on estimated fair value, by sector classification and by NRSRO rating and the applicable NAIC designations from the NAIC published comparison of NRSRO ratings to NAIC designations, except for certain Structured Securities, which are presented using the revised NAIC methodologies:

Fixed Maturity Securities AFS — by Sector & Credit Quality Rating								
NAIC Designation:	1	2	3	4	5	6	Total	
NRSRO Rating:	Aaa/Aa/A	Baa	Ba	B	Caa and Lower	In or Near Default	Estimated Fair Value	
(Dollars in millions)								
September 30, 2019								
U.S. corporate	\$ 40,291	\$ 38,319	\$ 5,767	\$ 2,383	\$ 353	\$ 1	\$	87,114
Foreign government	58,959	5,721	2,259	401	207	—		67,547
Foreign corporate	25,427	34,261	2,793	576	43	—		63,100
U.S. government and agency	40,376	426	—	—	—	—		40,802
RMBS	28,539	867	110	37	4	34		29,591
ABS	12,695	1,232	390	26	2	—		14,345
Municipals	12,300	609	33	—	—	—		12,942
CMBS	10,517	43	48	—	—	—		10,608
Total fixed maturity securities AFS	\$ 229,104	\$ 81,478	\$ 11,400	\$ 3,423	\$ 609	\$ 35	\$	326,049
Percentage of total	70.3%	25.0%	3.5%	1.0%	0.2%	—%		100.0%
December 31, 2018								
U.S. corporate	\$ 34,363	\$ 35,081	\$ 5,850	\$ 3,102	\$ 544	\$ 8	\$	78,948
Foreign government	54,149	5,140	2,389	604	5	1		62,288
Foreign corporate	22,602	30,849	2,534	669	49	—		56,703
U.S. government and agency	38,915	407	—	—	—	—		39,322
RMBS	27,370	350	138	94	3	6		27,961
ABS	11,467	772	204	26	3	—		12,472
Municipals	11,056	439	38	—	—	—		11,533
CMBS	8,884	103	5	3	43	—		9,038
Total fixed maturity securities AFS	\$ 208,806	\$ 73,141	\$ 11,158	\$ 4,498	\$ 647	\$ 15	\$	298,265
Percentage of total	70.0%	24.5%	3.7%	1.6%	0.2%	—%		100.0%

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U.S. and Foreign Corporate Fixed Maturity Securities AFS

We maintain a diversified portfolio of corporate fixed maturity securities AFS across industries and issuers. This portfolio does not have any exposure to any single issuer in excess of 1% of total investments and the top 10 holdings comprised 1% of total investments at both September 30, 2019 and December 31, 2018. The tables below present our U.S. and foreign corporate securities holdings by industry at:

	September 30, 2019		December 31, 2018	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
(Dollars in millions)				
Industrial	\$ 45,295	30.2%	\$ 40,556	29.9%
Finance	34,112	22.7	30,546	22.5
Consumer	32,115	21.4	30,140	22.2
Utility	25,385	16.9	22,206	16.4
Communications	11,321	7.5	10,406	7.7
Other	1,986	1.3	1,797	1.3
Total	\$ 150,214	100.0%	\$ 135,651	100.0%

Structured Securities

We held \$54.5 billion and \$49.5 billion of Structured Securities, at estimated fair value, at September 30, 2019 and December 31, 2018, respectively, as presented in the RMBS, ABS and CMBS sections below.

RMBS

Our RMBS portfolio is diversified by security type and risk profile. The following table presents our RMBS portfolio by security type, risk profile and ratings profile at:

	September 30, 2019			December 31, 2018		
	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)
(Dollars in millions)						
By security type:						
Collateralized mortgage obligations	\$ 16,835	56.9%	\$ 1,415	\$ 15,302	54.7%	\$ 726
Pass-through mortgage-backed securities	12,756	43.1	287	12,659	45.3	(174)
Total RMBS	\$ 29,591	100.0%	\$ 1,702	\$ 27,961	100.0%	\$ 552
By risk profile:						
Agency	\$ 20,594	69.6%	\$ 927	\$ 19,834	70.9%	\$ 5
Prime	1,271	4.3	70	1,123	4.0	47
Alt-A	3,356	11.3	374	3,361	12.0	277
Sub-prime	4,370	14.8	331	3,643	13.1	223
Total RMBS	\$ 29,591	100.0%	\$ 1,702	\$ 27,961	100.0%	\$ 552
Ratings profile:						
Rated Aaa/AAA	\$ 22,234	75.1%		\$ 20,666	73.9%	
Designated NAIC 1	\$ 28,539	96.4%		\$ 27,370	97.9%	

See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Fixed Maturity Securities AFS and Equity Securities — Structured Securities — RMBS” included in the 2018 Annual Report for further information about collateralized mortgage obligations and pass-through mortgage-backed securities, as well as agency, prime, alternative (“Alt-A”) and sub-prime RMBS.

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Historically, we have managed our exposure to sub-prime RMBS holdings by focusing primarily on senior tranche securities, stress testing the portfolio with severe loss assumptions and closely monitoring the performance of the portfolio. Our sub-prime RMBS portfolio consists predominantly of securities that were purchased after 2012 at significant discounts to par value and discounts to the expected principal recovery value of these securities. The vast majority of these securities are investment grade under the NAIC designations (e.g., NAIC 1 and NAIC 2). At September 30, 2019 and December 31, 2018, the estimated fair value of our sub-prime RMBS holdings purchased since 2012 was \$4.1 billion and \$3.4 billion and unrealized gains (losses) were \$302 million and \$201 million, respectively.

ABS

Our ABS portfolio is diversified by collateral type and issuer. The following table presents our ABS portfolio by collateral type and ratings profile at:

	September 30, 2019			December 31, 2018		
	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)
(Dollars in millions)						
By collateral type:						
Collateralized obligations (1)	\$ 7,698	53.6%	\$ (61)	\$ 6,724	53.9%	\$ (112)
Student loans	1,416	9.9	14	1,256	10.1	13
Foreign residential loans	1,084	7.5	16	1,066	8.5	11
Automobile loans	877	6.1	9	895	7.2	1
Credit card loans	538	3.8	5	668	5.3	—
Consumer loans	1,087	7.6	17	580	4.7	4
Other loans	1,645	11.5	26	1,283	10.3	3
Total	<u>\$ 14,345</u>	<u>100.0%</u>	<u>\$ 26</u>	<u>\$ 12,472</u>	<u>100.0%</u>	<u>\$ (80)</u>
Ratings profile:						
Rated Aaa/AAA	\$ 7,936	55.3%		\$ 7,142	57.3%	
Designated NAIC 1	\$ 12,695	88.5%		\$ 11,467	91.9%	

(1) Includes collateralized loan obligations and collateralized debt obligations.

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CMBS

Our CMBS portfolio is comprised primarily of securities collateralized by multiple properties and our portfolio is diversified by property type, borrower, geography and vintage year. The following tables present our CMBS portfolio by NRSRO rating and vintage year at:

September 30, 2019													
Aaa		Aa		A		Baa		Below Investment Grade		Total			
Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in millions)													
2003-2012	\$ 405	\$ 431	\$ 340	\$ 346	\$ 121	\$ 124	\$ 7	\$ 7	\$ —	\$ —	\$ 873	\$ 908	
2013	709	753	642	676	250	258	30	29	55	40	1,686	1,756	
2014	373	396	484	505	128	134	—	—	—	—	985	1,035	
2015	459	486	89	95	34	36	—	—	—	—	582	617	
2016	316	333	72	75	34	37	—	—	—	—	422	445	
2017	803	835	618	651	192	196	—	—	—	—	1,613	1,682	
2018	1,744	1,871	708	757	287	307	22	23	—	—	2,761	2,958	
2019	704	722	96	97	377	388	—	—	—	—	1,177	1,207	
Total	\$ 5,513	\$ 5,827	\$ 3,049	\$ 3,202	\$ 1,423	\$ 1,480	\$ 59	\$ 59	\$ 55	\$ 40	\$ 10,099	\$ 10,608	
Ratings Distribution	54.9%		30.2%		14.0%		0.5%		0.4%		100.0%		

December 31, 2018													
Aaa		Aa		A		Baa		Below Investment Grade		Total			
Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in millions)													
2003 - 2012	\$ 488	\$ 508	\$ 266	\$ 264	\$ 229	\$ 227	\$ 7	\$ 6	\$ —	\$ —	\$ 990	\$ 1,005	
2013	723	746	644	655	279	277	—	—	59	43	1,705	1,721	
2014	381	379	488	485	128	127	—	—	—	—	997	991	
2015	523	514	81	80	34	34	—	—	—	—	638	628	
2016	345	339	84	80	46	46	—	—	—	—	475	465	
2017	862	851	666	654	234	228	39	39	—	—	1,801	1,772	
2018	1,434	1,445	690	695	292	293	23	23	—	—	2,439	2,456	
Total	\$ 4,756	\$ 4,782	\$ 2,919	\$ 2,913	\$ 1,242	\$ 1,232	\$ 69	\$ 68	\$ 59	\$ 43	\$ 9,045	\$ 9,038	
Ratings Distribution	52.9%		32.2%		13.6%		0.8%		0.5%		100.0%		

The tables above reflect NRSRO ratings including Moody's Investors Service, S&P, Fitch Ratings and Morningstar, Inc. CMBS designated NAIC 1 were 99.1% and 98.3% of total CMBS at September 30, 2019 and December 31, 2018, respectively.

Evaluation of Fixed Maturity Securities AFS for OTTI and Evaluating Temporarily Impaired Fixed Maturity Securities AFS

See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for information about the evaluation of fixed maturity securities AFS for OTTI and evaluation of temporarily impaired fixed maturity securities AFS.

OTTI Losses on Fixed Maturity Securities AFS Recognized in Earnings

See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for information about OTTI losses and gross gains and gross losses on fixed maturity securities AFS sold.

Overview of Fixed Maturity Security AFS OTTI Losses Recognized in Earnings

OTTI losses recognized in earnings on fixed maturity securities AFS were \$20 million and \$30 million for the three months and nine months ended September 30, 2019, respectively, as compared to \$17 million for both the three months and nine months ended September 30, 2018. The most significant increase in OTTI losses was in U.S. and foreign corporate securities, which were \$17 million for the nine months ended September 30, 2019. An increase of \$9 million in OTTI losses on U.S. and foreign corporate securities was concentrated in industrial securities and was the result primarily of issuer specific factors in the energy sector in 2019.

Future Impairments

Future OTTI on fixed maturity securities AFS will depend primarily on economic fundamentals, issuer performance (including changes in the present value of future cash flows expected to be collected), and changes in credit ratings, collateral valuation and foreign currency exchange rates. If economic fundamentals deteriorate or if there are adverse changes in the above factors, OTTI may be incurred in upcoming periods. See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements for a description of new guidance to be adopted in 2020 regarding the measurement of credit losses on financial instruments.

Contractholder-Directed Equity Securities and Fair Value Option Securities

The estimated fair value of these investments, which are primarily comprised of Unit-linked investments, was \$12.7 billion and \$12.6 billion, or 2.6% and 2.8% of cash and invested assets, at September 30, 2019 and December 31, 2018, respectively. See Notes 6 and 8 of the Notes to the Interim Condensed Consolidated Financial Statements for a description of this portfolio, its fair value hierarchy and a rollforward of the fair value measurements for these investments measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs.

Securities Lending and Repurchase Agreements

We participate in a securities lending program whereby securities are loaned to third parties, primarily brokerage firms and commercial banks. In addition, we participate in short-term repurchase agreement transactions with unaffiliated financial institutions.

See “— Liquidity and Capital Resources — The Company — Liquidity and Capital Uses — Securities Lending,” “— Liquidity and Capital Resources — The Company — Liquidity and Capital Uses — Repurchase Agreements” and Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for information regarding our securities lending program and our repurchase agreement transactions.

FHLB of Boston Advance Agreements

A subsidiary of the Company has entered into short-term advance agreements with the Federal Home Loan Bank of Boston (“FHLB of Boston”).

See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for information regarding our FHLB of Boston advance agreement transactions.

Mortgage Loans

Our mortgage loans are principally collateralized by commercial, agricultural and residential properties. Mortgage loans carried at amortized cost and the related valuation allowances are summarized as follows at:

	September 30, 2019				December 31, 2018			
	Recorded Investment	% of Total	Valuation Allowance	% of Recorded Investment	Recorded Investment	% of Total	Valuation Allowance	% of Recorded Investment
(Dollars in millions)								
Commercial	\$ 49,898	63.1%	\$ 245	0.5%	\$ 48,463	63.9%	\$ 238	0.5%
Agricultural	15,752	19.9	48	0.3%	14,905	19.7	46	0.3%
Residential	13,441	17.0	57	0.4%	12,427	16.4	58	0.5%
Total	<u>\$ 79,091</u>	<u>100.0%</u>	<u>\$ 350</u>	<u>0.4%</u>	<u>\$ 75,795</u>	<u>100.0%</u>	<u>\$ 342</u>	<u>0.5%</u>

The carrying value of all mortgage loans, net of valuation allowance, was 16.1% and 16.8% of cash and invested assets at September 30, 2019 and December 31, 2018, respectively.

