

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 quarter ended June 30, 2020

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: 000-55029

Metropolitan Life Insurance Company

(Exact name of registrant as specified in its charter)

Company details including New York jurisdiction, 200 Park Avenue, NY, I.R.S. Employer Identification No. 13-5581829, 10166-0188, and telephone number (212) 578-9500.

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

Table with 3 columns: Title of each class, Trading Symbol(s), Name of each exchange on which registered.

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 [X] 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 [X] 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 [X] 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 [X]

At August 11, 2020, 494,466,664 shares of the registrant's common stock, \$0.01 par value per share, were outstanding, all of which were owned directly by MetLife, Inc.

REDUCED DISCLOSURE FORMAT

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is, therefore, filing this Form 10-Q with the reduced disclosure format.

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As used in this Form 10-Q, “MLIC,” the “Company,” “we,” “our” and “us” refer to Metropolitan Life Insurance Company, a New York corporation incorporated in 1868, and its subsidiaries. Metropolitan Life Insurance Company is a wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”).

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,” “assume,” “become,” “believe,” “can,” “continue,” “could,” “emerging,” “estimate,” “expect,” “forecast,” “foresee,” “future,” “if,” “implement,” “intend,” “likely,” “may,” “permit,” “plan,” “possible,” “potential,” “predict,” “probable,” “project,” “propose,” “prospect,” “remain,” “risk,” “scheduled,” “should,” “ultimate,” “vary,” “when,” “will,” “would” and other words and terms of similar meaning, in each of their forms of speech, or that 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 Metropolitan Life Insurance Company, 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 Metropolitan Life Insurance Company’s filings with the U.S. Securities and Exchange Commission. These factors include: (1) the course of the COVID-19 pandemic, and responses to it, which may also precipitate or exacerbate the remaining risks; (2) difficult economic conditions, including risks relating to interest rates, credit spreads, equity, real estate, obligors and counterparties, derivatives, and terrorism and security; (3) adverse global capital and credit market conditions, which may affect our ability to meet liquidity needs and access capital, including through credit facilities; (4) downgrades in our claims paying ability, financial strength or credit ratings; (5) availability and effectiveness of reinsurance, hedging or indemnification arrangements; (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) investment losses, defaults and volatility; (10) potential liquidity and other risks resulting from our participation in a securities lending program and other transactions; (11) differences between actual claims experience and underwriting and reserving assumptions; (12) the impact of technological changes on our businesses; (13) catastrophe losses; (14) a deterioration in the experience of the closed block established in connection with the reorganization of Metropolitan Life Insurance Company; (15) changes in assumptions related to deferred policy acquisition costs, deferred sales inducements or value of business acquired; (16) exposure to losses related to guarantees in certain products; (17) ineffectiveness of risk management policies and procedures or models; (18) a failure in MetLife’s cybersecurity systems or other information security systems or MetLife’s disaster recovery plans; (19) any failure to protect the confidentiality of client information; (20) changes in accounting standards; (21) MetLife associates taking excessive risks; (22) difficulties in or complications from marketing and distributing products through our distribution channels; (23) difficulties, unforeseen liabilities, asset impairments, or rating agency actions arising from business acquisitions and dispositions, joint ventures, or other legal entity reorganizations; and (24) other risks and uncertainties described from time to time in Metropolitan Life Insurance Company’s filings with the U.S. Securities and Exchange Commission.

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

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

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)
Interim Condensed Consolidated Balance Sheets
June 30, 2020 and December 31, 2019 (Unaudited)
(In millions, except share and per share data)

	June 30, 2020	December 31, 2019
Assets		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: \$159,836 and \$154,397, respectively; allowance for credit loss of \$44 and \$0, respectively)	\$ 179,824	\$ 169,564
Mortgage loans (net of allowance for credit loss of \$497 and \$289, respectively; includes \$198 and \$210, respectively, relating to variable interest entities; includes \$175 and \$188, respectively, under the fair value option and \$0 and \$59, respectively, of mortgage loans held-for-sale)	66,604	65,549
Policy loans	6,043	6,100
Real estate and real estate joint ventures (includes \$1,405 and \$1,378, respectively, relating to variable interest entities and \$155 and \$127, respectively, under the fair value option)	7,003	6,659
Other limited partnership interests	4,886	4,954
Short-term investments at estimated fair value	3,438	1,883
Other invested assets (includes \$1,035 and \$1,085, respectively, of leveraged and direct financing leases and \$91 and \$94, respectively, relating to variable interest entities)	21,690	16,979
Total investments	289,488	271,688
Cash and cash equivalents, principally at estimated fair value (includes \$17 and \$5, respectively, relating to variable interest entities)	13,116	8,927
Accrued investment income (includes \$1 and \$1, respectively, relating to variable interest entities)	1,971	1,987
Premiums, reinsurance and other receivables (includes \$2 and \$3, respectively, relating to variable interest entities)	23,033	22,435
Deferred policy acquisition costs and value of business acquired	3,099	3,453
Other assets (includes \$2 and \$2, respectively, relating to variable interest entities)	5,134	4,460
Separate account assets	121,110	117,867
Total assets	\$ 456,951	\$ 430,817
Liabilities and Equity		
Liabilities		
Future policy benefits	\$ 130,237	\$ 128,304
Policyholder account balances	97,522	91,708
Other policy-related balances	7,880	7,732
Policyholder dividends payable	497	495
Policyholder dividend obligation	2,798	2,020
Payables for collateral under securities loaned and other transactions	26,410	20,365
Short-term debt	127	128
Long-term debt (includes \$5 and \$5, respectively, at estimated fair value, relating to variable interest entities)	1,633	1,548
Current income tax payable	333	388
Deferred income tax liability	3,233	1,568
Other liabilities	26,382	26,082
Separate account liabilities	121,110	117,867
Total liabilities	418,162	398,205
Contingencies, Commitments and Guarantees (Note 12)		
Equity		
Metropolitan Life Insurance Company stockholder's equity:		
Common stock, par value \$0.01 per share; 1,000,000,000 shares authorized; 494,466,664 shares issued and outstanding	5	5
Additional paid-in capital	12,457	12,455
Retained earnings	11,917	9,943
Accumulated other comprehensive income (loss) ("AOCI")	14,226	10,025
Total Metropolitan Life Insurance Company stockholder's equity	38,605	32,428
Noncontrolling interests	184	184
Total equity	38,789	32,612
Total liabilities and equity	\$ 456,951	\$ 430,817

See accompanying notes to the interim condensed consolidated financial statements.

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Three Months and Six Months Ended June 30, 2020 and 2019 (Unaudited)

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues				
Premiums	\$ 4,721	\$ 5,154	\$ 9,969	\$ 10,206
Universal life and investment-type product policy fees	479	521	1,007	1,024
Net investment income	2,005	2,794	4,649	5,439
Other revenues	403	403	776	804
Net investment gains (losses)	56	66	(126)	12
Net derivative gains (losses)	(793)	208	2,762	(102)
Total revenues	<u>6,871</u>	<u>9,146</u>	<u>19,037</u>	<u>17,383</u>
Expenses				
Policyholder benefits and claims	5,423	5,765	11,102	11,427
Interest credited to policyholder account balances	571	663	1,182	1,325
Policyholder dividends	246	260	494	517
Other expenses	1,087	1,235	2,378	2,383
Total expenses	<u>7,327</u>	<u>7,923</u>	<u>15,156</u>	<u>15,652</u>
Income (loss) before provision for income tax	(456)	1,223	3,881	1,731
Provision for income tax expense (benefit)	(171)	156	619	156
Net income (loss)	<u>(285)</u>	<u>1,067</u>	<u>3,262</u>	<u>1,575</u>
Less: Net income (loss) attributable to noncontrolling interests	—	—	(2)	1
Net income (loss) attributable to Metropolitan Life Insurance Company	<u>\$ (285)</u>	<u>\$ 1,067</u>	<u>\$ 3,264</u>	<u>\$ 1,574</u>
Comprehensive income (loss)	<u>\$ 2,650</u>	<u>\$ 3,540</u>	<u>\$ 7,463</u>	<u>\$ 6,986</u>
Less: Comprehensive income (loss) attributable to noncontrolling interests, net of income tax	—	—	(2)	1
Comprehensive income (loss) attributable to Metropolitan Life Insurance Company	<u>\$ 2,650</u>	<u>\$ 3,540</u>	<u>\$ 7,465</u>	<u>\$ 6,985</u>

See accompanying notes to the interim condensed consolidated financial statements.

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)
Interim Condensed Consolidated Statements of Equity
For the Six Months Ended June 30, 2020 and 2019 (Unaudited)

(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Metropolitan Life Insurance Company Stockholder's Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2019	\$ 5	\$ 12,455	\$ 9,943	\$ 10,025	\$ 32,428	\$ 184	\$ 32,612
Cumulative effects of changes in accounting principles, net of income tax (Note 1)			(113)		(113)		(113)
Balance at January 1, 2020	5	12,455	9,830	10,025	32,315	184	32,499
Capital contributions from MetLife, Inc.		1			1		1
Dividends to MetLife, Inc.			(393)		(393)		(393)
Change in equity of noncontrolling interests					—	3	3
Net income (loss)			3,549		3,549	(2)	3,547
Other comprehensive income (loss), net of income tax				1,266	1,266		1,266
Balance at March 31, 2020	5	12,456	12,986	11,291	36,738	185	36,923
Capital contributions from MetLife, Inc.		1			1		1
Dividends to MetLife, Inc.			(784)		(784)		(784)
Change in equity of noncontrolling interests					—	(1)	(1)
Net income (loss)			(285)		(285)		(285)
Other comprehensive income (loss), net of income tax				2,935	2,935		2,935
Balance at June 30, 2020	\$ 5	\$ 12,457	\$ 11,917	\$ 14,226	\$ 38,605	\$ 184	\$ 38,789
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Metropolitan Life Insurance Company Stockholder's Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2018	\$ 5	\$ 12,450	\$ 9,512	\$ 3,562	\$ 25,529	\$ 198	\$ 25,727
Cumulative effects of changes in accounting principles, net of income tax			78	17	95		95
Balance at January 1, 2019	5	12,450	9,590	3,579	25,624	198	25,822
Capital contributions from MetLife, Inc.		1			1		1
Dividends to MetLife, Inc.			(2,146)		(2,146)		(2,146)
Change in equity of noncontrolling interests					—	(4)	(4)
Net income (loss)			507		507	1	508
Other comprehensive income (loss), net of income tax				2,938	2,938		2,938
Balance at March 31, 2019	5	12,451	7,951	6,517	26,924	195	27,119
Capital contributions from MetLife, Inc.		1			1		1
Change in equity of noncontrolling interests					—	12	12
Net income (loss)			1,067		1,067		1,067
Other comprehensive income (loss), net of income tax				2,473	2,473		2,473
Balance at June 30, 2019	\$ 5	\$ 12,452	\$ 9,018	\$ 8,990	\$ 30,465	\$ 207	\$ 30,672

See accompanying notes to the interim condensed consolidated financial statements.

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Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)
Interim Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2020 and 2019 (Unaudited)
(In millions)

	Six Months Ended June 30,	
	2020	2019
Net cash provided by (used in) operating activities	\$ 366	\$ 2,009
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturity securities available-for-sale	23,674	28,997
Equity securities	89	83
Mortgage loans	4,430	4,763
Real estate and real estate joint ventures	55	110
Other limited partnership interests	204	269
Purchases and originations of:		
Fixed maturity securities available-for-sale	(28,143)	(25,773)
Equity securities	(34)	(31)
Mortgage loans	(5,643)	(5,779)
Real estate and real estate joint ventures	(532)	(493)
Other limited partnership interests	(495)	(463)
Cash received in connection with freestanding derivatives	4,094	958
Cash paid in connection with freestanding derivatives	(1,270)	(1,261)
Net change in policy loans	57	(3)
Net change in short-term investments	(1,504)	397
Net change in other invested assets	100	147
Net change in property, equipment and leasehold improvements	6	(8)
Other, net	15	9
Net cash provided by (used in) investing activities	(4,897)	1,922
Cash flows from financing activities		
Policyholder account balances:		
Deposits	41,986	35,914
Withdrawals	(38,035)	(35,034)
Net change in payables for collateral under securities loaned and other transactions	6,045	(209)
Long-term debt issued	78	—
Long-term debt repaid	(12)	(17)
Financing element on certain derivative instruments and other derivative related transactions, net	(167)	(49)
Dividends paid to MetLife, Inc.	(1,177)	(2,146)
Other, net	2	4
Net cash provided by (used in) financing activities	8,720	(1,537)
Effect of change in foreign currency exchange rates on cash and cash equivalents balances	—	(7)
Change in cash and cash equivalents	4,189	2,387
Cash and cash equivalents, beginning of period	8,927	6,882
Cash and cash equivalents, end of period	\$ 13,116	\$ 9,269
Supplemental disclosures of cash flow information		
Net cash paid (received) for:		
Interest	\$ 50	\$ 52
Income tax	\$ 122	\$ 402
Non-cash transactions:		
Capital contributions from MetLife, Inc.	\$ 2	\$ 2
Operating lease liability associated with the recognition of right-of-use assets	\$ —	\$ 141
Increase in policyholder account balances associated with funding agreement backed notes issued but not settled	\$ 750	\$ —

See accompanying notes to the interim condensed consolidated financial statements.

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

Business

Metropolitan Life Insurance Company and its subsidiaries (collectively, “MLIC” or the “Company”) is a provider of insurance, annuities, employee benefits and asset management and is organized into two segments: U.S. and MetLife Holdings. Metropolitan Life Insurance Company is a wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”).

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, including the novel coronavirus COVID-19 pandemic (“COVID-19 Pandemic”). 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, 2019 consolidated balance sheet data was derived from audited consolidated financial statements included in Metropolitan Life Insurance Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 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 2019 Annual Report.

Consolidation

The accompanying interim condensed consolidated financial statements include the accounts of Metropolitan Life Insurance Company 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 or the fair value option (“FVO”) 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.

Since the Company is a member of a controlled group of affiliated companies, its results may not be indicative of those of a stand-alone entity.

Summary of Significant Accounting Policies

The following are the Company’s significant accounting policies updated for the January 1, 2020 adoption of a new accounting pronouncement related to investments.

Net Investment Income and Net Investment Gains (Losses)

Income from investments is reported within net investment income, unless otherwise stated herein. Gains and losses on sales of investments, intent-to-sell impairments, as well as provisions for credit loss in the allowance for credit loss (“ACL”) on fixed maturity securities available-for-sale (“AFS”), mortgage loans and investments in leases and subsequent changes in the ACL or for impairment losses on real estate investments, are reported within net investment gains (losses), unless otherwise stated herein. Accrued investment income is presented separately on the consolidated balance sheet and excluded from the carrying value of the related investments, primarily fixed maturity securities AFS and mortgage loans.

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)

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

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

Fixed Maturity Securities

The majority of the Company's fixed maturity securities are classified as AFS and are reported at their estimated fair value. Unrealized investment gains and losses on these securities are recorded as a separate component of other comprehensive income (loss) ("OCI"), net of policy-related amounts and deferred income taxes. All security transactions are recorded on a trade date basis. Sales of securities are determined on a specific identification basis.

Interest income and prepayment fees are recognized when earned. Interest income is recognized using an effective yield method giving effect to amortization of premium and accretion of discount and is based on the estimated economic life of the securities, which for mortgage-backed and asset-backed securities considers the estimated timing and amount of prepayments of the underlying loans. See Note 7 "— Fixed Maturity Securities AFS — Methodology for Amortization of Premium and Accretion of Discount on Structured Products" in the Notes to the Consolidated Financial Statements included in the 2019 Annual Report. The amortization of premium and accretion of discount also take into consideration call and maturity dates.

The Company periodically evaluates its fixed maturity securities AFS for impairment. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value as described in Note 5 "— Fixed Maturity Securities Available-for-Sale — Evaluation of Fixed Maturity Securities AFS for Credit Loss."

Prior to January 1, 2020, the Company applied other than temporary impairment ("OTTI") guidance for securities in an unrealized loss position. An OTTI was recognized in earnings within net investment gains (losses) when it was anticipated that the amortized cost would not be recovered. When either: (i) the Company had the intent to sell the security, or (ii) it was more likely than not that the Company would be required to sell the security before recovery, the reduction of amortized cost and the OTTI recognized in earnings was the entire difference between the security's amortized cost and estimated fair value. If neither of these conditions existed, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected was recognized as a reduction of amortized cost and an OTTI in earnings. If the estimated fair value was less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors was recorded in OCI.

On January 1, 2020, the Company adopted accounting standards update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13") using a modified retrospective approach. Under ASU 2016-13, for securities in an unrealized loss position, a credit loss is recognized in earnings within net investment gains (losses) when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security, or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the reduction of amortized cost and the loss recognized in earnings is the entire difference between the security's amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as a "credit loss" by establishing an ACL with a corresponding charge to earnings in net investment gains (losses). However, the ACL is limited by the amount that the fair value is less than the amortized cost. This limitation is known as the "fair value floor." If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of the decline in value related to other-than-credit factors ("noncredit loss") is recorded in OCI.

The new guidance also replaces the model for purchased credit impaired ("PCI") fixed maturity securities AFS and financing receivables and requires the establishment of an ACL at acquisition, which is added to the purchase price to establish the initial amortized cost of the investment. Upon adoption, the replacement of the PCI model did not have a material impact on the Company's interim condensed consolidated financial statements.

Mortgage Loans

ASU 2016-13 requires an ACL based on the expectation of lifetime credit loss on financing receivables carried at amortized cost, including, but not limited to, mortgage loans and leveraged and direct financing leases, as described in Note 5.

The Company disaggregates its mortgage loan investments into three portfolio segments: commercial, agricultural and residential. Also included in commercial mortgage loans are revolving line of credit loans collateralized by commercial properties. The accounting policies that are applicable to all portfolio segments are presented below and the accounting policies related to each of the portfolio segments are included in Note 5.

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)

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

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

Mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, deferred fees or expenses, and are net of ACL. Interest income and prepayment fees are recognized when earned. Interest income is recognized using an effective yield method giving effect to amortization of premium and accretion of discount.

The Company ceases to accrue interest when the collection of interest is not considered probable, which is based on a current evaluation of the status of the borrower including the number of days past due. When a loan is placed on non-accrual status, uncollected past due accrued interest income that is considered uncollectible is charged-off against net investment income. Generally, the accrual of interest income resumes after all delinquent amounts are paid and management believes all future principal and interest payments will be collected. The Company records cash receipts on non-accruing loans in accordance with the loan agreement. The Company records charge-offs upon the realization of a credit loss, typically through foreclosure or after a decision is made to sell a loan, or for residential loans when, after considering the individual consumer's financial status, management believes amounts are not collectible. Gain or loss upon charge-off is recorded, net of previously established ACL, in net investment gains (losses). Cash recoveries on principal amounts previously charged-off are generally recorded in net investment gains.

Also included in mortgage loans are residential mortgage loans for which the FVO was elected, and which are stated at estimated fair value. Changes in estimated fair value are recognized in net investment income.

Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of 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.

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of 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, 2020 did not have a material impact on its consolidated financial statements or disclosures.

Standard	Description	Effective Date and Method of Adoption	Impact on Financial Statements
ASU 2020-04, <i>Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting</i>	The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, with certain exceptions.	Effective for contract modifications made between March 12, 2020 and December 31, 2022.	The new guidance reduces the operational and financial impacts of contract modifications that replace a reference rate, such as London InterBank Offered Rate (LIBOR), affected by reference rate reform. The adoption of the new guidance did not have an impact on the Company's interim condensed consolidated financial statements. The Company will continue to evaluate the impacts of reference rate reform on contract modifications and hedging relationships through December 31, 2022.
ASU 2017-04, <i>Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment</i>	The new guidance simplifies the former two-step goodwill impairment test by eliminating Step 2 of the test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. 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, the Company adopted, using a prospective approach.	The adoption of the new guidance reduced the complexity involved with the evaluation of goodwill for impairment and did not have a material impact on the Company's consolidated financial statements.
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, and Topic 825, Financial Instruments</i> ; ASU 2019-05, <i>Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief</i> ; and ASU 2019-11, <i>Codification Improvements to Topic 326, Financial Instruments-Credit Losses</i>	<p>This new guidance requires an ACL based on the expectation of lifetime credit loss on financing receivables carried at amortized cost, including, but not limited to, mortgage loans, premium receivables, reinsurance receivables and leveraged and direct financing leases.</p> <p>The former model for OTTI on fixed maturity securities AFS has been modified and requires the recording of an ACL instead of a reduction of the amortized cost. Any improvements in expected future cash flows will no longer be reflected as a prospective yield adjustment, but instead will be reflected as a reduction in the ACL. The new guidance also replaces the model for PCI fixed maturity securities AFS and financing receivables and requires the establishment of an ACL at acquisition, which is added to the purchase price to establish the initial amortized cost of the investment.</p> <p>The new guidance also requires enhanced disclosures.</p>	January 1, 2020 for substantially all financial assets, the Company adopted using a modified retrospective approach. For previously impaired fixed maturity securities AFS and certain fixed maturity securities AFS acquired with evidence of credit quality deterioration since origination, the Company adopted prospectively on January 1, 2020.	The adoption of this guidance resulted in a \$113 million, net of income tax, decrease to retained earnings primarily related to the Company's mortgage loan investments. The Company has included the required disclosures within Note 5.

Metropolitan Life Insurance Company
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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 or disclosures. ASUs issued but not yet adopted as of June 30, 2020 that are currently being assessed and may or may not have a material impact on the Company's consolidated financial statements or disclosures are summarized in the table below.

Standard	Description	Effective Date and Method of Adoption	Impact on Financial Statements
ASU 2019-12, <i>Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes</i>	The new guidance simplifies the accounting for income taxes by removing certain exceptions to the tax accounting guidance and providing clarification to other specific tax accounting guidance to eliminate variations in practice. Specifically, it removes the exceptions related to the a) incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, b) recognition of a deferred tax liability when foreign investment ownership changes from equity method investment to consolidated subsidiary and vice versa and c) use of interim period tax accounting for year-to-date losses that exceed anticipated losses. The guidance also simplifies the application of the income tax guidance for franchise taxes that are partially based on income and the accounting for tax law changes during interim periods, clarifies the accounting for transactions that result in a step-up in tax basis of goodwill, provides for the option to elect allocation of consolidated income taxes to entities disregarded by taxing authorities for their stand-alone reporting, and requires that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.	January 1, 2021. The new guidance should be applied either on a retrospective, modified retrospective or prospective basis based on the items to which the amendments relate. Early adoption is permitted.	The Company has started its implementation efforts and is currently evaluating the impact of the new guidance on its consolidated financial statements.
ASU 2018-12, <i>Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts</i> , as amended by ASU 2019-09, <i>Financial Services—Insurance (Topic 944): Effective Date</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. The amendments in ASU 2019-09 defer the effective date of the amendments in ASU 2018-12 for all entities.	January 1, 2022, to be applied retrospectively to January 1, 2020 (with early adoption permitted).	The implementation efforts of the Company and the evaluation of the impact of the new guidance are in progress. 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.

Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

2. Segment Information

The Company is organized into two segments: U.S. 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 two businesses: Group Benefits and Retirement and Income Solutions (“RIS”).

- 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.

MetLife Holdings

The MetLife Holdings segment consists of operations relating to products and businesses, previously included in MLIC’s former retail business, that the Company no longer actively markets, such as variable, universal, term and whole life insurance, variable, fixed and index-linked annuities, and long-term care insurance.

Corporate & Other

Corporate & Other contains various start-up, developing and run-off businesses. Also included in Corporate & Other are: the excess capital, as well as certain charges and activities, not allocated to the segments (including enterprise-wide strategic initiative restructuring charges), the Company’s ancillary non-U.S. operations, interest expense related to the majority of the Company’s outstanding debt, expenses associated with certain legal proceedings and income tax audit issues, and the elimination of intersegment amounts (which generally relate to affiliated reinsurance and intersegment loans, bearing 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 MLIC but do not meet the discontinued operations criteria under GAAP and are referred to as divested businesses. Divested businesses also include 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 MLIC 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).

Metropolitan Life Insurance Company
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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”); and
- 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 securitization entities that are VIEs consolidated under GAAP and (iv) 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.

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) 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;
- 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;
- 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) acquisition, integration and other costs, and (iii) goodwill impairments.

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 six months ended June 30, 2020 and 2019. 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 MetLife’s and the Company’s business.

MetLife’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. 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 the Company’s consolidated net investment income, net income (loss), or adjusted earnings.

Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

2. Segment Information (continued)

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.

Three Months Ended June 30, 2020	U.S.	MetLife Holdings	Corporate & Other	Total	Adjustments	Total Consolidated
(In millions)						
Revenues						
Premiums	\$ 3,981	\$ 740	\$ —	\$ 4,721	\$ —	\$ 4,721
Universal life and investment-type product policy fees	260	198	—	458	21	479
Net investment income	1,339	857	(55)	2,141	(136)	2,005
Other revenues	215	68	120	403	—	403
Net investment gains (losses)	—	—	—	—	56	56
Net derivative gains (losses)	—	—	—	—	(793)	(793)
Total revenues	<u>5,795</u>	<u>1,863</u>	<u>65</u>	<u>7,723</u>	<u>(852)</u>	<u>6,871</u>
Expenses						
Policyholder benefits and claims and policyholder dividends	4,106	1,455	—	5,561	108	5,669
Interest credited to policyholder account balances	401	173	—	574	(3)	571
Capitalization of DAC	(18)	5	—	(13)	—	(13)
Amortization of DAC and VOBA	13	(6)	—	7	(23)	(16)
Interest expense on debt	2	1	23	26	—	26
Other expenses	742	208	137	1,087	3	1,090
Total expenses	<u>5,246</u>	<u>1,836</u>	<u>160</u>	<u>7,242</u>	<u>85</u>	<u>7,327</u>
Provision for income tax expense (benefit)	117	1	(92)	26	(197)	(171)
Adjusted earnings	<u>\$ 432</u>	<u>\$ 26</u>	<u>\$ (3)</u>	455		
Adjustments to:						
Total revenues				(852)		
Total expenses				(85)		
Provision for income tax (expense) benefit				197		
Net income (loss)				<u>\$ (285)</u>		<u>\$ (285)</u>

Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

2. Segment Information (continued)

Three Months Ended June 30, 2019	U.S.	MetLife Holdings	Corporate & Other	Total	Adjustments	Total Consolidated
(In millions)						
Revenues						
Premiums	\$ 4,380	\$ 774	\$ —	\$ 5,154	\$ —	\$ 5,154
Universal life and investment-type product policy fees	264	235	—	499	22	521
Net investment income	1,701	1,191	(26)	2,866	(72)	2,794
Other revenues	202	51	150	403	—	403
Net investment gains (losses)	—	—	—	—	66	66
Net derivative gains (losses)	—	—	—	—	208	208
Total revenues	<u>6,547</u>	<u>2,251</u>	<u>124</u>	<u>8,922</u>	<u>224</u>	<u>9,146</u>
Expenses						
Policyholder benefits and claims and policyholder dividends	4,522	1,456	—	5,978	47	6,025
Interest credited to policyholder account balances	488	180	—	668	(5)	663
Capitalization of DAC	(19)	2	—	(17)	—	(17)
Amortization of DAC and VOBA	13	60	—	73	(32)	41
Interest expense on debt	2	2	22	26	—	26
Other expenses	724	206	255	1,185	—	1,185
Total expenses	<u>5,730</u>	<u>1,906</u>	<u>277</u>	<u>7,913</u>	<u>10</u>	<u>7,923</u>
Provision for income tax expense (benefit)	169	67	(126)	110	46	156
Adjusted earnings	<u>\$ 648</u>	<u>\$ 278</u>	<u>\$ (27)</u>	899		
Adjustments to:						
Total revenues				224		
Total expenses				(10)		
Provision for income tax (expense) benefit				(46)		
Net income (loss)				<u>\$ 1,067</u>		<u>\$ 1,067</u>

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Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

2. Segment Information (continued)

Six Months Ended June 30, 2020	U.S.	MetLife Holdings	Corporate & Other	Total	Adjustments	Total Consolidated
(In millions)						
Revenues						
Premiums	\$ 8,491	\$ 1,478	\$ —	\$ 9,969	\$ —	\$ 9,969
Universal life and investment-type product policy fees	522	442	—	964	43	1,007
Net investment income	2,973	2,023	(125)	4,871	(222)	4,649
Other revenues	429	94	253	776	—	776
Net investment gains (losses)	—	—	—	—	(126)	(126)
Net derivative gains (losses)	—	—	—	—	2,762	2,762
Total revenues	12,415	4,037	128	16,580	2,457	19,037
Expenses						
Policyholder benefits and claims and policyholder dividends	8,667	2,852	—	11,519	77	11,596
Interest credited to policyholder account balances	843	346	—	1,189	(7)	1,182
Capitalization of DAC	(32)	9	—	(23)	—	(23)
Amortization of DAC and VOBA	27	73	—	100	(13)	87
Interest expense on debt	4	3	44	51	—	51
Other expenses	1,536	408	315	2,259	4	2,263
Total expenses	11,045	3,691	359	15,095	61	15,156
Provision for income tax expense (benefit)	292	63	(239)	116	503	619
Adjusted earnings	\$ 1,078	\$ 283	\$ 8	1,369		
Adjustments to:						
Total revenues				2,457		
Total expenses				(61)		
Provision for income tax (expense) benefit				(503)		
Net income (loss)				\$ 3,262		\$ 3,262
Six Months Ended June 30, 2019						
(In millions)						
Revenues						
Premiums	\$ 8,682	\$ 1,524	\$ —	\$ 10,206	\$ —	\$ 10,206
Universal life and investment-type product policy fees	528	452	—	980	44	1,024
Net investment income	3,339	2,330	(83)	5,586	(147)	5,439
Other revenues	406	114	284	804	—	804
Net investment gains (losses)	—	—	—	—	12	12
Net derivative gains (losses)	—	—	—	—	(102)	(102)
Total revenues	12,955	4,420	201	17,576	(193)	17,383
Expenses						
Policyholder benefits and claims and policyholder dividends	8,960	2,854	—	11,814	130	11,944
Interest credited to policyholder account balances	975	358	—	1,333	(8)	1,325
Capitalization of DAC	(34)	5	—	(29)	—	(29)
Amortization of DAC and VOBA	27	107	—	134	(74)	60
Interest expense on debt	5	4	44	53	—	53
Other expenses	1,447	406	446	2,299	—	2,299
Total expenses	11,380	3,734	490	15,604	48	15,652
Provision for income tax expense (benefit)	326	134	(254)	206	(50)	156
Adjusted earnings	\$ 1,249	\$ 552	\$ (35)	1,766		
Adjustments to:						
Total revenues				(193)		

Total expenses	(48)	
Provision for income tax (expense) benefit	<u>50</u>	
Net income (loss)	<u>\$ 1,575</u>	<u>\$ 1,575</u>

Metropolitan Life Insurance Company
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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:

	June 30, 2020	December 31, 2019
	(In millions)	
U.S.	\$ 262,503	\$ 246,319
MetLife Holdings	160,192	156,327
Corporate & Other	34,256	28,171
Total	\$ 456,951	\$ 430,817

3. Insurance

Guarantees

As discussed in Notes 1 and 3 of the Notes to the Consolidated Financial Statements included in the 2019 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 6.

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.

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

	June 30, 2020		December 31, 2019	
	In the Event of Death	At Annuitization	In the Event of Death	At Annuitization
	(Dollars in millions)			
Annuity Contracts:				
Variable Annuity Guarantees:				
Total account value (1), (2)	\$ 46,074	\$ 19,683	\$ 49,207	\$ 21,472
Separate account value (1)	\$ 36,640	\$ 18,870	\$ 39,679	\$ 20,666
Net amount at risk	\$ 1,599 (3)	\$ 745 (4)	\$ 1,195 (3)	\$ 524 (4)
Average attained age of contractholders	68 years	67 years	68 years	66 years
Other Annuity Guarantees:				
Total account value (1), (2)	N/A	\$ 142	N/A	\$ 143
Net amount at risk	N/A	\$ 76 (5)	N/A	\$ 80 (5)
Average attained age of contractholders	N/A	54 years	N/A	54 years

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

3. Insurance (continued)

	June 30, 2020		December 31, 2019	
	Secondary Guarantees	Paid-Up Guarantees	Secondary Guarantees	Paid-Up Guarantees
	(Dollars in millions)			
Universal and Variable Life Contracts:				
Total account value (1), (2)	\$ 4,880	\$ 879	\$ 4,909	\$ 899
Net amount at risk (6)	\$ 40,495	\$ 5,703	\$ 41,385	\$ 5,884
Average attained age of policyholders	57 years	64 years	57 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 the contractholder's investments in the general account and separate account, if applicable.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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.

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

3. Insurance (continued)

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:

	Six Months Ended June 30,	
	2020	2019
(In millions)		
Balance, beginning of period	\$ 13,140	\$ 12,590
Less: Reinsurance recoverables	1,525	1,497
Net balance, beginning of period	11,615	11,093
Incurred related to:		
Current period	9,103	8,830
Prior periods (1)	(69)	(53)
Total incurred	9,034	8,777
Paid related to:		
Current period	(5,588)	(5,424)
Prior periods	(3,277)	(3,060)
Total paid	(8,865)	(8,484)
Net balance, end of period	11,784	11,386
Add: Reinsurance recoverables	1,704	1,587
Balance, end of period (included in future policy benefits and other policy-related balances)	\$ 13,488	\$ 12,973

(1) For both the six months ended June 30, 2020 and 2019, claims and claim adjustment expenses associated with prior periods decreased due to favorable claims experience in the current period.

4. Closed Block

On April 7, 2000 (the “Demutualization Date”), Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company’s plan of reorganization, as amended (the “Plan of Reorganization”). On the Demutualization Date, Metropolitan Life Insurance Company established a closed block for the benefit of holders of certain individual life insurance policies of Metropolitan Life Insurance Company.

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.

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

4. Closed Block (continued)

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

	June 30, 2020	December 31, 2019
(In millions)		
Closed Block Liabilities		
Future policy benefits	\$ 39,037	\$ 39,379
Other policy-related balances	331	423
Policyholder dividends payable	433	432
Policyholder dividend obligation	2,798	2,020
Deferred income tax liability	101	79
Other liabilities	128	81
Total closed block liabilities	42,828	42,414
Assets Designated to the Closed Block		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value	26,576	25,977
Mortgage loans	6,985	7,052
Policy loans	4,419	4,489
Real estate and real estate joint ventures	565	544
Other invested assets	822	416
Total investments	39,367	38,478
Cash and cash equivalents	111	448
Accrued investment income	409	419
Premiums, reinsurance and other receivables	65	75
Current income tax recoverable	13	91
Total assets designated to the closed block	39,965	39,511
Excess of closed block liabilities over assets designated to the closed block	2,863	2,903
AOCI:		
Unrealized investment gains (losses), net of income tax	3,039	2,453
Unrealized gains (losses) on derivatives, net of income tax	257	97
Allocated to policyholder dividend obligation, net of income tax	(2,210)	(1,596)
Total amounts included in AOCI	1,086	954
Maximum future earnings to be recognized from closed block assets and liabilities	\$ 3,949	\$ 3,857

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

	Six Months Ended June 30, 2020	Year Ended December 31, 2019
(In millions)		
Balance, beginning of period	\$ 2,020	\$ 428
Change in unrealized investment and derivative gains (losses)	778	1,592
Balance, end of period	\$ 2,798	\$ 2,020

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

4. Closed Block (continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In millions)				
Revenues				
Premiums	\$ 371	\$ 390	\$ 738	\$ 757
Net investment income	371	447	778	875
Net investment gains (losses)	10	(4)	(9)	(5)
Net derivative gains (losses)	(3)	9	23	12
Total revenues	749	842	1,530	1,639
Expenses				
Policyholder benefits and claims	589	563	1,139	1,102
Policyholder dividends	217	231	436	459
Other expenses	25	28	52	57
Total expenses	831	822	1,627	1,618
Revenues, net of expenses before provision for income tax expense (benefit)	(82)	20	(97)	21
Provision for income tax expense (benefit)	(17)	4	(20)	4
Revenues, net of expenses and provision for income tax expense (benefit)	\$ (65)	\$ 16	\$ (77)	\$ 17

Metropolitan Life Insurance Company 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. Metropolitan Life Insurance Company also charges the closed block for expenses of maintaining the policies included in the closed block.

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

5. 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 commercial mortgage loans. RMBS, ABS and CMBS are collectively, “Structured Products.” In accordance with new guidance adopted January 1, 2020 regarding expected credit loss, securities that incurred a credit loss after December 31, 2019 and were still held as of June 30, 2020, are presented net of ACL. In accordance with previous guidance, both the temporary loss and OTTI loss are presented for securities that were in an unrealized loss position as of December 31, 2019.

	June 30, 2020					December 31, 2019				
	Amortized Cost	ACL	Gross Unrealized		Estimated Fair Value	Amortized Cost	Gross Unrealized		Estimated Fair Value	
			Gains	Losses			Gains	Temporary Losses		OTTI Losses (1)
(In millions)										
U.S. corporate	\$ 51,919	\$ (28)	\$ 7,919	\$ 556	\$ 59,254	\$ 52,446	\$ 6,236	\$ 223	\$ —	\$ 58,459
U.S. government and agency	26,303	—	7,016	4	33,315	25,568	3,706	26	—	29,248
Foreign corporate	27,809	(9)	2,492	913	29,379	28,421	2,397	517	—	30,301
RMBS	24,110	(2)	1,630	71	25,667	21,476	1,324	59	(32)	22,773
ABS	12,125	—	83	317	11,891	10,215	47	61	—	10,201
Municipals	6,865	—	1,953	2	8,816	6,419	1,450	13	—	7,856
CMBS	6,395	—	248	151	6,492	5,523	214	17	—	5,720
Foreign government	4,310	(5)	776	71	5,010	4,329	724	47	—	5,006
Total fixed maturity securities AFS	\$ 159,836	\$ (44)	\$ 22,117	\$ 2,085	\$ 179,824	\$ 154,397	\$ 16,098	\$ 963	\$ (32)	\$ 169,564

- (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 loss on such securities. See also “— Net Unrealized Investment Gains (Losses).”

Maturities of Fixed Maturity Securities AFS

The amortized cost net of ACL, and estimated fair value of fixed maturity securities AFS, by contractual maturity date, were as follows at June 30, 2020:

	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 Products	Total Fixed Maturity Securities AFS
	(In millions)						
Amortized cost net of ACL	\$ 8,076	\$ 25,024	\$ 26,936	\$ 57,128	\$ 42,628	\$ 159,792	
Estimated fair value	\$ 8,031	\$ 25,602	\$ 29,772	\$ 72,369	\$ 44,050	\$ 179,824	

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 Products are shown separately, as they are not due at a single maturity.

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

5. 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. Included in the table below are securities without an ACL as of June 30, 2020, in accordance with new guidance adopted January 1, 2020. Also included in the table below are all securities in an unrealized loss position as of December 31, 2019, in accordance with previous guidance.

	June 30, 2020				December 31, 2019			
	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	\$ 7,011	\$ 480	\$ 286	\$ 73	\$ 2,036	\$ 77	\$ 1,304	\$ 146
U.S. government and agency	1,359	4	—	—	1,552	26	29	—
Foreign corporate	7,404	814	519	98	1,368	93	3,499	424
RMBS	2,151	57	162	13	1,479	15	524	12
ABS	5,549	200	2,333	117	2,428	13	3,778	48
Municipals	90	2	—	—	508	13	1	—
CMBS	2,091	133	163	18	857	5	212	12
Foreign government	418	35	157	35	149	6	215	41
Total fixed maturity securities AFS	<u>\$ 26,073</u>	<u>\$ 1,725</u>	<u>\$ 3,620</u>	<u>\$ 354</u>	<u>\$ 10,377</u>	<u>\$ 248</u>	<u>\$ 9,562</u>	<u>\$ 683</u>
Investment grade	\$ 19,727	\$ 1,191	\$ 3,353	\$ 292	\$ 9,288	\$ 190	\$ 8,233	\$ 530
Below investment grade	6,346	534	267	62	1,089	58	1,329	153
Total fixed maturity securities AFS	<u>\$ 26,073</u>	<u>\$ 1,725</u>	<u>\$ 3,620</u>	<u>\$ 354</u>	<u>\$ 10,377</u>	<u>\$ 248</u>	<u>\$ 9,562</u>	<u>\$ 683</u>
Total number of securities in an unrealized loss position	<u>2,329</u>		<u>397</u>		<u>1,059</u>		<u>802</u>	

Evaluation of Fixed Maturity Securities AFS for Credit Loss

Evaluation and Measurement Methodologies

Management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used in the credit loss evaluation process include, but are not limited to: (i) the extent to which the estimated fair value has been below amortized cost, (ii) adverse conditions specifically related to a security, an industry sector or sub-sector, or an economically depressed geographic area, adverse change in the financial condition of the issuer of the security, changes in technology, discontinuance of a segment of the business that may affect future earnings, and changes in the quality of credit enhancement, (iii) payment structure of the security and likelihood of the issuer being able to make payments, (iv) failure of the issuer to make scheduled interest and principal payments, (v) the issuer, or series of issuers or an industry has suffered a catastrophic loss or has exhausted natural resources, (vi) whether the Company has the intent to sell or will more likely than not be required to sell a particular security before the decline in estimated fair value below amortized cost recovers, (vii) with respect to Structured Products, changes in forecasted cash flows after considering the changes in the financial condition of the underlying loan obligors and quality of underlying collateral, expected prepayment speeds, current and forecasted loss severity, consideration of the payment terms of the underlying assets backing a particular security, and the payment priority within the tranche structure of the security, (viii) changes in the rating of the security by a rating agency, and (ix) other subjective factors, including concentrations and information obtained from regulators.

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

5. Investments (continued)

The methodology and significant inputs used to determine the amount of credit loss are as follows:

- The Company calculates the recovery value by performing a discounted cash flow analysis based on the present value of future cash flows. The discount rate is generally the effective interest rate of the security at the time of purchase for fixed-rate securities and the spot rate at the date of evaluation of credit loss for floating-rate securities.
- When determining collectability and the period over which value is expected to recover, the Company applies considerations utilized in its overall credit loss evaluation process which incorporates information regarding the specific security, fundamentals of the industry and geographic area in which the security issuer operates, and overall macroeconomic conditions. Projected future cash flows are estimated using assumptions derived from management's single best estimate, the most likely outcome in a range of possible outcomes, after giving consideration to a variety of variables that include, but are not limited to: payment terms of the security; the likelihood that the issuer can service the interest and principal payments; the quality and amount of any credit enhancements; the security's position within the capital structure of the issuer; possible corporate restructurings or asset sales by the issuer; any private and public sector programs to restructure foreign government securities and municipals; and changes to the rating of the security or the issuer by rating agencies.
- Additional considerations are made when assessing the unique features that apply to certain Structured Products including, but not limited to: the quality of underlying collateral, historical performance of the underlying loan obligors, historical rent and vacancy levels, changes in the financial condition of the underlying loan obligors, expected prepayment speeds, current and forecasted loss severity, consideration of the payment terms of the underlying loans or assets backing a particular security, changes in the quality of credit enhancement and the payment priority within the tranche structure of the security.

With respect to securities that have attributes of debt and equity ("perpetual hybrid securities"), consideration is given in the credit loss analysis as to whether there has been any deterioration in the credit of the issuer and the likelihood of recovery in value of the securities that are in a severe unrealized loss position. Consideration is also given as to whether any perpetual hybrid securities with an unrealized loss, regardless of credit rating, have deferred any dividend payments.

After the adoption of new guidance on January 1, 2020, in periods subsequent to the recognition of an initial ACL on a security, the Company reassesses credit loss quarterly. Subsequent increases or decreases in the expected cash flow from the security result in corresponding decreases or increases in the ACL which are recorded within net investment gains (losses); however, the previously recorded ACL is not reduced to an amount below zero. Full or partial write-offs are deducted from the ACL in the period the security, or a portion thereof, is considered uncollectible. Recoveries of amounts previously written off are recorded to the ACL in the period received. When the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, any ACL is written off and the amortized cost is written down to estimated fair value through a charge within net investment gains (losses), which becomes the new amortized cost of the security.

