# Metlife Annual Report 2003

## Form 10-K (NYSE:MET)

Published: March 19th, 2003

-------------------------------------------------------------------------------- -------------------------------------------------------------------------------- UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-K ~~(Mark One) [X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 OR [ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO~~

COMMISSION FILE NUMBER 001-15787 METLIFE, INC. (Exact name of registrant as specified in its charter) ~~DELAWARE 13-4075851 (State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)~~

ONE MADISON AVENUE NEW YORK, NEW YORK 10010-3690 (212) 578-2211 (Address and telephone number of registrant's principal executive offices) SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|
| ------------------- - -------------------- -------------------- |
| ~~Common Stock, par value $.01 New York Stock Exchange 8.00% Equity Security Units New York Stock Exchange~~ |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X] Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ] The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2002 was approximately $20 billion. As of March 7, 2003, 700,278,412 shares of the registrant's Common Stock were outstanding. DOCUMENTS INCORPORATED BY REFERENCE THE INFORMATION REQUIRED TO BE FURNISHED PURSUANT TO PART OF ITEM 10 AND ITEMS 11, 12 AND 13 OF PART III OF THIS FORM 10-K IS SET FORTH IN, AND IS HEREBY INCORPORATED BY REFERENCE HEREIN FROM, THE REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 22, 2003, TO BE FILED BY THE REGISTRANT WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO REGULATION 14A NOT LATER THAN 120 DAYS AFTER THE YEAR ENDED DECEMBER 31, 2002. -------------------------------------------------------------------------------- -------------------------------------------------------------------------------- TABLE OF CONTENTS

This Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in the operations and financial results and the business and the products of the Registrant and its subsidiaries, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend" and other similar expressions. "MetLife" or the "Company" refers to MetLife, Inc., a Delaware corporation (the "Holding Company"), and its subsidiaries, including Metropolitan Life Insurance Company ("Metropolitan Life"). Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects on the Company. Such forward-looking statements are not guarantees of future performance. Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties including, but not limited to, the following: (i) changes in general economic conditions, including the performance of financial markets and interest rates; (ii) heightened competition, including with respect to pricing, entry of new competitors and the development of new products by new and existing competitors; (iii) unanticipated changes in industry trends; (iv) MetLife, Inc.'s primary reliance, as a holding company, on dividends from its subsidiaries to meet debt payment obligations and the applicable regulatory restrictions on the ability of the subsidiaries to pay such dividends; (v) deterioration in the experience of the "closed block" established in connection with the reorganization of Metropolitan Life; (vi) catastrophe losses; (vii) adverse litigation or arbitration results; (viii) regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services; (ix) downgrades in the Company's and its affiliates' claims paying ability, financial strength or debt ratings; (x) changes in rating agency policies or practices; (xi) discrepancies between actual claims experience and assumptions used in setting prices for the Company's products and establishing the liabilities for the Company's obligations for future policy benefits and claims; (xii) discrepancies between actual experience and assumptions used in establishing liabilities related to other contingencies or obligations; (xiii) the effects of business disruption or economic contraction due to terrorism or other hostilities; and (xiv) other risks and uncertainties described from time to time in MetLife, Inc.'s filings with the U.S. Securities and Exchange Commission, including its S-1 and S-3 registration statements. The Company specifically disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. 2 As used in this Form 10-K, "MetLife" or the "Company" refers to MetLife, Inc., a Delaware corporation formed in 1999 (the "Holding Company"), and its subsidiaries, including Metropolitan Life Insurance Company ("Metropolitan Life"). PART I ITEM 1. BUSINESS MetLife, Inc., through its affiliates and subsidiaries, is a leading provider of insurance and other financial services to a broad spectrum of individual and institutional customers. The Company offers life insurance, annuities, automobile and property insurance and mutual funds to individuals and group insurance, reinsurance, as well as retirement and savings products and services to corporations and other institutions. The MetLife companies serve approximately 12 million individuals in the U.S. and companies and institutions with approximately 33 million employees and members, including 88 of the FORTUNE 100 largest companies. MetLife, Inc. also has international insurance operations in 12 countries. MetLife is one of the largest insurance and financial services companies in the U.S. The Company's unparalleled franchises and brand names uniquely position it to be the preeminent provider of protection and savings and investment products in the U.S. In addition, MetLife's international operations are focused on emerging markets where the demand for insurance and savings and investment products is expected to grow rapidly in the future. MetLife's well-recognized brand names, leading market positions, competitive and innovative product offerings and financial strength and expertise should help drive future growth and enhance shareholder value, building on a long history of fairness, honesty and integrity. Over the course of the next several years, MetLife will pursue the following specific strategies to achieve its goals: - Build on widely recognized brand names - Capitalize on large customer base - Expand multiple distribution channels - Continue to introduce innovative and competitive products - Focus international operations on emerging markets - Maintain balanced focus on asset accumulation and protection products - Reduce operating expenses - Strengthen performance-oriented culture - Further its commitment to a diverse workplace - Optimize operating returns from the Company's investment portfolio - Enhance capital efficiency On April 7, 2000 (the "date of demutualization"), pursuant to an order by the New York Superintendent of Insurance approving its plan of reorganization, as amended (the "plan"), Metropolitan Life converted from a mutual life insurance company to a stock life insurance company and became a wholly-owned subsidiary of MetLife, Inc. On the date of demutualization, the Holding Company conducted an initial public offering and concurrent private placements of shares of its Common Stock at an offering price of $14.25 per share. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- The Demutualization." 3 MetLife is organized into six major business segments: Individual, Institutional, Reinsurance, Auto & Home, Asset Management and International. Financial information, including revenues, income and loss, and total assets by segment, is provided in Note 21 of Notes to Consolidated Financial Statements. INDIVIDUAL MetLife's Individual segment offers a wide variety of protection and asset accumulation products aimed at serving the financial needs of its customers throughout their entire life cycle. Products offered by Individual include insurance products, such as traditional, universal and variable life insurance, individual disability insurance and long-term care insurance, and annuities and investment products, such as variable and fixed annuities and mutual funds. Individual's principal distribution channels are MetLife Financial Services, New England Financial, GenAmerica Financial and MetLife Investors Group. Individual distributes its products through several additional distribution channels, including Nathan & Lewis, MetLife Resources and Texas Life. In total, Individual had approximately 11,000 active sales representatives at December 31, 2002. MetLife's broadly recognized brand names and strong distribution channels have allowed it to become the third largest provider of individual life insurance and annuities in the U.S., with $9.8 billion of total statutory individual life and annuity premiums and deposits through September 30, 2002, the latest period for which OneSource, a database that aggregates U.S. insurance company statutory financial statements, is available. According to a study done by Tillinghast Towers Perrin, through December 31, 2002, MetLife was the fourth largest issuer of individual variable life insurance in the U.S. based on first-year premiums and deposits. In addition, according to a survey done by the Variable Annuity Resource Data Service, as of December 31, 2002, MetLife was the fifth largest variable annuity writer as measured by variable annuity assets managed. Reflecting overall trends in the insurance industry, sales of MetLife's traditional life insurance products have declined in recent years, while first-year premiums and deposits from variable and universal life insurance products have grown at a compound annual rate of 5.0% from 1998 to 2002, excluding the effect of acquiring GenAmerica Financial in 2000. This increase includes the results of a customer retention exchange program. Excluding the exchange program, the compound annual growth rate is 4.5%. Variable and universal sales represented 76.3% of total life insurance sales for Individual in 2002. Individual had $12.4 billion of revenues from continuing operations, or 37.4% of MetLife's total revenues in 2002. MARKETING AND DISTRIBUTION The Company targets the large middle-income market, as well as affluent individuals, owners of small businesses and executives of small- to medium-sized companies. The Company has also been successful in selling its products in various multicultural markets. Individual products are distributed nationwide through multiple channels, with the primary distribution systems being the MetLife Financial Services career agency system, the New England Financial general agency system, the GenAmerica Financial independent general agency system and MetLife Investors Group's distribution through financial intermediaries. While continuing to invest in its traditional distribution channels, the Company also expanded into additional channels in order to supplement its growth or penetrate specific target markets. MetLife Financial Services career agency system. MetLife Financial Services career agency system had 5,846 agents under contract in 150 agencies at December 31, 2002. The career agency sales force focuses on the large middle-income market, including multicultural markets. The Company supports its efforts in multicultural markets through targeted advertising, specially trained agents and sales literature written in various languages. Multicultural markets represented approximately 36% of MetLife Financial Services' individual life sales in 2002. The average face amount of a life insurance policy sold through the career agency system in 2002 was approximately $221,000. Agents in the career agency system are full-time MetLife employees who are compensated primarily with commissions based on sales. As MetLife employees, they also receive certain benefits. Agents in the career agency system may not offer products of other insurers without MetLife's approval. At December 31, 2002, approximately 98% of the agents in the MetLife career agency system were licensed to sell one or more of the following products: variable life insurance, variable annuities and mutual funds. 4 From 1998 through 2002, the number of agents under contract in the MetLife Financial Services career agency system declined from 6,607 to 5,846. This decline was primarily the result of MetLife Financial Services' more stringent standards for recruiting and retaining agents, the consolidation of sales offices and modifications in compensation practices for its sales force. During the same period, the career agency system increased productivity, with net sales credits per agent, an industry measure for agent productivity, growing at a compound annual rate of 5.0%. New England Financial general agency system. New England Financial's general agency system targets high net-worth individuals, owners of small businesses and executives of small- to medium-sized companies. The average face amount of a life insurance policy sold through the New England Financial general agency system in 2002 was approximately $330,000. At December 31, 2002, New England Financial's sales force included 84 general agencies providing support to 3,234 agents and a network of independent brokers throughout the U.S. The compensation of agents who are independent contractors and general agents who have exclusive contracts with New England Financial is based on sales, although general agents are also provided with an allowance for benefits and other expenses. At December 31, 2002, approximately 90% of New England Financial's agents were licensed to sell variable products and mutual funds. GenAmerica Financial independent general agency system. GenAmerica Financial markets a portfolio of individual life insurance, annuity contracts, securities, and related financial services to high net-worth individuals and small- to medium-sized businesses through multiple distribution channels. These distribution systems include independent general agents, financial advisors, consultants, brokerage general agencies and other independent marketing organizations. The average face amount of a life insurance policy sold through the GenAmerica Financial independent general agency system in 2002 was approximately $650,000. The GenAmerica Financial distribution system sells universal life, variable universal life, and traditional life insurance products through approximately 990 independent general agencies with which it has contractual arrangements. This reflects a 17% increase in independent general agencies from 2001 to 2002. There are 616 independent general agents who produced at least

$12,500 in first-year commissions in 2002. They market GenAmerica Financial products and are independent contractors who are generally responsible for the expenses of operating their agencies, including office and overhead expenses and the recruiting, selection, contracting, training, and development of agents and brokers in their agencies. Recruiting and wholesaling efforts are directed from a nationwide network of regional offices. GenAmerica Financial is actively developing and implementing programs designed to increase the scale and productivity of its distribution systems. MetLife Investors Group. MetLife Investors Group is a wholesale distribution channel dedicated to the distribution of variable and fixed annuities and insurance products through financial intermediaries, including regional broker/dealers, New York Stock Exchange wirehouses, financial planners and banks. For the year ended December 31, 2002, MetLife Investors Group had 344 selling agreements, 336 for regional broker/dealers and financial planners, 4 for wirehouses, and 4 for banks. Two major regional broker/dealer firms accounted for 17% and 11%, respectively, of MetLife Investors Group's 2002 deposits. No other selling firm accounted for more than 10% of deposits. As of December 31, 2002, MetLife Investors Group's sales force consisted of 69 regional vice presidents, or wholesalers. MetLife Investors Group plans to continue growing existing distribution relationships and acquiring new relationships by capitalizing on an experienced management team, leveraging the MetLife brand and resources, and developing high service, low-cost operations while also adding distribution of other MetLife products. Additional distribution channels. The Company distributes its individual insurance and investment products through several additional distribution channels, including Nathan & Lewis, MetLife Resources and Texas Life. Nathan & Lewis. This channel operates through Nathan & Lewis Securities, Inc., a Metropolitan Life subsidiary acquired in 1998. The Company recently announced that in the third quarter of 2003, Nathan & Lewis will be consolidated with another broker/dealer subsidiary of the Company, Walnut Street Securities, Inc., and will operate under the Walnut Street name. Nathan & Lewis is a broker/dealer that markets mutual funds and other securities, as well as variable life insurance and variable annuity products, through 5 769 independent registered representatives. With the acquisition of Nathan & Lewis, the Company obtained the use of its client management account information systems. MetLife Resources. MetLife Resources, a division of MetLife, markets retirement, annuity and other financial products on a national basis through approximately 375 agents and independent brokers. MetLife Resources targets the nonprofit, educational and healthcare markets. Texas Life. Texas Life Insurance Company ("Texas Life"), a MetLife subsidiary, markets whole life and universal life insurance products under the Texas Life name through approximately 1,400 active independent insurance brokers. These brokers are independent contractors who sell insurance for Texas Life on a nonexclusive basis. A number of MetLife career agents also market Texas Life products. Texas Life sells universal life insurance policies with low cash values that are marketed through the use of brochures, as well as payroll deduction life insurance products. PRODUCTS The Company offers a wide variety of individual insurance, annuities, and investment products aimed at serving its customers' financial needs throughout their entire life cycle. INSURANCE PRODUCTS The Company's individual insurance products include variable life products, universal life products, traditional life products, including whole life and term insurance, and other insurance products, including individual disability and long-term care insurance. The Company continually reviews and updates its products. It has introduced new products and features designed to increase the competitiveness of its portfolio and the flexibility of its products to meet the broad range of asset accumulation, life-cycle protection and distribution needs of its customers. Some of these updates have included new universal life policies, updated variable universal life products, a new corporate-owned life insurance product, an improved term insurance portfolio, and enhancements to one of MetLife's whole life products. In addition, a broad array of new annuity products was launched in 2002. Variable life. Variable life products provide insurance coverage through a contract that gives the policyholder flexibility in investment choices and, depending on the product, in premium payments and coverage amounts, with certain guarantees. Most importantly, with variable life products, premiums and account balances can be directed by the policyholder into a variety of separate accounts or directed to the Company's general account. In the separate accounts, the policyholder bears the entire risk of the investment results. MetLife collects specified fees for the management of these various investment accounts and any net return is credited directly to the policyholder's account. In some instances, third-party money management firms manage investment accounts that support variable insurance products. With some products, by maintaining a certain premium level, policyholders may have the advantage of various guarantees that may protect the death benefit from adverse investment experience. Universal life. Universal life products provide insurance coverage on the same basis as variable life, except that premiums, and the resulting accumulated balances, are allocated only to the MetLife general account. Universal life products may allow the insured to increase or decrease the amount of death benefit coverage over the term of the contract and may allow the owner to adjust the frequency and amount of premium payments. The Company credits premiums, net of specified expenses, to an account maintained for the policyholder, as well as interest, at rates it determines, subject to specified minimums. Specific charges are made against the policyholder's account for the cost of insurance protection and for expenses. With some products, by maintaining a certain premium level, policyholders may have the advantage of various guarantees that may protect the death benefit from adverse investment experience. Whole life insurance. Whole life insurance products provide a guaranteed benefit upon the death of the insured in return for the periodic payment of a fixed premium over a predetermined period. Premium payments may be required for the whole of the contract period, to a specified age or for a specified period, and may be level 6 or change in accordance with a predetermined schedule. Whole life insurance includes policies that provide a participation feature in the form of dividends. Policyholders may receive dividends in cash or apply them to increase death benefits, increase cash values available upon surrender or reduce the premiums required to maintain the contract in-force. Because the use of dividends is specified by the policyholder, this group of products provides significant flexibility to individuals to tailor the product to suit their specific needs and circumstances, while at the same time providing guaranteed benefits. Term insurance. Term insurance provides a guaranteed benefit upon the death of the insured for a specified time period in return for the periodic payment of premiums. Specified coverage periods range from one year to 20 years, but in no event are they longer than the period over which premiums are paid. Death benefits may be level over the period or decreasing. Decreasing coverage is used principally to provide for loan repayment in the event of death. Premiums may be guaranteed at a level amount for the coverage period or may be non-level and non-guaranteed. Term insurance products are sometimes referred to as pure protection products, in that there are typically no savings or investment elements. Term contracts expire without value at the end of the coverage period when the insured party is still living. Other individual insurance products. Individual disability products provide a benefit in the event of the disability of the insured. In most instances, this benefit is in the form of monthly income paid until the insured reaches age 65. In addition to income replacement, the product may be used to provide for the payment of business overhead expenses for disabled business owners or mortgage payment protection. MetLife's long-term care insurance provides reimbursement for certain costs associated with nursing home care and other services that may be provided to individuals unable to perform the activities of daily living. In addition to these products, MetLife's Individual segment supports a group of low face amount life insurance policies, known as industrial policies, that its agents sold until 1964. New England Financial also sells a small amount of employee benefit products and group pension products, which are included in the financial results of the Individual segment. ANNUITIES AND INVESTMENT PRODUCTS The Company offers a variety of individual annuities and investment products, including variable and fixed annuities and mutual funds. Variable annuities. The Company offers variable annuities for both asset accumulation and asset distribution needs. Variable annuities allow the contractholder to make deposits into various investment accounts, as determined by the contractholder. The investment accounts are separate accounts and risks associated with such investments are borne entirely by the contractholders. Contractholders may also choose to allocate all or a portion of their account to the Company's general account and are credited with interest at rates the Company determines, subject to certain minimums. In addition, contractholders may also elect certain minimum death benefit and minimum living benefit guarantees. Fixed annuities. Fixed annuities are used for both asset accumulation and asset distribution needs. Fixed annuities do not allow the same investment flexibility provided by variable annuities, but provide guarantees related to the preservation of principal and interest credited. Deposits made into these contracts are allocated to the general account and are credited with interest at rates the Company determines, subject to certain minimums. Credited interest rates may be guaranteed not to change for certain limited periods of time, normally one year. Mutual funds and securities. MetLife offers both proprietary and non-proprietary mutual funds. Proprietary funds include those offered by State Street Research & Management Company, a subsidiary of Metropolitan Life. MetLife also offers investment accounts for mutual funds and securities that allow customers to buy, sell and retain holdings in one centralized location, as well as brokerage accounts that offer the accessibility and liquidity of a money market mutual fund. Of the mutual funds sold by the Company in 2002, approximately $500 million of the deposited assets were managed by State Street Research & Management Company and $2.1 billion by third parties. 7 INSTITUTIONAL The Company's Institutional segment offers a broad range of group insurance and retirement and savings products and services to corporations and other institutions. Group insurance products and services include group life insurance, non-medical health insurance, such as short- and long-term disability, long-term care and dental insurance and related administrative services, as well as other benefits such as employer-sponsored auto and homeowners insurance provided through the Auto & Home segment and prepaid legal services plans. The Company offers these products either as an employer-paid benefit or as a voluntary benefit in which the premiums are paid by the employee. Revenues applicable to these group insurance products and services were $9.4 billion in 2002, representing 72.6% of total Institutional revenues of $12.9 billion. MetLife has built a leading position in the U.S. group insurance market through long-standing relationships with many of the largest corporate employers in the U.S. MetLife serves companies and institutions with approximately 33 million employees and members, including 88 of the FORTUNE 100 largest companies. MetLife's retirement and savings products and services include bundled administrative services and investment services sold to sponsors of small and mid-sized 401(k) and other defined contribution plans: guaranteed interest products and other stable value products; institutional accumulation and income annuities; and separate account contracts for the investment of defined benefit and defined contribution plan assets. Revenues applicable to MetLife's retirement and savings products were $3.5 billion in 2002, representing 27.4% of total Institutional revenues. The employee benefit market served by Institutional has changed dramatically in recent years. As the U.S. employment market has become more competitive, employers are seeking to enhance their ability to hire and retain employees by providing attractive benefit plans. The market also reflects employees' increasing concern about the future of government-funded retirement and safety-net programs, an increasingly mobile workforce and the desire of employers to share the market risk of retirement benefits with employees. MetLife believes these trends are facilitating the introduction of "voluntary" products, such as long-term care insurance, annuities and auto and homeowners insurance, as well as leading more employers to adopt defined contribution pension arrangements, such as 401(k) plans. MARKETING AND DISTRIBUTION Institutional markets its products and services through separate sales forces, comprised of MetLife employees, for both its group insurance and retirement and savings lines. MetLife distributes its group insurance products and services through a regional sales force that is segmented by the size of the target customer. Marketing representatives sell either directly to corporate and other institutional customers or through an intermediary, such as a broker or a consultant. Voluntary products are sold through the same sales channels, as well as by specialists for these products. As of December 31, 2002, the group insurance sales channels had approximately 600 marketing representatives. MetLife group insurance products and services are distributed through the following channels: - The National Accounts unit focuses exclusively on MetLife's largest customers, generally those having more than 25,000 employees. This unit assigns account executives and other administrative and technical personnel to a discrete customer or group of customers in order to provide them with individualized products and services; - The regional sales force operates from 29 offices and generally concentrates on sales to employers with fewer than 25,000 employees, through selected national and regional brokers, as well as through consultants; and - The Small Business Center focuses on improving MetLife's position in the smaller end of the market. Currently, 27 individual offices staffed with sales and administrative employees are located throughout the U.S. These centers provide comprehensive support services on a local basis to brokers and other 8 intermediaries by providing an array of products and services designed for smaller businesses, generally those with fewer than 1,000 employees. MetLife's retirement and savings organization markets retirement, savings, investment and payout products and services to sponsors and advisors of benefit plans of all sizes. These products and services are offered to private and public plans, collective bargaining units, nonprofit organizations, recipients of structured settlements and the current and retired members of these and other institutions. MetLife distributes retirement and savings products and services through dedicated sales teams and relationship managers located in 21 offices around the country. In addition, the retirement and savings organization works with the distribution channels in the Individual segment, group insurance and State Street Research & Management Company to better reach and service customers, brokers, consultants and other intermediaries. The Company has entered into several joint ventures and other arrangements with third parties to expand the marketing and distribution opportunities of institutional products and services. The Company also seeks to sell its institutional products and services through sponsoring organizations and affinity groups. For example, the Company is a preferred provider of long-term care products for the American Association of Retired Persons and the National Long-Term Care Coalition, a group of some of the nation's largest employers. In addition, the Company, together with John Hancock Financial Services, Inc., is a provider for the Federal Long-Term Care Insurance program. The program, available to most federal employees and their families, is the largest employer- sponsored long-term care insurance program in the country based on enrollees. GROUP INSURANCE PRODUCTS AND SERVICES MetLife's group insurance products and services include: Group life. Group life insurance products and services include group term life, group universal life, group variable universal life, dependent life and survivor benefits. These products and services can be standard products or tailored to meet specific customer needs. This category also includes high face amount life insurance products covering senior executives for compensation-related or benefit-funding purposes. Non-medical health. Non-medical health insurance consists of short- and long-term disability, long-term care, dental and accidental death and dismemberment. MetLife also sells excess risk and administrative services-only arrangements to some employers. Other products and services. Other products and services include employer-sponsored auto and homeowners insurance provided through the Auto & Home segment and prepaid legal plans. RETIREMENT AND SAVINGS PRODUCTS AND SERVICES MetLife's retirement and savings products and services include: Guaranteed interest and stable value products. MetLife offers guaranteed interest contracts ("GICs"), including separate account and synthetic (trust) GICs, funding agreements and similar products. Accumulation and income products. MetLife also sells fixed and variable annuity products, generally in connection with defined contribution plans, the termination of pension plans or the funding of structured settlements. Defined contribution plan services. MetLife provides full service defined contribution programs to small- and mid-size companies. Other retirement and savings products and services. Other retirement and savings products and services include separate account contracts for the investment management of defined benefit and defined contribution plans on behalf of corporations and other institutions. 9 REINSURANCE MetLife's Reinsurance segment is comprised of the life reinsurance business of Reinsurance Group of America, Incorporated ("RGA"), a publicly traded company, and MetLife's ancillary life reinsurance business. MetLife acquired approximately 49% of RGA's outstanding common shares through the acquisition of GenAmerica Financial Corporation ("GenAmerica"), the parent corporation of General American Life Insurance Company ("General American"), in January 2000. Metropolitan Life owned 9% of the outstanding shares of RGA common stock prior to the completion of the GenAmerica acquisition. During 2002, the Company purchased an additional 327,600 shares of RGA's outstanding common stock at an aggregate price of $9.5 million to offset potential future dilution of the Company's holding of RGA's common stock arising from the issuance by RGA of company-obligated mandatorily redeemable securities of a subsidiary trust in December 2001. These purchases increased the Company's ownership percentage of outstanding shares of RGA common stock from approximately 58% at December 31, 2001 to approximately 59% at December 31, 2002. RGA's operations in North America are its largest and include operations of its Canadian and U.S. subsidiaries, and three subsidiaries in Barbados. In addition to its North American operations, RGA has subsidiary companies, branch offices, or representative offices in Argentina, Australia, Hong Kong, India, Japan, South Korea, Mexico, South Africa, Spain, Taiwan and the U.K. In addition to its life reinsurance business, RGA provides reinsurance of asset-intensive products and financial reinsurance. RGA and its predecessor, the reinsurance division of General American, have been engaged in the business of life reinsurance since 1973. As of December 31, 2002, RGA had approximately $8.9 billion in consolidated assets and worldwide life reinsurance in-force of approximately $759 billion. RGA'S PRODUCTS AND SERVICES RGA has five main operational segments segregated primarily by geographic region: U.S., Canada, Latin America, Asia/Pacific, and Europe and South Africa. The U.S. operations, which represented 71% of RGA's 2002 net premiums, provide traditional life, asset-intensive and financial reinsurance to domestic clients. Asset-intensive products primarily include reinsurance of corporate-owned life insurance and annuities. The Canadian operations, which represented 9% of RGA's 2002 net premiums, provide insurers with traditional reinsurance, as well as assistance with capital management activity. The Asia/Pacific and the Europe and South Africa operations, which represented 8% and 11%, respectively, of RGA's 2002 net premiums, provide primarily traditional life and critical illness reinsurance. The Latin America operations, which represented 1% of RGA's 2002 net premiums, provide traditional reinsurance and reinsurance of privatized pension products primarily in Argentina. In 2001, RGA ceased providing reinsurance for the privatized pension program in Argentina and significantly scaled back its operations in Latin America. AUTO & HOME Auto & Home, operating through Metropolitan Property and Casualty Insurance Company, a wholly-owned subsidiary of Metropolitan Life, and its subsidiaries, offers personal lines property and casualty insurance directly to employees through employer-sponsored programs, as well as through a variety of retail distribution channels, including the MetLife Financial Services career agency system, independent agents, Auto & Home specialists and direct response marketing. Auto & Home primarily sells auto insurance, which represented 74.7% of Auto & Home's total net premiums earned in 2002, and homeowners insurance, which represented 23.5% of Auto & Home's total net premiums earned in 2002. Auto insurance includes both standard and non-standard policies. Non-standard policies provide insurance for risks having higher loss experience or loss potential than risks covered by standard insurance. On September 30, 1999, the Auto & Home segment acquired the standard personal lines property and casualty insurance operations of The St. Paul Companies, which, at the time of the acquisition, had in-force premiums of approximately $1.1 billion and approximately 3,000 independent agents and brokers. The conversion of St. Paul's approximately one million policies to MetLife Auto & Home policies was completed in September 2002. 10 PRODUCTS Auto & Home's insurance products include: - auto, including both standard and non-standard private passenger; - homeowners, including renters, condominium and dwelling; and - other personal lines, including umbrella (protection against losses in excess of amounts covered by other liability insurance policies), recreational vehicles and boat owners. Auto coverages. Auto insurance policies include coverages for private passenger automobiles, utility automobiles and vans, motorcycles, motor homes, antique or classic automobiles and trailers. Auto & Home offers traditional coverages such as liability, uninsured motorist, no fault or personal injury protection and collision and comprehensive coverages. Auto & Home also offers non-standard auto insurance, which accounted for $113 million in net premiums earned in 2002. This represents 5.4% of total auto net premiums earned in 2002. Homeowners coverages. Homeowners insurance provides protection for homeowners, renters, condominium owners and residential landlords against losses arising out of damage to dwellings and contents from a wide variety of perils, as well as coverage for liability arising from ownership or occupancy. Traditional insurance policies for dwellings represent the majority of Auto & Home's homeowners policies providing protection for loss on a "replacement cost" basis. These policies provide additional coverage for reasonable, normal living expenses incurred by policyholders who have been displaced from their homes. MARKETING AND DISTRIBUTION Personal lines auto and homeowners insurance products are directly marketed to employees through employer-sponsored programs. Auto & Home products are also marketed and sold by the MetLife Financial Services career agency sales force, independent agents, Auto & Home specialists and through a direct response channel. EMPLOYER-SPONSORED PROGRAMS Auto & Home is a leading provider of employer-sponsored auto and homeowners products. Net premiums earned through Auto & Home's employer-sponsored distribution channel have grown at a compound annual rate of 13.8%, from $496 million in 1998 to $832 million in 2002. At December 31, 2002, over 1,400 employers offered MetLife Auto & Home products to their employees. Institutional marketing representatives market the employer-sponsored Auto & Home products to employers through a variety of means, including broker referrals and cross-selling to MetLife group customers. Once endorsed by the employer, MetLife commences marketing efforts to employees. Employees who are interested in the employer-sponsored auto and homeowners products can call a toll-free number for a quote, purchase coverage and authorize payroll deduction over the telephone. Auto & Home has also developed proprietary software that permits an employee in most states to obtain a quote for employer-sponsored auto insurance through Auto & Home's Internet website. RETAIL DISTRIBUTION CHANNELS MetLife markets and sells Auto & Home products through its career agency sales force, independent agents and Auto & Home specialists. In recent years, MetLife has increased its use of independent agents and Auto & Home specialists to sell these products. Independent agencies. At December 31, 2002, Auto & Home maintained contracts with approximately 4,000 agencies and brokers. 11 Auto & Home specialists. Approximately 500 Auto & Home specialists sell products for Auto & Home in 21 states. Auto & Home's strategy is to utilize Auto & Home specialists, who are MetLife employees, in geographic markets that are underserved by its career agents. MetLife Financial Services career agency system. Approximately 1,700 agents in the MetLife Financial Services career agency system sell Auto & Home insurance products. Sales of Auto & Home products by these agents have been declining since the early 1990s, due principally to the reduction in the number of agents in the MetLife Financial Services career agency sales force. See "-- Individual -- Marketing and Distribution." Other distribution channels. In 1998, the Company established a direct response marketing channel which permits sales to be generated through sources such as target mailings, career agent referrals and the Internet. In 2002, Auto & Home's business was concentrated in the following states, as measured by net premiums earned: New York ($391 million or 13.8% of total net premiums earned), Massachusetts ($333 million or 11.8%), Illinois ($224 million or 7.9%), Connecticut ($141 million or 5.0%), and Minnesota ($140 million or 5.0%). CLAIMS Auto & Home's claims department includes approximately 2,300 employees located in Auto & Home's Warwick, Rhode Island home office, 14 field claim offices, six in-house counsel offices and drive-in inspection and other sites throughout the United States. These employees include claim adjusters, appraisers, attorneys, managers, medical specialists, investigators, customer service representatives, claim financial analysts and support staff. Claim adjusters, representing the majority of employees, investigate, evaluate and settle over 800,000 claims annually, principally by telephone. ASSET MANAGEMENT Asset Management, through SSRM Holdings, Inc. ("State Street Research"), provides a broad variety of asset management products and services to MetLife, third-party institutions and individuals. State Street Research conducts its operations through two wholly-owned subsidiaries, State Street Research & Management Company, a full-service investment management firm, and SSR Realty Advisors, Inc., a full-service real estate investment advisor. State Street Research offers investment management services in all major investment disciplines through multiple channels of distribution in both the retail and institutional marketplaces. At December 31, 2002, State Street Research had assets under management of $44.6 billion which consisted of fixed income investments, equities, real estate and money market investments, representing 58%, 29%, 11% and 2%, respectively, of State Street Research's total assets under management. State Street Research has been an investment manager for many of the largest U.S. corporate pension plans for over 30 years. The majority of State Street Research's institutional business is concentrated in qualified retirement funds, including both defined benefit and defined contribution plans. State Street Research also provides investment management services to foundations, endowments and union programs. In addition, State Street Research serves as an advisor for 22 mutual funds with assets totaling $7.7 billion at December 31, 2002, as well as seven portfolios with assets totaling $5.7 billion at December 31, 2002, underlying MetLife's variable life and variable annuity products. State Street Research distributes its investment products to institutions through its own institutional sales force and pension consultants. State Street Research's mutual fund products are distributed primarily through retail brokerage firms (77% of mutual fund sales) and by the MetLife career agency sales force (12% of mutual fund sales). State Street Research offers its products to the defined contribution market directly, as well as through Institutional's defined contribution group. INTERNATIONAL International provides life insurance, accident and health insurance, annuities and savings and retirement products to both individuals and groups, and auto and homeowners coverage to individuals. The Company focuses on emerging markets in the Asia/Pacific region, Latin America and selected European countries as described more fully below. The Company operates in international markets through subsidiaries and joint ventures. 12 LATIN AMERICA The Company operates in the Latin America region in the following countries: Mexico, Chile, Brazil, Argentina and Uruguay. During 2002, the Company acquired Aseguradora Hidalgo S.A. ("Hidalgo"), Mexico's largest life insurer, and is currently in the process of integrating Hidalgo and Seguros Genesis, S.A., MetLife's wholly-owned Mexican subsidiary ("Genesis"). The integration includes the selection of a new brand name (MetLife Mexico) and the development of products and services for over five million customers. The combined market share of Genesis and Hidalgo has created the leading life insurance company in Mexico in both the individual and group businesses. The operation in Chile was acquired in late 2001 and as of December 31, 2002, it is the second largest annuity company in Chile, based on market share. The Chilean operation also offers individual life insurance and group insurance products. The operations in Mexico and Chile represent approximately 92% of the total premiums and fees in this region for the year ended December 31, 2002. ASIA/PACIFIC The Company operates in the Asia/Pacific region in the following countries: South Korea, Taiwan, Hong Kong, Indonesia and India. The operations in South Korea and Taiwan represented approximately 96% of the total premiums and fees in this region for the year ended December 31, 2002. The South Korean operation offers individual life insurance, savings and retirement and non-medical health products, as well as group life and retirement products. The Taiwanese operation offers individual life, accident and health, and personal travel insurance products, as well as group life and group accident and health insurance products. The Company has received approval to operate a joint venture and pursue licensing in China. During 2002, the Company closed its Philippine operation. EUROPE During 2002, the Company operated in Spain, Portugal and Poland. In December 2002, MetLife announced its exit from the Polish market. The Company's withdrawal from this market was based on a thorough evaluation of the market, which indicated diminished prospect for significant growth and profitability. The operations in Spain and Portugal sell individual and group life insurance, retirement and savings, as well as auto and homeowners products through their own sales forces, direct channels and independent third parties. FUTURE POLICY BENEFITS MetLife establishes, and carries as liabilities, actuarially determined amounts that are calculated to meet its policy obligations at such time as an annuitant takes income, a policy matures or surrenders or an insured dies or becomes disabled. MetLife computes the amounts for future policy benefits reported in its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In establishing these liabilities, MetLife distinguishes between short duration and long duration contracts. Short duration contracts arise from the group life and group dental businesses. The liability for future policy benefits for short duration contracts consists of gross unearned premiums as of the valuation date and the discounted amount of the future payments on pending claims as of the valuation date. Long duration contracts consist of traditional life, term, non-participating whole life, individual disability, group long-term disability and long-term care contracts. MetLife determines future policy benefits for long duration contracts using assumptions based on current experience, plus a margin for adverse deviation for these policies. Where they exist, MetLife amortizes deferred policy acquisition costs in relation to the associated gross margins or premium. MetLife also distinguishes between investment contracts, limited pay contracts and universal life-type contracts. The future policy benefits for these products primarily consist of policyholders' account balances. The Company also establishes liabilities for future policy benefits (associated with base policies and riders, unearned mortality charges and future disability benefits), for other policyholder funds (associated with unearned revenues and claims payable) and for unearned revenue (the unamortized portion of front-end loads charged). Investment contracts primarily consist of individual annuity and certain group pension contracts that have limited or no 13 mortality risk. MetLife amortizes the deferred policy acquisition costs on these contracts in relation to estimated gross profits. Limited pay contracts primarily consist of single premium immediate individual and group pension annuities. For limited pay contracts, the Company defers the excess of the gross premium over the net premium and recognizes such excess into income in relation to anticipated future benefit payments. Universal life-type contracts consist of universal and variable life contracts. The Company amortizes deferred policy acquisition costs for limited pay and universal life-type contracts using the product's estimated gross profits. For universal life-type contracts with front-end loads, MetLife defers the charge and amortizes the unearned revenue using the product's estimated gross profits. The liability for future policy benefits for participating traditional life insurance is the net level reserve using the policy's guaranteed mortality rates and the dividend fund interest rate or nonforfeiture interest rate, as applicable. MetLife amortizes deferred policy acquisition costs in relation to the product's estimated gross margins. The Auto & Home segment establishes liabilities to account for the estimated ultimate costs of losses and loss adjustment expenses for claims that have been reported but not yet settled, and claims incurred but not reported. It bases unpaid losses and loss adjustment expenses on: - case estimates for losses reported on direct business, adjusted in the aggregate for ultimate loss expectations; - estimates of incurred but not reported losses based upon past experience; - estimates of losses on insurance assumed primarily from involuntary market mechanisms; and - estimates of future expenses to be incurred in settlement of claims. MetLife deducts estimated amounts of salvage and subrogation from unpaid losses and loss adjustment expenses. Implicit in all these estimates are underlying assumptions about rates of inflation because MetLife determines all estimates using expected amounts to be paid. MetLife derives estimates for the development of reported claims and for incurred but not reported claims principally from actuarial analyses of historical patterns of claims and claims development for each line of business. Similarly, MetLife derives estimates of unpaid loss adjustment expenses principally from actuarial analyses of historical development patterns of the relationship of loss adjustment expenses to losses for each line of business. MetLife anticipates ultimate recoveries from salvage and subrogation principally on the basis of historical recovery patterns. Pursuant to state insurance laws, MetLife's insurance subsidiaries establish statutory reserves, carried as liabilities, to meet their obligations on their respective policies. These statutory reserves are established in amounts sufficient to meet policy and contract obligations, when taken together with expected future premiums and interest at assumed rates. Statutory reserves generally differ from liabilities for future policy benefits determined using GAAP. The New York Insurance Law and regulations require certain MetLife entities to submit to the New York Superintendent of Insurance or other state insurance departments, with each annual report, an opinion and memorandum of a "qualified actuary" that the statutory reserves and related actuarial amounts recorded in support of specified policies and contracts, and the assets supporting such statutory reserves and related actuarial amounts, make adequate provision for their statutory liabilities with respect to these obligations. See "-- Regulation -- Insurance Regulation -- Policy and contract reserve sufficiency analysis." Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of its liabilities, MetLife cannot precisely determine the amounts that it will ultimately pay with respect to these liabilities, and the ultimate amounts may vary from the estimated amounts, particularly when payments may not occur until well into the future. Furthermore, the Company has experienced, and will likely in the future experience, catastrophe losses and possibly acts of terrorism that may have an adverse impact on its business, results of operations and financial condition. Catastrophes can be caused by various events, including, hurricanes, windstorms, earthquakes, hail, tornadoes, explosions, severe winter weather (including snow, freezing water, ice storms and blizzards) and fires. Due to their nature, the Company cannot predict the incidence, timing and severity of catastrophes and acts of terrorism, but the Company makes broad use of catastrophic and 14 non-catastrophic reinsurance to manage risk from these perils. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- September 11, 2001 Tragedies." However, MetLife believes its liabilities for future benefits are adequate to cover the ultimate benefits. MetLife periodically reviews its estimates of liabilities for future benefits and compares them with its actual experience. It revises estimates, when appropriate, if it determines that future expected experience differs from assumptions used in the development of liabilities. UNDERWRITING AND PRICING INDIVIDUAL AND INSTITUTIONAL The Company's individual and group insurance underwriting involves an evaluation of applications for life, disability, dental, retirement and savings, and long-term care insurance products and services by a professional staff of underwriters and actuaries, who determine the type and the amount of risk that the Company is willing to accept. The Company employs detailed underwriting policies, guidelines and procedures designed to assist the underwriter to properly assess and quantify risks before issuing a policy to qualified applicants or groups. Individual underwriting considers not only an applicant's medical history, but also other factors such as financial profiles, foreign travel, avocations and alcohol, drug and tobacco use. The Company's group underwriters generally evaluate the risk characteristics of each prospective insured group, although with certain voluntary products, employees may be underwritten on an individual basis. Generally, the Company is not obligated to accept any risk or group of risks from, or to issue a policy or group of policies to, any employer or intermediary. Requests for coverage are reviewed on their merits and generally a policy is not issued unless the particular risk or group has been examined and approved for underwriting. Underwriting is generally done by the Company's employees, although some policies are reviewed by intermediaries under strict guidelines established by the Company. In order to maintain high standards of underwriting quality and consistency, the Company engages in a multilevel series of ongoing internal underwriting audits, and is subject to external audits by its reinsurers, at both its remote underwriting offices and its corporate underwriting office. The Company has established senior level oversight of the underwriting process that facilitates quality sales and serving the needs of its customers, while supporting its financial strength and business objectives. The Company's goal is to achieve the underwriting, mortality and morbidity levels reflected in the assumptions in its product pricing. This is accomplished by determining and establishing underwriting policies, guidelines, philosophies and strategies that are competitive and suitable for the customer, the agent and the Company. Individual and group product pricing reflects the Company's insurance underwriting standards. Product pricing of insurance products is based on the expected payout of benefits calculated through the use of assumptions for mortality, morbidity, expenses, persistency and investment returns, as well as certain macroeconomic factors, such as inflation. Product specifications are designed to prevent greater than expected mortality, and the Company periodically monitors mortality and morbidity assumptions. Investment-oriented products are priced based on various factors, which may include investment return, expenses, persistency, and optionality. Unique to group insurance pricing is experience rating. MetLife employs both prospective and retrospective experience rating. Prospective experience rating involves the evaluation of past experience for the purpose of determining future premium rates. Retrospective experience rating involves the evaluation of past experience for the purpose of determining the actual cost of providing insurance for the customer for the period of time in question. MetLife continually reviews its underwriting and pricing guidelines so that its policies remain competitive and supportive of its marketing strategies and profitability goals. Decisions are based on established actuarial pricing and risk selection principles to ensure that MetLife's underwriting and pricing guidelines are appropriate. 15 REINSURANCE Reinsurance is written on a facultative basis or an automatic treaty basis. Facultative reinsurance is individually underwritten by the reinsurer for each policy to be reinsured. Factors taken into account in underwriting facultative reinsurance are medical history, impairments, employment, hobbies and financial information. An automatic reinsurance treaty provides that risks will be ceded on specified blocks of business where the underlying policies meet the ceding company's underwriting criteria. In contrast to facultative reinsurance, the reinsurer does not approve each individual risk. Automatic reinsurance treaties generally provide that the reinsurer will be liable for a portion of the risk associated with specified policies written by the ceding company. Factors considered in underwriting automatic reinsurance are the product's underwriting, pricing, distribution and optionality, as well as the ceding company's retention and financial strength. AUTO & HOME Auto & Home's underwriting function has six principal aspects: - evaluating potential worksite marketing employer accounts and independent agencies; - establishing guidelines for the binding of risks by agents with binding authority; - reviewing coverage bound by agents; - on a case by case basis, underwriting potential insureds presented by agents outside the scope of their binding authority; - pursuing information necessary in certain cases to enable Auto & Home to issue a policy within the Company's guidelines; and - ensuring that renewal policies continue to be written at rates commensurate with risk. Subject to very few exceptions, agents in each of Auto & Home's distribution channels, as well as in MetLife's Institutional segment, have binding authority for risks which fall within Auto & Home's published underwriting guidelines. Risks falling outside the underwriting guidelines may be submitted for approval to the underwriting department; alternatively, agents in such a situation may call the underwriting department to obtain authorization to bind the risk themselves. In most states, Auto & Home generally has the right within a specified period (usually the first 60 days) to cancel any policy. Auto & Home establishes prices for its major lines of insurance based on its proprietary database, rather than relying on rating bureaus. Auto & Home determines prices in part from a number of variables specific to each risk. The pricing of personal lines insurance products takes into account, among other things, the expected frequency and severity of losses, the costs of providing coverage (including the costs of acquiring policyholders and administering policy benefits and other administrative and overhead costs), competitive factors and profit considerations. The major pricing variables for personal lines automobile insurance include characteristics of the automobile itself, such as age, make and model, characteristics of insureds, such as driving record and experience, and the insured's personal financial management. Auto & Home's ability to set and change rates is subject to regulatory oversight. As a condition of MetLife's license to do business in each state, Auto & Home, like all other automobile insurers, is required to write or share the cost of private passenger automobile insurance for higher risk individuals who would otherwise be unable to obtain such insurance. This "involuntary" market, also called the "shared market," is governed by the applicable laws and regulations of each state, and policies written in this market are generally written at rates higher than standard rates. REINSURANCE ACTIVITY MetLife cedes premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a coinsurance, yearly renewable term, excess or catastrophe excess basis. These 16 reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained by MetLife depends on its evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on the characteristics of coverages. The Company also reinsures low mortality risk reinsurance treaties with other reinsurance companies. It also reinsures when capital requirements and the economic terms of the reinsurance make it appropriate to do so. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse MetLife for the ceded amount in the event the claim is paid. However, MetLife remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. Since it bears the risk of nonpayment by one or more of its reinsurers, MetLife cedes reinsurance to well-capitalized, highly rated reinsurers. INDIVIDUAL MetLife currently reinsures up to 90% of the mortality risk for all new individual life insurance policies that it writes through its various insurance companies. This practice was initiated for different products starting at various points in time between 1992 and 2000. In addition, in 1998, MetLife reinsured substantially all of the mortality risk on its universal life policies issued since 1983. In addition to reinsuring mortality risk, MetLife reinsures other risks and specific coverages. The Company routinely reinsures certain classes of risks in order to limit its exposure to particular travel, avocation and lifestyle hazards. MetLife's retention limits per life vary by franchise and according to the characteristics of the particular risks. MetLife reinsures its business through a diversified group of reinsurers. Placement of reinsurance is done primarily on an automatic basis and also on a facultative basis for risks of specific characteristics. AUTO & HOME Auto & Home purchases reinsurance to control the Company's exposure to large losses (primarily catastrophe losses) and to protect surplus. Auto & Home cedes to reinsurers a portion of risks and pays premiums based upon the risk and exposure of the policies subject to reinsurance. To control the Company's exposure to large property and casualty losses, Auto & Home utilizes property catastrophe, casualty, and property per risk excess loss agreements. REGULATION INSURANCE REGULATION Metropolitan Life is licensed to transact insurance business in, and is subject to regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Canada. Each of MetLife's other insurance subsidiaries is licensed and regulated in all U.S. and international jurisdictions where it conducts insurance business. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurers, including standards of solvency, reserves, reinsurance and capital adequacy, and the business conduct of insurers. In addition, statutes and regulations usually require the licensing of insurers and their agents, the approval of policy forms and related materials and, for certain lines of insurance, the approval of rates. Such statutes and regulations also prescribe the permitted types and concentration of investments. The New York Insurance Law limits the sales commissions and certain other marketing expenses that may be incurred in connection with the sale of life insurance policies and annuity contracts. MetLife's insurance subsidiaries are each required to file reports, generally including detailed annual financial statements, with insurance regulatory authorities in each of the jurisdictions in which they do business, and their operations and accounts are subject to periodic examination by such authorities. These subsidiaries must also file, and in many jurisdictions and in some lines of insurance obtain regulatory approval for, rules, rates and forms relating to the insurance written in the jurisdictions in which they operate. 17 The National Association of Insurance Commissioners ("NAIC") has established a program of accrediting state insurance departments. NAIC accreditation permits accredited states to conduct periodic examinations of insurers domiciled in such states. NAIC-accredited states will not accept reports of examination of insurers from unaccredited states, except under limited circumstances. As a direct result, insurers domiciled in unaccredited states may be subject to financial examination by accredited states in which they are licensed, in addition to any examinations conducted by their domiciliary states. The New York Insurance Department (the "Department"), Metropolitan Life's principal insurance regulator, has not received its accreditation as a result of the New York legislature's failure to adopt certain model NAIC laws. The Company does not believe that this will have a significant impact upon its ability to conduct its insurance businesses. State and federal insurance and securities regulatory authorities and other state law enforcement agencies and attorneys general from time to time make inquiries regarding compliance by MetLife's insurance subsidiaries with insurance, securities and other laws and regulations regarding the conduct of MetLife's insurance and securities businesses. MetLife cooperates with such inquiries and takes corrective action when warranted. Holding Company regulation. The Holding Company and its insurance subsidiaries are subject to regulation under the insurance holding company laws of various jurisdictions. The insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require a controlled insurance company (insurers that are subsidiaries of insurance holding companies) to register with state regulatory authorities and to file with those authorities certain reports, including information concerning their capital structure, ownership, financial condition, certain intercompany transactions and general business operations. State insurance statutes also typically place restrictions and limitations on the amount of dividends or other distributions payable by insurance company subsidiaries to their parent companies, as well as on transactions between an insurer and its affiliates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- The Holding Company." The New York Insurance Law and the regulations thereunder also restrict the aggregate amount of investments Metropolitan Life may make in non-life insurance subsidiaries, and provide for detailed periodic reporting on subsidiaries. Guaranty associations and similar arrangements. Most of the jurisdictions in which MetLife's insurance subsidiaries are admitted to transact business require life and property and casualty insurers doing business within the jurisdiction to participate in guaranty associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. In the past five years, the aggregate assessments levied against MetLife's insurance subsidiaries have not been material. While the amount and timing of future assessments are not predictable, the Company has established liabilities for guaranty fund assessments that it considers adequate for assessments with respect to insurers that are currently subject to insolvency proceedings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Insolvency Assessments." Statutory examination. As part of their regulatory oversight process, state insurance departments conduct periodic detailed examinations of the books, records, accounts, and business practices of insurers domiciled in their states. These examinations are generally conducted in cooperation with the departments of two or three other states, representing each of the NAIC zones, under guidelines promulgated by the NAIC. On March 1, 2000, the Department completed an examination of Metropolitan Life for each of the five years in the period ended December 31, 1998 which included recommendations for certain changes in recordkeeping processes, but did not result in a fine. For the three-year period ended December 31, 2002, MetLife, Inc. has not received any material adverse findings resulting from state insurance department examinations of its other insurance subsidiaries. Regulatory authorities in a small number of states have conducted investigations or inquiries relating to Metropolitan Life's, New England Life Insurance Company's ("New England Life") or General American's 18 sales of individual life insurance policies or annuities. Over the past several years, these and a number of investigations by other regulatory authorities were resolved by monetary payments and certain other relief. The Company may continue to resolve investigations in a similar manner. NAIC ratios. On the basis of statutory financial statements filed with state insurance regulators, the NAIC calculates annually 13 financial ratios to assist state regulators in monitoring the financial condition of insurers. A "usual range" of results for each ratio is used as a benchmark. Departure from the "usual range" on four or more of the ratios can lead to inquiries from individual state insurance departments. In 2002, two of the 13 financial ratios for Metropolitan Life fell outside the usual range, one of which is directly related to the creation of the statutory Corporate Asset segment during 2002. The Company created the statutory Corporate Asset segment in order to better coordinate the GAAP management of its business with the requirements of statutory reporting and investment income allocation. Had the ratio been recalculated assuming the statutory Corporate Asset segment existed prior to 2002, the ratio would have been inside the usual range. In 2001, five of the 13 financial ratios for Metropolitan Life fell outside the usual range, three of which were a direct result of certain transactions between the Holding Company, Metropolitan Life and Metropolitan Insurance and Annuity Company. These transactions were approved by the applicable individual state insurance departments. The adoption of new statutory accounting principles in 2001 resulted in one of the ratios falling outside of the usual range. The Company does not anticipate any inquiries as a result of these departures. Policy and contract reserve sufficiency analysis. Under the New York Insurance Law, Metropolitan Life is required to conduct annually an analysis of the sufficiency of all life and health insurance and annuity statutory reserves. Additionally, other life insurance affiliates are subject to similar requirements in their states of domicile. In each case, a qualified actuary must submit an opinion which states that the statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. If such an opinion cannot be provided, the insurer must set up additional reserves by moving funds from surplus. Since the inception of this requirement, Metropolitan Life and all other insurance subsidiaries required by other jurisdictions to provide similar opinions have provided them without qualifications. Surplus and capital. The New York Insurance Law requires New York domestic stock life insurers to maintain minimum capital. At December 31, 2002, Metropolitan Life's capital was in excess of such required minimum. Since the demutualization, Metropolitan Life has continued to offer participating policies. Metropolitan Life is subject to statutory restrictions that limit to 10% the amount of statutory profits on participating policies written after the demutualization (measured before dividends to policyholders) that can inure to the benefit of stockholders. Since the demutualization, the impact of these restrictions on net income has not been, and Metropolitan Life believes that in the future it will not be, significant. MetLife's U.S. insurance subsidiaries are subject to the supervision of the regulators in each jurisdiction in which they are licensed to transact business. Regulators have discretionary authority, in connection with the continued licensing of these insurance subsidiaries, to limit or prohibit sales to policyholders if, in their judgment, the regulators determine that such insurer has not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders. See "-- Risk-based capital." Risk-based capital ("RBC"). The New York Insurance Law requires that New York domestic life insurers report their RBC based on a formula calculated by applying factors to various asset, premium and statutory reserve items; similar rules apply to each of the Holding Company's U.S. insurance subsidiaries domiciled in other jurisdictions. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk and business risk. The Department uses the formula as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. The New York Insurance Law imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on the Department as to the use and publication of RBC data. The New York Insurance Law gives the New York Superintendent of Insurance explicit regulatory authority to require various actions by, or take various actions against, insurers whose total adjusted capital does not exceed 19 certain RBC levels. At December 31, 2002, Metropolitan Life's total adjusted capital was in excess of each of those RBC levels. Each of the U.S. insurance subsidiaries of the Holding Company is also subject to certain RBC requirements. At December 31, 2002, the total adjusted capital of each of these insurance subsidiaries also was in excess of each of those RBC levels. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- The Company -- Support Agreements." The NAIC adopted the Codification of Statutory Accounting Principles (the "Codification") which is intended to standardize regulatory accounting and reporting to state insurance departments and became effective January 1, 2001. However, statutory accounting principles continue to be established by individual state laws and permitted practices. The Department required adoption of the Codification, with certain modifications, for the preparation of statutory financial statements effective January 1, 2001. Effective December 31, 2002, the Department adopted a modification to its regulations to be consistent with the Codification with respect to the admissibility of deferred income taxes by New York insurers, subject to certain limitations. The adoption of the Codification as modified by the Department, did not adversely affect Metropolitan Life's statutory capital and surplus. Further modifications by state insurance departments may impact the effect of the Codification on the statutory capital and surplus of Metropolitan Life and the Holding Company's other insurance subsidiaries. Regulation of investments. Each of the Holding Company's insurance subsidiaries is subject to state laws and regulations that require diversification of its investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, would require divestiture of such non-qualifying investments. The Company believes that the investments made by each of its insurance subsidiaries complied with such regulations at December 31, 2002. Federal initiatives. Although the federal government generally does not directly regulate the insurance business, federal initiatives often have an impact on the business in a variety of ways. From time to time, federal measures are proposed which may significantly affect the insurance business, including limitations on antitrust immunity, the repeal of the federal estate tax, the exclusion of federal income tax on corporate dividends, the creation of more flexible tax advantaged or tax exempt savings accounts with higher contribution limits, and the replacement of certain traditional retirement annuities with a more general employer retirement savings account. It is possible that the repeal of the tax on corporate dividends could adversely affect annuity sales by life insurers, including the Company, by decreasing demand for products which offer tax-deferred growth of assets. In addition, the demand for annuities could decrease if the new, tax-favored savings accounts are adopted, as they may be subject to more favorable tax treatment than annuities. The Company cannot predict whether these initiatives will be adopted as proposed, or what impact, if any, such proposals may have on the Company's business, results of operation or financial condition. Members of Congress are scheduled to hold hearings in 2003 on possible federal legislation that would allow a state-chartered and regulated insurer, such as MetLife's U.S. insurance subsidiaries, to choose instead to be regulated exclusively by a federal insurance regulator. The Company does not believe that these discussions will lead to any new law in this area during the 108th Congress. Legislative Developments. On May 26, 2001, President Bush signed into law the Economic Growth and Taxpayer Relief Reconciliation Act, which includes the repeal of the federal estate tax over a ten-year period. The Company believes that the repeal of the federal estate tax has resulted in reduced sales and could continue to impact sales of some of the Company's estate planning products, including survivorship/second to die life insurance policies; however, the Company does not expect the repeal to have a material adverse impact on its overall business. For a discussion of the Gramm-Leach-Bliley Act of 1999, permitting affiliations between banks and insurers, see "-- Competition." 20 Management cannot predict what other proposals may be made, what legislation may be introduced or enacted or the impact of any such legislation on the Company's business, results of operations and financial condition. BROKER/DEALER AND SECURITIES REGULATION Some of MetLife, Inc.'s subsidiaries and certain policies and contracts offered by them, are subject to various levels of regulation under the federal securities laws administered by the Securities and Exchange Commission. Some of MetLife, Inc.'s subsidiaries are investment advisers registered under the Investment Advisers Act of 1940, as amended. In addition, some separate accounts and a variety of mutual funds are registered under the Investment Company Act of 1940, as amended. Some annuity contracts and insurance policies issued by the Company are funded by separate accounts, the interests in which are registered under the Securities Act of 1933, as amended. Some of MetLife, Inc.'s subsidiaries are registered as broker/dealers under the Securities Exchange Act of 1934, as amended, and are members of the National Association of Securities Dealers, Inc. These broker/dealers may also be registered under various state securities laws. Some of MetLife, Inc.'s subsidiaries also have certain pooled investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act, but may be subject to certain other provisions of such acts. Federal and state securities regulatory authorities from time to time make inquiries regarding compliance by MetLife, Inc. and its subsidiaries with securities and other laws and regulations regarding the conduct of their securities businesses. MetLife cooperates with such inquiries and takes corrective action when warranted. These laws and regulations are primarily intended to protect investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. The Company may also be subject to similar laws and regulations in the states and foreign countries in which it provides investment advisory services, offers the products described above or conducts other securities-related activities. ENVIRONMENTAL CONSIDERATIONS As an owner and operator of real property, the Company is subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is also the risk that there may be potential environmental liabilities and costs in connection with any required remediation of such properties. In addition, the Company holds equity interests in companies that could potentially be subject to environmental liabilities. The Company routinely has environmental assessments performed with respect to real estate being acquired for investment and real property to be acquired through foreclosure. The Company cannot provide assurance that unexpected environmental liabilities will not arise. However, based on information currently available to management, management believes that any costs associated with compliance with environmental laws and regulations or any remediation of such properties will not have a material adverse effect on the Company's business, results of operations or financial condition. ERISA CONSIDERATIONS The