We diversify our mortgage loan portfolio by both geographic region and property type to reduce the risk of concentration. Of our commercial and agricultural mortgage loan portfolios, 84% are collateralized by properties located in the United States, with the remaining 16% collateralized by properties located outside the United States, which included 4% of properties located in the U.K., at September 30, 2019. The carrying values of our commercial and agricultural mortgage loans located in California, New York and Texas were 18%, 11% and 7%, respectively, of total commercial and agricultural mortgage loans at September 30, 2019. Additionally, we manage risk when originating commercial and agricultural mortgage loans by generally lending up to 75% of the estimated fair value of the underlying real estate collateral.

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We manage our residential mortgage loan portfolio in a similar manner to reduce risk of concentration, with 92% collateralized by properties located in the United States and the remaining 8% collateralized by properties located outside the United States at September 30, 2019. The carrying values of our residential mortgage loans located in California, Florida, and New York were 33%, 9%, and 6%, respectively, of total residential mortgage loans at September 30, 2019.

Commercial Mortgage Loans by Geographic Region and Property Type. Commercial mortgage loans are the largest component of the mortgage loan invested asset class. The tables below present the diversification across geographic regions and property types of commercial mortgage loans at:

	September 30, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
(Dollars in millions)				
Region				
Pacific	\$ 10,079	20.2%	\$ 10,884	22.5%
Non-U.S.	9,480	19.0	9,281	19.1
Middle Atlantic	8,210	16.4	7,911	16.3
South Atlantic	6,896	13.8	6,347	13.1
West South Central	4,454	8.9	3,951	8.1
East North Central	3,225	6.5	2,840	5.9
New England	1,705	3.4	1,481	3.1
Mountain	1,774	3.6	1,387	2.9
West North Central	592	1.2	594	1.2
East South Central	530	1.1	564	1.2
Multi-Region and Other	2,953	5.9	3,223	6.6
Total recorded investment	49,898	100.0%	48,463	100.0%
Less: valuation allowances	245		238	
Carrying value, net of valuation allowances	\$ 49,653		\$ 48,225	
Property Type				
Office	\$ 23,455	47.0%	\$ 23,995	49.5%
Retail	9,707	19.5	9,089	18.7
Apartment	6,906	13.8	7,018	14.5
Industrial	4,226	8.5	3,719	7.7
Hotel	3,617	7.2	3,479	7.2
Other	1,987	4.0	1,163	2.4
Total recorded investment	49,898	100.0%	48,463	100.0%
Less: valuation allowances	245		238	
Carrying value, net of valuation allowances	\$ 49,653		\$ 48,225	

Mortgage Loan Credit Quality - Monitoring Process. We monitor our mortgage loan investments on an ongoing basis, including a review of loans that are current, past due, restructured and under foreclosure. See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for mortgage loans by credit quality indicator, past due and nonaccrual mortgage loans, impaired mortgage loans, and carrying value of foreclosed mortgage loans.

We review our commercial mortgage loans on an ongoing basis. These reviews may include an analysis of the property financial statements and rent roll, lease rollover analysis, property inspections, market analysis, estimated valuations of the underlying collateral, loan-to-value ratios, debt service coverage ratios and tenant creditworthiness. The monitoring process focuses on higher risk loans, which include those that are classified as restructured, delinquent or in foreclosure, as well as loans with higher loan-to-value ratios and lower debt service coverage ratios. The monitoring process for agricultural mortgage loans is generally similar, with a focus on higher risk loans, such as loans with higher loan-to-value ratios, including reviews on a geographic and sector basis. We review our residential mortgage loans on an ongoing basis. See Note 8 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for information on our evaluation of residential mortgage loans and related valuation allowance methodology.

Loan-to-value ratios and debt service coverage ratios are common measures in the assessment of the quality of commercial mortgage loans. Loan-to-value ratios are a common measure in the assessment of the quality of agricultural mortgage loans. Loan-to-value ratios compare the amount of the loan to the estimated fair value of the underlying collateral. A loan-to-value ratio greater than 100% indicates that the loan amount is greater than the collateral value. A loan-to-value ratio of less than 100% indicates an excess of collateral value over the loan amount. Generally, the higher the loan-to-value ratio, the higher the risk of experiencing a credit loss. The debt service coverage ratio compares a property's net operating income to amounts needed to service the principal and interest due under the loan. Generally, the lower the debt service coverage ratio, the higher the risk of experiencing a credit loss. For our commercial mortgage loans, our average loan-to-value ratio was 54% and 55% for September 30, 2019 and December 31, 2018, respectively, and our average debt service coverage ratio was 2.4x and 2.5x for September 30, 2019 and December 31, 2018, respectively. The debt service coverage ratio, as well as the values utilized in calculating the ratio, is updated annually, on a rolling basis, with a portion of the portfolio updated each quarter. In addition, the loan-to-value ratio is routinely updated for all but the lowest risk loans as part of our ongoing review of our commercial mortgage loan portfolio. For our agricultural mortgage loans, our average loan-to-value ratio was 46% at both September 30, 2019 and December 31, 2018. The values utilized in calculating the agricultural mortgage loan loan-to-value ratio are developed in connection with the ongoing review of the agricultural loan portfolio and are routinely updated.

Mortgage Loan Valuation Allowances. Our valuation allowances are established both on a loan specific basis for those loans considered impaired where a property specific or market specific risk has been identified that could likely result in a future loss, as well as for pools of loans with similar risk characteristics where a property specific or market specific risk has not been identified, but for which we expect to incur a loss. Accordingly, a valuation allowance is provided to absorb these estimated probable credit losses.

The determination of the amount of valuation allowances is based upon our periodic evaluation and assessment of known and inherent risks associated with our loan portfolios. Such evaluations and assessments are based upon several factors, including our experience for loan losses, defaults and loss severity, and loss expectations for loans with similar risk characteristics. These evaluations and assessments are revised as conditions change and new information becomes available, which can cause the valuation allowances to increase or decrease over time as such evaluations are revised. Negative credit migration, including an actual or expected increase in the level of problem loans, will result in an increase in the valuation allowance. Positive credit migration, including an actual or expected decrease in the level of problem loans, will result in a decrease in the valuation allowance.

See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for information about how valuation allowances are established and monitored, and activity in and balances of the valuation allowance, as of and for the nine months ended September 30, 2019 and 2018.

Real Estate and Real Estate Joint Ventures

Real estate and real estate joint ventures is comprised of wholly-owned real estate and joint ventures with interests in single property income-producing real estate and, to a lesser extent, joint ventures with interests in multi-property projects with varying strategies ranging from the development of properties to the operation of income-producing properties, as well as a runoff portfolio. We diversify our real estate investments by both geographic region and property type to reduce risk of concentration. The carrying value of real estate and real estate joint ventures was \$10.2 billion and \$9.7 billion, or 2.1% and 2.1% of cash and invested assets, at September 30, 2019 and December 31, 2018, respectively. See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for a summary of real estate investments and income earned, as well as for the portion of our real estate investments leased under operating leases, a summary of the leased real estate investments, by property type, and the related operating lease income earned.

Other Limited Partnership Interests

Other limited partnership interests are comprised of investments in private funds, including private equity funds and hedge funds. At September 30, 2019 and December 31, 2018, the carrying value of other limited partnership interests was \$7.4 billion and \$6.6 billion, which included \$590 million and \$634 million of hedge funds, respectively. Other limited partnership interests were 1.5% of cash and invested assets at both September 30, 2019 and December 31, 2018. Cash distributions on these investments are generated from investment gains, operating income from the underlying investments of the funds and liquidation of the underlying investments of the funds.

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Other Invested Assets

The following table presents the carrying value of our other invested assets by type at:

	September 30, 2019		December 31, 2018	
	Carrying Value	% of Total	Carrying Value	% of Total
(In millions)				
Freestanding derivatives with positive estimated fair values	\$ 12,945	58.9%	\$ 8,969	49.3%
Tax credit and renewable energy partnerships	2,029	9.2	2,457	13.5
Annuities funding structured settlement claims	1,276	5.8	1,279	7.0
Direct financing leases	1,244	5.7	1,192	6.5
Leveraged leases	1,108	5.1	1,108	6.1
Operating joint ventures	818	3.7	796	4.4
FHLB common stock	800	3.6	793	4.4
Funds withheld	455	2.1	416	2.3
Other	1,304	5.9	1,180	6.5
Total	\$ 21,979	100.0%	\$ 18,190	100.0%
Percentage of cash and invested assets	4.5%		4.0%	

For the nine months ended September 30, 2019, tax credit partnership impairment losses were \$92 million and renewable energy partnership disposal gains were \$46 million.

For the nine months ended September 30, 2018, renewable energy partnership disposal losses were \$83 million and leveraged lease impairment losses were \$105 million.

See Notes 1 and 8 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for information regarding the components of other invested assets. See Notes 7 and 8 of the Notes to the Interim Condensed Consolidated Financial Statements for further information about freestanding derivatives with positive estimated fair values and lease investments.

Derivatives

Derivative Risks

We are exposed to various risks relating to our ongoing business operations, including interest rate, foreign currency exchange rate, credit and equity market. We use a variety of strategies to manage these risks, including the use of derivatives. See Note 7 of the Notes to the Interim Condensed Consolidated Financial Statements for:

- A comprehensive description of the nature of our derivatives, including the strategies for which derivatives are used in managing various risks.
- Information about the primary underlying risk exposure, gross notional amount, and estimated fair value of our derivatives by type of hedge designation, excluding embedded derivatives held at September 30, 2019 and December 31, 2018.
- The statement of operations effects of derivatives in net investments in foreign operations, cash flow, fair value, or nonqualifying hedge relationships for the three months and nine months ended September 30, 2019 and 2018.

See “Quantitative and Qualitative Disclosures About Market Risk — Management of Market Risk Exposures — Hedging Activities” included in the 2018 Annual Report for more information about our use of derivatives by major hedge program.

Fair Value Hierarchy

See Note 8 of the Notes to the Interim Condensed Consolidated Financial Statements for derivatives measured at estimated fair value on a recurring basis and their corresponding fair value hierarchy.

The valuation of Level 3 derivatives involves the use of significant unobservable inputs and generally requires a higher degree of management judgment or estimation than the valuations of Level 1 and Level 2 derivatives. Although Level 3 inputs are unobservable, management believes they are consistent with what other market participants would use when pricing such instruments and are considered appropriate given the circumstances. The use of different inputs or methodologies could have a material effect on the estimated fair value of Level 3 derivatives and could materially affect net income.

Derivatives categorized as Level 3 at September 30, 2019 include: interest rate forwards with maturities which extend beyond the observable portion of the yield curve; interest rate total return swaps with unobservable repurchase rates; foreign currency swaps and forwards with certain unobservable inputs, including the unobservable portion of the yield curve; credit default swaps priced using unobservable credit spreads, or that are priced through independent broker quotations; equity variance swaps with unobservable volatility inputs; and equity index options with unobservable correlation inputs. At September 30, 2019, less than 1% of the estimated fair value of our derivatives was priced through independent broker quotations.

See Note 8 of the Notes to the Interim Condensed Consolidated Financial Statements for a rollforward of the fair value measurements for derivatives measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs.

The gain (loss) on Level 3 derivatives primarily relates to interest rate total return swaps with unobservable repurchase rates. Other significant inputs, which are observable, include equity index levels, equity volatility and the swap yield curves. We validate the reasonableness of these inputs by valuing the positions using internal models and comparing the results to broker quotations.

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The gain (loss) on Level 3 derivatives, percentage of gain (loss) attributable to observable and unobservable inputs, and the primary drivers of observable gain (loss) are summarized as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Gain (loss) recognized in net income (loss)	\$27	\$48
Approximate percentage of gain (loss) attributable to observable inputs	60%	77%
Primary drivers of observable gain (loss)	Decreases in interest rates on interest rate total return swaps.	Decreases in interest rates on interest rate total return swaps, partially offset by increases in certain equity index levels on equity derivatives.
Approximate percentage of gain (loss) attributable to unobservable inputs	40%	23%

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates — Derivatives” included in the 2018 Annual Report for further information on the estimates and assumptions that affect derivatives.