In accordance with the previous guidance, methodologies to evaluate the recoverability of a security in an unrealized loss position were similar, except: (i) the length of time estimated fair value had been below amortized cost was considered for securities, and (ii) for non-functional currency denominated securities, the impact from weakening non-functional currencies on securities that were near maturity was considered in the evaluation. In addition, measurement methodologies were similar, except: (i) a fair value floor was not utilized to limit the credit loss recognized, (ii) the amortized cost of securities was adjusted for the OTTI to the expected recoverable amount and an ACL was not utilized, (iii) subsequent to a credit loss being recognized, increases in expected cash flows from the security did not result in an immediate increase in valuation recognized in earnings through net investment gains (losses) from reduction of the ACL instead such increases in value were recorded as unrealized gains in OCI, and (iv) in periods subsequent to the recognition of OTTI on a security, the Company accounted for the impaired security as if it had been purchased on the measurement date of the impairment; accordingly, the discount (or reduced premium) based on the new cost basis was accreted over the remaining term of the security in a prospective manner based on the amount and timing of estimated future cash flows.

Evaluation of Fixed Maturity Securities AFS in an Unrealized Loss Position

Gross unrealized losses on securities without an ACL increased \$1.1 billion for the six months ended June 30, 2020 to \$2.1 billion. The increase in gross unrealized losses for the six months ended June 30, 2020 was primarily attributable to widening credit spreads and movement in foreign currency exchange rates, partially offset by decreases in interest rates.

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

5. Investments (continued)

Gross unrealized losses on securities without an ACL that have been in a continuous gross unrealized loss position for 12 months or greater were \$354 million at June 30, 2020, or 17% of the total gross unrealized losses on securities without an ACL.

Investment Grade Fixed Maturity Securities AFS

Of the \$354 million of gross unrealized losses on securities without an ACL that have been in a continuous gross unrealized loss position for 12 months or greater, \$292 million, or 82%, were related to 337 investment grade securities. Unrealized losses on investment grade securities are principally related to widening credit spreads since purchase and, with respect to fixed-rate securities, rising interest rates since purchase.

Below Investment Grade Fixed Maturity Securities AFS

Of the \$354 million of gross unrealized losses on securities without an ACL that have been in a continuous gross unrealized loss position for 12 months or greater, \$62 million, or 18%, were related to 60 below investment grade securities. Unrealized losses on below investment grade securities are principally related to U.S. and foreign corporate securities (primarily industrial and consumer), ABS and CMBS and are the result of significantly wider credit spreads resulting from higher risk premiums since purchase, largely due to economic and market uncertainty, as well as with respect to fixed-rate securities, rising interest rates since purchase. 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 ABS and CMBS based on actual and projected cash flows after considering the quality of underlying collateral, credit enhancements, expected prepayment speeds, current and forecasted loss severity, the payment terms of the underlying assets backing a particular security and the payment priority within the tranche structure of the security.

Current Period Evaluation

At June 30, 2020, with respect to securities in an unrealized loss position without an ACL, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost. Based on the Company's current evaluation of its securities in an unrealized loss position without an ACL, the Company concluded that these securities had not incurred a credit loss and should not have an ACL at June 30, 2020.

Future provisions for credit loss 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 and collateral valuation.

Rollforward of Allowance for Credit Loss for Fixed Maturity Securities AFS By Sector

The rollforward of ACL for fixed maturity securities AFS by sector is as follows:

	U.S. Corporate	Foreign Government	Foreign Corporate	RMBS	Total
	(In millions)				
Three Months Ended June 30, 2020					
Balance, beginning of period	\$ 44	\$ 6	\$ —	\$ —	\$ 50
ACL not previously recorded	7	—	9	2	18
Changes for securities with previously recorded ACL	(3)	—	—	—	(3)
Securities sold	(19)	(1)	—	—	(20)
Securities intended/required to be sold prior to recovery of amortized cost basis	(1)	—	—	—	(1)
Balance, end of period	<u>\$ 28</u>	<u>\$ 5</u>	<u>\$ 9</u>	<u>\$ 2</u>	<u>\$ 44</u>

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

5. Investments (continued)

	U.S. Corporate	Foreign Government	Foreign Corporate	RMBS	Total
	(In millions)				
Six Months Ended June 30, 2020					
Balance, beginning of period	\$ —	\$ —	\$ —	\$ —	\$ —
ACL not previously recorded	51	6	9	2	68
Changes for securities with previously recorded ACL	(3)	—	—	—	(3)
Securities sold	(19)	(1)	—	—	(20)
Securities intended/required to be sold prior to recovery of amortized cost basis	(1)	—	—	—	(1)
Balance, end of period	<u>\$ 28</u>	<u>\$ 5</u>	<u>\$ 9</u>	<u>\$ 2</u>	<u>\$ 44</u>

Mortgage Loans

Mortgage Loans by Portfolio Segment

Mortgage loans are summarized as follows at:

	June 30, 2020		December 31, 2019	
	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in millions)			
Mortgage loans:				
Commercial	\$ 38,153	57.3 %	\$ 37,311	56.9 %
Agricultural	15,762	23.7	15,705	23.9
Residential	13,011	19.5	12,575	19.2
Total amortized cost	66,926	100.5	65,591	100.0
Allowance for credit loss	(497)	(0.7)	(289)	(0.4)
Subtotal mortgage loans, net	66,429	99.8	65,302	99.6
Residential — FVO	175	0.2	188	0.3
Total mortgage loans held-for-investment, net	66,604	100.0	65,490	99.9
Mortgage loans held-for-sale	—	—	59	0.1
Total mortgage loans, net	<u>\$ 66,604</u>	<u>100.0 %</u>	<u>\$ 65,549</u>	<u>100.0 %</u>

Information on commercial, agricultural and residential mortgage loans is presented in the tables below. Information on residential mortgage loans - FVO is presented in Note 7. 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 amortized cost, primarily attributable to residential mortgage loans was \$954 million and \$852 million at June 30, 2020 and December 31, 2019, respectively. The accrued interest income excluded from total amortized cost for commercial, agricultural and residential mortgage loans at June 30, 2020 and December 31, 2019 was \$153 million and \$155 million; \$166 million and \$176 million; and \$95 million and \$89 million, respectively.

Purchases of mortgage loans, primarily residential, were \$134 million and \$1.2 billion for the three months and six months ended June 30, 2020, respectively, and \$472 million and \$1.8 billion for the three months and six months ended June 30, 2019, respectively.

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

5. Investments (continued)

Mortgage Loan Concessions

In response to the adverse economic impact of the COVID-19 Pandemic, the Company granted concessions to certain of its commercial, agricultural and residential mortgage loan borrowers, including payment deferrals and other loan modifications. The Company has elected the option under the *Coronavirus Aid, Relief, and Economic Security Act and the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)* issued by bank regulatory agencies, not to account for or report qualifying concessions as troubled debt restructurings and does not classify such loans as either past due or nonaccrual during the payment deferral period. Additionally, in accordance with the FASB’s published response to a COVID-19 Pandemic technical inquiry, the Company continues to accrue interest income on such loans that have deferred payment. The Company records an allowance for credit loss on this accrued interest income.

Commercial

For some commercial mortgage loan borrowers (principally in the retail and hotel sectors), the Company granted concessions which were primarily interest and principal payment deferrals generally ranging from three to four months and, to a much lesser extent, maturity date extensions. Deferred commercial mortgage loan interest and principal payments were \$47 million at June 30, 2020.

Agricultural

For some agricultural mortgage loan borrowers (principally in the annual crops and agribusiness sectors), the Company granted concessions which were primarily principal payment deferrals generally ranging from three to 12 months, and covenant changes and, to a much lesser extent, maturity date extensions. Deferred agricultural mortgage loan interest and principal payments were \$9 million at June 30, 2020.

Residential

For some residential mortgage loan borrowers, the Company granted concessions which were primarily three-month interest and principal payment deferrals. Deferred residential mortgage loan interest and principal payments were \$17 million at June 30, 2020.

Allowance for Credit Loss Rollforward by Portfolio Segment

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

	2020				2019			
	Commercial	Agricultural	Residential	Total	Commercial	Agricultural	Residential	Total
	Six Months Ended June 30,							
	(In millions)							
Balance, beginning of period	\$ 186	\$ 49	\$ 54	\$ 289	\$ 190	\$ 44	\$ 57	\$ 291
Adoption of new credit loss guidance	(87)	32	154	99	—	—	—	—
Initial credit losses on PCD loans (1)	—	—	16	16	—	—	—	—
Provision (release)	36	5	59	100	3	2	8	13
Charge-offs, net of recoveries	—	(2)	(5)	(7)	—	—	(4)	(4)
Balance, end of period	\$ 135	\$ 84	\$ 278	\$ 497	\$ 193	\$ 46	\$ 61	\$ 300

(1) Represents the initial credit losses on purchased mortgage loans accounted for as purchased financial assets with credit deterioration (“PCD”).

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

5. Investments (continued)

Allowance for Credit Loss Methodology

After the adoption of new guidance on January 1, 2020, the Company records an allowance for expected credit loss in an amount that represents the portion of the amortized cost basis of mortgage loans that the Company does not expect to collect, resulting in mortgage loans being presented at the net amount expected to be collected. In determining the Company's ACL, management: (i) pools mortgage loans that share similar risk characteristics, (ii) considers lifetime credit loss expected over the contractual term of its mortgage loans adjusted for expected prepayments and any extensions, and (iii) considers past events, current economic conditions and forecasts of future economic conditions. Each of the Company's commercial, agricultural and residential mortgage loan portfolio segments are evaluated separately. The ACL is calculated for each mortgage loan portfolio segment based on inputs unique to each loan portfolio segment. On a quarterly basis, mortgage loans within a portfolio segment that share similar risk characteristics, such as internal risk ratings or consumer credit scores, are pooled for calculation of ACL. On an ongoing basis, mortgage loans with dissimilar risk characteristics (i.e., loans with significant declines in credit quality), collateral dependent mortgage loans (i.e., when the borrower is experiencing financial difficulty, including when foreclosure is reasonable possible or probable) and reasonably expected troubled debt restructurings (i.e., the Company grants concessions to borrower that is experiencing financial difficulties) are evaluated individually for credit loss. The ACL for loans evaluated individually are established using the same methodologies for all three portfolio segments. For example, the ACL for a collateral dependent loan is established as the excess of amortized cost over the estimated fair value of the loan's underlying collateral, less selling cost when foreclosure is probable. Accordingly, the change in the estimated fair value of collateral dependent loans, which are evaluated individually for credit loss, is recorded as a change in the ACL which is recorded on a quarterly basis as a charge or credit to earnings in net investment gains (losses).

In accordance with the previous guidance, evaluation and measurement methodologies in determining the ACL were similar, except: (i) credit loss was recognized when incurred (when it was probable, based on current information and events, that all amounts due under the loan agreement would not be collected), (ii) pooling of loans with similar risk characteristics was permitted, but not required, (iii) forecasts of future economic conditions were not considered in the evaluation, (iv) measurement of the expected credit loss over the contractual term, or expected term, was not considered in the measurement, and (v) the credit loss for loans evaluated individually could also be determined using either discounted cash flows using the loans original effective interest rate or observable market prices.

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

5. Investments (continued)

Commercial and Agricultural Mortgage Loan Portfolio Segments

Commercial and agricultural mortgage loan ACL are calculated in a similar manner. Within each loan portfolio segment, commercial and agricultural, loans are pooled by internal risk rating. Estimated lifetime loss rates, which vary by internal risk rating, are applied to the amortized cost of each loan, excluding accrued investment income, on a quarterly basis to develop the ACL. Internal risk ratings are based on an assessment of the loan's credit quality, which can change over time. The estimated lifetime loss rates are based on several loan portfolio segment-specific factors, including (i) the Company's experience with defaults and loss severity, (ii) expected default and loss severity over the forecast period, (iii) current and forecasted economic conditions including growth, inflation, interest rates and unemployment levels, (iv) loan specific characteristics including loan-to-value ratios, and (v) internal risk ratings. These evaluations are revised as conditions change and new information becomes available. The Company uses its several decades of historical default and loss severity experience which capture multiple economic cycles. The Company uses a forecast of economic assumptions for a two-year period for most of its commercial and agricultural mortgage loans, while a one-year period is used for loans originated in certain markets. After the applicable forecast period, the Company reverts to its historical loss experience using a straight-line basis over two years. For evaluations of commercial mortgage loans, in addition to historical experience, management considers factors that include the impact of a rapid change to the economy, which may not be reflected in the loan portfolio, recent loss and recovery trend experience as compared to historical loss and recovery experience, and loan specific characteristics including debt service coverage ratios. In estimating lifetime credit loss expected over the term of its commercial mortgage loans, the Company adjusts for expected prepayment and extension experience during the forecast period using historical prepayment and extension experience considering the expected position in the economic cycle and the loan profile (i.e., floating rate, shorter-term fixed rate and longer-term fixed rate) and after the forecast period using long-term historical prepayment experience. For evaluations of agricultural mortgage loans, in addition to historical experience, management considers factors that include increased stress in certain sectors, which may be evidenced by higher delinquency rates, or a change in the number of higher risk loans. In estimating lifetime credit loss expected over the term of its agricultural mortgage loans, the Company's experience is much less sensitive to the position in the economic cycle and by loan profile; accordingly, historical prepayment experience is used, while extension terms are not prevalent with the Company's agricultural mortgage loans.

Commercial mortgage loans are reviewed on an ongoing basis, which review includes, but is not limited to, 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. Agricultural mortgage loans are reviewed on an ongoing basis, which review includes, but is not limited to, property inspections, market analysis, estimated valuations of the underlying collateral, loan-to-value ratios and borrower creditworthiness, as well as reviews on a geographic and property-type basis. The monitoring process for agricultural mortgage loans also focuses on higher risk loans.

For commercial mortgage loans, the primary credit quality indicator is the debt service coverage ratio, which 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. The Company also reviews the loan-to-value ratio of its commercial mortgage loan portfolio. Loan-to-value ratios compare the unpaid principal balance of the loan to the estimated fair value of the underlying collateral. Generally, the higher the loan-to-value ratio, the higher the risk of experiencing a credit loss. The debt service coverage ratio and the values utilized in calculating the ratio are updated routinely. In addition, the loan-to-value ratio is routinely updated for all but the lowest risk loans as part of the Company's ongoing review of its commercial mortgage loan portfolio.

For agricultural mortgage loans, the Company's primary credit quality indicator is the loan-to-value ratio. The values utilized in calculating this ratio are developed in connection with the ongoing review of the agricultural mortgage loan portfolio and are routinely updated.

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

5. Investments (continued)

Commitments to lend: After loans are approved, the Company makes commitments to lend and, typically, borrowers draw down on some or all of the commitments. The timing of mortgage loan funding is based on the commitment expiration dates. A liability for expected credit loss for unfunded commercial and agricultural mortgage loan commitments is recorded within net investment gains (losses). The liability is based on estimated lifetime loss rates as described above and the amount of the outstanding commitments, which for lines of credit, considers estimated utilization rates. When the commitment is funded or expires, the liability is adjusted accordingly.

Residential Mortgage Loan Portfolio Segment

The Company's residential mortgage loan portfolio is comprised primarily of purchased closed end, amortizing residential mortgage loans, including both performing loans purchased within 12 months of origination and reperforming loans purchased after they have been performing for at least 12 months post-modification. Residential mortgage loans are pooled by loan type (i.e., new origination and reperforming) and pooled by similar risk profiles (including consumer credit score and loan-to-value ratios). Estimated lifetime loss rates, which vary by loan type and risk profile, are applied to the amortized cost of each loan excluding accrued investment income on a quarterly basis to develop the ACL. The estimated lifetime loss rates are based on several factors, including (i) industry historical experience and expected results over the forecast period for defaults, (ii) loss severity, (iii) prepayment rates, (iv) current and forecasted economic conditions including growth, inflation, interest rates and unemployment levels, and (v) loan pool specific characteristics including consumer credit scores, loan-to-value ratios, payment history and home prices. These evaluations are revised as conditions change and new information becomes available. The Company uses industry historical experience which captures multiple economic cycles as the Company has purchased most of its residential mortgage loans in the last five years. The Company uses a forecast of economic assumptions for a two-year period for most of its residential mortgage loans. After the applicable forecast period, the Company immediately reverts to industry historical loss experience.

For residential mortgage loans, the Company's primary credit quality indicator is whether the loan is performing or nonperforming. The Company generally defines nonperforming residential mortgage loans as those that are 60 or more days past due and/or in nonaccrual status which is assessed monthly. Generally, nonperforming residential mortgage loans have a higher risk of experiencing a credit loss.

Credit Quality of Mortgage Loans by Portfolio Segment

The amortized cost of commercial mortgage loans by credit quality indicator and vintage year was as follows at June 30, 2020:

	2020	2019	2018	2017	2016	Prior	Revolving Loans	Total	% of Total
(Dollars in millions)									
Loan-to-value ratios:									
Less than 65%	\$ 1,460	\$ 3,526	\$ 4,535	\$ 3,047	\$ 4,067	\$ 9,577	\$ 2,724	\$ 28,936	75.8%
65% to 75%	559	2,142	1,290	1,088	529	1,262	—	6,870	18.0
76% to 80%	—	119	—	262	293	185	—	859	2.3
Greater than 80%	—	14	186	450	102	736	—	1,488	3.9
Total	\$ 2,019	\$ 5,801	\$ 6,011	\$ 4,847	\$ 4,991	\$ 11,760	\$ 2,724	\$ 38,153	100.0%
Debt service coverage ratios:									
> 1.20x	\$ 2,013	\$ 5,323	\$ 5,754	\$ 4,338	\$ 4,801	\$ 10,832	\$ 2,724	\$ 35,785	93.8%
1.00x - 1.20x	—	82	56	116	190	753	—	1,197	3.1
<1.00x	6	396	201	393	—	175	—	1,171	3.1
Total	\$ 2,019	\$ 5,801	\$ 6,011	\$ 4,847	\$ 4,991	\$ 11,760	\$ 2,724	\$ 38,153	100.0%

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

5. Investments (continued)

The amortized cost of agricultural mortgage loans by credit quality indicator and vintage year was as follows at June 30, 2020:

	2020	2019	2018	2017	2016	Prior	Revolving Loans	Total	% of Total
(Dollars in millions)									
Loan-to-value ratios:									
Less than 65%	\$ 911	\$ 2,161	\$ 2,742	\$ 1,067	\$ 2,544	\$ 4,357	\$ 958	\$ 14,740	93.5%
65% to 75%	32	152	31	31	177	545	—	968	6.1
76% to 80%	—	—	—	—	—	12	—	12	0.1
Greater than 80%	—	—	—	—	—	42	—	42	0.3
Total	\$ 943	\$ 2,313	\$ 2,773	\$ 1,098	\$ 2,721	\$ 4,956	\$ 958	\$ 15,762	100.0%

The amortized cost of residential mortgage loans by credit quality indicator and vintage year was as follows at June 30, 2020:

	2020	2019	2018	2017	2016	Prior	Revolving Loans	Total	% of Total
(Dollars in millions)									
Performance indicators:									
Performing	\$ 322	\$ 2,090	\$ 1,145	\$ 349	\$ 167	\$ 8,603	\$ —	\$ 12,676	97.4%
Nonperforming (1)	1	3	5	1	1	324	—	335	2.6
Total	\$ 323	\$ 2,093	\$ 1,150	\$ 350	\$ 168	\$ 8,927	\$ —	\$ 13,011	100.0%

(1) Includes residential mortgage loans in process of foreclosure of \$113 million and \$117 million at June 30, 2020 and December 31, 2019, respectively.

Past Due and Nonaccrual Mortgage Loans

The Company has a high quality, well performing mortgage loan portfolio, with over 99% of all mortgage loans classified as performing at both June 30, 2020 and December 31, 2019. The Company defines delinquency consistent with industry practice, when mortgage loans are past due more than two or more months, as applicable, by portfolio segment. The past due and nonaccrual mortgage loans at amortized cost, prior to ACL, by portfolio segment, were as follows:

	Past Due		Greater than 90 Days Past Due and Still Accruing Interest		Nonaccrual	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
(In millions)						
Commercial	\$ —	\$ —	\$ —	\$ —	\$ 163	\$ 167
Agricultural	277	124	84	2	194	137
Residential	335	377	10	—	326	377
Total	\$ 612	\$ 501	\$ 94	\$ 2	\$ 683	\$ 681

The amortized cost for nonaccrual commercial, agricultural and residential mortgage loans at beginning of year 2019 was \$167 million, \$105 million and \$402 million, respectively. The amortized cost for nonaccrual agricultural mortgage loans with no ACL was \$139 million and \$93 million at June 30, 2020 and December 31, 2019, respectively. There were no nonaccrual commercial or residential mortgage loans without an ACL at either June 30, 2020 or December 31, 2019.

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

5. Investments (continued)

Purchased Investments with Credit Deterioration

Investments that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination are classified as PCD. The amortized cost for PCD investments is the purchase price plus an ACL for the initial estimate of expected credit losses established upon purchase. Subsequent changes in the ACL on PCD investments are recorded through credit loss expense. The non-credit discount or premium is accreted or amortized to net investment income on an effective yield basis.

The following table reconciles the contractual principal to the purchase price of PCD investments:

	Contractual Principal		Six Months Ended June 30, 2020		Purchase Price	
			ACL at Acquisition	Non-Credit (Discount) Premium		
(In millions)						
PCD residential mortgage loans	\$	512	\$	(16)	\$	478

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 in earnings from equity method real estate joint ventures. Real estate investments, by income type, as well as income earned, are as follows at and for the periods indicated:

	June 30, 2020		December 31, 2019		Three Months Ended June 30,		Six Months Ended June 30,					
	Carrying Value		Carrying Value		2020	2019	2020	2019				
(In millions)												
Leased real estate investments	\$	1,597	\$	1,586	\$	47	\$	40	\$	93	\$	81
Other real estate investments		416		419		15		50		49		80
Real estate joint ventures		4,990		4,654		(27)		23		(20)		18
Total real estate and real estate joint ventures	\$	7,003	\$	6,659	\$	35	\$	113	\$	122	\$	179

The carrying value of real estate investments acquired through foreclosure was \$25 million and \$34 million at June 30, 2020 and December 31, 2019, respectively. Depreciation expense on real estate investments was \$19 million and \$35 million for the three months and six months ended June 30, 2020, respectively, and \$17 million and \$32 million for the three months and six months ended June 30, 2019, respectively. Real estate investments were net of accumulated depreciation of \$686 million and \$652 million at June 30, 2020 and December 31, 2019, respectively.