Company provides products and services to certain employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or the Internal Revenue Code of 1986, as amended (the "Code"). As such, its activities are subject to the restrictions imposed by ERISA and the Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries and the requirement under ERISA and the Code that fiduciaries may not cause a covered plan to engage in prohibited transactions with persons who have certain relationships with respect to such plans. The applicable provisions of ERISA and the Code are subject to enforcement by the Department of Labor, the Internal Revenue Service and the Pension Benefit Guaranty Corporation. In John Hancock Mutual Life Insurance Company v. Harris Trust and Savings Bank (1993), the U.S. Supreme Court held that certain assets in excess of amounts necessary to satisfy guaranteed obligations 21 under a participating group annuity general account contract are "plan assets." Therefore, these assets are subject to certain fiduciary obligations under ERISA, which requires fiduciaries to perform their duties solely in the interest of ERISA plan participants and beneficiaries. On January 5, 2000, the Secretary of Labor issued final regulations indicating, in cases where an insurer has issued a policy backed by the insurer's general account to or for an employee benefit plan, the extent to which assets of the insurer constitute plan assets for purposes of ERISA and the Code. The regulations apply only with respect to a policy issued by an insurer on or before December 31, 1998 ("Transition Policy"). No person will generally be liable under ERISA or the Code for conduct occurring prior to July 5, 2001, where the basis of a claim is that insurance company general account assets constitute plan assets. Insurers issuing new policies -- other than guaranteed benefit policies -- after December 31, 1998 will generally be subject to fiduciary obligations under ERISA. The regulations indicate the requirements that must be met so that assets supporting a Transition Policy will not be considered plan assets for purposes of ERISA and the Code. These requirements include detailed disclosures to be made to the employee benefits plan and the requirement that the insurer must permit the policyholder to terminate the policy on 90 days' notice and receive without penalty, at the policyholder's option, either (i) the unallocated accumulated fund balance (which may be subject to market value adjustment) or (ii) a book value payment of such amount in annual installments with interest. The Company has taken and continues to take steps designed to ensure compliance with these regulations, as appropriate. FINANCIAL HOLDING COMPANY REGULATION Regulatory agencies. In connection with its acquisition of a federally-chartered commercial bank, the Holding Company became a bank holding company and financial holding company on February 28, 2001. As such, the Holding Company is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and to inspection, examination, and supervision by the Board of Governors of the Federal Reserve System (the "FRB"). In addition, the Holding Company's banking subsidiary is subject to regulation and examination primarily by the Office of the Comptroller of the Currency ("OCC") and secondarily by the FRB and the Federal Deposit Insurance Corporation ("FDIC"). Financial Holding Company Activities. As a financial holding company, MetLife, Inc.'s activities and investments are restricted by the BHC Act, as amended by the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"), to those that are "financial" in nature or "incidental" or "complementary" to such financial activities. Activities that are financial in nature include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking and activities that the FRB has determined to be closely related to banking. In addition, under the insurance company investment portfolio provision of the GLB Act, financial holding companies are authorized to make investments in other financial and non-financial companies, through their insurance subsidiaries, that are in the ordinary course of business and in accordance with state insurance law, provided the financial holding company does not routinely manage or operate such companies except as may be necessary to obtain a reasonable return on investment. Other Restrictions and Limitations on Bank Holding Companies and Financial Holding Companies -- Capital. MetLife, Inc. and its insured depository institution subsidiary are subject to risk-based and leverage capital guidelines issued by the federal banking regulatory agencies for banks and financial holding companies. The federal banking regulatory agencies are required by law to take specific prompt corrective actions with respect to institutions that do not meet minimum capital standards. At December 31, 2002, MetLife, Inc. and its insured depository institution subsidiary were in compliance with the aforementioned guidelines. Other Restrictions and Limitations on Bank Holding Companies and Financial Holding Companies -- Consumer Protection Laws. Numerous other federal and state laws also affect the Holding Company and its subsidiary bank's earnings and activities, including federal and state consumer protection laws. The GLB Act included consumer privacy provisions that, among other things, require disclosure of a financial institution's privacy policy to customers. In addition, these provisions permit states to adopt more extensive privacy protections through legislation or regulation. Other Restrictions and Limitations on Bank Holding Companies and Financial Holding Companies -- Change of Control. Because MetLife, Inc. is a "financial holding company" and "bank holding company" 22 under the federal banking laws, no person may acquire control of MetLife, Inc. without the prior approval of the FRB. A change of control is conclusively presumed upon acquisitions of 25% or more of any class of voting securities and rebuttably presumed upon acquisitions of 10% or more of any class of voting securities. Further, as a result of MetLife, Inc.'s ownership of MetLife Bank, N.A., a national bank, approval from the OCC would be required in connection with a change of control (generally presumed upon the acquisition of 10% or more of any class of voting securities) of MetLife, Inc. COMPETITION The Company believes that competition with its business segments is based on a number of factors, including service, product features, price, commission structure, financial strength, claims-paying ratings, debt ratings and name recognition. It competes with a large number of other insurers, as well as non-insurance financial services companies, such as banks, broker/dealers and asset managers, for individual consumers, employer and other group customers and agents and other distributors of insurance and investment products. Some of these companies offer a broader array of products, have more competitive pricing or, with respect to other insurers, have higher claims paying ability ratings. Some may also have greater financial resources with which to compete. National banks, which may sell annuity products of life insurers in some circumstances, also have pre-existing customer bases for financial services products. In 1999, the GLB Act was adopted, implementing fundamental changes in the regulation of the financial services industry in the U.S. With the passage of this Act, among other things, bank holding companies may acquire insurers, and insurance holding companies may acquire banks. The ability of banks to affiliate with insurers may materially adversely affect all of the Company's product lines by substantially increasing the number, size and financial strength of potential competitors. The Company must attract and retain productive sales representatives to sell its insurance, annuities and investment products. Strong competition exists among insurers for sales representatives with demonstrated ability. The Company competes with other insurers for sales representatives primarily on the basis of its financial position, support services and compensation and product features. See "-- Individual -- Marketing and Distribution." MetLife continues to undertake several initiatives to grow the MetLife Financial Services career agency force. The Company cannot provide assurance that these initiatives will succeed in attracting and retaining new agents. Sales of individual insurance, annuities and investment products and the Company's results of operations and financial position could be materially adversely affected if it is unsuccessful in attracting and retaining agents. Many of the Company's insurance products, particularly those offered by its Institutional segment, are underwritten annually, and, accordingly, there is a risk that group purchasers may be able to obtain more favorable terms from competitors rather than renewing coverage with the Company. The effect of competition may, as a result, adversely affect the persistency of these and other products, as well as the Company's ability to sell products in the future. The investment management and securities brokerage businesses have relatively few barriers to entry and continually attract new entrants. Many of the Company's competitors in these businesses offer a broader array of investment products and services and are better known than it as sellers of annuities and other investment products. Congress periodically considers reforms to the nation's health care system. While the Company offers non-medical health insurance products (such as group dental insurance, long-term care and disability insurance), it generally does not offer medical indemnity products or managed care products, and, accordingly, it does not expect to be directly affected by such proposals to any significant degree. However, the uncertain environment resulting from health care reform could cause group health insurance providers to enter some of the markets in which the Company does business, thereby increasing competition. 23 COMPANY RATINGS FINANCIAL STRENGTH RATINGS Financial strength ratings are a factor in establishing the competitive position of insurers. The Company's financial strength ratings as of the date of this filing are listed in the table below:

RATING AGENCY COMPANIES RATED RATING RATING STRUCTURE
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~~Moody's Investors Metropolitan Life Insurance Company Aa2 Second highest of Service General American Life Insurance Company ("Excellent") nine rating MetLife Investors Insurance Company categories and New England Life Insurance Company mid-range within the category based on modifier (e.g., Aa1, Aa2 and Aa3 are "Excellent") MetLife Investors USA Insurance Company Aa3 Second highest of Metropolitan Insurance and Annuity Company ("Excellent") nine rating Metropolitan Property and~~ Casualty

~~Casualty Insurance categories and Company~~

~~lowest within the category based on modifier RGA Reinsurance Company A1 Third highest of ("Good") nine rating categories and highest within the category based on modifier (e.g., A1, A2 and A3 are "Good") Metropolitan Life Insurance Company P-1 Highest of four (Short-term rating) ("Superior") rating categories Standard & Poor's Metropolitan Life Insurance Company AA Second highest of First MetLife Investors Insurance Co. ("Very Strong") nine rating General American Life Insurance Company categories and MetLife Investors Insurance Company mid-range within MetLife Investors Insurance Company of the category based California on modifiers (e.g., MetLife Investors USA Insurance Company AA+, AA and AA- are~~

~~Metropolitan~~

~~Insurance and Annuity Company "Very Strong") New England Life Insurance Company Paragon Life Insurance Company Security Equity Life Insurance Company Metropolitan Casualty Insurance Company AA- Second highest of Metropolitan Direct Property and Casualty ("Very Strong") nine rating Insurance Co. categories and Metropolitan General Insurance Company lowest within the Metropolitan Group Property & Casualty category based on Insurance Co. modifier Metropolitan Property and Casualty Insurance Company Metropolitan Lloyds Insurance Company of Texas RGA Reinsurance Company Metropolitan Life Insurance Company A-1+ Highest of six (Short-term rating) ("Extremely rating categories Strong") and~~

highest within

~~highest within the category based on modifier~~
24
RATING AGENCY COMPANIES RATED RATING RATING STRUCTURE
------------- ------ --------- ------ --- -------------
~~A.M. Best Company Metropolitan Life Insurance Company A+ Highest of nine First MetLife Investors Insurance Company ("Superior") rating categories General American Life Insurance Company and lowest within MetLife Investors Insurance Company the category based MetLife Investors Insurance Company of on modifier (e.g., California A++ and A+ are MetLife Investors USA Insurance Company "Superior") Metropolitan Tower Life Insurance Company New England Life Insurance Company Paragon Life Insurance Company RGA Reinsurance~~

~~Company Security Equity Life~~

~~Insurance Company Metropolitan Insurance and Annuity Company A Second highest of Metropolitan Property and Casualty Insurance ("Excellent") nine rating Company categories and Texas Life Insurance Company highest within the category based on modifier (e.g., A and A- are "Excellent") Fitch Ratings Metropolitan Life Insurance Company AA Second highest of General American Life Insurance Company ("Very Strong") eight rating MetLife Investors Insurance Company categories and MetLife Investors USA Insurance Company highest within the New England Life Insurance Company category based on Paragon Life Insurance Company modifier (e.g., Security Equity Life Insurance Company AA+, AA and~~

~~AA- are "Very High")~~

The foregoing ratings reflect each rating agency's opinion of Metropolitan Life and the Company's other insurance subsidiaries' financial strength, operating performance and ability to meet policyholder obligations, and are not evaluations directed toward the protection of MetLife, Inc.'s securityholders. A ratings downgrade (or the potential for such a downgrade) of Metropolitan Life or any of the Company's other insurance subsidiaries could, among other things, increase the number of policies surrendered and withdrawals by policyholders of cash values from their policies, adversely affect relationships with broker/dealers, banks, agents, wholesalers and other distributors of the Company's products and services, negatively impact new sales, and adversely affect its ability to compete and thereby have a material adverse effect on its business, results of operations and financial condition. CREDIT RATINGS Credit ratings are also a factor in establishing the competitive position of insurers and are important to the Company's ability to raise capital through the issuance of debt and may impact the cost of such financing. The Company's credit ratings as of the date of this filing are listed in the table below:

RATING AGENCY COMPANIES RATED RATING RATING STRUCTURE
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~~Moody's Investors Metropolitan Life Insurance Company A1 Third highest of Service (Surplus Notes) ("Upper Medium nine rating General American Life Insurance Company Grade") categories and (Surplus Notes) highest within the category based on modifier (e.g., A1, A2 and A3 are "Upper Medium Grade")~~



RATING AGENCY COMPANIES RATED RATING RATING STRUCTURE
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~~MetLife, Inc. (Senior Unsecured) A2 Third highest of~~

~~("Upper Medium nine rating Grade") categories and second highest within the category based on~~

~~based on~~
~~modifier~~
~~GenAmerica~~
~~Capital I~~
~~(Preferred~~
~~Stock) A3~~
~~Third highest~~
~~of ("Upper~~
~~Medium nine~~
~~rating Grade")~~
~~categories~~
~~and lowest~~
~~within the~~
~~category~~
~~based on~~
~~modifier~~
~~Reinsurance~~
~~Group of~~
~~America,~~
~~Incorporated~~
~~Baa1 Fourth~~
~~highest of~~
~~(Senior~~
~~Unsecured)~~
~~("Medium~~
~~Grade") nine~~
~~rating~~
~~categories~~
~~and highest~~
~~within the~~
~~category~~
~~based on~~
~~modifier (e.g.,~~
~~Baa1, Baa2~~
~~and Baa3 are~~
~~"Medium~~
~~Grade")~~
~~MetLife, Inc.~~
~~(Commercial~~
~~Paper) P-1~~
~~Highest of~~
~~four MetLife~~
~~Funding, Inc.~~
~~(Commercial~~
~~Paper)~~
~~("Superior")~~
~~rating~~
~~categories~~
~~Standard &~~
~~Poor's~~
~~Metropolitan~~
~~Life~~
~~Insurance~~
~~Company A+~~
~~("Strong")~~
~~Third highest~~
~~of (Surplus~~
~~Notes) ten~~
~~rating~~
~~General~~
~~American Life~~

~~Insurance~~
~~Company~~
~~categories~~
~~and (Surplus~~
~~Notes)~~
~~highest within~~
~~the category~~
~~based on~~
~~modifier (e.g.~~
~~A+, A and A-~~

~~are "Strong")~~
~~MetLife, Inc.~~
~~(Senior~~
~~Unsecured) A~~
~~Third highest~~
~~of ("Strong")~~
~~ten rating~~
~~categories~~
~~and mid-~~
~~range within~~
~~the category~~
~~based on~~
~~modifier~~
~~Reinsurance~~
~~Group of~~
~~America,~~
~~Incorporated~~
~~A- Third~~
~~highest of~~
~~(Senior~~
~~Unsecured)~~
~~("Strong") ten~~
~~rating~~
~~categories~~
~~and lowest~~
~~within the~~
~~category~~
~~based on~~
~~modifier~~
~~MetLife~~
~~Funding, Inc.~~
~~(Commercial~~
~~Paper) A-1+~~
~~Highest of six~~
~~("Extremely~~
~~rating~~
~~categories~~
~~Strong") and~~
~~highest within~~
~~the category~~
~~based on~~
~~modifier~~
~~MetLife, Inc.~~
~~(Commercial~~
~~Paper) A-1~~
~~Highest of six~~
~~("Strong")~~
~~rating~~
~~categories~~
~~and lowest~~
~~within the~~
~~category~~
~~based on~~
~~modifier~~



RATING
AGENCY
COMPANIES

RATED
RATING
RATING
STRUCTURE
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~~MetLife~~
~~Capital Trust~~
~~I (Preferred~~
~~Stock) BBB+~~
~~Fourth~~
~~highest of~~

~~highest of ("Adequate") ten rating categories and highest within the category based on modifier (e.g., BBB+, BBB and BBB- are "Adequate") A.M. Best Company MetLife, Inc. (Senior Unsecured) a+ Third highest of Metropolitan Life Insurance Company ("Strong") eight rating (Surplus Notes) categories and New England Life Insurance Company highest within the (Surplus Notes) category based on modifier (e.g. a+, a and a- are "Strong") Reinsurance Group of America, Incorporated a Third highest of (Senior Unsecured) ("Strong") eight rating categories and mid-range within the category based on modifier~~

~~MetLife, Inc. (Commercial Paper) AMB-1+ Highest of five MetLife Funding, Inc. (Commercial Paper) ("Superior") rating categories Fitch Ratings Metropolitan Life Insurance~~

~~Company A+ Third highest of (Surplus Notes) ("Strong") eight rating categories and highest within the category based on modifier (e.g., A+, A and A- are "Strong") MetLife, Inc. (Senior Unsecured) A Third highest of ("Strong") eight rating categories and mid-range within the category based on modifier MetLife Capital Trust I (Preferred Stock) A- Third highest of Reinsurance Group of America, Incorporated ("Strong") eight rating (Senior Unsecured) categories and lowest within the category based on modifier MetLife Funding, Inc. (Commercial Paper) F1+ Highest of six ("Highest") rating~~

~~categories and highest within the category based on modifier (e.g. F1+, F1 and F1- are "Highest") MetLife, Inc. (Commercial Paper) F1 Highest of six ("Highest") rating categories and mid-range within~~

~~range within the category based on modifier~~

27 EMPLOYEES At December 31, 2002, the Company employed approximately 48,500 employees. The Company believes that its relations with its employees are satisfactory. EXECUTIVE OFFICERS OF THE REGISTRANT Set forth below is information regarding the executive officers of MetLife, Inc. and Metropolitan Life: ROBERT H. BENMOSCHE, age 58, has been a Director of MetLife, Inc. since August 1999 and Chairman of the Board, President and Chief Executive Officer of MetLife, Inc. since September 1999. He has been a Director of Metropolitan Life since 1997 and Chairman of the Board, President and Chief Executive Officer of Metropolitan Life since July 1998, was President and Chief Operating Officer from November 1997 to June 1998, and was Executive Vice President from September 1995 to October 1997. Previously, he was Executive Vice President of PaineWebber Group Incorporated, a full service securities and commodities firm, from 1989 to 1995. GERALD CLARK, age 59, has been a Director of MetLife, Inc. since August 1999 and Vice Chairman of the Board and Chief Investment Officer of MetLife, Inc. since September 1999. He has been a Director of Metropolitan Life since 1997 and Vice Chairman of the Board and Chief Investment Officer of Metropolitan Life since July 1998, was Senior Executive Vice President and Chief Investment Officer from December 1995 to July 1998, and was Executive Vice President and Chief Investment Officer from September 1992 to December 1995. STEWART G. NAGLER, age 60, has been a Director and Vice Chairman of the Board and Chief Financial Officer of MetLife, Inc. since September 1999. He has been a Director of Metropolitan Life since 1997 and Vice Chairman of the Board and Chief Financial Officer of Metropolitan Life since July 1998, and was its Senior Executive Vice President and Chief Financial Officer from April 1993 to July 1998. Mr. Nagler also serves as a Director and Chairman of the Board of RGA. GARY A. BELLER, age 64, has been Senior Executive Vice President and General Counsel of MetLife, Inc. since September 1999 and of Metropolitan Life since February 1998. He was Executive Vice President and General Counsel of Metropolitan Life from August 1996 to January 1998, and Executive Vice President and Chief Legal Officer from November 1994 to July 1996. DANIEL J. CAVANAGH, age 63, has been Executive Vice President of Operations and Technology of MetLife, Inc. since March 1999. He was Senior Vice President in charge of information systems from 1983 to 1991, Vice President from 1975 to 1983, Assistant Vice President from 1973 to 1975, a manager in electronic development from 1972 to 1975, and joined the Company as an insurance trainee in the industrial insurance department in 1957. He was appointed president of Metropolitan Property and Casualty Insurance Company in 1991, its Chief Executive Officer from 1993 to March 1999 and has been a director since 1986. C. ROBERT HENRIKSON, age 55, has been President of the U.S. Insurance and Financial Services businesses of MetLife, Inc. since July 2002. He served as President of Institutional Business of MetLife, Inc. since September 1999 and President of Institutional Business of Metropolitan Life since May 1999. He was Senior Executive Vice President, Institutional Business, of Metropolitan Life from December 1997 to May 1999, Executive Vice President, Institutional Business, from January 1996 to December 1997, and Senior Vice President, Pensions, from January 1991 to January 1995. He is a director of a number of subsidiaries of Metropolitan Property and Casualty Insurance Company. CATHERINE A. REIN, age 60, has been Senior Executive Vice President of MetLife, Inc. since September 1999 and President and Chief Executive Officer of Metropolitan Property and Casualty Insurance Company since March 1999. She has been Senior Executive Vice President of Metropolitan Life since February 1998 and was Executive Vice President from October 1989 to February 1998. WILLIAM J. TOPPETA, age 54, has been President of International of MetLife, Inc. since June 2001. He was President of Client Services and Chief Administrative Officer of MetLife, Inc. from September 1999 to June 2001 and President of Client Services and Chief Administrative Officer of Metropolitan Life from May 1999 to June 2001. He was Senior Executive Vice President, Head of Client Services, of Metropolitan Life from March 1999 to May 1999, Senior Executive Vice President, Individual, from February 1998 to March 1999, Executive Vice President, Individual Business, from July 1996 to February 1998, Senior Vice President from October 1995 28 to July 1996 and its President and Chief Executive Officer, Canadian Operations, from July 1993 to October 1995. LISA M. WEBER, age 40, has been Senior Executive Vice President and Chief Administrative Officer of MetLife, Inc. and Metropolitan Life since June 2001. She was Executive Vice President of MetLife, Inc. and Metropolitan Life from December 1999 to June 2001 and head of Human Resources of Metropolitan Life since March 1998. She was Senior Vice President of MetLife, Inc. from September 1999 to November 1999 and Senior Vice President of Metropolitan Life from March 1998 to November 1999. Previously, she was Senior Vice President of Human Resources of PaineWebber Group Incorporated, where she was employed for ten years. TRADEMARKS MetLife has a worldwide trademark portfolio that it considers important in the marketing of its products and services, including, among others, the trademark "MetLife" and the license to use the Peanuts(R) characters. MetLife has the exclusive right to use the Peanuts(R) characters in the area of financial services and health care benefit services in the U.S. and some foreign countries under an advertising and premium agreement with United Feature Syndicate. The agreement with United Feature Syndicate expires on December 31, 2012. The Company believes that its rights in its trademarks are well protected. AVAILABLE INFORMATION MetLife makes available, free of charge, on its website (www.metlife.com) through the Investor Relations page, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to all those reports as soon as reasonably practicable after MetLife files (or furnishes) such reports to the U.S. Securities and Exchange Commission. ITEM 2. PROPERTIES One Madison Avenue in New York, New York currently serves as the Company's headquarters, and it, along with the adjacent MetLife Tower, contains approximately 1.4 million rentable square feet of space. The Company has leased One Madison Avenue and the MetLife Tower to Credit Suisse First Boston (USA), Inc. ("CSFB"), under a long-term lease. MetLife has subleased for its own use a portion of One Madison Avenue and the Tower pursuant to a sublease from CSFB. CSFB is occupying portions of One Madison Avenue and the Tower and expects to complete its occupancy in stages through late 2003. MetLife continues to vacate portions of One Madison Avenue and the Tower and occupies approximately 365,000 rentable square feet as of December 2002 (which is the square footage subleased to MetLife on a long-term basis under the sublease from CSFB). At December 31, 2002, the Company occupied approximately 404,000 rentable square feet in Long Island City, New York under a long-term lease arrangement. Over 950 employees are resident in that facility (most of whom formerly resided in One Madison Avenue). An addition to that facility is currently under construction and is slated for completion in late 2003. That expansion will contain approximately 282,000 rentable square feet on 13 floors and is expected to house an additional 900 employees. In December 2002, the Company entered into a sale-leaseback of the headquarters building of New England Life Insurance Company (formerly New England Mutual Life Insurance Company) located on Boylston Street in Boston containing approximately 560,000 rentable square feet. Under the terms of the sale-leaseback arrangement, the Company will occupy 465,000 rentable square feet for one year and then 210,000

square feet for the next four years. The sale-leaseback provides the Company with rights of termination after year three, as well as the right to renew after year five. The Company continues to own 16 other buildings in the U.S. that it uses in the operation of its business. These buildings contain approximately 3.1 million rentable square feet and are located in the following states: Florida, Illinois, Massachusetts, Missouri, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island and Texas. The Company's computer center in Rensselaer, New York is not owned in fee but rather is occupied pursuant to a long-term ground lease. The Company leases space in approximately 715 other locations throughout the U.S., and these leased facilities consist of approximately 7.2 million rentable square feet. Approximately 51% of these leases are occupied as sales offices for the Individual segment, and the Company uses the balance for its other business activities. It also owns four buildings outside the U.S., comprising more than 386,000 rentable square feet. The Company leases approximately 100,000 rentable square feet in various locations outside the 29 U.S. Management believes that its properties are suitable and adequate for the Company's current and anticipated business operations. The Company arranges for property and casualty coverage on its properties, taking into consideration its risk exposures and the cost and availability of commercial coverages, including deductible loss levels. In connection with its renewal of those coverages, the Company has arranged $650 million of annual terrorist coverage on its real estate portfolio, effective March 1, 2003. ITEM 3. LEGAL PROCEEDINGS Sales Practices Claims Over the past several years, Metropolitan Life, New England Mutual Life Insurance Company ("New England Mutual") and General American Life Insurance Company ("General American") have faced numerous claims, including class action lawsuits, alleging improper marketing and sales of individual life insurance policies or annuities. These lawsuits are generally referred to as "sales practices claims." In December 1999, a federal court approved a settlement resolving sales practices claims on behalf of a class of owners of permanent life insurance policies and annuity contracts or certificates issued pursuant to individual sales in the United States by Metropolitan Life, Metropolitan Insurance and Annuity Company or Metropolitan Tower Life Insurance Company between January 1, 1982 and December 31, 1997. The class includes owners of approximately six million in-force or terminated insurance policies and approximately one million in-force or terminated annuity contracts or certificates. Similar sales practices class actions against New England Mutual, with which Metropolitan Life merged in 1996, and General American, which was acquired in 2000, have been settled. In October 2000, a federal court approved a settlement resolving sales practices claims on behalf of a class of owners of permanent life insurance policies issued by New England Mutual between January 1, 1983 through August 31, 1996. The class includes owners of approximately 600,000 in-force or terminated policies. A federal court has approved a settlement resolving sales practices claims on behalf of a class of owners of permanent life insurance policies issued by General American between January 1, 1982 through December 31, 1996. An appellate court has affirmed the order approving the settlement. The class includes owners of approximately 250,000 in-force or terminated policies. Implementation of the General American class action settlement is proceeding. Certain class members have opted out of the class action settlements noted above and have brought or continued non-class action sales practices lawsuits. In addition, other sales practices lawsuits have been brought. As of December 31, 2002, there are approximately 420 sales practices lawsuits pending against Metropolitan Life, approximately 60 sales practices lawsuits pending against New England Mutual and approximately 35 sales practices lawsuits pending against General American. Metropolitan Life, New England Mutual and General American continue to defend themselves vigorously against these lawsuits. Some individual sales practices claims have been resolved through settlement, won by dispositive motions, or, in a few instances, have gone to trial. Most of the current cases seek substantial damages, including in some cases punitive and treble damages and attorneys' fees. Additional litigation relating to the Company's marketing and sales of individual life insurance may be commenced in the future. The Metropolitan Life class action settlement did not resolve two putative class actions involving sales practices claims filed against Metropolitan Life in Canada, and these actions remain pending. In March 2002, a purported class action complaint was filed in a federal court in Kansas by S-G Metals Industries, Inc. against New England Mutual. The complaint seeks certification of a class on behalf of corporations and banks that purchased participating life insurance policies, as well as persons who purchased participating policies for use in pension plans or through work site marketing. These policyholders were not part of the New England Mutual class action settlement noted above. The action was transferred to a federal court in Massachusetts. New England Mutual moved to dismiss the case and in November 2002, the federal district court dismissed the case. S-G Metals has filed a notice of appeal. New England Mutual intends to continue to defend itself vigorously against the case. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for sales practices claims against Metropolitan Life, New England Mutual and General American. 30 Regulatory authorities in a small number of states have had investigations or inquiries relating to Metropolitan Life's, New England Mutual's or General American's sales of individual life insurance policies or annuities. Over the past several years, these and a number of investigations by other regulatory authorities were resolved for monetary payments and certain other relief. The Company may continue to resolve investigations in a similar manner. Asbestos-Related Claims Metropolitan Life is a defendant in thousands of lawsuits seeking compensatory and punitive damages for personal injuries allegedly caused by exposure to asbestos or asbestos-containing products. Metropolitan Life has never engaged in the business of manufacturing, producing, distributing or selling asbestos or asbestos-containing products nor has Metropolitan Life issued liability or workers' compensation insurance to companies in the business of manufacturing, producing, distributing or selling asbestos or asbestos-containing products. Rather, these lawsuits have principally been based upon allegations relating to certain research, publication and other activities of one or more of Metropolitan Life's employees during the period from the 1920's through approximately the 1950's and alleging that Metropolitan Life 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 believes that it should not have legal liability in such cases. Legal theories asserted against Metropolitan Life have included negligence, intentional tort claims and conspiracy claims concerning the health risks associated with asbestos. Although Metropolitan Life believes it has meritorious defenses to these claims, and has not suffered any adverse monetary judgments in respect of these claims, due to the risks and expenses of litigation, almost all past cases have been resolved by settlements. Metropolitan Life's defenses (beyond denial of certain factual allegations) to plaintiffs' claims include that: (i) Metropolitan Life 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 cannot demonstrate justifiable detrimental reliance; and (iii) plaintiffs cannot demonstrate proximate causation. In defending asbestos cases, Metropolitan Life selects various strategies depending upon the jurisdictions in which such cases are brought and other factors which, in Metropolitan Life's judgment, best protect Metropolitan Life's interests. Strategies include seeking to settle or compromise claims, motions challenging the legal or factual basis for such claims or defending on the merits at trial. In early 2002 and in early 2003, two trial courts granted motions dismissing claims against Metropolitan Life on some or all of the above grounds. Other courts have denied motions brought by Metropolitan Life to dismiss cases without the necessity of trial. There can be no assurance that Metropolitan Life will receive favorable decisions on motions in the future. Metropolitan Life intends to continue to exercise its best judgment regarding settlement or defense of such cases, including when trials of these cases are appropriate. The following table sets forth the total number of asbestos personal injury claims pending against Metropolitan Life as of the dates indicated, the number of new claims during the years ended on those dates and the total settlement payments made to resolve asbestos personal injury claims during those years:

| | AT OR FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| ~~Asbestos personal injury claims at year end (approximate)~~ | ~~106,500~~ | ~~89,000~~ | ~~73,000~~ |
| ~~Number of new claims during the year (approximate)~~ | ~~66,000~~ | ~~59,500~~ | ~~54,500~~ |
| ~~Settlement payments during the year(1)~~ | ~~$95.1~~ | ~~$90.7~~ | ~~$71.1~~ |

-------------- (1) Settlement payments represent payments made by Metropolitan Life during the year in connection with settlements made in that year and in prior years. Amounts do not include Metropolitan Life's attorneys' fees and expenses and do not reflect amounts received from insurance carriers. 31 During the fourth quarter of 2002, Metropolitan Life analyzed its claims experience and reviewed external publications and numerous variables to identify trends and assessed their impact on its recorded asbestos liability. Certain publications suggest a trend towards more asbestos-related claims and a greater awareness of asbestos litigation generally by potential plaintiffs and plaintiffs' lawyers. Plaintiffs' lawyers continue to advertise heavily with respect to asbestos litigation. Bankruptcies and reorganizations of other defendants in asbestos litigation may increase the pressures on remaining defendants, including Metropolitan Life. Through the first nine months of 2002, the number of new claims received by Metropolitan Life was lower than those received during the comparable 2001 period. However, the number of new claims received by Metropolitan Life during the fourth quarter of 2002 was significantly higher than those received in the prior year quarter, resulting in more new claims being received by Metropolitan Life in 2002 than in 2001. Factors considered also included expected trends in filing cases, the dates of initial exposure of plaintiffs to asbestos, the likely percentage of total asbestos claims which included Metropolitan Life as a defendant and experience in claims settlement negotiations. Metropolitan Life also considered views derived from actuarial calculations it made in the fourth quarter of 2002. These calculations were made using, among other things, current information regarding Metropolitan Life's claims and settlement experience, information available in public reports, as well as a study regarding the possible future incidence of mesothelioma. Based on all of the above information, including greater than expected claims experience over the last three years, Metropolitan Life expects to receive more claims in the future than it had previously expected. Previously, Metropolitan Life's liability reflected that the increase in asbestos-related claims was a result of an acceleration in the reporting of such claims; the liability now reflects that such an increase is also the result of an increase in the total number of asbestos-related claims expected to be received by Metropolitan Life. Accordingly, Metropolitan Life increased its recorded liability for asbestos-related claims by $402 million from approximately $820 million to $1,225 million at December 31, 2002. This total recorded asbestos-related liability (after the self-insured retention) is within the coverage of the excess insurance policies discussed below. During 1998, Metropolitan Life paid $878 million in premiums for excess insurance policies for asbestos-related claims. The excess insurance policies for asbestos-related claims provide for recovery of losses up to $1,500 million, which is in excess of a $400 million self-insured retention. The asbestos-related policies are also subject to annual and per-claim sublimits. Amounts are recoverable under the policies annually with respect to claims paid during the prior calendar year. Although amounts paid by Metropolitan Life in any given year that may be recoverable in the next calendar year under the policies will be reflected as a reduction in the Company's operating cash flows for the year in which they are paid, management believes that the payments will not have a material adverse effect on the Company's liquidity. Each asbestos-related policy contains an experience fund and a reference fund that provides for payments to Metropolitan Life at the commutation date if the reference fund is greater than zero at commutation or pro rata reductions from time to time in the loss reimbursements to Metropolitan Life if the cumulative return on the reference fund is less than the return specified in the experience fund. The return in the reference fund is tied to performance of the Standard & Poor's 500 Index and the Lehman Brothers Aggregate Bond Index. A claim will be made under the excess insurance policies in 2003 for the amounts paid with respect to asbestos litigation in excess of the retention. Based on performance of the reference fund, at December 31, 2002, the loss reimbursements to Metropolitan Life in 2003 and the recoverable with respect to later periods will be $42 million less than the amount of the recorded losses. Such foregone loss reimbursements may be recovered upon commutation depending upon future performance of the reference fund. The foregone loss reimbursements are estimated to be $9 million with respect to 2002 claims and $42 million in the aggregate. The $402 million increase in the recorded liability for asbestos claims less the foregone loss reimbursement adjustment of $42 million ($27 million, net of income tax) resulted in an increase in the recoverable of $360 million. At December 31, 2002, a portion ($136 million) of the $360 million recoverable was recognized in income while the remainder ($224 million) was recorded as a deferred gain which is expected to be recognized in income in the future over the estimated settlement period of the excess insurance policies. The $402 million increase in the recorded liability, less the portion of the recoverable recognized in income, resulted in a net expense of $266 million ($169 million, net of income tax). The $360 million recoverable may change depending on the future performance of the Standard & Poor's 500 Index and the Lehman Brothers Aggregate Bond Index. 32 As a result of the excess insurance policies, $1,237 million is recorded as a recoverable at December 31, 2002 ($224 million of which is recorded as a deferred gain as mentioned above); the amount includes recoveries expected to be obtained in 2003 for amounts paid in 2002. If at some point in the future, the Company believes the liability for probable and estimable losses for asbestos-related claims should be increased, an expense would be recorded and the insurance recoverable would be adjusted subject to the terms, conditions and limits of the excess insurance policies. Portions of the change in the insurance recoverable would be recorded as a deferred gain and amortized into income over the estimated remaining settlement period of the insurance policies. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for asbestos-related claims. The ability of Metropolitan Life to estimate its ultimate asbestos exposure is subject to considerable uncertainty due to numerous factors. The availability of data is limited and it is difficult to predict with any certainty 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, the jurisdiction of claims filed, tort reform efforts and the impact of any possible future adverse verdicts and their amounts. Recent bankruptcies of other companies involved in asbestos litigation, as well as advertising by plaintiffs' asbestos lawyers, may be resulting in an increase in the number of claims and the cost of resolving claims, as well as the number of trials and possible adverse verdicts Metropolitan Life may experience. Plaintiffs are seeking additional funds from defendants, including Metropolitan Life, in light of such recent bankruptcies by certain other defendants. It is likely that bills will be introduced in 2003 in the United States Congress to reform asbestos litigation. While the Company strongly supports reform efforts, there can be no assurance that legislative reforms will be enacted. Metropolitan Life will continue to study its claims experience, review external literature regarding asbestos claims experience in the United States and consider numerous variables that can affect its asbestos liability exposure, including bankruptcies of other companies involved in asbestos litigation and legislative and judicial developments, to identify trends and to assess their impact on the recorded asbestos liability. The number of asbestos cases that may be brought or the aggregate amount of any liability that Metropolitan Life may ultimately incur is uncertain. Accordingly, it is reasonably possible that the Company's total exposure to asbestos claims may be greater than the liability recorded by the Company in its consolidated financial statements and that future charges to income may be necessary. While the potential future charges could be material in particular quarterly or annual periods in which they are recorded, based on information currently known by management, it does not believe any such charges are likely to have a material adverse effect on the Company's consolidated financial position. Property and Casualty Actions Purported class action suits involving claims by policyholders for the alleged diminished value of automobiles after accident-related repairs have been filed in Rhode Island, Texas, Georgia and Tennessee against Metropolitan Property and Casualty Insurance Company. Rhode Island and Texas trial courts denied plaintiffs' motions for class certification and a hearing on plaintiffs' motion in Tennessee for class certification is to be scheduled. A settlement has been reached in the Georgia class action; the Company determined to settle the case in light of a Georgia Supreme Court decision involving another insurer. The settlement is being implemented. A purported class action has been filed against Metropolitan Property and Casualty Insurance Company's subsidiary, Metropolitan Casualty Insurance Company, in Florida. The complaint alleges breach of contract and unfair trade practices with respect to allowing the use of parts not made by the original manufacturer to repair damaged automobiles. Discovery is ongoing and a motion for class certification is pending. Total loss valuation methods are the subject of national class actions involving other insurance companies. A Pennsylvania state court purported class action lawsuit filed in 2001 alleges that Metropolitan Property and Casualty Insurance Company improperly took depreciation on partial homeowner losses where the insured replaced the covered item. The court has dismissed the action. An appeal has been filed. Metropolitan Property and Casualty Insurance Company and Metropolitan Casualty Insurance Company are vigorously defending themselves against these lawsuits. 33 Demutualization Actions Several lawsuits were brought in 2000 challenging the fairness of Metropolitan Life's plan of reorganization and the adequacy and accuracy of Metropolitan Life's disclosure to policyholders regarding the plan. These actions name as defendants some or all of Metropolitan Life, the Holding Company, the individual directors, the Superintendent and the underwriters for MetLife, Inc.'s initial public offering, Goldman Sachs & Company and Credit Suisse First Boston. Five purported class actions pending in the New York state court in New York County were consolidated within the commercial part. In addition, there remained a separate purported class action in New York state court in New York County. On February 21, 2003, the defendants' motions to dismiss both the consolidated action and separate action were granted; leave to replead as a proceeding under Article 78 of New York's Civil Practice Law and Rules has been granted in the separate action. Another purported class action in New York state court in Kings County has been voluntarily held in abeyance by plaintiffs. The plaintiffs in the state court class actions seek injunctive, declaratory and compensatory relief, as well as an accounting and, in some instances, punitive damages. Some of the plaintiffs in the above described actions also have brought a proceeding under Article 78 of New York's Civil Practice Law and Rules challenging the Opinion and Decision of the Superintendent who approved the plan. In this proceeding, petitioners seek to vacate the Superintendent's Opinion and Decision and enjoin him from granting final approval of the plan. This case also is being held in abeyance by plaintiffs. Another purported class action was filed in New York state court in New York County on behalf of a purported class of beneficiaries of Metropolitan Life annuities purchased to fund structured settlements claiming that the class members should have received common stock or cash in connection with the demutualization. Metropolitan Life's motion to dismiss this case was granted in a decision filed on October 31, 2002. Plaintiff has withdrawn her notice of appeal. Three purported class actions were filed in the United States District Court for the Eastern District of New York claiming violation of the Securities Act of 1933. The plaintiffs in these actions, which have been consolidated, claim that the Policyholder Information Booklets relating to the plan failed to disclose certain material facts and seek rescission and compensatory damages. Metropolitan Life's motion to dismiss these three cases was denied in 2001. On February 4, 2003, plaintiffs filed a consolidated amended complaint adding a fraud claim under the Securities Exchange Act of 1934. A purported class action also was filed in the United States District Court for the Southern District of New York seeking damages from Metropolitan Life and the Holding Company for alleged violations of various provisions of the Constitution of the United States in connection with the plan of reorganization. In 2001, pursuant to a motion to dismiss filed by Metropolitan Life, this case was dismissed by the District Court. In January 2003, the United States Court of Appeals for the Second Circuit affirmed the dismissal. Metropolitan Life, the Holding Company and the individual defendants believe they have meritorious defenses to the plaintiffs' claims and are contesting vigorously all of the plaintiffs' claims in these actions. In 2001, a lawsuit was filed in the Superior Court of Justice, Ontario, Canada on behalf of a proposed class of certain former Canadian policyholders against the Holding Company, Metropolitan Life, and Metropolitan Life Insurance Company of Canada. Plaintiffs' allegations concern the way that their policies were treated in connection with the demutualization of Metropolitan Life; they seek damages, declarations, and other non-pecuniary relief. The defendants believe they have meritorious defenses to the plaintiffs' claims and will contest vigorously all of plaintiffs' claims in this matter. In July 2002, a lawsuit was filed in the United States District Court for the Eastern District of Texas on behalf of a proposed class comprised of the settlement class in the Metropolitan Life sales practices class action settlement approved in December 1999 by the United States District Court for the Western District of Pennsylvania. The Holding Company, Metropolitan Life, the trustee of the policyholder trust, and certain present and former individual directors and officers of Metropolitan Life are named as defendants. Plaintiffs' allegations concern the treatment of the cost of the settlement in connection with the demutualization of Metropolitan Life and the adequacy and accuracy of the disclosure, particularly with respect to those costs. Plaintiffs seek compensatory, treble and punitive damages, as well as attorneys' fees and costs. The defendants' motion to transfer the lawsuit to the Western District of Pennsylvania was granted on February 14, 2003. The defendants' motion to dismiss is pending. Plaintiffs have filed a motion for class certification which the Texas court has adjourned. The defendants believe they have meritorious defenses to the plaintiffs' claims and will contest them vigorously. 34 Race-Conscious Underwriting Claims Insurance Departments in a number of states initiated inquiries in 2000 about possible race-conscious underwriting of life insurance. These inquiries generally have been directed to all life insurers licensed in their respective states, including Metropolitan Life and certain of its affiliates. The New York Insurance Department has concluded its examination of Metropolitan Life concerning possible past race-conscious underwriting practices. Metropolitan Life has cooperated fully with that inquiry. Four purported class action lawsuits filed against Metropolitan Life in 2000 and 2001 alleging racial discrimination in the marketing, sale, and administration of life insurance policies have been consolidated in the United States District Court for the Southern District of New York. The plaintiffs seek unspecified monetary damages, punitive damages, reformation, imposition of a constructive trust, a declaration that the alleged practices are discriminatory and illegal, injunctive relief requiring Metropolitan Life to discontinue the alleged discriminatory practices and adjust policy values, and other relief. Metropolitan Life has entered into settlement agreements to resolve the regulatory examination and the actions pending in the United States District Court for the Southern District of New York. The class action settlement, which has received preliminary approval from the court, must receive final approval before it can be implemented. A fairness hearing was held on February 7, 2003. The regulatory settlement agreement is conditioned upon final approval of the class action settlement. Metropolitan Life recorded a charge in the fourth quarter of 2001 in connection with the anticipated resolution of these matters and believes that charge is adequate to cover the costs associated with these settlements. Sixteen lawsuits involving approximately 125 plaintiffs have been filed in federal and state court in Alabama, Mississippi and Tennessee alleging federal and/or state law claims of racial discrimination in connection with the sale, formation, administration or servicing of life insurance policies. Metropolitan Life is contesting vigorously plaintiffs' claims in these actions. Other In 2001, a putative class action was filed against Metropolitan Life in the United States District Court for the Southern District of New York alleging gender discrimination and retaliation in the MetLife Financial Services unit of the Individual segment. The plaintiffs seek unspecified compensatory damages, punitive damages, a declaration that the alleged practices are discriminatory and illegal, injunctive relief requiring Metropolitan Life to discontinue the alleged discriminatory practices, an order restoring class members to their rightful positions (or appropriate compensation in lieu thereof), and other relief. Metropolitan Life is vigorously defending itself against these allegations. A lawsuit has been filed against Metropolitan Life in Ontario, Canada by Clarica Life Insurance Company regarding the sale of the majority of Metropolitan Life's Canadian operation to Clarica in 1998. Clarica alleges that Metropolitan Life breached certain representations and warranties contained in the sale agreement, that Metropolitan Life made misrepresentations upon which Clarica relied during the negotiations and that Metropolitan Life was negligent in the performance of certain of its obligations and duties under the sale agreement. Metropolitan Life is vigorously defending itself against this lawsuit. A putative class action lawsuit is pending in the United States District Court for the District of Columbia, in which plaintiffs allege that they were denied certain ad hoc pension increases awarded to retirees under the Metropolitan Life retirement plan. The ad hoc pension increases were awarded only to retirees (i.e., individuals who were entitled to an immediate retirement benefit upon their termination of employment) and not available to individuals like these plaintiffs whose employment, or whose spouses' employment, had terminated before they became eligible for an immediate retirement benefit. The district court denied the parties' cross-motions for summary judgment to allow for discovery. Discovery has not yet commenced pending the court's ruling as to the timing of a class certification motion. The plaintiffs seek to represent a class consisting of former Metropolitan Life employees, or their surviving spouses, who are receiving deferred vested annuity payments under the retirement plan and who were allegedly eligible to receive the ad hoc pension increases awarded in 1977, 1980, 1989, 1992, 1996 and 2001, as well as increases awarded in earlier years. Metropolitan Life is vigorously defending itself against these allegations. 35 A reinsurer of universal life policy liabilities of Metropolitan Life and certain affiliates is seeking rescission and has commenced an arbitration proceeding claiming that, during underwriting, material misrepresentations or omissions were made. The reinsurer also has sent a notice purporting to increase reinsurance premium rates. Metropolitan Life and these affiliates intend to vigorously defend themselves against the claims of the reinsurer, including the purported rate increase. Various litigation, claims and assessments against the Company, in addition to those discussed above and those otherwise provided for in the Company's consolidated financial statements, have arisen in the course of the Company's business, including, but not limited to, in connection with its activities as an insurer, employer, investor, investment advisor and taxpayer. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning the Company's compliance with applicable insurance and other laws and regulations. Summary It is not feasible to predict or determine the ultimate outcome of all pending investigations and legal proceedings or provide reasonable ranges of potential losses, except as noted above in connection with specific matters. In some of the matters referred to above, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Although in light of these considerations it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's consolidated financial position, based on information currently known by the Company's management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect. However, given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's consolidated net income or cash flows in particular quarterly or annual periods. ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS No matter was submitted to a vote of security holders during the fourth quarter of 2002. 36 PART II ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS MetLife, Inc.'s common stock, par value $0.01 per share (the "Common Stock"), began trading on the New York Stock Exchange ("NYSE") under the symbol "MET" on April 5, 2000. The following table presents high and low closing prices for the Common Stock on the NYSE for the periods indicated, and the dividends declared per share:

| 2002 | FIRST | SECOND | THIRD | FOURTH |
| --- | --- | --- | --- | --- |
| ~~Common Stock Price~~ | | | | |
| ~~High~~ | ~~$33.30~~ | ~~$34.58~~ | ~~$29.58~~ | ~~$28.41~~ |
| ~~Low~~ | ~~$28.67~~ | ~~$28.00~~ | ~~$22.76~~ | ~~$20.75~~ |
| ~~Dividends Paid~~ | ~~$ --~~ | ~~$ --~~ | ~~$ --~~ | ~~$ 0.21~~ |

| 2001 | FIRST | SECOND | THIRD | FOURTH |
| --- | --- | --- | --- | --- |
| ~~Common Stock Price~~ | | | | |
| ~~High~~ | ~~$34.88~~ | ~~$32.38~~ | ~~$31.88~~ | ~~$31.68~~ |
| ~~Low~~ | ~~$26.05~~ | ~~$28.50~~ | ~~$25.20~~ | ~~$25.65~~ |
| ~~Dividends Paid~~ | ~~$ --~~ | ~~$ --~~ | ~~$ --~~ | ~~$ 0.20~~ |

As of February 28, 2003, there were 34,339 shareholders of record of Common Stock. On October 22, 2002, the Holding Company's Board of Directors approved an annual dividend for 2002 of $0.21 per share. The dividend was paid on December 13, 2002 to shareholders of record on November 8, 2002. On October 23, 2001, the Holding Company's Board of Directors approved an annual dividend for 2001 of $0.20 per share. The dividend was paid on December 14, 2001 to shareholders of record on November 6, 2001. Future dividend decisions will be based on and affected by a number of factors, including the operating results and financial requirements of the Holding Company and the impact of regulatory restrictions. See "Business -- Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."



ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information for the Company. The selected consolidated financial information for the years ended December 31, 2002, 2001, and 2000 and at December 31, 2002 and 2001 has been derived from the Company's audited consolidated financial statements included elsewhere herein. The selected consolidated financial information for the years ended December 31, 1999 and 1998 and at December 31, 2000, 1999 and 1998 has been derived from the Company's audited consolidated financial statements not included elsewhere herein. The following consolidated statements of income and consolidated balance sheet data have been prepared in conformity with GAAP. The following information should be read in conjunction with and is qualified in its entirety by the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements appearing elsewhere herein. Some previously reported amounts have been reclassified to conform with the presentation at and for the year ended December 31, 2002.