Credit Risk

See Note 7 of the Notes to the Interim Condensed Consolidated Financial Statements for information about how we manage credit risk related to derivatives and for the estimated fair value of our net derivative assets and net derivative liabilities after the application of master netting agreements and collateral.

Our policy is not to offset the fair value amounts recognized for derivatives executed with the same counterparty under the same master netting agreement. This policy applies to the recognition of derivatives on the consolidated balance sheets, and does not affect our legal right of offset.

Credit Derivatives

The following table presents the gross notional amount and estimated fair value of credit default swaps at:

	September 30, 2019		December 31, 2018	
Credit Default Swaps	Gross Notional Amount	Estimated Fair Value	Gross Notional Amount	Estimated Fair Value
	(In millions)			
Purchased	\$ 2,635	\$ (75)	\$ 1,903	\$ (14)
Written	11,583	229	11,391	82
Total	\$ 14,218	\$ 154	\$ 13,294	\$ 68

The following table presents the gross gains, gross losses and net gains (losses) recognized in net derivative gains (losses) for credit default swaps as follows:

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2019			2018			2019			2018		
Credit Default Swaps	Gross Gains	Gross Losses	Net Gains (Losses)	Gross Gains	Gross Losses	Net Gains (Losses)	Gross Gains	Gross Losses	Net Gains (Losses)	Gross Gains	Gross Losses	Net Gains (Losses)
	(In millions)											
Purchased (1)	\$ —	\$ (5)	\$ (5)	\$ —	\$ (9)	\$ (9)	\$ 1	\$ (26)	\$ (25)	\$ 13	\$ (11)	\$ 2
Written (1)	4	(8)	(4)	70	—	70	193	(11)	182	32	(41)	(9)
Total	\$ 4	\$ (13)	\$ (9)	\$ 70	\$ (9)	\$ 61	\$ 194	\$ (37)	\$ 157	\$ 45	\$ (52)	\$ (7)

(1) Gains (losses) do not include earned income (expense) on credit default swaps.

The unfavorable change in net gains (losses) on written credit default swaps of \$74 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was due to certain credit spreads on certain credit default swaps used as replications widening in the current period as compared to narrowing in the prior period. The favorable change in net gains (losses) on written credit default swaps of \$191 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was due to certain credit spreads on certain credit default swaps used as replications narrowing in the current period as compared to widening in the prior period.

The maximum amount at risk related to our written credit default swaps is equal to the corresponding gross notional amount. In a replication transaction, we pair an asset on our balance sheet with a written credit default swap to synthetically replicate a corporate bond, a core asset holding of life insurance companies. Replications are entered into in accordance with the guidelines approved by state insurance regulators and the NAIC and are an important tool in managing the overall corporate credit risk within the Company. In order to match our long-dated insurance liabilities, we seek to buy long-dated corporate bonds. In some instances, these may not be readily available in the market, or they may be issued by corporations to which we already have significant corporate credit exposure. For example, by purchasing Treasury bonds (or other high-quality assets) and associating them with written credit default swaps on the desired corporate credit name, we can replicate the desired bond exposures and meet our ALM needs. In addition, given the shorter tenor of the credit default swaps (generally five-year tenors) versus a long dated corporate bond, we have more flexibility in managing our credit exposures.

Embedded Derivatives

See Note 8 of the Notes to the Interim Condensed Consolidated Financial Statements for information about embedded derivatives measured at estimated fair value on a recurring basis and their corresponding fair value hierarchy and a rollforward of the fair value measurements for embedded derivatives measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs.

See Note 7 of the Notes to the Interim Condensed Consolidated Financial Statements for information about the nonperformance risk adjustment included in the valuation of guaranteed minimum benefits accounted for as embedded derivatives.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates — Derivatives” included in the 2018 Annual Report for further information on the estimates and assumptions that affect embedded derivatives.

Off-Balance Sheet Arrangements

Credit and Committed Facilities

We maintain an unsecured revolving credit facility and certain committed facilities with various financial institutions. See “— Liquidity and Capital Resources — The Company — Liquidity and Capital Sources — Global Funding Sources — Credit and Committed Facilities” for further descriptions of such arrangements. For the classification of expenses on such revolving credit and committed facilities and the nature of the associated liability for letters of credit issued and drawdowns on these facilities, see Note 12 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Collateral for Securities Lending, Third-Party Custodian Administered Repurchase Programs and Derivatives

We participate in a securities lending program and third-party custodian administered repurchase programs in the normal course of business for the purpose of enhancing the total return on our investment portfolio. See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements, as well as “Summary of Significant Accounting Policies — Investments— Securities Lending and Repurchase Agreements” in Note 1 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for further discussion of our securities lending program and repurchase agreement transactions, the classification of revenues and expenses, and the nature of the secured financing arrangements and associated liabilities.

Securities lending: Periodically we receive non-cash collateral for securities lending from counterparties, which cannot be sold or re-pledged, and which is not reflected on our consolidated balance sheets. The amount of this non-cash collateral was \$105 million and \$78 million at estimated fair value at September 30, 2019 and December 31, 2018, respectively.

Third-party custodian administered repurchase programs: We loan certain of our fixed maturity securities AFS to unaffiliated financial institutions and, in exchange, non-cash collateral is put on deposit by the unaffiliated financial institutions on our behalf with third-party custodians. The estimated fair value of securities loaned in connection with these transactions was \$39 million and \$78 million at September 30, 2019 and December 31, 2018, respectively. Non-cash collateral on deposit with third-party custodians on our behalf was \$41 million and \$84 million, at estimated fair value, at September 30, 2019 and December 31, 2018, respectively, which cannot be sold or re-pledged, and which is not reflected on our consolidated balance sheets.

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Derivatives: We enter into derivatives to manage various risks relating to our ongoing business operations. We receive non-cash collateral from counterparties for derivatives, which can be sold or re-pledged subject to certain constraints, and which is not reflected on our consolidated balance sheets. The amount of this non-cash collateral was \$3.3 billion and \$1.3 billion, at estimated fair value, at September 30, 2019 and December 31, 2018, respectively. See “— Liquidity and Capital Resources — The Company — Liquidity and Capital Uses — Pledged Collateral” and Note 7 of the Notes to the Interim Condensed Consolidated Financial Statements for information regarding the earned income on and the gross notional amount, estimated fair value of assets and liabilities and primary underlying risk exposure of our derivatives.

Lease Commitments

As lessee, we have entered into various lease and sublease agreements for office space and equipment. Our commitments under such lease agreements are included within the contractual obligations table in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Contractual Obligations” in the 2018 Annual Report. See also Note 9 of the Notes to the Interim Condensed Consolidated Financial Statements, as well as Note 20 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Guarantees

See “Guarantees” in Note 16 of the Notes to the Interim Condensed Consolidated Financial Statements.

Other

We enter into the following additional commitments in the normal course of business for the purpose of enhancing the total return on our investment portfolio: mortgage loan commitments and commitments to fund partnerships, bank credit facilities, bridge loans and private corporate bond investments. See “Net Investment Income” and “Net Investment Gains (Losses)” in Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements for information on the investment income, investment expense, and gains and losses from such investments. See also “— Investments — Fixed Maturity Securities AFS and Equity Securities” and “— Investments — Mortgage Loans” for information on our investments in fixed maturity securities AFS and mortgage loans. See “— Investments — Real Estate and Real Estate Joint Ventures” and “— Investments — Other Limited Partnership Interests” for information on our partnership investments.

Other than the commitments disclosed in Note 16 of the Notes to the Interim Condensed Consolidated Financial Statements, there are no other material obligations or liabilities arising from the commitments to fund mortgage loans, partnerships, bank credit facilities, bridge loans, and private corporate bond investments.

Policyholder Liabilities

We establish, and carry as liabilities, actuarially determined amounts that are calculated to meet policy obligations or to provide for future annuity payments. Amounts for actuarial liabilities are computed and reported on the interim condensed consolidated financial statements in conformity with GAAP. For more details on Policyholder Liabilities, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates” included in the 2018 Annual Report.

Due to the nature of the underlying risks and the uncertainty associated with the determination of actuarial liabilities, we cannot precisely determine the amounts that will ultimately be paid with respect to these actuarial liabilities, and the ultimate amounts may vary from the estimated amounts, particularly when payments may not occur until well into the future.

We periodically review our estimates of actuarial liabilities for future benefits and compare them with our actual experience. We revise estimates, to the extent permitted or required under GAAP, if we determine that future expected experience differs from assumptions used in the development of actuarial liabilities. We charge or credit changes in our liabilities to expenses in the period the liabilities are established or re-estimated. If the liabilities originally established for future benefit payments prove inadequate, we must increase them. Such an increase could adversely affect our earnings and have a material adverse effect on our business, results of operations and financial condition.

We have experienced, and will likely in the future experience, catastrophe losses and possibly acts of terrorism, as well as turbulent financial markets that may have an adverse impact on our business, results of operations and financial condition. Due to their nature, we cannot predict the incidence, timing, severity or amount of losses from catastrophes and acts of terrorism, but we make broad use of catastrophic and non-catastrophic reinsurance to manage risk from these perils. We also use hedging, reinsurance and other risk management activities to mitigate financial market volatility.

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See “Business — Regulation — Insurance Regulation — Policy and Contract Reserve Adequacy Analysis” included in the 2018 Annual Report for further information regarding required analyses of the adequacy of statutory reserves of our insurance operations.

Future Policy Benefits

We establish liabilities for amounts payable under insurance policies. See Notes 1 and 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for additional information. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Impact of a Sustained Low Interest Rate Environment — Low Interest Rate Scenario” included in the 2018 Annual Report and “— Variable Annuity Guarantees.” A discussion of future policy benefits by segment (as well as Corporate & Other) follows.

U.S.

Amounts payable under insurance policies for this segment are comprised of group insurance and annuities, as well as property and casualty policies. For group insurance, future policyholder benefits are comprised mainly of liabilities for disabled lives under disability waiver of premium policy provisions, liabilities for survivor income benefit insurance, active life policies and premium stabilization and other contingency liabilities held under life insurance contracts. For group annuity contracts, future policyholder benefits are primarily related to payout annuities, including pension risk transfers, structured settlement annuities and institutional income annuities. There is no interest rate crediting flexibility on these liabilities. As a result, a sustained low interest rate environment could negatively impact earnings; however, we mitigate our risks by applying various ALM strategies, including the use of various interest rate derivative positions. The components of future policy benefits related to our property and casualty policies are liabilities for unpaid claims, estimated based upon assumptions such as rates of claim frequencies, levels of severities, inflation, judicial trends, legislative changes or regulatory decisions. Assumptions are based upon our historical experience and analysis of historical development patterns of the relationship of loss adjustment expenses to losses for each line of business, and we consider the effects of current developments, anticipated trends and risk management programs, reduced for anticipated salvage and subrogation.

Asia

Future policy benefits for this segment are held primarily for traditional life, endowment, annuity and accident & health contracts. They are also held for total return pass-through provisions included in certain universal life and savings products. They include certain liabilities for variable annuity and variable life guarantees of minimum death benefits, and longevity guarantees. Factors impacting these liabilities include sustained periods of yields lower than expected, lower than expected asset reinvestment rates, market volatility, actual lapses resulting in lower than expected income, and actual mortality or morbidity resulting in higher than expected benefit payments. We mitigate our risks by applying various ALM strategies and by the use of reinsurance.

Latin America

Future policy benefits for this segment are held primarily for immediate annuities in Chile, Argentina and Mexico and traditional life contracts mainly in Mexico, Brazil and Colombia. There are also liabilities held for total return pass-through provisions included in certain universal life and savings products in Mexico. There is limited interest rate crediting flexibility on the immediate annuity and traditional life liabilities. As a result, sustained periods of yields lower than expected could negatively impact earnings; however, we mitigate our risks by applying various ALM strategies. Other factors impacting these liabilities are actual mortality resulting in higher than expected benefit payments and actual lapses resulting in lower than expected income.

EMEA

Future policy benefits for this segment include unearned premium reserves for group life and credit insurance contracts. Future policy benefits are also held for traditional life, endowment and annuity contracts with significant mortality risk and accident & health contracts. Factors impacting these liabilities include lower than expected asset reinvestment rates, market volatility, actual lapses resulting in lower than expected income, and actual mortality or morbidity resulting in higher than expected benefit payments. We mitigate our risks by having premiums which are adjustable or cancellable in some cases, applying various ALM strategies and by the use of reinsurance.