As a result of the COVID-19 Pandemic, earnings from certain of the Company's equity method real estate joint ventures were reduced for the three months and six months ended June 30, 2020, principally hotel properties. Certain of these real estate joint ventures have granted some lessees COVID-19 Pandemic related lease concessions. See "— Leases — Lease Concessions."

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

5. Investments (continued)

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 a single operating lease. Risk is managed through lessee credit analysis, property type diversification, and geographic diversification.

See Note 7 of the Notes to the Consolidated Financial Statements included in the 2019 Annual Report for a summary of leased real estate investments and income earned, by property type.

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 renewable energy generation facilities. 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.

Lease receivables are generally due in periodic installments. The payment periods for leveraged leases generally range from one to 12 years, but in certain circumstances can be over 12 years, while the payment periods for direct financing leases generally range from one to 17 years.

In accordance with new guidance adopted January 1, 2020 regarding expected credit loss, the Company records an allowance for expected credit loss in an amount that represents the portion of the investment in leases that the Company does not expect to collect, resulting in the investment in leases being presented at the net amount expected to be collected. In determining the ACL, management: (i) pools leases that share similar risk characteristics, (ii) considers lifetime credit loss expected over the contractual term of the lease, and (iii) considers past events, current economic conditions and forecasts of future economic conditions. Leases with dissimilar risk characteristics are evaluated individually for credit loss. Lifetime credit loss on leveraged and direct financing lease receivables is estimated using a probability of default and loss given default model, where the probability of default incorporates third party credit ratings of the lessee and the related historical default data. The Company also assesses the non-guaranteed residual values for recoverability by comparison to the current estimated fair value of the leased asset and considers other relevant market information such as independent third-party forecasts, consulting, asset brokerage and investment banking reports and data, comparable market transactions, and factors such as the competitive dynamics impacting specific industries, technological change and obsolescence, government and regulatory rules, tax policy, potential environmental liabilities and litigation.

Prior to the adoption of the new guidance regarding expected credit loss, lease impairment losses were recorded as incurred. Under the incurred loss model, if all amounts due under the lease agreement would not be collected, based on current information and events, an impairment loss was recorded. The impairment loss was recorded as a reduction of the investment in lease and within net investment gains (losses).

The investment in leveraged and direct financing leases, net of ACL, was \$854 million and \$181 million, respectively, at June 30, 2020. The ACL for leveraged and direct financing leases was \$41 million at June 30, 2020. The investment in leveraged and direct financing leases was \$896 million and \$189 million, respectively, at December 31, 2019.

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

5. Investments (continued)

Lease Concessions

In response to the adverse economic impact of the COVID-19 Pandemic, the Company granted concessions to certain of its operating lease lessees, primarily in the form of rent deferrals. In accordance with a Question and Answer document issued by the FASB in response to the COVID-19 Pandemic, the Company has elected not to evaluate whether such lease concessions are lease modifications, continues to accrue income on such leases and records rent receivables. The rent deferrals generally range from one to five months. Deferred rental payments were \$1 million at June 30, 2020. The Company has interests in certain unconsolidated real estate joint ventures which have granted COVID-19 Pandemic-related lease concessions.

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 \$8.3 billion and \$5.5 billion at June 30, 2020 and December 31, 2019, 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:

	June 30, 2020	December 31, 2019
	(In millions)	
Fixed maturity securities AFS	\$ 20,036	\$ 15,145
Fixed maturity securities AFS with noncredit OTTI losses included in AOCI	—	32
Total fixed maturity securities AFS	20,036	15,177
Derivatives	5,041	2,043
Other	238	210
Subtotal	25,315	17,430
Amounts allocated from:		
Future policy benefits	(2,632)	(1,121)
DAC, VOBA and DSI	(1,347)	(1,051)
Policyholder dividend obligation	(2,798)	(2,020)
Subtotal	(6,777)	(4,192)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	—	(7)
Deferred income tax benefit (expense)	(3,849)	(2,735)
Net unrealized investment gains (losses)	<u>\$ 14,689</u>	<u>\$ 10,496</u>

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

5. Investments (continued)

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

	Six Months Ended June 30, 2020
	(In millions)
Balance, beginning of period	\$ 10,496
Fixed maturity securities AFS on which noncredit OTTI losses have been recognized	(32)
Unrealized investment gains (losses) during the period	7,917
Unrealized investment gains (losses) relating to:	
Future policy benefits	(1,511)
DAC, VOBA and DSI	(296)
Policyholder dividend obligation	(778)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	7
Deferred income tax benefit (expense)	(1,114)
Balance, end of period	<u>\$ 14,689</u>
Change in net unrealized investment gains (losses)	<u>\$ 4,193</u>

Concentrations of Credit Risk

There were no investments in any counterparty that were greater than 10% of the Company's equity, other than the U.S. government and its agencies, at both June 30, 2020 and December 31, 2019.

Securities Lending and Repurchase Agreements

Securities, Collateral and Reinvestment Portfolio

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

	June 30, 2020			December 31, 2019		
	Securities (1)	Cash Collateral Received from Counterparties (2), (3)	Reinvestment Portfolio at Estimated Fair Value	Securities (1)	Cash Collateral Received from Counterparties (2), (3)	Reinvestment Portfolio at Estimated Fair Value
	Estimated Fair Value			Estimated Fair Value		
(In millions)						
Securities lending	\$ 13,878	\$ 14,214	\$ 14,289	\$ 12,455	\$ 12,791	\$ 12,847
Repurchase agreements	\$ 3,244	\$ 3,200	\$ 3,216	\$ 2,333	\$ 2,310	\$ 2,320

- (1) Securities on loan in connection with these programs are included within fixed maturity securities AFS, short-term investments and cash equivalents.
- (2) In connection with securities lending and repurchase agreements, in addition to cash collateral received, the Company received from counterparties security collateral of \$23 million and \$0 at June 30, 2020 and December 31, 2019, respectively, which is not reflected on the consolidated financial statements.
- (3) The liability for cash collateral for these programs is included within payables for collateral under securities loaned, other transactions and other liabilities.

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

5. Investments (continued)

Contractual Maturities

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

	June 30, 2020					December 31, 2019				
	Remaining Maturities				Total	Remaining Maturities				Total
	Open (1)	1 Month or Less	Over 1 to 6 Months	Over 6 Months to 1 Year		Open (1)	1 Month or Less	Over 1 to 6 Months	Over 6 Months to 1 Year	
(In millions)										
Cash collateral liability by loaned security type:										
Securities lending:										
U.S. government and agency	\$ 3,308	\$ 7,484	\$ 3,422	\$ —	\$ 14,214	\$ 2,260	\$ 5,040	\$ 5,491	\$ —	\$ 12,791
Repurchase agreements:										
U.S. government and agency	\$ —	\$ 3,200	\$ —	\$ —	\$ 3,200	\$ —	\$ 2,310	\$ —	\$ —	\$ 2,310

(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.

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 consist principally of high quality, liquid, publicly-traded fixed maturity securities AFS, short-term investments, cash equivalents or cash. If the securities on loan or the reinvestment portfolio become less liquid, liquidity resources within the general account are available to meet any potential cash demands when securities on loan are put back by the counterparty.

Invested Assets on Deposit and Pledged as Collateral

Invested assets on deposit 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:

	June 30, 2020	December 31, 2019
(In millions)		
Invested assets on deposit (regulatory deposits)	\$ 117	\$ 62
Invested assets pledged as collateral (1)	23,249	20,659
Total invested assets on deposit and pledged as collateral	\$ 23,366	\$ 20,721

(1) The Company has pledged invested assets in connection with various agreements and transactions, including funding agreements (see Note 4 of the Notes to the Consolidated Financial Statements included in the 2019 Annual Report) and derivative transactions (see Note 6).

See “— Securities Lending and Repurchase Agreements” for information regarding securities supporting securities lending and repurchase agreement transactions and Note 4 for information regarding investments designated to the closed block. In addition, the Company’s investment in Federal Home Loan Bank common stock, which is considered restricted until redeemed by the issuers, was \$765 million and \$737 million, at redemption value, at June 30, 2020 and December 31, 2019, respectively.

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

5. Investments (continued)

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.

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:

	June 30, 2020		December 31, 2019	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
(In millions)				
Real estate joint ventures (1)	\$ 1,405	\$ —	\$ 1,378	\$ —
Investment fund (primarily mortgage loans) (2)	208	—	211	—
Renewable energy partnership (3)	91	—	94	—
Other investments (3)	12	5	10	5
Total	\$ 1,716	\$ 5	\$ 1,693	\$ 5

- (1) The Company's investment in these affiliated real estate joint ventures was \$1.3 billion and \$1.2 billion at June 30, 2020 and December 31, 2019, respectively. Other affiliates' investments in these affiliated real estate joint ventures were \$131 million and \$129 million at June 30, 2020 and December 31, 2019, respectively.
- (2) The Company's investment in this affiliated investment fund was \$170 million and \$172 million at June 30, 2020 and December 31, 2019, respectively. An affiliate had an investment in this affiliated investment fund of \$38 million and \$39 million at June 30, 2020 and December 31, 2019, respectively.
- (3) Assets of the renewable energy partnership and other investments primarily consisted of other invested assets.

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:

	June 30, 2020		December 31, 2019	
	Carrying Amount	Maximum Exposure to Loss (1)	Carrying Amount	Maximum Exposure to Loss (1)
(In millions)				
Fixed maturity securities AFS:				
Structured Products (2)	\$ 42,127	\$ 42,127	\$ 37,119	\$ 37,119
U.S. and foreign corporate	1,150	1,150	1,098	1,098
Other limited partnership interests	4,406	7,813	4,461	7,423
Other invested assets	1,465	1,564	1,554	1,677
Real estate joint ventures	11	14	25	28
Total	\$ 49,159	\$ 52,668	\$ 44,257	\$ 47,345

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

5. Investments (continued)

- (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 and real estate joint ventures 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 \$5 million and \$6 million at June 30, 2020 and December 31, 2019, 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 12, 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 either the six months ended June 30, 2020 or 2019.

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 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 Products presented in the table above. For both the three months and six months ended June 30, 2019, the carrying value and the estimated fair value of residential mortgage loans securitized were \$443 million and \$467 million, respectively, resulting in a gain of \$24 million which is included within net investment gains (losses). The estimated fair value of RMBS acquired in connection with the securitizations was \$133 million at June 30, 2019. See Note 7 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In millions)			
Investment income:				
Fixed maturity securities AFS	\$ 1,636	\$ 1,780	\$ 3,294	\$ 3,548
Equity securities	5	10	14	19
Mortgage loans	705	786	1,423	1,550
Policy loans	76	77	153	153
Real estate and real estate joint ventures	35	113	122	179
Other limited partnership interests	(391)	173	(176)	258
Cash, cash equivalents and short-term investments	18	44	61	87
FVO Securities (1)	36	10	2	33
Operating joint ventures	26	34	47	45
Other	21	32	96	91
Subtotal	2,167	3,059	5,036	5,963
Less: Investment expenses	162	265	387	524
Net investment income	<u>\$ 2,005</u>	<u>\$ 2,794</u>	<u>\$ 4,649</u>	<u>\$ 5,439</u>

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

5. Investments (continued)

- (1) Changes in estimated fair value subsequent to purchase for investments still held as of the end of the respective periods and included in net investment income were principally from equity-linked notes included within securities for which the FVO has been elected (“FVO Securities”) and were \$36 million and \$2 million for the three months and six months ended June 30, 2020, respectively, and \$10 million and \$33 million for the three months and six months ended June 30, 2019, respectively.

See “— Related Party Investment Transactions” for discussion of affiliated net investment income and investment expenses.

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 (loss) from such investments totaled (\$482) million and (\$284) million for the three months and six months ended June 30, 2020, respectively, and \$157 million and \$193 million for the three months and six months ended June 30, 2019, respectively.

Net Investment Gains (Losses)

Components of Net Investment Gains (Losses)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In millions)			
Total gains (losses) on fixed maturity securities AFS:				
Net credit loss (provision) release (1)	\$ (11)	\$ —	\$ (88)	\$ (8)
Net gains (losses) on sales and disposals	7	81	3	49
Total gains (losses) on fixed maturity securities AFS	(4)	81	(85)	41
Total gains (losses) on equity securities:				
Net gains (losses) on sales and disposals	(3)	2	6	11
Change in estimated fair value (2)	42	(12)	(103)	45
Total gains (losses) on equity securities	39	(10)	(97)	56
Mortgage loans	(92)	18	(137)	4
Real estate and real estate joint ventures	2	(1)	3	2
Other (3), (4)	151	(9)	181	(59)
Subtotal	96	79	(135)	44
Change in estimated fair value of other limited partnership interests and real estate joint ventures	(13)	4	(12)	(12)
Non-investment portfolio gains (losses)	(27)	(17)	21	(20)
Subtotal	(40)	(13)	9	(32)
Total net investment gains (losses)	\$ 56	\$ 66	\$ (126)	\$ 12

- (1) Net credit loss provision by sector for industrial corporate securities and RMBS for the six months ended June 30, 2019, were \$6 million and \$2 million, respectively. See “— Rollforward of Allowance for Credit Loss for Fixed Maturity Securities AFS By Sector.” Due to the adoption of new guidance on January 1, 2020, prior period OTTI loss is presented as credit loss.
- (2) 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 \$31 million and (\$92) million for the three months and six months ended June 30, 2020, respectively, and (\$10) million and \$42 million for the three months and six months ended June 30, 2019, respectively.

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5. Investments (continued)

- (3) Other gains (losses) included a leveraged lease gain of \$81 million for both the three months and six months ended June 30, 2020 and a de-designated cash flow hedge gain of \$43 million and \$55 million for the three months and six months ended June 30, 2020, respectively,
- (4) Other gains (losses) for the three months and six months ended June 30, 2019 included tax credit partnership impairment losses of \$14 million and \$92 million, respectively, and a renewable energy partnership disposal gain of \$46 million for the six months ended June 30, 2019.

Gains (losses) from foreign currency transactions included within net investment gains (losses) were (\$15) million and \$33 million for the three months and six months ended June 30, 2020, respectively, and (\$10) million and (\$11) million for the three months and six months ended June 30, 2019, respectively.

Fixed Maturity Securities AFS - Sales and Disposals and Credit Loss

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In millions)				
Proceeds	\$ 5,533	\$ 10,194	\$ 10,997	\$ 20,859
Gross investment gains	\$ 185	\$ 169	\$ 246	\$ 304
Gross investment losses	(178)	(88)	(243)	(255)
Net credit loss (provision) release	(11)	—	(88)	(8)
Net investment gains (losses)	\$ (4)	\$ 81	\$ (85)	\$ 41

Related Party Investment Transactions

Recurring related party investments and related net investment income were as follows at and for the periods ended:

Investment Type/Balance Sheet Category	Related Party	December 31,		Three Months Ended June 30,		Six Months Ended June 30,	
		June 30, 2020	2019	2020	2019	2020	2019
		Carrying Value		Net Investment Income			
(In millions)							
Affiliated investments (1)	MetLife, Inc.	\$ 1,821	\$ 1,810	\$ 9	\$ 9	\$ 18	\$ 17
Affiliated investments (2)	American Life Insurance Company	100	100	1	1	2	2
Affiliated investments (3)	Metropolitan Property and Casualty Insurance Company	315	315	2	2	4	5
Other invested assets		\$ 2,236	\$ 2,225	\$ 12	\$ 12	\$ 24	\$ 24
Money market pool (4)	Metropolitan Money Market Pool	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1
Short-term investments		\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1

- (1) Represents an investment in affiliated senior notes. The affiliated senior notes have maturity dates from September 2020 to October 2029 and bear interest, payable semi-annually, at a rate per annum ranging from 0.82% to 3.14%. See Note 7 of the Notes to the Consolidated Financial Statements included in the 2019 Annual Report for further information.
- (2) Represents an affiliated surplus note. In June 2020, the affiliated surplus note, which bore interest at a fixed rate of 3.17%, matured and was refinanced with a \$100 million affiliated surplus note, which bears interest at a fixed rate of 1.88%, payable semiannually, and is due June 2025.
- (3) Represents an investment in affiliated preferred stock. Dividends are payable quarterly at a variable rate.
- (4) The investment has a variable rate of return.

For the three months and six months ended June 30, 2020, the Company incurred investment advisory charges from an affiliate of \$68 million and \$137 million, respectively. For the three months and six months ended June 30, 2019, the Company incurred investment advisory charges from an affiliate of \$72 million and \$148 million, respectively.

See “— Variable Interest Entities — Consolidated VIEs” for information on investments in affiliated real estate joint ventures and an affiliated investment fund.

6. 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	<ul style="list-style-type: none">• Economic hedges of variable annuity guarantees included in future policy benefits
Net investment income	<ul style="list-style-type: none">• Economic hedges of equity method investments in joint ventures

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.

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.

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.

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6. 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; and
- 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 7 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.

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

6. 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. The contractholder owns the underlying assets, and the Company provides a guarantee (or "wrap") on the participant funds for an annual risk charge. The Company's maximum exposure to loss on synthetic GICs is the notional amount, in the event the values of all of the underlying assets were reduced to zero. The Company's risk is substantially lower due to contractual provisions that limit the portfolio to high quality assets, which are pre-approved and monitored for compliance, as well as the collection of risk charges. In addition, the crediting rates reset periodically to amortize

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6. Derivatives (continued)

market value gains and losses over a period equal to the duration of the wrapped portfolio, subject to a 0% floor. While plan participants may transact at book value, contractholder withdrawals may only occur immediately at market value, or at book value paid over a period of time per contract provisions. Synthetic GICs are not designated as hedging instruments.

Foreign Currency Exchange Rate Derivatives

The Company uses foreign currency exchange rate derivatives, including foreign currency swaps and foreign currency forwards, to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies.

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 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.

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.

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

6. Derivatives (continued)

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.

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

6. 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	June 30, 2020			December 31, 2019			
	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	\$ 3,210	\$ 3,402	\$ 13	\$ 2,370	\$ 2,668	\$ 2
Foreign currency swaps	Foreign currency exchange rate	1,027	39	1	1,250	12	17
Subtotal		4,237	3,441	14	3,620	2,680	19
Cash flow hedges:							
Interest rate swaps	Interest rate	4,622	94	35	3,324	125	27
Interest rate forwards	Interest rate	5,952	824	—	6,793	75	142
Foreign currency swaps	Foreign currency exchange rate	27,442	2,426	1,511	27,240	1,199	1,103
Subtotal		38,016	3,344	1,546	37,357	1,399	1,272
Total qualifying hedges		42,253	6,785	1,560	40,977	4,079	1,291
Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate swaps	Interest rate	32,129	3,539	34	38,820	2,296	133
Interest rate floors	Interest rate	12,701	436	—	12,701	156	—
Interest rate caps	Interest rate	55,006	20	—	42,622	18	5
Interest rate futures	Interest rate	72	—	—	745	—	—
Interest rate options	Interest rate	25,105	537	—	24,944	427	—
Interest rate total return swaps	Interest rate	1,048	79	6	1,048	5	49
Synthetic GICs	Interest rate	13,764	—	—	16,498	—	—
Foreign currency swaps	Foreign currency exchange rate	5,948	718	55	6,124	419	97
Foreign currency forwards	Foreign currency exchange rate	996	18	6	1,001	12	8
Credit default swaps — purchased	Credit	940	24	1	888	4	11
Credit default swaps — written	Credit	8,065	84	13	8,711	200	1
Equity futures	Equity market	2,112	1	29	2,039	—	5
Equity index options	Equity market	21,392	717	220	23,104	447	417
Equity variance swaps	Equity market	637	12	12	637	17	17
Equity total return swaps	Equity market	2,213	—	122	716	—	68
Total non-designated or nonqualifying derivatives		182,128	6,185	498	180,598	4,001	811
Total		\$ 224,381	\$ 12,970	\$ 2,058	\$ 221,575	\$ 8,080	\$ 2,102

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 June 30, 2020 and December 31, 2019. 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.