FOR THE YEARS ENDED DECEMBER 31, ----------------------------------------------- 2002 2001 2000 1999 1998 ------- ------- ------- ------- ------- (DOLLARS IN MILLIONS) ~~STATEMENTS OF INCOME DATA Revenues: Premiums.................................. $19,086 $17,212 $16,317 $12,088 $11,503 Universal life and investment-type product policy fees............................ 2,139 1,889 1,820 1,433 1,360 Net investment income(1).................. 11,329 11,255 11,024 9,464 9,856 Other revenues............................ 1,377 1,507 2,229 1,861 1,785 Net investment (losses) gains(1)(2)(3)..... (784) (603) (390) (70) 2,021 ------- ------- ------- ------- ------- Total revenues(3)(4)............... 33,147 31,260 31,000 24,776 26,525 ------- ------- ------- ------- ------- Expenses: Policyholder benefits and claims(5)........ 19,523 18,454 16,893 13,100 12,638 Interest credited to policyholder account balances............................... 2,950 3,084 2,935 2,441 2,711 Policyholder dividends..................... 1,942 2,086 1,919 1,690 1,651 Payments to former Canadian policyholders(3)........................ -- -- 327 -- -- Demutualization costs..................... -- -- 230 260 6 Other expenses(6).......................... 7,061 7,022 7,401 6,210 7,544 ------- ------- ------- ------- ------- Total expenses(3)(4)............... 31,476 30,646 29,705 23,701 24,550 ------- ------- ------- ------- ------- Income from continuing operations before provision for income taxes................. 1,671 614 1,295 1,075 1,975 Provision for income taxes(1)(7)............ 516 227 421 522 699 ------- ------- ------- ------- ------- Income from continuing operations............ 1,155 387 874 553 1,276 Income from discontinued operations, net of income taxes(1)........................... 450 86 79 64 67 ------- ------- ------- ------- ------- Net income.................................. $ 1,605 $ 473 $ 953 $ 617 $ 1,343 ======= ======= ======= ======= ======= Income from continuing operations after April 7, 2000 (date of demutualization).......... $ 1,114 ======= Net income after April 7, 2000 (date of demutualization)........................... $ 1,173 =======~~

AT DECEMBER 31, ----- ---------------------------------------------- 2002 2001 2000 1999 1998 -------- --------------- -------- -------- -------- (DOLLARS IN MILLIONS) ~~BALANCE SHEET DATA Assets: General account assets................ $217,692 $194,256 $183,912 $160,291 $157,278 Separate account assets............... 59,693 62,714 70,250 64,941 58,068 -------- ------- -------- -------- -------- Total assets....................... $277,385 $256,970 $254,162 $225,232 $215,346 ======== ======== ======== ======== ======== Liabilities: Life and health policyholder liabilities(8).................... $162,569 $148,395 $140,040 $122,637 $122,726 Property and casualty policyholder liabilities(8).................... 2,673 2,610 2,559 2,318 1,477 Short-term debt...................... 1,161 355 1,085 4,180 3,572 Long-term debt........................ 4,425 3,628 2,400 2,494 2,886 Separate account liabilities.......... 59,693 62,714 70,250 64,941 58,068 Other liabilities..................... 28,214 21,950 20,349 14,972 11,750 -------- ------- -------- -------- -------- Total liabilities.................. 258,735 239,652 236,683 211,542 200,479 -------- -------- -------- -------- -------- Company-obligated mandatorily redeemable securities of subsidiary trusts............................ 1,265 1,256 1,090 -- -- -- -------- -------- -------- -------- -------- Stockholders' Equity: Common stock, at par value(9)......... 8 8 8 -- -- Additional paid-in capital(9)......... 14,968 14,966 14,926 -- -- Retained earnings(9).................. 2,807 1,349 1,021 14,100 13,483 Treasury stock, at cost(9)~~

~~stock, at cost(6)............ (2,405) (1,934) (613) -- -- Accumulated other comprehensive income (loss)............................ 2,007 1,673 1,047 (410) 1,384 -------- -------- -------- -------- -------- Total stockholders' equity......... 17,385 16,062 16,389 13,690 14,867 -------- -------- -------- -------- -------- Total liabilities and stockholders' equity.......................... $277,385 $256,970 $254,162 $225,232 $215,346 ======== ======== ======== ======== ========~~

AT OR FOR THE YEARS ENDED DECEMBER 31, ------------------------------------------- ------- 2002 2001 2000 1999 1998 -------- -------- -------- -------- --------

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

~~OTHER DATA Net income............................ $ 1,605 $ 473 $ 953 $ 617 $ 1,343 Return on equity(10).................. 10.8% 3.2% 6.5% 4.5% 9.4% Total assets under management(11)..... $299,166 $282,486 $301,325 $373,612 $360,703 INCOME FROM CONTINUING OPERATIONS PER SHARE DATA(12) Basic earnings per share.............. $ 1.64 $ 0.52 $ 1.44 N/A N/A Diluted earnings per share............ $ 1.58 $ 0.51 $ 1.41 N/A N/A INCOME FROM DISCONTINUED OPERATIONS PER SHARE DATA(12) Basic earnings per~~

~~share.............. $ 0.64 $ 0.12 $ 0.08 N/A N/A Diluted earnings per share............ $ 0.62 $ 0.11 $ 0.08 N/A N/A NET INCOME PER SHARE DATA(12) Basic earnings per share.............. $ 2.28 $ 0.64 $ 1.52 N/A N/A Diluted earnings per share............ $ 2.20 $ 0.62 $ 1.49 N/A N/A DIVIDENDS DECLARED PER SHARE............ $ 0.21 $ 0.20 $ 0.20 N/A N/A~~

--------------- (1) In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, income related to real estate sold or classified as held-for-sale for transactions initiated on or after January 1, 2002 is presented as discontinued operations. The following table presents the components of income from discontinued operations:

| | FOR THE YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| | (DOLLARS IN MILLIONS) | | | | |
| Net investment income | $ 124 | $ 125 | $ 121 | $ 100 | $ 106 |
| Net investment gains | 582 | -- | -- | -- | -- |
| Total revenues | 706 | 125 | 121 | 100 | 106 |
| Provision for income taxes | 256 | 39 | 42 | 36 | 39 |
| Income from discontinued operations | $ 450 | $ 86 | $ 79 | $ 64 | $ 67 |

(2) Investment gains and losses are presented net of related policyholder amounts. The amounts netted against investment gains and losses are the following:

| | FOR THE YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| | (DOLLARS IN MILLIONS) | | | | |
| Gross investment (losses) gains | $(929) | $(737) | $(444) | $(137) | $2,629 |
| Less amounts allocable to: | | | | | |
| Future policy benefit loss recognition | -- | -- | -- | -- | (272) |
| Deferred policy acquisition costs | (5) | (25) | 95 | 46 | (240) |
| Participating contracts | (7) | -- | (126) | 21 | (96) |
| Policyholder dividend obligation | 157 | 159 | 85 | -- | -- |
| Net investment (losses) gains | $(784) | $(603) | $(390) | $ (70) | $2,021 |

Investment gains and losses have been reduced by (i) additions to future policy benefits resulting from the need to establish additional liabilities due to the recognition of investment gains, (ii) amortization of 40 deferred policy acquisition costs, to the extent that such amortization results from investment gains and losses, (iii) adjustments to participating contractholder accounts when amounts equal to such investment gains and losses are applied to the contractholder's accounts, and (iv) adjustments to the policyholder dividend obligation resulting from investment gains and losses. This presentation may not be comparable to presentations made by other insurers. (3) Includes the following combined financial statement data of Conning Corporation ("Conning"), which was sold in 2001, the Company's controlling interest in Nvest Companies, L.P. and its affiliates ("Nvest"), which were sold in 2000, MetLife Capital Holdings, Inc., which was sold in 1998, and the Company's Canadian operations and U.K. insurance operations, substantially all of which were sold in 1998:

| | FOR THE YEARS ENDED DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 |
| | (DOLLARS IN MILLIONS) | | | |
| ~~Total revenues..................................~~ | ~~$32~~ | ~~$605~~ | ~~$655~~ | ~~$1,405~~ |
| ~~Total expenses..................................~~ | ~~$33~~ | ~~$580~~ | ~~$603~~ | ~~$1,275~~ |

As a result of these sales, investment gains of $25 million, $663 million, and $520 million were recorded for the years ended December 31, 2001, 2000, and 1998, respectively. In July 1998, Metropolitan Life sold a substantial portion of its Canadian operations to Clarica Life Insurance Company ("Clarica Life"). As part of that sale, a large block of policies in effect with Metropolitan Life in Canada were transferred to Clarica Life, and the holders of the transferred Canadian policies became policyholders of Clarica Life. Those transferred policyholders were no longer policyholders of Metropolitan Life and, therefore, were not entitled to compensation under the plan of reorganization. However, as a result of a commitment made in connection with obtaining Canadian regulatory approval of that sale and in connection with the demutualization, in 2000, Metropolitan Life's Canadian branch made cash payments to those who were, or were deemed to be, holders of these transferred Canadian policies. The payments were determined in a manner that is consistent with the treatment of, and fair and equitable to, eligible policyholders of Metropolitan Life. (4) Included in total revenues and total expenses for the year ended December 31, 2002 are $421 million and $358 million, respectively, related to Aseguradora Hidalgo S.A., which was acquired in June 2002. Included in total revenues and total expenses for the year ended December 31, 2000 are $3,739 million and $3,561 million, respectively, related to GenAmerica, which was acquired in January 2000. (5) Policyholder benefits and claims exclude ($150) million, ($159) million, $41 million, ($21) million, and $368 million for the years ended December 31, 2002, 2001, 2000, 1999, and 1998, respectively, of future policy benefit loss recognition, adjustments to participating contractholder accounts and changes in the policyholder dividend obligation that have been netted against net investment gains and losses as such amounts are directly related to such gains and losses. This presentation may not be comparable to presentations made by other insurers. (6) Other expenses exclude $5 million, $25 million, ($95) million, ($46) million, and $240 million for the years ended December 31, 2002, 2001, 2000, 1999 and 1998, respectively, of amortization of deferred policy acquisition costs that have been netted against net investment gains and losses as such amounts are directly related to such gains and losses. This presentation may not be comparable to presentations made by other insurers. (7) Provision for income taxes includes ($145) million, $125 million, and $18 million for surplus tax (credited) accrued by Metropolitan Life for the years ended December 31, 2000, 1999, and 1998, respectively. Prior to its demutualization, Metropolitan Life was subject to surplus tax imposed on mutual life insurance companies under Section 809 of the Internal Revenue Code. (8) Policyholder liabilities include future policy benefits and other policyholder funds. Life and health policyholder liabilities also include policyholder account balances, policyholder dividends payable and the policyholder dividend obligation. 41 (9) For additional information regarding these items, see Notes 1 and 17 of Notes to Consolidated Financial Statements. (10) Return on equity is defined as net income divided by average total equity, excluding accumulated other comprehensive income (loss). (11) Includes MetLife's general account and separate account assets managed on behalf of third parties. Includes $21 billion of assets under management managed by Conning at December 31, 2000, which was sold in 2001. Includes $133 billion and $135 billion of assets under management managed by Nvest at December 31, 1999 and 1998, respectively, which was sold in 2000. (12) Based on earnings subsequent to the date of demutualization. For additional information regarding net income per share data, see Note 19 of Notes to Consolidated Financial Statements. ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For purposes of this discussion, the terms "Company" or "MetLife" refer, at all times prior to the date of demutualization (as hereinafter defined), to Metropolitan Life Insurance Company ("Metropolitan Life"), a mutual life insurance company organized under the laws of the State of New York, and its subsidiaries, and at all times on and after the date of demutualization, to MetLife, Inc. (the "Holding Company"), a Delaware corporation, and its subsidiaries, including Metropolitan Life. Following this summary is a discussion addressing the consolidated results of operations and financial condition of the Company for the periods indicated. This discussion should be read in conjunction with the Company's consolidated financial statements included elsewhere herein. BUSINESS REALIGNMENT INITIATIVES During the fourth quarter of 2001, the Company implemented several business realignment initiatives, which resulted from a strategic review of operations and an ongoing commitment to reduce expenses. The following tables represent the original expenses recorded in the fourth quarter of 2001 and the remaining liability as of December 31, 2002:

| PRE-TAX CHARGES RECORDED IN THE FOURTH QUARTER OF 2001 | | | | |
|---|---|---|---|---|
| | INSTITUTIONAL | INDIVIDUAL | AUTO & HOME | TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Severance and severance-related costs...... | $ 9 | $32 | $ 3 | $ 44 |
| Facilities' consolidation costs............ | 3 | 65 | -- | 68 |
| Business exit costs......................... | 387 | -- | -- | 387 |
| Total................................. | $399 | $97 | $ 3 | $499 |

| REMAINING LIABILITY AS OF DECEMBER 31, 2002 | | | | |
|---|---|---|---|---|
| | INSTITUTIONAL | INDIVIDUAL | AUTO & HOME | TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Severance and severance-related costs....... | $-- | $ 1 | $-- | $ 1 |
| Facilities' consolidation costs............. | -- | 17 | -- | 17 |
| Business exit costs......................... | 40 | -- | -- | 40 |
| Total................................. | $40 | $18 | $-- | $58 |

The business realignment initiatives resulted in savings of approximately $95 million, net of income tax, during 2002, comprised of approximately $33 million, $57 million and $5 million in the Institutional, Individual and Auto & Home segments, respectively. Institutional. The charges to this segment in the fourth quarter of 2001 include costs associated with exiting a business, including the write-off of goodwill, severance and severance-related costs, and facilities' consolidation costs. These expenses are the result of the discontinuance of certain 401(k) recordkeeping services and externally-managed guaranteed index separate accounts. These actions resulted in charges to policyholder benefits and claims and other expenses of $215 million and $184 million, respectively. During the fourth quarter 42 of 2002, approximately $30 million of the charges recorded in 2001 were released into income primarily as a result of the accelerated implementation of the Company's exit from the large market 401(k) business. The business realignment initiatives will ultimately result in the elimination of approximately 930 positions. As of December 31, 2002, there were approximately 340 terminations to be completed. The Company continues to carry a liability as of December 31, 2002 since the exit plan could not be completed within one year due to circumstances outside the Company's control and since certain of its contractual obligations extended beyond one year. Individual. The charges to this segment in the fourth quarter of 2001 include facilities' consolidation costs, severance and severance-related costs, which predominately stem from the elimination of approximately 560 non-sales positions and 190 operations and technology positions supporting this segment. As of December 31, 2002, there were approximately 25 terminations to be completed. These costs were recorded in other expenses. The remaining liability as of December 31, 2002 is due to certain contractual obligations that extended beyond one year. Auto & Home. The charges to this segment in the fourth quarter of 2001 include severance and severance-related costs associated with the elimination of approximately 200 positions. All terminations were completed as of December 31, 2002. The costs were recorded in other expenses. SEPTEMBER 11, 2001 TRAGEDIES On September 11, 2001 terrorist attacks occurred in New York, Washington, D.C. and Pennsylvania (the "tragedies") triggering a significant loss of life and property which had an adverse impact on certain of the Company's businesses. The Company has direct exposure to these events with claims arising from its Individual, Institutional, Reinsurance and Auto & Home insurance coverages, and it believes the majority of such claims have been reported or otherwise analyzed by the Company. The Company's original estimate of the total insurance losses related to the tragedies, which was recorded in the third quarter of 2001, was $208 million, net of income taxes of $117 million. Net income for the year ended December 31, 2002 includes a $17 million, net of income taxes of $9 million, benefit from the reduction of the liability associated with the tragedies. The revision to the liability is the result of an analysis completed during the fourth quarter of 2002, which focused on the emerging incidence experienced over the past 12 months associated with certain disability products. As of December 31, 2002, the Company's remaining liability for unpaid and future claims associated with the tragedies was $47 million, principally related to disability coverages. This estimate has been and will continue to be subject to revision in subsequent periods, as claims are received from insureds and the claims to reinsurers are identified and processed. Any revision to the estimate of gross losses and reinsurance recoveries in subsequent periods will affect net income in such periods. Reinsurance recoveries are dependent on the continued creditworthiness of the reinsurers, which may be adversely affected by their other reinsured losses in connection with the tragedies. The Company's general account investment portfolios include investments, primarily comprised of fixed maturities, in industries that were affected by the tragedies, including airline, other travel, lodging and insurance. Exposures to these industries also exist through mortgage loans and investments in real estate. The carrying value of the Company's investment portfolio exposed to industries affected by the tragedies was approximately $3.7 billion at December 31, 2002. The long-term effects of the tragedies on the Company's businesses cannot be assessed at this time. The tragedies have had significant adverse effects on the general economic, market and political conditions, increasing many of the Company's business risks. This may have a negative effect on MetLife's businesses and results of operations over time. In particular, the declines in share prices experienced after the reopening of the U.S. equity markets following the tragedies have contributed, and may continue to contribute, to a decline in separate account assets, which in turn may have an adverse effect on fees earned in the Company's businesses. In addition, the Company has received and expects to continue to receive disability claims from individuals resulting from the tragedies. 43 THE DEMUTUALIZATION On April 7, 2000 (the "date of demutualization"), pursuant to an order by the New York Superintendent of Insurance (the "Superintendent") approving its plan of reorganization, as amended (the "plan"), Metropolitan Life converted from a mutual life insurance company to a stock life insurance company and became a wholly-owned subsidiary of the Holding Company. In conjunction therewith, each policyholder's membership interest was extinguished and each eligible policyholder received, in exchange for that interest, trust interests representing shares of Common Stock held in the MetLife Policyholder Trust, cash or an adjustment to their policy values in the form of policy credits, as provided in the plan. In addition, Metropolitan Life's Canadian branch made cash payments to holders of certain policies transferred to Clarica Life Insurance Company in connection with the sale of a substantial portion of Metropolitan Life's Canadian operations in 1998, as a result of a commitment made in connection with obtaining Canadian regulatory approval of that sale. The payments, which were recorded in the second quarter of 2000, were determined in a manner that was consistent with the treatment of, and fair and equitable to, eligible policyholders of Metropolitan Life. On the date of demutualization, the Holding Company conducted an initial public offering of 202,000,000 shares of its Common Stock and concurrent private placements of an aggregate of 60,000,000 shares of its Common Stock at an offering price of $14.25 per share. The shares of Common Stock issued in the offerings are in addition to 494,466,664 shares of Common Stock of the Holding Company distributed to the Metropolitan Life Policyholder Trust for the benefit of policyholders of Metropolitan Life in connection with the demutualization. On April 10, 2000, the Holding Company issued 30,300,000 additional shares of its Common Stock as a result of the exercise of over-allotment options granted to underwriters in the initial public offering. Concurrently with these offerings, MetLife, Inc. and MetLife Capital Trust I, a Delaware statutory business trust wholly-owned by MetLife, Inc. (the "Trust"), issued 20,125,000 8.00% equity security units ("units") for an aggregate offering price of $1,006 million. Each unit originally consisted of (i) a contract to purchase, for $50, shares of Common Stock on May 15, 2003, and (ii) a capital security of the Trust, with a stated liquidation amount of $50. In accordance with the terms of the units, the Trust was dissolved on February 5, 2003 and $1,006 million aggregate principal amount of 8% debentures of the Holding Company (the "MetLife debentures"), the sole asset of the Trust, were distributed to the unit holders. As required by the terms of the units, the MetLife debentures were remarketed on behalf of the debenture holders on February 12, 2003 and the interest rate on the MetLife debentures was reset as of February 15, 2003 to 3.911% per annum for a yield to maturity of 2.876%. On the date of demutualization, Metropolitan Life established a closed block for the benefit of holders of certain individual life insurance policies of Metropolitan Life. ACQUISITIONS AND DISPOSITIONS In June 2002, the Company acquired Aseguradora Hidalgo S.A. ("Hidalgo"), an insurance company based in Mexico with approximately $2.5 billion in assets as of the date of acquisition. The purchase price is subject to adjustment under certain provisions of the purchase agreement. The Company does not expect that any purchase price adjustment will have an impact on its consolidated statements of income. The Company is in the process of integrating Hidalgo and Seguros Genesis, S.A., ("Genesis"), MetLife's wholly-owned Mexican subsidiary headquartered in Mexico City, to operate as a combined entity under the name MetLife Mexico. In November 2001, the Company acquired Compania de Seguros de Vida Santander S.A. and Compania de Reaseguros de Vida Soince Re S.A., wholly-owned subsidiaries of Santander Central Hispano in Chile. These acquisitions marked MetLife's entrance into the Chilean insurance market. In July 2001, the Company completed its sale of Conning Corporation ("Conning"), an affiliate acquired in the acquisition of GenAmerica Financial Corporation ("GenAmerica") in 2000. Conning specialized in asset management for insurance company investment portfolios and investment research. In May 2001, the Company acquired Seguradora America Do Sul S.A., a life and pension company in Brazil. Seasul has been integrated into MetLife's wholly-owned Brazilian subsidiary, Metropolitan Life Seguros e Previdencia Privada S.A. 44 In February 2001, the Holding Company consummated the purchase of Grand Bank, N.A., which was renamed MetLife Bank, N.A. ("MetLife Bank"). MetLife Bank provides banking services to individuals and small businesses in the Princeton, New Jersey area. On February 12, 2001, the Federal Reserve Board approved the Holding Company's application for bank holding company status and to become a financial holding company upon its acquisition of Grand Bank, N.A. During the second half of 2000, Reinsurance Group of America, Incorporated ("RGA") acquired the interest in RGA Financial Group, LLC it did not already own. In October 2000, the Company completed the sale of its 48% ownership interest in its affiliates, Nvest, L.P. and Nvest Companies L.P. In July 2000, the Company acquired the workplace benefits division of Business Men's Assurance Company ("BMA"), a Kansas City, Missouri-based insurer. In April 2000, Metropolitan Life acquired the outstanding shares of Conning common stock not already owned by Metropolitan Life. In January 2000, Metropolitan Life completed its acquisition of GenAmerica, a holding company which included General American Life Insurance Company ("General American"), approximately 49% of the outstanding shares of RGA common stock, and 61% of the outstanding shares of Conning common stock, which was subsequently sold in 2001. Metropolitan Life owned 9% of the outstanding shares of RGA common stock prior to the completion of the GenAmerica acquisition. During 2002, the Company purchased an additional 327,600 shares of RGA's outstanding common stock at an aggregate price of $9.5 million to offset potential future dilution of the Company's holding of RGA's common stock arising from the issuance by RGA of company-obligated mandatorily redeemable securities of a subsidiary trust in December 2001. These purchases increased the Company's ownership percentage of outstanding shares of RGA common stock from approximately 58% at December 31, 2001 to approximately 59% at December 31, 2002. SUMMARY OF CRITICAL ACCOUNTING ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The critical accounting policies, estimates and related judgments underlying the Company's consolidated financial statements are summarized below. In applying these accounting policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Company's businesses and operations. INVESTMENTS The Company's principal investments are in fixed maturities, mortgage loans and real estate, all of which are exposed to three primary sources of investment risk: credit, interest rate and market valuation. The financial statement risks are those associated with the recognition of impairments and income, as well as the determination of fair values. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. Management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by the Company in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been below amortized cost; (ii) the potential for impairments of securities when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; and (vi) other subjective 45 factors, including concentrations and information obtained from regulators and rating agencies. In addition, the earnings on certain investments are dependent upon market conditions, which could result in prepayments and changes in amounts to be earned due to changing interest rates or equity markets. The determination of fair values in the absence of quoted market values is based on valuation methodologies, securities the Company deems to be comparable and assumptions deemed appropriate given the circumstances. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts. DERIVATIVES The Company enters into freestanding derivative transactions primarily to manage the risk associated with variability in cash flows related to the Company's financial assets and liabilities or to changing fair values. The Company also purchases investment securities and issues certain insurance and reinsurance policies with embedded derivatives. The associated financial statement risk is the volatility in net income which can result from (i) changes in fair value of derivatives not qualifying as accounting hedges, and (ii) ineffectiveness of designated hedges in an environment of changing interest rates or fair values. In addition, accounting for derivatives is complex, as evidenced by significant authoritative interpretations of the primary accounting standards which continue to evolve, as well as the significant judgments and estimates involved in determining fair value in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances. Such assumptions include estimated market volatility and interest rates used in the determination of fair value where quoted market values are not available. The use of different assumptions may have a material effect on the estimated fair value amounts. DEFERRED POLICY ACQUISITION COSTS The Company incurs significant costs in connection with acquiring new insurance business. These costs, which vary with and are primarily related to the production of new business, are deferred. The recovery of such costs is dependent upon the future profitability of the related business. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, expenses to administer the business, creditworthiness of reinsurance counterparties and certain economic variables, such as inflation. Of these factors, the Company anticipates that investment returns are most likely to impact the rate of amortization of such costs. The aforementioned factors enter into management's estimates of gross margins and profits, which generally are used to amortize such costs. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future gross margins and profits are less than amounts deferred. In addition, the Company utilizes the reversion to the mean assumption, a standard industry practice, in its determination of the amortization of deferred policy acquisition costs. This practice assumes that the expectation for long-term appreciation in equity markets is not changed by minor short-term market fluctuations, but that it does change when large interim deviations have occurred. FUTURE POLICY BENEFITS The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, annuities and disability insurance. Generally, amounts are payable over an extended period of time and the profitability of the products is dependent on the pricing of the products. Principal assumptions used in pricing policies and in the establishment of liabilities for future policy benefits are mortality, morbidity, expenses, persistency, investment returns and inflation. The Company also establishes liabilities for unpaid claims and claims expenses for property and casualty insurance. Pricing of this insurance takes into account the expected frequency and severity of losses, the costs of providing coverage, competitive factors, characteristics of the insured and the property covered, and profit considerations. Liabilities for property and casualty insurance are dependent on estimates of amounts payable for claims reported but not settled and claims incurred but not reported. These estimates are influenced by historical experience and actuarial assumptions of current developments, anticipated trends and risk management strategies. Differences between the actual experience and assumptions used in pricing these policies and in the establishment of liabilities result in variances in profit and could result in losses. 46 REINSURANCE The Company enters into reinsurance transactions as both a provider and a purchaser of reinsurance. Accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company periodically reviews actual and anticipated experience compared to the aforementioned assumptions used to establish policy benefits and evaluates the financial strength of counterparties to its reinsurance agreements using criteria similar to that evaluated in the security impairment process discussed above. Additionally, for each of its reinsurance contracts, the Company must determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract using the deposit method of accounting. LITIGATION The Company is a party to a number of legal actions. Given the inherent unpredictability of litigation, it is difficult to estimate the impact of litigation on the Company's consolidated financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Liabilities related to certain lawsuits, including the Company's asbestos-related liability, are especially difficult to estimate due to the limitation of available data and uncertainty regarding numerous variables used to determine amounts recorded. The data and variables that impact the assumption used to estimate the Company's asbestos-related liability include the number of future claims, the cost to resolve claims, the disease mix and severity of disease, the jurisdiction of claims filed, tort reform efforts and the impact of any possible future adverse verdicts and their amounts. It is possible that an adverse outcome in certain of the Company's litigation, including asbestos-related cases, or the use of different assumptions in the determination of amounts recorded could have a material effect upon the Company's consolidated net income or cash flows in particular quarterly or annual periods. EMPLOYEE BENEFIT PLANS The Company sponsors pension and other retirement plans in various forms covering employees who meet specified eligibility requirements. The reported expense and liability associated with these plans requires an extensive use of assumptions which include the discount rate, expected return on plan assets and rate of future compensation increases as determined by the Company. Management determines these assumptions based upon currently available market and industry data, historical performance of the plan and its assets, and consultation with an independent consulting actuarial firm to aid it in selecting appropriate assumptions and valuing its related liabilities. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. These differences may have a significant effect on the Company's consolidated financial statements and liquidity. The actuarial assumptions used in the calculation of the Company's aggregate projected benefit obligation may vary and include an expectation of long-term market appreciation in equity markets which is not changed by minor short-term market fluctuations, but does change when large interim deviations occur. For the largest of the plans sponsored by the Company (the Metropolitan Life Retirement Plan for United States Employees, with a projected benefit obligation of $4.3 billion or 98.6% of all qualified plans at December 31, 2002), the discount rate, expected rate of return on plan assets, and the range of rates of future compensation increases used in that plan's valuation at December 31, 2002 were 6.75%, 9% and 4% to 8%, respectively. The expected rate of return on plan assets for use in that plan's valuation in 2003 is currently anticipated to be 8.5%. 47 RESULTS OF OPERATIONS The following table presents consolidated financial information for the years indicated:

| YEAR ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| REVENUES | | | |
| Premiums | $19,086 | $17,212 | $16,317 |
| Universal life and investment-type product policy fees | 2,139 | 1,889 | 1,820 |
| Net investment income | 11,329 | 11,255 | 11,024 |
| Other revenues | 1,377 | 1,507 | 2,229 |
| Net investment losses (net of amounts allocable to other accounts of ($145), ($134) and ($54), respectively) | (784) | (603) | (390) |
| Total revenues | 33,147 | 31,260 | 31,000 |
| EXPENSES | | | |
| Policyholder benefits and claims (excludes amounts directly related to net investment losses of ($150), ($159) and $41, respectively) | 19,523 | 18,454 | 16,893 |
| Interest credited to policyholder account balances | 2,950 | 3,084 | 2,935 |
| Policyholder dividends | 1,942 | 2,086 | 1,919 |
| Payments to former Canadian policyholders | -- | -- | 327 |
| Demutualization costs | -- | -- | 230 |
| Other expenses (excludes amounts directly related to net investment losses of $5, $25 and ($95), respectively) | 7,061 | 7,022 | 7,401 |
| Total expenses | 31,476 | 30,646 | 29,705 |
| Income from continuing operations before provision for income taxes | 1,671 | 614 | 1,295 |
| Provision for income taxes | 516 | 227 | 421 |
| Income from continuing operations | 1,155 | 387 | 874 |
| Income from discontinued operations, net of income taxes | 450 | 86 | 79 |
| Net income | $ 1,605 | $ 473 | $ 953 |

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- THE COMPANY Premiums increased by $1,874 million, or 11%, to $19,086 million for the year ended December 31, 2002 from $17,212 million for the comparable 2001 period. This variance is primarily attributable to increases in the Institutional, International and Reinsurance segments. A $966 million increase in Institutional is largely due to sales growth in its group life, dental, disability and long-term care businesses, a sale of a significant retirement and savings contract in the second quarter of 2002, as well as new sales throughout 2002 in this segment's structured settlements and traditional annuity products. The June 2002 acquisition of Hidalgo, the 2001 acquisitions in Chile and Brazil and the sale of an annuity contract in the first quarter of 2002 to a Canadian trust company are the primary drivers of a $665 million increase in International. A portion of the increase in International is also attributable to business growth in South Korea, Mexico (excluding Hidalgo), Spain and Taiwan. In addition, an increase in Canada due to the restructuring of a pension contract from an investment-type product to a long-term annuity contributed to this variance. New premiums from facultative and automatic treaties, and renewal premiums on existing blocks of business contributed to a $243 million increase in the Reinsurance segment. Universal life and investment-type product policy fees increased by $250 million, or 13%, to $2,139 million for the year ended December 31, 2002 from $1,889 million for the comparable 2001 period. This variance is 48 primarily attributable to the Individual, International and Institutional segments. A $120 million favorable variance in Individual is due to an increase in policy fees from insurance products, primarily due to higher revenue from insurance fees, which increase as the average separate account asset base supporting the underlying minimum death benefits declines. The average separate account asset base has declined in 2002 in response to poor equity market performance. These increases are partially offset by lower policy fees from annuity and investment-type products generally resulting from poor equity market performance despite growth in annuity deposits. Management would expect policy fees from annuity and investment-type products to continue to be adversely impacted while revenues from insurance fees on variable life products would be expected to rise if average separate account asset levels continue to decline. A $106 million increase in International is largely due to the acquisition of Hidalgo and the acquisitions in Chile, partially offset by a decrease in Spain due to the cessation of product lines offered through a joint venture with Banco Santander Central Hispano, S.A., ("Banco Santander") in 2001. A $23 million increase in Institutional is principally due to a fee related to the renegotiation of a portion of a bank-owned life insurance contract, as well as growth in existing business in the group universal life product. Net investment income increased by $74 million, or 1%, to $11,329 million for the year ended December 31, 2002 from $11,255 million for the comparable 2001 period. This variance is primarily attributable to increases of (i) $61 million, or 1%, in income from fixed maturities, (ii) $54 million, or 12%, in income from real estate and real estate joint ventures held-for-investment, net of investment expenses and depreciation, (iii) $35 million, or 2%, in income on mortgage loans on real estate, (iv) $7 million, or 1%, in interest income on policy loans, and (v) lower investment expenses of $9 million, or 4%. These variances are partially offset by decreases of (i) $47 million, or 17%, in income on cash, cash equivalents and short-term investments, (ii) $31 million, or 12%, in income on other invested assets, and (iii) $14 million, or 14%, in income from equity securities and other limited partnership interests. The increase in income from fixed maturities to $8,092 million in 2002 from $8,031 million in 2001 is largely due to a higher asset base, primarily resulting from increased cash flows from sales of insurance and the acquisitions in Mexico and Chile. In addition, securities lending income was higher due to increased activity and a more favorable cost of funds. The increases in income from fixed maturities are partially offset by decreases resulting from lower reinvestment rates and a decline in bond prepayment fees. The increase in income from real estate and real estate joint ventures held-for-investment to $513 million in 2002 from $459 million in 2001 is primarily due to the transfer of the Company's One Madison Avenue, New York property from a company use property to an investment property in 2002. The increase in income on mortgage loans on real estate to $1,883 million in 2002 from $1,848 million in 2001 is due primarily to a higher asset base from new loan production, partially offset by lower mortgage rates. The increase in interest income from policy loans to $543 million in 2002 from $536 million in 2001 is largely due to increased loans outstanding. The decrease in income from cash, cash equivalents and short-term investments to $232 million in 2002 from $279 million in 2001 is due to declining interest rates coupled with a decrease in the asset base. The decrease in net investment income from other invested assets to $218 million in 2002 from $249 million in 2001 is largely due to lower derivative income, partially offset by an increase in reinsurance contracts' funds withheld at interest. The decline in income from equity securities and other limited partnership interests to $83 million in 2002 from $97 million in 2001 primarily resulted from lower dividend income from equity securities, partially offset by higher limited corporate partnership distributions. The increase in net investment income is attributable to increases in the International, Individual and Reinsurance segments, partially offset by decreases in Corporate & Other, and the Institutional and Auto & Home segments. A $194 million increase in International is due to a higher asset base resulting from the acquisitions in Mexico and Chile. Individual increased by $71 million primarily due to higher income from securities lending and limited corporate partnership distributions, partially offset by lower bond prepayment fee income. The Reinsurance segment increased $31 million largely resulting from an increase in reinsurance contracts' funds withheld at interest. The decrease in Corporate & Other of $149 million is due to a lower asset base, resulting from funding International's acquisitions in Mexico and Chile, as well as the Company's common stock repurchases, partially offset by higher income from securities lending. Institutional decreased $38 million 49 predominantly as a result of decreased limited partnership, equity-linked note and bond prepayment fee income. Auto & Home decreased $23 million primarily due to lower reinvestment rates. Other revenues decreased by $130 million, or 9%, to $1,377 million for the year ended December 31, 2002 from $1,507 million for the comparable 2001 period. This variance is primarily attributable to decreases in the Individual, Institutional and Asset Management segments, partially offset by an increase in Corporate & Other. Individual decreased by $77 million resulting from lower commission and fee income associated with decreased volume in the broker/dealer and other subsidiaries as a result of the depressed equity markets. A $40 million decrease in Institutional is primarily due to a $73 million reduction in administrative fees as a result of the Company's exit from the large market 401(k) business in late 2001, as well as lower fees earned on investments in separate accounts resulting generally from poor equity market performance. This reduction is partially offset by a $33 million increase in group insurance due to growth in the administrative service businesses and a settlement received in 2002 related to the Company's former medical business. A $32 million decrease in Asset Management is primarily due to the sale of Conning in July 2001. These variances were partially offset by an increase of $16 million in Corporate & Other principally due to the sale of a company-occupied building and income earned on corporate-owned life insurance ("COLI") purchased during 2002, partially offset by an increase in the elimination of intersegment activity. The Company's investment gains and losses are net of related policyholder amounts. The amounts netted against investment gains and losses are (i) amortization of deferred policy acquisition costs, to the extent that such amortization results from investment gains and losses, (ii) adjustments to participating contractholder accounts when amounts equal to such investment gains and losses are applied to the contractholder's accounts, and (iii) adjustments to the policyholder dividend obligation resulting from investment gains and losses. Net investment losses increased by $181 million, or 30%, to $784 million for the year ended December 31, 2002 from $603 million for the comparable 2001 period. This increase reflects total investment losses, before offsets, of $929 million (including gross gains of $2,028 million, gross losses of $1,469 million, and writedowns of $1,488 million), an increase of $192 million, or 26%, from $737 million in 2001. Offsets include the amortization of deferred policy acquisition costs of ($5) million and ($25) million in 2002 and 2001, respectively, and changes in the policyholder dividend obligation of $157 million and $159 million in 2002 and 2001, respectively, and adjustments to participating contracts of ($7) million in 2002. Refer to "--Investments" beginning on page 81 for a discussion of the Company's investment portfolio. The Company believes its policy of netting related policyholder amounts against investment gains and losses provides important information in evaluating its performance. Investment gains and losses are often excluded by investors when evaluating the overall financial performance of insurers. The Company believes its presentation enables readers to easily exclude investment gains and losses and the related effects on the consolidated statements of income when evaluating its performance. The Company's presentation of investment gains and losses, net of policyholder amounts, may be different from the presentation used by other insurance companies and, therefore, amounts in its consolidated statements of income may not be comparable to amounts reported by other insurers. Policyholder benefits and claims increased by $1,069 million, or 6%, to $19,523 million for the year ended December 31, 2002 from $18,454 million for the comparable 2001 period. This variance is attributable to increases in the International, Institutional and Reinsurance segments, partially offset by a decrease in the Auto & Home segment. A $699 million increase in International is primarily due to the acquisition of Hidalgo, the acquisitions in Chile and Brazil, the aforementioned sale of an annuity contract, the restructuring of a Canadian pension contract and business growth in South Korea, Mexico (excluding Hidalgo), Taiwan and Spain. An increase in Institutional of $415 million is commensurate with the growth in premiums as discussed above, largely offset by the establishment of a liability in 2001 related to the September 11, 2001 tragedies and the 2001 fourth quarter business realignment initiatives. An increase in Reinsurance of $70 million is commensurate with the growth in premiums discussed above. These increases were partially offset by a decrease of $102 million in the Auto & Home segment. The variance in Auto & Home is largely due to improved claim frequency resulting from milder winter weather, lower catastrophe levels and fewer personal umbrella claims, partially offset by an 50 increase in current year bodily injury and no-fault severities and costs associated with the processing of the New York assigned risk business. Interest credited to policyholder account balances decreased by $134 million, or 4%, to $2,950 million for the year ended December 31, 2002 from $3,084 million for the comparable 2001 period. This variance is attributable to decreases in the Individual and Institutional segments, partially offset by increases in the International and Reinsurance segments. A $105 million decrease in Individual is primarily due to the establishment in 2001 of a policyholder liability with respect to certain group annuity contracts at New England Financial. Excluding this policyholder liability, interest credited expense increased slightly in response to an increase in policyholder account balances, which is primarily attributable to sales growth despite declines in interest crediting rates. An $81 million decrease in Institutional is primarily due to a decline in average crediting rates resulting from the current interest rate environment. These variances are partially offset by a net increase of $28 million in International. This increase is principally due to the acquisition of Hidalgo, partially offset by a reduction in the number of investment-type policies in-force in Argentina. In addition, a $24 million increase in Reinsurance is primarily due to several new deferred annuity reinsurance agreements executed during 2002. Policyholder dividends decreased by $144 million, or 7%, to $1,942 million for the year ended December 31, 2002 from $2,086 million for the comparable 2001 period. This variance is attributable to a decrease in the Institutional segment resulting from unfavorable mortality experience of several large group clients. Institutional policyholder dividends vary from period to period based on participating contract experience, which is recorded in policyholder benefits and claims. Other expenses increased by $39 million, or 1%, to $7,061 million for the year ended December 31, 2002 from $7,022 million for the comparable 2001 period. Excluding the capitalization and amortization of deferred policy acquisition costs, which are discussed below, other expenses increased by $114 million, or 2%, to $7,762 million in 2002 from $7,648 million in 2001. Excluding the capitalization and amortization of deferred policy acquisition costs and the change in accounting as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, ("SFAS 142"), which eliminates the amortization of goodwill and certain other intangibles, other expenses increased by $161 million. This variance is primarily attributable to increases in the Reinsurance and International segments, as well as in Corporate & Other, partially offset by decreases in the Institutional, Individual and Asset Management segments. A $209 million increase in Reinsurance is primarily attributable to increases in allowances paid, primarily driven by high-allowance business in the U.K. along with strong growth in the U.S. and Asia/Pacific regions. An increase of $166 million in International expenses is primarily due to the acquisition of Hidalgo, the acquisitions in Chile and Brazil, as well as business growth in South Korea, Mexico (excluding Hidalgo), and Hong Kong. An increase in Corporate & Other of $112 million is primarily due to increases in legal and interest expenses. The 2002 period includes a $266 million charge to increase the Company's asbestos-related liability and expenses to cover costs associated with the resolution of federal government investigations of General American's former Medicare business. These increases are partially offset by a $250 million charge recorded in the fourth quarter of 2001 to cover costs associated with the resolution of class action lawsuits and a regulatory inquiry pending against Metropolitan Life involving alleged race-conscious insurance underwriting practices prior to 1973. The increase in interest expenses is primarily due to increases in long-term debt resulting from the issuance of $1.25 billion and $1 billion of senior debt in November 2001 and December 2002, respectively, partially offset by a decrease in commercial paper in 2002. In addition, a decrease in the elimination of intersegment activity contributed to the variance. A decrease of $181 million in Institutional is due to higher expenses resulting from the business realignment initiatives accrual in the fourth quarter 2001 (primarily the Company's exit from the large market 401(k) business), $30 million of which was released into income in the fourth quarter of 2002. This decrease is partially offset by an increase in 2002 operational expenses for dental and disability and group insurance's non- deferrable expenses commensurate with the aforementioned premium growth, as well as higher pension and post-retirement benefit expenses. A decrease of $105 million in Individual is due to continued expense management initiatives, including reduced compensation-related expenses, a decline in business realignment expenses that were incurred in 2001 and reductions in volume-related commission expenses in the broker/dealer and other subsidiaries. These declines are partially offset by higher pension and post-retirement benefit expenses and an 51 increase in expenses stemming from sales growth in new annuity and investment-type products. In addition, a decrease of $39 million in Asset Management is primarily due to the sale of Conning in July 2001. Primarily as a result of changes in expected rate of return and discount rate assumptions effective for 2003, the Company currently anticipates its pension expense will increase by approximately $115 million, net of income tax, for the year ending December 31, 2003 from the comparable 2002 period. Deferred policy acquisition costs are principally amortized in proportion to gross margins and profits, including investment gains or losses. The amortization is allocated to investment gains and losses to provide consolidated statement of income information regarding the impact of investment gains and losses on the amount of the amortization, and other expenses to provide amounts related to gross margins and profits originating from transactions other than investment gains and losses. Capitalization of deferred policy acquisition costs increased by $301 million, or 15%, to $2,340 million for the year ended December 31, 2002 from $2,039 million for the comparable 2001 period. This variance is primarily due to increases in the Reinsurance, Individual, International and Institutional segments. A $125 million increase in Reinsurance is commensurate with the increase in allowances paid. A $111 million increase in Individual is due to higher sales of annuity and investment-type products, resulting in higher commissions and other deferrable expenses. A $51 million increase in International is primarily due to the 2002 acquisition of Hidalgo and overall business growth in South Korea, partially offset by a decrease in Argentina due to the reduction in business caused by the overall economic environment. A $22 million increase in Institutional is primarily due to growth in sales commissions and fees for disability products sold by Institutional. Total amortization of deferred policy acquisitions costs increased by $206 million, or 14%, to $1,644 million in 2002 from $1,438 million in 2001. Amortization of $1,639 million and $1,413 million are allocated to other expenses in 2002 and 2001, respectively, while the remainder of the amortization in each period is allocated to investment gains and losses. The increase in amortization allocated to other expenses is attributable to increases in the Individual, International and Reinsurance segments. An increase of $111 million in Individual is due to the impact of the depressed equity markets and changes in the estimates of future gross profits. In 2002, estimates of future dividend scales, future maintenance expenses, future rider margins, and future reinsurance recoveries were revised. In 2001, estimates of future fixed account interest spreads, future gross margins and profits related to separate accounts and future mortality margins were revised. An increase in International of $64 million is primarily due to loss recognition in Argentina as a result of the economic environment, primarily the devaluation of its currency. The remaining increase was due to new business in South Korea, Taiwan, and the June 2002 acquisition of Hidalgo. An increase in Reinsurance of $55 million is due to growth in the business, commensurate with the growth in premiums described above. Income tax expense for the year ended December 31, 2002 was $516 million, or 31% of income from continuing operations before provision for income taxes, compared with $227 million, or 37%, for the comparable 2001 period. The 2002 effective tax rate differs from the federal corporate tax rate of 35% primarily due to the impact of non-taxable investment income. The 2001 effective tax rate differs from the federal corporate tax rate of 35%, due to an increase in prior year income taxes on capital gains. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), income related to the Company's real estate which was identified as held-for-sale on or after January 1, 2002 is presented as discontinued operations for the years ended December 31, 2002, 2001 and 2000. The income from discontinued operations is comprised of net investment income and net investment gains related to 47 properties that the Company began marketing for sale on or after January 1, 2002. For the year ended December 31, 2002, the Company recognized $582 million of net investment gains from discontinued operations due primarily to the sale of 36 properties. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- THE COMPANY Premiums grew by $895 million, or 5%, to $17,212 million for the year ended December 31, 2001 from $16,317 for the comparable 2000 period. This variance is attributable to increases in the Institutional, Reinsurance, International and Auto & Home segments, partially offset by a decrease in the Individual segment. An improvement of $388 million in the Institutional segment is predominantly the result of sales growth and 52 continued favorable policyholder retention in this segment's dental, disability and long-term care businesses. In addition, significant premiums received from several existing group life customers in 2001 and the BMA acquisition in 2000 resulted in higher premiums. The 2000 balance includes $124 million in additional insurance coverages purchased by existing customers with funds received in the demutualization and significant premiums received from existing retirement and savings customers. New premiums from facultative and automatic treaties and renewal premiums on existing blocks of business all contributed to the $312 million premium growth in the Reinsurance segment. A $186 million rise in the International segment is due to growth in Mexico, South Korea, Spain and Taiwan, as well as acquisitions in Brazil and Chile. These variances were partially offset by a decline in Argentinean individual life premiums, reflecting the impact of economic and political events in that country. Higher average premium resulting from rate increases is the primary driver of a $119 million rise in the Auto & Home segment. A $110 million decline in the Individual segment is attributable to lower sales of traditional life insurance policies, which reflects a continued shift in customer preference from those policies to variable life products. Universal life and investment-type product policy fees increased by $69 million, or 4%, to $1,889 million for the year ended December 31, 2001 from $1,820 million for the comparable 2000 period. This variance is due to increases in the Institutional and Individual segments, partially offset by a decline in the International segment. Growth in sales and deposits of group universal life and COLI products resulted in a $45 million increase in the Institutional segment. A $39 million rise in the Individual segment is predominantly the result of higher fees from variable life products reflecting a shift in customer preferences from traditional life products. A decrease of $15 million in the International segment is primarily due to reduced fees in Spain resulting from fewer assets under management. This is a result of a planned cessation of product lines offered through a joint venture with Banco Santander. Net investment income increased by $231 million, or 2%, to $11,255 million for the year ended December 31, 2001 from $11,024 million for the comparable 2000 period. This change is due to higher income from (i) mortgage loans on real estate of $155 million, or 9%, (ii) fixed maturities of $116 million, or 1%, (iii) other invested assets of $87 million, or 54%, and (iv) interest income on policy loans of $21 million, or 4%. These positive variances are partially offset by lower income from (i) equity securities and other limited partnership interests of $86 million, or 47%, (ii) real estate and real estate joint ventures held-for-investment, net of investment expenses and depreciation, of $49 million, or 10%, (iii) cash, cash equivalents and short-term investments of $9 million, or 3%, and (iv) higher investment expenses of $4 million, or 2%. The increase in income from mortgage loans on real estate to $1,848 million in 2001 from $1,693 million in 2000 is predominantly the result of higher mortgage production volume and increases in mortgage prepayment fees and contingent interest. The improvement in income from fixed maturities to $8,031 million in 2001 from $7,915 million in 2000 is primarily due to bond prepayments and increased securities lending activity, offset by lower yields on reinvestments. Income from other invested assets increased to $249 million in 2001 from $162 million in 2000 primarily due to the reclassification of $19 million from other comprehensive income related to cash flow hedges, $24 million from derivatives not designated as accounting hedges and the recognition in 2000 of a $20 million loss on an equity method investment. The increase in interest income from policy loans to $536 million in 2001 from $515 million in 2000 is largely due to increased loans outstanding. The reduction of income from equity securities and other limited partnership interests to $97 million in 2001 from $183 million in 2000 is primarily due to fewer sales of underlying assets held in corporate partnerships and increased partnership write-downs. The decrease in income from real estate and real estate joint ventures held-for-investment to $459 million in 2001 from $508 million in 2000 is primarily due to a decline in hotel occupancy rates and reduced real estate joint venture sales. The increase in net investment income is largely attributable to positive variances in the Institutional and Individual segments, partially offset by a decline in Corporate & Other. Net investment income for the Institutional and Individual segments grew by $254 million and $80 million, respectively. These increases are predominately due to a higher volume of securities lending activity, increases in bond and mortgage prepayments and higher contingent interest on mortgages. The decrease in Corporate & Other is principally the result of sales in 2000 of underlying assets held in corporate limited partnerships. The remainder of the variance is attributable to smaller fluctuations in the other segments. 53 Other revenues decreased by $722 million, or 32%, to $1,507 million for the year ended December 31, 2001 from $2,229 million for the comparable 2000 period. This variance is mainly attributable to reductions in the Asset Management, Individual and Auto & Home segments, partially offset by an increase in the Reinsurance segment. The sales of Nvest and Conning in October 2000 and July 2001, respectively, are the primarily drivers of a $562 million decline in the Asset Management segment. A decrease of $155 million in the Individual segment is primarily due to reduced commission and fee income associated with lower sales in the broker/dealer and other subsidiaries which was a result of the equity market downturn. Such commission and fee income can fluctuate consistent with movements in the equity market. Auto & Home's other revenues are lower by $18 million primarily due to a revision of an estimate made in 2000 of amounts recoverable from reinsurers related to the disposition of this segment's reinsurance business in 1990. Other revenues in the Reinsurance segment improved by $13 million due to an increase in fees earned on financial reinsurance, primarily as a result of the acquisition of the remaining interest in RGA Financial Group, LLC during the second half of 2000. The Company's investment gains and losses are net of related policyholder amounts. The amounts netted against investment gains and losses are (i) amortization of deferred policy acquisition costs, to the extent that such amortization results from investment gains and losses, (ii) additions to participating contractholder accounts when amounts equal to such investment gains and losses are credited to the contractholder's accounts, and (iii) adjustments to the policyholder dividend obligation resulting from investment gains and losses. Net investment losses grew by $213 million, or 55%, to $603 million for the year ended December 31, 2001 from $390 million for the comparable 2000 period. This increase reflects total investment losses, before offsets, of $737 million, an increase of $293 million, or 66%, from $444 million in 2000. Offsets include the amortization of deferred policy acquisition costs of ($25) million and $95 million in 2001 and 2000, respectively; changes in policyholder dividend obligation of $159 million and $85 million in 2001 and 2000, respectively; and additions to participating contracts of ($126) million in 2000. Excluding the net gain on the sale of a subsidiary, net investment losses decreased from the prior year. The Company recognized deteriorating credits through the proactive sale of certain assets. The Company believes its policy of netting related policyholder amounts against investment gains and losses provides important information in evaluating its operating performance. Investment gains and losses are often excluded by investors when evaluating the overall financial performance of insurers. The Company believes its presentation enables readers of its consolidated statements of income to easily exclude investment gains and losses and the related effects on the consolidated statements of income when evaluating its operating performance. The Company's presentation of investment gains and losses, net of related policyholder amounts, may be different from the presentation used by other insurance companies and, therefore, amounts in its consolidated statements of income may not be comparable to amounts reported by other insurers. Policyholder benefits and claims rose by $1,561 million, or 9%, to $18,454 million for the year ended December 31, 2001 from $16,893 million for the comparable 2000 period. The variance in policyholder benefits and claims is mainly attributable to increases in the Institutional, Reinsurance, Individual, International and Auto & Home segments. Claims related to the September 11, 2001 tragedies and fourth quarter business realignment initiatives account for $291 million and $215 million, respectively, of a $746 million increase in the Institutional segment. The remainder of the fluctuation is attributable to growth in the group life, dental, disability and long-term care insurance businesses, commensurate with the variance in premiums, partially offset by a decrease in policyholder benefits and claims related to the retirement and savings business. Policyholder benefits and claims for the Reinsurance segment rose by $388 million due to unfavorable mortality experience in the first and fourth quarters of 2001, as well as adverse results on the reinsurance of Argentine pension business, reflecting the impact of economic and political events in that country. In addition, reinsurance claims arising from the September 11, 2001 tragedies of approximately $16 million, net of amounts recoverable from reinsurers, contributed to the variance. A $179 million rise in the Individual segment is primarily the result of an increase in the liabilities for future policy benefits commensurate with the aging of the in-force block of business. In addition, an increase of $74 million in the policyholder dividend obligation and $24 million in liabilities and claims associated with the September 11, 2001 tragedies contributed to the variance. International policyholder benefits and claims increased by $127 million as a result of growth in Mexico, South Korea and Taiwan, as well as acquisitions in Brazil and Chile. These fluctuations are partially offset by a decline in Argentina, reflecting the 54 impact of economic and political events in that country. A $116 million increase in the Auto & Home segment is predominantly the result of increased average claim costs, growth in the auto business and increased non-catastrophe weather-related losses. Interest credited to policyholder account balances grew by $149 million, or 5%, to $3,084 million for the year ended December 31, 2001 from $2,935 million for the comparable 2000 period, primarily due to an increase of $218 million in the Individual segment, partially offset by a $77 million reduction in the Institutional segment. The establishment of a policyholder liability of $118 million with respect to certain group annuity contracts at New England Financial is the primary driver of the fluctuation in Individual. In addition, higher average policyholder account balances and slightly increased crediting rates contributed to the variance. The decrease in the Institutional segment is primarily due to an overall decline in crediting rates in 2001 as a result of the low interest rate environment, partially offset by an increase in average customer account balances stemming from asset growth. The remaining variance is due to minor fluctuations in the Reinsurance and International segments. Policyholder dividends increased by $167 million, or 9%, to $2,086 million for the year ended December 31, 2001 from $1,919 million for the comparable 2000 period, primarily due to increases of $135 million and $25 million in the Institutional and Individual segments, respectively. The rise in the Institutional segment is primarily attributed to favorable experience on a large group life contract in 2001. Policyholder dividends vary from period to period based on participating contract experience, which is recorded in policyholder benefits and claims. The change in the Individual segment reflects growth in the assets supporting policies associated with this segment's aging block of traditional life insurance business. The remaining variance is due to minor fluctuations in the International and Reinsurance segments. Payments of $327 million were made during the second quarter of 2000, as part of Metropolitan Life's demutualization, to holders of certain policies transferred to Clarica Life Insurance Company in connection with the sale of a substantial portion of the Canadian operations in 1998. Demutualization costs of $230 million were incurred during the year ended December 31, 2000. These costs are related to Metropolitan Life's demutualization on April 7, 2000. Other expenses decreased by $379 million, or 5%, to $7,022 million for the year ended December 31, 2001 from $7,401 million for the comparable 2000 period. Excluding the capitalization and amortization of deferred policy acquisition costs, which are discussed below, other expenses declined by $138 million, or 2%, to $7,648 million in 2001 from $7,786 million in 2000. This variance is attributable to reductions in the Asset Management, Individual and Auto & Home segments, partially offset by increases in the other segments. A decrease of $532 million in the Asset Management segment is predominantly the result of the sales of Nvest and Conning in October 2000 and July 2001, respectively. The Individual segment's expenses declined by $121 million due to continued expense management, primarily due to reduced employee costs and lower discretionary spending. In addition, there were reductions in volume-related commission expenses in the broker/dealer and other subsidiaries. These items are partially offset by an increase of $97 million related to fourth quarter 2001 business realignment initiatives. A $34 million decrease in Auto & Home is attributable to a reduction in integration costs associated with the acquisition of the standard personal lines property and casualty insurance operations of The St. Paul Companies in September 1999 ("St. Paul acquisition"). An increase of $287 million in Institutional expenses is primarily driven by expenses associated with fourth quarter business realignment initiatives of $184 million and a rise in non-deferrable variable expenses associated with premium growth in the group insurance businesses. Non-deferrable variable expenses include premium tax, commissions and administrative expenses for dental, disability and long-term care businesses. Other expenses in Corporate & Other grew by $198 million primarily due to a $250 million race-conscious underwriting loss provision which was recorded in the fourth quarter of 2001, additional expenses associated with MetLife, Inc. shareholder services costs and start-up costs relating to MetLife's banking initiatives, as well as a decrease in the elimination of intersegment activity. These increases are partially offset by a decline in interest expense due to reduced average levels in borrowing and a lower interest rate environment in 2001. An increase of $43 million in the International segment is predominantly the result of growth in Mexico and South Korea, and acquisitions in Brazil and Chile, partially offset by a decrease in Spain's other expenses due to a planned cessation of product lines offered through a joint venture with Banco Santander. The acquisition of the remaining interest in RGA Financial Group, 55 LLC during the second half of 2000 contributed to the $20 million increase in other expenses in the Reinsurance segment. Deferred policy acquisition costs are principally amortized in proportion to gross margins or profits, including investment gains or losses. The amortization is allocated to investment gains and losses to provide consolidated statement of income information regarding the impact of investment gains and losses on the amount of the amortization, and other expenses to provide amounts related to gross margins or profits originating from transactions other than investment gains and losses. Capitalization of deferred policy acquisition costs increased to $2,039 million for the year ended December 31, 2001 from $1,863 million for the comparable 2000 period. This variance is attributable to increases in the Individual, Reinsurance, Institutional and International segments. The growth in the Individual segment is primarily due to higher sales of variable and universal life insurance policies and annuity and investment-type products, resulting in additional commissions and other deferrable expenses. The increases in the Reinsurance, Institutional and International segments are commensurate with growth in those businesses. Total amortization of deferred policy acquisition costs increased to $1,438 million in 2001 from $1,383 million in 2000. Amortization of $1,413 million and $1,478 million are allocated to other expenses in 2001 and 2000, respectively, while the remainder of the amortization in each year is allocated to investment gains and losses. The decrease in amortization of deferred policy acquisition costs allocated to other expenses is attributable to a decline in the Individual segment, partially offset by increases in the Reinsurance and International segments. The decline in the Individual segment is due to changes in the estimates of future gross margins and profits. Contributing to this variance are modifications made in the third quarter of 2001 relating to the manner in which estimates of future market performance are developed. These estimates are used in determining unamortized deferred policy acquisition costs balances and the amount of related amortization. The modification will reflect an expected impact of past market performance on future market performance, as well as improving the ability to estimate deferred policy acquisition costs balances and related amortization. The increase in the Reinsurance segment is primarily due to fluctuations in allowances paid to ceding companies as a result of a change in product mix. The increase in the International segment is due to a write-off of deferred policy acquisition costs as a result of the economic and political events in Argentina. Income tax expense for the year ended December 31, 2001 was $227 million, or 37%, of income from continuing operations before provision for income taxes, compared with $421 million, or 33%, for the comparable 2000 period. The 2001 effective tax rate differs from the federal corporate tax rate of 35% due to an increase in prior year income taxes on capital gains. The 2000 effective tax rate differs from the federal corporate tax rate of 35% primarily due to the payments made in the second quarter of 2000 to former Canadian policyholders in connection with the demutualization, the impact of surplus tax and a reduction in prior year income taxes on capital gains recorded in the third quarter of 2000. This reduction is associated with the previous sale of a business. Prior to its demutualization, the Company was subject to surplus tax imposed on mutual life insurance companies under Section 809 of the Internal Revenue Code. The surplus tax results from the disallowance of a portion of a mutual life insurance company's policyholder dividends as a deduction from taxable income. In accordance with SFAS No. 144, income related to the Company's real estate which was identified as held-for-sale on or after January 1, 2002 is presented as discontinued operations for the years ended December 31, 2002, 2001 and 2000. The income from discontinued operations is comprised of net investment income related to 47 properties that the Company began marketing for sale on or after January 1, 2002. 56 INDIVIDUAL The following table presents consolidated financial information for the Individual segment for the years indicated:

| YEAR ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| REVENUES | | | |
| Premiums | $ 4,507 | $ 4,563 | $ 4,673 |
| Universal life and investment-type product policy fees | 1,380 | 1,260 | 1,221 |
| Net investment income | 6,259 | 6,188 | 6,108 |
| Other revenues | 418 | 495 | 650 |
| Net investment (losses) gains | (164) | 827 | 227 |
| Total revenues | 12,400 | 13,333 | 12,879 |
| EXPENSES | | | |
| Policyholder benefits and claims | 5,220 | 5,233 | 5,054 |
| Interest credited to policyholder account balances | 1,793 | 1,898 | 1,680 |
| Policyholder dividends | 1,770 | 1,767 | 1,742 |
| Other expenses | 2,629 | 2,747 | 3,012 |
| Total expenses | 11,412 | 11,645 | 11,488 |
| Income from continuing operations before provision for income taxes | 988 | 1,688 | 1,391 |
| Provision for income taxes | 363 | 631 | 507 |
| Income from continuing operations | 625 | 1,057 | 884 |
| Income from discontinued operations, net of income taxes | 201 | 38 | 36 |
| Net income | $ 826 | $ 1,095 | $ 920 |