MetLife Holdings

Future policy benefits for the life insurance business are comprised mainly of liabilities for traditional life insurance contracts. In order to manage risk, we have often reinsured a portion of the mortality risk on life insurance policies. We routinely evaluate our reinsurance programs, which may result in increases or decreases to existing coverage. We have entered into various interest rate derivative positions to mitigate the risk that investment of premiums received and reinvestment of maturing assets over the life of the policy will be at rates below those assumed in the original pricing of these contracts. For the annuities business, future policy benefits are comprised mainly of liabilities for life-contingent income annuities and liabilities for the variable annuity guaranteed minimum benefits that are accounted for as insurance. Other future policyholder benefits are comprised mainly of liabilities for disabled lives under disability waiver of premium policy provisions, and active life policies. In addition, for our other products, future policyholder benefits related to the reinsurance of our former Japan joint venture are comprised of liabilities for the variable annuity guaranteed minimum benefits that are accounted for as insurance.

Corporate & Other

Future policy benefits primarily include liabilities for other reinsurance business.

Policyholder Account Balances

Policyholder account balances are generally equal to the account value, which includes accrued interest credited, but excludes the impact of any applicable charge that may be incurred upon surrender. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Impact of a Sustained Low Interest Rate Environment — Low Interest Rate Scenario” included in the 2018 Annual Report and “— Variable Annuity Guarantees.” See also Notes 1 and 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for additional information. A discussion of policyholder account balances by segment follows.

U.S.

Policyholder account balances in this segment are comprised of funding agreements, retained asset accounts, universal life policies, the fixed account of variable life insurance policies and specialized life insurance products for benefit programs.

Group Benefits

Policyholder account balances in this business are held for retained asset accounts, universal life policies, the fixed account of variable life insurance policies and specialized life insurance products for benefit programs. Policyholder account balances are credited interest at a rate we determine, which is influenced by current market rates. A sustained low interest rate environment could adversely impact liabilities and earnings as a result of the minimum credited rate guarantees present in most of these policyholder account balances. We have various interest rate derivative positions to partially mitigate the risks associated with such a scenario.

The table below presents the breakdown of account value subject to minimum guaranteed crediting rates for Group Benefits:

Guaranteed Minimum Crediting Rate	September 30, 2019			
	Account Value		Account Value at Guarantee	
	(In millions)			
Greater than 0% but less than 2%	\$	4,766	\$	4,640
Equal to or greater than 2% but less than 4%	\$	1,699	\$	1,661
Equal to or greater than 4%	\$	747	\$	718

Retirement and Income Solutions

Policyholder account balances in this business are primarily comprised of funding agreements. Interest crediting rates vary by type of contract, and can be fixed or variable. Variable interest crediting rates are generally tied to an external index, most commonly (1-month or 3-month) London Interbank Offered Rate. We are exposed to interest rate risks, as well as foreign currency exchange rate risk, when guaranteeing payment of interest and return of principal at the contractual maturity date. We may invest in floating rate assets or enter into receive-floating interest rate swaps, also tied to external indices, as well as interest rate caps, to mitigate the impact of changes in market interest rates. We also mitigate our risks by applying various ALM strategies and seek to hedge all foreign currency exchange rate risk through the use of foreign currency hedges, including cross currency swaps.

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The table below presents the breakdown of account value subject to minimum guaranteed crediting rates for RIS:

Guaranteed Minimum Crediting Rate	September 30, 2019	
	Account Value	Account Value at Guarantee
	(In millions)	
Greater than 0% but less than 2%	\$ 149	\$ —
Equal to or greater than 2% but less than 4%	\$ 1,075	\$ 90
Equal to or greater than 4%	\$ 4,576	\$ 4,365

Asia

Policyholder account balances in this segment are held largely for fixed income retirement and savings plans, fixed deferred annuities, interest sensitive whole life products, universal life and, to a lesser degree, liability amounts for Unit-linked investments that do not meet the GAAP definition of separate accounts. Also included are certain liabilities for retirement and savings products sold in certain countries in Asia that generally are sold with minimum credited rate guarantees. Liabilities for guarantees on certain variable annuities in Asia are accounted for as embedded derivatives and recorded at estimated fair value and are also included within policyholder account balances. A sustained low interest rate environment could adversely impact liabilities and earnings as a result of the minimum credited rate guarantees present in most of these policyholder account balances. We mitigate our risks by applying various ALM strategies and with reinsurance. Liabilities for Unit-linked investments are impacted by changes in the fair value of the associated underlying investments, as the return on assets is generally passed directly to the policyholder.

The table below presents the breakdown of account value subject to minimum guaranteed crediting rates for Asia:

Guaranteed Minimum Crediting Rate	September 30, 2019	
	Account Value	Account Value at Guarantee
	(In millions)	
Annuities		
Greater than 0% but less than 2%	\$ 28,500	\$ 1,633
Equal to or greater than 2% but less than 4%	\$ 1,104	\$ 364
Equal to or greater than 4%	\$ 1	\$ 1
Life & Other		
Greater than 0% but less than 2%	\$ 11,203	\$ 10,840
Equal to or greater than 2% but less than 4%	\$ 27,111	\$ 9,300
Equal to or greater than 4%	\$ 274	\$ 274

Latin America

Policyholder account balances in this segment are held largely for investment-type products and universal life products in Mexico and Chile, and deferred annuities in Brazil. Some of the deferred annuities in Brazil are Unit-linked investments that do not meet the GAAP definition of separate accounts. Liabilities for Unit-linked investments are impacted by changes in the fair value of the associated investments, as the return on assets is generally passed directly to the policyholder. Many of the other liabilities have minimum credited rate guarantees, which could adversely impact liabilities and earnings in a sustained low interest rate environment.

EMEA

Policyholder account balances in this segment are held mostly for universal life, deferred annuity, pension products, and Unit-linked investments that do not meet the GAAP definition of separate accounts. They are also held for endowment products without significant mortality risk. A sustained low interest rate environment could adversely impact liabilities and earnings as a result of the minimum credited rate guarantees present in many of these policyholder account balances. We mitigate our risks by applying various ALM strategies. Liabilities for Unit-linked investments are impacted by changes in the fair value of the associated investments, as the return on assets is generally passed directly to the policyholder.

MetLife Holdings

Life policyholder account balances are held for retained asset accounts, universal life policies, the fixed account of variable life insurance policies, and funding agreements. For annuities, policyholder account balances are held for fixed deferred annuities, the fixed account portion of variable annuities, non-life contingent income annuities, and embedded derivatives related to variable annuity guarantees. Interest is credited to the policyholder's account at interest rates we determine which are influenced by current market rates, subject to specified minimums. A sustained low interest rate environment could adversely impact liabilities and earnings as a result of the minimum credited rate guarantees present in most of these policyholder account balances. We have various interest rate derivative positions to partially mitigate the risks associated with such a scenario. Additionally, for our other products, policyholder account balances are held for variable annuity guarantees assumed from a former operating joint venture in Japan that are accounted for as embedded derivatives.

The table below presents the breakdown of account value subject to minimum guaranteed crediting rates for the MetLife Holdings segment:

Guaranteed Minimum Crediting Rate	September 30, 2019	
	Account Value	Account Value at Guarantee
	(In millions)	
Greater than 0% but less than 2%	\$ 1,355	\$ 1,235
Equal to or greater than 2% but less than 4%	\$ 18,165	\$ 15,530
Equal to or greater than 4%	\$ 7,920	\$ 5,372

Variable Annuity Guarantees

We issue, directly and through assumed business, certain variable annuity products with guaranteed minimum benefits that provide the policyholder a minimum return based on their initial deposit (i.e., the benefit base) less withdrawals. In some cases, the benefit base may be increased by additional deposits, bonus amounts, accruals or optional market value resets. See Note 4 of the Notes to the Interim Condensed Consolidated Financial Statements, as well as Notes 1 and 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for additional information.

Certain guarantees, including portions thereof, have insurance liabilities established that are included in future policy benefits. Guarantees accounted for in this manner include Guaranteed Minimum Death Benefits ("GMDBs"), the life-contingent portion of guaranteed minimum withdrawal benefits ("GMWBs"), elective guaranteed minimum income benefit ("GMIB") annuitizations, and the life contingent portion of GMIBs that require annuitization when the account balance goes to zero. These liabilities are accrued over the life of the contract in proportion to actual and future expected policy assessments based on the level of guaranteed minimum benefits generated using multiple scenarios of separate account returns. The scenarios are based on best estimate assumptions consistent with those used to amortize DAC. When current estimates of future benefits exceed those previously projected or when current estimates of future assessments are lower than those previously projected, liabilities will increase, resulting in a current period charge to net income. The opposite result occurs when the current estimates of future benefits are lower than those previously projected or when current estimates of future assessments exceed those previously projected. At the end of each reporting period, we update the actual amount of business remaining in-force, which impacts expected future assessments and the projection of estimated future benefits resulting in a current period charge or increase to earnings.

Certain guarantees, including portions thereof, accounted for as embedded derivatives, are recorded at estimated fair value and included in policyholder account balances. Guarantees accounted for as embedded derivatives include guaranteed minimum accumulation benefits ("GMABs"), the non-life contingent portion of GMWBs and certain non-life contingent portions of GMIBs. The estimated fair values of guarantees accounted for as embedded derivatives are determined based on the present value of projected future benefits minus the present value of projected future fees. The projections of future benefits and future fees require capital market and actuarial assumptions including expectations concerning policyholder behavior. A risk-neutral valuation methodology is used to project the cash flows from the guarantees under multiple capital market scenarios to determine an economic liability. The reported estimated fair value is then determined by taking the present value of these risk-free generated cash flows using a discount rate that incorporates a spread over the risk-free rate to reflect our nonperformance risk and adding a risk margin. For more information on the determination of estimated fair value, see Note 8 of the Notes to the Interim Condensed Consolidated Financial Statements.

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The table below presents the carrying value for guarantees at:

	Future Policy Benefits		Policyholder Account Balances	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
(In millions)				
Asia				
GMDB	\$ 4	\$ 3	\$ —	\$ —
GMAB	—	—	40	34
GMWB	74	81	157	143
EMEA				
GMDB	3	7	—	—
GMAB	—	—	19	24
GMWB	48	70	(66)	(82)
MetLife Holdings				
GMDB	322	289	—	—
GMIB	766	743	330	106
GMAB	—	—	—	5
GMWB	132	129	555	563
Total	\$ 1,349	\$ 1,322	\$ 1,035	\$ 793

The carrying amounts for guarantees included in policyholder account balances above include nonperformance risk adjustments of \$217 million and \$263 million at September 30, 2019 and December 31, 2018, respectively. These nonperformance risk adjustments represent the impact of including a credit spread when discounting the underlying risk-neutral cash flows to determine the estimated fair values. The nonperformance risk adjustment does not have an economic impact on us as it cannot be monetized given the nature of these policyholder liabilities. The change in valuation arising from the nonperformance risk adjustment is not hedged.

The carrying values of these guarantees can change significantly during periods of sizable and sustained shifts in equity market performance, equity volatility, interest rates or foreign currency exchange rates. Carrying values are also impacted by our assumptions around mortality, separate account returns and policyholder behavior, including lapse rates.

As discussed below, we use a combination of product design, hedging strategies, reinsurance, and other risk management actions to mitigate the risks related to these benefits. Within each type of guarantee, there is a range of product offerings reflecting the changing nature of these products over time. Changes in product features and terms are in part driven by customer demand but, more importantly, reflect our risk management practices of continuously evaluating the guaranteed benefits and their associated asset-liability matching. We continue to diversify the concentration of income benefits in our portfolio by focusing on withdrawal benefits, variable annuities without living benefits and index-linked annuities.

The sections below provide further detail by total account value for certain of our most popular guarantees. Total account values include amounts not reported on the consolidated balance sheets from assumed business, Unit-linked investments that do not qualify for presentation as separate account assets, and amounts included in our general account. The total account values and the net amounts at risk include direct and assumed business, but exclude offsets from hedging or ceded reinsurance, if any.

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GMDBs

We offer a range of GMDBs to our contractholders. The table below presents GMDBs, by benefit type, at September 30, 2019:

	Total Account Value (1)	
	Asia & EMEA	MetLife Holdings
	(In millions)	
Return of premium or five to seven year step-up	\$ 7,680	\$ 46,910
Annual step-up	—	3,118
Roll-up and step-up combination	—	5,711
Total	<u>\$ 7,680</u>	<u>\$ 55,739</u>

- (1) Total account value excludes \$243 million for contracts with no GMDBs. The Company's annuity contracts with guarantees may offer more than one type of guarantee in each contract. Therefore, the amounts listed for GMDBs and for living benefit guarantees are not mutually exclusive.

Based on total account value, less than 19% of our GMDBs included enhanced death benefits such as the annual step-up or roll-up and step-up combination products. We expect the above GMDB risk profile to be relatively consistent for the foreseeable future.