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

6. Derivatives (continued)

The Effects of Derivatives on the Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	Three Months Ended June 30, 2020						
	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)	\$ —	\$ —	\$ (31)	\$ —	\$ —	N/A
Hedged items	4	—	—	17	—	—	N/A
Foreign currency exchange rate derivatives:							
Derivatives designated as hedging instruments (1)	(5)	—	—	—	—	—	N/A
Hedged items	4	—	—	—	—	—	N/A
Subtotal	2	—	—	(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	\$ (110)
Amount of gains (losses) reclassified from AOCI into income	9	42	—	—	—	—	(51)
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	(305)
Amount of gains (losses) reclassified from AOCI into income	—	266	—	—	—	—	(266)
Foreign currency transaction gains (losses) on hedged items	—	(223)	—	—	—	—	—
Credit derivatives: (1)							
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	—
Subtotal	9	85	—	—	—	—	(732)
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate derivatives (1)	(2)	—	(57)	—	—	—	N/A
Foreign currency exchange rate derivatives (1)	—	—	(85)	—	—	—	N/A
Credit derivatives — purchased (1)	—	—	(19)	—	—	—	N/A
Credit derivatives — written (1)	—	—	121	—	—	—	N/A
Equity derivatives (1)	—	—	(783)	(78)	—	—	N/A
Foreign currency transaction gains (losses) on hedged items	—	—	(28)	—	—	—	N/A
Subtotal	(2)	—	(851)	(78)	—	—	N/A
Earned income on derivatives	74	—	144	43	(38)	—	—
Embedded derivatives (2)	N/A	N/A	(86)	—	N/A	N/A	N/A
Total	<u>\$ 83</u>	<u>\$ 85</u>	<u>\$ (793)</u>	<u>\$ (49)</u>	<u>\$ (38)</u>	<u>\$ —</u>	<u>\$ (732)</u>

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

6. Derivatives (continued)

	Three Months Ended June 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)	\$ —	\$ —	\$ 205	\$ —	\$ —	N/A
Hedged items	2	—	—	(206)	—	—	N/A
Foreign currency exchange rate derivatives:							
Derivatives designated as hedging instruments (1)	9	—	—	—	—	—	N/A
Hedged items	(10)	—	—	—	—	—	N/A
Subtotal	—	—	—	(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	\$ 351
Amount of gains (losses) reclassified from AOCI into income	6	5	—	—	—	—	(11)
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	172
Amount of gains (losses) reclassified from AOCI into income	(1)	34	—	—	—	—	(33)
Foreign currency transaction gains (losses) on hedged items	—	(37)	—	—	—	—	—
Credit derivatives: (1)							
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	—
Subtotal	5	2	—	—	—	—	479
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate derivatives (1)							
	(1)	—	607	—	—	—	N/A
Foreign currency exchange rate derivatives (1)							
	—	—	77	—	—	—	N/A
Credit derivatives — purchased (1)							
	—	—	(2)	—	—	—	N/A
Credit derivatives — written (1)							
	—	—	36	—	—	—	N/A
Equity derivatives (1)							
	—	—	(147)	(21)	—	—	N/A
Foreign currency transaction gains (losses) on hedged items							
	—	—	(106)	—	—	—	N/A
Subtotal	(1)	—	465	(21)	—	—	N/A
Earned income on derivatives	64	—	68	32	(36)	—	—
Embedded derivatives (2)	N/A	N/A	(325)	—	N/A	N/A	N/A
Total	\$ 68	\$ 2	\$ 208	\$ 10	\$ (36)	\$ —	\$ 479

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

6. Derivatives (continued)

	Six Months Ended June 30, 2020						
	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)	\$ (11)	\$ —	\$ —	\$ 743	\$ —	\$ —	N/A
Hedged items	8	—	—	(752)	—	—	N/A
Foreign currency exchange rate derivatives:							
Derivatives designated as hedging instruments (1)	64	—	—	—	—	—	N/A
Hedged items	(58)	—	—	—	—	—	N/A
Subtotal	3	—	—	(9)	—	—	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	\$ 1,892
Amount of gains (losses) reclassified from AOCI into income	15	48	—	—	—	—	(63)
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	984
Amount of gains (losses) reclassified from AOCI into income	—	(185)	—	—	—	—	185
Foreign currency transaction gains (losses) on hedged items	—	234	—	—	—	—	—
Credit derivatives: (1)							
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	—
Subtotal	15	97	—	—	—	—	2,998
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate derivatives (1)	(6)	—	3,337	—	—	—	N/A
Foreign currency exchange rate derivatives (1)	—	—	289	—	—	—	N/A
Credit derivatives — purchased (1)	—	—	26	—	—	—	N/A
Credit derivatives — written (1)	—	—	(113)	—	—	—	N/A
Equity derivatives (1)	—	—	298	53	—	—	N/A
Foreign currency transaction gains (losses) on hedged items	—	—	(140)	—	—	—	N/A
Subtotal	(6)	—	3,697	53	—	—	N/A
Earned income on derivatives	156	—	224	81	(82)	—	—
Embedded derivatives (2)	N/A	N/A	(1,159)	—	N/A	N/A	N/A
Total	<u>\$ 168</u>	<u>\$ 97</u>	<u>\$ 2,762</u>	<u>\$ 125</u>	<u>\$ (82)</u>	<u>\$ —</u>	<u>\$ 2,998</u>

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

6. Derivatives (continued)

Six Months Ended June 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)	\$ (4)	\$ —	\$ —	\$ 332	\$ —	\$ —	N/A	
Hedged items	5	—	—	(334)	—	—	N/A	
Foreign currency exchange rate derivatives:								
Derivatives designated as hedging instruments (1)	(20)	—	—	—	—	—	N/A	
Hedged items	18	—	—	—	—	—	N/A	
Subtotal	(1)	—	—	(2)	—	—	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	\$ 593	
Amount of gains (losses) reclassified from AOCI into income	11	(1)	—	—	—	—	(10)	
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	46	
Amount of gains (losses) reclassified from AOCI into income	(2)	81	—	—	—	—	(79)	
Foreign currency transaction gains (losses) on hedged items	—	(93)	—	—	—	—	—	
Credit derivatives: (1)								
Amount of gains (losses) deferred in AOCI	N/A	N/A	N/A	N/A	N/A	N/A	—	
Subtotal	9	(13)	—	—	—	—	550	
Gain (Loss) on Derivatives Not Designated or Not Qualifying as Hedging Instruments:								
Interest rate derivatives (1)	(2)	—	748	—	—	—	N/A	
Foreign currency exchange rate derivatives (1)	—	—	16	—	—	—	N/A	
Credit derivatives — purchased (1)	—	—	(12)	—	—	—	N/A	
Credit derivatives — written (1)	—	—	128	—	—	—	N/A	
Equity derivatives (1)	—	—	(629)	(89)	—	—	N/A	
Foreign currency transaction gains (losses) on hedged items	—	—	(69)	—	—	—	N/A	
Subtotal	(2)	—	182	(89)	—	—	N/A	
Earned income on derivatives	134	—	139	63	(68)	—	—	
Embedded derivatives (2)	N/A	N/A	(423)	—	N/A	N/A	N/A	
Total	<u>\$ 140</u>	<u>\$ (13)</u>	<u>\$ (102)</u>	<u>\$ (28)</u>	<u>\$ (68)</u>	<u>\$ —</u>	<u>\$ 550</u>	

(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 (\$46) million and \$65 million for the three months and six months ended June 30, 2020, respectively, and \$0 and (\$11) million for the three months and six months ended June 30, 2019, respectively.

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 and (ii) foreign currency swaps to hedge the foreign currency fair value exposure of foreign currency denominated assets and liabilities.

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:

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

6. Derivatives (continued)

Balance Sheet Line Item	Carrying Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets/(Liabilities) (1)	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
	(In millions)			
Fixed maturity securities AFS	\$ 416	\$ 404	\$ (1)	\$ (1)
Mortgage loans	\$ 793	\$ 1,127	\$ 21	\$ 2
Future policy benefits	\$ (5,747)	\$ (4,475)	\$ (1,660)	\$ (908)

(1) At both June 30, 2020 and December 31, 2019, the hedging adjustments on discontinued hedging relationships includes (\$1) million.

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, and (iv) interest rate swaps and interest rate forwards to hedge the forecasted purchases of fixed-rate investments.

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 income. These amounts were \$31 million and \$32 million for the three months and six months ended June 30, 2020, respectively, and \$47 million and \$49 million for the three months and six months ended June 30, 2019, respectively.

At June 30, 2020 and December 31, 2019, 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 eight years, respectively.

At June 30, 2020 and December 31, 2019, the balance in AOCI associated with cash flow hedges was \$5.0 billion and \$2.0 billion, respectively.

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

At June 30, 2020, the Company expected to reclassify (\$9) million of deferred net gains (losses) on derivatives in AOCI to earnings within the next 12 months.

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 effects of derivatives on the interim condensed consolidated statements of operations and comprehensive income (loss) 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 \$8.1 billion and \$8.7 billion at June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019, the Company would have received \$71 million and \$199 million, respectively, to terminate all of these contracts.

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

6. Derivatives (continued)

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)	June 30, 2020			December 31, 2019		
	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)	\$ 1	\$ 84	0.9	\$ 1	\$ 94	1.7
Credit default swaps referencing indices	16	2,106	2.0	34	2,099	2.3
Subtotal	17	2,190	2.0	35	2,193	2.2
Baa						
Single name credit default swaps (3)	—	184	2.3	2	124	1.6
Credit default swaps referencing indices	55	5,570	5.1	141	6,165	5.0
Subtotal	55	5,754	5.0	143	6,289	5.0
Ba						
Single name credit default swaps (3)	(1)	20	2.2	—	—	—
Subtotal	(1)	20	2.2	—	—	—
B						
Single name credit default swaps (3)	—	—	—	—	10	0.5
Credit default swaps referencing indices	—	101	4.5	21	219	5.0
Subtotal	—	101	4.5	21	229	4.8
Total	\$ 71	\$ 8,065	4.2	\$ 199	\$ 8,711	4.3

- (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 municipals.

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. 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.

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

6. Derivatives (continued)

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 7 for a description of the impact of credit risk on the valuation of derivatives.

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:

<u>Derivatives Subject to a Master Netting Arrangement or a Similar Arrangement</u>	June 30, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Gross estimated fair value of derivatives:				
OTC-bilateral (1)	\$ 12,999	\$ 1,975	\$ 7,974	\$ 2,035
OTC-cleared (1)	93	83	191	53
Exchange-traded	1	29	—	5
Total gross estimated fair value of derivatives presented on the interim condensed consolidated balance sheets (1)	13,093	2,087	8,165	2,093
Gross amounts not offset on the interim condensed consolidated balance sheets:				
Gross estimated fair value of derivatives: (2)				
OTC-bilateral	(1,930)	(1,930)	(1,915)	(1,915)
OTC-cleared	(30)	(30)	(25)	(25)
Exchange-traded	—	—	—	—
Cash collateral: (3), (4)				
OTC-bilateral	(8,781)	—	(4,808)	—
OTC-cleared	(47)	—	(165)	—
Exchange-traded	—	—	—	—
Securities collateral: (5)				
OTC-bilateral	(2,171)	(45)	(1,246)	(114)
OTC-cleared	—	(53)	—	(28)
Exchange-traded	—	(29)	—	(5)
Net amount after application of master netting agreements and collateral	\$ 134	\$ —	\$ 6	\$ 6

- (1) At June 30, 2020 and December 31, 2019, derivative assets included income (expense) accruals reported in accrued investment income or in other liabilities of \$123 million and \$85 million, respectively, and derivative liabilities included (income) expense accruals reported in accrued investment income or in other liabilities of \$29 million and (\$9) 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, where the centralized clearinghouse treats variation margin as collateral, 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 June 30, 2020 and December 31, 2019, the Company received excess cash collateral of \$168 million and \$290 million, respectively, and provided no excess cash collateral for either period.

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

6. 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 June 30, 2020, 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 June 30, 2020 and December 31, 2019, the Company received excess securities collateral with an estimated fair value of \$151 million and \$97 million, respectively, for its OTC-bilateral derivatives, which are not included in the table above due to the foregoing limitation. At June 30, 2020 and December 31, 2019, the Company provided excess securities collateral with an estimated fair value of \$67 million and \$48 million, respectively, for its OTC-bilateral derivatives, \$1.6 billion and \$462 million, respectively, for its OTC-cleared derivatives, and \$177 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 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. All of the Company's netting agreements for derivatives contain provisions that require both Metropolitan Life Insurance Company and the counterparty to maintain a specific investment grade financial strength or credit rating from each of Moody's and S&P. If a party's financial strength or credit ratings were to fall below that specific investment grade financial strength or 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.

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.

	June 30, 2020			December 31, 2019		
	Derivatives Subject to Financial Strength- Contingent Provisions	Derivatives Not Subject to Financial Strength- Contingent Provisions	Total	Derivatives Subject to Financial Strength- Contingent Provisions	Derivatives Not Subject to Financial Strength- Contingent Provisions	Total
	(In millions)					
Estimated Fair Value of Derivatives in a Net Liability Position (1)	\$ 45	\$ —	\$ 45	\$ 120	\$ —	\$ 120
Estimated Fair Value of Collateral Provided:						
Fixed maturity securities AFS	\$ 46	\$ —	\$ 46	\$ 135	\$ —	\$ 135

(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.

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

6. 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:

	<u>Balance Sheet Location</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
		(In millions)	
Embedded derivatives within liability host contracts:			
Direct guaranteed minimum benefits	Policyholder account balances	\$ 1,123	\$ 175
Assumed guaranteed minimum benefits	Policyholder account balances	6	3
Funds withheld on ceded reinsurance (including affiliated)	Other liabilities	1,334	1,017
Fixed annuities with equity indexed returns	Policyholder account balances	105	130
Other guarantees	Policyholder account balances	3	—
Embedded derivatives within liability host contracts		<u>\$ 2,571</u>	<u>\$ 1,325</u>

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

7. Fair Value

Considerable judgment is often required in interpreting the market data used 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.

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:

	June 30, 2020			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
(In millions)				
Assets				
Fixed maturity securities AFS:				
U.S. corporate	\$ —	\$ 53,124	\$ 6,130	\$ 59,254
U.S. government and agency	12,512	20,803	—	33,315
Foreign corporate	—	22,531	6,848	29,379
RMBS	477	21,792	3,398	25,667
ABS	—	11,096	795	11,891
Municipals	—	8,816	—	8,816
CMBS	—	6,139	353	6,492
Foreign government	—	4,995	15	5,010
Total fixed maturity securities AFS	12,989	149,296	17,539	179,824
Short-term investments	2,025	1,413	—	3,438
Residential mortgage loans — FVO	—	—	175	175
Other investments	326	155	696	1,177
Derivative assets: (1)				
Interest rate	—	8,027	904	8,931
Foreign currency exchange rate	—	3,195	6	3,201
Credit	—	89	19	108
Equity market	1	698	31	730
Total derivative assets	1	12,009	960	12,970
Separate account assets (2)	25,180	95,007	923	121,110
Total assets (3)	\$ 40,521	\$ 257,880	\$ 20,293	\$ 318,694
Liabilities				
Derivative liabilities: (1)				
Interest rate	\$ —	\$ 82	\$ 6	\$ 88
Foreign currency exchange rate	—	1,573	—	1,573
Credit	—	10	4	14
Equity market	29	342	12	383
Total derivative liabilities	29	2,007	22	2,058
Embedded derivatives within liability host contracts (4)	—	—	2,571	2,571
Separate account liabilities (2)	1	27	11	39
Total liabilities	\$ 30	\$ 2,034	\$ 2,604	\$ 4,668

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

7. Fair Value (continued)

	December 31, 2019			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
	(In millions)			
Assets				
Fixed maturity securities AFS:				
U.S. corporate	\$ —	\$ 53,975	\$ 4,484	\$ 58,459
Foreign corporate	—	25,403	4,898	30,301
U.S. government and agency	11,484	17,764	—	29,248
RMBS	3	20,158	2,612	22,773
ABS	—	9,459	742	10,201
Municipals	—	7,849	7	7,856
CMBS	—	5,679	41	5,720
Foreign government	—	4,996	10	5,006
Total fixed maturity securities AFS	11,487	145,283	12,794	169,564
Short-term investments	1,077	789	17	1,883
Residential mortgage loans — FVO	—	—	188	188
Other investments	396	56	799	1,251
Derivative assets: (1)				
Interest rate	—	5,690	80	5,770
Foreign currency exchange rate	—	1,642	—	1,642
Credit	—	172	32	204
Equity market	—	439	25	464
Total derivative assets	—	7,943	137	8,080
Separate account assets (2)	22,753	94,192	922	117,867
Total assets (3)	\$ 35,713	\$ 248,263	\$ 14,857	\$ 298,833
Liabilities				
Derivative liabilities: (1)				
Interest rate	\$ —	\$ 167	\$ 191	\$ 358
Foreign currency exchange rate	—	1,225	—	1,225
Credit	—	11	1	12
Equity market	5	485	17	507
Total derivative liabilities	5	1,888	209	2,102
Embedded derivatives within liability host contracts (4)	—	—	1,325	1,325
Separate account liabilities (2)	1	14	7	22
Total liabilities	\$ 6	\$ 1,902	\$ 1,541	\$ 3,449

(1) 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.

(2) 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.

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7. Fair Value (continued)

- (3) Total assets included in the fair value hierarchy exclude 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 June 30, 2020 and December 31, 2019, the estimated fair value of such investments was \$70 million and \$90 million, respectively.
- (4) Embedded derivatives within liability host contracts are presented within policyholder account balances and other liabilities on the interim condensed consolidated balance sheets.

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 (e.g. 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.

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7. 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: <ul style="list-style-type: none"> • quoted prices in markets that are not active • benchmark yields; spreads off benchmark yields; new issuances; issuer ratings • trades of identical or comparable securities; duration • privately-placed securities are valued using the additional key inputs: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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
U.S. government and agency securities, Municipals and Foreign government securities		
	Valuation Approaches: Principally the market approach. Key Inputs: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 Products		
	Valuation Approaches: Principally the market and income approaches. Key Inputs: <ul style="list-style-type: none"> • 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 • credit ratings • issuance-specific information, including, but not limited to: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 • credit ratings

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

7. Fair Value (continued)

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Short-term investments and Other investments		
	<ul style="list-style-type: none"> Certain short-term investments and other investments are of a similar nature and class to the fixed maturity securities AFS described above; while certain other investments are similar to equity securities. The valuation approaches and observable inputs used in their valuation are also similar to those described above. Other investments contain equity securities valued using quoted prices in markets that are not considered active. 	<ul style="list-style-type: none"> Certain short-term investments and other investments are of a similar nature and class to the fixed maturity securities AFS described above; while certain other investments are similar to equity securities. The valuation approaches and unobservable inputs used in their valuation are also similar to those described above. Other investments contain equity securities that use key unobservable inputs such as credit ratings; issuance structures, in addition to those described above for fixed maturities AFS.
Residential mortgage loans — FVO		
	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> quoted prices or reported NAV provided by the fund managers 	<ul style="list-style-type: none"> N/A
Other limited partnership interests		
	<ul style="list-style-type: none"> N/A 	Valued giving consideration to the underlying holdings of the partnerships and adjusting, if appropriate. Key Inputs: <ul style="list-style-type: none"> 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.”

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.

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7. Fair Value (continued)

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 Derivatives

Level 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.

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	<ul style="list-style-type: none"> • swap yield curves • basis curves • interest rate volatility (1) 	<ul style="list-style-type: none"> • swap yield curves • basis curves • currency spot rates • cross currency basis curves 	<ul style="list-style-type: none"> • swap yield curves • credit curves • recovery rates 	<ul style="list-style-type: none"> • swap yield curves • spot equity index levels • dividend yield curves • equity volatility (1)
Level 3	<ul style="list-style-type: none"> • swap yield curves (2) • basis curves (2) • repurchase rates 	<ul style="list-style-type: none"> • swap yield curves (2) • basis curves (2) • cross currency basis curves (2) • currency correlation 	<ul style="list-style-type: none"> • swap yield curves (2) • credit curves (2) • credit spreads • repurchase rates • independent non-binding broker quotations 	<ul style="list-style-type: none"> • 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 and assumed 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.

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7. Fair Value (continued)

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 is 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.

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 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.

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7. Fair Value (continued)

Embedded Derivatives Within Asset and Liability Host Contracts

Level 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.

Embedded derivatives within funds withheld related to certain ceded reinsurance

These embedded derivatives are principally valued using the income approach. The valuations are based on present value techniques, which utilize significant inputs that may include the swap yield curves and the fair value of assets within the reference portfolio. 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 fair value of certain assets within the reference portfolio which are not observable in the market and cannot be derived principally from, or corroborated by, observable market data.

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.

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7. 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	June 30, 2020		December 31, 2019		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)	— - 187	112	5 - 145	110	Increase
	• Market pricing	• Quoted prices (4)	20 - 112	97	25 - 131	101	Increase
RMBS	• Market pricing	• Quoted prices (4)	— - 132	95	— - 119	95	Increase (5)
ABS	• Market pricing	• Quoted prices (4)	5 - 102	96	8 - 101	98	Increase (5)
Derivatives							
Interest rate	• Present value techniques	• Swap yield (6)	66 - 158	123	190 - 251		Increase (7)
		• Repurchase rates (8)	(8) - 10	(2)	(6) - 6		Decrease (7)
Foreign currency exchange rate	• Present value techniques	• Swap yield (6)	(29) - (13)	(16)	(22) - (5)		Increase (7)
Credit	• Present value techniques	• Credit spreads (9)	97 - 100	98	96 - 100		Decrease (7)
	• Consensus pricing	• Offered quotes (10)					
Equity market	• Present value techniques or option pricing models	• Volatility (11)	27% - 35%	30%	14% - 23%		Increase (7)
		• Correlation (12)	10% - 30%	11%	10% - 30%		
Embedded derivatives							
Direct and assumed guaranteed minimum benefits	• Option pricing techniques	• Mortality rates:					
		Ages 0 - 40	0.01% - 0.18%	0.06%	0.01% - 0.18%		Decrease (13)
		Ages 41 - 60	0.04% - 0.57%	0.30%	0.04% - 0.57%		Decrease (13)
		Ages 61 - 115	0.26% - 100%	1.90%	0.26% - 100%		Decrease (13)
		• Lapse rates:					
		Durations 1 - 10	0.25% - 100%	7.90%	0.25% - 100%		Decrease (14)
		Durations 11 - 20	3% - 100%	6.40%	3% - 100%		Decrease (14)
		Durations 21 - 116	2% - 100%	6.40%	2% - 100%		Decrease (14)
		• Utilization rates	0% - 22%	0.90%	0% - 22%		Increase (15)
		• Withdrawal rates	0.25% - 10%	4.23%	0.25% - 10%		(16)
	• Long-term equity volatilities	16.24% - 21.65%	18.30%	16.24% - 21.65%		Increase (17)	
	• Nonperformance risk spread	0.04% - 0.46%	0.49%	0.03% - 0.43%		Decrease (18)	

- (1) The weighted average for fixed maturity securities AFS and derivatives is determined based on the estimated fair value of the securities. The weighted average for embedded derivatives is determined based on a combination of account values and experience data.
- (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.
- (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.

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7. 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 June 30, 2020 and December 31, 2019, 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.