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- INDIVIDUAL Premiums decreased by $56 million, or 1%, to $4,507 million for the year ended December 31, 2002 from $4,563 million for the comparable 2001 period. Premiums from insurance products decreased by $94 million, primarily resulting from a third quarter 2002 amendment of a reinsurance agreement to increase the amount of insurance ceded from 50% to 100%. This amendment was effective January 1, 2002. The Company also believes the decline is the result of a continued shift in policyholders' preference from traditional policies to annuity and investment-type products. These decreases are partially offset by policyholders expanding their traditional life insurance coverage through the purchase of additional insurance with dividend proceeds in 2002. Premiums from annuity products increased by $38 million as a result of higher sales of fixed annuities and supplementary contracts with life contingencies. Universal life and investment-type product policy fees increased by $120 million, or 10%, to $1,380 million for the year ended December 31, 2002 from $1,260 million for the comparable 2001 period. Policy fees from insurance products increased by $145 million primarily due to higher revenue from insurance fees, which increase as the average separate account asset base supporting the underlying minimum death benefit declines. The average separate account asset base has declined in response to poor equity market performance. Additionally, this variance reflects the acceleration of the recognition of unearned fees associated with future reinsurance recoveries. Policy fees from annuity and investment-type products decreased by $25 million primarily due to declines in the average separate account asset base resulting generally from poor equity market performance, partially offset by an increase in fees resulting from growth in annuity deposits. Policy fees from annuity and investment-type products are typically calculated as a percentage of average separate account assets. 57 Such assets can fluctuate depending on equity market performance. If average separate account asset levels continue to decline, management expects that policy fees from annuity and investment-type products will continue to be adversely impacted, while revenues from insurance fees on variable life products would be expected to rise. Other revenues decreased by $77 million, or 16%, to $418 million for the year ended December 31, 2002 from $495 million for the comparable 2001 period, largely due to lower commission and fee income associated with a volume decline in the broker/dealer and other subsidiaries which is principally due to the depressed equity markets. Policyholder benefits and claims decreased by $13 million, or less than 1%, to $5,220 million for the year ended December 31, 2002 from $5,233 million for the comparable 2001 period. Policyholder benefits and claims for insurance products decreased by $119 million, primarily due to the impact of the aforementioned reinsurance transaction and the establishment of liabilities for the September 11, 2001 tragedies in the previous year. Policyholder benefits and claims for annuity and investment-type products increased by $106 million primarily due to an increase in fixed and immediate annuity liabilities, resulting from business growth and an increase in the liability associated with guaranteed minimum death benefits on variable annuities. Interest credited to policyholder account balances decreased by $105 million, or 6%, to $1,793 million for the year ended December 31, 2002 compared with $1,898 for the comparable 2001 period. This decrease was primarily due to the establishment of a $118 million policyholder liability with respect to certain group annuity contracts at New England Financial in 2001. Excluding this policyholder liability, interest credited increased slightly due to an increase in policyholder account balances which is primarily attributable to sales growth partially offset by declines in interest crediting rates. Policyholder dividends increased by $3 million, or less than 1%, to $1,770 million for the year ended December 31, 2002 from $1,767 million for the comparable 2001 period due to the increase in the invested assets supporting the policies associated with this segment's large block of traditional life insurance business. This increase is partially offset by the approval by the Company's Board of Directors in the fourth quarter of 2002 of a reduction in the dividend scale to reflect the impact of the current low interest rate environment on the asset portfolios supporting these policies. Other expenses decreased by $118 million, or 4%, to $2,629 million for the year ended December 31, 2002 million from $2,747 for the comparable 2001 period. Excluding the capitalization and amortization of deferred policy acquisition costs, which are discussed below, other expenses decreased by $118 million, or 4%, to $2,922 million in 2002 from $3,040 million in 2001. Other expenses related to insurance products decreased by $129 million, which is attributable to continued expense management, reductions in volume-related commission expenses in the broker/dealer and other subsidiaries and a reduction of $62 million related to business realignment expenses incurred in 2001. These decreases are partially offset by increased pension and post-retirement benefit expenses over the comparable period. Other expenses related to annuity and investment-type products increased by $11 million. This increase is commensurate with the rise in sales of new annuity and investment-type products as well as increased pension and post-retirement benefit expenses. This increase is partially offset by the reduction of $37 million of business realignment expenses incurred in 2001. Deferred policy acquisition costs are principally amortized in proportion to gross margins or gross profits, including investment gains or losses. The amortization is allocated to investment gains and losses to provide consolidated statement of income information regarding the impact of investment gains and losses on the amount of the amortization, and other expenses to provide amounts related to gross margins or profits originating from transactions other than investment gains and losses. Capitalization of deferred policy acquisition costs increased by $111 million, or 12%, to $1,037 million for the year ended December 31, 2002 from $926 million for the comparable 2001 period due to higher sales of annuity and investment-type products, resulting in higher commissions and other deferrable expenses. Total amortization of deferred policy acquisition costs increased by $100 million, or 15%, to $754 million in 2002 from $654 million in 2001. Amortization of deferred policy acquisition costs of $744 million and $633 million is allocated to other expenses in 2002 and 2001, respectively, while the remainder of the amortization in each year 58 is allocated to investment gains and losses. Increases in amortization of deferred policy acquisition costs allocated to other expenses of $84 million and $27 million related to insurance products and annuity and investment-type products, respectively, are due to the impact of the depressed equity markets and changes in the estimates of future gross profits. In 2002, estimates of future dividend scales, future maintenance expenses, future rider margins, and future reinsurance recoveries were revised. In 2001, estimates of future fixed account interest spreads, future gross margins and profits related to separate accounts and future mortality margins were revised. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- INDIVIDUAL Premiums decreased by $110 million, or 2%, to $4,563 million for the year ended December 31, 2001 from $4,673 million for the comparable 2000 period. Premiums from insurance products declined by $108 million. This decrease is primarily due to declines in traditional life insurance policies, which reflects a maturing of that business and a continued shift in customer preference from those policies to variable life products. Premiums from annuity products declined by $2 million, due to lower sales of supplementary contracts with life contingencies and single premium immediate annuity business. Universal life and investment-type product policy fees increased by $39 million, or 3%, to $1,260 million for the year ended December 31, 2001 from $1,221 million for the comparable 2000 period. Policy fees from insurance products rose by $149 million. This growth is primarily due to increases in variable life products reflecting a continued shift in customer preferences from traditional life products. Policy fees from annuity and investment-type products decreased by $110 million, primarily resulting from a lower average separate account asset base. Policy fees from annuity and investment-type products are typically calculated as a percentage of average assets. Such assets can fluctuate depending on equity market performance. Thus, the amount of fees can increase or decrease consistent with movements in average separate account balances. Other revenues decreased by $155 million, or 24%, to $495 million for the year ended December 31, 2001 from $650 million for the comparable 2000 period, primarily due to reduced commission and fee income associated with lower sales in the broker/dealer and other subsidiaries, which was a result of the equity market downturn. Such commission and fee income can fluctuate consistent with movements in the equity market. Policyholder benefits and claims increased by $179 million, or 4%, to $5,233 million for the year ended December 31, 2001 from $5,054 million for the comparable 2000 period. Policyholder benefits and claims for insurance products rose by $192 million primarily due to increases in the liabilities for future policy benefits commensurate with the aging of the in-force block of business. In addition, increases of $74 million and $24 million in the policyholder dividend obligation and liabilities and claims associated with the September 11, 2001 tragedies, respectively, contributed to the variance. Partially offsetting these variances is a reduction in policyholder benefits and claims for annuity and investment-type products due to a decrease in liabilities for supplemental contracts with life contingencies. Interest credited to policyholder account balances rose by $218 million, or 13%, to $1,898 million for the year ended December 31, 2001 from $1,680 million for the comparable 2000 period. Interest on insurance products increased by $165 million, primarily due to the establishment of a policyholder liability of $118 million with respect to certain group annuity contracts at New England Financial. The remainder of the variance is predominantly a result of higher average policyholder account balances. Interest on annuity and investment-type products grew by $53 million due to slightly higher crediting rates and higher policyholder account balances stemming from increased sales, including products with a dollar cost averaging-type feature. Policyholder dividends increased by $25 million, or 1%, to $1,767 million for the year ended December 31, 2001 from $1,742 million for the comparable 2000 period. This is largely attributable to the growth in the assets supporting policies associated with this segment's aging block of traditional life insurance business. Other expenses decreased by $265 million, or 9%, to $2,747 for the year ended December 31, 2001 from $3,012 million for the comparable 2000 period. Excluding the capitalization and amortization of deferred policy acquisition costs that are discussed below, other expenses are lower by $121 million, or 4%, to $3,040 million in 2001 from $3,161 million in 2000. Other expenses related to insurance products decreased by $158 million due to continued expense management, primarily due to reduced employee costs and lower discretionary spending. In 59 addition, there were reductions in volume-related commission expenses in the broker/dealer and other subsidiaries. These decreases are partially offset by an increase of $62 million related to fourth quarter 2001 business realignment initiatives. The annuity and investment-type products experienced an increase in other expenses of $37 million primarily due to expenses associated with the business realignment initiatives. Deferred policy acquisition costs are principally amortized in proportion to gross margins and profits, including investment gains or losses. The amortization is allocated to investment gains and losses to provide consolidated statement of income information regarding the impact of investment gains and losses on the amount of the amortization, and to other expenses to provide amounts related to gross margins and profits originating from transactions other than investment gains and losses. Capitalization of deferred policy acquisition costs increased by $54 million, or 6%, to $926 million for the year ended December 31, 2001 from $872 million for the comparable 2000 period. This increase is primarily due to higher sales of variable and universal life insurance policies and annuity and investment-type products, resulting in higher commissions and other deferrable expenses. Total amortization of deferred policy acquisition costs increased by $26 million, or 4%, to $654 million in 2001 from $628 million in 2000. Amortization of deferred policy acquisition costs of $633 million and $723 million is allocated to other expenses in 2001 and 2000, respectively, while the remainder of the amortization in each year is allocated to investment gains and losses. Amortization of deferred policy acquisition costs allocated to other expenses related to insurance products declined by $48 million due to changes in the estimate of future gross margins and profits. Amortization of deferred policy acquisition costs allocated to other expenses related to annuity and investment products declined by $42 million due to changes in the estimate of future gross profits. Contributing to this variance are modifications made in the third quarter of 2001 relating to the manner in which estimates of future market performance are developed. These estimates are used in determining unamortized deferred policy acquisition costs balances and the amount of related amortization. The modification reflects an expected impact of past market performance on future market performance, and improves the ability to estimate deferred policy acquisition costs balances and related amortization. 60 INSTITUTIONAL The following table presents consolidated financial information for the Institutional segment for the years indicated:

| YEAR ENDED DECEMBER 31, (DOLLARS IN MILLIONS) | 2002 | 2001 | 2000 |
|---|---|---|---|
| REVENUES | | | |
| Premiums | $ 8,254 | $ 7,288 | $ 6,900 |
| Universal life and investment-type product policy fees | 615 | 592 | 547 |
| Net investment income | 3,928 | 3,966 | 3,712 |
| Other revenues | 609 | 649 | 650 |
| Net investment losses | (506) | (15) | (475) |
| Total revenues | 12,900 | 12,480 | 11,334 |
| EXPENSES | | | |
| Policyholder benefits and claims | 9,339 | 8,924 | 8,178 |
| Interest credited to policyholder account balances | 932 | 1,013 | 1,090 |
| Policyholder dividends | 115 | 259 | 124 |
| Other expenses | 1,531 | 1,746 | 1,514 |
| Total expenses | 11,917 | 11,942 | 10,906 |
| Income from continuing operations before provision for income taxes | 983 | 538 | 428 |
| Provision for income taxes | 347 | 179 | 142 |
| Income from continuing operations | 636 | 359 | 286 |
| Income from discontinued operations, net of income taxes | 123 | 23 | 21 |
| Net income | $ 759 | $ 382 | $ 307 |

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- INSTITUTIONAL Premiums increased by $966 million, or 13%, to $8,254 million for the year ended December 31, 2002 from $7,288 million for the comparable 2001 period. Group insurance premiums increased by $505 million as a result of growth in this segment's group life, dental, disability and long-term care businesses. Retirement and savings premiums increased by $461 million primarily due to the sale of a significant contract in the second quarter of 2002, as well as new sales throughout 2002 from structured settlements and traditional annuity products. Retirement and savings premium levels are significantly influenced by large transactions and, as a result, can fluctuate from period to period. Universal life and investment-type product policy fees increased by $23 million, or 4%, to $615 million for the year ended December 31, 2002 from $592 million for the comparable 2001 period. This increase is primarily attributable to a fee resulting from the renegotiation of a portion of a bank-owned life insurance contract, as well as growth in existing business in the group universal life product line. Other revenues decreased by $40 million, or 6%, to $609 million for the year ended December 31, 2002 from $649 million for the comparable 2001 period. Retirement and savings other revenues decreased $73 million primarily due to a reduction in administrative fees as a result of the Company's exit from the large market 401(k) business in late 2001, and lower fees earned on investments in separate accounts resulting generally from poor equity market performance. This decrease is partially offset by a $33 million increase in group insurance due to growth in the administrative service businesses and a settlement received in 2002 related to the Company's former medical business. Policyholder benefits and claims increased by $415 million, or 5%, to $9,339 million for the year ended December 31, 2002 from $8,924 million for the comparable 2001 period. This variance is attributable to increases 61 of $238 million and $177 million in group insurance and retirement and savings, respectively. Excluding $291 million of 2001 claims related to the September 11, 2001 tragedies, group insurance policyholder benefits and claims increased by $529 million commensurate with the aforementioned premium growth in this segment's group life, dental, disability, and long-term care businesses. Excluding $215 million of 2001 policyholder benefits related to the fourth quarter 2001 business realignment initiatives, retirement and savings policyholder benefits increased $392 million, commensurate with the aforementioned premium growth. Interest credited to policyholders decreased by $81 million, or 8%, to $932 million for the year ended December 31, 2002 from $1,013 million for the comparable 2001 period. Decreases of $42 million and $39 million in retirement and savings and group insurance, respectively, are primarily attributable to declines in the average crediting rates in 2002 as a result of the current low interest rate environment. Policyholder dividends decreased by $144 million, or 56%, to $115 million for the year ended December 31, 2002 from $259 million for the comparable 2001 period. This decline is largely attributable to unfavorable mortality experience of several large group clients. Policyholder dividends vary from period to period based on participating contract experience, which are generally recorded in policyholder benefits and claims. Other expenses decreased by $215 million, or 12%, to $1,531 million for the year ended December 31, 2002 from $1,746 million in the comparable 2001 period. Retirement and savings decreased by $293 million, primarily attributable to $184 million of accrued expenses related to business realignment initiatives recorded in the fourth quarter of 2001 (predominantly related to the Company's exit from the large market 401(k) business), $30 million of which was released into income in the fourth quarter of 2002. In addition, ongoing expenses for the defined contribution product have steadily decreased throughout 2002. The net reduction in retirement and savings is partially offset by an increase in pension and post-retirement costs. Group insurance other expenses increased by $78 million. This increase is mainly attributable to growth in operational expenses for the dental and disability products, as well as group insurance's non-deferrable expenses, including a certain portion of premium taxes and commissions. These variances are commensurate with the aforementioned premium growth. In addition, an increase in pension and post-retirement costs contributed to the variance. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- INSTITUTIONAL Premiums increased by $388 million, or 6%, to $7,288 million for the year ended December 31, 2001 from $6,900 million for the comparable 2000 period. Group insurance premiums grew by $680 million, due, in most part, to sales growth and continued favorable policyholder retention in this segment's dental, disability and long-term care businesses. In addition, premiums received from several existing group life customers in 2001 and the BMA acquisition contributed $173 million and $29 million, respectively, to this variance. The 2000 balance includes $124 million in additional insurance coverages purchased by existing customers with funds received in the demutualization. Retirement and savings premiums decreased by $292 million, primarily as a result of $270 million in premiums received in 2000 from existing customers. Universal life and investment-type product policy fees increased by $45 million, or 8%, to $592 million for the year ended December 31, 2001 from $547 million for the comparable 2000 period. The rise in fees reflects growth in sales and deposits in group universal life and COLI products. Higher fees in group universal life products represent an increase in insured lives for an existing customer, coupled with a change in a customer preference for group life over optional term products. The increase in corporate-owned life insurance represents a $27 million fee received in 2001 from an existing customer. Other revenues decreased by $1 million to $649 million for the year ended December 31, 2001 from $650 million for the comparable 2000 period. Group insurance other revenues decreased by $19 million. This decline is primarily attributable to the renegotiation of an existing contract with a significant long-term care customer, as well as $20 million in final settlements in 2000 on several cases relating to the term life and former medical business. This variance is partially offset by a rise in other revenues stemming from sales growth in this segment's dental and disability administrative businesses. Retirement and savings' other revenues increased by $18 million, due to $12 million in earnings on seed money and an increase in administrative services fees for the defined contribution group businesses. 62 Policyholder benefits and claims increased by $746 million, or 9%, to $8,924 million for the year ended December 31, 2001 from $8,178 million for the comparable 2000 period. Group insurance policyholder benefits and claims grew by $778 million, primarily due to growth in this segment's group life, dental, disability and long-term care insurance businesses, commensurate with the premium variance discussed above. In addition, $291 million in claims related to the September 11, 2001 tragedies contributed to this variance. Retirement and savings policyholder benefits and claims declined by $32 million. A decrease commensurate with the $292 million premium variance discussed above is almost entirely offset by a $215 million increase in policyholder benefits associated with fourth quarter 2001 business realignment initiatives. Interest credited to policyholder account balances decreased by $77 million, or 7%, to $1,013 million for the year ended December 31, 2001 from $1,090 million for the comparable 2000 period. Retirement and savings decreased by $53 million, or 9%, to $549 million in 2001 from $602 million in 2000, due to a overall decline in crediting rates in 2001 as a result of the low interest rate environment. A $24 million drop in group life is largely attributable to an overall decline in crediting rates in 2001 as a result of the low interest rate environment. The variance in group life was partially dampened by an increase in average customer account balances stemming from asset growth, resulting in $12 million in additional interest credited. Policyholder dividends increased by $135 million, or 109%, to $259 million for the year ended December 31, 2001 from $124 million for the comparable 2000 period. The rise in dividends is primarily attributed to favorable experience on a large group life contract in 2001. Policyholder dividends vary from period to period based on insurance contract experience, which are generally recorded in policyholder benefits and claims. Other expenses increased by $232 million, or 15%, to $1,746 million for the year ended December 31, 2001 from $1,514 million for the comparable 2000 period. Other expenses related to retirement and savings rose by $121 million, which is largely attributable to $184 million in expenses associated with fourth quarter 2001 business realignment initiatives. This variance is partially offset by a decrease in expenses, due in most part, to expense management initiatives. Group insurance expenses grew by $111 million due primarily to a rise in non- deferrable variable expenses associated with premium growth. Non-deferrable variable expenses include premium tax, commissions and administrative expenses for dental, disability and long-term care businesses. 63 REINSURANCE The following table presents consolidated financial information for the Reinsurance segment for the years indicated:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| REVENUES | | | |
| Premiums | $2,005 | $1,762 | $1,450 |
| Net investment income | 421 | 390 | 379 |
| Other revenues | 43 | 42 | 29 |
| Net investment gains (losses) | 2 | (6) | (2) |
| Total revenues | 2,471 | 2,188 | 1,856 |
| EXPENSES | | | |
| Policyholder benefits and claims | 1,554 | 1,484 | 1,096 |
| Interest credited to policyholder account balances | 146 | 122 | 109 |
| Policyholder dividends | 22 | 24 | 21 |
| Other expenses | 547 | 439 | 446 |
| Total expenses | 2,269 | 2,069 | 1,672 |
| Income before provision for income taxes and minority interest | 202 | 119 | 184 |
| Provision for income taxes | 43 | 27 | 48 |
| Minority interest | 75 | 52 | 67 |
| Net income | $ 84 | $ 40 | $ 69 |

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- REINSURANCE Premiums increased by $243 million, or 14%, to $2,005 million for the year ended December 31, 2002 from $1,762 million for the comparable 2001 period. New premiums from facultative and automatic treaties and renewal premiums on existing blocks of business, particularly in the U.S. and U.K. reinsurance operations, all contributed to the premium growth. Premium levels are significantly influenced by large transactions and reporting practices of ceding companies and, as a result, can fluctuate from period to period. Other revenues remained essentially unchanged at $43 million for the year ended December 31, 2002 versus $42 million for the comparable 2001 period. Policyholder benefits and claims increased by $70 million, or 5%, to $1,554 million for the year ended December 31, 2002 from $1,484 million for the comparable 2001 period. Policyholder benefits and claims were 78% of premiums for the year ended December 31, 2002 compared to 84% in the comparable 2001 period. The decrease in policyholder benefits and claims as a percentage of premiums is primarily attributable to higher than expected mortality in the U.S. reinsurance operations during the first and fourth quarters of 2001, favorable claims experience in 2002 and the 2001 impact of claims associated with the September 11, 2001 tragedies. In addition, increases in the liabilities for future policyholder benefits and adverse results on the reinsurance of Argentine pension business during 2001 contributed to the decrease. The level of claims may fluctuate from period to period, but exhibits less volatility over the long term. Interest credited to policyholder account balances increased by $24 million, or 20%, to $146 million for the year ended December 31, 2002 from $122 million for the comparable 2001 period. Contributing to this growth were several new deferred annuity reinsurance agreements executed during 2002. The crediting rate on certain blocks of annuities is based on the performance of the underlying assets. Policyholder dividends were essentially unchanged at $22 million for the year ended December 31, 2002, versus $24 million for the 2001 comparable period. 64 Other expenses increased by $108 million, or 25%, to $547 million for the year ended December 31, 2002 from $439 million for the comparable 2001 period. The increase in other expenses is primarily attributable to an increase in reinsurance business in the U.K., which is characterized by higher initial reinsurance allowances than those historically experienced in the segment. These expenses fluctuate depending on the mix of the underlying insurance products being reinsured as allowances paid and the related capitalization and amortization can vary significantly based on the type of business and the reinsurance treaty. Minority interest reflects third-party ownership interests in RGA. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- REINSURANCE Premiums increased by $312 million, or 22%, to $1,762 million for the year ended December 31, 2001 from $1,450 million for the comparable 2000 period. New premiums from facultative and automatic treaties and renewal premiums on existing blocks of business all contributed to the premium growth. Premium levels are significantly influenced by large transactions and reporting practices of ceding companies and, as a result, can fluctuate from period to period. Other revenues increased by $13 million, or 45%, to $42 million for the year ended December 31, 2001 from $29 million for the comparable 2000 period. The increase is due to an increase in fees earned on financial reinsurance, primarily as a result of the acquisition of RGA Financial Group, LLC during the second half of 2000. Policyholder benefits and claims increased by $388 million, or 35%, to $1,484 million for the year ended December 31, 2001 from $1,096 million for the comparable 2000 period. Claims experience for the year ended December 31, 2001 includes claims arising from the September 11, 2001 tragedies of approximately $16 million, net of amounts recoverable from reinsurers. As a percentage of premiums, policyholder benefits and claims increased to 84% for the year ended December 31, 2001 from 76% for the comparable 2000 period. This increase is attributed primarily to higher than expected mortality in the U.S. reinsurance operations during the first and fourth quarters of 2001, in addition to the claims arising from the terrorist attacks. Additionally, increases for benefits and adverse results on the reinsurance of Argentine pension business contributed to the increase. Mortality is expected to vary from period to period, but generally remains fairly constant over the long term. Interest credited to policyholder account balances increased by $13 million, or 12%, to $122 million for the year ended December 31, 2001 from $109 million for the comparable 2000 period. Interest credited to policyholder account balances relates to amounts credited on deposit-type contracts and certain cash-value contracts. The increase is primarily related to an increase in the underlying account balances due to a new block of single premium deferred annuities reinsured in 2001. Additionally, the crediting rate on certain blocks of annuities is based on the performance of the underlying assets. Therefore, any fluctuations in interest credited related to these blocks are generally offset by a corresponding change in net investment income. Policyholder dividends were essentially unchanged at $24 million for the year ended December 31, 2001 as compared to $21 million for the year ended December 31, 2000. Other expenses decreased by $7 million, or 2%, to $439 million for the year ended December 31, 2001 from $446 million for the comparable 2000 period. Other expenses, which include underwriting, acquisition and insurance expenses, were 20% of segment revenues in 2001 compared with 24% in 2000. This percentage fluctuates depending on the mix of the underlying insurance products being reinsured. Minority interest reflects third-party ownership interests in RGA. 65 AUTO & HOME The following table presents consolidated financial information for the Auto & Home segment for the years indicated:

| (DOLLARS IN MILLIONS) | YEAR ENDED DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| REVENUES | | | |
| Premiums | $2,828 | $2,755 | $2,636 |
| Net investment income | 177 | 200 | 194 |
| Other revenues | 26 | 22 | 40 |
| Net investment losses | (46) | (17) | (20) |
| Total revenues | 2,985 | 2,960 | 2,850 |
| EXPENSES | | | |
| Policyholder benefits and claims | 2,019 | 2,121 | 2,005 |
| Other expenses | 793 | 800 | 827 |
| Total expenses | 2,812 | 2,921 | 2,832 |
| Income before provision (benefit) for income taxes | 173 | 39 | 18 |
| Provision (benefit) for income taxes | 41 | (2) | (12) |
| Net income | $ 132 | $ 41 | $ 30 |

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- AUTO & HOME Premiums increased by $73 million, or 3%, to $2,828 million for the year ended December 31, 2002 from $2,755 million for the comparable 2001 period. Auto and property premiums increased by $66 million and $1 million, respectively, primarily due to increases in average premium earned per policy resulting from rate increases. The impact on premiums from rate increases was partially offset by an expected reduction in retention and a reduction in new business sales. Premiums from other personal lines increased by $6 million. Other revenues increased by $4 million, or 18%, to $26 million for the year ended December 31, 2002 from $22 million for the comparable 2001 period. This increase was primarily due to income earned on a COLI policy purchased in the second quarter of 2002, as well as higher fees on installment payments. These increases were partially offset by an adjustment to a deferred gain related to the disposition of this segment's reinsurance business in 1990. Policyholder benefits and claims decreased by $102 million, or 5%, to $2,019 million for the year ended December 31, 2002 from $2,121 million for the comparable 2001 period. Property policyholder benefits and claims decreased by $120 million due to improved claim frequency, underwriting and agency management actions, and a $41 million reduction in catastrophe losses. Property catastrophes represented 7.4% of the property loss ratio in 2002 compared to 13.5% in 2001. Other policyholder benefits and claims decreased by $10 million due to fewer personal umbrella claims. Fluctuations in these policyholder benefits and claims may not be commensurate with the change in premiums for a given period due to low premium volume and high liability limits. Auto policyholder benefits and claims increased by $28 million largely due to an increase in current year bodily injury and no-fault severities. Costs associated with the processing of the New York assigned risk business also contributed to this increase. These increases were partially offset by improved claim frequency resulting from milder winter weather, underwriting and agency management actions, as well as lower catastrophe losses. Other expenses decreased by $7 million, or 1%, to $793 million for the year ended December 31, 2002 from $800 million for the comparable 2001 period. This decrease is primarily due to reduced employee head-count and reduced expenses associated with the consolidation of The St. Paul companies acquired in 1999. These declines are partially offset by an increase in expenses related to the outsourced New York assigned risk business. 66 The effective income tax rates for the year ended December 31, 2002 and 2001 differ from the federal corporate tax rate of 35% due to the impact of non-taxable investment income. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- AUTO & HOME Premiums increased by $119 million, or 5%, to $2,755 million for the year ended December 31, 2001 from $2,636 million for the comparable 2000 period. Auto premiums increased by $99 million. Property premiums increased by $17 million. Both increases were largely due to rate increases. Due to increased rate activity, the retention ratio for the existing business declined from 90% to 89%. Premiums from other personal lines increased by $3 million. Other revenues decreased by $18 million, or 45%, to $22 million for the year ended December 31, 2001 from $40 million for the comparable 2000 period. This decrease is primarily due to a revision of an estimate made in 2000 of amounts recoverable from reinsurers related to the disposition of this segment's reinsurance business in 1990. Policyholder benefits and claims increased by $116 million, or 6%, to $2,121 million for the year ended December 31, 2001 from $2,005 million for the comparable 2000 period. Auto policyholder benefits and claims increased by $62 million due to increased average claim costs, growth in the business and adverse weather in the first quarter of 2001. Despite this increase, the auto loss ratio decreased to 75.9% in 2001 from 76.6% in 2000 as a result of higher premiums per policy. Property policyholder benefits and claims increased by $41 million due to increased non-catastrophe weather-related losses in 2001. Correspondingly, the property loss ratio increased to 80.7% in 2001 from 76.4% in 2000. Catastrophes represented 13.5% of the loss ratio in 2001 compared to 17.3% in 2000. Other policyholder benefits and claims grew by $13 million, primarily due to an increase in high liability personal umbrella claims. Fluctuations in these policyholder benefits and claims may not be commensurate with the change in premiums for a given period due to low premium volume and high liability limits. Other expenses decreased by $27 million, or 3%, to $800 million for the year ended December 31, 2001 from $827 million for the comparable 2000 period. This decrease is due to a reduction in integration costs associated with the St. Paul acquisition. The effective income tax rates for the years ended December 31, 2001 and 2000 differ from the federal corporate tax rate of 35% due to the impact of non-taxable investment income. ASSET MANAGEMENT The following table presents consolidated financial information for the Asset Management segment for the years indicated:

| (DOLLARS IN MILLIONS) | YEAR ENDED DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| REVENUES | | | |
| Net investment income | $ 59 | $ 71 | $ 90 |
| Other revenues | 166 | 198 | 760 |
| Net investment (losses) gains | (4) | 25 | -- |
| Total revenues | 221 | 294 | 850 |
| OTHER EXPENSES | 211 | 252 | 749 |
| Income before provision for income taxes and minority interest | 10 | 42 | 101 |
| Provision for income taxes | 4 | 15 | 32 |
| Minority interest | -- | -- | 35 |
| Net income | $ 6 | $ 27 | $ 34 |



YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- ASSET MANAGEMENT Other revenues, which primarily consist of management and advisory fees from third parties, decreased by $32 million, or 16%, to $166 million for the year ended December 31, 2002 from $198 million for the comparable 2001 period. The most significant factor contributing to this decline is a $31 million decrease resulting from the sale of Conning, which occurred in July 2001. Excluding the impact of this transaction, other revenues remained essentially unchanged at $166 million for the year ended December 31, 2002 as compared to $167 million for the year ended December 31, 2001. Despite lower average assets under management, revenues remained constant due to performance and incentive fees earned on certain real estate and hedge fund products. The lower assets under management are primarily due to institutional client withdrawals, and the downturn in the equity market. In addition, fourth quarter 2002 product closings and business exits also contributed to this decline. Other expenses decreased by $41 million, or 16%, to $211 million for the year ended December 31, 2002 from $252 million for the comparable 2001 period. Excluding the impact of the sale of Conning, other expenses decreased by $6 million, or 3%, to $211 million in 2002 from $217 million in 2001. This decrease is due to reductions in marketing-related expenses and expenses related to fund reimbursements. In addition, a decrease in amortization of deferred sales commissions resulted from a reduction in sales. These decreases were partially offset by a $5 million increase in employee compensation attributable to severance-related expenses resulting from third and fourth quarter 2002 staff reductions. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- ASSET MANAGEMENT Other revenues, which are primarily comprised of management and advisory fees from third parties, decreased by $562 million, or 74%, to $198 million in 2001 from $760 million in 2000. The most significant factors contributing to this decline were a $522 million decrease resulting from the sale of Nvest, which occurred in October 2000, and a $48 million decrease resulting from the sale of Conning, which occurred in July 2001. Excluding the impact of these transactions, other revenues increased by $8 million, or 5%, to $167 million in 2001 from $159 million in 2000. This is attributable to an increase in real estate assets under management that command a higher fee. Assets under management in the remaining Asset Management organization decreased from $56 billion as of December 31, 2000 to $51 billion at December 31, 2001. The decline occurred as a result of the equity market downturn and MetLife institutional customer withdrawals. Third party assets under management registered only a slight decrease of $352 million as a result of the equity market downturn, substantially offset by strong mutual fund sales and the purchase of a real estate portfolio in the second quarter of 2001 comprised of new assets of $1.7 billion. Management and advisory fees are typically calculated based on a percentage of assets under management, and are not necessarily proportionate to average assets managed due to changes in account mix. Other expenses decreased by $497 million, or 66%, to $252 million in 2001 from $749 million in 2000. The sale of Nvest reduced other expenses by $457 million and the sale of Conning reduced other expenses by $55 million. Excluding the impact of these transactions, other expenses increased by $15 million, or 7%, to $217 million in 2001 from $202 million in 2000. This variance is attributable to an increase in total compensation and benefits and an increase in discretionary spending. Compensation and benefits expense totaled $111 million in 2001 and is comprised of approximately 63% base compensation and 37% variable compensation. Base compensation increased by $9 million, or 15%, to $70 million in 2001 from

$61 million in 2000, primarily due to higher staffing levels. Variable compensation decreased by $1 million, or 2%, to $41 million in 2001 from $42 million in 2000 due to lower profitability. Variable incentive payments are based upon profitability, investment portfolio performance, new business sales and growth in revenues and profits. The variable compensation plans reward the employees for growth in their businesses, but also require them to share in the impact of any declines. Increased sales commissions arising from higher mutual fund sales in 2001 were largely offset by downward revisions in other variable compensation due to a decline in profits. Other general and administrative expenses increased $7 million, or 7%, to $106 million in 2001 from $99 million in 2000, primarily due to increases in occupancy costs and increased mutual fund reimbursement subsidies. 68 Minority interest, principally reflecting third-party ownership interest in Nvest, decreased by $35 million, or 100%, due to the sale of Nvest. INTERNATIONAL The following table presents consolidated financial information for the International segment for the years indicated:

YEAR ENDED DECEMBER 31, ------------- ---------- 2002 2001 2000 ------ ------ ------ (DOLLARS IN MILLIONS) ~~REVENUES Premiums.................................................. $1,511 $ 846 $ 660 Universal life and investment-type product policy fees..... 144 38 53 Net investment income...................................... 461 267 254 Other revenues.............................................. 14 16 9 Net investment (losses) gains.............................. (9) (16) 18 ------ ------ ------ Total revenues........................................ 2,121 1,151 994 ------ ------ ------ EXPENSES Policyholder benefits and claims........................... 1,388 689 562 Interest credited to policyholder account balances......... 79 51 56 Policyholder dividends..................................... 35 36 32 Payments to former Canadian policyholders................. -- -- 327 Other expenses.............................................. 507 329 292 ------ ------ ------ Total expenses........................................ 2,009 1,105 1,269 ------ ------ ------ Income (loss) before provision for income taxes............ 112 46 (275) Provision for income taxes................................ 28 32 10 ------ ------ ------ Net income (loss).......................................... $ 84 $ 14 $ (285) ====== ====== ======~~

YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- INTERNATIONAL Premiums increased by $665 million, or 79%, to $1,511 million for the year ended December 31, 2002 from $846 million for the comparable 2001 period. The June 2002 acquisition of Hidalgo and the 2001 acquisitions in Chile and Brazil increased premiums by $228 million, $102 million and $8 million, respectively. In addition, a portion of the increase in premiums is attributable to a $108 million increase due to the sale of an annuity contract in the first quarter of 2002 to a Canadian trust company. South Korea's premiums increased by $91 million primarily due to a larger professional sales force and improved agent productivity. Mexico's premiums (excluding Hidalgo), increased by $66 million, primarily due to increases in its group life, major medical and individual life businesses. Excluding the aforementioned sale of an annuity contract, Canada's premiums increased by $26 million due to the restructuring of a pension contract from an investment-type product to a long-term annuity. Spain's and Taiwan's premiums increased by $25 million and $13 million, respectively, due primarily to continued growth in the direct auto business and in the individual life insurance business. Hong Kong's premiums increased $5 million primarily due to continued growth in the group life and traditional life businesses. These increases are partially offset by a decrease in Argentina's premiums of $9 million due to the reduction in business caused by the Argentine economic environment. The remainder of the variance is attributable to minor fluctuations in other countries. Universal life and investment type-product policy fees increased by $106 million, or 279%, to $144 million for the year ended December 31, 2002 from $38 million for the comparable 2001 period. The acquisition of Hidalgo and the acquisitions in Chile resulted in increases of $102 million and $5 million, respectively. These increases were partially offset by a $9 million decrease in Spain due to a reduction in fees caused by a decline in 69 assets under management, as a result of the cessation of product lines offered through a joint venture with Banco Santander in 2001. The remainder of the variance is attributable to minor fluctuations in several countries. Other revenues decreased by $2 million, or 13%, to $14 million for the year ended December 31, 2002 from $16 million for the comparable 2001 period. Canada's other revenues in 2001 included $1 million due primarily to the settlement of two legal cases in 2001. The remainder of the variance is attributable to minor fluctuations in several countries. The acquisition of Hidalgo and the acquisitions in Chile and Brazil had no material impact on this variance. Policyholder benefits and claims increased by $699 million, or 101%, to $1,388 million for the year ended December 31, 2002 from $689 million for the comparable 2001 period. The acquisition of Hidalgo and the acquisitions in Chile increased policyholder benefits and claims by $224 million and $169 million, respectively. In addition, $108 million of this increase in policyholder benefits and claims is attributable to the aforementioned sale of an annuity contract in Canada. South Korea's, Mexico's (excluding Hidalgo), Taiwan's and Spain's policyholder benefits and claims increased by $69 million, $67 million, $18 million and $15 million, respectively, commensurate with the overall premium increases discussed above. Excluding the aforementioned sale of an annuity contract, Canada's policyholder benefits and claims increased by $32 million primarily due to the restructuring of a pension contract from an investment-type product to a long-term annuity. The remainder of the variance is attributable to minor fluctuations in several countries. Interest credited to policyholder account balances increased by $28 million, or 55%, to $79 million for the year ended December 31, 2002 from $51 million for the comparable 2001 period. The acquisition of Hidalgo contributed $51 million. This increase was partially offset by a decrease of $17 million in Argentina. This decrease is primarily due to modifications to policy contracts as authorized by the Argentinean government and a reduction of investment-type policies in-force. In addition, Spain's interest credited decreased by $7 million primarily due to a decrease in the assets under management for life products with guarantees associated with the sale of a block of policies to Banco Santander in May 2001. The remainder of the variance is attributable to minor fluctuations in several countries. Policyholder dividends remained essentially unchanged at $35 million for the year ended December 31, 2002 versus $36 million for the comparable 2001 period. The acquisition of Hidalgo and the acquisitions in Chile and Brazil had no material impact on this variance. Other expenses increased by $178 million, or 54%, to $507 million for the year ended December 31, 2002 from $329 million for the comparable 2001 period. The acquisition of Hidalgo and the acquisitions in Chile and Brazil contributed $82 million, $21 million and $5 million, respectively. South Korea's, Mexico's (excluding Hidalgo), and Hong Kong's other expenses increased by $29 million, $19 million and $7 million, respectively. These increases are primarily due to increased non-deferrable commissions from higher sales as discussed above, particularly in South Korea where fixed sales compensation is paid to new sales management as part of the professional agency expansion. Argentina's other expenses increased by $9 million due to additional loss recognition in connection with ongoing economic circumstances in the country. Poland's other expenses increased by $5 million primarily due to costs incurred in the fourth quarter of 2002 associated with the closing of this operation. The remainder of the variance is attributable to minor fluctuations in several countries. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- INTERNATIONAL Premiums increased by $186 million, or 28%, to $846 million for the year ended December 31, 2001 from $660 million for the comparable 2000 period. Mexico's premiums grew by $89 million due to additional sales in group life, major medical and individual life products. Protection-type product sales fostered by the continued expansion of the professional sales force in South Korea accounted for an additional $41 million in premiums. Spain's premiums rose by $18 million primarily due to continued growth in the direct auto business. Higher individual life sales resulted in an additional $17 million in Taiwanese premiums. The 2001 acquisitions in Brazil and Chile increased premiums by $12 million and $7 million, respectively, in those countries. Hong Kong's premiums grew by $5 million primarily due to continued growth in the direct marketing, group life, and traditional life businesses. These variances were partially offset by a $3 million decline in Argentinean individual 70 life premiums, reflecting the impact of economic and political events in that country. The remainder of the variance is attributable to minor fluctuations in several countries. Universal life and investment-type product policy fees decreased by $15 million, or 28%, to $38 million for the year ended December 31, 2001 from $53 million for the comparable 2000 period. This decline is primarily attributable to a $19 million reduction in fees in Spain caused by a reduction in assets under management, as a result of a planned cessation of product lines offered through a joint venture with Banco Santander. The remainder of the variance is attributable to minor fluctuations in several countries. Other revenues increased by $7 million, or 78%, to $16 million for the year ended December 31, 2001 from $9 million for the comparable 2000 period. Argentina's other revenues grew by $5 million primarily due to foreign currency transaction gains in the private pension business, which was introduced in the third quarter of 2001. The required accounting for foreign currency translation fluctuations in Indonesia, a highly inflationary economy, resulted in a $3 million increase in other revenues. These variances were partially offset by a $3 million decrease in Taiwan due to higher group reinsurance commissions received in 2000. The remainder of the increase is attributable to minor variances in several countries. Policyholder benefits and claims increased by $127 million, or 23%, to $689 million for the year ended December 31, 2001 from $562 million for the comparable 2000 period. Mexico's, South Korea's and Taiwan's policyholder benefits and claims grew by $74 million, $24 million and $15 million, respectively, commensurate with the overall premium variance discussed above. The 2001 acquisitions in Brazil and Chile contributed $9 million and $7 million, respectively, to this variance. These variances are partially offset by a $7 million decline in Argentina's policyholder benefits and claims as a result of the impact of economic and political events in that country. The remainder of the variance is attributable to minor fluctuations in several countries. Interest credited to policyholder account balances decreased by $5 million, or 9%, to $51 million for the year ended December 31, 2001 from $56 million for the comparable 2000 period. An overall decline in crediting rates on interest-sensitive products in 2001 as a result of the low interest rate environment is primarily responsible for a $6 million reduction in South Korea. Spain's interest credited dropped by $6 million due to a reduction in assets under management, as a result of a planned cessation of product lines offered through a joint venture with Banco Santander. These variances were partially offset by a $2 million increase in both Mexico and Argentina, due to an increase in average customer account balances. Policyholder dividends increased by $4 million, or 13%, to $36 million for the year ended December 31, 2001 from $32 million for the comparable 2000 period. The growth in Mexico's group life sales mentioned above resulted in an increase in policyholder dividends of $2 million. Taiwan's individual life sales contributed an additional $2 million in policyholder dividends. The remainder of the variance is attributable to minor fluctuations in several countries. Payments of $327 million related to Metropolitan Life's demutualization were made during the second quarter of 2000 to holders of certain policies transferred to Clarica Life Insurance Company in connection with the sale of a substantial portion of the Company's Canadian operations in 1998. Other expenses increased by $37 million, or 13%, to $329 million for the year ended December 31, 2001 from $292 million in the comparable 2000 period. Argentina's other expenses rose by $15 million due to a write-off of deferred policy acquisition costs, resulting from a revision in the calculation of estimated gross margins and profits caused by the anticipated impact of economic and political events in that country. Mexico and South Korea's other expenses grew by $13 million and $10 million, respectively, primarily due to the growth in business in these countries. The 2001 acquisitions in Brazil and Chile contributed $7 million and $3 million, respectively, to this variance. These variances were partially offset by an $11 million decrease in Spain's other expenses due to a reduction in payroll, commissions, and administrative expenses as a result of a planned cessation of product lines offered through a joint venture with Banco Santander. The remainder of the variance is attributable to minor fluctuations in several countries. 71 CORPORATE & OTHER YEAR ENDED DECEMBER 31, 2002 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2001 -- CORPORATE & OTHER Other revenues increased by $16 million, or 19%, to $101 million for the year ended December 31, 2002 from $85 million for the comparable 2001 period, primarily due to the sale of a company-occupied building, and income earned on COLI purchased during 2002, partially offset by an increase in the elimination of intersegment activity. Other expenses increased by $111 million, or 17%, to $768 million for the year ended December 31, 2002 from $657 million for the comparable 2001 period, primarily due to increases in legal and interest expenses. The 2002 period includes a $266 million charge to increase the Company's asbestos-related liability and expenses to cover costs associated with the resolution of federal government investigations of General American's former Medicare business. These increases are partially offset by a $250 million charge recorded in the fourth quarter of 2001 to cover costs associated with the resolution of class action lawsuits and a regulatory inquiry pending against Metropolitan Life, involving alleged race-conscious insurance underwriting practices prior to 1973. The increase in interest expenses is primarily due to increases in long-term debt resulting from the issuance of $1.25 billion and $1 billion of senior debt in November 2001 and December 2002, respectively, partially offset by a decrease in commercial paper in 2002. In addition, a decrease in the elimination of intersegment activity contributed to the variance. YEAR ENDED DECEMBER 31, 2001 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2000 -- CORPORATE & OTHER Other revenues decreased by $6 million, or 7%, to $85 million for the year ended December 31, 2001 from $91 million for the comparable 2000 period, primarily due the sales of certain subsidiaries in 2000, partially offset by the recognition of a refund earned on a reinsurance treaty in 2001 and a decrease in the elimination of intersegment activity. Demutualization costs of $230 million were incurred during the year ended December 31, 2000. These costs are related to Metropolitan Life's demutualization on April 7, 2000. Other expenses increased by $198 million, or 43%, to $657 million for the year ended December 31, 2001 from $459 million for the comparable 2000 period. This variance is primarily due to higher legal expenses, expenses associated with MetLife, Inc. shareholder services cost and start-up costs relating to MetLife's banking initiatives, as well as a decrease in the elimination of intersegment activity. Legal expenses of $250 million were recorded in the fourth quarter of 2001 to cover costs associated with the anticipated resolution of class action lawsuits and a regulatory inquiry pending against Metropolitan Life, involving alleged race-conscious insurance underwriting practices prior to 1973. These increases are partially offset by a reduction in interest expenses due to reduced average levels in borrowing and a lower rate environment in 2001. LIQUIDITY AND CAPITAL RESOURCES THE HOLDING COMPANY Capital Restrictions and Limitations on Bank Holding Companies and Financial Holding Companies -- Capital. MetLife, Inc. and its insured depository institution subsidiary are subject to risk-based and leverage capital guidelines issued by the federal banking regulatory agencies for banks and financial holding companies. The federal banking regulatory agencies are required by law to take specific prompt corrective actions with respect to institutions that do not meet minimum capital standards. At December 31, 2002, MetLife and its insured depository institution subsidiary were in compliance with the aforementioned guidelines. Liquidity Liquidity refers to a company's ability to generate adequate amounts of cash to meet its needs. Liquidity is managed to preserve stable, reliable and cost-effective sources of cash to meet all current and future financial obligations. Liquidity is provided by a variety of sources, including a portfolio of liquid assets, a diversified mix 72 of short- and long-term funding sources from the wholesale financial markets and the ability to borrow through committed credit facilities. The Holding Company is an active participant in the global financial markets through which it obtains a significant amount of funding. These markets, which serve as cost-effective sources of funds, are critical components of the Holding Company's liquidity management. Decisions to access these markets are based upon relative costs, prospective views of balance sheet growth, and a targeted liquidity profile. A disruption in the financial markets could limit access to liquidity for the Holding Company. The Holding Company's ability to maintain regular access to competitively priced wholesale funds is fostered by its current debt ratings from the major credit rating agencies. Management views its capital ratios, credit quality, stable and diverse earnings streams, diversity of liquidity sources and its liquidity monitoring procedures as critical to retaining high credit ratings. Liquidity is monitored through the use of internal liquidity risk metrics, including the composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, access to the financial markets for capital and term-debt transactions, and exposure to contingent draws on the Holding Company's liquidity. Liquidity Sources Dividends. The primary source of the Holding Company's liquidity is dividends it receives from Metropolitan Life. Under the New York Insurance Law, Metropolitan Life is permitted without prior insurance regulatory clearance to pay a stockholder dividend to the Holding Company as long as the aggregate amount of all such dividends in any calendar year does not exceed the lesser of (i) 10% of its statutory surplus as of the immediately preceding calendar year, and (ii) its statutory net gain from operations for the immediately preceding calendar year (excluding realized capital gains). Metropolitan Life will be permitted to pay a stockholder dividend to the Holding Company in excess of the lesser of such two amounts only if it files notice of its intention to declare such a dividend and the amount thereof with the Superintendent and the Superintendent does not disapprove the distribution. Under the New York Insurance Law, the Superintendent has broad discretion in determining whether the financial condition of a stock life insurance company would support the payment of such dividends to its stockholders. The New York Insurance Department (the "Department") has established informal guidelines for such determinations. The guidelines, among other things, focus on the insurer's overall financial condition and profitability under statutory accounting practices. Management of the Holding Company cannot provide assurance that Metropolitan Life will have statutory earnings to support payment of dividends to the Holding Company in an amount sufficient to fund its cash requirements and pay cash dividends or that the Superintendent will not disapprove any dividends that Metropolitan Life must submit for the Superintendent's consideration. In addition, the Holding Company also receives dividends from its other subsidiaries. The Holding Company's other insurance subsidiaries are also subject to restrictions on the payment of dividends to their respective parent companies. The dividend limitation is based on statutory financial results. Statutory accounting practices, as prescribed by the Department, differ in certain respects from accounting principles used in financial statements prepared in conformity with GAAP. The significant differences relate to deferred policy acquisition costs, certain deferred income taxes, required investment reserves, reserve calculation assumptions, goodwill and surplus notes. Liquid Assets. An integral part of the Holding Company's liquidity management is the amount of liquid assets that it holds. Liquid assets include cash, cash equivalents, short-term investments and marketable fixed maturities. At December 31, 2002 and 2001, the Holding Company had $1,343 million and $2,981 million in liquid assets, respectively. Global Funding Sources. Liquidity is also provided by a variety of both short- and long-term instruments, including repurchase agreements, commercial paper, medium-and long-term debt, capital securities and stockholders' equity. The diversity of the Holding Company's funding sources enhances funding flexibility and limits dependence on any one source of funds, and generally lowers the cost of funds. At December 31, 2002, the Holding Company had $249 million in short-term debt outstanding. At December 31, 2001, the Holding Company had no short-term debt outstanding. At December 31, 2002 and 2001, the Holding Company had $3.3 billion and $2.3 billion in long-term debt outstanding, respectively. 73 The Holding Company filed a $4.0 billion shelf registration statement, effective June 1, 2001, with the U.S. Securities and Exchange Commission ("SEC") which permits the registration and issuance of debt and equity securities as described more fully therein. The Holding Company has issued senior debt in the amount of $2.25 billion under this registration statement. In December 2002, the Holding Company issued $400 million 5.375% senior notes due 2012 and $600 million 6.50% senior notes due 2032 and in November 2001, the Holding Company issued $500 million 5.25% senior notes due 2006 and $750 million 6.125% senior notes due 2011. In addition, in

February 2003, the Holding Company remarketed under the shelf registration statement $1,006 million aggregate principal amount of debentures previously issued in connection with the issuance of equity security units as part of MetLife, Inc.'s initial public offering in April 2000. Other sources of the Holding Company's liquidity include programs for short- and long-term borrowing, as needed, arranged through Metropolitan Life. Credit Facilities. The Holding Company maintains approximately $1.25 billion in a committed and unsecured credit facility that it shares with Metropolitan Life and MetLife Funding, Inc. ("MetLife Funding") expiring in 2005. If these facilities were drawn upon, they would bear interest at varying rates stated in the agreements. This facility is primarily used as back-up lines of credit for its commercial paper program. At December 31, 2002, the Holding Company, Metropolitan Life or MetLife Funding had not drawn against this credit facility. Liquidity Uses The primary uses of liquidity of the Holding Company include cash dividends on common stock, service on debt, contributions to subsidiaries, payment of general operating expenses and the repurchase of the Holding Company's common stock. Dividends. In the fourth quarter of 2002, the Holding Company declared an annual dividend for 2002 of $0.21 per share. The 2002 dividend represented an increase of $0.01 per share from the 2001 annual dividend of $0.20 per share. Dividends, if any, in any year will be determined by the Holding Company's Board of Directors after taking into consideration factors such as the Holding Company's current earnings, expected medium- and long-term earnings, financial condition, regulatory capital position, and applicable governmental regulations and policies. Capital Contributions to Subsidiaries. In 2002, the Holding Company contributed $500 million to Metropolitan Life and in 2001, contributed $770 million to Metropolitan Insurance and Annuity Company ("MIAC"). Share Repurchase. On February 19, 2002, the Holding Company's Board of Directors authorized a $1 billion common stock repurchase program. This program began after the completion of the March 28, 2001 and June 27, 2000 repurchase programs, each of which authorized the repurchase of $1 billion of common stock. Under these authorizations, the Holding Company may purchase common stock from the MetLife Policyholder Trust, in the open market and in privately negotiated transactions. The Holding Company acquired 15,244,492 and 45,242,966 shares of common stock for $471 million and $1,322 million during the years ended December 31, 2002 and 2001, respectively. At December 31, 2002 the Holding Company had approximately $806 million remaining on its existing share repurchase authorization. The Company does not anticipate any share repurchases in the first six months of 2003 and any repurchases in the remainder of 2003 will be dependent upon several factors, including the Company's capital position, its financial strength and credit ratings, general market conditions and the price of the Company's stock. Support Agreements. In 2002, the Holding Company entered into a net worth maintenance agreement with three of its insurance subsidiaries, MetLife Investors Insurance Company, First MetLife Investors Insurance Company and MetLife Investors Insurance Company of California. Under the agreements, the Holding Company agreed, without limitation as to the amount, to cause each of these subsidiaries to have a minimum capital and surplus of $10 million (or, with respect to MetLife Investors Insurance Company of California, $5 million), total adjusted capital at a level not less than 150% of the company action level RBC, as defined by state insurance statutes, and liquidity necessary to enable it to meet its current obligations on a timely basis. The capital and surplus of each of these subsidiaries at December 31, 2002 was in excess of the referenced amounts. 74 The Holding Company has agreed to make capital contributions, in any event not to exceed $120 million, to MIAC in the aggregate amount of the excess of (i) the debt service payments required to be made, and the capital expenditure payments required to be made or reserved for, in connection with the affiliated borrowings arranged in December 2001 to fund the purchase by MIAC of certain real estate properties from Metropolitan Life during the two year period following the date of the borrowings, over (ii) the cash flows generated by these properties. Based on management's analysis of its expected cash inflows from the dividends it receives from subsidiaries, including Metropolitan Life, that are permitted to be paid without prior insurance regulatory approval and its portfolio of liquid assets and other anticipated cash flows, management believes there will be sufficient liquidity to enable the Holding Company to make payments on debt, make dividend payments on its common stock, pay all operating expenses and meet other obligations. THE COMPANY Capital Risk-Based Capital ("RBC"). Section 1322 of the New York Insurance Law requires that New York domestic life insurers report their RBC based on a formula calculated by applying factors to various asset, premium and statutory reserve items, and similar rules apply to each of the Company's domestic insurance subsidiaries. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk and business risk. Section 1322 gives the Superintendent explicit regulatory authority to require various actions by, or take various actions against, insurers whose total adjusted capital does not exceed certain RBC levels. At December 31, 2002, Metropolitan Life's and each of the Holding Company's domestic insurance subsidiaries' total adjusted capital was in excess of each of the RBC levels required by each state of domicile. The National Association of Insurance Commissioners ("NAIC") adopted the Codification of Statutory Accounting Principles (the "Codification"), which is intended to standardize regulatory accounting and reporting to state insurance departments and became effective January 1, 2001. However, statutory accounting principles continue to be established by individual state laws and permitted practices. The Department required adoption of the Codification with certain modifications for the preparation of statutory financial statements of insurance companies domiciled in New York effective January 1, 2001. Effective December 31, 2002, the Department adopted a modification to its regulations to be consistent with Codification with respect to the admissibility of deferred income taxes by New York insurers, subject to certain limitations. The adoption of the Codification as modified by the Department, did not adversely affect Metropolitan Life's statutory capital and surplus. Further modifications by state insurance departments may impact the effect of the Codification on the statutory capital and surplus of Metropolitan Life and the Holding Company's other insurance subsidiaries. Liquidity Sources Cash Flow from Operations. The Company's principal cash inflows from its insurance activities come from insurance premiums, annuity considerations and deposit funds. A primary liquidity concern with respect to these cash inflows is the risk of early contractholder and policyholder withdrawal. The Company seeks to include provisions limiting withdrawal rights on many of its products, including general account institutional pension products (generally group annuities, including guaranteed interest contracts and certain deposit fund liabilities) sold to employee benefit plan sponsors. The Company's principal cash inflows from its investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income. The primary liquidity concerns with respect to these cash inflows are the risk of default by debtors and market volatilities. The Company closely monitors and manages these risks through its credit risk management process. Liquid Assets. An integral part of the Company's liquidity management is the amount of liquid assets it holds. Liquid assets include cash, cash equivalents, short-term investments, marketable fixed maturities and equity securities. At December 31, 2002 and 2001, the Company had $127 billion and $108 billion in liquid assets, respectively. 75 Global Funding Sources. Liquidity is also provided by a variety of both short- and long-term instruments, including repurchase agreements, commercial paper, medium- and long-term debt, capital securities and stockholders' equity. The diversity of the Company's funding sources enhances funding flexibility and limits dependence on any one source of funds, and generally lowers the cost of funds. At December 31, 2002 and 2001, the Company had $1,161 million and $355 million in short-term debt outstanding, respectively, and $4,425 million and $3,628 million in long-term debt outstanding, respectively. See "-- The Holding Company -- Global Funding Sources." MetLife Funding serves as a centralized finance unit for Metropolitan Life. Pursuant to a support agreement, Metropolitan Life has agreed to cause MetLife Funding to have a tangible net worth of at least one dollar. At December 31, 2002 and 2001, MetLife Funding had a tangible net worth of $10.7 million and $10.6 million, respectively. MetLife Funding raises funds from various funding sources and uses the proceeds to extend loans, through MetLife Credit Corp., a subsidiary of Metropolitan Life, to the Holding Company, Metropolitan Life and other affiliates. MetLife Funding manages its funding sources to enhance the financial flexibility and liquidity of Metropolitan Life and other affiliated companies. At December 31, 2002 and 2001, MetLife Funding had total outstanding liabilities, including accrued interest payable, of $400 million and $133 million, respectively, consisting primarily of commercial paper. Credit Facilities. The Company maintains committed and unsecured credit facilities aggregating $2.43 billion ($1.14 billion expiring in 2003 and $1.29 billion expiring in 2005). If these facilities were drawn upon, they would bear interest at varying rates stated in the agreements. The facilities can be used for general corporate purposes and also as back-up lines of credit for the Company's commercial paper program. At December 31, 2002, the Company had drawn approximately $28 million under the facilities expiring in 2005 at interest rates ranging from 4.39% to 5.57%. Liquidity Uses Insurance Liabilities. The Company's principal cash outflows primarily relate to the liabilities associated with its various life insurance, property and casualty, annuity and group pension products, operating expenses and income taxes, as well as principal and interest on its outstanding debt obligations. Liabilities arising from its insurance activities primarily relate to benefit payments under the aforementioned products, as well as payments for policy surrenders, withdrawals and loans. Investment and Other. Additional cash outflows include those related to obligations of securities lending activities, investments in real estate, limited partnership and joint ventures, as well as legal liabilities. The following table summarizes the Company's major contractual obligations (other than those arising from its ordinary product and investment purchase activities):

| CONTRACTUAL OBLIGATIONS | TOTAL | 2003 | 2004 | 2005 | 2006 | 2007 | THEREAFTER |
|---|---|---|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | | | | |
| Long-term debt(1) | $4,460 | $ 452 | $ 12 | $ 397 | $604 | $ 4 | $2,991 |
| Partnership investments | 1,667 | 1,667 | -- | -- | -- | -- | -- |
| Company-obligated securities(1) | 1,356 | -- | -- | 1,006 | -- | -- | 350 |
| Operating leases | 1,399 | 192 | 166 | 149 | 133 | 116 | 643 |
| Mortgage commitments | 859 | 859 | -- | -- | -- | -- | -- |
| Total | $9,741 | $3,170 | $178 | $1,552 | $737 | $120 | $3,984 |