Living Benefit Guarantees

The table below presents our living benefit guarantees based on total account values at September 30, 2019:

	Total Account Value (1)	
	Asia & EMEA	MetLife Holdings
	(In millions)	
GMIB	\$ —	\$ 21,243
GMWB - non-life contingent (2)	1,817	2,546
GMWB - life-contingent	3,636	9,342
GMAB	1,320	263
Total	<u>\$ 6,773</u>	<u>\$ 33,394</u>

- (1) Total account value excludes \$23.2 billion for contracts with no living benefit guarantees. The Company's annuity contracts with guarantees may offer more than one type of guarantee in each contract. Therefore, the amounts listed for GMDBs and for living benefit guarantee amounts are not mutually exclusive.
- (2) The Asia and EMEA segments include the non-life contingent portion of the GMWB total account value of \$1.2 billion with a guarantee at annuitization.

In terms of total account value, GMIBs are our most significant living benefit guarantee. Our primary risk management strategy for our GMIB products is our derivatives hedging program as discussed below. Additionally, we have engaged in certain reinsurance agreements covering some of our GMIB business. As part of our overall risk management approach for living benefit guarantees, we continually monitor the reinsurance markets for the right opportunity to purchase additional coverage for our GMIB business. We stopped selling GMIBs in February 2016.

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The table below presents our GMIB associated total account values, by their guaranteed payout basis, at September 30, 2019:

	Total Account Value
	(In millions)
7-year setback, 2.5% interest rate	\$ 5,750
7-year setback, 1.5% interest rate	933
10-year setback, 1.5% interest rate	4,296
10-year mortality projection, 10-year setback, 1.0% interest rate	8,647
10-year mortality projection, 10-year setback, 0.5% interest rate	1,617
	<u>\$ 21,243</u>

The annuitization interest rates on GMIBs have been decreased from 2.5% to 0.5% over time, partially in response to the low interest rate environment, accompanied by an increase in the setback period from seven years to 10 years and the introduction of a 10-year mortality projection.

Additionally, 42% of the \$21.2 billion of GMIB total account value has been invested in managed volatility funds as of September 30, 2019. These funds seek to manage volatility by adjusting the fund holdings within certain guidelines based on capital market movements. Such activity reduces the overall risk of the underlying funds while maintaining their growth opportunities. These risk mitigation techniques reduce or eliminate the need for us to manage the funds' volatility through hedging or reinsurance.

Our GMIB products typically have a waiting period of 10 years to be eligible for annuitization. As of September 30, 2019, only 21% of our contracts with GMIBs were eligible for annuitization. The remaining contracts are not eligible for annuitization for an average of four years.

Once eligible for annuitization, contractholders would be expected to annuitize only if their contracts were in-the-money. We calculate in-the-moneyness with respect to GMIBs consistent with net amount at risk as discussed in Note 4 of the Notes to the Interim Condensed Consolidated Financial Statements, by comparing the contractholders' income benefits based on total account values and current annuity rates versus the guaranteed income benefits. The net amount at risk was \$658 million at September 30, 2019, of which \$603 million was related to GMIBs. For those contracts with GMIB, the table below presents details of contracts that are in-the-money and out-of-the-money at September 30, 2019:

	In-the-Moneyness	Total Account Value	% of Total
		(In millions)	
In-the-money	30% +	\$ 583	3%
	20% to 30%	396	2%
	10% to 20%	727	3%
	0% to 10%	1,490	7%
		<u>3,196</u>	
Out-of-the-money	-10% to 0%	2,176	10%
	-20% to -10%	3,888	18%
	-20% +	11,983	56%
		<u>18,047</u>	
Total GMIBs		<u>\$ 21,243</u>	

Derivatives Hedging Variable Annuity Guarantees

Our risk mitigating hedging strategy uses various over-the-counter and exchange traded derivatives. The table below presents the gross notional amount, estimated fair value and primary underlying risk exposure of the derivatives hedging our variable annuity guarantees:

Primary Underlying Risk Exposure	Instrument Type	September 30, 2019			December 31, 2018		
		Gross Notional Amount	Estimated Fair Value		Gross Notional Amount	Estimated Fair Value	
			Assets	Liabilities		Assets	Liabilities
(In millions)							
Interest rate	Interest rate swaps	\$ 8,425	\$ 88	\$ 34	\$ 8,209	\$ 89	\$ 3
	Interest rate futures	1,521	4	1	1,559	1	3
Foreign currency exchange rate	Interest rate options	838	220	—	838	163	—
	Foreign currency forwards	1,962	26	8	1,815	44	9
	Currency options	1	—	—	—	—	—
Equity market	Equity futures	3,768	7	14	2,730	11	77
	Equity index options	9,643	434	676	9,933	408	546
	Equity variance swaps	2,292	41	94	2,269	40	87
	Equity total return swaps	836	3	2	929	91	—
	Total	\$ 29,286	\$ 823	\$ 829	\$ 28,282	\$ 847	\$ 725

The change in estimated fair values of our derivatives is recorded in policyholder benefits and claims if such derivatives are hedging guarantees included in future policy benefits, and in net derivative gains (losses) if such derivatives are hedging guarantees included in policyholder account balances.

Our hedging strategy involves the significant use of static longer-term derivative instruments to avoid the need to execute transactions during periods of market disruption or higher volatility. We continually monitor the capital markets for opportunities to adjust our liability coverage, as appropriate. Futures are also used to dynamically adjust the daily coverage levels as markets and liability exposures fluctuate.

We remain liable for the guaranteed benefits in the event that reinsurers or derivative counterparties are unable or unwilling to pay. Certain of our reinsurance agreements and substantially all derivative positions are collateralized and derivatives positions are subject to master netting agreements, both of which significantly reduce the exposure to counterparty risk. In addition, we are subject to the risk that hedging and other risk management actions prove ineffective or that unanticipated policyholder behavior or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed.

Liquidity and Capital Resources

Overview

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility and disruptions in global capital markets, particular markets, or financial asset classes can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities and derivatives are sensitive to changing market factors. Changing conditions in the global capital markets and the economy may affect our financing costs and market interest for our debt or equity securities. For further information regarding market factors that could affect our ability to meet liquidity and capital needs, see “— Industry Trends” and “— Investments — Current Environment.”

Liquidity Management

Based upon the strength of our franchise, diversification of our businesses, strong financial fundamentals and the substantial funding sources available to us as described herein, we continue to believe we have access to ample liquidity to meet business requirements under current market conditions and reasonably possible stress scenarios. We continuously monitor and adjust our liquidity and capital plans for MetLife, Inc. and its subsidiaries in light of market conditions, as well as changing needs and opportunities.

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Short-term Liquidity

We maintain a substantial short-term liquidity position, which was \$11.4 billion and \$11.1 billion at September 30, 2019 and December 31, 2018, respectively. Short-term liquidity includes cash and cash equivalents and short-term investments, excluding assets that are pledged or otherwise committed, including amounts received in connection with securities lending, repurchase agreements, derivatives, and secured borrowings, as well as amounts held in the closed block.

Liquid Assets

An integral part of our liquidity management includes managing our level of liquid assets, which was \$221.7 billion and \$202.7 billion at September 30, 2019 and December 31, 2018, respectively. Liquid assets include cash and cash equivalents, short-term investments and publicly-traded securities, excluding assets that are pledged or otherwise committed. Assets pledged or otherwise committed include amounts received in connection with securities lending, repurchase agreements, derivatives, regulatory deposits, the collateral financing arrangement, funding agreements and secured borrowings, as well as amounts held in the closed block.

Capital Management

We have established several senior management committees as part of our capital management process. These committees, including the Capital Management Committee and the Enterprise Risk Committee (“ERC”), regularly review actual and projected capital levels (under a variety of scenarios including stress scenarios) and our annual capital plan in accordance with our capital policy. The Capital Management Committee is comprised of members of senior management, including MetLife, Inc.’s Chief Financial Officer (“CFO”), Treasurer, and Chief Risk Officer (“CRO”). The ERC is also comprised of members of senior management, including MetLife, Inc.’s CFO, CRO and Chief Investment Officer.

MetLife, Inc.’s Board of Directors (“Board of Directors”) and senior management are directly involved in the development and maintenance of our capital policy. The capital policy sets forth, among other things, minimum and target capital levels and the governance of the capital management process. All capital actions, including proposed changes to the annual capital plan, capital targets or capital policy, are reviewed by the Finance and Risk Committee of the Board of Directors prior to obtaining full Board of Directors approval. The Board of Directors approves the capital policy and the annual capital plan and authorizes capital actions, as required.

See “Risk Factors — Capital Risks — Legal and Regulatory Restrictions May Prevent Us from Paying Dividends and Repurchasing Our Stock at the Level We Wish” and Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for information regarding restrictions on payment of dividends and stock repurchases. See also “— The Company — Liquidity and Capital Uses — Common Stock Repurchases” for information regarding MetLife, Inc.’s common stock repurchase authorization.

The Company

Liquidity

Liquidity refers to the ability to generate adequate amounts of cash to meet our needs. In the event of significant cash requirements beyond anticipated liquidity needs, we have various alternatives available depending on market conditions and the amount and timing of the liquidity need. These available alternatives include cash flows from operations, sales of liquid assets, global funding sources including commercial paper and various credit and committed facilities.

Capital

We manage our capital position to maintain our financial strength and credit ratings. Our capital position is supported by our ability to generate strong cash flows within our operating companies and borrow funds at competitive rates, as well as by our demonstrated ability to raise additional capital to meet operating and growth needs despite adverse market and economic conditions.

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Summary of the Company's Primary Sources and Uses of Liquidity and Capital

Our primary sources and uses of liquidity and capital are summarized as follows:

	Nine Months Ended September 30,	
	2019	2018
	(In millions)	
Sources:		
Operating activities, net	\$ 8,605	\$ 10,437
Net change in policyholder account balances	4,990	4,168
Net change in payables for collateral under securities loaned and other transactions	3,703	644
Cash received for other transactions with tenors greater than three months	125	75
Long-term debt issued	1,382	24
Financing element on certain derivative instruments and other derivative related transactions, net	18	—
Preferred stock issued, net of issuance costs	—	1,274
Total sources	18,823	16,622
Uses:		
Investing activities, net	10,493	10,992
Cash paid for other transactions with tenors greater than three months	200	—
Long-term debt repaid	901	1,311
Collateral financing arrangement repaid	47	48
Financing element on certain derivative instruments and other derivative related transactions, net	—	15
Treasury stock acquired in connection with share repurchases	2,035	2,792
Dividends on preferred stock	121	84
Dividends on common stock	1,237	1,263
Other, net	100	141
Effect of change in foreign currency exchange rates on cash and cash equivalents	58	187
Total uses	15,192	16,833
Net increase (decrease) in cash and cash equivalents	\$ 3,631	\$ (211)

Cash Flows from Operations

The principal cash inflows from our insurance activities come from insurance premiums, net investment income, annuity considerations and deposit funds. The principal cash outflows are the result of various life insurance, property and casualty, annuity and pension products, operating expenses and income tax, as well as interest expense. A primary liquidity concern with respect to these cash flows is the risk of early contractholder and policyholder withdrawal.

Cash Flows from Investments

The principal cash inflows from our investment activities come from repayments of principal, proceeds from maturities and sales of investments and settlements of freestanding derivatives. The principal cash outflows relate to purchases of investments, issuances of policy loans and settlements of freestanding derivatives. Additional cash outflows relate to purchases of businesses. We typically have a net cash outflow from investing activities because cash inflows from insurance operations are reinvested in accordance with our ALM discipline to fund insurance liabilities. We closely monitor and manage these risks through our comprehensive investment risk management process. The primary liquidity concerns with respect to these cash flows are the risk of default by debtors and market disruption.

Cash Flows from Financing

The principal cash inflows from our financing activities come from issuances of debt and other securities, deposits of funds associated with policyholder account balances and lending of securities. The principal cash outflows come from repayments of debt and the collateral financing arrangement, payments of dividends on and repurchases of MetLife, Inc.'s securities, withdrawals associated with policyholder account balances and the return of securities on loan. The primary liquidity concerns with respect to these cash flows are market disruption and the risk of early contractholder and policyholder withdrawal.

Liquidity and Capital Sources

In addition to the general description of liquidity and capital sources in “— Summary of the Company’s Primary Sources and Uses of Liquidity and Capital,” the Company’s primary sources of liquidity and capital are set forth below.