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7. Fair Value (continued)

Generally, all other classes of assets and liabilities classified within Level 3 that are not included in the preceding table use the same valuation techniques and significant unobservable inputs as previously described for Level 3. 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 (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				Short-term Investments
	Corporate (6)	Structured Products	Foreign Government	Municipals	
(In millions)					
Three Months Ended June 30, 2020					
Balance, beginning of period	\$ 12,978	\$ 3,240	\$ 33	\$ —	\$ 354
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	(23)	9	—	—	(1)
Total realized/unrealized gains (losses) included in AOCI	789	191	—	—	1
Purchases (3)	688	1,192	9	—	—
Sales (3)	(396)	(166)	(1)	—	(4)
Issuances (3)	—	—	—	—	—
Settlements (3)	—	—	—	—	—
Transfers into Level 3 (4)	116	122	—	—	—
Transfers out of Level 3 (4)	(1,174)	(42)	(26)	—	(350)
Balance, end of period	<u>\$ 12,978</u>	<u>\$ 4,546</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ —</u>
Three Months Ended June 30, 2019					
Balance, beginning of period	\$ 7,330	\$ 3,314	\$ 21	\$ —	\$ 127
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	—	11	—	—	—
Total realized/unrealized gains (losses) included in AOCI	126	24	—	—	—
Purchases (3)	416	194	—	7	11
Sales (3)	(205)	(175)	(2)	—	(25)
Issuances (3)	—	—	—	—	—
Settlements (3)	—	—	—	—	—
Transfers into Level 3 (4)	77	6	1	—	—
Transfers out of Level 3 (4)	(94)	(132)	(10)	—	—
Balance, end of period	<u>\$ 7,650</u>	<u>\$ 3,242</u>	<u>\$ 10</u>	<u>\$ 7</u>	<u>\$ 113</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2020: (5)	<u>\$ (15)</u>	<u>\$ 12</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2019: (5)	<u>\$ (2)</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in AOCI for the instruments still held at June 30, 2020 (5)	<u>\$ 780</u>	<u>\$ 187</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

7. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Residential Mortgage Loans - FVO	Other Investments	Net Derivatives (7)	Net Embedded Derivatives (8)	Separate Accounts (9)
	(In millions)				
Three Months Ended June 30, 2020					
Balance, beginning of period	\$ 180	\$ 655	\$ 1,192	\$ (2,442)	\$ 927
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	1	46	(29)	(86)	10
Total realized/unrealized gains (losses) included in AOCI	—	—	(74)	—	—
Purchases (3)	—	16	—	—	57
Sales (3)	(2)	(2)	—	—	(93)
Issuances (3)	—	—	—	—	(2)
Settlements (3)	(4)	—	(151)	(43)	1
Transfers into Level 3 (4)	—	—	—	—	13
Transfers out of Level 3 (4)	—	(19)	—	—	(1)
Balance, end of period	<u>\$ 175</u>	<u>\$ 696</u>	<u>\$ 938</u>	<u>\$ (2,571)</u>	<u>\$ 912</u>
Three Months Ended June 30, 2019					
Balance, beginning of period	\$ 276	\$ 604	\$ (87)	\$ (847)	\$ 897
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	4	6	61	(325)	2
Total realized/unrealized gains (losses) included in AOCI	—	—	136	—	—
Purchases (3)	—	26	4	—	101
Sales (3)	(9)	(16)	—	—	(75)
Issuances (3)	—	—	(1)	—	3
Settlements (3)	(9)	—	(40)	(47)	(3)
Transfers into Level 3 (4)	—	—	—	—	—
Transfers out of Level 3 (4)	—	—	—	—	—
Balance, end of period	<u>\$ 262</u>	<u>\$ 620</u>	<u>\$ 73</u>	<u>\$ (1,219)</u>	<u>\$ 925</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2020: (5)	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ (16)</u>	<u>\$ (89)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2019: (5)	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 53</u>	<u>\$ (323)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in AOCI for the instruments still held at June 30, 2020 (5)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (70)</u>	<u>\$ —</u>	<u>\$ —</u>

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

7. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Fixed Maturity Securities AFS					Short-term Investments
	Corporate (6)	Structured Products	Foreign Government	Municipals		
(In millions)						
Six Months Ended June 30, 2020						
Balance, beginning of period	\$ 9,382	\$ 3,395	\$ 10	\$ 7	\$	17
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	(71)	19	—	—	—	—
Total realized/unrealized gains (losses) included in AOCI	(233)	(98)	(1)	—	—	—
Purchases (3)	1,658	1,431	9	—	—	—
Sales (3)	(515)	(326)	(1)	—	—	—
Issuances (3)	—	—	—	—	—	—
Settlements (3)	—	—	—	—	—	—
Transfers into Level 3 (4)	3,128	144	—	—	—	—
Transfers out of Level 3 (4)	(371)	(19)	(2)	(7)	—	(17)
Balance, end of period	<u>\$ 12,978</u>	<u>\$ 4,546</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$</u>	<u>—</u>
Six Months Ended June 30, 2019						
Balance, beginning of period	\$ 7,101	\$ 3,541	\$ 10	\$ —	\$	25
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	(3)	24	—	—	—	—
Total realized/unrealized gains (losses) included in AOCI	349	42	—	—	—	—
Purchases (3)	637	275	—	7	—	113
Sales (3)	(257)	(297)	(1)	—	—	(25)
Issuances (3)	—	—	—	—	—	—
Settlements (3)	—	—	—	—	—	—
Transfers into Level 3 (4)	174	6	1	—	—	—
Transfers out of Level 3 (4)	(351)	(349)	—	—	—	—
Balance, end of period	<u>\$ 7,650</u>	<u>\$ 3,242</u>	<u>\$ 10</u>	<u>\$ 7</u>	<u>\$</u>	<u>113</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2020: (5)	<u>\$ (39)</u>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$</u>	<u>—</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2019: (5)	<u>\$ (4)</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$</u>	<u>—</u>
Changes in unrealized gains (losses) included in AOCI for the instruments still held at June 30, 2020 (5)	<u>\$ (257)</u>	<u>\$ (97)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$</u>	<u>—</u>

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

7. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Residential Mortgage Loans - FVO	Other Investments	Net Derivatives (7)	Net Embedded Derivatives (8)	Separate Accounts (9)
	(In millions)				
Six Months Ended June 30, 2020					
Balance, beginning of period	\$ 188	\$ 799	\$ (72)	\$ (1,325)	\$ 915
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	3	(2)	240	(1,159)	1
Total realized/unrealized gains (losses) included in AOCI	—	—	1,021	—	—
Purchases (3)	—	31	—	—	94
Sales (3)	(7)	(35)	—	—	(101)
Issuances (3)	—	—	—	—	(3)
Settlements (3)	(9)	—	(251)	(87)	1
Transfers into Level 3 (4)	—	—	—	—	10
Transfers out of Level 3 (4)	—	(97)	—	—	(5)
Balance, end of period	<u>\$ 175</u>	<u>\$ 696</u>	<u>\$ 938</u>	<u>\$ (2,571)</u>	<u>\$ 912</u>
Six Months Ended June 30, 2019					
Balance, beginning of period	\$ 299	\$ 571	\$ (192)	\$ (704)	\$ 937
Total realized/unrealized gains (losses) included in net income (loss) (1), (2)	6	57	76	(423)	6
Total realized/unrealized gains (losses) included in AOCI	—	—	224	—	—
Purchases (3)	—	29	4	—	124
Sales (3)	(25)	(37)	—	—	(140)
Issuances (3)	—	—	(1)	—	2
Settlements (3)	(18)	—	(38)	(92)	(2)
Transfers into Level 3 (4)	—	—	—	—	—
Transfers out of Level 3 (4)	—	—	—	—	(2)
Balance, end of period	<u>\$ 262</u>	<u>\$ 620</u>	<u>\$ 73</u>	<u>\$ (1,219)</u>	<u>\$ 925</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2020: (5)	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 84</u>	<u>\$ (1,160)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2019: (5)	<u>\$ 1</u>	<u>\$ 45</u>	<u>\$ 61</u>	<u>\$ (420)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in AOCI for the instruments still held at June 30, 2020 (5)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 923</u>	<u>\$ —</u>	<u>\$ —</u>

- (1) 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).
- (2) Interest and dividend accruals, as well as cash interest coupons and dividends received, are excluded from the rollforward.
- (3) 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.

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

7. Fair Value (continued)

- (4) Items transferred into and then out of Level 3 in the same period are excluded from the rollforward.
- (5) Changes in unrealized gains (losses) included in net income (loss) and included in AOCI 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).
- (6) Comprised of U.S. and foreign corporate securities.
- (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.

	June 30, 2020	December 31, 2019
	(In millions)	
Unpaid principal balance	\$ 190	\$ 209
Difference between estimated fair value and unpaid principal balance	(15)	(21)
Carrying value at estimated fair value	\$ 175	\$ 188
Loans in nonaccrual status	\$ 47	\$ 47
Loans more than 90 days past due	\$ 18	\$ 18
Loans in nonaccrual status or more than 90 days past due, or both — difference between aggregate estimated fair value and unpaid principal balance	\$ (16)	\$ (19)

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 Company believes that due to the short-term nature of these excluded assets, which are primarily classified in Level 2, the estimated fair value approximates carrying value. All remaining balance sheet amounts excluded from the tables below are not considered financial instruments subject to this disclosure.

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

7. 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:

	June 30, 2020					Total Estimated Fair Value
	Carrying Value	Fair Value Hierarchy			Level 3	
		Level 1	Level 2	Level 3		
(In millions)						
Assets						
Mortgage loans	\$ 66,429	\$ —	\$ —	\$ 68,470	\$ 68,470	\$ 68,470
Policy loans	\$ 6,043	\$ —	\$ 262	\$ 7,226	\$ 7,488	\$ 7,488
Other invested assets	\$ 3,002	\$ —	\$ 2,737	\$ 122	\$ 2,859	\$ 2,859
Premiums, reinsurance and other receivables	\$ 13,841	\$ —	\$ 159	\$ 14,734	\$ 14,893	\$ 14,893
Other assets	\$ 750	\$ —	\$ 750	\$ —	\$ 750	\$ 750
Liabilities						
Policyholder account balances	\$ 77,765	\$ —	\$ —	\$ 83,711	\$ 83,711	\$ 83,711
Long-term debt	\$ 1,628	\$ —	\$ 1,931	\$ —	\$ 1,931	\$ 1,931
Other liabilities	\$ 13,536	\$ —	\$ 971	\$ 12,955	\$ 13,926	\$ 13,926
Separate account liabilities	\$ 57,724	\$ —	\$ 57,724	\$ —	\$ 57,724	\$ 57,724

	December 31, 2019					Total Estimated Fair Value
	Carrying Value	Fair Value Hierarchy			Level 3	
		Level 1	Level 2	Level 3		
(In millions)						
Assets						
Mortgage loans	\$ 65,361	\$ —	\$ —	\$ 67,680	\$ 67,680	\$ 67,680
Policy loans	\$ 6,100	\$ —	\$ 263	\$ 6,935	\$ 7,198	\$ 7,198
Other invested assets	\$ 2,964	\$ —	\$ 2,708	\$ 158	\$ 2,866	\$ 2,866
Premiums, reinsurance and other receivables	\$ 14,042	\$ —	\$ 367	\$ 14,488	\$ 14,855	\$ 14,855
Other assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Liabilities						
Policyholder account balances	\$ 73,693	\$ —	\$ —	\$ 75,885	\$ 75,885	\$ 75,885
Long-term debt	\$ 1,543	\$ —	\$ 1,888	\$ —	\$ 1,888	\$ 1,888
Other liabilities	\$ 12,789	\$ —	\$ 113	\$ 12,819	\$ 12,932	\$ 12,932
Separate account liabilities	\$ 52,830	\$ —	\$ 52,830	\$ —	\$ 52,830	\$ 52,830

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

8. Equity

Accumulated Other Comprehensive Income (Loss)

Information regarding changes in the balances of each component of AOCI attributable to Metropolitan Life Insurance Company was as follows:

	Three Months Ended June 30, 2020				
	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	\$ 7,177	\$ 4,567	\$ (86)	\$ (367)	\$ 11,291
OCI before reclassifications	4,447	(415)	(25)	4	4,011
Deferred income tax benefit (expense)	(956)	87	7	(1)	(863)
AOCI before reclassifications, net of income tax	10,668	4,239	(104)	(364)	14,439
Amounts reclassified from AOCI	41	(317)	—	6	(270)
Deferred income tax benefit (expense)	(8)	66	—	(1)	57
Amounts reclassified from AOCI, net of income tax	33	(251)	—	5	(213)
Balance, end of period	\$ 10,701	\$ 3,988	\$ (104)	\$ (359)	\$ 14,226

	Three Months Ended June 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	\$ 5,410	\$ 1,438	\$ (74)	\$ (257)	\$ 6,517
OCI before reclassifications	2,733	523	(11)	—	3,245
Deferred income tax benefit (expense)	(586)	(109)	1	—	(694)
AOCI before reclassifications, net of income tax	7,557	1,852	(84)	(257)	9,068
Amounts reclassified from AOCI	(60)	(44)	—	7	(97)
Deferred income tax benefit (expense)	12	9	—	(2)	19
Amounts reclassified from AOCI, net of income tax	(48)	(35)	—	5	(78)
Balance, end of period	\$ 7,509	\$ 1,817	\$ (84)	\$ (252)	\$ 8,990

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

8. Equity (continued)

	Six Months Ended June 30, 2020				
	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	\$ 8,876	\$ 1,620	\$ (97)	\$ (374)	\$ 10,025
OCI before reclassifications	2,228	2,876	(9)	4	5,099
Deferred income tax benefit (expense)	(462)	(604)	2	(1)	(1,065)
AOCI before reclassifications, net of income tax	10,642	3,892	(104)	(371)	14,059
Amounts reclassified from AOCI	74	122	—	15	211
Deferred income tax benefit (expense)	(15)	(26)	—	(3)	(44)
Amounts reclassified from AOCI, net of income tax	59	96	—	12	167
Balance, end of period	\$ 10,701	\$ 3,988	\$ (104)	\$ (359)	\$ 14,226

	Six Months Ended June 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	\$ 2,515	\$ 1,382	\$ (74)	\$ (261)	\$ 3,562
OCI before reclassifications	6,337	617	(14)	(1)	6,939
Deferred income tax benefit (expense)	(1,340)	(130)	4	—	(1,466)
AOCI before reclassifications, net of income tax	7,512	1,869	(84)	(262)	9,035
Amounts reclassified from AOCI	(2)	(89)	—	13	(78)
Deferred income tax benefit (expense)	—	19	—	(3)	16
Amounts reclassified from AOCI, net of income tax	(2)	(70)	—	10	(62)
Cumulative effects of changes in accounting principles	(1)	22	—	—	21
Deferred income tax benefit (expense), cumulative effects of changes in accounting principles	—	(4)	—	—	(4)
Cumulative effects of changes in accounting principles, net of income tax (2)	(1)	18	—	—	17
Balance, end of period	\$ 7,509	\$ 1,817	\$ (84)	\$ (252)	\$ 8,990

- (1) See Note 5 for information on offsets to investments related to future policy benefits, DAC, VOBA and DSI, and the policyholder dividend obligation.
- (2) See Note 1 of the Notes to the Consolidated Financial Statements included in the 2019 Annual Report for further information on adoption of new accounting pronouncements.

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

8. Equity (continued)

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

AOCI Components	Three Months Ended June 30,		Six Months Ended June 30,		Consolidated Statements of Operations and Comprehensive Income (Loss) Locations
	2020	2019	2020	2019	
	Amounts Reclassified from AOCI				
	(In millions)				
Net unrealized investment gains (losses):					
Net unrealized investment gains (losses)	\$ (32)	\$ 82	\$ (58)	\$ 41	Net investment gains (losses)
Net unrealized investment gains (losses)	(2)	—	(8)	—	Net investment income
Net unrealized investment gains (losses)	(7)	(22)	(8)	(39)	Net derivative gains (losses)
Net unrealized investment gains (losses), before income tax	(41)	60	(74)	2	
Income tax (expense) benefit	8	(12)	15	—	
Net unrealized investment gains (losses), net of income tax	(33)	48	(59)	2	
Unrealized gains (losses) on derivatives - cash flow hedges:					
Interest rate derivatives	9	6	15	11	Net investment income
Interest rate derivatives	42	5	48	(1)	Net investment gains (losses)
Foreign currency exchange rate derivatives	—	(1)	—	(2)	Net investment income
Foreign currency exchange rate derivatives	266	34	(185)	81	Net investment gains (losses)
Gains (losses) on cash flow hedges, before income tax	317	44	(122)	89	
Income tax (expense) benefit	(66)	(9)	26	(19)	
Gains (losses) on cash flow hedges, net of income tax	251	35	(96)	70	
Defined benefit plans adjustment: (1)					
Amortization of net actuarial gains (losses)	(6)	(7)	(16)	(14)	
Amortization of prior service (costs) credit	—	—	1	1	
Amortization of defined benefit plan items, before income tax	(6)	(7)	(15)	(13)	
Income tax (expense) benefit	1	2	3	3	
Amortization of defined benefit plan items, net of income tax	(5)	(5)	(12)	(10)	
Total reclassifications, net of income tax	<u>\$ 213</u>	<u>\$ 78</u>	<u>\$ (167)</u>	<u>\$ 62</u>	

(1) These AOCI components are included in the computation of net periodic benefit costs. See Note 10.

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

9. 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In millions)				
Prepaid legal plans	\$ 94	\$ 82	\$ 189	\$ 163
Recordkeeping and administrative services (1)	45	51	94	101
Administrative services-only contracts	54	53	110	106
Other revenue from service contracts from customers	9	5	18	24
Total revenues from service contracts from customers	202	191	411	394
Other	201	212	365	410
Total other revenues	\$ 403	\$ 403	\$ 776	\$ 804

(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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In millions)				
General and administrative expenses (1)	\$ 537	\$ 629	\$ 1,132	\$ 1,199
Pension, postretirement and postemployment benefit costs	8	26	17	52
Premium taxes, other taxes, and licenses & fees	95	76	192	153
Commissions and other variable expenses	450	454	922	895
Capitalization of DAC	(13)	(17)	(23)	(29)
Amortization of DAC and VOBA	(16)	41	87	60
Interest expense on debt	26	26	51	53
Total other expenses	\$ 1,087	\$ 1,235	\$ 2,378	\$ 2,383

(1) Includes (\$53) million and (\$25) million for the three months and six months ended June 30, 2020, respectively, and (\$43) million and (\$101) million for the three months and six months ended June 30, 2019, respectively, for the net change in cash surrender value of investments in certain life insurance policies, net of premiums paid.

Affiliated Expenses

Commissions and other variable expenses, capitalization of DAC and amortization of DAC and VOBA include the impact of affiliated reinsurance transactions. See Note 13 for a discussion of affiliated expenses included in the table above.

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

10. Employee Benefit Plans

Pension and Other Postretirement Benefit Plans

Metropolitan Life Insurance Company sponsors nonqualified defined benefit pension plans covering employees who meet specified eligibility requirements and provides certain postretirement medical and life insurance benefits for retired employees.

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

	Three Months Ended June 30,	
	2020	2019
	(In millions)	
Service costs	\$ 4	\$ 5
Interest costs	10	11
Amortization of net actuarial (gains) losses	10	7
Amortization of prior service costs (credit)	—	—
Allocated to affiliates	(5)	(5)
Net periodic benefit costs (credit)	\$ 19	\$ 18

	Six Months Ended June 30,	
	2020	2019
	(In millions)	
Service costs	\$ 9	\$ 9
Interest costs	20	23
Amortization of net actuarial (gains) losses	20	14
Amortization of prior service costs (credit)	(1)	(1)
Allocated to affiliates	(10)	(11)
Net periodic benefit costs (credit)	\$ 38	\$ 34

11. Income Tax

For the three months and six months ended June 30, 2020, the effective tax rate on income (loss) before provision for income tax was 38% and 16%, respectively. The Company's effective tax rate for the three months ended June 30, 2020 differed from the U.S. statutory rate primarily due to tax benefits related to non-taxable investment income and tax credits. The Company's effective tax rate for the six months ended June 30, 2020 differed from the U.S. statutory rate primarily due to tax benefits related to non-taxable investment income, tax credits and the finalization of bankruptcy proceedings for a leveraged lease investment.

For the three months and six months ended June 30, 2019, the effective tax rate on income (loss) before provision for income tax was 13% and 9%, respectively. The Company's effective tax rate for both periods differed from the U.S. statutory rate primarily due to tax benefits related to non-taxable investment income and tax credits.

Metropolitan Life Insurance Company
(A Wholly-Owned Subsidiary of MetLife, Inc.)

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

12. 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 lender, 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; 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 reasonable 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.

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. In certain circumstances where liabilities have been established there may be coverage under one or more corporate insurance policies, pursuant to which there may be an insurance recovery. Insurance recoveries are recognized as gains when any contingencies relating to the insurance claim have been resolved, which is the earlier of when the gains are realized or realizable. 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 June 30, 2020. 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 June 30, 2020, the Company estimates the aggregate range of reasonably possible losses in excess of amounts accrued for these matters to be \$0 to \$175 million.

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

12. Contingencies, Commitments and Guarantees (continued)

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

Metropolitan Life Insurance Company 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. Metropolitan Life Insurance Company has never engaged in the business of manufacturing, producing, distributing or selling asbestos or asbestos-containing products nor has Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company's employees during the period from the 1920's through approximately the 1950's and allege that Metropolitan Life Insurance Company 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. Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company. Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company have included negligence, intentional tort and conspiracy concerning the health risks associated with asbestos. Metropolitan Life Insurance Company's defenses (beyond denial of certain factual allegations) include that: (i) Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company; (iii) Metropolitan Life Insurance Company'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 Metropolitan Life Insurance Company, while other trial courts have denied Metropolitan Life Insurance Company's motions. There can be no assurance that Metropolitan Life Insurance Company will receive favorable decisions on motions in the future. While most cases brought to date have settled, Metropolitan Life Insurance Company intends to continue to defend aggressively against claims based on asbestos exposure, including defending claims at trials.

As reported in the 2019 Annual Report, Metropolitan Life Insurance Company received approximately 3,187 asbestos-related claims in 2019. For the six months ended June 30, 2020 and 2019, Metropolitan Life Insurance Company received approximately 1,121 and 1,705 new asbestos-related claims, respectively. See Note 16 of the Notes to the Consolidated Financial Statements included in the 2019 Annual Report for historical information concerning asbestos claims and Metropolitan Life Insurance Company's update in its recorded liability at December 31, 2019. The number of asbestos cases that may be brought, the aggregate amount of any liability that Metropolitan Life Insurance Company may incur, and the total amount paid in settlements in any given year are uncertain and may vary significantly from year to year.

Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

12. Contingencies, Commitments and Guarantees (continued)

The ability of Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company when exposure to asbestos took place after the dangers of asbestos exposure were well known, and the impact of any possible future adverse verdicts and their amounts.

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. Metropolitan Life Insurance Company'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 Metropolitan Life Insurance Company, including claims settled but not yet paid; (ii) the probable and reasonably estimable liability for asbestos claims not yet asserted against Metropolitan Life Insurance Company, but which Metropolitan Life Insurance Company believes are reasonably probable of assertion; and (iii) the legal defense costs associated with the foregoing claims. Significant assumptions underlying Metropolitan Life Insurance Company'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.

Metropolitan Life Insurance Company 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, Metropolitan Life Insurance Company has updated its liability analysis for asbestos-related claims through June 30, 2020.

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 Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company from February 8, 2014 to the present. Metropolitan Life Insurance Company intends to defend this action vigorously.