--------------- (1) Amounts differ from the balances presented on the Consolidated Balance Sheets, which are shown net of related discounts. On July 11, 2002, an affiliate of the Company elected not to make future payments required by the terms of a non-recourse loan obligation. The book value of this loan was $16 million at December 31, 2002. The Company's exposure under the terms of the applicable loan agreement is limited solely to its investment in certain securities 76 held by an affiliate. During the first quarter of 2003 the Company made all previously required and current payments under the terms of the loan. Letters of Credit. At December 31, 2002 and December 31, 2001, the Company had outstanding approximately $625 million and $473 million in letters of credit from various banks, all of which expire within one year. Since commitments associated with letters of credit and financing arrangements may expire unused, these amounts do not necessarily reflect the actual future cash funding requirements. Support Agreements. In addition to its support agreement with MetLife Funding described above, Metropolitan Life entered into a net worth maintenance agreement with New England Life Insurance Company ("New England Life") at the time Metropolitan Life acquired New England Life. Under the agreement, Metropolitan Life agreed, without limitation as to the amount, to cause New England Life to have a minimum capital and surplus of $10 million, total adjusted capital at a level not less than the company action level RBC, as defined by state insurance statutes, and liquidity necessary to enable it to meet its current obligations on a timely basis. The agreement may be terminated under certain circumstances. The capital and surplus of New England Life at December 31, 2002 and 2001 was in excess of the referenced amounts. See "-- Liquidity Sources -- Global Funding Sources." In connection with the Company's acquisition of GenAmerica, Metropolitan Life entered into a net worth maintenance agreement with General American Life Insurance Company ("General American"). Under the agreement, Metropolitan Life agreed without limitation as to amount to cause General American to have a minimum capital and surplus of $10 million, total adjusted capital at a level not less than 180% of the company action level RBC, as defined by state insurance statutes, and liquidity necessary to enable it to meet its current obligations on a timely basis. The agreement was subsequently amended to provide that, for the five year period from 2003 through 2007, total adjusted capital must be maintained at a level not less than 200% of the company action level RBC, as defined by state insurance statutes. The capital and surplus of General American at December 31, 2002 and 2001 was in excess of the referenced amounts. Metropolitan Life has entered into a net worth maintenance agreement with Security Equity Life Insurance Company ("Security Equity"), an insurance subsidiary acquired in the GenAmerica transaction. Under the agreement, Metropolitan Life agreed without limitation as to amount to cause Security Equity to have a minimum capital and surplus of $10 million, total adjusted capital at a level not less than 150% of the company action level RBC, as defined by state insurance statutes, and sufficient liquidity to meet its current obligations. The agreement may be terminated under certain circumstances. The capital and surplus of Security Equity at December 31, 2002 and 2001 was in excess of the referenced amounts. Metropolitan Life has also entered into arrangements for the benefit of some of its other subsidiaries and affiliates to assist such subsidiaries and affiliates in meeting various jurisdictions' regulatory requirements regarding capital and surplus and security deposits. In addition, Metropolitan Life has entered into a support arrangement with respect to a subsidiary under which Metropolitan Life may become responsible, in the event that the subsidiary becomes the subject of insolvency proceedings, for the payment of certain reinsurance recoverables due from the subsidiary to one or more of its cedents in accordance with the terms and conditions of the applicable reinsurance agreements. General American has agreed to guarantee the obligations of its subsidiary, Paragon Life Insurance Company, and certain obligations of its former subsidiaries, Security Equity, MetLife Investors Insurance Company ("MetLife Investors"), First MetLife Investors Insurance Company and MetLife Investors Insurance Company of California. In addition, General American has entered into a contingent reinsurance agreement with MetLife Investors. Under this agreement, in the event that MetLife Investors' statutory capital and surplus is less than $10 million or total adjusted capital falls below 150% of the company action level RBC, as defined by state insurance statutes, General American would assume as assumption reinsurance, subject to regulatory approvals and required consents, all of MetLife Investors' life insurance policies and annuity contract liabilities. The capital and surplus of MetLife Investors' at December 31, 2002 and 2001 was in excess of the referenced amounts. Management does not anticipate that these arrangements will place any significant demands upon the Company's liquidity resources. 77 Litigation. Various litigation claims and assessments against the Company have arisen in the course of the Company's business, including, but not limited to, in connection with its activities as an insurer, employer, investor, investment advisor and taxpayer. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning the Company's compliance with applicable insurance and other laws and regulations. It is not feasible to predict or determine the ultimate outcome of all pending investigations and legal proceedings or provide reasonable ranges of potential losses except with respect to certain matters. In some of the matters, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Although in light of these considerations, it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's consolidated financial position, based on information currently known by the Company's management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect. However, given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's operating results or cash flows in particular quarterly or annual periods. Based on management's analysis of its expected cash inflows from operating activities, the dividends it receives from subsidiaries, including Metropolitan Life, that are permitted to be paid without prior insurance regulatory approval and its portfolio of liquid assets and other anticipated cash flows, management believes there will be sufficient liquidity to enable the Company to make payments on debt, make dividend payments on its common stock, pay all operating expenses and meet other obligations. The nature of the Company's diverse product portfolio and customer base lessen the likelihood that normal operations will result in any significant strain on liquidity in 2003. Consolidated cash flows. Net cash provided by operating activities was $4,997 million and $4,512 million for the years ended December 31, 2002 and 2001, respectively. The $485 million increase in operating cash flow in 2002 over the comparable 2001 period is primarily attributable to sales growth in the group life, dental, disability and long-term care businesses, the sale of a significant retirement and savings contract in the second quarter of 2002, as well as additional sales of structured settlements and traditional annuity products. In addition, a large annuity contract sold in the first quarter of 2002 to a Canadian trust company and increased sales in South Korea due to larger professional sales force and improved agent productivity. These increases were partially offset by a contribution by the Company to its defined benefit pension plans in December 2002. Net cash provided by operating activities was $4,512 million and $3,277 million for the years ended December 31, 2001 and 2000, respectively. The $1,235 million increase in operating cash flow in 2001 over the 2000 comparable period is primarily attributable to sales growth in the dental, disability, long-term care and group life products, partially offset by decreases in the sales of retirement and savings products. An increase in operating cash flows resulted from additional sales of group life, major medical and individual life products in Mexico. Protection-type product sales fostered by the continued expansion of the professional sales force accounted for additional premiums from South Korea. Net cash used in investing activities was $16,996 million and $3,165 million for the years ended December 31, 2002 and 2001, respectively. The $13,831 million increase in net cash used in investing activities in 2002 over the 2001 comparable period is partly attributable to an increase in investments held as cash collateral received in connection with the securities lending program. In addition, the Company invested income generated from operations, cash raised through the issuance of a guaranteed investment contract and cash generated by a company-sponsored real estate sales program in various financial instruments, including fixed maturities and mortgage loans on real estate. At December 31, 2001, the Company held cash equivalents that were subsequently invested in bonds and U.S. treasury notes in the first quarter of 2002. Additionally, certain contractholders transferred investments from the separate account to the general account. Net cash used in investing activities also increased due to the acquisition of Hidalgo. Net cash used in investing activities was $3,165 million and $1,232 million for the years ended December 31, 2001 and 2000, respectively. Net cash used in investing activities increased $1,933 million in 2001, over the comparable period in 2000, due in large part to the purchase of equity securities as part of the 78 Company's investment in the equity markets following the September 11, 2001 tragedies. The remaining change in investing activities was due to the investment of income generated from the operations of the Company in various financial instruments. Net cash provided by financing activities was $6,849 million and $2,692 million for the years ended December 31, 2002 and 2001, respectively. The $4,157 million increase in financing activities in 2002 from 2001 was due to a $2,401 million increase in policyholder account balances primarily from sales of annuity products, the issuance of $1,536 million in short-term debt. In addition, the Company spent $850 million less in the stock repurchase program in 2002 as compared to 2001. These cash flows are partially offset by a

$592 million decrease in long-term debt issued. Net cash provided by financing was $2,692 million for the year ended December 31, 2001. Net cash used in financing was $1,400 million for the year ended December 31, 2000. Net cash provided by financing activities increased $4,092 million in 2001 from 2000, partially attributable to a $3,514 million increase in policyholder account balances primarily from sales of annuity products, $2,550 million of cash payments to policyholders in 2000 related to the Company's demutualization, the paydown of $2,365 million of short-term debt in 2000 and the issuance of $1,393 million in long-term debt in 2001. Partially offsetting these activities were the issuance of $4,009 million in common stock in connection with the Company's initial public offering in 2000, $708 million in higher costs associated with the stock repurchase program in 2001 and $772 million in lower proceeds from the issuance of company-obligated mandatorily redeemable securities in 2001. INSOLVENCY ASSESSMENTS Most of the jurisdictions in which the Company is admitted to transact business require life insurers doing business within the jurisdiction to participate in guaranty associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed life insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. Assessments levied against the Company from January 1, 2000 through December 31, 2002 aggregated $2 million. The Company maintained a liability of $62 million at December 31, 2002 for future assessments in respect of currently impaired, insolvent or failed insurers. In the past five years, none of the aggregate assessments levied against MetLife's insurance subsidiaries has been material. The Company has established liabilities for guaranty fund assessments that it considers adequate for assessments with respect to insurers that are currently subject to insolvency proceedings. EFFECTS OF INFLATION The Company does not believe that inflation has had a material effect on its consolidated results of operations, except insofar as inflation may affect interest rates. ACCOUNTING STANDARDS During 2002, the Company adopted or applied the following accounting standards: (i) SFAS No. 141, Business Combinations ("SFAS 141"), (ii) SFAS No. 142 and (iii) SFAS No. 144. In accordance with SFAS 141, the elimination of $5 million of negative goodwill was reported in net income in the first quarter of 2002 as a cumulative effect of a change in accounting. On January 1, 2002, the Company adopted SFAS 142. The Company did not amortize goodwill during 2002. Amortization of goodwill was $47 million and $50 million for the years ended December 31, 2001 and 2000, respectively. Amortization of other intangible assets was not material for the years December 31, 2002, 2001 and 2000. The Company has completed the required impairment tests of goodwill and indefinite-lived intangible assets. As a result of these tests, the Company recorded a $5 million charge to earnings relating to the impairment of certain goodwill assets in the third quarter of 2002 as a cumulative effect of a change in accounting. There was no impairment of identified intangible assets or significant reclassifications between goodwill and other intangible assets at January 1, 2002. Adoption of SFAS 144 did not have a material impact on the Company's consolidated financial statements other than the presentation as 79 discontinued operations of net investment income and net investment gains related to operations of real estate on which the Company initiated disposition activities subsequent to January 1, 2002 and the classification of such real estate as held-for-sale on the consolidated balance sheets. The Financial Accounting Standards Board ("FASB") is deliberating on a proposed statement that would further amend SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). The proposed statement will address certain SFAS 133 Implementation Issues. The proposed statement is not expected to have a significant impact on the Company's consolidated financial statements. In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of APB No. 51 ("FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is in the process of assessing the impact of FIN 46 on its consolidated financial statements. Certain disclosure provisions of FIN 46 were required for December 31, 2002 financial statements. Such provisions, which were adopted by the Company, required the disclosure of the total assets and the maximum exposure to loss relating to the Company's interests in variable interest entities. In 2003, the FASB staff is expected to provide transition guidance with respect to the issue of whether embedded derivatives within modified coinsurance agreements need to be accounted for separately. The Company enters into modified coinsurance and certain coinsurance agreements under which assets equal to the net statutory reserves are withheld from the Company and legally owned by the ceding company. The withheld funds are reflected on the Company's balance sheet as funds withheld at interest and totaled $2.1 billion as of December 31, 2002. The Company also cedes business under certain modified coinsurance agreements. As of December 31, 2002, the Company has not separately accounted for any potential embedded derivatives associated with these contracts, which it believes is consistent with GAAP, as well as industry practice. The Company cannot estimate the impact, if any, associated with the adoption of any new FASB guidance expected to be issued in 2003. In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure ("SFAS 148"), which provides guidance on how to transition from the intrinsic value method of accounting for stock-based employee compensation under Accounting Principles Board ("APB") Opinion No. 25 Accounting for Stock-Issued to Employees ("APB 25") to the fair value method of accounting from SFAS No. 123 Accounting for Stock-Based Compensation ("SFAS 123"), if a company so elects. Effective January 1, 2003, the Company adopted the fair value method of recording stock options under SFAS 123. In accordance with alternatives available under the transitional guidance of SFAS 148, the Company has elected to apply the fair value method of accounting for stock options prospectively to awards granted subsequent to January 1, 2003. As permitted, options granted prior to January 1, 2003, will continue to be accounted for under APB 25, and the pro forma impact of accounting for these options at fair value will continue to be disclosed in the consolidated financial statements until the last of those options vest in 2005. Had the Company expensed stock options beginning January 1, 2002, the income statement impact would have been approximately $23 million pretax, and $15 million, or $0.02 per diluted share, after tax, in 2002. As the cost of anticipated future option awards is phased in over a three-year period, the annual impact in the third year (2005) will rise to approximately $0.07 per diluted share, assuming options are granted in future years at a similar level and under similar market conditions to 2002. The actual impact per diluted share may vary in the event the fair value or the number of options granted increases or decreases from the current estimate, or if the current accounting guidance changes. In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires entities to establish liabilities for certain types of guarantees, and expands financial statement disclosures for others. Disclosure requirements under FIN 45 are effective for financial statements of annual periods ending 80 after December 15, 2002 and are applicable to all guarantees issued by the guarantor subject to the provisions of FIN 45. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company does not expect the initial adoption of FIN 45 to have a significant impact on the Company's consolidated financial statements. The adoption of FIN 45 requires the Company to include disclosures in its consolidated financial statements related to guarantees. In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"), which must be adopted for exit and disposal activities initiated after December 31, 2002. SFAS 146 will require that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred rather than at the date of an entity's commitment to an exit plan as required by Emerging Issues Task Force ("EITF") 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). In the fourth quarter of 2001, the Company recorded a charge of $330 million, net of income taxes of $169 million, associated with business realignment initiatives using the EITF 94-3 accounting guidance. In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS 145"). In addition to amending or rescinding other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions, SFAS 145 generally precludes companies from recording gains and losses from the extinguishment of debt as an extraordinary item. SFAS 145 also requires sale-leaseback treatment for certain modifications of a capital lease that result in the lease being classified as an operating lease. SFAS 145 is effective for fiscal years beginning after May 15, 2002, and the initial application of this standard did not have a significant impact on the Company's consolidated financial statements. INVESTMENTS The Company had total cash and invested assets at December 31, 2002 of $190.7 billion. In addition, the Company had $59.7 billion held in its separate accounts, for which the Company generally does not bear investment risk. The Company's primary investment objective is to maximize net investment income consistent with acceptable risk parameters. The Company is exposed to three primary sources of investment risk: - credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest; - interest rate risk, relating to the market price and cash flow variability associated with changes in market interest rates; and - market valuation risk. The Company manages risk through in-house fundamental analysis of the underlying obligors, issuers, transaction structures and real estate properties. The Company also manages credit risk and market valuation risk through industry and issuer diversification and asset allocation. For real estate and agricultural assets, the Company manages credit risk and valuation risk through geographic, property type, and product type diversification and asset allocation. The Company manages interest rate risk as part of its asset and liability management strategies, product design, such as the use of market value adjustment features and surrender charges, and proactive monitoring and management of certain non-guaranteed elements of its products, such as the resetting of credited interest and dividend rates for policies that permit such adjustments. 81 The following table summarizes the Company's cash and invested assets at:

| DECEMBER 31, | 2002 CARRYING VALUE | 2002 % OF TOTAL | 2001 CARRYING VALUE | 2001 % OF TOTAL |
|---|---|---|---|---|
| Fixed maturities available-for-sale, at fair value | $140,553 | 73.7% | $115,398 | 68.0% |
| Mortgage loans on real estate | 25,086 | 13.2 | 23,621 | 13.9 |
| Policy loans | 8,580 | 4.5 | 8,272 | 4.9 |
| Real estate and real estate joint ventures held-for-investment | 4,496 | 2.4 | 4,054 | 2.4 |
| Equity securities and other limited partnership interests | 3,743 | 2.0 | 4,700 | 2.8 |
| Other invested assets | 3,727 | 1.9 | 3,298 | 1.9 |
| Cash and cash equivalents | 2,323 | 1.2 | 7,473 | 4.4 |
| Short-term investments | 1,921 | 1.0 | 1,203 | 0.7 |
| Real estate held-for-sale | 229 | 0.1 | 1,676 | 1.0 |
| Total cash and invested assets | $190,658 | 100.0% | $169,695 | 100.0% |

82 INVESTMENT RESULTS The annualized yields on general account cash and invested assets, excluding net investment gains and losses, were 7.20%, 7.56% and 7.54% for the years ended December 31, 2002, 2001 and 2000, respectively. The

following table illustrates the annualized yields on average assets for each of the components of the Company's investment portfolio for the years ended December 31, 2002, 2001 and 2000:
2002 2001 2000 --------
------------ -------------------

- --------------------
YIELD(1) AMOUNT
YIELD(1) AMOUNT
YIELD(1) AMOUNT ---
----- -------- -------- --------
-------- --------
(DOLLARS IN MILLIONS) FIXED MATURITIES:(2) Investment income.............. 7.46% $ 8,092 7.89% $ 8,031 7.81% $ 7,915 Net investment losses.......... (917) (645) (1,437) -------- -------- --------
Total...................... $ 7,175 $ 7,386 $ 6,478 -------- -------- --------
Ending assets.................. $140,533 $115,398 $112,979 -------- -------- -------- MORTGAGE LOANS:(3) Investment income.............. 7.84% $ 1,883 8.17% $ 1,848 7.87% $ 1,693 Net investment gains (losses)..................... (22) (91) (18) -------- -------- --------
Total...................... $ 1,861 $ 1,757 $ 1,675 -------- -------- --------
Ending assets.................. $ 25,086 $ 23,621 $ 21,951 -------- -------- -------- POLICY LOANS: Investment income.............. 6.49% $ 543 6.56% $ 536 6.45% $ 515 -------- -------- -------- Ending assets.................. $ 8,580 $ 8,272 $ 8,158 -------- -------- --------
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS: Investment income.............. 4.17% $ 232 5.54% $ 279 5.72% $ 288 Net investment losses.......... -- (5) -- -------- -------- --------
Total...................... $ 232 $ 274 $ 288 -------- -------- -------- Ending assets.................. $ 4,244 $ 8,676 $ 4,703 -------- -------- --------
REAL ESTATE AND

~~REAL ESTATE AND REAL ESTATE JOINT VENTURES:(4) Investment income, net of expenses..................... 11.41% $ 637 10.58% $ 584 11.09% $ 629 Net investment gains (losses)..................... 576 (4) 101 -------- -------- -------- Total...................... $ 1,213 $ 580 $ 730 -------- -------- -------- Ending assets.................. $ 4,725 $ 5,730 $ 5,504 -------- -------- --------~~

~~EQUITY SECURITIES AND OTHER LIMITED PARTNERSHIP INTERESTS: Investment income.............. 2.21% $ 83 2.37% $ 97 4.98% $ 183 Net investment gains (losses)..................... 222 (96) 185 -------- -------- -------- Total...................... $ 305 $ 1 $ 368 -------- -------- -------- Ending assets.................. $ 3,743 $ 4,700 $ 3,845 -------- -------- --------~~

~~OTHER INVESTED ASSETS: Investment income.............. 6.42% $ 218 7.60% $ 249 6.30% $ 162 Net investment gains (losses)..................... (206) 79 65 -------- -------- -------- Total...................... $ 12 $ 328 $ 227 -------- -------- -------- Ending assets.................. $ 3,727 $ 3,298 $ 2,821 -------- -------- --------~~

2002 2001 2000 -------- ----------- ------------------- - ------------------- YIELD(1) AMOUNT YIELD(1) AMOUNT YIELD(1) AMOUNT --- ----- -------- -------- -------- -------- -------- (DOLLARS IN MILLIONS) ~~TOTAL INVESTMENTS: Investment income before expenses and fees............ 7.35% $ 11,688 7.72% $ 11,624 7.70% $ 11,385 Investment expenses and fees...~~

~~(0.15)% (235) (0.16)% (244) (0.16)% (240) --- -- -------- ----- -------- ----- -------- Net investment income.......... 7.20% $ 11,453 7.56% $ 11,380 7.54% $ 11,145 Net investment losses.......... (347) (762) (1,104) Adjustments to investment losses(5).................... 145 134 54 Gains from sales of subsidiaries................. -- 25 660 -------- -------- -------- Total...................... $ 11,251 $ 10,777 $ 10,755 ======== ======== ========~~

--------------- (1) Yields are based on quarterly average asset carrying values, excluding recognized and unrealized gains and losses, and for yield calculation purposes, average assets exclude collateral associated with the Company's securities lending program. (2) Included in fixed maturities are equity-linked notes of $834 million, $1,004 million and $1,232 million at December 31, 2002, 2001 and 2000, respectively, which include an equity-like component as part of the notes' return. Investment income for fixed maturities includes prepayment fees and income from the securities lending program. Fixed maturity investment income has been reduced by rebates paid under the securities lending program. (3) Investment income from mortgage loans on real estate includes prepayment fees. (4) Real estate and real estate joint venture income is shown net of depreciation of $227 million, $220 million and $224 million for the years ended December 31, 2002, 2001 and 2000, respectively. Real estate and real estate joint venture income includes amounts classified as discontinued operations of $124 million, $125 million and $121 million for the years ended December 31, 2002, 2001 and 2000, respectively. These amounts are net of depreciation of $48 million, $79 million and $80 million for the years ended December 31, 2002, 2001 and 2000, respectively. Net investment gains include $582 million of gains classified as discontinued operations for the year ended December 31, 2002. (5) Adjustments to investment gains and losses include amortization of deferred policy acquisition costs, charges and credits to participating contracts, and adjustments to the policyholder dividend obligation resulting from investment gains and losses. FIXED MATURITIES Fixed maturities consist principally of publicly traded and privately placed debt securities, and represented 73.7% and 68.0% of total cash and invested assets at December 31, 2002 and 2001, respectively. Based on estimated fair value, public fixed maturities represented $121,191 million, or 86.2%, and $96,579 million, or 83.7%, of total fixed maturities at December 31, 2002 and 2001, respectively. Based on estimated fair value, private fixed maturities represented $19,362 million, or 13.8%, and $18,819 million, or 16.3%, of total fixed maturities at December 31, 2002 and 2001, respectively. The Company invests in privately placed fixed maturities to (i) obtain higher yields than can ordinarily be obtained with comparable public market securities, (ii) provide the Company with protective covenants, call protection features and, where applicable, a higher level of collateral, and (iii) increase diversification. However, the Company may not freely trade its privately placed fixed maturities because of restrictions imposed by federal and state securities laws and illiquid markets. In cases where quoted market prices are not available, fair values are estimated using present value or valuation techniques. The fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counter-party. Factors considered in estimating fair value include: coupon rate, maturity, estimated duration, call provisions, sinking fund requirements, credit rating, industry sector of the issuer and quoted market prices of comparable securities. 84 The Securities Valuation Office of the NAIC evaluates the fixed maturity investments of insurers for regulatory reporting purposes and assigns securities to one of six investment categories called "NAIC designations." The NAIC ratings are similar to the rating agency designations of the Nationally Recognized

Statistical Rating Organizations for marketable bonds. NAIC ratings 1 and 2 include bonds generally considered investment grade (rated "Baa3" or higher by Moody's Investors Services ("Moody's"), or rated "BBB-" or higher by Standard & Poor's ("S&P")) by such rating organizations. NAIC ratings 3 through 6 include bonds generally considered below investment grade (rated "Ba1" or lower by Moody's, or rated "BB+" or lower by S&P). The following table presents the Company's total fixed maturities by Nationally Recognized Statistical Rating Organizations designation and the equivalent ratings of the NAIC, as well as the percentage, based on estimated fair value, that each designation comprises at:

| | DECEMBER 31, 2002 | | | DECEMBER 31, 2001 | | |
|---|---|---|---|---|---|---|
| RATING AGENCY DESIGNATION(1) | AMORTIZED COST | ESTIMATED FAIR VALUE | % OF TOTAL | AMORTIZED COST | ESTIMATED FAIR VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | | | |
| Aaa/Aa/A | $ 91,250 | $ 97,495 | 69.4% | $ 72,098 | $ 75,265 | 65.2% |
| Baa | 29,345 | 31,060 | 22.1 | 29,128 | 29,581 | 25.6 |
| Ba | 7,413 | 7,304 | 5.2 | 6,021 | 5,856 | 5.1 |
| B | 3,463 | 3,227 | 2.3 | 3,205 | 3,100 | 2.7 |
| Caa and lower | 434 | 339 | 0.2 | 726 | 597 | 0.5 |
| In or near default | 430 | 416 | 0.3 | 327 | 237 | 0.2 |
| Subtotal | 132,335 | 139,841 | 99.5 | 111,505 | 114,636 | 99.3 |
| Redeemable preferred stock | 817 | 712 | 0.5 | 783 | 762 | 0.7 |
| Total fixed maturities | $133,152 | $140,553 | 100.0% | $112,288 | $115,398 | 100.0% |

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(1) Amounts presented are based on rating agency designations. Comparisons between NAIC ratings and rating agency designations are published by the NAIC. Based on estimated fair values, investment grade fixed maturities comprised 91.5% and 90.8% of total fixed maturities in the general account at December 31, 2002 and 2001, respectively. The following table shows the amortized cost and estimated fair value of fixed maturities, by contractual maturity dates (excluding scheduled sinking funds) at:

| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | AMORTIZED COST | ESTIMATED FAIR VALUE | AMORTIZED COST | ESTIMATED FAIR VALUE |
| | (DOLLARS IN MILLIONS) | | | |
| Due in one year or less | $ 4,592 | $ 4,662 | $ 4,001 | $ 4,049 |
| Due after one year through five years | 26,200 | 27,354 | 20,168 | 20,841 |
| Due after five years through ten years | 23,297 | 24,987 | 22,937 | 23,255 |
| Due after ten years | 35,507 | 38,452 | 30,778 | 32,248 |
| Subtotal | 89,596 | 95,455 | 77,884 | 80,393 |
| Mortgage-backed and asset-backed securities | 42,739 | 44,386 | 33,621 | 34,243 |
| Subtotal | 132,335 | 139,841 | 111,505 | 114,636 |
| Redeemable preferred stock | 817 | 712 | 783 | 762 |
| Total fixed maturities | $133,152 | $140,553 | $112,288 | $115,398 |

Actual maturities may differ as a result of prepayments by the issuer. 85 The Company diversifies its fixed maturities by security sector. The following tables set forth the amortized cost, gross unrealized gain or loss and estimated fair value of the Company's fixed maturities by sector, as well as the percentage of the total fixed maturities holdings that each security sector is comprised at:

DECEMBER 31, 2002 -------- ---------------------------------------- - GROSS UNREALIZED AMORTIZED ----------------- ESTIMATED % OF COST GAIN LOSS FAIR VALUE TOTAL --------- ------- ------- ---- ------ ----- (DOLLARS IN MILLIONS) ~~U.S. corporate securities.............. $ 47,021 $3,193 $ 957 $ 49,257 35.0% Mortgage-backed securities............. 33,256 1,649 22 34,883 24.8 Foreign corporate securities........... 18,001 1,435 207 19,229 13.7 U.S. treasuries/agencies............... 14,373 1,565 4 15,934 11.3 Asset-backed securities................ 9,483 228 208 9,503 6.8 Foreign government securities.......... 7,012 636 52 7,596 5.4 State and political subdivisions....... 2,580 182 20 2,742 2.0 Other fixed income assets.............. 609 191 103 697 0.5 -------- ------ ------ -------- ----- Total bonds....................... 132,335 9,079 1,573 139,841 99.5 Redeemable preferred stocks............ 817 12 117 712 0.5 -------- ------ ------ -------- ----- Total fixed maturities............ $133,152 $9,091 $1,690 $140,553 100.0% ======== ====== ====== ======== =====~~

DECEMBER 31, 2001

| | AMORTIZED COST | GROSS UNREALIZED GAIN | GROSS UNREALIZED LOSS | ESTIMATED FAIR VALUE | % OF TOTAL |
|---|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | | |
| U.S. corporate securities.............. | $ 43,141 | $1,470 | $ 748 | $ 43,863 | 38.0% |
| Mortgage-backed securities............. | 25,506 | 866 | 192 | 26,180 | 22.7 |
| Foreign corporate securities........... | 16,836 | 688 | 539 | 16,985 | 14.7 |
| U.S. treasuries/agencies............... | 8,297 | 1,031 | 43 | 9,285 | 8.0 |
| Asset-backed securities................ | 8,115 | 154 | 206 | 8,063 | 7.0 |
| Foreign government securities.......... | 5,488 | 544 | 37 | 5,995 | 5.2 |
| State and political subdivisions....... | 2,248 | 68 | 21 | 2,295 | 2.0 |
| Other fixed income assets.............. | 1,874 | 238 | 142 | 1,970 | 1.7 |
| Total bonds........................ | 111,505 | 5,059 | 1,928 | 114,636 | 99.3 |
| Redeemable preferred stocks............ | 783 | 12 | 33 | 762 | 0.7 |
| Total fixed maturities............ | $112,288 | $5,071 | $1,961 | $115,398 | 100.0% |

Problem, Potential Problem and Restructured Fixed Maturities. The Company monitors fixed maturities to identify investments that management considers to be problems or potential problems. The Company also monitors investments that have been restructured. The Company defines problem securities in the fixed maturities category as securities with principal or interest payments in default, securities to be restructured pursuant to commenced negotiations, or securities issued by a debtor that has entered into bankruptcy. The Company defines potential problem securities in the fixed maturity category as securities of an issuer deemed to be experiencing significant operating problems or difficult industry conditions. The Company uses various criteria, including the following, to identify potential problem securities: - debt service coverage or cash flow falling below certain thresholds which vary according to the issuer's industry and other relevant factors; 86 - significant declines in revenues or margins; - violation of financial covenants; - public securities trading at a substantial discount as a result of specific credit concerns; and - other subjective factors. The Company defines restructured securities in the fixed maturities category as securities to which the Company has granted a concession that it would not have otherwise considered but for the financial difficulties of the obligor. The Company enters into a restructuring when it believes it will realize a greater economic value under the new terms rather than through liquidation or disposition. The terms of the restructuring may involve some or all of the following characteristics: a reduction in the interest rate, an extension of the maturity date, an exchange of debt for equity or a partial forgiveness of principal or interest. The following table presents the estimated fair value of the Company's total fixed maturities classified as performing, potential problem, problem and restructured at:

| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | ESTIMATED FAIR VALUE | % OF TOTAL | ESTIMATED FAIR VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Performing | $139,717 | 99.4% | $114,879 | 99.6% |
| Potential problem | 450 | 0.3 | 386 | 0.3 |
| Problem | 358 | 0.3 | 111 | 0.1 |
| Restructured | 28 | 0.0 | 22 | 0.0 |
| Total | $140,553 | 100.0% | $115,398 | 100.0% |

Fixed Maturity Impairment. The Company classifies all of its fixed maturities as available-for-sale and marks them to market through other comprehensive income. All securities with gross unrealized losses at the consolidated balance sheet date are subjected to the Company's process for identifying other-than-temporary impairments. The Company writes down to fair value securities that it deems to be other-than-temporarily impaired in the period the securities are deemed to be so impaired. The assessment of whether such impairment has occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. Management considers a wide range of factors, as described below, about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by the Company in the impairment evaluation process include, but are not limited to, the following:

- The length of time and the extent to which the market value has been below amortized cost;
- The potential for impairments of securities when the issuer is experiencing significant financial difficulties, including a review of all securities of the issuer, including its known subsidiaries and affiliates, regardless of the form of the Company's ownership;
- The potential for impairments in an entire industry sector or sub-sector;
- The potential for impairments in certain economically depressed geographic locations;
- The potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; and
- Other subjective factors, including concentrations and information obtained from regulators and rating agencies.



The Company records writedowns as investment losses and adjusts the cost basis of the fixed maturities accordingly. The Company does not change the revised cost basis for subsequent recoveries in value. Writedowns of fixed maturities were $1,264 million and $273 million for the years ended December 31, 2002 and 2001, respectively. The Company's three largest writedowns totaled $352 million for the year ended December 31, 2002. The circumstances that gave rise to these impairments were financial restructurings or bankruptcy filings. During the year ended December 31, 2002, the Company sold fixed maturity securities with a fair value of $14,597 million at a loss of $894 million. The gross unrealized loss related to the Company's fixed maturities at December 31, 2002 was $1,690 million. These fixed maturities mature as follows: 17% due in one year or less; 19% due in greater than one year to five years; 18% due in greater than five years to ten years; and 46% due in greater than ten years (calculated as a percentage of amortized cost). Additionally, such securities are concentrated by security type in U.S. corporates (57%), asset-backed (12%) and foreign corporates (12%); and are concentrated by industry in utilities (20%), finance (18%), transportation (12%) and communications (10%) (calculated as a percentage of gross unrealized loss). Non-investment grade securities represent 23% of the $23,402 million of the fair value and 48% of the $1,690 million gross unrealized loss on fixed maturities. The following table presents the amortized cost, gross unrealized losses and number of securities for fixed maturities where the estimated fair value had declined and remained below amortized cost by less than 20%, or 20% or more for:

DECEMBER 31, 2002 ------------------------------------------ --------------------

GROSS UNREALIZED AMORTIZED COST LOSSES NUMBER OF SECURITIES ------------------ ------------------ ------------------- LESS THAN 20% OR LESS THAN 20% OR LESS THAN 20% OR 20% MORE 20% MORE 20% MORE --------- ------ --------- ------ ---------- ------- (DOLLARS IN MILLIONS) ~~Less than six months........... $16,733 $1,622 $569 $531 791 160 Six months or greater but less than nine months............ 1,008 433 53 156 91 25 Nine months or greater but less than twelve months........... 3,212 87 175 31 170 11 Twelve months or greater....... 1,885 112 128 47 170 21 ------- ------ ---- ---- ----- --- Total..................... $22,838 $2,254 $925 $765 1,222 217 ======= ====== ==== ==== ===== ===~~

The Company's review of its fixed maturities for impairments includes an analysis of the total gross unrealized losses by three categories of securities: (i) securities where the estimated fair value had declined and remained below amortized cost by less than 20%; (ii) securities where the estimated fair value had declined and remained below amortized cost by 20% or more for less than six months; and (iii) securities where the estimated value had declined and remained below amortized cost by 20% or more for six months or greater. The first two categories have generally been adversely impacted by the downturn in the financial markets, overall economic conditions and continuing effects of the September 11, 2001 tragedies. While all of these securities are monitored for potential impairment, the Company's experience indicates that the first two categories do not present as great a risk of impairment, and often, fair values recover over time as the factors that caused the declines improve. 88 The following table presents the total gross unrealized losses for fixed maturities where the estimated fair value had declined and remained below amortized cost by:

| | DECEMBER 31, 2002 | |
|---|---|---|
| | GROSS UNREALIZED LOSSES | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | |
| Less than 20% | $925 | 54.7% |
| 20% or more for less than six months | 531 | 31.4 |
| 20% or more for six months or greater | 234 | 13.9 |
| Total | $1,690 | 100.0% |

The category of fixed maturity securities where the estimated fair value has declined and remained below amortized cost by less than 20% is comprised of 1,222 securities with an amortized cost of $22,838 million and a gross unrealized loss of $925 million. These fixed maturities mature as follows: 19% due in one year or less; 19% due in greater than one year to five years; 17% due in greater than five years to ten years; and 45% due in greater than ten years (calculated as a percentage of amortized cost). Additionally, such securities are concentrated by security type in U.S. corporates (51%) and foreign corporates (17%); and are concentrated by industry in finance (28%), utilities (14%) and communications (11%) (calculated as a percentage of gross unrealized loss). Non-investment grade securities represent 21% of the $21,913 million fair value and 33% of the $925 million gross unrealized loss. The category of fixed maturity securities where the estimated fair value has declined and remained below amortized cost by 20% or more for less than six months is comprised of 160 securities with an amortized cost of $1,622 million and a gross unrealized loss of $531 million. These fixed maturities mature as follows: 4% due in one year or less; 16% due in greater than one year to five years; 23% due in greater than five years to ten years; and 57% due in greater than ten years (calculated as a percentage of amortized cost). Additionally, such securities are concentrated by security type in U.S. corporates (66%) and asset-backed (21%); and are concentrated by industry in utilities (34%), transportation (20%) and asset-backed (20%) (calculated as a percentage of gross unrealized loss). Non-investment grade securities represent 53% of the $1,091 million fair value and 59% of the $531 million gross unrealized loss. The category of fixed maturity securities where the estimated fair value has declined and remained below amortized cost by 20% or more for six months or greater is comprised of 57 securities with an amortized cost of $632 million and a gross unrealized loss of $234 million. These fixed maturities mature as follows: 13% due in greater than one year to five years; 27% due in greater than five years to ten years; and 60% due in greater than ten years (calculated as a percentage of amortized cost). Additionally, such securities are concentrated by security type in U.S. corporates (58%), foreign governments (17%) and asset-backed (16%); and are concentrated by industry in communications (26%), foreign government (17%), asset-backed (16%), utilities (15%) and transportation (13%) (calculated as a percentage of gross unrealized loss). Non-investment grade securities represent 74% of the $398 million fair value and 78% of the $234 million gross unrealized loss. The Company held 19 fixed maturity securities each with a gross unrealized loss at December 31, 2002 greater than $10 million. Seven of these securities represent 54% of the gross unrealized loss on fixed maturities where the estimated fair value had declined and remained below amortized cost by 20% or more for six months or greater. The estimated fair value and gross unrealized loss at December 31, 2002 for these securities were $202 million and $125 million, respectively. These securities were concentrated in the U.S. corporate sector. The Company analyzed, on a case-by-case basis, each of the seven fixed maturity securities as of December 31, 2002 to determine if the securities were other-than-temporarily impaired. The Company believes that the estimated fair value of these securities, which were concentrated in the utility and transportation industries, were artificially depressed as a result of unusually strong negative market reaction in this sector and generally poor economic and market conditions. The Company believes that the analysis of each such security indicated that the financial strength, liquidity, leverage, future outlook and/or recent management actions support the view that the security was not other-than-temporarily impaired as of December 31, 2002. 89 Corporate Fixed Maturities. The table below shows the major industry types that comprise the corporate bond holdings at:

| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | ESTIMATED FAIR VALUE | % OF TOTAL | ESTIMATED FAIR VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Industrial | $29,077 | 42.5% | $26,295 | 43.2% |
| Utility | 7,219 | 10.5 | 7,296 | 12.0 |
| Finance | 12,596 | 18.4 | 10,027 | 16.5 |
| Yankee/Foreign(1) | 19,229 | 28.1 | 16,985 | 27.9 |
| Other | 365 | 0.5 | 245 | 0.4 |
| Total | $68,486 | 100.0% | $60,848 | 100.0% |

--------------- (1) Includes publicly traded, U.S. dollar-denominated debt obligations of foreign obligors, known as Yankee bonds, and other foreign investments. The Company diversifies its corporate bond holdings by industry and issuer. The portfolio has no exposure to any single issuer in excess of 1% of its total invested assets. At December 31, 2002, the Company's combined holdings in the ten issuers to which it had the greatest exposure totaled $2,973 million, which was less than 2% of the Company's total invested assets at such date. The exposure to the largest single issuer of corporate bonds the Company held at December 31, 2002 was $385 million. At December 31, 2002 and 2001, investments of $14,778 million and $13,734 million, respectively, or 76.9% and 80.9%, respectively, of the Yankee/Foreign sector, represented exposure to traditional Yankee bonds. The balance of this exposure was primarily U.S. dollar-denominated and concentrated by security type in industrial and financial institutions. The Company diversifies the Yankee/Foreign portfolio by country and issuer. The Company does not have material exposure to foreign currency risk in its invested assets. In the Company's international insurance operations, both its assets and liabilities are generally denominated in local currencies. Foreign currency denominated securities supporting U.S. dollar liabilities are generally swapped back into U.S. dollars. The Company's exposure to future deterioration in the economic and political environment in Brazil and Argentina, with respect to its Brazilian and Argentine related investments (including local insurance operations), is limited to the net carrying value of those assets, which totaled approximately $357 million and $150 million, respectively, as of December 31, 2002. The net carrying value of the Company's Brazilian and Argentine related investments is net of writedowns for other-than-temporary impairments. Mortgage-Backed Securities. The following table shows the types of mortgage-backed securities the Company held at:

| DECEMBER 31, | 2002 ESTIMATED FAIR VALUE | 2002 % OF TOTAL | 2001 ESTIMATED FAIR VALUE | 2001 % OF TOTAL |
|---|---|---|---|---|
| (DOLLARS IN MILLIONS) | | | | |
| Pass-through securities.......................... | $12,515 | 35.9% | $ 9,676 | 37.0% |
| Collateralized mortgage obligations.............. | 15,511 | 44.5 | 11,140 | 42.5 |
| Commercial mortgage-backed securities............ | 6,857 | 19.6 | 5,364 | 20.5 |
| Total....................................... | $34,883 | 100.0% | $26,180 | 100.0% |

At December 31, 2002 and 2001, pass-through and collateralized mortgage obligations totaled $28,026 million and $20,816 million, respectively, or 80.4% and 79.5%, respectively, of total mortgage-backed securities, 90 and a majority of this amount represented agency-issued pass-through and collateralized mortgage obligations guaranteed or otherwise supported by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association. At December 31, 2002 and 2001, approximately $3,598 million and $2,866 million, respectively, or 52.5% and 53.4%, respectively, of the commercial mortgage-backed securities, and $27,590 million and $20,249 million, respectively, or 98.4% and 97.3%, respectively, of the pass-through securities and collateralized mortgage obligations, were rated Aaa/AAA by Moody's or S&P. The principal risks inherent in holding mortgage-backed securities are prepayment, extension and collateral risks, which will affect the timing of when cash will be received. The Company's active monitoring of its mortgage-backed securities mitigates exposure to losses from cash flow risk associated with interest rate fluctuations. Asset-Backed Securities. Asset-backed securities, which include home equity loans, credit card receivables, collateralized debt obligations and automobile receivables, are purchased both to diversify the overall risks of the Company's fixed maturity assets and to provide attractive returns. The Company's asset-backed securities are diversified both by type of asset and by issuer. Home equity loans constitute the largest exposure in the Company's asset-backed securities investments. Except for asset-backed securities backed by home equity loans, the asset-backed security investments generally have little sensitivity to changes in interest rates. Approximately $4,912 million and $3,341 million, or 51.7% and 41.4%, of total asset-backed securities were rated Aaa/AAA by Moody's or S&P at December 31, 2002 and 2001, respectively. The principal risks in holding asset-backed securities are structural, credit and capital market risks. Structural risks include the security's priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from the collateral and the potential for prepayments. Credit risks include consumer or corporate credits such as credit card holders, equipment lessees, and corporate obligors. Capital market risks include the general level of interest rates and the liquidity for these securities in the marketplace. Structured investment transactions. The Company participates in structured investment transactions as part of its risk management strategy, including asset/liability management, and to enhance the Company's total return on its investment portfolio. These investments are predominantly made through bankruptcy-remote special purpose entities ("SPEs"), which generally acquire financial assets, including corporate equities, debt securities and purchased options. These investments are referred to as "beneficial interests." The Company's exposure to losses related to these SPEs is limited to its carrying value since the Company has not guaranteed the performance, liquidity or obligations of the SPEs. As prescribed by GAAP, the Company does not consolidate such SPEs since unrelated third parties hold controlling interests through ownership of the SPEs' equity, representing at least three percent of the total assets of the SPE throughout the life of the SPE, and such equity class has the substantive risks and rewards of the residual interests in the SPE. The Company sponsors financial asset securitizations of high yield debt securities, investment grade bonds and structured finance securities and is also the collateral manager and a beneficial interest holder in such transactions. As the collateral manager, the Company earns a management fee on the outstanding securitized asset balance. When the Company transfers assets to an SPE and surrenders control over the transferred assets, the transaction is accounted for as a sale. Gains or losses on securitizations are determined with reference to the cost or amortized cost of the financial assets transferred, which is allocated to the assets sold and the beneficial interests retained based on relative fair values at the date of transfer. The Company has sponsored five securitizations with a total of approximately $1,323 million in financial assets as of December 31, 2002. Two of these transactions included the transfer of assets totaling approximately $289 million in 2001, resulting in the recognition of an insignificant amount of investment gains. The Company's beneficial interests in these SPEs as of December 31, 2002 and 2001 and the related investment income for the years ended December 31, 2002, 2001 and 2000 were insignificant. The Company also invests in structured investment transactions, which are managed and controlled by unrelated third parties. In instances where the Company exercises significant influence over the operating and financial policies of an SPE, the beneficial interests are accounted for in accordance with the equity method of 91 accounting. Where the Company does not exercise significant influence, the structure of the beneficial interests (i.e., debt or equity securities) determines the method of accounting for the investment. Such beneficial interests generally are structured notes, which are classified as fixed maturities, and the related income is recognized using the retrospective interest method. Beneficial interests other than structured notes are also classified as fixed maturities, and the related income is recognized using the level yield method. The carrying value of all such structured investments, including SPEs, was approximately $870 million and $1.6 billion at December 31, 2002 and 2001, respectively. The related investment income recognized on SPEs was $1 million, $44 million and $62 million for the years ended December 31, 2002, 2001 and 2000, respectively. MORTGAGE LOANS ON REAL ESTATE The Company's mortgage loans on real estate are collateralized by commercial, agricultural and residential properties. Mortgage loans on real estate comprised 13.2% and 13.9% of the Company's total cash and invested assets at December 31, 2002 and 2001, respectively. The carrying value of mortgage loans on real estate is stated at original cost net of repayments, amortization of premiums, accretion of discounts and valuation allowances. The following table shows the carrying value of the Company's mortgage loans on real estate by type at:

| | DECEMBER 31, 2002 | | DECEMBER 31, 2001 | |
|---|---|---|---|---|
| | CARRYING VALUE | % OF TOTAL | CARRYING VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Commercial | $19,552 | 78.0% | $17,959 | 76.0% |
| Agricultural | 5,146 | 20.5 | 5,268 | 22.3 |
| Residential | 388 | 1.5 | 394 | 1.7 |
| Total | $25,086 | 100.0% | $23,621 | 100.0% |

Commercial Mortgage Loans. The Company diversifies its commercial mortgage loans by both geographic region and property type, and manages these investments through a network of regional offices overseen by its investment department. The following table presents the distribution across geographic regions and property types for commercial mortgage loans at:

| | DECEMBER 31, 2002 | | DECEMBER 31, 2001 | |
|---|---|---|---|---|
| | CARRYING VALUE | % OF TOTAL | CARRYING VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| REGION | | | | |
| South Atlantic | $ 5,076 | 26.0% | $ 4,729 | 26.3% |
| Pacific | 4,180 | 21.4 | 3,593 | 20.0 |
| Middle Atlantic | 3,441 | 17.6 | 3,248 | 18.1 |
| East North Central | 2,147 | 11.0 | 2,003 | 11.2 |
| New England | 1,323 | 6.8 | 1,198 | 6.7 |
| West South Central | 1,097 | 5.6 | 1,021 | 5.7 |
| Mountain | 833 | 4.2 | 733 | 4.1 |
| West North Central | 645 | 3.3 | 727 | 4.0 |
| International | 632 | 3.2 | 526 | 2.9 |
| East South Central | 178 | 0.9 | 181 | 1.0 |
| Total | $19,552 | 100.0% | $17,959 | 100.0% |

| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | CARRYING VALUE | % OF TOTAL | CARRYING VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| PROPERTY TYPE | | | | |
| Office | $ 9,340 | 47.8% | $ 8,293 | 46.2% |
| Retail | 4,320 | 22.1 | 4,208 | 23.4 |
| Apartments | 2,793 | 14.3 | 2,553 | 14.2 |
| Industrial | 1,910 | 9.7 | 1,813 | 10.1 |
| Hotel | 942 | 4.8 | 864 | 4.8 |
| Other | 247 | 1.3 | 228 | 1.3 |
| Total | $19,552 | 100.0% | $17,959 | 100.0% |

The following table presents the scheduled maturities for the Company's commercial mortgage loans at:

| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | CARRYING VALUE | % OF TOTAL | CARRYING VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Due in one year or less | $ 713 | 3.6% | $ 840 | 4.7% |
| Due after one year through two years | 1,204 | 6.2 | 677 | 3.8 |
| Due after two years through three years | 1,939 | 9.9 | 1,532 | 8.5 |
| Due after three years through four years | 2,048 | 10.5 | 1,772 | 9.9 |
| Due after four years through five years | 2,443 | 12.5 | 2,078 | 11.6 |
| Due after five years | 11,205 | 57.3 | 11,060 | 61.5 |
| Total | $19,552 | 100.0% | $17,959 | 100.0% |

Problem, Potential Problem and Restructured Mortgage Loans. The Company monitors its mortgage loan investments on a continual basis. Through this monitoring process, the Company reviews loans that are restructured, delinquent or under foreclosure and identifies those that management considers to be potentially delinquent. These loan classifications are generally consistent with those used in industry practice. The Company defines restructured mortgage loans, consistent with industry practice, as loans in which the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. This definition provides for loans to exit the restructured category under certain conditions. The Company defines delinquent mortgage loans, consistent with industry practice, as loans in which two or more interest or principal payments are past due. The Company defines mortgage loans under foreclosure, consistent with industry practice, as loans in which foreclosure proceedings have formally commenced. The Company defines potentially delinquent loans as loans that, in management's opinion, have a high probability of becoming delinquent. The Company reviews all mortgage loans at least annually. These reviews may include an analysis of the property financial statements and rent roll, lease rollover analysis, property inspections, market analysis and tenant creditworthiness. The Company also reviews loan-to-value ratios and debt coverage ratios for restructured loans, delinquent loans, loans under foreclosure, potentially delinquent loans, loans with an existing valuation allowance, loans maturing within two years and loans with a loan-to-value ratio greater than 90% as determined in the prior year. The principal risks in holding commercial mortgage loans are property specific, supply and demand, financial and capital market risks. Property specific risks include the geographic location of the property, the physical condition of the property, the diversity of tenants and the rollover of their leases and the ability of the property manager to attract tenants and manage expenses. Supply and demand risks include changes in the supply 93 and/or demand for rental space which cause changes in vacancy rates and/or rental rates. Financial risks include the overall level of debt on the property and the amount of principal repaid during the loan term. Capital market risks include the general level of interest rates, the liquidity for these securities in the marketplace and the capital available for loan refinancing. The Company has a $525 million non-recourse mortgage loan on a high profile office complex that has been affected by the September 11, 2001 tragedies, causing the obligor to impair its investment in the property. The Company continues to be in discussions with the borrower concerning the borrower's ownership interest in the property. A change in circumstances could result in a borrower default, MetLife classifying the loan as impaired or the transfer of ownership of the property to the Company. The Company did not classify this loan as a problem or potential problem as of December 31, 2002 since the obligor is performing as agreed and the estimated collateral value provides sufficient coverage for the loan. Based on the Company's current estimate that the property's market value exceeds the loan balance, the Company would not record a loss in accordance with SFAS No. 114, Accounting by Creditors for Impairments of a Loan ("SFAS 114") in the event the loan was classified as impaired. The Company establishes valuation allowances for loans that it deems impaired, as determined through its mortgage review process. The Company defines impaired loans consistent with SFAS 114 as loans which it probably will not collect all amounts due according to applicable contractual terms of the agreement. The Company bases valuation allowances upon the present value of expected future cash flows discounted at the loan's original effective interest rate or the value of the loan's collateral. The Company records valuation allowances as investment losses. The Company records subsequent adjustments to allowances as investment gains or losses. The following table presents the amortized cost and valuation allowance for commercial mortgage loans distributed by loan classification at:

| | DECEMBER 31, 2002 | | | | DECEMBER 31, 2001 | | | |
|---|---|---|---|---|---|---|---|---|
| | AMORTIZED COST(1) | % OF TOTAL | VALUATION ALLOWANCE | % OF AMORTIZED COST | AMORTIZED COST(1) | % OF TOTAL | VALUATION ALLOWANCE | % OF AMORTIZED COST |
| | (DOLLARS IN MILLIONS) | | | | | | | |
| Performing | $19,343 | 98.3% | $ 60 | 0.3% | $17,495 | 96.6% | $ 52 | 0.3% |
| Restructured | 246 | 1.3 | 49 | 19.9% | 448 | 2.5 | 55 | 12.3% |
| Delinquent or under foreclosure | 14 | 0.1 | -- | 0.0% | 14 | 0.1 | 7 | 50.0% |
| Potentially delinquent | 68 | 0.3 | 10 | 14.7% | 136 | 0.8 | 20 | 14.7% |
| Total | $19,671 | 100.0% | $119 | 0.6% | $18,093 | 100.0% | $134 | 0.7% |

(1) Amortized cost is equal to carrying value before valuation allowances. The following table presents the changes in valuation allowances for commercial mortgage loans for the:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Balance, beginning of year | $134 | $ 76 | $ 69 |
| Additions | 38 | 84 | 61 |
| Deductions for writedowns and dispositions | (53) | (26) | (54) |
| Balance, end of year | $119 | $134 | $ 76 |

Agricultural Mortgage Loans. The Company diversifies its agricultural mortgage loans by both geographic region and product type. The Company manages these investments through a network of regional offices and field professionals overseen by its investment department. 94 Approximately 63.5% of the $5,146 million of agricultural mortgage loans outstanding at December 31, 2002 were subject to rate resets prior to maturity. A substantial portion of these loans generally is successfully renegotiated and remains outstanding to maturity. The process and policies for monitoring the agricultural mortgage loans and classifying them by performance status are generally the same as those for the commercial loans. The following table presents the amortized cost and valuation allowances for agricultural mortgage loans distributed by loan classification at:

| | DECEMBER 31, 2002 | | | | DECEMBER 31, 2001 | | | |
|---|---|---|---|---|---|---|---|---|
| | AMORTIZED COST(1) | % OF TOTAL | VALUATION ALLOWANCE | % OF AMORTIZED COST | AMORTIZED COST(1) | % OF TOTAL | VALUATION ALLOWANCE | % OF AMORTIZED COST |
| | (DOLLARS IN MILLIONS) | | | | | | | |
| Performing | $4,980 | 96.7% | $-- | 0.0% | $5,055 | 95.8% | $3 | 0.1% |
| Restructured | 140 | 2.7 | 5 | 3.6% | 188 | 3.6 | 3 | 1.6% |
| Delinquent or under foreclosure | 14 | 0.3 | -- | 0.0% | 29 | 0.5 | 2 | 6.9% |
| Potentially delinquent | 18 | 0.3 | 1 | 5.6% | 5 | 0.1 | 1 | 20.0% |
| Total | $5,152 | 100.0% | $6 | 0.1% | $5,277 | 100.0% | $9 | 0.2% |

(1) Amortized cost is equal to carrying value before valuation allowances.

The following table presents the changes in valuation allowances for agricultural mortgage loans for the:

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Balance, beginning of year | $ 9 | $ 7 | $ 18 |
| Additions | 3 | 21 | 8 |
| Deductions for writedowns and dispositions | (6) | (19) | (19) |
| Balance, end of year | $ 6 | $ 9 | $ 7 |

The principal risks in holding agricultural mortgage loans are property specific, supply and demand, and financial and capital market risks. Property specific risks include the geographic location of the property, soil types, weather conditions and the other factors that may impact the borrower's guaranty. Supply and demand risks include the supply and demand for the commodities produced on the specific property and the related price for those commodities. Financial risks include the overall level of debt on the property and the amount of principal repaid during the loan term. Capital market risks include the general level of interest rates, the liquidity for these securities in the marketplace and the capital available for loan refinancing.