Global Funding Sources

Liquidity is provided by a variety of global funding sources, including funding agreements, credit and committed facilities and commercial paper. Capital is provided by a variety of global funding sources, including short-term and long-term debt, the collateral financing arrangement, junior subordinated debt securities, preferred securities, equity securities and equity-linked securities. MetLife, Inc. maintains a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a “Well-Known Seasoned Issuer” under SEC rules, MetLife, Inc.’s shelf registration statement provides for automatic effectiveness upon filing and has no stated issuance capacity. The diversity of our global funding sources enhances our funding flexibility, limits dependence on any one market or source of funds and generally lowers the cost of funds. Our primary global funding sources include:

Preferred Stock

See Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Common Stock

For the nine months ended September 30, 2019 and 2018, MetLife, Inc. issued 5,023,492 and 2,718,456 new shares of its common stock, respectively, for \$170 million and \$97 million, respectively, to satisfy various stock option exercises and other stock-based awards.

Commercial Paper, Reported in Short-term Debt

MetLife, Inc. and MetLife Funding, Inc. (“MetLife Funding”), a subsidiary of MLIC, each have a commercial paper program that is supported by our unsecured revolving credit facility (see “—Credit and Committed Facilities”). MetLife Funding raises cash from its commercial paper program and uses the proceeds to extend loans through MetLife Credit Corp., another subsidiary of MLIC, to affiliates in order to enhance the financial flexibility and liquidity of these companies.

Federal Home Loan Bank Funding Agreements, Reported in Policyholder Account Balances

Certain of our U.S. insurance subsidiaries are members of a regional Federal Home Loan Bank (“FHLB”). For the nine months ended September 30, 2019 and 2018, we issued \$25.0 billion and \$22.1 billion, respectively, and repaid \$25.0 billion and \$22.3 billion, respectively, under funding agreements with certain regional FHLBs. At both September 30, 2019 and December 31, 2018, total obligations outstanding under these funding agreements were \$15.1 billion. See Note 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Federal Home Loan Bank Advance Agreements, Reported in Payables for Collateral Under Securities Loaned and Other Transactions

For the nine months ended September 30, 2019 and 2018, we issued \$2.3 billion and \$2.3 billion, respectively, and repaid \$2.3 billion and \$1.8 billion, respectively, under advance agreements with a regional FHLB. At both September 30, 2019 and December 31, 2018, total obligations outstanding under these advance agreements were \$800 million. See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements.

Special Purpose Entity Funding Agreements, Reported in Policyholder Account Balances

We issue fixed and floating rate funding agreements, which are denominated in either U.S. dollars or foreign currencies, to certain special purpose entities (“SPEs”) that have issued either debt securities or commercial paper for which payment of interest and principal is secured by such funding agreements. For the nine months ended September 30, 2019 and 2018, we issued \$27.8 billion and \$31.8 billion, respectively, and repaid \$27.3 billion and \$32.8 billion, respectively, under such funding agreements. At September 30, 2019 and December 31, 2018, total obligations outstanding under these funding agreements were \$33.5 billion and \$32.3 billion, respectively. See Note 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Federal Agricultural Mortgage Corporation Funding Agreements, Reported in Policyholder Account Balances

We have issued funding agreements to a subsidiary of the Federal Agricultural Mortgage Corporation (“Farmer Mac”), as well as to certain SPEs that have issued debt securities for which payment of interest and principal is secured by such funding agreements, and such debt securities are also guaranteed as to payment of interest and principal by Farmer Mac. The obligations under all such funding agreements are secured by a pledge of certain eligible agricultural mortgage loans. For the nine months ended September 30, 2019 and 2018, we issued \$700 million and \$900 million, respectively, and repaid \$700 million and \$900 million, respectively, under such funding agreements. At both September 30, 2019 and December 31, 2018, total obligations outstanding under these funding agreements were \$2.6 billion. See Note 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Debt Issuances

In May 2019, MetLife, Inc. issued ¥151.7 billion (\$1.4 billion at issuance) of senior notes for general corporate purposes and the repayment of indebtedness, which included the early redemption of certain senior notes. See “— Liquidity and Capital Uses — Debt Repurchases, Redemptions and Exchanges” and Note 10 of the Notes to the Interim Condensed Consolidated Financial Statements.

Credit and Committed Facilities

At September 30, 2019, we maintained a \$3.0 billion unsecured revolving credit facility and certain committed facilities aggregating \$3.3 billion, of which MetLife, Inc. is a party and/or guarantor. When drawn upon, these facilities bear interest at varying rates in accordance with the respective agreements.

The unsecured revolving credit facility is used for general corporate purposes, to support the borrowers’ commercial paper programs and for the issuance of letters of credit. At September 30, 2019, we had outstanding \$729 million in letters of credit and no drawdowns against this facility. Remaining availability was \$2.3 billion at September 30, 2019.

The committed facilities are used as collateral for certain of our affiliated reinsurance liabilities. At September 30, 2019, we had outstanding \$2.8 billion in letters of credit and no drawdowns against these facilities. Remaining availability was \$454 million at September 30, 2019.

See Note 12 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for further information about these facilities.

We have no reason to believe that our lending counterparties will be unable to fulfill their respective contractual obligations under these facilities. As commitments under our credit and committed facilities may expire unused, these amounts do not necessarily reflect our actual future cash funding requirements.

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Outstanding Debt Under Global Funding Sources

The following table summarizes our outstanding debt, excluding long-term debt relating to CSEs, at:

	September 30, 2019		December 31, 2018	
	(In millions)			
Short-term debt (1)	\$	142	\$	268
Long-term debt (2)	\$	13,438	\$	12,824
Collateral financing arrangement	\$	1,013	\$	1,060
Junior subordinated debt securities	\$	3,149	\$	3,147

- (1) Includes \$43 million and \$168 million of debt that is non-recourse to MetLife, Inc. and MLIC, subject to customary exceptions, at September 30, 2019 and December 31, 2018, respectively. Certain subsidiaries have pledged assets to secure this debt.
- (2) Includes \$406 million and \$422 million of debt that is non-recourse to MetLife, Inc. and MLIC, subject to customary exceptions, at September 30, 2019 and December 31, 2018, respectively. Certain investment subsidiaries have pledged assets to secure this debt.

Debt and Facility Covenants

Certain of our debt instruments and committed facilities, as well as our unsecured revolving credit facility, contain various administrative, reporting, legal and financial covenants. We believe we were in compliance with all applicable financial covenants at September 30, 2019.

Dispositions

For information regarding the pending disposition of MetLife Hong Kong, see Note 3 of the Notes to the Interim Condensed Consolidated Financial Statements.

Liquidity and Capital Uses

In addition to the general description of liquidity and capital uses in “— Summary of the Company’s Primary Sources and Uses of Liquidity and Capital,” the Company’s primary uses of liquidity and capital are set forth below.

Common Stock Repurchases

See Note 11 of the Notes to the Interim Condensed Consolidated Financial Statements for information relating to authorizations by the Board of Directors to repurchase MetLife, Inc. common stock, amounts of common stock repurchased pursuant to such authorizations for the nine months ended September 30, 2019 and 2018, and the amount remaining under such authorizations at September 30, 2019.

Common stock repurchases are subject to the discretion of our Board of Directors and will depend upon our capital position, liquidity, financial strength and credit ratings, general market conditions, the market price of MetLife, Inc.’s common stock compared to management’s assessment of the stock’s underlying value, applicable regulatory approvals, and other legal and accounting factors. Restrictions on the payment of dividends that may arise under so-called “Dividend Stopper” provisions would also restrict MetLife, Inc.’s ability to repurchase common stock. See “Business — Regulation,” “Risk Factors — Capital Risks — Legal and Regulatory Restrictions May Prevent Us from Paying Dividends and Repurchasing Our Stock at the Level We Wish” and Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Dividends

For the nine months ended September 30, 2019 and 2018, MetLife, Inc. paid dividends on its preferred stock of \$121 million and \$84 million, respectively. For the nine months ended September 30, 2019 and 2018, MetLife, Inc. paid \$1.2 billion and \$1.3 billion, respectively, of dividends on its common stock. See Note 11 of the Notes to the Interim Condensed Consolidated Financial Statements for information regarding the calculation and timing of these dividend payments.

Dividends are paid quarterly on MetLife, Inc.'s Floating Rate Non-Cumulative Preferred Stock, Series A. Dividends are paid semi-annually on MetLife, Inc.'s 5.25% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series C, until June 15, 2020 and, thereafter, will be paid quarterly. Dividends are paid semi-annually on MetLife, Inc.'s 5.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series D, until March 15, 2028 and, thereafter, will be paid quarterly. Dividends are paid quarterly on MetLife, Inc.'s 5.625% Non-Cumulative Preferred Stock, Series E.

The declaration and payment of common stock dividends are subject to the discretion of our Board of Directors, and will depend on MetLife, Inc.'s financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by MetLife, Inc.'s insurance subsidiaries and other factors deemed relevant by the Board of Directors. See Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for additional information. See also Note 17 of the Notes to the Interim Condensed Consolidated Financial Statements for information regarding a common stock dividend declared subsequent to September 30, 2019.

Dividend Restrictions

The payment of dividends is also subject to restrictions under the terms of our preferred stock and junior subordinated debentures in situations where we may be experiencing financial stress. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Liquidity and Capital Uses — Dividends — 'Dividend Stopper' Provisions in MetLife's Preferred Stock and Junior Subordinated Debentures," "Risk Factors — Capital Risks — Legal and Regulatory Restrictions May Prevent Us from Paying Dividends and Repurchasing Our Stock at the Level We Wish" and Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Debt Repayments

For the nine months ended September 30, 2019 and 2018, following regulatory approval, MetLife Reinsurance Company of Charleston, a wholly-owned subsidiary of MetLife, Inc., repurchased and canceled \$47 million and \$48 million, respectively, in aggregate principal amount of its surplus notes, which were reported in collateral financing arrangement on the consolidated balance sheets.

Debt Repurchases, Redemptions and Exchanges

We may from time to time seek to retire or purchase our outstanding debt through cash purchases, redemptions and/or exchanges for other securities, in open market purchases, privately negotiated transactions or otherwise. Any such repurchases, redemptions, or exchanges will be dependent upon several factors, including our liquidity requirements, contractual restrictions, general market conditions, and applicable regulatory, legal and accounting factors. Whether or not to repurchase or redeem any debt and the size and timing of any such repurchases or redemptions will be determined at our discretion.

In June 2019, MetLife, Inc. redeemed for cash and canceled its £400 million aggregate principal amount 5.250% senior notes due June 2020 and the remaining \$368 million aggregate principal amount of its 4.750% senior notes due February 2021. See Note 10 of the Notes to the Interim Condensed Consolidated Financial Statements.

Support Agreements

MetLife, Inc. and several of its subsidiaries (each, an "Obligor") are parties to various capital support commitments and guarantees with subsidiaries. Under these arrangements, each Obligor has agreed to cause the applicable entity to meet specified capital and surplus levels or has guaranteed certain contractual obligations. We anticipate that in the event these arrangements place demands upon us, there will be sufficient liquidity and capital to enable us to meet such demands. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — MetLife, Inc. — Liquidity and Capital Uses — Support Agreements" included in the 2018 Annual Report.

Insurance Liabilities

Liabilities arising from our insurance activities primarily relate to benefit payments under various life insurance, property and casualty, annuity and group pension products, as well as payments for policy surrenders, withdrawals and loans. For annuity or deposit type products, surrender or lapse behavior differs somewhat by segment. In the MetLife Holdings segment, which includes individual annuities, lapses and surrenders tend to occur in the normal course of business. For both the nine months ended September 30, 2019 and 2018, general account surrenders and withdrawals from annuity products were \$1.3 billion. In the RIS business within the U.S. segment, which includes pension risk transfers, bank-owned life insurance and other fixed annuity contracts, as well as funding agreements and other capital market products, most of the products offered have fixed maturities or fairly predictable surrenders or withdrawals. With regard to the RIS business products that provide customers with limited rights to accelerate payments, at September 30, 2019 there were funding agreements totaling \$124 million that could be put back to the Company.

Pledged Collateral

We pledge collateral to, and have collateral pledged to us by, counterparties in connection with our derivatives. At September 30, 2019 and December 31, 2018, we had received pledged cash collateral from counterparties of \$6.9 billion and \$5.0 billion, respectively. At September 30, 2019 and December 31, 2018, we had pledged cash collateral to counterparties of \$326 million and \$283 million, respectively. See Note 7 of the Notes to the Interim Condensed Consolidated Financial Statements for additional information about collateral pledged to us, collateral we pledge and derivatives subject to credit contingent provisions.

We pledge collateral and have had collateral pledged to us, and may be required from time to time to pledge additional collateral or be entitled to have additional collateral pledged to us, in connection with the collateral financing arrangement related to the reinsurance of closed block liabilities.