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

12. Contingencies, Commitments and Guarantees (continued)

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., Metropolitan Life Insurance Company 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 Metropolitan Life Insurance Company’s motion to dismiss and dismissed the complaint in its entirety. The Relator filed an appeal with the Appellate Division of the New York State Supreme Court, First Division.

Miller, et al. v. Metropolitan Life Insurance Company (S.D.N.Y., filed January 4, 2019)

Plaintiffs filed a second amended complaint in this putative class action, purporting to assert claims on behalf of all persons who replaced their MetLife Optional Term Life or Group Universal Life policy with a Group Variable Universal Life policy wherein Metropolitan Life Insurance Company allegedly charged smoker rates for certain non-smokers. Plaintiffs seek unspecified compensatory and punitive damages, as well as other relief. On September 17, 2019, the court granted Metropolitan Life Insurance Company’s motion to dismiss plaintiffs’ second amended complaint and dismissed the case in its entirety. Plaintiffs filed an appeal with the United States Court of Appeals for the Second Circuit.

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. Several regulators have made inquiries into this issue and it is possible that other jurisdictions may pursue similar investigations or inquiries. The Company is exposed to lawsuits, 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, Employee Retirement Income Security Act of 1974, or other laws or regulations. The Company could incur significant costs in connection with these actions.

Litigation Matters

Atkins et. al. v. MetLife, Inc., et. al. (D.Nev., filed November 18, 2019)

Plaintiffs filed this putative class action on behalf of all persons due benefits under group annuity contracts but who did not receive the entire amount to which they were entitled. Plaintiffs assert claims for breach of contract, breach of fiduciary duty, breach of implied covenant of good faith and fair dealing, unjust enrichment, and conversion based on allegations that the defendants failed to timely pay annuity benefits to certain group annuitants. Plaintiffs seek declaratory and injunctive relief, as well as unspecified compensatory and punitive damages, and other relief. On April 17, 2020, the parties filed a stipulation of voluntarily dismissal of the action without prejudice.

Commitments

Mortgage Loan Commitments

The Company commits to lend funds under mortgage loan commitments. The amounts of these mortgage loan commitments were \$2.4 billion and \$3.7 billion at June 30, 2020 and December 31, 2019, 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 \$4.7 billion and \$4.6 billion at June 30, 2020 and December 31, 2019, respectively.

Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

12. 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 \$365 million, with a cumulative maximum of \$487 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's recorded liabilities were \$3 million at both June 30, 2020 and December 31, 2019 for indemnities, guarantees and commitments.

13. Related Party Transactions

Service Agreements

The Company has entered into various agreements with affiliates for services necessary to conduct its activities. Typical services provided under these agreements include personnel, policy administrative functions and distribution services. The bases for such charges are modified and adjusted by management when necessary or appropriate to reflect fairly and equitably the actual cost incurred by the Company and/or its affiliate. Expenses and fees incurred with affiliates related to these agreements, recorded in other expenses, were \$575 million and \$1.2 billion for the three months and six months ended June 30, 2020, respectively, and \$704 million and \$1.4 billion for the three months and six months ended June 30, 2019, respectively. Total revenues received from affiliates related to these agreements were \$9 million and \$19 million for the three months and six months ended June 30, 2020, respectively, and \$7 million and \$14 million for the three months and six months ended June 30, 2019, respectively.

The Company had net payables to affiliates, related to the items discussed above, of \$159 million and \$250 million at June 30, 2020 and December 31, 2019, respectively.

See Notes 5 and 10 for additional information on related party transactions.

Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

13. Related Party Transactions (continued)

Related Party Reinsurance Transactions

The Company has reinsurance agreements with certain of MetLife, Inc.’s subsidiaries, including MetLife Reinsurance Company of Charleston (“MRC”), MetLife Reinsurance Company of Vermont, and Metropolitan Tower Life Insurance Company, all of which are related parties.

Information regarding the significant effects of affiliated reinsurance on the interim condensed consolidated statements of operations and comprehensive income (loss) was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In millions)				
Premiums				
Reinsurance assumed	\$ 2	\$ 2	\$ 4	\$ 5
Reinsurance ceded	(29)	(27)	(58)	(59)
Net premiums	<u>\$ (27)</u>	<u>\$ (25)</u>	<u>\$ (54)</u>	<u>\$ (54)</u>
Universal life and investment-type product policy fees				
Reinsurance assumed	\$ —	\$ —	\$ —	\$ —
Reinsurance ceded	(3)	(3)	(2)	(9)
Net universal life and investment-type product policy fees	<u>\$ (3)</u>	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (9)</u>
Other revenues				
Reinsurance assumed	\$ —	\$ (5)	\$ (9)	\$ (9)
Reinsurance ceded	119	139	251	266
Net other revenues	<u>\$ 119</u>	<u>\$ 134</u>	<u>\$ 242</u>	<u>\$ 257</u>
Policyholder benefits and claims				
Reinsurance assumed	\$ —	\$ 1	\$ 1	\$ 2
Reinsurance ceded	(34)	(25)	(69)	(58)
Net policyholder benefits and claims	<u>\$ (34)</u>	<u>\$ (24)</u>	<u>\$ (68)</u>	<u>\$ (56)</u>
Interest credited to policyholder account balances				
Reinsurance assumed	\$ 7	\$ 8	\$ 14	\$ 15
Reinsurance ceded	(3)	(3)	(6)	(6)
Net interest credited to policyholder account balances	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ 8</u>	<u>\$ 9</u>
Other expenses				
Reinsurance assumed	\$ —	\$ —	\$ —	\$ —
Reinsurance ceded	119	139	254	264
Net other expenses	<u>\$ 119</u>	<u>\$ 139</u>	<u>\$ 254</u>	<u>\$ 264</u>

Metropolitan Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) — (continued)

13. Related Party Transactions (continued)

Information regarding the significant effects of affiliated reinsurance on the interim condensed consolidated balance sheets was as follows at:

	June 30, 2020		December 31, 2019	
	Assumed	Ceded	Assumed	Ceded
	(In millions)			
Assets				
Premiums, reinsurance and other receivables	\$ 1	\$ 12,483	\$ —	\$ 12,584
Deferred policy acquisition costs and value of business acquired	—	(153)	—	(160)
Total assets	\$ 1	\$ 12,330	\$ —	\$ 12,424
Liabilities				
Future policy benefits	\$ 51	\$ (15)	\$ 55	\$ (6)
Policyholder account balances	126	—	131	—
Other policy-related balances	1	7	1	9
Other liabilities	840	12,859	824	12,695
Total liabilities	\$ 1,018	\$ 12,851	\$ 1,011	\$ 12,698

The Company ceded two blocks of business to an affiliate on a 75% coinsurance with funds withheld basis. Certain contractual features of these agreements qualify as embedded derivatives, which are separately accounted for at estimated fair value on the Company's consolidated balance sheets. The embedded derivatives related to the funds withheld associated with these reinsurance agreements are included within other liabilities and were \$48 million and \$21 million at June 30, 2020 and December 31, 2019, respectively. Net derivative gains (losses) associated with these embedded derivatives were (\$12) million and (\$27) million for the three months and six months ended June 30, 2020, respectively, and (\$9) million and (\$17) million for the three months and six months ended June 30, 2019, respectively.

Certain contractual features of the closed block agreement with MRC create an embedded derivative, which is separately accounted for at estimated fair value on the Company's consolidated balance sheets. The embedded derivative related to the funds withheld associated with this reinsurance agreement was included within other liabilities and was \$1.3 billion and \$996 million at June 30, 2020 and December 31, 2019, respectively. Net derivative gains (losses) associated with the embedded derivative were (\$379) million and (\$290) million for the three months and six months ended June 30, 2020, respectively, and (\$226) million and (\$448) million for the three months and six months ended June 30, 2019, respectively.

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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, “MLIC,” the “Company,” “we,” “our” and “us” refer to Metropolitan Life Insurance Company, a New York corporation incorporated in 1868, and its subsidiaries. Metropolitan Life Insurance Company is a wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”). Management’s narrative analysis of the Company’s results of operations is presented pursuant to General Instruction H(2) (a) of Form 10-Q. This narrative analysis should be read in conjunction with Metropolitan Life Insurance Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 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, and the Company’s interim condensed consolidated financial statements included elsewhere herein.

This narrative analysis 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 narrative analysis includes references to our performance measure, adjusted earnings, that is 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 this and other financial measures, and “— Results of Operations” for reconciliations of historical non-GAAP financial measures to the most directly comparable GAAP measures.

Business

Overview

MLIC is a provider of insurance, annuities, employee benefits and asset management. MLIC is organized into two segments: U.S. 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.

COVID-19 Pandemic and Current Market Conditions

We continue to closely monitor developments relating to the novel coronavirus COVID-19 pandemic (the “COVID-19 Pandemic”) and assess its impact on our business. The COVID-19 Pandemic continues to impact the global economy and financial markets and has caused volatility in the global equity, credit and real estate markets. Governments and businesses have taken numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, social distancing, shelter in place or total lock down orders, and business limitations and shutdowns. Some governments and businesses have begun to ease some restrictions. Others have reinstated restrictions they previously lifted. Nevertheless, these measures have disrupted and will continue to disrupt business activity and have resulted in an economic slowdown and volatility in the financial markets, to which central banks around the world have responded with unprecedented fiscal and monetary policies. These policy responses include fiscal and monetary stimulus measures, including, but not limited to, financial assistance, liquidity programs, new financing facilities and reductions in the level of interest rates to near zero, zero and, in some markets, negative. We anticipate that the current low interest rate environment will continue in 2020, and potentially longer. We believe that our investment portfolio is highly diversified and well positioned to withstand economic downturns; however, we expect that the market-related effects of the COVID-19 Pandemic, as well as the sustained low interest rate environment, will continue to have an impact across our investment portfolio.

Events related to the COVID-19 Pandemic may continue to adversely affect our business operations, investment portfolio, derivatives, financial results or financial condition. See “Risk Factors — The Course of the Novel Coronavirus (COVID-19) Pandemic, and Responses to It, Are Uncertain and Difficult to Predict, But Have Adversely Affected and May Continue to Adversely Affect Our Business, Results of Operations, and Financial Condition.” We have implemented risk management and business continuity plans and taken preventive measures and other precautions, such as employee business travel restrictions and remote work arrangements which, to date, have enabled us to maintain our critical business processes, customer service levels, relationships with key vendors, financial reporting systems, internal controls over financial reporting and disclosure controls and procedures.

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We granted accommodations to our customers, borrowers and lessees, including (i) waiving exclusions, such as deferred rate increases, extending premium grace periods, waiving late payment fees, and relaxing claim documentation requirements, (ii) credits on insured dental premiums, (iii) payment deferrals and other loan modifications on certain commercial, agricultural and residential mortgage loans, and (iv) certain operating lease concessions. See Note 5 of the Notes to the Interim Condensed Consolidated Financial Statements for further information regarding COVID-19 Pandemic-related mortgage loan and lease concessions.

Our capital stress testing and longstanding commitment to liquidity position us to withstand the current crisis. We have, and may continue to maintain, a higher than normal level of short-term liquidity, which may adversely affect net investment income if the reinvestment process occurs over an extended period of time. We do not expect any material liquidity deficiencies, and we expect to remain able to comply with the financial covenants of our credit agreements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” included in the 2019 Annual Report. We will continue reviewing accounting estimates, asset valuations and various financial scenarios for capital and liquidity. See “— Investments — Current Environment,” “— Regulatory Developments” and “Risk Factors” for additional information.

Investments - Current Environment

The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Current Environment” included in the 2019 Annual Report.

As a result of the impact of the COVID-19 Pandemic on the global economy and the markets, during the six months ended June 30, 2020, there was an economic slowdown and volatility in the financial markets, including liquidity driven price dislocation and credit spread widening. As a result, during the six months ended June 30, 2020, the value of certain investments within our portfolio decreased; however, some of those effects were mitigated by an increase in the value of certain freestanding derivatives that hedge such market risks. These conditions may persist for some time and may continue to impact pricing levels of risk-bearing investments, as well as our business operations, investment portfolio and derivatives.

Regulatory Developments

The following discussion on regulatory developments should be read in conjunction with “Business — Regulation” in the 2019 Annual Report, as amended or supplemented here.”

COVID-19 Pandemic-Related Regulatory Actions

In March 2020, many U.S. state governors and insurance regulators began issuing regulations, bulletins, directives and guidance in connection with the COVID-19 Pandemic. These encourage, request or direct health and life insurance companies to waive cost-sharing for coronavirus COVID-19 testing, cover telehealth services, provide extended grace periods for premium payments, forbear on the cancellation or non-renewal of policies due to non-payment of premium, and provide other policyholder accommodations. For example, New York State Department of Financial Services (“NYDFS”) Emergency Insurance Regulation 216 required life insurance- or annuity- authorized insurers to extend premium and fee payment grace periods to 90 days for policyholders who demonstrated COVID-19 Pandemic-related financial hardship. The emergency regulation was initially in effect between March 30, 2020 and June 28, 2020 and was later extended to July 6, 2020. New York licensed insurers also could not impose any late fees on or report such a policyholder to a credit reporting or debt collection agency for failure to timely pay any life or annuity premiums and needed to allow the policyholder to pay the premium over a 12-month period. An insurer was required to accept a policyholder’s written attestation as proof of financial hardship as a result of the COVID-19 Pandemic. Also, we expect the National Association of Insurance Commissioners (“NAIC”) to issue guidance on risk-based capital (“RBC”) addressing troubled mortgage loans and other assets where the counterparty might seek concessions. An insurer need not reclassify the RBC category of some loans or other assets on which it has granted a concession. This may avoid a higher capital charge for the asset. We expect the NAIC to extend this guidance to December 31, 2020 financial statements in further support of the use of prudent loan modifications to mitigate the impact of the COVID-19 Pandemic.

Other regulators have delayed, or considered delaying, implementing a variety of changes. The U.S. Commodities Future Trading Commission has postponed its initial margin requirements for non-cleared swaps and may extend compliance dates.

Some governmental decision-makers are not able to take action on certain regulatory priorities as a result of the COVID-19 Pandemic.

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On March 27, 2020, President Trump signed into law the \$2 trillion Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) to provide economic assistance in response to the COVID-19 Pandemic. Among other things, the CARES Act added certain tax-favored withdrawals and increased loan withdrawal limitations from eligible retirement plans, and temporarily waived required minimum distribution rules for qualified retirement plan participants and Individual Retirement Accounts owners (“IRA”). In response to the adverse economic impact of the COVID-19 Pandemic, the Company granted concessions to certain of its commercial, agricultural and residential mortgage loan borrowers, including payment deferrals and other loan modifications.

The Company has made accounting elections under the CARES Act and other recently issued guidance regarding loan and lease concessions. See “Investments — Mortgage Loans — Mortgage Loan Concessions” and “Investments — Leases — Lease Concessions” in Note 5 of the Notes to the Interim Condensed Consolidated Financial Statements.

See “Risk Factors” in the 2019 Annual Report, as amended or supplemented under the caption “Risk Factors — The Course of the Novel Coronavirus (COVID-19) Pandemic, and Responses to It, Are Uncertain and Difficult to Predict, But Have Adversely Affected and May Continue to Adversely Affect Our Business, Results of Operations, and Financial Condition.”

Insurance Regulation

National Association of Insurance Commissioners

On June 3, 2020, substantially consistent with the Model Holding Company Act provisions authorizing state insurance commissioners to act as global group-wide supervisors for internationally active insurance groups, the NYDFS amended Regulation 203 to permit the New York Superintendent of Financial Services to act as a group-wide supervisor.

The NAIC’s Corporate Governance Annual Disclosure Model Act and Regulation, which requires insurers to make an annual confidential filing regarding their corporate governance policies, has been substantially adopted in nearly all states, including all of our insurance subsidiaries’ domiciliary states, except New York where a proposed regulation is pending.

On February 26, 2020, the NYDFS amended Regulation 213 relating to principle-based reserving (“PBR”). The amendment deviates from the Valuation Manual and is likely to cause variable annuity reserve and capital requirement increases. Based on conditions at June 30, 2020, we estimate that the new PBR rules have increased our statutory reserves by approximately \$1.8 billion and our statutory capital requirements by \$0.5 billion over the prior reserve and capital requirements. We will be permitted to grade these effects into our statutory financial statements over a period of up to five years.

The NAIC will require liquidity narratives and data in 2020 as an interim step while it continues to develop a liquidity stress-testing framework for certain large U.S. life insurers and insurance groups that will be used as a regulatory tool.

Cybersecurity and Privacy Regulation

Effective July 1, 2020, California’s Attorney General is authorized to bring enforcement actions under the California Consumer Privacy Act.

ERISA, Fiduciary Considerations, and Other Pension and Retirement Regulation

In June 2020, the U.S. Department of Labor (“DOL”) proposed to allow investment advice fiduciaries to receive compensation without violating Employee Retirement Income Security Act of 1974 (“ERISA”), subject to impartial conduct standards and disclosure obligations. The proposal aligns with U.S. Securities and Exchange Commission (the “SEC”) Regulation Best Interest. The DOL also reinstated its 1975 five-part definition of investment advice.

The SEC’s Regulation Best Interest became effective June 30, 2020. The rule requires broker-dealers to act in the best interest of individual investor retail clients when recommending securities or investment strategies to benefit plans governed by ERISA and IRAs, as well as non-benefit plan retail clients. In addition, broker-dealers and investment advisers to retail clients must provide a Form CRS to retail clients describing their services and conflicts of interest. In September 2019, private advisory firms, several states and the District of Columbia brought two lawsuits challenging the validity of Regulation Best Interest. The U.S. Court of Appeals for the Second Circuit dismissed these lawsuits.

On February 21, 2020, the Massachusetts Securities Division adopted a fiduciary duty rule applicable to broker-dealer advice on securities or investment strategies; the rule does not apply to advice on commodities or insurance products, including variable products.

Derivatives Regulation

The SEC's security-based swaps rules will take effect 18 months following April 6, 2020. We do not expect these rules to significantly affect our business.

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 deferred policy acquisition costs ("DAC") and the establishment and amortization of value of business acquired ("VOBA");
- (iii) estimated fair values of investments in the absence of quoted market values;
- (iv) investment allowance for credit loss ("ACL") and impairments;
- (v) estimated fair values of freestanding derivatives and the recognition and estimated fair value of embedded derivatives requiring bifurcation;
- (vi) measurement of employee benefit plan liabilities;
- (vii) measurement of income taxes and the valuation of deferred tax assets; and
- (viii) liabilities for litigation and regulatory matters.

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 Company's 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 2019 Annual Report. Effective January 1, 2020, the Company adopted a new accounting pronouncement related to the measurement of credit loss on financial instruments as described below and in Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements.

Investment Allowance for Credit Loss and Impairments

The significant estimates related to our evaluation of credit loss and impairments on our investment portfolio are summarized below. In addition, information about the evaluation processes and measurement methodologies and changes thereto from the implementation of new guidance on January 1, 2020, is contained in Notes 1 and 5 of the Notes to the Interim Condensed Consolidated Financial Statements.

Fixed Maturity Securities Available-For-Sale

The assessment of whether a credit loss has occurred is based on our case-by-case evaluation of whether the net amount expected to be collected is less than the amortized cost basis. We consider a wide range of factors about the security issuer and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. In accordance with new guidance adopted January 1, 2020, we evaluate credit loss by considering information about past events, current and forecasted economic conditions, and we measure credit loss by estimating recovery value using a discounted cash flow analysis. These evaluations are revised as conditions change and new information becomes available.

In accordance with previous guidance, which was an incurred loss model, the credit loss evaluation process and the measurement of credit loss were generally similar.

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Mortgage Loans

The ACL is established both for pools of loans with similar risk characteristics and for loans with dissimilar risk characteristics, collateral dependent loans and reasonably expected troubled debt restructurings, individually on a loan specific basis. We record an allowance for expected credit loss in an amount that represents the portion of the amortized cost basis of mortgage loans that we do not expect to collect, resulting in mortgage loans being presented at the net amount expected to be collected. In accordance with new guidance adopted January 1, 2020, to determine the mortgage loan ACL, we estimate lifetime credit loss expected over the contractual term of our mortgage loans adjusted for expected prepayments and any extensions; and we consider past events, current economic conditions and forecasts of future economic conditions. Our estimates are revised as conditions change and new information becomes available.

In accordance with previous guidance, which was an incurred loss model, the credit loss evaluation process and the measurement of credit loss were generally similar.

Real Estate, Leases and Other Asset Classes

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

[Table of Contents](#)**Results of Operations****Consolidated Results**

	Six Months Ended June 30,	
	2020	2019
	(In millions)	
Revenues		
Premiums	\$ 9,969	\$ 10,206
Universal life and investment-type product policy fees	1,007	1,024
Net investment income	4,649	5,439
Other revenues	776	804
Net investment gains (losses)	(126)	12
Net derivative gains (losses)	2,762	(102)
Total revenues	19,037	17,383
Expenses		
Policyholder benefits and claims and policyholder dividends	11,596	11,944
Interest credited to policyholder account balances	1,182	1,325
Capitalization of DAC	(23)	(29)
Amortization of DAC and VOBA	87	60
Interest expense on debt	51	53
Other expenses	2,263	2,299
Total expenses	15,156	15,652
Income (loss) before provision for income tax	3,881	1,731
Provision for income tax expense (benefit)	619	156
Net income (loss)	3,262	1,575
Less: Net income (loss) attributable to noncontrolling interests	(2)	1
Net income (loss) attributable to Metropolitan Life Insurance Company	\$ 3,264	\$ 1,574

Six Months Ended June 30, 2020 Compared with the Six Months Ended June 30, 2019

During the six months ended June 30, 2020, net income (loss) increased \$1.7 billion from the prior period, primarily driven by a favorable change in net derivative gains (losses), partially offset by an unfavorable change in adjusted earnings.

Management of Investment Portfolio and Hedging Market Risks with Derivatives. We manage our investment portfolio using disciplined asset/liability management 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 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 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.

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 provision for credit loss and impairments on our investment portfolio, as well as realized gains and losses on investments sold.

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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 liquidity objectives are met under a range of market conditions.

Certain direct or assumed 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 and other risks inherent in these variable annuity guarantees. We continuously review and refine our strategy and ongoing refinement of the strategy may be required to take advantage of the NAIC rules related to a statutory accounting election for derivatives that mitigate interest rate sensitivity related to variable annuity guarantees. Our macro hedge program, included in the non-VA program derivatives section of the table below, protects 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.