REAL ESTATE AND REAL ESTATE JOINT VENTURES

The Company's real estate and real estate joint venture investments consist of commercial and agricultural properties located primarily throughout the U.S. The Company manages these investments through a network of regional offices overseen by its investment department. At December 31, 2002 and 2001, the carrying value of the Company's real estate, real estate joint ventures and real estate held-for-sale was $4,725 million and $5,730 million, respectively, or 2.5% and 3.4% of total cash and invested assets, respectively. The carrying value of real estate is stated at depreciated cost net of impairments and valuation allowances. The carrying value of real estate joint ventures is stated at the Company's equity in the real estate joint ventures net of impairments and valuation allowances. The following table presents the carrying value of the Company's real estate, real estate joint ventures, real estate held-for-sale and real estate acquired upon foreclosure at:

| | DECEMBER 31, | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| TYPE | CARRYING VALUE | % OF TOTAL | CARRYING VALUE | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Real estate held-for-investment.................... | $4,116 | 87.1% | $3,698 | 64.5% |
| Real estate joint ventures held-for-investment..... | 377 | 8.0 | 356 | 6.2 |
| Foreclosed real estate held-for-investment......... | 3 | 0.1 | -- | 0.0 |
| | 4,496 | 95.2 | 4,054 | 70.7 |
| Real estate held-for-sale.......................... | 222 | 4.7 | 1,627 | 28.4 |
| Foreclosed real estate held-for-sale............... | 7 | 0.1 | 49 | 0.9 |
| | 229 | 4.8 | 1,676 | 29.3 |
| Total real estate and real estate joint ventures... | $4,725 | 100.0% | $5,730 | 100.0% |

Office properties, representing 58% and 63% of the Company's equity real estate portfolio at December 31, 2002 and 2001, respectively, are well diversified geographically, principally within the United States. The average occupancy level of office properties was 92% and 91% at December 31, 2002 and 2001, respectively. Ongoing management of these investments includes quarterly valuations, as well as an annual market update and review of each property's budget, financial returns, lease rollover status and the Company's exit strategy. The Company adjusts the carrying value of real estate and real estate joint ventures held-for-investment for impairments whenever events or changes in circumstances indicate that the carrying value of the property may not be recoverable. The Company writes down impaired real estate to estimated fair value, when the carrying value of the real estate exceeds the sum of the undiscounted cash flow expected to result from the use and eventual disposition of the real estate. The Company records writedowns as investment losses and reduces the cost basis of the properties accordingly. The Company does not change the revised cost basis for subsequent recoveries in value. The current real estate equity portfolio is mainly comprised of a core portfolio of multi-tenanted office buildings with high tenant credit quality, net leased properties and apartments. The objective is to maximize earnings by building upon and strengthening the core portfolio through selective acquisitions and dispositions. In light of this objective, the Company took advantage of a significant demand for Class A, institutional grade properties and, as a result, sold certain real estate holdings in its portfolio during 2002. This sales program, which was substantially completed during 2002, does not represent any fundamental change in the Company's investment strategy. Once the Company identifies a property that is expected to be sold within one year and commences a firm plan for marketing the property, in accordance with SFAS 144, the Company classifies the property as held-for-sale and reports the related net investment income and any resulting investments gains and losses as discontinued operations. Further, the Company establishes and periodically revises, if necessary, a valuation allowance to adjust the carrying value of the property to its expected sales value, less associated selling costs, if it is lower than the property's carrying value. The Company records valuation allowances as investment losses and subsequent 96 adjustments as investment gains or losses. If circumstances arise that were previously considered unlikely and, as a result, the property is expected to be on the market longer than anticipated, a held-for-sale property is reclassified to held-for-investment and measured as such. The Company's carrying value of real estate and real estate joint ventures held-for-sale, including real estate acquired upon foreclosure of commercial and agricultural mortgage loans, in the amounts of $229 million and $1,676 million at December 31, 2002 and 2001, respectively, are net of impairments of $82 million and $177 million, respectively, and net of valuation allowances of $16 million and $35 million, respectively. The Company records real estate acquired upon foreclosure of commercial and agricultural mortgage loans at the lower of estimated fair value or the carrying value of the mortgage loan at the date of foreclosure. EQUITY SECURITIES AND OTHER LIMITED PARTNERSHIP INTERESTS The Company's carrying value of equity securities, which primarily consist of investments in common stocks, was $1,348 million and $3,063 million at December 31, 2002 and 2001, respectively. Substantially all of the common stock is publicly traded on major securities exchanges. The carrying value of the other limited partnership interests (which primarily represent ownership interests in pooled investment funds that make private equity investments in companies in the U.S. and overseas) was $2,395 million and $1,637 million at December 31, 2002 and 2001, respectively. The Company classifies its investments in common stocks as available-for-sale and marks them to market, except for non-marketable private equities, which are generally carried at cost. The Company uses the equity method of accounting for investments in limited partnership interests in which it has more than a minor interest, has influence over the partnership's operating and financial policies and does not have a controlling interest. The Company uses the cost method for minor interest investments and when it has virtually no influence over the partnership's operating and financial policies. The Company's investments in equity securities excluding partnerships represented 0.7% and 1.8% of cash and invested assets at December 31, 2002 and 2001, respectively. Equity securities include, at December 31, 2002 and 2001, $443 million and $329 million, respectively, of private equity securities. The Company may not freely trade its private equity securities because of restrictions imposed by federal and state securities laws and illiquid markets. During the year ended December 31, 2001, two exchangeable subordinated debt securities matured, resulting in a gross gain of $44 million on the equity exchanged in satisfaction of the note. In February 2002, the remaining exchangeable debt security issued to the Company matured. The debt security was satisfied for cash, and no equity was exchanged. The Company makes commitments to fund partnership investments in the normal course of business. The amounts of these unfunded commitments were $1,667 million and $1,898 million at December 31, 2002 and 2001, respectively. The following tables set forth the cost, gross unrealized gain or loss and estimated fair value of the Company's equity securities, as well as the percentage of the total equity securities at:

DECEMBER 31, 2002

| | COST | GROSS UNREALIZED GAIN | GROSS UNREALIZED LOSS | ESTIMATED FAIR VALUE | % OF TOTAL |
|---|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | | |
| Equity Securities: | | | | | |
| Common stocks | $ 877 | $115 | $79 | $ 913 | 67.7% |
| Nonredeemable preferred stocks | 426 | 13 | 4 | 435 | 32.3 |
| Total equity securities | $1,303 | $128 | $83 | $1,348 | 100.0% |



DECEMBER 31, 2001

| | COST | GROSS UNREALIZED GAIN | GROSS UNREALIZED LOSS | ESTIMATED FAIR VALUE | % OF TOTAL |
|---|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | | |
| Equity Securities: | | | | | |
| Common stocks | $1,968 | $657 | $78 | $2,547 | 83.2% |
| Nonredeemable preferred stocks | 491 | 28 | 3 | 516 | 16.8 |
| Total equity securities | $2,459 | $685 | $81 | $3,063 | 100.0% |

Problem and Potential Problem Equity Securities and Other Limited Partnership Interests. The Company monitors its equity securities and other limited partnership interests on a continual basis. Through this monitoring process, the Company identifies investments that management considers to be problems or potential problems. Problem equity securities and other limited partnership interests are defined as securities (i) in which significant declines in revenues and/or margins threaten the ability of the issuer to continue operating, or (ii) where the issuer has entered into bankruptcy. Potential problem equity securities and other limited partnership interests are defined as securities issued by a company that is experiencing significant operating problems or difficult industry conditions. Criteria generally indicative of these problems or conditions are (i) cash flows falling below varying thresholds established for the industry and other relevant factors, (ii) significant declines in revenues and/or margins, (iii) public securities trading at a substantial discount compared to original cost as a result of specific credit concerns, and (iv) other information that becomes available. Equity Security Impairment. The Company classifies all of its equity securities as available-for-sale and marks them to market through other comprehensive income. All securities with gross unrealized losses at the consolidated balance sheet date are subjected to the Company's process for identifying other-than-temporary impairments. The Company writes down to fair value securities that it deems to be other-than-temporarily impaired in the period the securities are deemed to be so impaired. The assessment of whether such impairment has occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. Management considers a wide range of factors, as described below, about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by the Company in the impairment evaluation process include, but are not limited to, the following: - The length of time and the extent to which the market value has been below cost; - The potential for impairments of securities when the issuer is experiencing significant financial difficulties, including a review of all securities of the issuer, including its known subsidiaries and affiliates, regardless of the form of the Company's ownership; - The potential for impairments in an entire industry sector or sub-sector; - The potential for impairments in certain economically depressed geographic locations; - The potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; and - Other subjective factors, including concentrations and information obtained from regulators and rating agencies. Equity securities or other limited partnership interests which are deemed to be other-than-temporarily impaired are written down to fair value. The Company records writedowns as investment losses and adjusts the cost basis of the equity securities accordingly. The Company does not change the revised cost basis for 98 subsequent recoveries in value. Writedowns of equity securities and other limited partnership interests were $191 million and $142 million for the years ended December 31, 2002 and 2001, respectively. During the years ended December 31, 2002 and 2001, the Company sold equity securities with an estimated fair value of $915 million and $1,311 million at a loss of $85 million and $41 million, respectively. The gross unrealized loss related to the Company's equity securities at December 31, 2002 was $83 million. Such securities are concentrated by security type in common stock (61%) and mutual funds (35%); and are concentrated by industry in financial (59%) and domestic broad market mutual funds (34%) (calculated as a percentage of gross unrealized loss). The following table presents the costs, gross unrealized losses and number of securities for equity securities where the estimated fair value had declined and remained below cost by less than 20%, or 20% or more for:

| DECEMBER 31, 2002 | COST | | GROSS UNREALIZED LOSSES | | NUMBER OF SECURITIES | |
|---|---|---|---|---|---|---|
| | LESS THAN 20% | 20% OR MORE | LESS THAN 20% | 20% OR MORE | LESS THAN 20% | 20% OR MORE |
| | (DOLLARS IN MILLIONS) | | | | | |
| Less than six months | $298 | $292 | $25 | $58 | 27 | 23 |
| Six months or greater but less than nine months | 49 | -- | -- | -- | 19 | -- |
| Nine months or greater but less than twelve months | -- | -- | -- | -- | -- | -- |
| Twelve months or greater | 18 | -- | -- | -- | 15 | -- |
| Total | $365 | $292 | $25 | $58 | 61 | 23 |

The Company's review of its equity security exposure includes the analysis of the total gross unrealized losses by three categories of securities: (i) securities where the estimated fair value had declined and remained below cost by less than 20%; (ii) securities where the estimated fair value had declined and remained below cost by 20% or more for less than six months; and (iii) securities where the estimated fair value had declined and remained below cost by 20% or more for six months or greater. The first two categories have generally been adversely impacted by the downturn in the financial markets, overall economic conditions and continuing effects of the September 11, 2001 tragedies. While all of these securities are monitored for potential impairment, the Company's experience indicates that the first two categories do not present as great a risk of impairment, and often, fair values recover over time as the factors that caused the declines improve. The following table presents the total gross unrealized losses for equity securities at December 31, 2002 where the estimated fair value had declined and remained below cost by:

| | DECEMBER 31, 2002 | |
|---|---|---|
| | GROSS UNREALIZED LOSSES | % OF TOTAL |
| | (DOLLARS IN MILLIONS) | |
| Less than 20% | $25 | 30.1% |
| 20% or more for less than six months | 58 | 69.9 |
| 20% or more for six months or greater | -- | -- |
| Total | $83 | 100.0% |

The category of equity securities where the estimated fair value has declined and remained below cost by less than 20% is comprised of 61 equity securities with a cost of $365 million and a gross unrealized loss of $25 million. These securities are concentrated by security type in mutual funds (78%); and concentrated by industry in domestic broad market mutual funds (78%) (calculated as a percentage of gross unrealized loss). The significant factors considered at December 31, 2002 in the review of equity securities for other-than-temporary 99 impairment were the unusual and severely depressed market conditions, the instability of the global economy and the lagging effects of the September 11, 2001 tragedies. The category of equity securities where the estimated fair value has declined and remained below cost by 20% or more for less than six months is comprised of 23 equity securities with a cost of $292 million and a gross unrealized loss of $58 million. These securities are concentrated by security type in common stock (80%) and mutual funds (15%); and concentrated by industry in financial (80%) and domestic broad market mutual funds (15%) (calculated as a percentage of gross unrealized loss). The significant factors considered at December 31, 2002 in the review of equity securities for other-than-temporary impairment were the unusual and severely depressed market conditions, the instability of the global economy and the lagging effects of the September 11, 2001 tragedies. The Company held two equity securities with a gross unrealized loss at December 31, 2002 greater than $5 million. Neither of these securities represented gross unrealized losses where the estimated fair value had declined and remained below cost by 20% or more for six months or greater. OTHER INVESTED ASSETS The Company's other invested assets consist principally of leveraged leases and funds withheld at interest of $3.1 billion and $2.7 billion at December 31, 2002 and 2001, respectively. The leveraged leases are recorded net of non-recourse debt. The Company participates in lease transactions, which are diversified by geographic area. The Company regularly reviews residual values and writes down residuals to expected values as needed. Funds withheld represent amounts contractually withheld by ceding companies in accordance with reinsurance agreements. For agreements written on a modified coinsurance basis and certain agreements written on a coinsurance basis, assets supporting the reinsured policies equal to the net statutory reserves are withheld and continue to be legally owned by the ceding company. Interest accrues to these funds withheld at rates defined by the treaty terms and may be contractually specified or directly related to the investment portfolio. The Company's other invested assets represented 1.9% of cash and invested assets at both December 31, 2002 and 2001. DERIVATIVE FINANCIAL INSTRUMENTS The Company uses derivative instruments to manage risk through one of four principal risk management strategies: the hedging of liabilities, invested assets, portfolios of assets or liabilities and anticipated transactions. Additionally, Metropolitan Life enters into income generation and replication derivative transactions as permitted by its derivatives use plan that was approved by the Department. The Company's derivative strategy employs a variety of instruments, including financial futures, financial forwards, interest rate, credit default and foreign currency swaps, foreign currency forwards, written covered calls and options, including caps and floors. 100 The table below provides a summary of the notional amount and fair value of derivative financial instruments held at:

| | DECEMBER 31, 2002 | | | DECEMBER 31, 2001 | | |
|---|---|---|---|---|---|---|
| | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES |
| | (DOLLARS IN MILLIONS) | | | | | |
| Financial futures | $ 4 | $ -- | $ -- | $ -- | $ -- | $-- |
| Interest rate swaps | 3,866 | 196 | 126 | 1,823 | 73 | 9 |
| Floors | 325 | 9 | -- | 325 | 11 | -- |
| Caps | 8,040 | -- | -- | 7,890 | 5 | -- |
| Financial forwards | 1,945 | -- | 12 | -- | -- | -- |
| Foreign currency swaps | 2,371 | 92 | 181 | 1,925 | 188 | 26 |
| Options | 78 | 9 | -- | 1,880 | 8 | 12 |
| Foreign currency forwards | 54 | -- | 1 | 67 | 4 | -- |
| Written covered calls | -- | -- | -- | 40 | -- | -- |
| Credit default swaps | 376 | 2 | -- | 270 | -- | -- |
| Total contractual commitments | $17,059 | $308 | $320 | $14,220 | $289 | $47 |

SECURITIES LENDING The Company participates in a securities lending program whereby blocks of securities, which are included in investments, are loaned to third parties, primarily major brokerage firms. The Company requires a minimum of 102% of the fair value of the loaned securities to be separately maintained as collateral for the loans. Securities with a cost or amortized cost of $14,873 million and $11,416 million and an estimated fair value of $17,625 million and $12,066 million were on loan under the program at December 31, 2002 and 2001, respectively. The Company was liable for cash collateral under its control of $17,862 million and $12,661 million at December 31, 2002 and 2001, respectively. Security collateral on deposit from customers may not be sold or repledged and is not reflected in the consolidated financial statements. SEPARATE ACCOUNT ASSETS The Company manages each separate account's assets in accordance with the prescribed investment policy that applies to that specific separate account. The Company establishes separate accounts on a single client and multi-client commingled basis in conformity with insurance laws. Generally, separate accounts are not chargeable with liabilities that arise from any other business of the Company. Separate account assets are subject to the Company's general account claims only to the extent that the value of such assets exceeds the separate account liabilities, as defined by the account's contract. If the Company uses a separate account to support a contract providing guaranteed benefits, the Company must comply with the asset maintenance requirements stipulated under Regulation 128 of the Department. The Company monitors these requirements at least monthly and, in addition, performs cash flow analyses, similar to that conducted for the general account, on an annual basis. The Company reports separately as assets and liabilities investments held in separate accounts and liabilities of the separate accounts. The Company reports substantially all separate account assets at their fair market value. Investment income and gains or losses on the investments of separate accounts accrue directly to contractholders, and, accordingly, the Company does not reflect them in its consolidated statements of income and cash flows. The Company reflects in its revenues fees charged to the separate accounts by the Company, including mortality charges, risk charges, policy administration fees, investment management fees and surrender charges. ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. The Company must effectively manage, measure and monitor the market risk associated with its invested assets and interest rate sensitive insurance contracts. It has developed an integrated process for managing risk, which it conducts through its Corporate Risk Management Department, several asset/liability committees and 101 additional specialists at the business segment level. The Company has established and implemented comprehensive policies and procedures at both the corporate and business segment level to minimize the effects of potential market volatility. MARKET RISK EXPOSURES The Company has exposure to market risk through its insurance operations and investment activities. For purposes of this disclosure, "market risk" is defined as the risk of loss resulting from changes in interest rates, equity prices and foreign currency exchange rates. Interest rates. The Company's exposure to interest rate changes results from its significant holdings of fixed maturities, as well as its interest rate sensitive liabilities. The fixed maturities include U.S. and foreign government bonds, securities issued by government agencies, corporate bonds and mortgage-backed securities, all of which are mainly exposed to changes in medium- and long-term treasury rates. The interest rate sensitive liabilities for purposes of this disclosure include guaranteed interest contracts and fixed annuities, which have the same interest rate exposure (medium- and long-term treasury rates) as the fixed maturities. The Company employs product design, pricing and asset/liability management strategies to reduce the adverse effects of interest rate volatility. Product design and pricing strategies include the use of surrender charges or restrictions on withdrawals in some products. Asset/liability management strategies include the use of derivatives, the purchase of securities structured to protect against prepayments, prepayment restrictions and related fees on mortgage loans and consistent monitoring of the pricing of the Company's products in order to better match the duration of the assets and the liabilities they support. Equity prices. The Company's investments in equity securities expose it to changes in equity prices. It manages this risk on an integrated basis with other risks through its asset/liability management strategies. The Company also manages equity price risk through industry and issuer diversification and asset allocation techniques. Foreign currency exchange rates. The Company's exposure to fluctuations in foreign currency exchange rates against the U.S. dollar results from its holdings in non-U.S. dollar denominated fixed maturity securities and equity securities and through its investments in foreign subsidiaries. The principal currencies which create foreign currency exchange rate risk in the Company's investment portfolios are Canadian dollars, Euros, Mexican pesos, Chilean pesos and British pounds. The Company mitigates the majority of its fixed maturities' foreign currency exchange rate risk through the utilization of foreign currency swaps and forward contracts. Through its investments in foreign subsidiaries, the Company is primarily exposed to the Euro, Mexican peso and South Korean won. The Company has denominated substantially all assets and liabilities of its foreign subsidiaries in their respective local currencies, thereby minimizing its risk to foreign currency exchange rate fluctuations. RISK MANAGEMENT Corporate risk management. MetLife has established several financial and non-financial senior management committees as part of its risk management process. These committees manage capital and risk positions, approve asset/liability management strategies and establish appropriate corporate business standards. MetLife also has a separate Corporate Risk Management Department, which is responsible for risk throughout MetLife and reports directly to Metropolitan Life's Chief Actuary. The Corporate Risk Management Department's primary responsibilities consist of: - implementing a board of directors-approved corporate risk framework, which outlines the Company's approach for managing risk on an enterprise-wide basis; - developing policies and procedures for managing, measuring and monitoring those risks identified in the corporate risk framework; - establishing appropriate corporate risk tolerance levels; - deploying capital on an economic capital basis; and - reporting on a periodic basis to the Audit Committee of the Holding Company's board of directors and various financial and non-financial senior management committees. 102 Asset/liability management. At MetLife, asset/liability management is the responsibility of the General Account Portfolio Management Department ("GAPM"), the operating business segments and various GAPM boards. The GAPM boards are comprised of senior officers from the investment department, senior managers from each business segment and the Chief Actuary. The GAPM boards' duties include setting broad asset/ liability management policy and strategy, reviewing and approving target portfolios, establishing investment guidelines and limits, and providing oversight of the portfolio management process. The portfolio managers and asset sector specialists, who have responsibility on a day-to-day basis for risk management of their respective investing activities, implement the goals and objectives established by the GAPM boards. The goals of the investment process are to optimize after-tax, risk-adjusted investment income and after-tax, risk-adjusted total return while ensuring that the assets and liabilities are managed on a cash flow and duration basis. The risk management objectives established by the GAPM boards stress quality, diversification, asset/liability matching, liquidity and investment return. Each of MetLife's business segments has an asset/liability officer who works with portfolio managers in the investment department to monitor investment, product pricing, hedge strategy and liability management issues. MetLife establishes target asset portfolios for each major insurance product, which represent the investment strategies used to profitably fund its liabilities within acceptable levels of risk. These strategies include objectives for effective duration, yield curve sensitivity, convexity, liquidity, asset sector concentration and credit quality. To manage interest rate risk, the Company performs periodic projections of asset and liability cash flows to evaluate the potential sensitivity of its securities investments and liabilities to interest rate movements. These projections involve evaluating the potential gain or loss on most of the Company's in-force business under various increasing and decreasing interest rate environments. The Company has developed models of its in-force business that reflect specific product characteristics and include assumptions based on current and anticipated experience regarding lapse, mortality and interest crediting rates. In addition, these models include asset cash flow projections reflecting interest payments, sinking fund payments, principal payments, bond calls, mortgage prepayments and defaults. New York Insurance Department regulations require that MetLife perform some of these analyses annually as part of the annual proof of the sufficiency of its regulatory reserves to meet adverse interest rate scenarios. Hedging activities. MetLife's risk management strategies incorporate the use of various interest rate derivatives that are used to adjust the overall duration and cash flow profile of its invested asset portfolios to better match the duration and cash flow profile of its liabilities to reduce interest rate risk. Such instruments include financial futures, financial forwards, interest rate and credit default swaps, floors, options, written covered calls and caps. MetLife also uses foreign currency swaps and foreign currency forwards to hedge its foreign currency denominated fixed income investments. Economic Capital. Beginning in 2003, the Company has changed its methodology of allocating capital from Risk Based Capital to Economic Capital. In 2002 and in prior years, the Company's business segments' allocated equity was primarily based on Risk Based Equity, an internally developed formula based on applying a multiple to the NAIC Statutory Risk Based Capital and includes certain GAAP accounting adjustments. Economic Capital is an internally developed risk capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. The Economic Capital model accounts for the unique and specific nature of the risks inherent in MetLife's businesses. This is in contrast to the standardized regulatory Risk Based Capital formula which is not as refined in its risk calculations with respect to the nuances of different companies' businesses. This change in methodology will be applied prospectively and will impact the level of net investment income and net income of each of the Company's business segments. A portion of net investment income is credited to the segments based on the level of allocated equity. This methodology change of allocating equity will not impact the Company's consolidated net investment income or net income. 103 RISK MEASUREMENT; SENSITIVITY ANALYSIS The Company measures market risk related to its holdings of invested assets and other financial instruments, including certain market risk sensitive insurance contracts ("other financial instruments"), based on changes in interest rates, equity prices and currency exchange rates, utilizing a sensitivity analysis. This analysis estimates the potential changes in fair value, cash flows and earnings based on a hypothetical 10% change (increase or decrease) in interest rates, equity prices and currency exchange rates. The Company believes that a 10% change (increase or decrease) in these market rates and prices is reasonably possible in the near-term. In performing this analysis, the Company used market rates at December 31, 2002 to re-price its invested assets and other financial instruments. The sensitivity analysis separately calculated each of MetLife's market risk exposures (interest rate, equity price and foreign currency exchange rate) related to its non-trading invested assets and other financial instruments. The Company does not maintain a trading portfolio. The sensitivity analysis performed included the market risk sensitive holdings described above. The Company modeled the impact of changes in market rates and prices on the fair values of its invested assets, earnings and cash flows as follows: Fair values. The Company bases its potential change in fair values on an immediate change (increase or decrease) in: - the net present values of its interest rate sensitive exposures resulting from a 10% change (increase or decrease) in interest rates; - the U.S. dollar equivalent balances of the Company's currency exposures due to a 10% change (increase or decrease) in currency exchange rates; and - the market value of its equity positions due to a 10% change (increase or decrease) in equity prices. Earnings and cash flows. MetLife calculates the potential change in earnings and cash flows on the change in its earnings and cash flows over a one-year period based on an immediate 10% change (increase or decrease) in market rates and equity prices. The following factors were incorporated into the earnings and cash flows sensitivity analyses: - the reinvestment of fixed maturity securities; - the reinvestment of payments and prepayments of principal related to mortgage-backed securities; - the re-estimation of prepayment rates on mortgage-backed securities for each 10% change (increase or decrease) in the interest rates; and - the expected turnover (sales) of fixed maturities and equity securities, including the reinvestment of the resulting proceeds. The sensitivity analysis is an estimate and should not be viewed as predictive of the Company's future financial performance. The Company cannot assure that its actual losses in any particular year will not exceed the amounts indicated in the table below. Limitations related to this sensitivity analysis include: - the market risk information is limited by the assumptions and parameters established in creating the related sensitivity analysis, including the impact of prepayment rates on mortgages; - the analysis excludes other significant real estate holdings and liabilities pursuant to insurance contracts; and - the model assumes that the composition of assets and liabilities remains unchanged throughout the year. Accordingly, the Company uses such models as tools and not substitutes for the experience and judgment of its corporate risk and asset/liability management personnel. Based on its analysis of the impact of a 10% change (increase or decrease) in market rates and prices, MetLife has determined that such a change could have a material adverse effect on the fair value of its interest 104 rate sensitive invested assets. The equity and foreign currency portfolios do not expose the Company to material market risk. The table below illustrates the potential loss in fair value of the Company's interest rate sensitive financial instruments at December 31, 2002 and 2001. In addition, the potential loss with respect to the fair value of currency exchange rates and the Company's equity price sensitive positions at December 31, 2002 and 2001 is set forth in the table below. The potential loss in fair value for each market risk exposure of the Company's portfolio, all of which is non-trading, for the periods indicated was:

| | DECEMBER 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | |
| ~~Interest rate risk..........................................~~ | ~~$2,710~~ | ~~$3,430~~ |
| ~~Equity price risk...........................................~~ | ~~$ 120~~ | ~~$ 228~~ |
| ~~Foreign currency exchange rate risk.........................~~ | ~~$ 529~~ | ~~$ 426~~ |

The change in potential loss in fair value related to market risk exposure between December 31, 2002 and 2001 was primarily attributable to a shift in the yield curve. 105 ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES



106 INDEPENDENT AUDITORS' REPORT The Board of Directors and Shareholders of MetLife, Inc.: We have audited the

accompanying consolidated balance sheets of MetLife, Inc. and subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedules listed in the Index to Consolidated Financial Statements and Schedules. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of MetLife, Inc. and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein. DELOITTE & TOUCHE LLP New York, New York February 19, 2003 F-1 METLIFE, INC. CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2002 AND 2001 (DOLLARS IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)

2002 2001 -------- -------- ~~ASSETS Investments: Fixed maturities available-for-sale, at fair value (amortized cost: $133,152 and $112,288, respectively)... $140,553 $115,398 Equity securities, at fair value (cost: $1,303 and $2,459, respectively)........................................... 1,348 3,063 Mortgage loans on real estate............................. 25,086 23,621 Policy loans.............................................. 8,580 8,272 Real estate and real estate joint ventures held-for-investment.................................... 4,496 4,054 Real estate held-for-sale................................. 229 1,676 Other limited partnership interests....................... 2,395 1,637 Short-term investments.................................... 1,921 1,203 Other invested assets..................................... 3,727 3,298 -------- -------- Total investments................................. 188,335 162,222 Cash and cash equivalents.................................. 2,323 7,473 Accrued investment income.................................. 2,088 2,062 Premiums and other receivables.............................. 7,669 6,509 Deferred policy acquisition costs.......................... 11,727 11,167 Other assets............................................... 5,550 4,823 Separate account assets..................................... 59,693 62,714 -------- -------- Total assets....................................... $277,385 $256,970 ======== ======== LIABILITIES AND STOCKHOLDERS' EQUITY Liabilities: Future policy benefits.................................... $ 89,815 $ 84,924 Policyholder account balances............................ 66,830 58,923 Other policyholder funds................................. 5,685 5,404 Policyholder dividends payable........................... 1,030 1,046 Policyholder dividend obligation......................... 1,882 708 Short-term debt.......................................... 1,161~~ 355 Long-term

~~335 Long-term debt........................................... 4,425 3,628 Current income taxes payable.............................. 769 306 Deferred income taxes payable............................. 1,625 1,526 Payables under securities loaned transactions............. 17,862 12,661 Other liabilities......................................... 7,958 7,457 Separate account liabilities.............................. 59,693 62,714 -------- -------- Total liabilities................................. 258,735 239,652 -------- -------- Commitments and contingencies (Note 11) Company-obligated mandatorily redeemable securities of subsidiary trusts........................................ 1,265~~

~~1,256 -------- -------- Stockholders' Equity: Preferred stock, par value $0.01 per share; 200,000,000 shares authorized; none issued.......................... -- -- Series A junior participating preferred stock............. -- -- Common stock, par value $0.01 per share; 3,000,000,000 shares authorized; 786,766,664 shares issued at December 31, 2002 and December 31, 2001; 700,278,412 shares outstanding at December 31, 2002 and 715,506,525 shares outstanding at December 31, 2001........................ 8 8 Additional paid-in capital................................ 14,968 14,966 Retained earnings......................................... 2,807 1,349 Treasury stock, at cost; 86,488,252 shares at December 31, 2002 and 71,260,139 shares at December 31, 2001......... (2,405) (1,934) Accumulated other comprehensive income.................... 2,007 1,673 -------- -------- Total stockholders' equity........................ 17,385 16,062 -------- -------- Total liabilities and stockholders' equity......... $277,385 $256,970 ======== ========~~

See accompanying notes to consolidated financial statements. F-2 METLIFE, INC. CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| **REVENUES** | | | |
| Premiums.................................................... | $19,086 | $17,212 | $16,317 |
| Universal life and investment-type product policy fees...... | 2,139 | 1,889 | 1,820 |
| Net investment income...................................... | 11,329 | 11,255 | 11,024 |
| Other revenues.............................................. | 1,377 | 1,507 | 2,229 |
| Net investment losses (net of amounts allocable to other accounts of ($145), ($134) and ($54), respectively)....... | (784) | (603) | (390) |
| | ------- | ------- | ------- |
| Total revenues................................... | 33,147 | 31,260 | 31,000 |
| | ------- | ------- | ------- |
| **EXPENSES** | | | |
| Policyholder benefits and claims (excludes amounts directly related to net investment losses of ($150), ($159) and $41, respectively)........................................ | 19,523 | 18,454 | 16,893 |
| Interest credited to policyholder account balances.......... | 2,950 | 3,084 | 2,935 |
| Policyholder dividends...................................... | 1,942 | 2,086 | 1,919 |
| Payments to former Canadian policyholders.................. | -- | -- | 327 |
| Demutualization costs..................................... | -- | -- | 230 |
| Other expenses (excludes amounts directly related to net investment losses of $5, $25 and ($95), respectively)..... | 7,061 | 7,022 | 7,401 |
| | ------- | ------- | ------- |
| Total expenses.................................... | 31,476 | 30,646 | 29,705 |
| | ------- | ------- | ------- |
| Income from continuing operations before provision for income taxes.............................................. | 1,671 | 614 | 1,295 |
| Provision for income taxes................................. | 516 | 227 | 421 |
| | ------- | ------- | ------- |
| Income from continuing operations.......................... | 1,155 | 387 | 874 |
| Income from discontinued operations, net of income taxes.... | 450 | 86 | 79 |
| | ------- | ------- | ------- |
| Net income.................................................. | $ 1,605 | $ 473 | $ 953 |
| | ======= | ======= | ======= |
| Income from continuing operations after April 7, 2000 (date of demutualization) (Note 19)............................ | | | $ 1,114 |
| | | | ======= |
| Net income after April 7, 2000 (date of demutualization) (Note 19)............................................. | | | $ 1,173 |
| | | | ======= |
| Income from continuing operations per share | | | |
| Basic...................................................... | $ 1.64 | $ 0.52 | $ 1.44 |
| | ======= | ======= | ======= |
| Diluted.................................................... | $ 1.58 | $ 0.51 | $ 1.41 |
| | ======= | ======= | ======= |
| Net income per share | | | |
| Basic...................................................... | $ 2.28 | $ 0.64 | $ 1.52 |
| | ======= | ======= | ======= |
| Diluted.................................................... | $ 2.20 | $ 0.62 | $ 1.49 |
| | ======= | ======= | ======= |
| Cash dividends per share.................................... | $ 0.21 | $ 0.20 | $ 0.20 |
| | ======= | ======= | ======= |

See accompanying notes to consolidated financial statements. F-3 METLIFE, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (DOLLARS IN MILLIONS)

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ---------------------------------------- NET FOREIGN MINIMUM ADDITIONAL TREASURY UNREALIZED CURRENCY PENSION COMMON PAID-IN RETAINED STOCK AT INVESTMENT TRANSLATION LIABILITY STOCK CAPITAL EARNINGS COST (LOSSES) GAINS ADJUSTMENT ADJUSTMENT TOTAL ------ ---------- -------- -------- -------------- ----------- ---------- ------- ~~Balance at December 31, 1999.... $ -- $ -- $ 14,100 $ -- $ (297) $ (94) $(19) $13,690 Policy credits and cash payments to eligible policyholders..... (2,958) (2,958) Common stock issued in demutualization............... 5 10,917 (10,922) --~~

~~Initial public offering of common stock.................. 2 3,152 3,154 Private placement of common stock......................... 1 854 855 Unit offering................... 3 3 Treasury stock transactions, net.......................... (613) (613) Dividends on common stock....... (152) (152) Comprehensive income: Net loss before date of demutualization............. (220) (220) Net income after date of demutualization............. 1,173 1,173 Other comprehensive income: Unrealized investment gains, net of related offsets, reclassification adjustments and income taxes..................... 1,472 1,472 Foreign currency translation adjustments............... (6) (6) Minimum pension liability adjustment................ (9) (9) ------- Other comprehensive income....................~~ 1,457 -------

~~Comprehensive income.......... 2,410 ----- - ------ -------- ------- ------ ----- ---- ------- Balance at December 31, 2000.... 8 14,926 1,021 (613) 1,175 (100) (28) 16,389 Treasury stock transactions, net.......................... (1,321) (1,321) Dividends on common stock....... (145) (145) Issuance of warrants -- by subsidiary.................... 40 40 Comprehensive income: Net income.................... 473 473 Other comprehensive income: Cumulative effect of change in accounting for derivatives, net of income taxes..................... 22 22 Unrealized gains on derivative instruments, net of income taxes....... 24 24 Unrealized investment gains, net of~~

~~related offsets, reclassification adjustments and income taxes..................... 658 658 Foreign currency translation adjustments............... (60) (60) Minimum pension liability adjustment................ (18) (18) ------- Other comprehensive income.................... 626 ------- Comprehensive income.......... 1,099 ----- - ------ -------- ------- ------ ----- ---- ------- Balance at December 31, 2001.... 8 14,966 1,349 (1,934) 1,879 (160) (46) 16,062 Treasury stock transactions, net.......................... 2 (471) (469) Dividends on common stock....... (147) (147) Comprehensive income: Net income.................... 1,605 1,605 Other comprehensive income: Unrealized losses on derivative instruments, net of income taxes....... (60) (60) Unrealized investment gains, net of related offsets, reclassification adjustments and income taxes..................... 463~~

~~463 Foreign currency translation adjustments............... (69) (69) ------- Other comprehensive income.................... 334 ------- Comprehensive income.......... 1,939 ----- - ------ -------- ------- ------ ----- ---- ------- Balance at December 31, 2002.... $ 8 $14,968 $ 2,807 $(2,405) $2,282 $(229) $(46) $17,385 ===== ======= ======== ======= ====== ===== ==== =======~~

See accompanying notes to consolidated financial statements F-4 METLIFE, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (DOLLARS IN MILLIONS)

2002 2001 2000 -------- -------- --------

~~CASH FLOWS FROM OPERATING ACTIVITIES Net income................................................. $ 1,605 $ 473 $ 953 Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amortization expenses................. 449 480 369 Amortization of premiums and~~

~~accretion of discounts associated with investments, net..................... (519) (575) (452) Losses from sales of investments and businesses, net... 931 737 444 Interest credited to other policyholder account balances.......................................... 2,950 3,084 2,935 Universal life and investment-type product policy fees............................................. (2,139) (1,889) (1,820) Change in premiums and other receivables............... (795) 476 925 Change in deferred policy acquisition costs, net....... (741) (563) (560) Change in insurance-related liabilities................ 3,137 2,567 2,042 Change in income taxes payable......................... 479 477 239 Change in other liabilities........................... 18 41 (933) Other, net........................................... (378) (796) (865) -------- -------- -------- Net cash provided by operating activities................... 4,997 4,512 3,277 -------- -------- -------- CASH FLOWS FROM INVESTING ACTIVITIES Sales, maturities and repayments of: Fixed maturities...................................... 64,327 52,382 56,940 Equity securities..................................... 2,642 2,065 748 Mortgage loans on real estate.......................... 2,603 2,069 2,163 Real estate and real estate joint ventures............. 276 303 606 Other limited partnership interests.................... 355 396 422 Purchases of: Fixed maturities...................................... (85,173) (52,160) (64,918) Equity securities~~

~~securities...................................... (1,242) (3,059) (863) Mortgage loans on real estate.......................... (3,206) (3,596) (2,787) Real estate and real estate joint ventures............. (208) (769) (407) Other limited partnership interests.................... (456) (424) (660) Net change in short-term investments...................... (477) 74 2,043 Purchase of business, net of cash received................ (879) (276) (416) Proceeds from sales of businesses......................... -- 81 869 Net change in payable under securities loaned transactions........................................... 5,201 360 5,840 Other, net................................................. (759) (611) (812) -------- -------- -------- Net cash used in investing activities....................... $(16,996) $ (3,165) $ (1,232) -------- -------- -------- See accompanying notes to consolidated financial statements.~~

F-5 METLIFE, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (DOLLARS IN MILLIONS)

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| ~~CASH FLOWS FROM FINANCING ACTIVITIES~~ | | | |
| ~~Policyholder account balances:~~ | | | |
| ~~Deposits~~ | ~~$ 29,844~~ | ~~$ 29,167~~ | ~~$ 28,453~~ |
| ~~Withdrawals~~ | ~~(23,980)~~ | ~~(25,704)~~ | ~~(28,504)~~ |
| ~~Net change in short-term debt~~ | ~~806~~ | ~~(730)~~ | ~~(3,095)~~ |
| ~~Long-term debt issued~~ | ~~1,008~~ | ~~1,600~~ | ~~207~~ |
| ~~Long-term debt repaid~~ | ~~(211)~~ | ~~(372)~~ | ~~(124)~~ |
| ~~Common stock issued~~ | ~~--~~ | ~~--~~ | ~~4,009~~ |
| ~~Treasury stock acquired~~ | ~~(471)~~ | ~~(1,321)~~ | ~~(613)~~ |
| ~~Net proceeds from issuance of company-obligated mandatorily redeemable securities of subsidiary trust~~ | ~~--~~ | ~~197~~ | ~~969~~ |
| ~~Cash payments to eligible policyholders~~ | ~~--~~ | ~~--~~ | ~~(2,550)~~ |
| ~~Dividends on common stock~~ | ~~(147)~~ | ~~(145)~~ | ~~(152)~~ |
| ~~Net cash provided by (used in) financing activities~~ | ~~6,849~~ | ~~2,692~~ | ~~(1,400)~~ |
| ~~Change in cash and cash equivalents~~ | ~~(5,150)~~ | ~~4,039~~ | ~~645~~ |
| ~~Cash and cash equivalents, beginning of year~~ | ~~7,473~~ | ~~3,434~~ | ~~2,789~~ |
| ~~CASH AND CASH EQUIVALENTS, END OF YEAR~~ | ~~$ 2,323~~ | ~~$ 7,473~~ | ~~$ 3,434~~ |
| ~~Supplemental disclosures of cash flow information: Cash paid (refunded) during the year:~~ | | | |
| ~~Interest~~ | ~~$ 424~~ | ~~$ 349~~ | ~~$ 448~~ |
| ~~Income taxes~~ | ~~$ 193~~ | ~~$ (262)~~ | ~~$ 256~~ |
| ~~Non-cash transactions during the year: Policy credits to eligible policyholders~~ | ~~$ --~~ | ~~$ --~~ | ~~$ 408~~ |
| ~~Business acquisitions -- assets~~ | ~~$ 2,630~~ | ~~$ 1,336~~ | ~~$ 22,936~~ |
| ~~Business acquisitions -- liabilities~~ | ~~$ 1,751~~ | ~~$ 1,060~~ | ~~$ 22,437~~ |
| ~~Business dispositions -- assets~~ | ~~$ --~~ | ~~$ 102~~ | ~~$ 1,184~~ |
| ~~Business dispositions -- liabilities~~ | ~~$ --~~ | ~~$ 44~~ | ~~$ 1,014~~ |
| ~~Real estate acquired in satisfaction of debt~~ | ~~$ 30~~ | ~~$ 30~~ | ~~$ 24~~ |
| ~~Purchase money mortgage on real estate sale~~ | ~~$ 954~~ | ~~$ --~~ | ~~$ 49~~ |

See accompanying notes to consolidated financial statements.



METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

BUSINESS

MetLife, Inc. (the "Holding Company") and its subsidiaries (together with the Holding Company, "MetLife" or the "Company") is a leading provider of insurance and other financial services to a broad section of individual and institutional customers. The Company offers life insurance, annuities, automobile and property insurance and mutual funds to individuals and group insurance, reinsurance, as well as retirement and savings products and services to corporations and other institutions. BASIS OF PRESENTATION The accompanying consolidated financial statements include the accounts of the Holding Company and its subsidiaries, partnerships and joint ventures in which the Company has a majority voting interest. Closed block assets, liabilities, revenues and expenses are combined on a line by line basis with the assets, liabilities, revenues and expenses outside the closed block based on the nature of the particular item. See Note 7. Intercompany accounts and transactions have been eliminated. The Company uses the equity method of accounting for investments in real estate joint ventures and other limited partnership interests in which it has more than a minor interest, has influence over the partnership's operating and financial policies and does not have a controlling interest. The Company uses the cost method for minor interest investments and when it has virtually no influence over the partnership's operating and financial policies. Minority interest related to consolidated entities included in other liabilities was $491 million and $442 million at December 31, 2002 and 2001, respectively. Certain amounts in the prior years' consolidated financial statements have been reclassified to conform with the 2002 presentation. SUMMARY OF CRITICAL ACCOUNTING ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The critical accounting policies, estimates and related judgments underlying the Company's consolidated financial statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Company's businesses and operations. Investments The Company's principal investments are in fixed maturities, mortgage loans and real estate, all of which are exposed to three primary sources of investment risk: credit, interest rate and market valuation. The financial statement risks are those associated with the recognition of impairments and income, as well as the determination of fair values. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. Management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by the Company in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been below amortized cost; (ii) the potential for F-7 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) impairments of securities when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; and (vi) other subjective factors, including concentrations and information obtained from regulators and rating agencies. In addition, the earnings on certain investments are dependent upon market conditions, which could result in prepayments and changes in amounts to be earned due to changing interest rates or equity markets. The determination of fair values in the absence of quoted market values is based on valuation methodologies, securities the Company deems to be comparable and assumptions deemed appropriate given the circumstances. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts. Derivatives The Company enters into freestanding derivative transactions primarily to manage the risk associated with variability in cash flows related to the Company's financial assets and liabilities or to changing fair values. The Company also purchases investment securities and issues certain insurance and reinsurance policies with embedded derivatives. The associated financial statement risk is the volatility in net income, which can result from (i) changes in fair value of derivatives not qualifying as accounting hedges, and (ii) ineffectiveness of designated hedges in an environment of changing interest rates or fair values. In addition, accounting for derivatives is complex, as evidenced by significant authoritative interpretations of the primary accounting standards which continue to evolve, as well as the significant judgments and estimates involved in determining fair value in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances. Such assumptions include estimated market volatility and interest rates used in the determination of fair value where quoted market values are not available. The use of different assumptions may have a material effect on the estimated fair value amounts. Deferred Policy Acquisition Costs The Company incurs significant costs in connection with acquiring new insurance business. These costs, which vary with, and are primarily related to, the production of new business, are deferred. The recovery of such costs is dependent upon the future profitability of the related business. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, expenses to administer the business, creditworthiness of reinsurance counterparties and certain economic variables, such as inflation. Of these factors, the Company anticipates that investment returns are most likely to impact the rate of amortization of such costs. The aforementioned factors enter into management's estimates of gross margins and profits, which generally are used to amortize such costs. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future gross margins and profits are less than amounts deferred. In addition, the Company utilizes the reversion to the mean assumption, a standard industry practice, in its determination of the amortization of deferred policy acquisition costs. This practice assumes that the expectation for long-term appreciation in equity markets is not changed by minor short-term market fluctuations, but that it does change when large interim deviations have occurred. Future Policy Benefits The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance, annuities and disability insurance. Generally, amounts are payable over an extended period of time and the profitability of the products is dependent on the pricing of the products. Principal assumptions used in pricing policies and in the establishment of liabilities for future policy benefits are mortality, morbidity, expenses, persistency, investment returns and inflation. F-8 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The Company also establishes liabilities for unpaid claims and claims expenses for property and casualty insurance. Pricing of this insurance takes into account the expected frequency and severity of losses, the costs of providing coverage, competitive factors, characteristics of the insured and the property covered, and profit considerations. Liabilities for property and casualty insurance are dependent on estimates of amounts payable for claims reported but not settled and claims incurred but not reported. These estimates are influenced by historical experience and actuarial assumptions of current developments, anticipated trends and risk management strategies. Differences between the actual experience and assumptions used in pricing these policies and in the establishment of liabilities result in variances in profit and could result in losses. Reinsurance The Company enters into reinsurance transactions as both a provider and a purchaser of reinsurance. Accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company periodically reviews actual and anticipated experience compared to the aforementioned assumptions used to establish policy benefits and evaluates the financial strength of counterparties to its reinsurance agreements using criteria similar to that evaluated in the security impairment process discussed above. Additionally, for each of its reinsurance contracts, the Company must determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract using the deposit method of accounting. Litigation The Company is a party to a number of legal actions. Given the inherent unpredictability of litigation, it is difficult to estimate the impact of litigation on the Company's consolidated financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Liabilities related to certain lawsuits, including the Company's asbestos-related liability, are especially difficult to estimate due to the limitation of available data and uncertainty regarding numerous variables used to determine amounts recorded. The data and variables that impact the assumption used to estimate the Company's asbestos-related liability include the number of future claims, the cost to resolve claims, the disease mix and severity of disease, the jurisdiction of claims filed, tort reform efforts and the impact of any possible future adverse verdicts and their amounts. It is possible that an adverse outcome in certain of the Company's litigation, including asbestos-related cases, or the use of different assumptions in the determination of amounts recorded could have a material effect upon the Company's consolidated net income or cash flows in particular quarterly or annual periods. Employee Benefit Plans The Company sponsors pension and other retirement plans in various forms covering employees who meet specified eligibility requirements. The reported expense and liability associated with these plans requires an extensive use of assumptions which include the discount rate, expected return on plan assets and rate of future compensation increases as determined by the Company. Management determines these assumptions based upon currently available market and industry data, historical performance of the plan and its assets, and consultation with an independent consulting actuarial firm to aid it in selecting appropriate assumptions and valuing its related liabilities. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. These differences may have a significant effect on the Company's consolidated financial statements and liquidity.   The actuarial assumptions used in the calculation of the Company's aggregate projected benefit obligation may vary and include an expectation of long-term market appreciation in equity markets which is not changed by minor short-term market fluctuations, but does change when large interim deviations occur. For the largest of the plans sponsored by the Company (the Metropolitan Life Retirement Plan for United States Employees, with a projected benefit obligation of $4.3 billion or 98.6% of all qualified plans at December 31, 2002), the discount rate, expected rate of return on plan assets, and the range of rates of future compensation increases used in that plan's valuation at December 31, 2002 were 6.75%, 9% and 4% to 8%, respectively. Note 6 describes in more detail the assumptions used and status of the many plans sponsored by the Company and its affiliates. SIGNIFICANT ACCOUNTING POLICIES Investments The Company's fixed maturity and equity securities are classified as available-for-sale and are reported at their estimated fair value. Unrealized investment gains and losses on securities are recorded as a separate component of other comprehensive income or loss, net of policyholder related amounts and deferred income taxes. The cost of fixed maturity and equity securities is adjusted for impairments in value deemed to be other-than-temporary. These adjustments are recorded as investment losses. Investment gains and losses on sales of securities are determined on a specific identification basis. All security transactions are recorded on a trade date basis. Mortgage loans on real estate are stated at amortized cost, net of valuation allowances. Valuation allowances are established for the excess carrying value of the mortgage loan over its estimated fair value when it is probable that, based upon current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Valuation allowances are included in net investment gains and losses and are based upon the present value of expected future cash flows discounted at the loan's original effective interest rate or the collateral value if the loan is collateral dependent. Interest income earned on impaired loans is accrued on the principal amount of the loan based on the loan's contractual interest rate. However, interest ceases to be accrued for loans on which interest is generally more than 60 days past due and/or where the collection of interest is not considered probable. Cash receipts on impaired loans are recorded as a reduction of the recorded asset. Real estate held-for-investment, including related improvements, is stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of the asset (typically 20 to 40 years). Real estate held-for-sale is stated at the lower of depreciated cost or fair value less expected disposition costs. Real estate is not depreciated while it is classified as held-for-sale. Cost of real estate held-for- investment is adjusted for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Impaired real estate is written down to estimated fair value with the impairment loss being included in net investment gains and losses. Impairment losses are based upon the estimated fair value of real estate, which is generally computed using the present value of expected future cash flows from the real estate discounted at a rate commensurate with the underlying risks. Real estate acquired upon foreclosure of commercial and agricultural mortgage loans is recorded at the lower of estimated fair value or the carrying value of the mortgage loan at the date of foreclosure. Policy loans are stated at unpaid principal balances. Short-term investments are stated at amortized cost, which approximates fair value. Other invested assets consist principally of leveraged leases and funds withheld at interest. The leveraged leases are recorded net of non-recourse debt. The Company participates in lease transactions which are diversified   by geographic area. The Company regularly reviews residual values and writes down residuals to expected values as needed. Funds withheld represent amounts contractually withheld by ceding companies in accordance with reinsurance agreements. For agreements written on a modified coinsurance basis and certain agreements written on a coinsurance basis, assets supporting the reinsured policies and equal to the net statutory reserves are withheld and continue to be legally owned by the ceding companies. The Company recognizes interest on funds withheld in accordance with the treaty terms as investment income is earned on the assets supporting the reinsured policies. Structured Investment Transactions and Variable Interest Entities The Company participates in structured investment transactions, primarily asset securitizations and structured notes. These transactions enhance the Company's total return of the investment portfolio principally by generating management fee income on asset securitizations and by providing equity-based returns on debt securities through structured notes and similar type instruments. The Company sponsors financial asset securitizations of high yield debt securities, investment grade bonds and structured finance securities and also is the collateral manager and a beneficial interest holder in such transactions. As the collateral manager, the Company earns management fees on the outstanding securitized asset balance, which are recorded in income as earned. When the Company transfers assets to a bankruptcy-remote special purpose entity ("SPE") and surrenders control over the transferred assets, the transaction is accounted for as a sale. Gains or losses on securitizations are determined with reference to the carrying amount of the financial assets transferred, which is allocated to the assets sold and the beneficial interests retained based on relative fair values at the date of transfer. Beneficial interests in securitizations are carried at fair value in fixed maturities. Income on the beneficial interests is recognized using the prospective method in accordance with Emerging Issues Task Force ("EITF") Issue No. 99-20, Recognition of Interest Income and Impairment on Certain Investments ("EITF 99-20"). The SPEs used to securitize assets are not consolidated by the Company because unrelated third parties hold controlling interests through ownership of equity in the SPEs, representing at least three percent of the value of the total assets of the SPE throughout the life of the SPE, and such equity class has the substantive risks and rewards of the residual interest of the SPE. The Company purchases or receives beneficial interests in SPEs, which generally acquire financial assets, including corporate equities, debt securities and purchased options. The Company has not guaranteed the performance, liquidity or obligations of the SPEs and the Company's exposure to loss is limited to its carrying value of the beneficial interests in the SPEs. The Company uses the beneficial interests as part of its risk management strategy, including asset-liability management. These SPEs are not consolidated by the Company because unrelated third parties hold controlling interests through ownership of equity in the SPEs, representing at least three percent of the value of the total assets of the SPE throughout the life of the SPE, and such equity class has the substantive risks and rewards of the residual interest of the SPE. The beneficial interests in SPEs where the Company exercises significant influence over the operating and financial policies of the SPE are accounted for in accordance with the equity method of accounting. Impairments of these beneficial interests are included in net investment gains and losses. The beneficial interests in SPEs where the Company does not exercise significant influence are accounted for based on the substance of the beneficial interest's rights and obligations. Beneficial interests are accounted for and are included in fixed maturities. These beneficial interests are generally structured notes, as defined by EITF Issue No. 96-12, Recognition of Interest Income and Balance Sheet Classification of Structured Notes, and their income is recognized using the retrospective interest method or the level yield method, as appropriate. Effective in 2003, Financial Accounting Standards Board ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of APB No. 51 ("FIN 46") will establish new accounting guidance relating to the consolidation of variable interest entities ("VIEs"). Certain of the asset-backed securitizations and structured investment transactions discussed above meet the definition of a VIE under FIN 46. In addition, certain F-11 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) investments in real estate joint ventures and other limited partnership interests also meet the VIE definition. The Company will be required to consolidate any VIE for which it is determined that the Company is the primary beneficiary. The Company is still in the process of evaluating its investments with regard to the implementation of FIN 46. The following table presents the total assets and the maximum exposure to loss relating to the VIEs that the Company believes it is reasonably possible it will need to consolidate or disclose information about in accordance with the provisions of FIN 46 at:

| DECEMBER 31, 2002 (DOLLARS IN MILLIONS) | TOTAL ASSETS | MAXIMUM EXPOSURE TO LOSS |
|---|---|---|
| Financial asset-backed securitizations and collateralized debt and bond obligations | $1,719 | $ 9(1) |
| Other structured investment transactions | 89 | 38(2) |
| Real estate joint ventures | 443 | 196(3) |
| Other limited partnership interests | 872 | 167(3) |
| Total | $3,123 | $410 |

-------------- (1) The maximum exposure to loss is based on the carrying value of retained interests. (2) The maximum exposure to loss is based on the carrying value of beneficial interests. (3) The maximum exposure to loss is based on the carrying value plus unfunded commitments reduced by amounts guaranteed by other partners. Derivative Instruments The Company uses derivative instruments to manage risk through one of four principal risk management strategies: (i) the hedging of liabilities, (ii) invested assets, (iii) portfolios of assets or liabilities and (iv) firm commitments and forecasted transactions. Additionally, the Company enters into income generation and replication derivative transactions as permitted by its derivatives use plan that was approved by the New York Insurance Department (the "Department"). The Company's derivative hedging strategy employs a variety of instruments, including financial futures, financial forwards, interest rate, credit default and foreign currency swaps, foreign currency forwards, and options, including caps and floors. On the date the Company enters into a derivative contract, management designates the derivative as a hedge of the identified exposure (fair value, cash flow or foreign currency). If a derivative does not qualify as a hedge, according to Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS 133"), the derivative is recorded at fair value and changes in its fair value are generally reported in net investment gains or losses. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. The Company generally determines hedge effectiveness based on total changes in fair value of a derivative instrument. The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) the derivative expires or is sold, terminated, or exercised, (iii) the derivative is de-designated as a hedge instrument, (iv) it is probable that the F-12 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) forecasted transaction will not occur, (v) a hedged firm commitment no longer meets the definition of a firm commitment, or (vi) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The Company designates and accounts for the following as cash flow hedges, when they have met the effectiveness requirements of SFAS 133: (i) various types of interest rate swaps to convert floating rate investments to fixed rate investments, (ii) receive U.S. dollar fixed on foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated investments, (iii) foreign currency forwards to hedge the exposure of future payments or receipts in foreign currencies, and (iv) other instruments to hedge the cash flows of various other forecasted transactions. For all qualifying and highly effective cash flow hedges, the effective portion of changes in fair value of the derivative instrument is reported in other comprehensive income or loss. The ineffective portion of changes in fair value of the derivative instrument is reported in net investment gains or losses. Hedged forecasted transactions, other than the receipt or payment of variable interest payments, are not expected to occur more than 12 months after hedge inception. The Company designates and accounts for the following as fair value hedges when they have met the effectiveness requirements of SFAS 133: (i) various types of interest rate swaps to convert fixed rate investments to floating rate investments, (ii) receive U.S. dollar floating on foreign currency swaps to hedge the foreign currency fair value exposure of foreign currency denominated investments, and (iii) other instruments to hedge various other fair value exposures of investments. For all qualifying and highly effective fair value hedges, the changes in fair value of the derivative instrument are reported as net investment gains or losses. In addition, changes in fair value attributable to the hedged portion of the underlying instrument are reported in net investment gains and losses. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative continues to be carried on the consolidated balance sheet at its fair value, but the hedged asset or liability will no longer be adjusted for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the derivative continues to be carried on the consolidated balance sheet at its fair value, and any asset or liability that was recorded pursuant to recognition of the firm commitment is removed from the consolidated balance sheet and recognized as a net investment gain or loss in the current period. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative continues to be carried on the consolidated balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income or loss are recognized immediately in net investment gains or losses. When the hedged forecasted transaction is no longer probable, but is reasonably possible, the accumulated gain or loss remains in other comprehensive income or loss and is recognized when the transaction affects net income or loss; however, prospective hedge accounting for the transaction is terminated. In all other situations in which hedge accounting is discontinued, the derivative is carried at its fair value on the consolidated balance sheet, with changes in its fair value generally recognized in the current period as net investment gains or losses. The Company may enter into contracts that are not themselves derivative instruments but contain embedded derivatives. For each contract, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to those of the host contract and determines whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. If it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative. Such embedded derivatives are recorded on the consolidated balance sheet at fair value and changes in their fair value are recorded currently in net investment gains or losses. If the Company is unable to properly identify and measure an embedded derivative for separation from its host contract, F-13 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) the entire contract is carried on the consolidated balance sheet at fair value, with changes in fair value recognized in the current period as net investment gains or losses. The Company also uses derivatives to synthetically create investments that are either more expensive to acquire or otherwise unavailable in the cash markets. These securities, called replication synthetic asset transactions ("RSATs"), are a combination of a derivative and a cash security to synthetically create a third replicated security. These derivatives are not designated as hedges. As of December 31, 2002 and 2001, 19 and 15, respectively, of such RSATs, with notional amounts totaling $285 million and $205 million, respectively, have been created through the combination of a credit default swap and a U.S. Treasury security. The Company records the premiums received on the credit default swaps in investment income over the life of the contract and changes in fair value are recorded in net investment gains and losses. The Company enters into written covered calls and net written covered collars to generate additional investment income on the underlying assets it holds. These derivatives are not designated as hedges. The Company records the premiums received as net investment income over the life of the contract and changes in fair value of such options and collars as net investment gains and losses. Cash and Cash Equivalents The Company considers all investments purchased with an original maturity of three months or less to be cash equivalents. Property, Equipment, Leasehold Improvements and Computer Software Property, equipment and leasehold improvements, which are included in other assets, are stated at cost, less accumulated depreciation and amortization. Depreciation is determined using either the straight-line or sum-of- the-years-digits method over the estimated useful lives of the assets. The estimated life for company occupied real estate property is 40 years. Estimated lives range from five to ten years for leasehold improvements and three to five years for all other property and equipment. Accumulated depreciation and amortization of property, equipment and leasehold improvements was $428 million and $552 million at December 31, 2002 and 2001, respectively. Related depreciation and amortization expense was $85 million, $99 million and $90 million for the years ended December 31, 2002, 2001 and 2000, respectively. Computer software, which is included in other assets, is stated at cost, less accumulated amortization. Purchased software costs, as well as internal and external costs incurred to develop internal-use computer software during the application development stage, are capitalized. Such costs are amortized generally over a three-year period using the straight-line method. Accumulated amortization of capitalized software was $317 million and $169 million at December 31, 2002 and 2001, respectively. Related amortization expense was $155 million, $110 million and $45 million for the years ended December 31, 2002, 2001 and 2000, respectively. Deferred Policy Acquisition Costs The costs of acquiring new insurance business that vary with, and are primarily related to, the production of new business are deferred. Such costs, which consist principally of commissions, agency and policy issue expenses, are amortized with interest over the expected life of the contract for participating traditional life, universal life and investment-type products. Generally, deferred policy acquisition costs are amortized in proportion to the present value of estimated gross margins or profits from investment, mortality, expense margins and surrender charges. Interest rates are based on rates in effect at the inception or acquisition of the contracts. Actual gross margins or profits can vary from management's estimates resulting in increases or decreases in the rate of amortization. Management utilizes the reversion to the mean assumption, a standard industry practice, in its determination of the amortization of deferred policy acquisition costs. This practice assumes that the expectation for long-term appreciation is not changed by minor short-term market fluctuations, but that it does F-14 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) change when large interim deviations have occurred. Management periodically updates these estimates and evaluates the recoverability of deferred policy acquisition costs. When appropriate, management revises its assumptions of the estimated gross margins or profits of these contracts, and the cumulative amortization is re-estimated and adjusted by a cumulative charge or credit to current operations. Deferred policy acquisition costs for non-participating traditional life, non-medical health and annuity policies with life contingencies are amortized in proportion to anticipated premiums. Assumptions as to anticipated premiums are made at the date of policy issuance or acquisition and are consistently applied during the lives of the contracts. Deviations from estimated experience are included in operations when they occur. For these contracts, the amortization period is typically the estimated life of the policy. Policy acquisition costs related to internally replaced contracts are expensed at the date of replacement. Deferred policy acquisition costs for property and casualty insurance contracts, which are primarily comprised of commissions and certain underwriting expenses, are deferred and amortized on a pro rata basis over the applicable contract term or reinsurance treaty. Value of business acquired ("VOBA"), included as part of deferred policy acquisition costs, represents the present value of future profits generated from existing insurance contracts in force at the date of acquisition and is amortized over the expected policy or contract duration in relation to the present value of estimated gross profits from such policies and contracts. Information regarding VOBA and deferred policy acquisition costs for the year ended December 31, 2002 is as follows:

| (DOLLARS IN MILLIONS) | VALUE OF BUSINESS ACQUIRED | DEFERRED POLICY ACQUISITION COSTS | TOTAL |
|---|---|---|---|
| ~~Balance at January 1, 2002~~ | ~~$1,678~~ | ~~$ 9,489~~ | ~~$11,167~~ |
| ~~Capitalizations~~ | ~~--~~ | ~~2,340~~ | ~~2,340~~ |
| ~~Acquisitions~~ | ~~369~~ | ~~--~~ | ~~369~~ |
| ~~Total~~ | ~~2,047~~ | ~~11,829~~ | ~~13,876~~ |
| ~~Amortization allocated to:~~ | | | |
| ~~Net investment gains (losses)~~ | ~~16~~ | ~~(11)~~ | ~~5~~ |
| ~~Unrealized investment gains~~ | ~~154~~ | ~~384~~ | ~~538~~ |
| ~~Other expenses~~ | ~~132~~ | ~~1,507~~ | ~~1,639~~ |
| ~~Total amortization~~ | ~~302~~ | ~~1,880~~ | ~~2,182~~ |
| ~~Dispositions and other~~ | ~~(6)~~ | ~~39~~ | ~~33~~ |
| ~~Balance at December 31, 2002~~ | ~~$1,739~~ | ~~$ 9,988~~ | ~~$11,727~~ |