We pledge collateral from time to time in connection with funding agreements and advance agreements. See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements, as well as Note 4 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Securities Lending

We participate in a securities lending program whereby securities are loaned to third parties, primarily brokerage firms and commercial banks. We obtain collateral, usually cash, from the borrower, which must be returned to the borrower when the loaned securities are returned to us. Under our securities lending program, we were liable for cash collateral under our control of \$19.0 billion and \$18.0 billion at September 30, 2019 and December 31, 2018, respectively. Of these amounts, \$4.0 billion and \$2.7 billion at September 30, 2019 and December 31, 2018, respectively, were on open, meaning that the related loaned security could be returned to us on the next business day, requiring the immediate return of cash collateral we hold. The estimated fair value of the securities on loan related to the cash collateral on open at September 30, 2019 was \$3.9 billion, all of which were U.S. government and agency securities which, if put to us, could be immediately sold to satisfy the cash requirement. See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements.

Repurchase Agreements

We participate in short-term repurchase agreements whereby securities are loaned to unaffiliated financial institutions. We obtain collateral, usually cash, from the borrower, which must be returned to the borrower when the loaned securities are returned to us. Under these repurchase agreements, we were liable for cash collateral under our control of \$1.8 billion and \$1.1 billion at September 30, 2019 and December 31, 2018, respectively. The estimated fair value of the securities on loan at September 30, 2019 was \$1.9 billion, which were primarily U.S. government and agency securities which, if put to us, could be immediately sold to satisfy the cash requirement. See Note 6 of the Notes to the Interim Condensed Consolidated Financial Statements.

Litigation

We establish liabilities for litigation and regulatory loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For material matters where a loss is believed to be reasonably possible but not probable, no accrual is made but we disclose the nature of the contingency and an aggregate estimate of the reasonably possible range of loss in excess of amounts accrued, when such an estimate can be made. It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings. In some of the matters referred to herein, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our consolidated net income or cash flows in particular quarterly or annual periods. See Note 16 of the Notes to the Interim Condensed Consolidated Financial Statements.

Contractual Obligations

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Contractual Obligations” included in the 2018 Annual Report for additional information regarding the Company’s contractual obligations.

MetLife, Inc.

Liquidity and Capital Management

Liquidity and capital are managed to preserve stable, reliable and cost-effective sources of cash to meet all current and future financial obligations and are provided by a variety of sources, including a portfolio of liquid assets, a diversified mix of short- and long-term funding sources from the wholesale financial markets and the ability to borrow through credit and committed facilities. Liquidity is monitored through the use of internal liquidity risk metrics, including the composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, access to the financial markets for capital and debt transactions and exposure to contingent draws on MetLife, Inc.’s liquidity. MetLife, Inc. is an active participant in the global financial markets through which it obtains a significant amount of funding. These markets, which serve as cost-effective sources of funds, are critical components of MetLife, Inc.’s liquidity and capital management. Decisions to access these markets are based upon relative costs, prospective views of balance sheet growth and a targeted liquidity profile and capital structure. A disruption in the financial markets could limit MetLife, Inc.’s access to liquidity.

MetLife, Inc.’s ability to maintain regular access to competitively priced wholesale funds is fostered by its current credit ratings from the major credit rating agencies. We view our capital ratios, credit quality, stable and diverse earnings streams, diversity of liquidity sources and our liquidity monitoring procedures as critical to retaining such credit ratings. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Capital — Rating Agencies” included in the 2018 Annual Report.

Liquidity

For a summary of MetLife, Inc.’s liquidity, see “— The Company — Liquidity.”

Capital

For a summary of MetLife, Inc.’s capital, see “— The Company — Capital.” See also “— The Company — Liquidity and Capital Uses — Common Stock Repurchases” for information regarding MetLife, Inc.’s common stock repurchases.

Liquid Assets

At September 30, 2019 and December 31, 2018, MetLife, Inc., collectively with other MetLife holding companies, had \$3.5 billion and \$3.0 billion, respectively, in liquid assets. Of these amounts, \$2.1 billion and \$2.4 billion were held by MetLife, Inc. and \$1.4 billion and \$607 million were held by other MetLife holding companies at September 30, 2019 and December 31, 2018, respectively. Liquid assets include cash and cash equivalents, short-term investments and publicly-traded securities, excluding assets that are pledged or otherwise committed. Assets pledged or otherwise committed include amounts received in connection with derivatives and a collateral financing arrangement.

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Liquid assets held in non-U.S. holding companies are generated in part through dividends from non-U.S. insurance operations. Such dividends are subject to local insurance regulatory requirements, as discussed in “— Liquidity and Capital Sources — Dividends from Subsidiaries.” The cumulative earnings of certain active non-U.S. operations have historically been reinvested indefinitely in such non-U.S. operations. Following a post-Separation review of our capital needs in the third quarter of 2017, we disclosed our intent to repatriate approximately \$3.0 billion of pre-2017 earnings. See Note 18 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report for information on the taxation of such cumulative earnings. The Company repatriated \$2.6 billion in the fourth quarter of 2017 and the remaining \$400 million in the second quarter of 2018. As a result of the Tax Cuts and Jobs Act of 2017, we expect to repatriate future foreign earnings back to the U.S. with minimal or no additional U.S. tax.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — MetLife, Inc. — Liquid Assets” included in the 2018 Annual Report for additional information on the sources and uses of liquid assets, as well as sources and uses of liquid assets included in free cash flow for MetLife, Inc. and other MetLife holding companies.

Liquidity and Capital Sources

In addition to the description of liquidity and capital sources in “— The Company — Summary of the Company’s Primary Sources and Uses of Liquidity and Capital” and “— The Company — Liquidity and Capital Sources,” MetLife, Inc.’s primary sources of liquidity and capital are set forth below.

Dividends from Subsidiaries

MetLife, Inc. relies, in part, on dividends from its subsidiaries to meet its cash requirements. MetLife, Inc.’s insurance subsidiaries are subject to regulatory restrictions on the payment of dividends imposed by the regulators of their respective domiciles. The dividend limitation for U.S. insurance subsidiaries is generally based on the surplus to policyholders at the end of the immediately preceding calendar year and statutory net gain from operations for the immediately preceding calendar year. Statutory accounting practices, as prescribed by insurance regulators of various states in which we conduct business, differ in certain respects from accounting principles used in financial statements prepared in conformity with GAAP. The significant differences relate to the treatment of DAC, certain deferred income tax, required investment liabilities, statutory reserve calculation assumptions, goodwill and surplus notes.

The table below sets forth the dividends permitted to be paid in 2019 by MetLife, Inc.’s primary U.S. insurance subsidiaries without insurance regulatory approval and the actual dividends paid for the nine months ended September 30, 2019:

Company	Paid (1)		Permitted Without Approval (2)	
	(In millions)			
Metropolitan Life Insurance Company	\$	2,146	\$	3,065
American Life Insurance Company	\$	600	\$	—
Metropolitan Property and Casualty Insurance Company	\$	—	\$	171
Metropolitan Tower Life Insurance Company	\$	—	\$	154

- (1) Reflects all amounts paid, including those where regulatory approval was obtained as required.
- (2) Reflects dividend amounts that may be paid during 2019 without prior regulatory approval. However, because dividend tests may be based on dividends previously paid over rolling 12-month periods, if paid before a specified date during 2019, some or all of such dividends may require regulatory approval.

The dividend capacity of our non-U.S. operations is subject to similar restrictions established by the local regulators. The non-U.S. regulatory regimes also commonly limit dividend payments to the parent company to a portion of the subsidiary’s prior year statutory income, as determined by the local accounting principles. The regulators of our non-U.S. operations, including Japan’s Financial Services Agency, may also limit or not permit profit repatriations or other transfers of funds to the U.S. if such transfers are deemed to be detrimental to the solvency or financial strength of the non-U.S. operations, or for other reasons. Most of our non-U.S. subsidiaries are second tier subsidiaries which are owned by various non-U.S. holding companies. The capital and rating considerations applicable to our first tier subsidiaries may also impact the dividend flow into MetLife, Inc.

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We proactively manage target and excess capital levels and dividend flows and forecast local capital positions as part of the financial planning cycle. The dividend capacity of certain U.S. and non-U.S. subsidiaries is also subject to business targets in excess of the minimum capital necessary to maintain the desired rating or level of financial strength in the relevant market. See “Risk Factors — Capital Risks — As a Holding Company, MetLife, Inc. Depends on the Ability of Its Subsidiaries to Pay Dividends, a Major Component of Holding Company Free Cash Flow” and Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Short-term Debt

MetLife, Inc. maintains a commercial paper program, the proceeds of which can be used to finance the general liquidity needs of MetLife, Inc. and its subsidiaries. MetLife, Inc. had no short-term debt outstanding at either September 30, 2019 or December 31, 2018.

Preferred Stock

For information on MetLife, Inc.’s preferred stock, see “— The Company — Liquidity and Capital Uses — Dividends,” as well as Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

Credit and Committed Facilities

See “— The Company — Liquidity and Capital Sources — Global Funding Sources — Credit and Committed Facilities” for further information regarding the Company’s unsecured revolving credit facility and certain committed facilities.

Long-term Debt Outstanding

The following table summarizes the outstanding long-term debt of MetLife, Inc. at:

	September 30, 2019		December 31, 2018	
	(In millions)			
Long-term debt — unaffiliated	\$	12,353	\$	11,844
Long-term debt — affiliated (1), (2)	\$	1,987	\$	1,957
Junior subordinated debt securities	\$	2,458	\$	2,456

(1) In July 2019, a ¥53.3 billion 1.448% senior note issued to MLIC matured and was refinanced with a ¥37.3 billion 1.602% senior note due July 2023 and a ¥16.0 billion 1.637% senior note due July 2026 issued to MLIC.

(2) In October 2019, a ¥26.5 billion 1.721% senior note issued to MLIC matured and was refinanced with a ¥26.5 billion 1.81% senior note due October 2029 issued to MLIC.

Debt and Facility Covenants

Certain of MetLife, Inc.’s debt instruments and committed facilities, as well as its unsecured revolving credit facility, contain various administrative, reporting, legal and financial covenants. MetLife, Inc. believes it was in compliance with all applicable financial covenants at September 30, 2019.

Liquidity and Capital Uses

The primary uses of liquidity of MetLife, Inc. include debt service, cash dividends on common and preferred stock, capital contributions to subsidiaries, common stock, preferred stock and debt repurchases, payment of general operating expenses and acquisitions. Based on our analysis and comparison of our current and future cash inflows from the dividends we receive from subsidiaries that are permitted to be paid without prior insurance regulatory approval, our investment portfolio and other cash flows and anticipated access to the capital markets, we believe there will be sufficient liquidity and capital to enable MetLife, Inc. to make payments on debt, pay cash dividends on its common and preferred stock, contribute capital to its subsidiaries, repurchase certain of its common stock and other securities, pay all general operating expenses and meet its cash needs under current market conditions and reasonably possible stress scenarios.

In addition to the description of liquidity and capital uses in “— The Company — Liquidity and Capital Uses,” MetLife, Inc.’s primary uses of liquidity and capital are set forth below.

Affiliated Capital and Debt Transactions

For the nine months ended September 30, 2019 and 2018, MetLife, Inc. invested a net amount of \$45 million and \$716 million, respectively, in various subsidiaries.

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MetLife, Inc. lends funds, as necessary, through credit agreements or otherwise to its subsidiaries and affiliates, some of which are regulated, to meet their capital requirements or to provide liquidity. MetLife, Inc. had loans to subsidiaries outstanding of \$100 million at both September 30, 2019 and December 31, 2018.

Support Agreements

MetLife, Inc. is party to various capital support commitments and guarantees with certain of its subsidiaries. Under these arrangements, MetLife, Inc. has agreed to cause each such entity to meet specified capital and surplus levels or has guaranteed certain contractual obligations. See “— The Company — Liquidity and Capital Uses — Support Agreements.”

Adoption of New Accounting Pronouncements

See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements.

Future Adoption of New Accounting Pronouncements

See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements.

Non-GAAP and Other Financial Disclosures

In this report, the Company presents certain measures of its performance on a consolidated and segment basis that are not calculated in accordance with GAAP. We believe that these non-GAAP financial measures enhance the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of our business. Segment-specific financial measures are calculated using only the portion of consolidated results attributable to that specific segment.

The following non-GAAP financial measures should not be viewed as substitutes for the most directly comparable financial measures calculated in accordance with GAAP:

Non-GAAP financial measures:		Comparable GAAP financial measures:	
(i)	adjusted earnings	(i)	net income (loss)
(ii)	adjusted earnings available to common shareholders	(ii)	net income (loss) available to MetLife, Inc.'s common shareholders

Any of these financial measures shown on a constant currency basis reflect the impact of changes in foreign currency exchange rates and are calculated using the average foreign currency exchange rates for the most recent period and applied to the comparable prior period (“constant currency basis”).