Net Derivative Gains (Losses). Direct and assumed 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:

	Six Months Ended June 30,	
	2020	2019
(In millions)		
Non-VA program derivatives		
Interest rate	\$ 3,503	\$ 808
Foreign currency exchange rate	180	(7)
Credit	(63)	141
Equity	(21)	(265)
Non-VA embedded derivatives	(295)	(514)
Total non-VA program derivatives	<u>3,304</u>	<u>163</u>
VA program derivatives		
Embedded derivatives-direct and assumed guarantees:		
Market risks	(669)	211
Nonperformance risk adjustment	65	(11)
Other risks	(260)	(109)
Total	<u>(864)</u>	<u>91</u>
Freestanding derivatives hedging direct and assumed embedded derivatives	322	(356)
Total VA program derivatives	<u>(542)</u>	<u>(265)</u>
Net derivative gains (losses)	<u>\$ 2,762</u>	<u>\$ (102)</u>

The favorable change in net derivative gains (losses) on non-VA program derivatives was \$3.1 billion (\$2.5 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 more in the current period than in the prior period, favorably impacting interest rate options, receive fixed interest rate swaps, floors and total rate of return swaps. 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.

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The unfavorable change in net derivative gains (losses) on VA program derivatives was \$277 million (\$219 million, net of income tax). This was due to (i) an unfavorable change of \$202 million (\$160 million, net of income tax) in market risks in embedded derivatives, partially offset by freestanding derivatives hedging market risks in embedded derivatives, and (ii) an unfavorable change of \$151 million (\$119 million, net of income tax) in other risks in embedded derivatives. These unfavorable variances were partially offset by a favorable change of \$76 million (\$60 million, net of income tax) in the nonperformance risk adjustment on the direct and assumed variable annuity embedded derivatives. Other risks relate primarily to the impact of policyholder behavior and other non-market risks that generally cannot be hedged.

The aforementioned \$202 million (\$160 million, net of income tax) unfavorable change reflects an \$880 million (\$695 million, net of income tax) unfavorable change in market risks in embedded derivatives, partially offset by a \$678 million (\$535 million, net of income tax) favorable change in freestanding derivatives hedging market risks in embedded derivatives.

The primary changes in market factors affecting VA program derivatives are summarized as follows:

- Long-term U.S. interest rates decreased more in the current period than 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 117 basis points in the current period and decreased 62 basis points in the prior period.
- Key equity index levels 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 S&P Global Ratings 500 Index decreased 4% in the current period and increased 17% in the prior period.

The aforementioned \$151 million (\$119 million, net of income tax) unfavorable change in other risks in embedded derivatives reflects actuarial assumption updates and a combination of factors, which include fees deducted from accounts, changes in the benefit base, premiums, lapses, withdrawals and deaths, in addition to changes to cross-effect, basis mismatch, risk margin and fund allocation.

The aforementioned \$76 million (\$60 million, net of income tax) favorable change in the nonperformance risk adjustment on the direct and assumed variable annuity embedded derivatives resulted from a favorable change of \$52 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, in addition to a favorable change of \$24 million, before income tax, related to changes in our own credit spread.

When equity index levels decrease in isolation, the direct and assumed 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 on the direct and assumed variable annuity embedded derivatives.

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 on the direct and assumed variable annuity embedded derivatives.

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 on the direct and assumed variable annuity embedded derivatives. For each of these primary market drivers, the opposite effect occurs when the driver moves in the opposite direction.

Net Investment Gains (Losses). The unfavorable change in net investment gains (losses) of \$138 million (\$109 million, net of income tax) primarily reflects mark-to-market losses on equity securities in the current period, which are measured at estimated fair value through net income, a prior period gain on a renewable energy partnership and higher provisions for credit loss on mortgage loans and fixed maturity securities. These unfavorable impacts were partially offset by a current period recovery on a leveraged lease that was previously impaired, a prior period tax credit partnership impairment and higher foreign currency transaction gains in the current period.

Taxes. For the six months ended June 30, 2020, our effective tax rate on income (loss) before provision for income tax was 16%. Our effective tax rate differed from the U.S. statutory rate of 21% primarily due to tax benefits related to non-taxable investment income, tax credits and the finalization of bankruptcy proceedings for a leveraged lease investment. For the six months ended June 30, 2019, our effective tax rate on income (loss) before provision for income tax was 9%. Our effective tax rate differed from the U.S. statutory rate of 21% primarily due to tax benefits related to non-taxable investment income and tax credits.

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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, 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 allows analysis of our performance and facilitates comparisons to industry results. Adjusted earnings should not be viewed as a substitute for net income (loss). Adjusted earnings decreased \$397 million, net of income tax, to \$1,369 million, net of income tax, for the six months ended June 30, 2020 from \$1,766 million, net of income tax, for the six months ended June 30, 2019.

Reconciliation of net income (loss) to adjusted earnings and premiums, fees and other revenues to adjusted premiums, fees and other revenues

	Six Months Ended June 30,	
	2020	2019
	(In millions)	
Net income (loss)	\$ 3,262	\$ 1,575
Less: adjustments from net income (loss) to adjusted earnings:		
Revenues:		
Net investment gains (losses)	(126)	12
Net derivative gains (losses)	2,762	(102)
Premiums	—	—
Universal life and investment-type product policy fees	43	44
Net investment income	(222)	(147)
Other revenues	—	—
Expenses:		
Policyholder benefits and claims and policyholder dividends	(77)	(130)
Interest credited to policyholder account balances	7	8
Capitalization of DAC	—	—
Amortization of DAC and VOBA	13	74
Interest expense on debt	—	—
Other expenses	(4)	—
Provision for income tax (expense) benefit	(503)	50
Adjusted earnings	<u>\$ 1,369</u>	<u>\$ 1,766</u>
Premiums, fees and other revenues	\$ 11,752	\$ 12,034
Less: adjustments to premiums, fees and other revenues	43	44
Adjusted premiums, fees and other revenues	<u>\$ 11,709</u>	<u>\$ 11,990</u>

Consolidated Results — Adjusted Earnings

Business Overview. Adjusted premiums, fees, and other revenues for the six months ended June 30, 2020 decreased \$281 million, or 2%, compared to the prior period, primarily in our U.S. segment driven by lower premiums in our Retirement and Income Solutions (“RIS”) business, partially offset by growth in our Group Benefits business. The decrease in RIS was mainly due to a decline in our pension risk transfer business, as well as a decrease in our income annuity business due to market conditions. Changes in RIS premiums are mostly offset by a corresponding change in policyholder benefits. Despite negative pressures from the economic impact of the COVID-19 Pandemic, an increase in our Group Benefits business was primarily driven by improvements in both core and voluntary products. Growth in core products was driven by increases in our group life and group disability businesses. Growth in our voluntary products increased across the segment, driven by the impact of new sales and growth in membership in our accident & health and legal plans businesses. Partially offsetting these increases were: (i) lower dental premiums, driven by the impact of an unearned premium reserve established to recognize the limited availability of services that could be provided due to the COVID-19 Pandemic restrictions, and (ii) premium credits we offered to our customers due to such restrictions. Growth in RIS’s stable value and capital market investments businesses drove an increase in policyholder account balances, resulting in higher fees and interest margins. 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.

Six Months Ended June 30, 2020 Compared with the Six Months Ended June 30, 2019

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

Overview. The primary driver of the decrease in adjusted earnings was lower investment yields. Underwriting experience was also unfavorable. These declines were partially offset by higher net investment income due to a larger asset base, and decreases in interest credited and other expenses.

Business Growth. Net investment income improved as a result of higher average invested assets, predominantly in our U.S. segment, due to increased net flows, primarily from capital market products including funding agreement issuances. However, consistent with the growth in the U.S. segment’s average invested assets, interest credited expenses on deposit-type and long-duration liabilities increased. In our U.S. segment, higher volume-related, premium tax and direct expenses, driven by business growth, coupled with the increase due to the 2020 reinstatement of the annual health insurer fee under the Patient Protection and Affordable Care Act, were more than offset by a corresponding increase in premiums, fees and other revenues. In our MetLife Holdings segment, negative net flows from our deferred annuities business resulted in lower fee income, decreasing adjusted earnings. The combined impact of the items affecting our business growth increased adjusted earnings by \$57 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 were negatively affected by lower returns on private equity funds, lower yields on fixed income securities and mortgage loans, and lower returns on fair value option securities and real estate investments. These decreases in net investment income were partially offset by higher net investment income on derivatives. In our U.S. segment, the impact of interest rate fluctuations resulted in a decrease in our average interest credited rates on deposit-type and long-duration liabilities, which drove a decline in interest credited expenses. The changes in market factors discussed above resulted in a \$472 million decrease in adjusted earnings.

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Underwriting and Other Insurance Adjustments. Underwriting results decreased adjusted earnings by \$63 million due to unfavorable mortality experience, partially offset by favorable morbidity experience, primarily in our U.S. segment. The unfavorable mortality experience was primarily due to the impact of COVID-19 claims experience across our life businesses, as well as the impact of lower incidence in the prior period in our term life business, partially offset by favorable results in our accidental death & dismemberment business due to lower incidence as a result of COVID-19 Pandemic restrictions. In addition, favorable mortality in our pension risk transfer and institutional annuity businesses was partially offset by less favorable results in our structured settlement and specialized benefit resource businesses. Favorable morbidity experience in our U.S. segment was primarily due to: (i) growth in the business and favorable claims experience in our accident & health and critical illness businesses, (ii) favorable dental results, driven by the impact of COVID-19 Pandemic restrictions which limited availability of services and reduced utilization in the current period; and (iii) favorable claims experience in our group disability business, partially offset by less favorable individual disability results. Refinements to DAC and certain insurance liabilities and other liabilities in both periods decreased adjusted earnings by \$13 million, primarily driven by prior period adjustments in our MetLife Holdings segment. In addition, run-off of our MetLife Holding segment's closed block, as well as a reduction in our dividend scale as a result of the sustained low interest rate environment, contributed to lower dividend expense and resulted in an \$18 million increase in adjusted earnings. The impact of this dividend action was more than offset by lower net investment income.

Expenses. Adjusted earnings increased \$75 million as a result of lower expenses, primarily due to declines in costs associated with corporate initiatives and projects, employee-related costs, and corporate-related expenses, partially offset by higher interest expense on tax positions due to prior period audit settlements.

Taxes. For the six months ended June 30, 2020, our effective tax rate on adjusted earnings was 8%. Our effective tax rate differed from the U.S. statutory rate of 21% primarily due to tax benefits from non-taxable investment income, tax credits and the finalization of bankruptcy proceedings for a leveraged lease investment. For the six months ended June 30, 2019, our effective tax rate on adjusted earnings was 10%. Our effective tax rate differed from the U.S. statutory rate of 21% primarily due to tax benefits from non-taxable investment income and tax credits.

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 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.

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 premiums, fees and other revenues	(i) premiums, fees and other revenues
(ii) adjusted earnings	(ii) net income (loss)

Reconciliations of these non-GAAP financial measures to the most directly comparable historical GAAP financial measures are included in “— 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.

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Adjusted earnings

This measure is used by management to evaluate performance and allocate resources. Consistent with GAAP guidance for segment reporting, adjusted earnings is also our GAAP measure of segment performance. Adjusted earnings allows analysis of our performance and facilitates 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. For information relating to adjusted revenues and adjusted expenses, see “Financial Measures and Segment Accounting Policies” in Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements.

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.
- Near-term represents one to three years.

Item 4. Controls and Procedures

Management, with the participation of the Chief Executive Officer (“CEO”) and Chief Financial Officer (“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 June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

See Note 12 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 2019 Annual Report, as amended or supplemented here.

The Course of the Novel Coronavirus (COVID-19) Pandemic, and Responses to It, Are Uncertain and Difficult to Predict, But Have Adversely Affected and May Continue to Adversely Affect Our Business, Results of Operations, and Financial Condition

Major public health issues, including the COVID-19 Pandemic, have caused and may continue to cause a large number of illnesses and deaths. Various government bodies in any number of jurisdictions, their representatives, regulators, executive branch officials, legislators, courts, employee representatives, arbitrators, mediators and other persons exercising governmental, political, or related authority or influence (collectively, "Authorities") and other organizations may not effectively respond to the spread and severity of the COVID-19 Pandemic, and their actions and the resulting impacts are unpredictable. In addition, efforts to successfully develop and make available treatments, vaccines, or other therapeutics may be prolonged, and some or all of these efforts may never succeed. The ultimate spread, duration, and severity of the COVID-19 Pandemic, and of Authorities' actions to address it, are uncertain, and may persist. Adverse conditions may worsen over time. Actions to respond to the COVID-19 Pandemic have reduced and altered economic activity and financial markets. New information about the severity and duration of the COVID-19 Pandemic or other public health issues, and Authorities', businesses', and societal reactions to that information, may increase the severity or duration of the COVID-19 Pandemic and its effects.

The COVID-19 Pandemic, and its effect on financial markets, have adversely affected our investment portfolio (and, specifically, increased the risk of defaults, downgrades and volatility in the value of the investments we hold, and lowered variable investment income and returns) and may continue to do so. Market volatility may slow or prevent us from reacting to market events as effectively as we otherwise could. When we sell our investment holdings, we may not receive the prices we seek, and may sell at a price lower than our carrying value, due to reduced liquidity during periods of market volatility or disruption, or other reasons. This may affect privately-placed fixed income securities, certain derivative instruments, mortgage or other loans, direct financing and leveraged leases, other limited partnership interests, tax credit and renewable energy partnerships and real estate equity, including real estate joint ventures and funds. Borrowers may delay or fail to pay principal and interest when due, or may demand loan modifications. Tenants may delay paying rent, or fail to pay it, or demand lease modifications. Authorities may delay or place a moratorium on foreclosures or otherwise impair enforcement actions or demand loan or lease modifications, affecting the value of our mortgage investments, mortgage-backed securities, real estate and other equity investments, other investments, and in each case the cash flows they produce. Market volatility has also significantly increased credit spreads and may continue to do so, which may increase our borrowing costs and decrease product fee income. Further, the issuers or guarantors of fixed income securities and mortgage loans we own may default at an increased rate, especially if economic conditions fail to recover or continue to deteriorate.

Low, zero, or negative interest rates, yields and returns, reduced liquidity and a continued slowdown in U.S. or global economic conditions, and COVID-19 Pandemic-related actions, have adversely affected the values and cash flows of assets in our investment portfolio and may continue to do so, especially if prolonged. Such conditions, whether due to the COVID-19 Pandemic or efforts to counter it or its impact, may make any of the effects we have described for low interest rates, yields, and returns more severe. Conversely, Authorities' actions, including activity by the U.S. Federal Reserve and other central banks, in response to the COVID-19 Pandemic could cause inflation to be higher than we expected, which could require us to strengthen certain reserves.

Our affiliates have built, and may continue to build, cash and other liquid assets beyond the range we anticipated before the COVID-19 Pandemic. As a result, they may have less capital to devote to other uses, such as innovation, acquisitions, development, return of capital to shareholders, or other uses. In addition, Authorities may limit the dividends that our operating companies such as the Company may distribute to holding companies, limiting the capital available for a variety of purposes at the holding companies. Our affiliates may be unable to continue to build their capital position, especially if they have limited access to capital markets, or building their position becomes more expensive or subject to more onerous terms.

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Market dislocations, decreases in observable market activity, or unavailability of information, may restrict our access to key inputs used to derive certain estimates and assumptions made in connection with financial reporting or otherwise. As a result, the variability of our financial statement balances, estimates and assumptions we use to run our business may increase, and their reliability decrease.

The COVID-19 Pandemic has increased, and may continue to increase, claims under many of our policies (for example, life, disability, long-term care, and supplemental health products) and our resulting costs. The impact on claims in a given quarter may be far greater than in prior quarters. In addition, an increased number of policyholders and contractholders may have less income or assets, and as a result have difficulty paying premiums and fees. Authorities may require (or suggest) “no lapse” in policy coverage for uncertain or prolonged periods of time, regardless of whether we receive premiums or are able to assess fees against policyholder account balances. Legal and regulatory responses to the COVID-19 Pandemic and related public health issues may also include the extension of insurance coverage beyond our policy or contract language, and/or changes to insurance policy conditions such as premium grace periods, suspension of cancellations and extensions of proof of loss deadlines. Authorities may also purport to change policy coverage, including retroactively, exposing us to risks and costs we were unable to foresee or underwrite. We may also voluntarily (or in response to requirements, guidance, or pressure) adopt customer accommodations, such as waiving exclusions, forgoing rate increases or implementing lower rate increases than we would otherwise, relaxation of claim documentation requirements premium credit, or accommodations for customers experiencing economic or other distress as a result of the COVID-19 Pandemic. Authorities may also limit the bases of our underwriting on public policy or other grounds, excluding factors such as exposure, quarantine, infection, and association with anyone suffering any COVID-19 Pandemic-related conditions. Our New York regulator's annual letters on Special Considerations that affect year-end asset adequacy testing may impose unforeseen assumptions or requirements that require us to increase or release reserves, which could affect our statutory capital and surplus.

Our cost of reinsurance for policies could increase, and we may find reinsurance unavailable. Reinsurers may dispute, or seek to reduce or eliminate, coverage on policies as a result of any changes to policies or practices we make as a result of the COVID-19 Pandemic.

Policyholders may change their behavior in unexpected ways. For example, policyholders and contractholders seeking sources of liquidity due to COVID-19 Pandemic-related economic uncertainty and increased unemployment may withdraw or surrender at greater rates than we expected. They may also change their premium payment practices, exercise product options, or take other actions as a result of the COVID-19 Pandemic and Authorities efforts to respond to it. Potential customers' demand for our products may decline, especially if economic conditions fail to recover or continue to deteriorate.

We have incurred, and may continue to incur, increased administrative expenses as a result of the COVID-19 Pandemic and Authorities' efforts to respond to it. These conditions may affect our (or our affiliates') employees, agents, brokers and distribution partners, as well as the workforces of our vendors, service providers and counterparties. We may have difficulties conducting our business, including in selling our products, such as those traditionally sold in person. We may find it difficult or impossible to obtain required or appropriate signatures from our representatives, customers, or others for a variety of purposes, including property title-related or other filings with Authorities, increasing the uncertainties and risks from a variety of transactions, such as product sales, regulatory matters, or real estate-related transactions. We may face increased workplace safety costs and risks, lose access to critical employees, and face increased employment-related claims and employee-relations challenges, each of which may increase when our employees begin to return to our workplaces. Any of the third parties to whom we outsource certain critical business activities may fail to perform as a result of the COVID-19 Pandemic or claim that it cannot perform due to a force majeure.

Our risk management, contingency, and business continuity plans may not adequately protect our operations. Extended periods of remote work arrangements and other unusual business conditions and circumstances as a result of the COVID-19 Pandemic could strain our business continuity plans, introduce operational risk, increase our cybersecurity risks, and impair our ability to manage our business. The frequency and sophistication of attempts at unauthorized access to our technology systems and fraud may increase, and COVID-19 Pandemic conditions may impair our cybersecurity efforts and risk management. Our efforts to prevent money-laundering or other fraud, whether due to limited abilities to "know our customers," strains on our programs to avoid and deter foreign corrupt practices, or otherwise, may increase our compliance costs and risk of violations.

The COVID-19 Pandemic could affect our internal controls. We have developed, and may continue to develop, new and less-seasoned processes, procedures, and controls to respond to changes in our business environment. If any employees who are key to our controls become ill from the COVID-19 Pandemic and are unable to work, this may affect our ability to operate our internal controls.

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Authorities may delay, or consider delaying, implementing legal or regulatory changes, increasing uncertainty and creating the potential for later, rapid changes. Authorities may also not be able to act on other policy or regulatory priorities as a result of the COVID-19 Pandemic.

Any uncertainty as a result of any of these events, including but not limited to investment portfolio impact, mortality or morbidity rate changes, an increase in expenses, or policyholder behavior changes, may require us to change our estimates, assumptions, models or reserves. Important data available to us may also be incomplete or inaccurate. For example, Authorities may not accurately report population and impact data, such as death rates, infections, morbidity, hospitalization, or illness that we use in our estimates, assumptions, models or reserves.

Any of the direct or indirect effects of the COVID-19 Pandemic may cause litigation or regulatory, investor, media, or public inquiries. Our costs to manage and effectively respond to these matters, and to address them in settlement or other ways, may increase.

Any of the events described above have adversely affected, may continue to adversely affect, or may adversely affect the global economy, global financial markets, our business, our results of operations, or our financial condition. The effects may vary widely from product to product, market to market, region to region, or segment to segment. These events could also cause, contribute to, or exacerbate the risks and uncertainties we described in our 2019 Annual Report.

Economic Environment and Capital Markets Risks

Difficult Economic Conditions May Harm Our Businesses, Results of Operations or Financial Condition

* * *

Obligor and Counterparty Risk

* * *

Our efforts to manage our total exposure to a single counterparty or limited number of counterparties within or among any of our investment, derivative, treasury, and reinsurance relationships may not completely or adequately mitigate counterparty risks. We may also choose to limit these efforts, in certain cases, in order to achieve benefits we believe justify the corresponding counterparty risk, and in those cases we may fail to realize those benefits or suffer the adverse consequences of those risks.

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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 Metropolitan Life Insurance Company, 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 Metropolitan Life Insurance Company, its subsidiaries and affiliates may be found elsewhere in this Quarterly Report on Form 10-Q and Metropolitan Life Insurance Company'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	
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 (embedded within the Inline XBRL document and included in Exhibit 101).					X

CERTIFICATIONS

I, Michel A. Khalaf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Metropolitan Life Insurance Company;
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: August 11, 2020

/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 Metropolitan Life Insurance Company;

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: August 11, 2020

/s/ John D. McCallion

John D. McCallion
Executive Vice President and
Chief Financial Officer

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) Metropolitan Life Insurance Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (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 Metropolitan Life Insurance Company.

Date: August 11, 2020

/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 Metropolitan Life Insurance Company and will be retained by Metropolitan Life Insurance Company 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) Metropolitan Life Insurance Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (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 Metropolitan Life Insurance Company.

Date: August 11, 2020

/s/ John D. McCallion

John D. McCallion
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Metropolitan Life Insurance Company and will be retained by Metropolitan Life Insurance Company and furnished to the Securities and Exchange Commission or its staff upon request.