F-15 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Information regarding VOBA and deferred policy acquisition costs for the year ended December 31, 2001 is as follows:

DEFERRED VALUE OF POLICY BUSINESS ACQUISITION ACQUIRED COSTS TOTAL -------- ------------ ------- (DOLLARS IN MILLIONS) ~~Balance at January 1, 2001............................. $1,674 $ 8,944 $10,618 Capitalizations......................................... -- 2,039 2,039 Acquisitions............................................ 124 -- 124 ------ ------- ------- Total....................................... 1,798 10,983 12,781 ------ ------- ------- Amortization allocated to: Net investment (losses) gains..................... (15) 40 25 Unrealized investment gains....................... 8 132 140 Other expenses.................................... 126 1,287 1,413 ------ ------- ------- Total amortization........................... 119 1,459 1,578 Dispositions and other................................ (1) (35) (36) ------ ------- ------- Balance at December 31, 2001........................... $1,678 $ 9,489 $11,167 ====== ======= =======~~

Information regarding VOBA and deferred policy acquisition costs for the year ended December 31, 2000 is as follows:

DEFERRED VALUE OF POLICY BUSINESS ACQUISITION ACQUIRED COSTS TOTAL -------- ------------ ------- (DOLLARS IN MILLIONS) ~~Balance at January 1, 2000............................. $ 632 $ 8,438 $ 9,070 Capitalizations......................................... -- 1,863 1,863 Acquisitions............................................ 1,480 201 1,681 ------ ------- ------- Total....................................... 2,112 10,502 12,614 ------ ------- ------- Amortization allocated to: Net investment gains (losses)..................... 28 (123) (95) Unrealized investment gains....................... 93 497 590 Other expenses.................................... 310 1,168 1,478 ------ ------- ------- Total amortization........................... 431 1,542 1,973 Dispositions and other................................ (7) (16) (23) ------ ------- ------- Balance at December 31, 2000........................... $1,674 $ 8,944 $10,618 ====== ======= =======~~

The estimated future amortization expense allocated to other expenses for VOBA is $147 million in 2003, $141 million in 2004, $137 million in 2005, $135 million in 2006 and $128 million in 2007. Amortization of VOBA and deferred policy acquisition costs is allocated to (i) investment gains and losses to provide consolidated statement of income information regarding the impact of such gains and losses on the amount of the amortization, (ii) unrealized investment gains and losses to provide information regarding the amount that would have been amortized if such gains and losses had been recognized, and (iii) other expenses to provide amounts related to the gross margins or profits originating from transactions other than investment gains and losses. F-16 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Investment gains and losses related to certain products have a direct impact on the amortization of VOBA and deferred policy acquisition costs. Presenting investment gains and losses net of related amortization of VOBA and deferred policy acquisition costs provides information useful in evaluating the operating performance of the Company. This presentation may not be comparable to presentations made by other insurers. Goodwill The excess of cost over the fair value of net assets acquired ("goodwill") is included in other assets. On January 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, ("SFAS 142"). In accordance with SFAS 142, goodwill is not amortized but is tested for impairment at least annually to determine if a write down of the cost of the asset is required. Impairments are recognized in operating results when the carrying amount of goodwill exceeds its implied fair value. Prior to the adoption of SFAS 142, goodwill was amortized on a straight-line basis over a period ranging from ten to 30 years and impairments were recognized in operating results when permanent diminution in value was deemed to have occurred. Changes in goodwill were as follows:

YEARS ENDED DECEMBER 31, ---------------------- 2002 2001 2000 ----- ----- ------ (DOLLARS IN MILLIONS) ~~Net balance at January 1..................................... $609 $703 $ 611 Acquisitions................................................ 166 54 286 Amortization................................................ -- (47) (50) Impairment losses........................................... (8) (61) -- Dispositions and other...................................... (17) (40) (144) ---- ---- ----- Net balance at December 31.................................. $750 $609 $ 703 ==== ==== =====~~

Accumulated amortization from goodwill was as follows at:

DECEMBER 31, ------------- 2002 2001 ----- ----- (DOLLARS IN MILLIONS) ~~Accumulated amortization.................................... $101 $101 ==== ====~~

Future Policy Benefits and Policyholder Account Balances Future policy benefit liabilities for participating traditional life insurance policies are equal to the aggregate of (i) net level premium reserves for death and endowment policy benefits (calculated based upon the nonforfeiture interest rate, ranging from 3% to 11%, and mortality rates guaranteed in calculating the cash surrender values described in such contracts), (ii) the liability for terminal dividends, and (iii) premium deficiency reserves, which are established when the liabilities for future policy benefits plus the present value of expected future gross premiums are insufficient to provide for expected future policy benefits and expenses after deferred policy acquisition costs are written off. Future policy benefit liabilities for traditional annuities are equal to accumulated contractholder fund balances during the accumulation period and the present value of expected future payments after annuitization. Interest rates used in establishing such liabilities range from 2% to 11%. Future policy benefit liabilities for non-medical health insurance are calculated using the net level premium method and assumptions as to future morbidity, withdrawals and interest, which provide a margin for adverse deviation. Interest rates used in   establishing such liabilities range from 3% to 11%. Future policy benefit liabilities for disabled lives are estimated using the present value of benefits method and experience assumptions as to claim terminations, expenses and interest. Interest rates used in establishing such liabilities range from 3% to 11%. Policyholder account balances for universal life and investment-type contracts are equal to the policy account values, which consist of an accumulation of gross premium payments plus credited interest, ranging from 1% to 13%, less expenses, mortality charges, and withdrawals. The liability for unpaid claims and claim expenses for property and casualty insurance represents the amount estimated for claims that have been reported but not settled and claims incurred but not reported. Liabilities for unpaid claims are estimated based upon the Company's historical experience and other actuarial assumptions that consider the effects of current developments, anticipated trends and risk management programs, reduced for anticipated salvage and subrogation. Revisions of these estimates are included in operations in the year such refinements are made. Recognition of Insurance Revenue and Related Benefits Premiums related to traditional life and annuity policies with life contingencies are recognized as revenues when due. Benefits and expenses are provided against such revenues to recognize profits over the estimated lives of the policies. When premiums are due over a significantly shorter period than the period over which benefits are provided, any excess profit is deferred and recognized into operations in a constant relationship to insurance in-force or, for annuities, the amount of expected future policy benefit payments. Premiums related to non-medical health contracts are recognized on a pro rata basis over the applicable contract term. Deposits related to universal life and investment-type products are credited to policyholder account balances. Revenues from such contracts consist of amounts assessed against policyholder account balances for mortality, policy administration and surrender charges and are recognized in the period in which services are provided. Amounts that are charged to operations include interest credited and benefit claims incurred in excess of related policyholder account balances. Premiums related to property and casualty contracts are recognized as revenue on a pro rata basis over the applicable contract term. Unearned premiums are included in other liabilities. Other Revenues Other revenues include asset management and advisory fees, broker/dealer commissions and fees, and administrative service fees. Such fees and commissions are recognized in the period in which services are performed. Other revenues also include changes in account value relating to corporate-owned life insurance ("COLI"). Under certain COLI contracts, if the Company reports certain unlikely adverse results in its consolidated financial statements, withdrawals would not be immediately available and would be subject to market value adjustment, which could result in a reduction of the account value. Policyholder Dividends Policyholder dividends are approved annually by the insurance subsidiaries' boards of directors. The aggregate amount of policyholder dividends is related to actual interest, mortality, morbidity and expense experience for the year, as well as management's judgment as to the appropriate level of statutory surplus to be retained by the insurance subsidiaries.   Participating Business Participating business represented approximately 16% and 18% of the Company's life insurance in-force, and 55% and 78% of the number of life insurance policies in-force, at December 31, 2002 and 2001, respectively. Participating policies represented approximately 43% and 45%, 43% and 45%, and 47% and 50% of gross and net life insurance premiums for the years ended December 31, 2002, 2001 and 2000, respectively. The percentages indicated are calculated excluding the business of the Reinsurance segment. Income Taxes The Holding Company and its includable life insurance and non-life insurance subsidiaries file a consolidated U.S. federal income tax return in accordance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"). Non-includable subsidiaries file either separate tax returns or separate consolidated tax returns. Under the Code, the amount of federal income tax expense incurred by mutual life insurance companies includes an equity tax calculated based upon a prescribed formula that incorporates a differential earnings rate between stock and mutual life insurance companies. Metropolitan Life has not been subject to the equity tax since the date of demutualization. The future tax consequences of temporary differences between financial reporting and tax bases of assets and liabilities are measured at the balance sheet dates and are recorded as deferred income tax assets and liabilities. Reinsurance The Company has reinsured certain of its life insurance and property and casualty insurance contracts with other insurance companies under various agreements. Amounts due from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Policy and contract liabilities are reported gross of reinsurance credits. Deferred policy acquisition costs are reduced by amounts recovered under reinsurance contracts. Amounts received from reinsurers for policy administration are reported in other revenues. The Company assumes and retrocedes financial reinsurance contracts, which represent low mortality risk reinsurance treaties. These contracts are reported as deposits and are included in other assets. The amount of revenue reported on these contracts represents fees and the cost of insurance under the terms of the reinsurance agreement. Separate Accounts Separate accounts are established in conformity with insurance laws and are generally not chargeable with liabilities that arise from any other business of the Company. Separate account assets are subject to general account claims only to the extent the value of such assets exceeds the separate account liabilities. Investments (stated at estimated fair value) and liabilities of the separate accounts are reported separately as assets and liabilities. Deposits to separate accounts, investment income and recognized and unrealized gains and losses on the investments of the separate accounts accrue directly to contractholders and, accordingly, are not reflected in the Company's consolidated statements of income and cash flows. Mortality, policy administration and surrender charges to all separate accounts are included in revenues. Stock Based Compensation The Company accounts for the stock-based compensation plans using the accounting method prescribed by Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees ("APB 25") and has included in Note 17 the pro forma disclosures required by SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123").   Foreign Currency Translation Balance sheet accounts of foreign operations are translated at the exchange rates in effect at each year-end and income and expense accounts are translated at the average rates of exchange prevailing during the year. The local currencies of foreign operations are the functional currencies unless the local economy is highly inflationary. Translation adjustments are charged or credited directly to other comprehensive income or loss. Gains and losses from foreign currency transactions are reported in earnings. Discontinued Operations The results of operations of a component of the Company that either has been disposed of or is classified as held-for-sale on or after January 1, 2002 are reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the Company as a result of the disposal transaction and the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction. Earnings Per Share Earnings per share amounts, on a basic and diluted basis, have been calculated based upon the weighted average common shares outstanding or deemed to be outstanding only for the period after the date of demutualization. Basic earnings per share is computed based on the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of the assumed conversion of forward purchase contracts and exercise of stock options, using the treasury stock method. Under the treasury stock method, exercise of the stock options and the forward purchase contracts is assumed with the proceeds used to purchase common stock at the average market price for the period. The difference between the number of shares assumed issued and number of shares assumed purchased represents the dilutive shares. DEMUTUALIZATION AND INITIAL PUBLIC OFFERING On April 7, 2000 (the "date of demutualization"), Metropolitan Life Insurance Company ("Metropolitan Life") 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 (the "Superintendent") approving Metropolitan Life's plan of reorganization, as amended (the "plan"). On the date of demutualization, policyholders' membership interests in Metropolitan Life were extinguished and eligible policyholders received, in exchange for their interests, trust interests representing 494,466,664 shares of common stock of MetLife, Inc. to be held in a trust, cash payments aggregating $2,550 million and adjustments to their policy values in the form of policy credits aggregating $408 million, as provided in the plan. In addition, Metropolitan Life's Canadian branch made cash payments of $327 million in the second quarter of 2000 to holders of certain policies transferred to Clarica Life Insurance Company in connection with the sale of a substantial portion of Metropolitan Life's Canadian operations in 1998, as a result of a commitment made in connection with obtaining Canadian regulatory approval of that sale. APPLICATION OF ACCOUNTING PRONOUNCEMENTS In January 2003, the FASB issued FIN 46 which requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to   February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is in the process of assessing the impact of FIN 46 on its consolidated financial statements. Certain disclosure provisions of FIN 46 were required for December 31, 2002 financial statements. See "-- Structured Investment Transactions and Variable Interest Entities." As of December 31, 2002, the FASB is deliberating on a proposed statement that would further amend SFAS 133. The proposed statement will address certain SFAS 133 Implementation Issues. The proposed statement is not expected to have a significant impact on the Company's consolidated financial statements. In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure ("SFAS 148"), which provides guidance on how to transition from the intrinsic value method of accounting for stock-based employee compensation under APB 25 to the fair value method of accounting from SFAS 123, if a company so elects. Effective January 1, 2003, the Company adopted the fair value method of recording stock options under SFAS 123. In accordance with alternatives available under the transitional guidance of SFAS 148, the Company has elected to apply the fair value method of accounting for stock options prospectively to awards granted subsequent to January 1, 2003. As permitted, options granted prior to January 1, 2003, will continue to be accounted for under APB 25, and the pro forma impact of accounting for these options at fair value will continue to be disclosed in the consolidated financial statements until the last of those options vest in 2005. In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires entities to establish liabilities for certain types of guarantees, and expands financial statement disclosures for others. Disclosure requirements under FIN 45 are effective for financial statements of annual periods ending after December 15, 2002 and are applicable to all guarantees issued by the guarantor subject to the provisions of FIN 45. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31,

2002. The Company does not expect the initial adoption of FIN 45 to have a significant impact on the Company's consolidated financial statements. The adoption of FIN 45 requires the Company to include disclosures in its consolidated financial statements related to guarantees. See Note 11. In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"), which must be adopted for exit and disposal activities initiated after December 31, 2002. SFAS 146 will require that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred rather than at the date of an entity's commitment to an exit plan as required by EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ("EITF 94-3"). As discussed in Note 13, in the fourth quarter of 2001, the Company recorded a charge of $330 million, net of income taxes of $169 million, associated with business realignment initiatives using the EITF 94-3 accounting guidance. In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS 145"). In addition to amending or rescinding other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions, SFAS 145 generally precludes companies from recording gains and losses from the extinguishment of debt as an extraordinary item. SFAS 145 also requires sale-leaseback treatment for certain modifications of a capital lease that result in the lease being classified as an operating lease. SFAS 145 is effective for fiscal years beginning after May 15, 2002, and the initial application of this standard did not have a significant impact on the Company's consolidated financial statements. Effective January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). SFAS 144 provides a single model for accounting for long-lived assets to be   disposed of by superseding SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of ("SFAS 121"), and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("APB 30"). Under SFAS 144, discontinued operations are measured at the lower of carrying value or fair value less costs to sell, rather than on a net realizable value basis. Future operating losses relating to discontinued operations also are no longer recognized before they occur. SFAS 144 (i) broadens the definition of a discontinued operation to include a component of an entity (rather than a segment of a business); (ii) requires long-lived assets to be disposed of other than by sale to be considered held and used until disposed; and (iii) retains the basic provisions of (a) APB 30 regarding the presentation of discontinued operations in the statements of income, (b) SFAS 121 relating to recognition and measurement of impaired long-lived assets (other than goodwill), and (c) SFAS 121 relating to the measurement of long-lived assets classified as held-for-sale. Adoption of SFAS 144 did not have a material impact on the Company's consolidated financial statements other than the presentation as discontinued operations of net investment income and net investment gains related to operations of real estate on which the Company initiated disposition activities subsequent to January 1, 2002 and the classification of such real estate as held-for-sale on the consolidated balance sheets. See Note 22. Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 142 eliminates the systematic amortization and establishes criteria for measuring the impairment of goodwill and certain other intangible assets by reporting unit. The Company did not amortize goodwill during 2002. Amortization of goodwill was $47 million and $50 million for the years ended December 31, 2001 and 2000, respectively. Amortization of other intangible assets was not material for the years ended December 31, 2002, 2001 and 2000. The Company has completed the required impairment tests of goodwill and indefinite-lived intangible assets. As a result of these tests, the Company recorded a $5 million charge to earnings relating to the impairment of certain goodwill assets in the third quarter of 2002 as a cumulative effect of a change in accounting. There was no impairment of identified intangible assets or significant reclassifications between goodwill and other intangible assets at January 1, 2002. Effective July 1, 2001, the Company adopted SFAS No. 141, Business Combinations ("SFAS 141"). SFAS 141 requires the purchase method of accounting for all business combinations and separate recognition of intangible assets apart from goodwill if such intangible assets meet certain criteria. In accordance with SFAS 141, the elimination of $5 million of negative goodwill was reported in net income in the first quarter of 2002 as a cumulative effect of a change in accounting. In July 2001, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 102, Selected Loan Loss Allowance and Documentation Issues ("SAB 102"). SAB 102 summarizes certain of the SEC's views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses. The application of SAB 102 by the Company did not have a material impact on the Company's consolidated financial statements. Effective April 1, 2001, the Company adopted certain additional accounting and reporting requirements of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- a Replacement of FASB Statement No. 125, relating to the derecognition of transferred assets and extinguished liabilities and the reporting of servicing assets and liabilities. The initial adoption of these requirements did not have a material impact on the Company's consolidated financial statements. Effective April 1, 2001, the Company adopted EITF 99-20, Recognition of Interest Income and Impairment on Certain Investments. This pronouncement requires investors in certain asset-backed securities to record changes in their estimated yield on a prospective basis and to apply specific evaluation methods to these securities for an other-than-temporary decline in value. The initial adoption of EITF 99-20 did not have a material impact on the Company's consolidated financial statements.   Effective January 1, 2001, the Company adopted SFAS 133 which established new accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The cumulative effect of the adoption of SFAS 133, as of January 1, 2001, resulted in a $33 million increase in other comprehensive income, net of income taxes of $18 million, and had no material impact on net income. The increase to other comprehensive income is attributable to net gains on cash flow-type hedges at transition. Also at transition, the amortized cost of fixed maturities decreased and other invested assets increased by $22 million, representing the fair value of certain interest rate swaps that were accounted for prior to SFAS 133 using fair value-type settlement accounting. During the year ended December 31, 2001, $18 million of the pre-tax gain reported in accumulated other comprehensive income at transition was reclassified into net investment income. The FASB continues to issue additional guidance relating to the accounting for derivatives under SFAS 133, which may result in further adjustments to the Company's treatment of derivatives in subsequent accounting periods. Effective October 1, 2000, the Company adopted SAB No. 101, Revenue Recognition in Financial Statements ("SAB 101"). SAB 101 summarizes certain of the Securities and Exchange Commission's views in applying GAAP to revenue recognition in financial statements. The requirements of SAB 101 did not have a material effect on the Company's consolidated financial statements. Effective January 1, 2000, the Company adopted Statement of Position ("SOP") No. 98-7, Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk ("SOP 98-7"). SOP 98-7 provides guidance on the method of accounting for insurance and reinsurance contracts that do not transfer insurance risk, defined in the SOP as the deposit method. SOP 98-7 classifies insurance and reinsurance contracts for which the deposit method is appropriate into those that (i) transfer only significant timing risk, (ii) transfer only significant underwriting risk, (iii) transfer neither significant timing nor underwriting risk and (iv) have an indeterminate risk. Adoption of SOP 98-7 did not have a material effect on the Company's consolidated financial statements. 2. SEPTEMBER 11, 2001 TRAGEDIES On September 11, 2001 terrorist attacks occurred in New York, Washington, D.C. and Pennsylvania (the "tragedies") triggering a significant loss of life and property which had an adverse impact on certain of the Company's businesses. The Company has direct exposure to these events with claims arising from its Individual, Institutional, Reinsurance and Auto & Home insurance coverages, and it believes the majority of such claims have been reported or otherwise analyzed by the Company. The Company's original estimate of the total insurance losses related to the tragedies, which was recorded in the third quarter of 2001, was $208 million, net of income taxes of $117 million. Net income for the year ended December 31, 2002 includes a $17 million, net of income taxes of $9 million, benefit from the reduction of the liability associated with the tragedies. The revision to the liability is the result of an analysis completed during the fourth quarter of 2002, which focused on the emerging incidence experienced over the past 12 months associated with certain disability products. As of December 31, 2002, the Company's remaining liability for unpaid and future claims associated with the tragedies was $47 million, principally related to disability coverages. This estimate has been and will continue to be subject to revision in subsequent periods, as claims are received from insureds and the claims to reinsurers are identified and processed. Any revision to the estimate of gross losses and reinsurance recoveries in subsequent periods will affect net income in such periods. Reinsurance recoveries are dependent on the continued creditworthiness of the reinsurers, which may be adversely affected by their other reinsured losses in connection with the tragedies. The Company's general account investment portfolios include investments, primarily comprised of fixed maturities, in industries that were affected by the tragedies, including airline, other travel, lodging and insurance. Exposures to these industries also exist through mortgage loans and investments in real estate. The carrying value of the Company's investment portfolio exposed to industries affected by the tragedies was approximately $3.7 billion at December 31, 2002.   The long-term effects of the tragedies on the Company's businesses cannot be assessed at this time. The tragedies have had significant adverse effects on the general economic, market and political conditions, increasing many of the Company's business risks. This may have a negative effect on MetLife's businesses and results of operations over time. In particular, the declines in share prices experienced after the reopening of the U.S. equity markets following the tragedies have contributed, and may continue to contribute, to a decline in separate account assets, which in turn may have an adverse effect on fees earned in the Company's businesses. In addition, the Company has received and expects to continue to receive disability claims from individuals resulting from the tragedies. 3. INVESTMENTS FIXED MATURITIES AND EQUITY SECURITIES Fixed maturities and equity securities at December 31, 2002 were as follows:

| | COST OR AMORTIZED COST | GROSS UNREALIZED GAIN | GROSS UNREALIZED LOSS | ESTIMATED FAIR VALUE |
|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | |
| Fixed Maturities: | | | | |
| Bonds: | | | | |
| U.S. corporate securities................ | $ 47,021 | $3,193 | $ 957 | $ 49,257 |
| Mortgage-backed securities................ | 33,256 | 1,649 | 22 | 34,883 |
| Foreign corporate securities.............. | 18,001 | 1,435 | 207 | 19,229 |
| U.S. treasuries/agencies.................. | 14,373 | 1,565 | 4 | 15,934 |
| Asset-backed securities................... | 9,483 | 228 | 208 | 9,503 |
| Foreign government securities............. | 7,012 | 636 | 52 | 7,596 |
| States and political subdivisions......... | 2,580 | 182 | 20 | 2,742 |
| Other fixed income assets................. | 609 | 191 | 103 | 697 |
| Total bonds.......................... | 132,335 | 9,079 | 1,573 | 139,841 |
| Redeemable preferred stocks.................. | 817 | 12 | 117 | 712 |
| Total fixed maturities............... | $133,152 | $9,091 | $1,690 | $140,553 |
| Equity Securities: | | | | |
| Common stocks................................ | $ 877 | $ 115 | $ 79 | $ 913 |
| Nonredeemable preferred stocks............... | 426 | 13 | 4 | 435 |
| Total equity securities.............. | $ 1,303 | $ 128 | $ 83 | $ 1,348 |



Fixed maturities and equity securities at December 31, 2001 were as follows:

| | COST OR AMORTIZED COST | GROSS UNREALIZED GAIN | GROSS UNREALIZED LOSS | ESTIMATED FAIR VALUE |
|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | |
| Fixed Maturities: | | | | |
| Bonds: | | | | |
| U.S. corporate securities................ | $ 43,141 | $1,470 | $ 748 | $ 43,863 |
| Mortgage-backed securities................ | 25,506 | 866 | 192 | 26,180 |
| Foreign corporate securities............. | 16,836 | 688 | 539 | 16,985 |
| U.S. treasuries/agencies.................. | 8,297 | 1,031 | 43 | 9,285 |
| Asset-backed securities................... | 8,115 | 154 | 206 | 8,063 |
| Foreign government securities............. | 5,488 | 544 | 37 | 5,995 |
| States and political subdivisions......... | 2,248 | 68 | 21 | 2,295 |
| Other fixed income assets................. | 1,874 | 238 | 142 | 1,970 |
| Total bonds.......................... | 111,505 | 5,059 | 1,928 | 114,636 |
| Redeemable preferred stocks.................. | 783 | 12 | 33 | 762 |
| Total fixed maturities............... | $112,288 | $5,071 | $1,961 | $115,398 |
| Equity Securities: | | | | |
| Common stocks................................ | $ 1,968 | $ 657 | $ 78 | $ 2,547 |
| Nonredeemable preferred stocks............... | 491 | 28 | 3 | 516 |
| Total equity securities.............. | $ 2,459 | $ 685 | $ 81 | $ 3,063 |

The Company held foreign currency derivatives with notional amounts of $2,371 million and $1,925 million to hedge the exchange rate risk associated with foreign bonds at December 31, 2002 and 2001, respectively. The Company held fixed maturities at estimated fair values that were below investment grade or not rated by an independent rating agency that totaled $11,286 million and $9,790 million at December 31, 2002 and 2001, respectively. Non-income producing fixed maturities were $416 million and $237 million at December 31, 2002 and 2001, respectively. The cost or amortized cost and estimated fair value of bonds at December 31, 2002, by contractual maturity date (excluding scheduled sinking funds), are shown below:

| | COST OR AMORTIZED COST | ESTIMATED FAIR VALUE |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |
| Due in one year or less | $ 4,592 | $ 4,662 |
| Due after one year through five years | 26,200 | 27,354 |
| Due after five years through ten years | 23,297 | 24,987 |
| Due after ten years | 35,507 | 38,452 |
| Subtotal | 89,596 | 95,455 |
| Mortgage-backed and asset-backed securities | 42,739 | 44,386 |
| Subtotal | 132,335 | 139,841 |
| Redeemable preferred stock | 817 | 712 |
| Total fixed maturities | $133,152 | $140,553 |

Actual maturities may differ as a result of prepayments by the issuer. F-25 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Bonds not due at a single maturity date have been included in the above table in the year of final maturity. Actual maturities may differ from contractual maturities due to the exercise of prepayment options. Sales of fixed maturities and equity securities classified as available-for-sale were as follows:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Proceeds | $37,427 | $28,105 | $46,205 |
| Gross investment gains | $ 1,661 | $ 646 | $ 599 |
| Gross investment losses | $ (979) | $ (948) | $(1,520) |

Gross investment losses above exclude writedowns recorded during 2002, 2001 and 2000 for other than temporarily impaired available-for-sale fixed maturities and equity securities of $1,375 million, $278 million and $324 million, respectively. Excluding investments in U.S. Treasury securities and obligations of U.S. government corporations and agencies, the Company is not exposed to any significant concentration of credit risk in its fixed maturities portfolio. SECURITIES LENDING PROGRAM The Company participates in securities lending programs whereby blocks of securities, which are included in investments, are loaned to third parties, primarily major brokerage firms. The Company requires a minimum of 102% of the fair value of the loaned securities to be separately maintained as collateral for the loans. Securities with a cost or amortized cost of $14,873 million and $11,416 million and an estimated fair value of $17,625 million and $12,066 million were on loan under the program at December 31, 2002 and 2001, respectively. The Company was liable for cash collateral under its control of $17,862 million and $12,661 million at December 31, 2002 and 2001, respectively. Security collateral on deposit from customers may not be sold or repledged and is not reflected in the consolidated financial statements. STRUCTURED INVESTMENT TRANSACTIONS The Company securitizes high yield debt securities, investment grade bonds and structured finance securities. The Company has sponsored five securitizations with a total of approximately $1,323 million in financial assets as of December 31, 2002. Two of these transactions included the transfer of assets totaling approximately $289 million in 2001, resulting in the recognition of an insignificant amount of investment gains. The Company's beneficial interests in these SPEs as of December 31, 2002 and 2001 and the related investment income for the years ended December 31, 2002, 2001 and 2000 were insignificant. The Company also invests in structured notes and similar type instruments, which generally provide equity-based returns on debt securities. The carrying value of such investments was approximately $870 million and $1.6 billion at December 31, 2002 and 2001, respectively. The related income recognized was $1 million, $44 million and $62 million for the years ended December 31, 2002, 2001 and 2000, respectively. ASSETS ON DEPOSIT AND HELD IN TRUST The Company had investment assets on deposit with regulatory agencies with a fair market value of $936 million and $845 million at December 31, 2002 and 2001, respectively. Company securities held in trust to satisfy collateral requirements had an amortized cost of $1,949 million and $1,918 million at December 31, 2002 and 2001, respectively. F-26 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) MORTGAGE LOANS ON REAL ESTATE Mortgage loans on real estate were categorized as follows:

| | DECEMBER 31, 2002 AMOUNT | PERCENT | 2001 AMOUNT | PERCENT |
|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | |
| Commercial mortgage loans | $19,671 | 78% | $18,093 | 76% |
| Agricultural mortgage loans | 5,152 | 20 | 5,277 | 22 |
| Residential mortgage loans | 389 | 2 | 395 | 2 |
| Total | 25,212 | 100% | 23,765 | 100% |
| Less: Valuation allowances | 126 | | 144 | |
| Mortgage loans | $25,086 | | $23,621 | |

Mortgage loans on real estate are collateralized by properties primarily located throughout the United States. At December 31, 2002, approximately 18%, 8% and 8% of the properties were located in California, New York and Florida, respectively. Generally, the Company (as the lender) requires that a minimum of one-fourth of the purchase price of the underlying real estate be paid by the borrower. Certain of the Company's real estate joint ventures have mortgage loans with the Company. The carrying values of such mortgages were $620 million and $644 million at December 31, 2002 and 2001, respectively. Changes in mortgage loan valuation allowances were as follows:

| | YEARS ENDED DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Balance at January 1 | $144 | $ 83 | $ 90 |
| Additions | 41 | 106 | 38 |
| Deductions for writedowns and dispositions | (59) | (45) | (74) |
| Acquisitions of affiliates | -- | -- | 29 |
| Balance at December 31 | $126 | $144 | $ 83 |

A portion of the Company's mortgage loans on real estate was impaired and consisted of the following:

| | DECEMBER 31, 2002 | 2001 |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |
| Impaired mortgage loans with valuation allowances | $627 | $ 816 |
| Impaired mortgage loans without valuation allowances | 261 | 324 |
| Total | 888 | 1,140 |
| Less: Valuation allowances on impaired mortgages | 125 | 140 |
| Impaired mortgage loans | $763 | $1,000 |

The average investment in impaired mortgage loans on real estate was $1,088 million, $947 million and $912 million for the years ended December 31, 2002, 2001 and 2000, respectively. Interest income on impaired mortgage loans was $91 million, $103 million and $80 million for the years ended December 31, 2002, 2001 and 2000, respectively.





The investment in restructured mortgage loans on real estate was $414 million and $685 million at December 31, 2002 and 2001, respectively. Interest income of $44 million, $76 million and $77 million was recognized on restructured loans for the years ended December 31, 2002, 2001 and 2000, respectively. Gross interest income that would have been recorded in accordance with the original terms of such loans amounted to $41 million, $60 million and $74 million for the years ended December 31, 2002, 2001 and 2000, respectively. Mortgage loans on real estate with scheduled payments of 60 days (90 days for agriculture mortgages) or more past due or in foreclosure had an amortized cost of $40 million and $53 million at December 31, 2002 and 2001, respectively.

REAL ESTATE AND REAL ESTATE JOINT VENTURES

Real estate and real estate joint ventures consisted of the following:

| DECEMBER 31, | 2002 | 2001 |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |
| Real estate and real estate joint ventures held-for-investment | $4,684 | $4,211 |
| Impairments | (188) | (157) |
| Total | 4,496 | 4,054 |
| Real estate held-for-sale | 327 | 1,888 |
| Impairments | (82) | (177) |
| Valuation allowance | (16) | (35) |
| Total | 229 | 1,676 |
| Real estate and real estate joint ventures | $4,725 | $5,730 |

Accumulated depreciation on real estate was $1,951 million and $2,504 million at December 31, 2002 and 2001, respectively. Related depreciation expense was $227 million, $220 million and $224 million for the years ended December 31, 2002, 2001 and 2000, respectively. These amounts include $48 million, $79 million and $80 million of depreciation expense related to discontinued operations for the years ended December 31, 2002, 2001 and 2000, respectively. Real estate and real estate joint ventures were categorized as follows:

| DECEMBER 31, | 2002 AMOUNT | 2002 PERCENT | 2001 AMOUNT | 2001 PERCENT |
|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | |
| Office | $2,733 | 58% | $3,637 | 63% |
| Retail | 699 | 15 | 780 | 14 |
| Apartments | 835 | 18 | 740 | 13 |
| Land | 87 | 2 | 184 | 3 |
| Agriculture | 7 | -- | 14 | -- |
| Other | 364 | 7 | 375 | 7 |
| Total | $4,725 | 100% | $5,730 | 100% |

The Company's real estate holdings are primarily located throughout the United States. At December 31, 2002, approximately 37%, 21% and 13% of the Company's real estate holdings were located in New York, California and Texas, respectively.





Changes in real estate and real estate joint ventures held-for-sale valuation allowance were as follows:

| YEARS ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Balance at January 1 | $ 35 | $ 39 | $ 34 |
| Additions charged to operations | 21 | 16 | 17 |
| Deductions for writedowns and dispositions | (40) | (20) | (12) |
| Balance at December 31 | $ 16 | $ 35 | $ 39 |

Investment income related to impaired real estate and real estate joint ventures held-for-investment was $40 million, $22 million and $11 million for the years ended December 31, 2002, 2001 and 2000, respectively. Investment income related to impaired real estate and real estate joint ventures held-for-sale was $11 million, $31 million and $52 million for the years ended December 31, 2002, 2001 and 2000, respectively. The carrying value of non-income producing real estate and real estate joint ventures was $63 million and $14 million at December 31, 2002 and 2001, respectively. The Company owned real estate acquired in satisfaction of debt of $10 million and $49 million at December 31, 2002 and 2001, respectively.

LEVERAGED LEASES

Leveraged leases, included in other invested assets, consisted of the following:

| | DECEMBER 31, 2002 | DECEMBER 31, 2001 |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |
| Investment | $ 985 | $1,070 |
| Estimated residual values | 428 | 505 |
| Total | 1,413 | 1,575 |
| Unearned income | (368) | (404) |
| Leveraged leases | $1,045 | $1,171 |

The investment amounts set forth above are generally due in monthly installments. The payment periods generally range from two to 15 years, but in certain circumstances are as long as 30 years. These receivables are generally collateralized by the related property. The Company's deferred tax provision related to leveraged leases was $981 million and $1,077 million at December 31, 2002 and 2001, respectively.





NET INVESTMENT INCOME

The components of net investment income were as follows:

| | YEARS ENDED DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Fixed maturities | $ 8,384 | $ 8,574 | $ 8,538 |
| Equity securities | 26 | 49 | 41 |
| Mortgage loans on real estate | 1,883 | 1,848 | 1,693 |
| Real estate and real estate joint ventures(1) | 1,053 | 932 | 989 |
| Policy loans | 543 | 536 | 515 |
| Other limited partnership interests | 57 | 48 | 142 |
| Cash, cash equivalents and short-term investments | 248 | 279 | 288 |
| Other | 218 | 249 | 162 |
| Total | 12,412 | 12,515 | 12,368 |
| Less: Investment expenses(1) | 1,083 | 1,260 | 1,344 |
| Net investment income | $11,329 | $11,255 | $11,024 |

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(1) Excludes amounts related to real estate held-for-sale presented as discontinued operations in accordance with SFAS 144.

NET INVESTMENT LOSSES

Net investment losses, including changes in valuation allowances, were as follows:

| YEARS ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Fixed maturities | $(917) | $(645) | $(1,437) |
| Equity securities | 224 | 65 | 192 |
| Mortgage loans on real estate | (22) | (91) | (18) |
| Real estate and real estate joint ventures(1) | (6) | (4) | 101 |
| Other limited partnership interests | (2) | (161) | (7) |
| Sales of businesses | -- | 25 | 660 |
| Other | (206) | 74 | 65 |
| Total | (929) | (737) | (444) |
| Amounts allocable to: | | | |
| Deferred policy acquisition costs | (5) | (25) | 95 |
| Participating contracts | (7) | -- | (126) |
| Policyholder dividend obligation | 157 | 159 | 85 |
| Total net investment losses | $(784) | $(603) | $(390) |

--------------- (1) The amount presented for the year ended December 31, 2002 excludes amounts related to sales of real estate held-for-sale presented as discontinued operations in accordance with SFAS 144.





Investment gains and losses are net of related policyholder amounts. The amounts netted against investment gains and losses are (i) amortization of deferred policy acquisition costs to the extent that such amortization results from investment gains and losses, (ii) adjustments to participating contractholder accounts when amounts equal to such investment gains and losses are applied to the contractholder's accounts, and (iii) adjustments to the policyholder dividend obligation resulting from investment gains and losses. This presentation may not be comparable to presentations made by other insurers.

NET UNREALIZED INVESTMENT GAINS

The components of net unrealized investment gains, included in accumulated other comprehensive income, were as follows:

| YEARS ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Fixed maturities | $ 7,371 | $ 3,110 | $ 1,677 |
| Equity securities | 45 | 604 | 744 |
| Derivatives | (24) | 71 | -- |
| Other invested assets | 17 | 59 | 58 |
| Total | 7,409 | 3,844 | 2,479 |
| Amounts allocable to: | | | |
| Future policy benefit loss recognition | (1,269) | (30) | (284) |
| Deferred policy acquisition costs | (559) | (21) | 119 |
| Participating contracts | (153) | (127) | (133) |
| Policyholder dividend obligation | (1,882) | (708) | (385) |
| Deferred income taxes | (1,264) | (1,079) | (621) |
| Total | (5,127) | (1,965) | (1,304) |
| Net unrealized investment gains | $ 2,282 | $ 1,879 | $ 1,175 |

The changes in net unrealized investment gains were as follows:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| ~~Balance at January 1~~ | ~~$ 1,879~~ | ~~$1,175~~ | ~~$ (297)~~ |
| ~~Unrealized investment gains during the year~~ | ~~3,565~~ | ~~1,365~~ | ~~3,279~~ |
| ~~Unrealized investment gains (losses) relating to:~~ | | | |
| ~~Future policy benefit (loss) gain recognition~~ | ~~(1,239)~~ | ~~254~~ | ~~(35)~~ |
| ~~Deferred policy acquisition costs~~ | ~~(538)~~ | ~~(140)~~ | ~~(590)~~ |
| ~~Participating contracts~~ | ~~(26)~~ | ~~6~~ | ~~(15)~~ |
| ~~Policyholder dividend obligation~~ | ~~(1,174)~~ | ~~(323)~~ | ~~(385)~~ |
| ~~Deferred income taxes~~ | ~~(185)~~ | ~~(458)~~ | ~~(782)~~ |
| ~~Balance at December 31~~ | ~~$ 2,282~~ | ~~$1,879~~ | ~~$1,175~~ |
| ~~Net change in unrealized investment gains~~ | ~~$ 403~~ | ~~$ 704~~ | ~~$1,472~~ |





4. DERIVATIVE INSTRUMENTS

The table below provides a summary of notional amount and fair value of derivative financial instruments held at December 31, 2002 and 2001:

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | | FAIR VALUE | | | FAIR VALUE | |
| | NOTIONAL AMOUNT | ASSETS | LIABILITIES | NOTIONAL AMOUNT | ASSETS | LIABILITIES |
| | (DOLLARS IN MILLIONS) | | | | | |
| Financial futures | $ 4 | $ -- | $ -- | $ -- | $ -- | $-- |
| Interest rate swaps | 3,866 | 196 | 126 | 1,823 | 73 | 9 |
| Floors | 325 | 9 | -- | 325 | 11 | -- |
| Caps | 8,040 | -- | -- | 7,890 | 5 | -- |
| Financial forwards | 1,945 | -- | 12 | -- | -- | -- |
| Foreign currency swaps | 2,371 | 92 | 181 | 1,925 | 188 | 26 |
| Options | 78 | 9 | -- | 1,880 | 8 | 12 |
| Foreign currency forwards | 54 | -- | 1 | 67 | 4 | -- |
| Written covered calls | -- | -- | -- | 40 | -- | -- |
| Credit default swaps | 376 | 2 | -- | 270 | -- | -- |
| Total contractual commitments | $17,059 | $308 | $320 | $14,220 | $289 | $47 |

The following is a reconciliation of the notional amounts by derivative type and strategy at December 31, 2002 and 2001:

| | DECEMBER 31, 2001 NOTIONAL AMOUNT | ADDITIONS | TERMINATIONS/ MATURITIES | DECEMBER 31, 2002 NOTIONAL AMOUNT |
|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | |
| BY DERIVATIVE TYPE | | | | |
| Financial futures............. | $ -- | $ 760 | $ 756 | $ 4 |
| Interest rate swaps........... | 1,823 | 3,005 | 962 | 3,866 |
| Floors........................ | 325 | -- | -- | 325 |
| Caps.......................... | 7,890 | 3,870 | 3,720 | 8,040 |
| Financial forwards............ | -- | 2,945 | 1,000 | 1,945 |
| Foreign currency swaps........ | 1,925 | 760 | 314 | 2,371 |
| Options....................... | 1,880 | 55 | 1,857 | 78 |
| Foreign currency forwards..... | 67 | 19 | 32 | 54 |
| Written covered calls......... | 40 | -- | 40 | -- |
| Credit default swaps.......... | 270 | 121 | 15 | 376 |
| Total contractual commitments........... | $14,220 | $11,535 | $8,696 | $17,059 |
| BY DERIVATIVE STRATEGY | | | | |
| Liability hedging............. | 8,888 | 3,937 | 3,871 | 8,954 |
| Invested asset hedging........ | 4,802 | 4,581 | 3,972 | 5,411 |
| Portfolio hedging............. | 530 | 2,104 | -- | 2,634 |
| Firm commitments and forecasted transactions..... | -- | 913 | 853 | 60 |
| Total contractual commitments........... | $14,220 | $11,535 | $8,696 | $17,059 |




The following table presents the notional amounts of derivative financial instruments by maturity at December 31, 2002:

| | REMAINING LIFE | | | | |
|---|---|---|---|---|---|
| | ONE YEAR OR LESS | AFTER ONE YEAR THROUGH FIVE YEARS | AFTER FIVE YEARS THROUGH TEN YEARS | AFTER TEN YEARS | TOTAL |
| | (DOLLARS IN MILLIONS) | | | | |
| Financial futures | $ 4 | $ -- | $ -- | $ -- | $ 4 |
| Interest rate swaps | 64 | 1,887 | 1,630 | 285 | 3,866 |
| Floors | -- | -- | 325 | -- | 325 |
| Caps | 1,120 | 6,920 | -- | -- | 8,040 |
| Financial forwards | 1,945 | -- | -- | -- | 1,945 |
| Foreign currency swaps | 88 | 962 | 851 | 470 | 2,371 |
| Options | 3 | 20 | -- | 55 | 78 |
| Foreign currency forwards | 53 | 1 | -- | -- | 54 |
| Written covered calls | -- | -- | -- | -- | -- |
| Credit default swaps | 45 | 331 | -- | -- | 376 |
| Total contractual commitments | $3,322 | $10,121 | $2,806 | $810 | $17,059 |

The following table presents the notional amounts and fair values of derivatives by type of hedge designation at December 31, 2002 and 2001:

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES |
| | (DOLLARS IN MILLIONS) | | | | | |
| BY TYPE OF HEDGE | | | | | | |
| Fair value | $ 420 | $ -- | $ 64 | $ -- | $ -- | $ -- |
| Cash flow | 3,520 | 69 | 73 | 607 | 61 | 1 |
| Non qualifying | 13,119 | 239 | 183 | 13,613 | 228 | 46 |
| Total | $17,059 | $308 | $320 | $14,220 | $289 | $47 |

For the years ended December 31, 2002, 2001 and 2000, the Company recognized net investment income of $23 million, $32 million and $13 million, respectively, from the periodic settlement of interest rate and foreign currency swaps. During the year ended December 31, 2002, the Company recognized $30 million in net investment losses related to qualifying fair value hedges. Accordingly, $34 million of unrealized gains on fair value hedged investments were recognized in net investment gains and losses. There were no derivatives designated as fair value hedges during the year ended December 31, 2001. There were no discontinued hedges during the year ended December 31, 2002. For the years ended December 31, 2002 and 2001, the amounts accumulated in other comprehensive income relating to cash flow hedges were losses of $24 million and gains of $71 million, respectively. During the year ended December 31, 2002, the Company recognized other comprehensive losses of $142 million relating to the effective portion of cash flow hedges. During the year ended December 31, 2002, $10 million of other comprehensive income and $57 million of other comprehensive losses were reclassified into net investment income and net investment losses, respectively. During the year ended December 31, 2001, $19 million of other comprehensive income was reclassified into net investment income due to the SFAS 133 transition adjustment.





Approximately $6 million and $12 million of the losses reported in accumulated other comprehensive income at December 31, 2002 are expected to be reclassified during the year ending December 31, 2003 into net investment income and net investment gains and losses, respectively, as the underlying investments mature or expire according to their original terms. For the years ended December 31, 2002 and 2001, the Company recognized net investment income of $32 million and $24 million, respectively, and net investment losses of $172 million and net investment gains of $100 million, respectively, from derivatives not qualifying as accounting hedges. The use of these non-speculative derivatives is permitted by the Department.

## 5. FAIR VALUE INFORMATION

The estimated fair values of financial instruments have been determined by using available market information and the valuation methodologies described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not necessarily be indicative of amounts that could be realized in a current market exchange. The use of different assumptions or valuation methodologies may have a material effect on the estimated fair value amounts. Amounts related to the Company's financial instruments were as follows:

| DECEMBER 31, 2002 | NOTIONAL AMOUNT | CARRYING VALUE | ESTIMATED FAIR VALUE |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Assets: | | | |
| Fixed maturities | | $140,553 | $140,553 |
| Equity securities | | $ 1,348 | $ 1,348 |
| Mortgage loans on real estate | | $ 25,086 | $ 27,778 |
| Policy loans | | $ 8,580 | $ 8,580 |
| Short-term investments | | $ 1,921 | $ 1,921 |
| Cash and cash equivalents | | $ 2,323 | $ 2,323 |
| Mortgage loan commitments | $ 859 | $ -- | $ 12 |
| Commitments to fund partnership investments | $1,667 | $ -- | $ -- |
| Liabilities: | | | |
| Policyholder account balances | | $ 55,285 | $ 55,909 |
| Short-term debt | | $ 1,161 | $ 1,161 |
| Long-term debt | | $ 4,425 | $ 4,731 |
| Payable under securities loaned transactions | | $ 17,862 | $ 17,862 |
| Other: | | | |
| Company-obligated mandatorily redeemable securities of subsidiary trusts | | $ 1,265 | $ 1,337 |

NOTIONAL CARRYING ESTIMATED DECEMBER 31, 2001 AMOUNT VALUE FAIR VALUE ---------------- -------- -------- ---------- (DOLLARS IN MILLIONS) ~~Assets: Fixed maturities..................................... $115,398 $115,398 Equity securities.................................... $ 3,063 $ 3,063 Mortgage loans on real estate......................... $ 23,621 $ 24,844 Policy loans.......................................... $ 8,272 $ 8,272 Short-term investments............................... $ 1,203 $ 1,203 Cash and cash equivalents............................. $ 7,473 $ 7,473 Mortgage loan commitments............................. $ 532 $ -- $ (4) Commitments to fund partnership investments.......... $1,898 $ -- $ -- Liabilities: Policyholder account balances......................... $ 47,977 $ 48,318 Short-term debt....................................... $ 355 $ 355 Long-term debt....................................... $ 3,628 $ 3,685 Payable under securities loaned~~

~~transactions......... $ 12,661 $ 12,661 Other: Company-obligated mandatorily redeemable securities of subsidiary trusts.............................. $ 1,256 $ 1,311~~

The methods and assumptions used to estimate the fair values of financial instruments are summarized as follows: FIXED MATURITIES AND EQUITY SECURITIES The fair value of fixed maturities and equity securities are based upon quotations published by applicable stock exchanges or received from other reliable sources. For securities for which the market values were not readily available, fair values were estimated using quoted market prices of comparable investments. MORTGAGE LOANS ON REAL ESTATE, MORTGAGE LOAN COMMITMENTS AND COMMITMENTS TO FUND PARTNERSHIP INVESTMENTS Fair values for mortgage loans on real estate are estimated by discounting expected future cash flows, using current interest rates for similar loans with similar credit risk. For mortgage loan commitments, the estimated fair value is the net premium or discount of the commitments. Commitments to fund partnership investments have no stated interest rate and are assumed to have a fair value of zero. POLICY LOANS The carrying values for policy loans approximate fair value. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS The carrying values for cash and cash equivalents and short-term investments approximated fair values due to the short-term maturities of these instruments. F-35 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) POLICYHOLDER ACCOUNT BALANCES The fair value of policyholder account balances are estimated by discounting expected future cash flows, based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the agreements being valued. SHORT-TERM AND LONG-TERM DEBT, PAYABLES UNDER SECURITIES LOANED TRANSACTIONS AND COMPANY-OBLIGATED MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUSTS The fair values of short-term and long-term debt, payables under securities loaned transactions and Company-obligated mandatorily redeemable securities of subsidiary trusts are determined by discounting expected future cash flows, using risk rates currently available for debt with similar terms and remaining maturities. DERIVATIVE INSTRUMENTS The fair value of derivative instruments, including financial futures, financial forwards, interest rate, credit default and foreign currency swaps, foreign currency forwards, caps, floors, options and written covered calls are based upon quotations obtained from dealers or other reliable sources. See Note 4 for derivative fair value disclosures. 6. EMPLOYEE BENEFIT PLANS PENSION BENEFIT AND OTHER BENEFIT PLANS The Company is both the sponsor and administrator of defined benefit pension plans covering eligible employees and sales representatives of the Company. Retirement benefits are based upon years of credited service and final average earnings history. The Company also provides certain postemployment benefits and certain postretirement health care and life insurance benefits for retired employees through insurance contracts. Substantially all of the Company's employees may, in accordance with the plans applicable to the postretirement benefits, become eligible for these benefits if they attain retirement age, with sufficient service, while working for the Company. F-36 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

DECEMBER 31, ---------------------------------- PENSION BENEFITS OTHER BENEFITS ------------------------------- 2002 2001 2002 2001 ------- ------- ------ ------ (DOLLARS IN MILLIONS)

~~Change in projected benefit obligation: Projected benefit obligation at beginning of year.............................................. $4,426 $4,145 $1,669 $1,542 Service cost...................................... 105 104 36 34 Interest cost..................................... 308 308 123 115 Acquisitions and divestitures..................... (73) (12) -- -- Actuarial losses.................................. 312 169 342 66 Curtailments and terminations..................... (3) (49) (2) 9 Change in benefits............................... -- 29 (168) -- Benefits paid..................................... (290) (268) (122) (97) ------ ------ ------ ------ Projected benefit obligation at end of year........ 4,785 4,426 1,878 1,669 ------ ------ ------ ------ Change in plan assets: Contract value of plan assets at beginning of year.............................................. 4,161 4,619 1,169 1,318 Actual return on plan assets...................... (179) (201) (92) (49) Acquisitions and divestitures..................... (67) (12) -- -- Employer and participant contributions........... 428 23 1 1 Benefits paid..................................... (290) (268) (113) (101) ------ ------ ------ ------ Contract value of plan assets at end of year....... 4,053 4,161 965 1,169 ------ ------ ------ ------ Under funded........................................ (732) (265) (913) (500) Unrecognized net actuarial losses (gains).......... 1,507 693 262 (258) Unrecognized prior service cost.................... 101 116 (208) (49) ------ ------ ------ ------ Prepaid (accrued) benefit cost..................... $ 876 $ 544 $ (859) $ (807) ====== ====== ====== ====== Qualified plan prepaid pension cost................ $1,171 $ 805 Non-qualified plan accrued pension cost............ (341) (323) Unamortized prior service cost..................... -- 16 Accumulated other comprehensive loss............... 46 46 ------ ------ Prepaid benefit cost............................... $ 876 $ 544 ====== ======~~

The aggregate projected benefit obligation and aggregate contract value of plan assets for the pension plans were as follows:

NON-QUALIFIED QUALIFIED PLAN PLAN TOTAL ------------ ----- ------------- ------------- ---- 2002 2001 2002 2001 2002 2001 ------- ------- ----- ----- ------- ------- -- (DOLLARS IN MILLIONS) ~~Aggregate projected benefit obligation..................... $(4,311) $(4,006) $(474) $(420) $(4,785) $(4,426) Aggregate contract value of plan assets (principally Company contracts)..................... 4,053 4,161 -- -- 4,053 4,161 ------- ------- ----- ----- ------- ------- (Under) over funded.............. $ (258) $ 155 $(474) $(420) $ (732) $ (265) ======= ======= ===== ===== ======= =======~~

F-37 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The assumptions used in determining the aggregate projected benefit obligation and aggregate contract value for the pension and other benefits were as follows:

PENSION BENEFITS OTHER BENEFITS -------- ------------- ---------------------- - 2002 2001 2002 2001 --- ------ --------- ----------- ------- -- (DOLLARS IN MILLIONS) ~~Weighted average assumptions at December 31: Discount rate........................... 4% - 9.5% 4% - 7.4% 6.5% - 7.25% 6% - 7.4% Expected rate of return on plan assets............................... 4% - 10% 4% - 9% 5.2% - 9% 6% - 9% Rate of compensation increase.......... 2% - 8% 2% - 8.5% N/A N/A~~

For the largest of the plans sponsored by the Company (the Metropolitan Life Retirement Plan for United States Employees, with a projected benefit obligation of $4.3 billion or 98.6% of all qualified plans at December 31, 2002), the discount rate, expected rate of return on plan assets, and the range of rates of future compensation increases used in that plan's valuation at December 31, 2002 were 6.75%, 9% and 4% to 8%, respectively. The discount rate is based on the yield of a hypothetical portfolio of high-quality debt instruments available on the valuation date, which would provide the necessary future cash flows to pay the aggregate projected benefit obligation when due. The expected rate of return on plan assets is based on anticipated performance of the various asset sectors, which the plan invests in, inflation expectations and long-term historical returns of the plan assets as well as other factors. The expected rate of return on plan assets for use in that plan's valuation in 2003 is currently anticipated to be 8.5%. The discount rate of 4% and 9.5% and the expected rate of return on plan assets of 4% and 10% are attributable to the Company's international subsidiaries in Taiwan and Mexico, respectively. The rate of compensation increase of 2% in 2002 and 2001 is attributable to the Company's subsidiary in Taiwan. These rates are indicative of the economic environments in those countries. The assumed health care cost trend rates used in measuring the accumulated nonpension postretirement benefit obligation were as follows:

DECEMBER 31,
------------------------
------------------------

--------- 2002 2001
------------------------
-- ----------------------
------- ~~Pre-Medicare eligible 9% down to 5% in 2010 9.5% down to 5% in 2010 claims.................. Medicare eligible 11% down to 5% in 2014 11.5% down to 5% in 2014 claims..................~~