Reconciliations of these non-GAAP financial measures to the most directly comparable historical GAAP financial measures are included in the results of operations, see “— Results of Operations.” Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are not accessible on a forward-looking basis because we believe it is not possible without unreasonable effort to provide other than a range of net investment gains and losses and net derivative gains and losses, which can fluctuate significantly within or outside the range and from period to period and may have a material impact on net income.

Our definitions of non-GAAP and other financial measures discussed in this report may differ from those used by other companies.

Adjusted earnings and related measures:

- adjusted earnings;
- adjusted earnings available to common shareholders; and
- adjusted earnings available to common shareholders on a constant currency basis.

These measures are used by management to evaluate performance and allocate resources. Consistent with GAAP guidance for segment reporting, adjusted earnings and components of, or other financial measures based on, adjusted earnings are also our GAAP measures of segment performance. Adjusted earnings and other financial measures based on adjusted earnings are also the measures by which senior management's and many other employees' performance is evaluated for the purposes of determining their compensation under applicable compensation plans. Adjusted earnings and other financial measures based on adjusted earnings allow analysis of our performance relative to our business plan and facilitate comparisons to industry results.

Adjusted earnings is defined as adjusted revenues less adjusted expenses, net of income tax. Adjusted loss is defined as negative adjusted earnings. Adjusted earnings available to common shareholders is defined as adjusted earnings less preferred stock dividends.

Adjusted revenues and adjusted expenses

The financial measures of adjusted revenues and adjusted expenses focus on our primary businesses principally by excluding the impact of market volatility, which could distort trends, and revenues and costs related to non-core products and certain entities required to be consolidated under GAAP. Also, these measures exclude results of discontinued operations under GAAP and other businesses that have been or will be sold or exited by MetLife but do not meet the discontinued operations criteria under GAAP and are referred to as divested businesses. Divested businesses also includes the net impact of transactions with exited businesses that have been eliminated in consolidation under GAAP and costs relating to businesses that have been or will be sold or exited by MetLife that do not meet the criteria to be included in results of discontinued operations under GAAP. Adjusted revenues also excludes net investment gains (losses) and net derivative gains (losses). Adjusted expenses also excludes goodwill impairments.

The following additional adjustments are made to revenues, in the line items indicated, in calculating adjusted revenues:

- Universal life and investment-type product policy fees excludes the amortization of unearned revenue related to net investment gains (losses) and net derivative gains (losses) and certain variable annuity GMIB fees (“GMIB fees”);
- Net investment income: (i) includes adjustments for earned income on derivatives and amortization of premium on derivatives that are hedges of investments or that are used to replicate certain investments, but do not qualify for hedge accounting treatment (“Investment hedge adjustments”), (ii) excludes post-tax adjusted earnings adjustments relating to insurance joint ventures accounted for under the equity method, (iii) excludes certain amounts related to contractholder-directed equity securities (“Unit-linked contract income”), (iv) excludes certain amounts related to securitization entities that are VIEs consolidated under GAAP and (v) includes distributions of profits from certain other limited partnership interests that were previously accounted for under the cost method, but are now accounted for at estimated fair value, where the change in estimated fair value is recognized in net investment gains (losses) under GAAP; and
- Other revenues is adjusted for settlements of foreign currency earnings hedges and excludes fees received in association with services provided under transition service agreements (“TSA fees”).

The following additional adjustments are made to expenses, in the line items indicated, in calculating adjusted expenses:

- Policyholder benefits and claims and policyholder dividends excludes: (i) amortization of basis adjustments associated with de-designated fair value hedges of future policy benefits, (ii) changes in the policyholder dividend obligation related to net investment gains (losses) and net derivative gains (losses), (iii) inflation-indexed benefit adjustments associated with contracts backed by inflation-indexed investments and amounts associated with periodic crediting rate adjustments based on the total return of a contractually referenced pool of assets and other pass-through adjustments, (iv) benefits and hedging costs related to GMIBs (“GMIB costs”) and (v) market value adjustments associated with surrenders or terminations of contracts (“Market value adjustments”);
- Interest credited to policyholder account balances includes adjustments for earned income on derivatives and amortization of premium on derivatives that are hedges of policyholder account balances but do not qualify for hedge accounting treatment and excludes certain amounts related to net investment income earned on contractholder-directed equity securities;
- Amortization of DAC and VOBA excludes amounts related to: (i) net investment gains (losses) and net derivative gains (losses), (ii) GMIB fees and GMIB costs and (iii) Market value adjustments;
- Amortization of negative VOBA excludes amounts related to Market value adjustments;
- Interest expense on debt excludes certain amounts related to securitization entities that are VIEs consolidated under GAAP; and
- Other expenses excludes : (i) noncontrolling interests, (ii) implementation of new insurance regulatory requirement costs and (iii) acquisition, integration and other costs. Other expenses includes TSA fees.

Adjusted earnings also excludes the recognition of certain contingent assets and liabilities that could not be recognized at acquisition or adjusted for during the measurement period under GAAP business combination accounting guidance.

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The tax impact of the adjustments mentioned above are calculated net of the U.S. or foreign statutory tax rate, which could differ from our effective tax rate. Additionally, the provision for income tax (expense) benefit also includes the impact related to the timing of certain tax credits, as well as certain tax reforms.

Allocated equity:

- Allocated equity is the portion of MetLife, Inc.'s common stockholders' equity that management allocates to each of its segments and sub-segments based on local capital requirements and economic capital. See "— Economic Capital." Allocated equity excludes the impact of accumulated other comprehensive income other than foreign currency translation adjustments.

The above measure represents a level of equity consistent with the view that, in the ordinary course of business, we do not plan to sell most investments for the sole purpose of realizing gains or losses. Also, refer to the utilization of adjusted earnings and other financial measures based on adjusted earnings mentioned above.

The following additional information is relevant to an understanding of our performance results:

- We sometimes refer to sales activity for various products. These sales statistics do not correspond to revenues under GAAP, but are used as relevant measures of business activity. Further, sales statistics for our Latin America, Asia and EMEA segments are on a constant currency basis.
- Asymmetrical and non-economic accounting refers to: (i) the portion of net derivative gains (losses) on embedded derivatives attributable to the inclusion of our credit spreads in the liability valuations, (ii) hedging activity that generates net derivative gains (losses) and creates fluctuations in net income because hedge accounting cannot be achieved and the item being hedged does not have an offsetting gain or loss recognized in earnings, (iii) inflation-indexed benefit adjustments associated with contracts backed by inflation-indexed investments and amounts associated with periodic crediting rate adjustments based on the total return of a contractually referenced pool of assets and other pass through adjustments, and (iv) impact of changes in foreign currency exchange rates on the re-measurement of foreign denominated unhedged funding agreements and financing transactions to the U.S. dollar and the re-measurement of certain liabilities from non-functional currencies to functional currencies. We believe that excluding the impact of asymmetrical and non-economic accounting from total GAAP results enhances investor understanding of our performance by disclosing how these accounting practices affect reported GAAP results.
- The Company uses a measure of free cash flow to facilitate an understanding of its ability to generate cash for reinvestment into its businesses or use in non-mandatory capital actions. The Company defines free cash flow as the sum of cash available at MetLife's holding companies from dividends from operating subsidiaries, expenses and other net flows of the holding companies (including capital contributions to subsidiaries), and net contributions from debt to be at or below target leverage ratios. This measure of free cash flow is prior to capital actions, such as common stock dividends and repurchases, debt reduction and mergers and acquisitions. Free cash flow should not be viewed as a substitute for net cash provided by (used in) operating activities calculated in accordance with GAAP. The free cash flow ratio is typically expressed as a percentage of annual adjusted earnings available to common shareholders.

Subsequent Events

See Note 17 of the Notes to the Interim Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We regularly analyze our exposure to interest rate, equity market price and foreign currency exchange rate risks. As a result of that analysis, we have determined that the estimated fair values of certain assets and liabilities are materially exposed to changes in interest rates, foreign currency exchange rates and changes in the equity markets. We have exposure to market risk through our insurance operations and investment activities. We use a variety of strategies to manage interest rate, foreign currency exchange rate and equity market risk, including the use of derivatives. A description of our market risk exposures may be found under “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A, of the 2018 Annual Report.

Item 4. Controls and Procedures

Management, with the participation of the Chief Executive Officer (“CEO”) and CFO, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO have concluded that these disclosure controls and procedures are effective.

There were no changes to the Company’s internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Part II — Other Information

Item 1. Legal Proceedings

See Note 16 of the Notes to the Interim Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

Certain factors that may affect the Company's business or operations are described under "Risk Factors" in Part I, Item 1A, of the 2018 Annual Report, as amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q under Item 1A. Risk Factors. There have been no material changes to our risk factors from the risk factors previously disclosed in the 2018 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Purchases of MetLife, Inc. common stock made by or on behalf of MetLife, Inc. or its affiliates during the quarter ended September 30, 2019 are set forth below:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2)
July 1 — July 31, 2019	—	\$ —	—	\$ 2,020,341,538
August 1 — August 31, 2019	17,080,320	\$ 45.96	17,080,320	\$ 1,235,343,798
September 1 — September 30, 2019	2,190	\$ 44.31	—	\$ 1,235,343,798
Total	17,082,510		17,080,320	

- (1) Except for the foregoing, there were no shares of MetLife, Inc. common stock repurchased by MetLife, Inc. During the periods July 1 through July 31, 2019, August 1 through August 31, 2019 and September 1 through September 30, 2019, separate account index funds purchased 0 shares, 0 shares and 2,190 shares, respectively, of MetLife, Inc. common stock on the open market in non-discretionary transactions.
- (2) In July 2019, MetLife, Inc. announced that its Board of Directors authorized \$2.0 billion of common stock repurchases. At September 30, 2019, MetLife, Inc. had \$1.2 billion of common stock repurchases remaining under this authorization. For more information on common stock repurchases, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Liquidity and Capital Uses — Common Stock Repurchases." See also "Risk Factors — Capital Risks — Legal and Regulatory Restrictions May Prevent Us from Paying Dividends and Repurchasing Our Stock at the Level We Wish" and Note 15 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

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Item 6. Exhibits

(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 affiliates, 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 (i) 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; (ii) 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; (iii) may apply standards of materiality in a way that is different from what may be viewed as material to investors; and (iv) 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., its subsidiaries and affiliates 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 U.S. Securities and Exchange Commission website at www.sec.gov.)

Exhibit No.	Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Exhibit	Filing Date	
10.1	Description of Agreement between Kishore Ponnayolu and MetLife, Inc. dated April 23, 2019 (corrects and supersedes Exhibit 10.2 to MetLife, Inc. Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2019 by replacing the prior reference to "December 2019" with a correct reference to "December 2018").*					X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).					X

*Indicates management contracts or compensatory plans or arrangements.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METLIFE, INC.

/s/ Tamara L. Schock

By:

Name: Tamara L. Schock
Title: Executive Vice President
and Chief Accounting Officer
(Authorized Signatory and Principal
Accounting Officer)

Date: November 4, 2019

Description of Agreement between Kishore Ponnnavolu and MetLife, Inc. dated April 23, 2019

In December 2018, MetLife, Inc. asked Kishore Ponnnavolu, its President, Asia, to travel from the U.S. to Japan on short notice to cover urgent business matters, including meetings with regulators. Mr. Ponnnavolu's family joined him in Asia for this period. On April 23, 2019 MetLife, Inc. agreed to reimburse Mr. Ponnnavolu for his family travel expenses on this trip, at an incremental cost of approximately U.S. \$75,000. MetLife, Inc. will not make Mr. Ponnnavolu whole for any of his taxes on this item.

CERTIFICATIONS

I, Michel A. Khalaf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MetLife, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Michel A. Khalaf

Michel A. Khalaf
President and
Chief Executive Officer

CERTIFICATIONS

I, John D. McCallion, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MetLife, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ John D. McCallion

John D. McCallion
Executive Vice President,
Chief Financial Officer and Treasurer

SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE
UNITED STATES CODE

I, Michel A. Khalaf, certify that (i) MetLife, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of MetLife, Inc.

Date: November 4, 2019

/s/ Michel A. Khalaf

Michel A. Khalaf
President and
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to MetLife, Inc. and will be retained by MetLife, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE
UNITED STATES CODE

I, John D. McCallion, certify that (i) MetLife, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of MetLife, Inc.

Date: November 4, 2019

/s/ John D. McCallion

John D. McCallion
Executive Vice President,
Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to MetLife, Inc. and will be retained by MetLife, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.