Assumed health care cost trend rates may have a significant effect on the amounts reported for health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

ONE PERCENT ONE PERCENT INCREASE DECREASE ---
-------- -----------
(DOLLARS IN MILLIONS) ~~Effect on total of service and interest cost components..... $10 $10 Effect on accumulated postretirement benefit obligation..... $90 $88~~

The components of net periodic benefit cost were as follows:

PENSION BENEFITS OTHER BENEFITS --------
------------ ------------------
2002 2001 2000 2002 2001 2000 ----- ----- ----- ---
- ----- ---- (DOLLARS IN MILLIONS) ~~Service cost............................ $ 105 $ 104 $ 98 $ 36 $ 34 $ 29 Interest cost........................... 308 308 291 123 115 113 Expected return on plan assets.......... (356) (402) (420) (93) (108) (97) Amortization of prior actuarial losses (gains).............................. 33 (2) (19) (9) (27) (22) Curtailment cost (credit)............... 11 21 (3) 4 6 2 ----- ----- ----- ---- ----- ---- Net periodic benefit cost (credit)...... $ 101 $ 29 $ (53) $ 61 $ 20 $ 25 ===== ===== ===== ==== ===== ====~~

  SAVINGS AND INVESTMENT

PLANS The Company sponsors savings and investment plans for substantially all employees under which the Company matches a portion of employee contributions. The Company contributed $49 million, $55 million and $65 million for the years ended December 31, 2002, 2001 and 2000, respectively. 7. CLOSED BLOCK On the date of demutualization, Metropolitan Life established a closed block for the benefit of holders of certain individual life insurance policies of Metropolitan Life. Assets have been allocated to the closed block in an amount that has been determined to produce cash flows which, together with anticipated revenues from the policies included in the closed block, are reasonably expected to be sufficient to support obligations and liabilities relating to these policies, including, but not limited to, provisions for the payment of claims and certain expenses and taxes, and to provide for the continuation of policyholder dividend scales in effect for 1999, if the experience underlying such dividend scales continues, and for appropriate adjustments in such scales if the experience changes. At least annually, the Company compares actual and projected experience against the experience assumed in the then-current dividend scales. Dividend scales are adjusted periodically to give effect to changes in experience. The closed block assets, the cash flows generated by the closed block assets and the anticipated revenues from the policies in the closed block will benefit only the holders of the policies in the closed block. To the extent that, over time, cash flows from the assets allocated to the closed block and claims and other experience related to the closed block are, in the aggregate, more or less favorable than what was assumed when the closed block was established, total dividends paid to closed block policyholders in the future may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect for 1999 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to closed block policyholders and will not be available to stockholders. If the closed block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside of the closed block. The closed block will continue in effect as long as any policy in the closed block remains in-force. The expected life of the closed block is over 100 years. The Company uses the same accounting principles to account for the participating policies included in the closed block as it used prior to the date of demutualization. However, the Company establishes a policyholder dividend obligation for earnings that will be paid to policyholders as additional dividends as described below. The excess of closed block liabilities over closed block assets at the effective date of the demutualization (adjusted to eliminate the impact of related amounts in accumulated other comprehensive income) represents the estimated maximum future earnings from the closed block expected to result from operations attributed to the closed block after income taxes. Earnings of the closed block are recognized in income over the period the policies and contracts in the closed block remain in-force. Management believes that over time the actual cumulative earnings of the closed block will approximately equal the expected cumulative earnings due to the effect of dividend changes. If, over the period the closed block remains in existence, the actual cumulative earnings of the closed block is greater than the expected cumulative earnings of the closed block, the Company will pay the excess of the actual cumulative earnings of the closed block over the expected cumulative earnings to closed block policyholders as additional policyholder dividends unless offset by future unfavorable experience of the closed block and, accordingly, will recognize only the expected cumulative earnings in income with the excess recorded as a policyholder dividend obligation. If over such period, the actual cumulative earnings of the closed block is less than the expected cumulative earnings of the closed block, the Company will recognize only the actual earnings in income. However, the Company may change policyholder dividend scales in the future, which would be intended to increase future actual earnings until the actual cumulative earnings equal the expected cumulative earnings. Amounts reported for the period after demutualization are as of April 1, 2000 and for the period beginning on April 1, 2000 (the effect of transaction from April 1, 2000 through April 6, 2000 is not considered material). F-39 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Closed block liabilities and assets designated to the closed block are as follows:

DECEMBER 31, ---------------------
2002 2001 --------- ---------
(DOLLARS IN MILLIONS)
~~CLOSED BLOCK LIABILITIES Future policy benefits...................................... $41,207 $40,325 Other policyholder funds.................................... 279 321 Policyholder dividends payable.............................. 719 757 Policyholder dividend obligation............................ 1,882 708 Payables under securities loaned transactions............... 4,851 3,350 Other liabilities........................................... 433 90 ------- ------- Total closed block liabilities.................... 49,371 45,551 ------- ------- ASSETS DESIGNATED TO THE CLOSED BLOCK Investments: Fixed maturities available-for-sale, at fair value (amortized cost: $28,334 and $25,761, respectively).... 29,981 26,331 Equity securities, at fair value (amortized cost: $236 and $240, respectively).................................... 218 282 Mortgage loans on real estate.............................. 7,032 6,358 Policy~~
loans

~~loans............................................ 3,988 3,898 Short-term investments.................................... 24 170 Other invested assets..................................... 604 159 ------- ------- Total investments................................ 41,847 37,198 Cash and cash equivalents.................................. 435 1,119 Accrued investment income.................................. 540 550 Deferred income taxes...................................... 1,151 1,060 Premiums and other receivables............................. 130 244 ------- ------- Total assets designated to the closed block....... 44,103 40,171 ------- ------- Excess of closed block liabilities over assets designated to the closed block......................................... 5,268 5,380 ------- ------- Amounts included in accumulated other comprehensive loss: Net unrealized investment gains, net of deferred income tax of $577 and $219, respectively..................... 1,047 389 Unrealized derivative gains, net of deferred income tax of $7 and $9, respectively................................ 13 17 Allocated to policyholder dividend obligation, net of deferred income tax of $668 and $255, respectively..... (1,214) (453) -------~~

~~------ (154) (47) ------- ------- Maximum future earnings to be recognized from closed block assets and liabilities..................................... $ 5,114 $ 5,333 ======= =======~~

F-40 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Information regarding the policyholder dividend obligation is as follows:

FOR THE PERIOD YEARS ENDED APRIL 7, 2000 DECEMBER 31, THROUGH -------------- DECEMBER 31, 2002 2001 2000 ------ ----- ------------- (DOLLARS IN MILLIONS) ~~Balance at beginning of period.......................... $ 708 $ 385 $ -- Impact on net income before amounts allocable to policyholder dividend obligation..................... 157 159 85 Net investment losses.................................. (157) (159) (85) Change in unrealized investment and derivative gains... 1,174 323 385 ------ ----- ---- Balance at end of period.............................. $1,882 $ 708 $385 ====== ===== ====~~

Closed block revenues and expenses were as follows:

| | YEARS ENDED DECEMBER 31, 2002 | YEARS ENDED DECEMBER 31, 2001 | FOR THE PERIOD APRIL 7, 2000 THROUGH DECEMBER 31, 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| REVENUES | | | |
| Premiums | $3,551 | $3,658 | $2,900 |
| Net investment income and other revenues | 2,568 | 2,555 | 1,789 |
| Net investment gains (losses) (net of amounts allocable to the policyholder dividend obligation of ($157), ($159) and ($85), respectively) | 168 | (20) | (150) |
| Total revenues | 6,287 | 6,193 | 4,539 |
| EXPENSES | | | |
| Policyholder benefits and claims | 3,770 | 3,862 | 2,874 |
| Policyholder dividends | 1,573 | 1,544 | 1,132 |
| Change in policyholder dividend obligation (excludes amounts directly related to net investment losses of ($157), ($159) and ($85), respectively) | 157 | 159 | 85 |
| Other expenses | 310 | 352 | 265 |
| Total expenses | 5,810 | 5,917 | 4,356 |
| Revenues net of expenses before income taxes | 477 | 276 | 183 |
| Income taxes | 173 | 97 | 67 |
| Revenues net of expenses and income taxes | $ 304 | $ 179 | $ 116 |




The change in maximum future earnings of the closed block was as follows:

| | YEARS ENDED DECEMBER 31, 2002 | YEARS ENDED DECEMBER 31, 2001 | FOR THE PERIOD APRIL 7, 2000 THROUGH DECEMBER 31, 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Balance at the end of period | $5,114 | $5,333 | $5,512 |
| Less: Reallocation of assets | 85 | -- | -- |
| Balance at beginning of period | 5,333 | 5,512 | 5,628 |
| Change during period | $ (304) | $ (179) | $ (116) |

During the year ended December 31, 2002, the allocation of assets to the closed block was revised to appropriately classify assets in accordance with the plan of demutualization. The reallocation of assets had no impact on consolidated assets or liabilities. Metropolitan Life charges the closed block with federal income taxes, state and local premium taxes, and other additive state or local taxes, as well as investment management expenses relating to the closed block as provided in the plan of demutualization. Metropolitan Life also charges the closed block for expenses of maintaining the policies included in the closed block. Many of the derivative instrument strategies used by the Company are also used for the closed block. The table below provides a summary of the notional amount and fair value of derivatives by hedge accounting classification at:

| | DECEMBER 31, 2002 | | | DECEMBER 31, 2001 | | |
|---|---|---|---|---|---|---|
| | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES |
| | (DOLLARS IN MILLIONS) | | | | | |
| BY TYPE OF HEDGE | | | | | | |
| Fair value | $ -- | $-- | $-- | $ -- | $-- | $-- |
| Cash flow | 128 | 2 | 11 | 171 | 22 | -- |
| Non-qualifying | 258 | 32 | 2 | 112 | 13 | 5 |
| Total | $386 | $34 | $13 | $283 | $35 | $ 5 |

The amounts accumulated in other comprehensive loss relating to cash flow hedges were gains of $21 million for both the years ended December 31, 2002 and 2001. During the year ended December 31, 2002, the Company recognized other comprehensive gains of $4 million relating to the effective portion of cash flow hedges. Reclassifications are recognized over the life of the hedged item. During the year ended December 31, 2002, $4 million of other comprehensive loss was reclassified into net investment income. Approximately $3 million of the gains reported in accumulated other comprehensive loss is expected to be reclassified into net investment income during the year ending December 31, 2003, as the underlying investments mature or expire according to their original terms. For the years ended December 31, 2002 and 2001, the Company recognized net investment losses of $11 million and net investment gains of $5 million, respectively, from derivatives not qualifying as accounting hedges. The use of these non-speculative derivatives is permitted by the Department. The cumulative effect of the adoption of SFAS 133, as of January 1, 2001, resulted in $11 million of other comprehensive income, net of income taxes of $6 million.





8. SEPARATE ACCOUNTS

Separate accounts include two categories of account types: non-guaranteed separate accounts totaling $44,925 million and $48,912 million at December 31, 2002 and 2001, respectively, for which the policyholder assumes the investment risk, and guaranteed separate accounts totaling $14,768 million and $13,802 million at December 31, 2002 and 2001, respectively, for which the Company contractually guarantees either a minimum return or account value to the policyholder. Fees charged to the separate accounts by the Company (including mortality charges, policy administration fees and surrender charges) are reflected in the Company's revenues as universal life and investment-type product policy fees and totaled $544 million, $564 million and $667 million for the years ended December 31, 2002, 2001 and 2000, respectively. Guaranteed separate accounts consisted primarily of Met Managed Guaranteed Interest Contracts and participating close out contracts. The average interest rates credited on these contracts were 4.8% and 7.0% at December 31, 2002 and 2001, respectively. The assets that support these liabilities were comprised of $12,536 million and $11,888 million in fixed maturities at December 31, 2002 and 2001, respectively. The portfolios are segregated from other investments and are managed to minimize liquidity and interest rate risk. In order to minimize the risk of early withdrawals to invest in instruments yielding a higher return, these investment products carry a graded surrender charge as well as a market value adjustment.

9. DEBT

Debt consisted of the following:

| | DECEMBER 31, 2002 | 2001 |
|---|---|---|
| (DOLLARS IN MILLIONS) | | |
| Senior notes, interest rates ranging from 5.25% to 7.25%, maturity dates ranging from 2006 to 2032.................. | $2,539 | $1,546 |
| Surplus notes, interest rates ranging from 6.30% to 7.88%, maturity dates ranging from 2003 to 2025.................. | 1,632 | 1,630 |
| Investment related exchangeable debt, interest rate of 4.90%....................................................... | -- | 195 |
| Fixed rate notes, interest rates ranging from 2.97% to 12.00%, maturity dates ranging from 2003 to 2019.......... | 83 | 87 |
| Capital lease obligations.................................. | 21 | 23 |
| Other notes with varying interest rates..................... | 150 | 147 |
| Total long-term debt........................................ | 4,425 | 3,628 |
| Total short-term debt...................................... | 1,161 | 355 |
| Total..................................................... | $5,586 | $3,983 |

The Company maintains committed and unsecured credit facilities aggregating $2,434 million ($1,140 million expiring in 2003 and $1,294 million expiring in 2005). If these facilities were drawn upon, they would bear interest at rates stated in the agreements. The facilities can be used for general corporate purposes and also provide support for the Company's commercial paper program. At December 31, 2002, the Company had drawn approximately $28 million under the facilities expiring in 2005 at interest rates ranging from 4.39% to 5.57%. At December 31, 2002, the Company had approximately $625 million in letters of credit from various banks. Payments of interest and principal on the surplus notes, subordinated to all other indebtedness, may be made only with the prior approval of the insurance department of the state of domicile. Subject to the prior approval of the Superintendent, the $300 million 7.45% surplus notes due 2023 may be redeemed, in whole or in part, at the




election of Metropolitan Life at any time on or after November 1, 2003 and, if redeemed prior to November 2013, would include a premium. The investment-related exchangeable debt instrument is payable in cash or by delivery of an underlying security owned by the Company. The amount of the debt payable at maturity is greater than the principal of the debt if the market value of the underlying security appreciates above certain levels at the date of debt repayment as compared to the market value of the underlying security at the date of debt issuance. At December 31, 2001, the underlying security pledged as collateral had a market value of $240 million. The aggregate maturities of long-term debt for the Company are $448 million in 2003, $12 million in 2004, $395 million in 2005, $601 million in 2006, $4 million in 2007 and $2,965 million thereafter. Short-term debt of the Company consisted of commercial paper with a weighted average interest rate of 1.5% and a weighted average maturity of 74 days at December 31, 2002. Short-term debt of the Company consisted of commercial paper with a weighted average interest rate of 2.1% and a weighted average maturity of 87 days at December 31, 2001. The Company also has other collateralized borrowings with a weighted average coupon rate of 5.83% and a weighted average maturity of 34 days at December 31, 2002. Such securities had a weighted average coupon rate of 7.25% and a weighted average maturity of 30 days at December 31, 2001. Interest expense related to the Company's indebtedness included in other expenses was $288 million, $252 million and $377 million for the years ended December 31, 2002, 2001 and 2000, respectively.

10. COMPANY-OBLIGATED MANDATORILY REDEEMABLE SECURITIES OF SUBSIDIARY TRUSTS

METLIFE CAPITAL TRUST I. In April 2000, MetLife Capital Trust I, a Delaware statutory business trust wholly-owned by the Holding Company, issued 20,125,000 8.00% equity security units ("units"). Each unit consists of (i) a purchase contract under which the holder agrees to purchase, for $50.00, shares of common stock of the Holding Company on May 15, 2003 (59,771,250 shares at December 31, 2002 and 2001 based on the average market price at December 31, 2002 and 2001) and (ii) a capital security, with a stated liquidation amount of $50.00 and mandatorily redeemable on May 15, 2005. The number of shares to be purchased at such date will be determined based on the average trading price of the Holding Company's common stock. The proceeds from the sale of the units were used to acquire $1,006 million 8.00% debentures of the Holding Company ("MetLife debentures"). The capital securities represent undivided beneficial ownership interests in MetLife Capital Trust I's assets, which consist solely of the MetLife debentures. These securities are pledged to collateralize the obligations of the unit holder under the related purchase contracts. Holders of the capital securities are entitled to receive cumulative cash distributions accruing from April 2000 and payable quarterly in arrears commencing August 15, 2000 at an annual rate of 8.00%. The Holding Company irrevocably guarantee, on a senior and unsecured basis, the payment in full of distributions on the capital securities and the stated liquidation amount of the capital securities, in each case to the extent of available trust funds. Holders of the capital securities generally have no voting rights. Capital securities outstanding were $988 million and $980 million, net of unamortized discounts of $18 million and $26 million, at December 31, 2002 and 2001, respectively. The MetLife debentures bear interest at an annual rate of 8.00% of the principal amount, payable quarterly in arrears commencing August 15, 2000 and mature on May 15, 2005. These debentures are unsecured. The Holding Company's right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation, reorganization or otherwise, is subject to the prior claims of creditors of the subsidiary, except to the extent the Holding Company may be recognized as a creditor of that subsidiary. Accordingly, the Holding Company's obligations under the debentures are effectively subordinated to all existing and future liabilities of its subsidiaries. Interest expense on the capital securities is included in other expenses and was $81 million, $81 million and $59 million for the years ended December 31, 2002, 2001 and 2000, respectively. In February 2003, the Company dissolved MetLife Capital Trust I, distributed the MetLife debentures to the holders of the capital securities in exchange for the capital securities and the interest rate on the MetLife debentures was reset in connection with the remarketing of the debentures. See Note 23. F-44 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) GENAMERICA CAPITAL I. In June 1997, GenAmerica Corporation ("GenAmerica") issued $125 million of 8.525% capital securities through a wholly-owned subsidiary trust, GenAmerica Capital I. GenAmerica has fully and unconditionally guaranteed, on a subordinated basis, the obligation of the trust under the capital securities and is obligated to mandatorily redeem the securities on June 30, 2027. GenAmerica may prepay the securities any time after June 30, 2007. Capital securities outstanding were $119 million and $118 million, net of unamortized discounts of $6 million and $7 million, at December 31, 2002 and 2001, respectively. Interest expense on these instruments is included in other expenses and was $11 million for each of the years ended December 31, 2002, 2001 and 2000. RGA CAPITAL TRUST I. In December 2001, a subsidiary of the Company, RGA, through its wholly-owned trust RGA Capital Trust I (the "Trust") issued 4,500,000 Preferred Income Equity Redeemable Securities ("PIERS") Units. Each PIERS unit consists of (i) a preferred security issued by the Trust, having a stated liquidation amount of $50 per unit, representing an undivided beneficial ownership interest in the assets of the Trust, which consist solely of junior subordinated debentures issued by RGA which have a principal amount at maturity of $50 and a stated maturity of March 18, 2051, and (ii) a warrant to purchase, at any time prior to December 15, 2050, 1.2508 shares of RGA stock at an exercise price of $50. The fair market value of the warrant on the issuance date was $14.87 and is detachable from the preferred security. RGA fully and unconditionally guarantees, on a subordinated basis, the obligations of the Trust under the preferred securities. The preferred securities and subordinated debentures were issued at a discount (original issue discount) to the face or liquidation value of $14.87 per security. The securities will accrete to their $50 face/liquidation value over the life of the security on a level yield basis. The weighted average effective interest rate on the preferred securities and the subordinated debentures is 8.25% per annum. Capital securities outstanding were $158 million, net of unamortized discount of $67 million, at both December 31, 2002 and 2001. 11. COMMITMENTS, CONTINGENCIES AND GUARANTEES LITIGATION Sales Practices Claims Over the past several years, Metropolitan Life, New England Mutual Life Insurance Company ("New England Mutual") and General American Life Insurance Company ("General American") have faced numerous claims, including class action lawsuits, alleging improper marketing and sales of individual life insurance policies or annuities. These lawsuits are generally referred to as "sales practices claims." In December 1999, a federal court approved a settlement resolving sales practices claims on behalf of a class of owners of permanent life insurance policies and annuity contracts or certificates issued pursuant to individual sales in the United States by Metropolitan Life, Metropolitan Insurance and Annuity Company or Metropolitan Tower Life Insurance Company between January 1, 1982 and December 31, 1997. The class includes owners of approximately six million in-force or terminated insurance policies and approximately one million in-force or terminated annuity contracts or certificates. Similar sales practices class actions against New England Mutual, with which Metropolitan Life merged in 1996, and General American, which was acquired in 2000, have been settled. In October 2000, a federal court approved a settlement resolving sales practices claims on behalf of a class of owners of permanent life insurance policies issued by New England Mutual between January 1, 1983 through August 31, 1996. The class includes owners of approximately 600,000 in-force or terminated policies. A federal court has approved a settlement resolving sales practices claims on behalf of a class of owners of permanent life insurance policies issued by General American between January 1, 1982 through December 31, 1996. An appellate court has affirmed the order approving the settlement. The class includes owners of approximately 250,000 in-force or terminated policies. Implementation of the General American class action settlement is proceeding. F-45 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Certain class members have opted out of the class action settlements noted above and have brought or continued non-class action sales practices lawsuits. In addition, other sales practices lawsuits have been brought. As of December 31, 2002, there are approximately 420 sales practices lawsuits pending against Metropolitan Life, approximately 60 sales practices lawsuits pending against New England Mutual and approximately 35 sales practices lawsuits pending against General American. Metropolitan Life, New England Mutual and General American continue to defend themselves vigorously against these lawsuits. Some individual sales practices claims have been resolved through settlement, won by dispositive motions, or, in a few instances, have gone to trial. Most of the current cases seek substantial damages, including in some cases punitive and treble damages and attorneys' fees. Additional litigation relating to the Company's marketing and sales of individual life insurance may be commenced in the future. The Metropolitan Life class action settlement did not resolve two putative class actions involving sales practices claims filed against Metropolitan Life in Canada, and these actions remain pending. In March 2002, a purported class action complaint was filed in a federal court in Kansas by S-G Metals Industries, Inc. against New England Mutual. The complaint seeks certification of a class on behalf of corporations and banks that purchased participating life insurance policies, as well as persons who purchased participating policies for use in pension plans or through work site marketing. These policyholders were not part of the New England Mutual class action settlement noted above. The action was transferred to a federal court in Massachusetts. New England Mutual moved to dismiss the case and in November 2002, the federal district court dismissed the case. S-G Metals has filed a notice of appeal. New England Mutual intends to continue to defend itself vigorously against the case. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for sales practices claims against Metropolitan Life, New England Mutual and General American. Regulatory authorities in a small number of states have had investigations or inquiries relating to Metropolitan Life's, New England Mutual's or General American's sales of individual life insurance policies or annuities. Over the past several years, these and a number of investigations by other regulatory authorities were resolved for monetary payments and certain other relief. The Company may continue to resolve investigations in a similar manner. Asbestos-Related Claims Metropolitan Life is a defendant in thousands of lawsuits seeking compensatory and punitive damages for personal injuries allegedly caused by exposure to asbestos or asbestos-containing products. Metropolitan Life has never engaged in the business of manufacturing, producing, distributing or selling asbestos or asbestos-containing products nor has Metropolitan Life issued liability or workers' compensation insurance to companies in the business of manufacturing, producing, distributing or selling asbestos or asbestos-containing products. Rather, these lawsuits have principally been based upon allegations relating to certain research, publication and other activities of one or more of Metropolitan Life's employees during the period from the 1920's through approximately the 1950's and alleging that Metropolitan Life 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 believes that it should not have legal liability in such cases. Legal theories asserted against Metropolitan Life have included negligence, intentional tort claims and conspiracy claims concerning the health risks associated with asbestos. Although Metropolitan Life believes it has meritorious defenses to these claims, and has not suffered any adverse monetary judgments in respect of these claims, due to the risks and expenses of litigation, almost all past cases have been resolved by settlements. Metropolitan Life's defenses (beyond denial of certain factual allegations) to plaintiffs' claims include that: (i) Metropolitan Life 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 cannot demonstrate justifiable detrimental reliance; and (iii) plaintiffs cannot demonstrate proximate causation. In  defending asbestos cases, Metropolitan Life selects various strategies depending upon the jurisdictions in which such cases are brought and other factors which, in Metropolitan Life's judgment, best protect Metropolitan Life's interests. Strategies include seeking to settle or compromise claims, motions challenging the legal or factual basis for such claims or defending on the merits at trial. In early 2002 and in early 2003, two trial courts granted motions dismissing claims against Metropolitan Life on some or all of the above grounds. Other courts have denied motions brought by Metropolitan Life to dismiss cases without the necessity of trial. There can be no assurance that Metropolitan Life will receive favorable decisions on motions in the future. Metropolitan Life intends to continue to exercise its best judgment regarding settlement or defense of such cases, including when trials of these cases are appropriate. The following table sets forth the total number of asbestos personal injury claims pending against Metropolitan Life as of the dates indicated, the number of new claims during the years ended on those dates and the total settlement payments made to resolve asbestos personal injury claims during those years:

| | AT OR FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Asbestos personal injury claims at year end (approximate)........................................ | 106,500 | 89,000 | 73,000 |
| Number of new claims during the year (approximate)..... | 66,000 | 59,500 | 54,500 |
| Settlement payments during the year(1)................. | $ 95.1 | $ 90.7 | $ 71.1 |

-------------- (1) Settlement payments represent payments made by Metropolitan Life during the year in connection with settlements made in that year and in prior years. Amounts do not include Metropolitan Life's attorneys' fees and expenses and do not reflect amounts received from insurance carriers. During the fourth quarter of 2002, Metropolitan Life analyzed its claims experience and reviewed external publications and numerous variables to identify trends and assessed their impact on its recorded asbestos liability. Certain publications suggest a trend towards more asbestos-related claims and a greater awareness of asbestos litigation generally by potential plaintiffs and plaintiffs' lawyers. Plaintiffs' lawyers continue to advertise heavily with respect to asbestos litigation. Bankruptcies and reorganizations of other defendants in asbestos litigation may increase the pressures on remaining defendants, including Metropolitan Life. Through the first nine months of 2002, the number of new claims received by Metropolitan Life was lower than those received during the comparable 2001 period. However, the number of new claims received by Metropolitan Life during the fourth quarter of 2002 was significantly higher than those received in the prior year quarter, resulting in more new claims being received by Metropolitan Life in 2002 than in 2001. Factors considered also included expected trends in filing cases, the dates of initial exposure of plaintiffs to asbestos, the likely percentage of total asbestos claims which included Metropolitan Life as a defendant and experience in claims settlement negotiations. Metropolitan Life also considered views derived from actuarial calculations it made in the fourth quarter of 2002. These calculations were made using, among other things, current information regarding Metropolitan Life's claims and settlement experience, information available in public reports, as well as a study regarding the possible future incidence of mesothelioma. Based on all of the above information, including greater than expected claims experience over the last three years, Metropolitan Life expects to receive more claims in the future than it had previously expected. Previously, Metropolitan Life's liability reflected that the increase in asbestos-related claims was a result of an acceleration in the reporting of such claims; the liability now reflects that such an increase is also the result of an increase in the total number of asbestos-related claims expected to be received by Metropolitan Life. Accordingly, Metropolitan Life increased its recorded liability for asbestos-related claims by $402 million from approximately $820 million to $1,225 million at December 31, 2002. This total recorded asbestos-related liability (after the self-insured retention) is within the coverage of the excess insurance policies discussed below.  During 1998, Metropolitan Life paid $878 million in premiums for excess insurance policies for asbestos-related claims. The excess insurance policies for asbestos-related claims provide for recovery of losses up to $1,500 million, which is in excess of a $400 million self-insured retention. The asbestos-related policies are also subject to annual and per-claim sublimits. Amounts are recoverable under the policies annually with respect to claims paid during the prior calendar year. Although amounts paid by Metropolitan Life in any given year that may be recoverable in the next calendar year under the policies will be reflected as a reduction in the Company's operating cash flows for the year in which they are paid, management believes that the payments will not have a material adverse effect on the Company's liquidity. Each asbestos-related policy contains an experience fund and a reference fund that provides for payments to Metropolitan Life at the commutation date if the reference fund is greater than zero at commutation or pro rata reductions from time to time in the loss reimbursements to Metropolitan Life if the cumulative return on the reference fund is less than the return specified in the experience fund. The return in the reference fund is tied to performance of the Standard & Poor's 500 Index and the Lehman Brothers Aggregate Bond Index. A claim will be made under the excess insurance policies in 2003 for the amounts paid with respect to asbestos litigation in excess of the retention. Based on performance of the reference fund, at December 31, 2002, the loss reimbursements to Metropolitan Life in 2003 and the recoverable with respect to later periods will be $42 million less than the amount of the recorded losses. Such foregone loss reimbursements may be recovered upon commutation depending upon future performance of the reference fund. The foregone loss reimbursements are estimated to be $9 million with respect to 2002 claims and $42 million in the aggregate. The $402 million increase in the recorded liability for asbestos claims less the foregone loss reimbursement adjustment of $42 million ($27 million, net of income tax) resulted in an increase in the recoverable of $360 million. At December 31, 2002, a portion ($136 million) of the $360 million recoverable was recognized in income while the remainder ($224 million) was recorded as a deferred gain which is expected to be recognized in income in the future over the estimated settlement period of the excess insurance policies. The $402 million increase in the recorded liability, less the portion of the recoverable recognized in income, resulted in a net expense of $266 million ($169 million, net of income tax). The $360 million recoverable may change depending on the future performance of the Standard & Poor's 500 Index and the Lehman Brothers Aggregate Bond Index. As a result of the excess insurance policies, $1,237 million is recorded as a recoverable at December 31, 2002 ($224 million of which is recorded as a deferred gain as mentioned above); the amount includes recoveries expected to be obtained in 2003 for amounts paid in 2002. If at some point in the future, the Company believes the liability for probable and estimable losses for asbestos-related claims should be increased, an expense would be recorded and the insurance recoverable would be adjusted subject to the terms, conditions and limits of the excess insurance policies. Portions of the change in the insurance recoverable would be recorded as a deferred gain and amortized into income over the estimated remaining settlement period of the insurance policies. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for asbestos-related claims. The ability of Metropolitan Life to estimate its ultimate asbestos exposure is subject to considerable uncertainty due to numerous factors. The availability of data is limited and it is difficult to predict with any certainty 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, the jurisdiction of claims filed, tort reform efforts and the impact of any possible future adverse verdicts and their amounts. Recent bankruptcies of other companies involved in asbestos litigation, as well as advertising by plaintiffs' asbestos lawyers, may be resulting in an increase in the number of claims and the cost of resolving claims, as well as the number of trials and possible adverse verdicts Metropolitan Life may experience. Plaintiffs are seeking additional funds from defendants, including Metropolitan Life, in light of such recent bankruptcies by certain other defendants. It is likely that bills will be introduced in 2003 in the United States Congress to reform asbestos litigation. While the Company strongly supports reform efforts, there can be no assurance that legislative reforms  will be enacted. Metropolitan Life will continue to study its claims experience, review external literature regarding asbestos claims experience in the United States and consider numerous variables that can affect its asbestos liability exposure, including bankruptcies of other companies involved in asbestos litigation and legislative and judicial developments, to identify trends and to assess their impact on the recorded asbestos liability. The number of asbestos cases that may be brought or the aggregate amount of any liability that Metropolitan Life may ultimately incur is uncertain. Accordingly, it is reasonably possible that the Company's total exposure to asbestos claims may be greater than the liability recorded by the Company in its consolidated financial statements and that future charges to income may be necessary. While the potential future charges could be material in particular quarterly or annual periods in which they are recorded, based on information currently known by management, it does not believe any such charges are likely to have a material adverse effect on the Company's consolidated financial position. Property and Casualty Actions Purported class action suits involving claims by policyholders for the alleged diminished value of automobiles after accident-related repairs have been filed in Rhode Island, Texas, Georgia and Tennessee against Metropolitan Property and Casualty Insurance Company. Rhode Island and Texas trial courts denied plaintiffs' motions for class certification and a hearing on plaintiffs' motion in Tennessee for class certification is to be scheduled. A settlement has been reached in the Georgia class action; the Company determined to settle the case in light of a Georgia Supreme Court decision involving another insurer. The settlement is being implemented. A purported class action has been filed against Metropolitan Property and Casualty Insurance Company's subsidiary, Metropolitan Casualty Insurance Company, in Florida. The complaint alleges breach of contract and unfair trade practices with respect to allowing the use of parts not made by the original manufacturer to repair damaged automobiles. Discovery is ongoing and a motion for class certification is pending. Total loss valuation methods are the subject of national class actions involving other insurance companies. A Pennsylvania state court purported class action lawsuit filed in 2001 alleges that Metropolitan Property and Casualty Insurance Company improperly took depreciation on partial homeowner losses where the insured replaced the covered item. The court has dismissed the action. An appeal has been filed. Metropolitan Property and Casualty Insurance Company and Metropolitan Casualty Insurance Company are vigorously defending themselves against these lawsuits. Demutualization Actions Several lawsuits were brought in 2000 challenging the fairness of Metropolitan Life's plan of reorganization and the adequacy and accuracy of Metropolitan Life's disclosure to policyholders regarding the plan. These actions name as defendants some or all of Metropolitan Life, the Holding Company, the individual directors, the Superintendent and the underwriters for MetLife, Inc.'s initial public offering, Goldman, Sachs & Company and Credit Suisse First Boston. Five purported class actions pending in the New York state court in New York County were consolidated within the commercial part. In addition, there remained a separate purported class action in New York state court in New York County. Another purported class action in New York state court in Kings County has been voluntarily held in abeyance by plaintiffs. The plaintiffs in the state court class actions seek injunctive, declaratory and compensatory relief, as well as an accounting and, in some instances, punitive damages. Some of the plaintiffs in the above described actions also have brought a proceeding under Article 78 of New York's Civil Practice Law and Rules challenging the Opinion and Decision of the Superintendent who approved the plan. In this proceeding, petitioners seek to vacate the Superintendent's Opinion and Decision and enjoin him from granting final approval of the plan. This case also is being held in abeyance by plaintiffs. Another purported class action was filed in New York state court in New York County on behalf of a purported class of beneficiaries of Metropolitan Life annuities purchased to fund structured settlements claiming that the class members should have received common stock or cash in connection with the demutualization. Metropolitan Life's motion to dismiss this case was granted in a decision filed on October 31, 2002. Plaintiff has withdrawn  her notice of appeal. Three purported class actions were filed in the United States District Court for the Eastern District of New York claiming violation of the Securities Act of 1933. The plaintiffs in these actions, which have been consolidated, claim that the Policyholder Information Booklets relating to the plan failed to disclose certain material facts and seek rescission and compensatory damages. Metropolitan Life's motion to dismiss these three cases was denied in 2001. On February 4, 2003, plaintiffs filed a consolidated amended complaint adding a fraud claim under the Securities Exchange Act of 1934. A purported class action also was filed in the United States District Court for the Southern District of New York seeking damages from Metropolitan Life and the Holding Company for alleged violations of various provisions of the Constitution of the United States in connection with the plan of reorganization. In 2001, pursuant to a motion to dismiss filed by Metropolitan Life, this case was dismissed by the District Court. In January 2003, the United States Court of Appeals for the Second Circuit affirmed the dismissal. Metropolitan Life, the Holding Company and the individual defendants believe they have meritorious defenses to the plaintiffs' claims and are contesting vigorously all of the plaintiffs' claims in these actions. In 2001, a lawsuit was filed in the Superior Court of Justice, Ontario, Canada on behalf of a proposed class of certain former Canadian policyholders against the Holding Company, Metropolitan Life, and Metropolitan Life Insurance Company of Canada. Plaintiffs' allegations concern the way that their policies were treated in connection with the demutualization of Metropolitan Life; they seek damages, declarations, and other non-pecuniary relief. The defendants believe they have meritorious defenses to the plaintiffs' claims and will contest vigorously all of plaintiffs' claims in this matter. In July 2002, a lawsuit was filed in the United States District Court for the Eastern District of Texas on behalf of a proposed class comprised of the settlement class in the Metropolitan Life sales practices class action settlement approved in December 1999 by the United States District Court for the Western District of Pennsylvania. The Holding Company, Metropolitan Life, the trustee of the policyholder trust, and certain present and former individual directors and officers of Metropolitan Life are named as defendants. Plaintiffs' allegations concern the treatment of the cost of the settlement in connection with the demutualization of Metropolitan Life and the adequacy and accuracy of the disclosure, particularly with respect to those costs. Plaintiffs seek compensatory, treble and punitive damages, as well as attorneys' fees and costs. The defendants' motion to transfer the lawsuit to the Western District of Pennsylvania was granted on February 14, 2003. The defendants' motion to dismiss is pending. Plaintiffs have filed a motion for class certification which the Texas court has adjourned. The defendants believe they have meritorious defenses to the plaintiffs' claims and will contest them vigorously. Race-Conscious Underwriting Claims Insurance Departments in a number of states initiated inquiries in 2000 about possible race-conscious underwriting of life insurance. These inquiries generally have been directed to all life insurers licensed in their respective states, including Metropolitan Life and certain of its affiliates. The New York Insurance Department has concluded its examination of Metropolitan Life concerning possible past race-conscious underwriting practices. Metropolitan Life has cooperated fully with that inquiry. Four purported class action lawsuits filed against Metropolitan Life in 2000 and 2001 alleging racial discrimination in the marketing, sale, and administration of life insurance policies have been consolidated in the United States District Court for the Southern District of New York. The plaintiffs seek unspecified monetary damages, punitive damages, reformation, imposition of a constructive trust, a declaration that the alleged practices are discriminatory and illegal, injunctive relief requiring Metropolitan Life to discontinue the alleged discriminatory practices and adjust policy values, and other relief. Metropolitan Life has entered into settlement agreements to resolve the regulatory examination and the actions pending in the United States District Court for the Southern District of New York. The class action settlement, which has received preliminary approval from the court, must receive final approval before it can be implemented. A fairness hearing was held on February 7, 2003. The regulatory settlement F-50 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) agreement is conditioned upon final approval of the class action settlement. Metropolitan Life recorded a charge in the fourth quarter of 2001 in connection with the anticipated resolution of these matters and believes that charge is adequate to cover the costs associated with these settlements. Sixteen lawsuits involving approximately 125 plaintiffs have been filed in federal and state court in Alabama, Mississippi and Tennessee alleging federal and/or state law claims of racial discrimination in connection with the sale, formation, administration or servicing of life insurance policies. Metropolitan Life is contesting vigorously plaintiffs' claims in these actions. Other In 2001, a putative class action was filed against Metropolitan Life in the United States District Court for the Southern District of New York alleging gender discrimination and retaliation in the MetLife Financial Services unit of the Individual segment. The plaintiffs seek unspecified compensatory damages, punitive damages, a declaration that the alleged practices are discriminatory and illegal, injunctive relief requiring Metropolitan Life to discontinue the alleged discriminatory practices, an order restoring class members to their rightful positions (or appropriate compensation in lieu thereof), and other relief. Metropolitan Life is vigorously defending itself against these allegations. A lawsuit has been filed against Metropolitan Life in Ontario, Canada by Clarica Life Insurance Company regarding the sale of the majority of Metropolitan Life's Canadian operation to Clarica in 1998. Clarica alleges that Metropolitan Life breached certain representations and warranties contained in the sale agreement, that Metropolitan Life made misrepresentations upon which Clarica relied during the negotiations and that Metropolitan Life was negligent in the performance of certain of its obligations and duties under the sale agreement. Metropolitan Life is vigorously defending itself against this lawsuit. A putative class action lawsuit is pending in the United States District Court for the District of Columbia, in which plaintiffs allege that they were denied certain ad hoc pension increases awarded to retirees under the Metropolitan Life retirement plan. The ad hoc pension increases were awarded only to retirees (i.e., individuals who were entitled to an immediate retirement benefit upon their termination of employment) and not available to individuals like these plaintiffs whose employment, or whose spouses' employment, had terminated before they became eligible for an immediate retirement benefit. The district court denied the parties' cross-motions for summary judgment to allow for discovery. Discovery has not yet commenced pending the court's ruling as to the timing of a class certification motion. The plaintiffs seek to represent a class consisting of former Metropolitan Life employees, or their surviving spouses, who are receiving deferred vested annuity payments under the retirement plan and who were allegedly eligible to receive the ad hoc pension increases awarded in 1977, 1980, 1989, 1992, 1996 and 2001, as well as increases awarded in earlier years. Metropolitan Life is vigorously defending itself against these allegations. A reinsurer of universal life policy liabilities of Metropolitan Life and certain affiliates is seeking rescission and has commenced an arbitration proceeding claiming that, during underwriting, material misrepresentations or omissions were made. The reinsurer also has sent a notice purporting to increase reinsurance premium rates. Metropolitan Life and these affiliates intend to vigorously defend themselves against the claims of the reinsurer, including the purported rate increase. Various litigation, claims and assessments against the Company, in addition to those discussed above and those otherwise provided for in the Company's consolidated financial statements, have arisen in the course of the Company's business, including, but not limited to, in connection with its activities as an insurer, employer, investor, investment advisor and taxpayer. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning the Company's compliance with applicable insurance and other laws and regulations. F-51 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Summary It is not feasible to predict or determine the ultimate outcome of all pending investigations and legal proceedings or provide reasonable ranges of potential losses, except as noted above in connection with specific matters. In some of the matters referred to above, very large and/or indeterminate amounts, including punitive and treble damages, are sought. Although in light of these considerations it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's consolidated financial position, based on information currently known by the Company's management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect. However, given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's consolidated net income or cash flows in particular quarterly or annual periods. LEASES In accordance with industry practice, certain of the Company's income from lease agreements with retail tenants is contingent upon the level of the tenants' sales revenues. Additionally, the Company, as lessee, has entered into various lease and sublease agreements for office space, data processing and other equipment. Future minimum rental and sublease income, and minimum gross rental payments relating to these lease agreements were as follows:

| | RENTAL INCOME | SUBLEASE INCOME | GROSS RENTAL PAYMENTS |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| 2003 | $ 673 | $14 | $192 |
| 2004 | 637 | 12 | 166 |
| 2005 | 575 | 11 | 149 |
| 2006 | 525 | 10 | 133 |
| 2007 | 470 | 9 | 116 |
| Thereafter | 2,139 | 8 | 643 |

COMMITMENTS TO FUND PARTNERSHIP INVESTMENTS The Company makes commitments to fund partnership investments in the normal course of business. The amounts of these unfunded commitments were $1,667 million and $1,898 million at December 31, 2002 and 2001, respectively. The Company anticipates that these amounts will be invested in the partnerships over the next three to five years. GUARANTEES In the course of its business, the Company has provided certain indemnities, guarantees and commitments to third parties pursuant to which it may be required to make payments now or in the future. In the context of acquisition and disposition 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. 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 $1 million to $800 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 due under these guarantees in the future. F-52 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) In addition, the Holding Company and its subsidiaries indemnify their respective directors and officers as provided in their charters and by-laws. 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 due under these indemnities in the future. The Company has not recorded any liability for these indemnities, guarantees and commitments in the accompanying consolidated balance sheets for the years ended December 31, 2002 or 2001. 12. ACQUISITIONS AND DISPOSITIONS DISPOSITIONS In July 2001, the Company completed its sale of Conning Corporation ("Conning"), an affiliate acquired in the acquisition of GenAmerica Financial Corporation ("GenAmerica"). Conning specialized in asset management for insurance company investment portfolios and investment research. The Company received $108 million in the transaction and reported a gain of approximately $25 million in the third quarter of 2001. In October 2000, the Company completed the sale of its 48% ownership interest in its affiliates, Nvest, L.P. and Nvest Companies L.P. This transaction resulted in an investment gain of $663 million. ACQUISITIONS In June 2002, the Company acquired Aseguradora Hidalgo S.A. ("Hidalgo"), an insurance company based in Mexico with approximately $2.5 billion in assets as of the date of acquisition. The purchase price is subject to adjustment under certain provisions of the purchase agreement. The Company does not expect that any purchase price adjustment will have an impact on its consolidated statements of income. The Company is in the process of integrating Hidalgo and Seguros Genesis, S.A., MetLife's wholly-owned Mexican subsidiary headquartered in Mexico City, to operate as a combined entity under the name MetLife Mexico. In November 2001, the Company acquired Compania de Seguros de Vida Santander S.A. and Compania de Reaseguros de Vida Soince Re S.A., wholly-owned subsidiaries of Santander Hispano in Chile. These acquisitions marked MetLife's entrance into the Chilean insurance market. In January 2000, Metropolitan Life completed its acquisition of GenAmerica, a holding company which included General American Life Insurance Company, approximately 49% of the outstanding shares of RGA common stock, and 61% of the outstanding shares of Conning common stock which was subsequently sold in 2001. Metropolitan Life owned 9% of the outstanding shares of RGA common stock prior to the completion of the GenAmerica acquisition. During 2002, the Company purchased an additional 327,600 shares of RGA's outstanding common stock at an aggregate price of $9.5 million to offset potential future dilution of the Company's holding of RGA's common stock arising from the issuance by RGA of company-obligated mandatorily redeemable securities of a subsidiary trust in December 2001. These purchases increased the Company's ownership percentage of outstanding shares of RGA common stock from approximately 58% at December 31, 2001 to approximately 59% at December 31, 2002. In April 2000, Metropolitan Life acquired the outstanding shares of Conning common stock not already owned by Metropolitan Life for $73 million. 13. BUSINESS REALIGNMENT INITIATIVES During the fourth quarter of 2001, the Company implemented several business realignment initiatives, which resulted from a strategic review of operations and an ongoing commitment to reduce expenses. The following F-53 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) tables represent the original expenses recorded in the fourth quarter of 2001 and the remaining liability as of December 31, 2002:

| | PRE-TAX CHARGES RECORDED IN THE FOURTH QUARTER OF 2001 | | | |
|---|---|---|---|---|
| | INSTITUTIONAL | INDIVIDUAL | AUTO & HOME | TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Severance and severance-related costs | $ 9 | $32 | $ 3 | $ 44 |
| Facilities' consolidation costs | 3 | 65 | -- | 68 |
| Business exit costs | 387 | -- | -- | 387 |
| Total | $399 | $97 | $ 3 | $499 |

| | REMAINING LIABILITY AS OF DECEMBER 31, 2002 | | | |
|---|---|---|---|---|
| | INSTITUTIONAL | INDIVIDUAL | AUTO & HOME | TOTAL |
| | (DOLLARS IN MILLIONS) | | | |
| Severance and severance-related costs | $ -- | $ 1 | $ -- | $ 1 |
| Facilities' consolidation costs | -- | 17 | -- | 17 |
| Business exit costs | 40 | -- | -- | 40 |
| Total | $ 40 | $18 | $ -- | $58 |

The business realignment initiatives resulted in savings of approximately $95 million, net of income tax, during 2002, comprised of approximately $33 million, $57 million and $5 million in the Institutional, Individual and Auto & Home segments, respectively.

Institutional. The charges to this segment in the fourth quarter of 2001 include costs associated with exiting a business, including the write-off of goodwill, severance and severance-related costs, and facilities' consolidation costs. These expenses are the result of the discontinuance of certain 401(k) recordkeeping services and externally-managed guaranteed index separate accounts. These actions resulted in charges to policyholder benefits and claims and other expenses of $215 million and $184 million, respectively. During the fourth quarter of 2002, approximately $30 million of the charges recorded in 2001 were released into income primarily as a result of the accelerated implementation of the Company's exit from the large market 401(k) business. The business realignment initiatives will ultimately result in the elimination of approximately 930 positions. As of December 31, 2002, there were approximately 340 terminations to be completed. The Company continues to carry a liability as of December 31, 2002 since the exit plan could not be completed within one year due to circumstances outside the Company's control and since certain of its contractual obligations extended beyond one year.

Individual. The charges to this segment in the fourth quarter of 2001 include facilities' consolidation costs, severance and severance-related costs, which predominately stem from the elimination of approximately 560 non-sales positions and 190 operations and technology positions supporting this segment. As of December 31, 2002, there were approximately 25 terminations to be completed. These costs were recorded in other expenses. The remaining liability as of December 31, 2002 is due to certain contractual obligations that extended beyond one year.

Auto & Home. The charges to this segment in the fourth quarter of 2001 include severance and severance-related costs associated with the elimination of approximately 200 positions. All terminations were completed as of December 31, 2002. The costs were recorded in other expenses.





14. INCOME TAXES

The provision for income taxes for continuing operations was as follows:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Current: | | | |
| Federal | $817 | $(44) | $(153) |
| State and local | (17) | (4) | 34 |
| Foreign | 31 | 15 | 5 |
| | 831 | (33) | (114) |
| Deferred: | | | |
| Federal | (332) | 247 | 521 |
| State and local | 16 | 12 | 8 |
| Foreign | 1 | 1 | 6 |
| | (315) | 260 | 535 |
| Provision for income taxes | $516 | $227 | $ 421 |

Reconciliations of the income tax provision at the U.S. statutory rate to the provision for income taxes as reported for continuing operations were as follows:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Tax provision at U.S. statutory rate | $584 | $217 | $ 454 |
| Tax effect of: | | | |
| Tax exempt investment income | (87) | (82) | (52) |
| Surplus tax | -- | -- | (145) |
| State and local income taxes | 22 | 12 | 30 |
| Prior year taxes | (7) | 38 | (37) |
| Demutualization costs | -- | -- | 21 |
| Payment to former Canadian policyholders | -- | -- | 114 |
| Sales of businesses | -- | 5 | 31 |
| Other, net | 4 | 37 | 5 |
| Provision for income taxes | $516 | $227 | $ 421 |



Deferred income taxes represent the tax effect of the differences between the book and tax bases of assets and liabilities. Net deferred income tax assets and liabilities consisted of the following:

| | DECEMBER 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | |
| Deferred income tax assets: | | |
| Policyholder liabilities and receivables | $ 3,845 | $ 3,727 |
| Net operating losses | 322 | 336 |
| Employee benefits | -- | 123 |
| Litigation related | 99 | 279 |
| Intangible tax asset | 199 | -- |
| Other | 386 | 438 |
| | 4,851 | 4,903 |
| Less: Valuation allowance | 84 | 114 |
| | 4,767 | 4,789 |
| Deferred income tax liabilities: | | |
| Investments | 1,681 | 2,157 |
| Deferred policy acquisition costs | 3,307 | 2,950 |
| Employee benefits | 55 | -- |
| Net unrealized investment gains | 1,264 | 1,079 |
| Other | 85 | 129 |
| | 6,392 | 6,315 |
| Net deferred income tax liability | $(1,625) | $(1,526) |

Domestic net operating loss carryforwards amount to $656 million at December 31, 2002 and will expire beginning in 2019. Foreign net operating loss carryforwards amount to $300 million at December 31, 2002 and were generated in various foreign countries with expiration periods of five years to infinity. The Company has recorded a valuation allowance related to tax benefits of certain foreign net operating loss carryforwards. The valuation allowance reflects management's assessment, based on available information, that it is more likely than not that the deferred income tax asset for certain foreign net operating loss carryforwards will not be realized. The tax benefit will be recognized when management believes that it is more likely than not that these deferred income tax assets are realizable. The Internal Revenue Service has audited the Company for the years through and including 1996. The Company is being audited for the years 1997, 1998 and 1999. The Company believes that any adjustments that might be required for open years will not have a material effect on the Company's consolidated financial statements.

15. REINSURANCE

The Company's life insurance operations participate in reinsurance activities in order to limit losses, minimize exposure to large risks, and to provide additional capacity for future growth. The Company currently reinsures up to 90% of the mortality risk for all new individual life insurance policies that it writes through its various franchises. This practice was initiated by different franchises for different products starting at various points in time between 1992 and 2000. Risks in excess of $25 million on single life policies and $30 million on




survivorship policies are 100% coinsured. In addition, in 1998, the Company reinsured substantially all of the mortality risk on its universal life policies issued since 1983. RGA retains a maximum of $4 million of coverage per individual life with respect to its assumed reinsurance business. The company reinsures its business through a diversified group of reinsurers. Placement of reinsurance is done primarily on an automatic basis and also on a facultative basis for risks of specific characteristics. The Company is contingently liable with respect to ceded reinsurance should any reinsurer be unable to meet its obligations under these agreements. In addition to reinsuring mortality risk, the Company reinsures other risks and specific coverages. The Company routinely reinsures certain classes of risks in order to limit its exposure to particular travel, avocation and lifestyle hazards. The Company has exposure to catastrophes, which are an inherent risk of the property and casualty business and could contribute to significant fluctuations in the Company's results of operations. The Company uses excess of loss and quota share reinsurance arrangements to limit its maximum loss, provide greater diversification of risk and minimize exposure to larger risks. The Company has also protected itself through the purchase of combination risk coverage. This reinsurance coverage pools risks from several lines of business and includes individual and group life claims in excess of $2 million per policy, as well as excess property and casualty losses, among others. See Note 11 for information regarding certain excess of loss reinsurance agreements providing coverage for risks associated primarily with sales practices claims. The amounts in the consolidated statements of income are presented net of reinsurance ceded. The effects of reinsurance were as follows:

| YEARS ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Direct premiums | $18,392 | $16,332 | $15,661 |
| Reinsurance assumed | 3,018 | 2,907 | 2,918 |
| Reinsurance ceded | (2,324) | (2,027) | (2,262) |
| Net premiums | $19,086 | $17,212 | $16,317 |
| Reinsurance recoveries netted against policyholder benefits | $ 3,043 | $ 2,255 | $ 1,942 |

Reinsurance recoverables, included in premiums and other receivables, were $3,574 million and $3,393 million at December 31, 2002 and 2001, respectively, including $1,348 million and $1,356 million, respectively, relating to reinsurance of long-term guaranteed interest contracts and structured settlement lump sum contracts accounted for as a financing transaction. Reinsurance and ceded commissions payables, included in other liabilities, were $50 million and $112 million at December 31, 2002 and 2001, respectively. F-57 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The following provides an analysis of the activity in the liability for benefits relating to property and casualty and group accident and non-medical health policies and contracts:

| YEARS ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Balance at January 1 | $ 4,597 | $ 4,226 | $ 3,790 |
| Reinsurance recoverables | (457) | (410) | (415) |
| Net balance at January 1 | 4,140 | 3,816 | 3,375 |
| Incurred related to: Current year | 4,215 | 4,182 | 3,786 |
| Prior years | (85) | (84) | (112) |
| | 4,130 | 4,098 | 3,674 |
| Paid related to: Current year | (2,559) | (2,538) | (2,215) |
| Prior years | (1,332) | (1,236) | (1,018) |
| | (3,891) | (3,774) | (3,233) |
| Net Balance at December 31 | 4,379 | 4,140 | 3,816 |
| Add: Reinsurance recoverables | 481 | 457 | 410 |
| Balance at December 31 | $ 4,860 | $ 4,597 | $ 4,226 |

16. OTHER EXPENSES Other expenses were comprised of the following:

| YEARS ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
| --- | --- | --- | --- |
| | (DOLLARS IN MILLIONS) | | |
| ~~Compensation~~ | ~~$ 2,481~~ | ~~$ 2,459~~ | ~~$ 2,712~~ |
| ~~Commissions~~ | ~~2,000~~ | ~~1,651~~ | ~~1,696~~ |
| ~~Interest and debt issue costs~~ | ~~403~~ | ~~332~~ | ~~436~~ |
| ~~Amortization of policy acquisition costs (excludes amortization of $5, $25 and ($95), respectively, related to net investment losses)~~ | ~~1,639~~ | ~~1,413~~ | ~~1,478~~ |
| ~~Capitalization of policy acquisition costs~~ | ~~(2,340)~~ | ~~(2,039)~~ | ~~(1,863)~~ |
| ~~Rent, net of sublease income~~ | ~~295~~ | ~~282~~ | ~~230~~ |
| ~~Minority interest~~ | ~~73~~ | ~~57~~ | ~~115~~ |
| ~~Other~~ | ~~2,510~~ | ~~2,867~~ | ~~2,597~~ |
| ~~Total other expenses~~ | ~~$ 7,061~~ | ~~$ 7,022~~ | ~~$ 7,401~~ |

17. STOCKHOLDERS' EQUITY PREFERRED STOCK On September 29, 1999, the Holding Company adopted a stockholder rights plan (the "rights plan") under which each outstanding share of common stock issued between April 4, 2000 and the distribution date (as defined in the rights plan) will be coupled with a stockholder right. Each right will entitle the holder to purchase one one-   hundredth of a share of Series A Junior Participating Preferred Stock. Each one one-hundredth of a share of Series A Junior Participating Preferred Stock will have economic and voting terms equivalent to one share of common stock. Until it is exercised, the right itself will not entitle the holder thereof to any rights as a stockholder, including the right to receive dividends or to vote at stockholder meetings. Stockholder rights are not exercisable until the distribution date, and will expire at the close of business on April 4, 2010, unless earlier redeemed or exchanged by the Holding Company. The rights plan is designed to protect stockholders in the event of unsolicited offers to acquire the Holding Company and other coercive takeover tactics. COMMON STOCK On the date of demutualization, the Holding Company conducted an initial public offering of 202,000,000 shares of its common stock and concurrent private placements of an aggregate of 60,000,000 shares of its common stock at an initial public offering price of $14.25 per share. The shares of common stock issued in the offerings were in addition to 494,466,664 shares of common stock of the Holding Company distributed to the MetLife Policyholder Trust for the benefit of policyholders of Metropolitan Life in connection with the demutualization. On April 10, 2000, the Holding Company issued 30,300,000 additional shares of common stock as a result of the exercise of over-allotment options granted to underwriters in the initial public offering. On February 19, 2002, the Holding Company's Board of Directors authorized a $1 billion common stock repurchase program. This program began after the completion of the March 28, 2001 and June 27, 2000 repurchase programs, each of which authorized the repurchase of $1 billion of common stock. Under these authorizations, the Holding Company may purchase common stock from the MetLife Policyholder Trust, in the open market and in privately negotiated transactions. On August 7, 2001, the Company purchased 10 million shares of its common stock as part of the sale of 25 million shares of MetLife common stock by Santusa Holdings, S.L., an affiliate of Banco Santander Central Hispano, S.A. The sale by Santusa Holdings, S.L. was made pursuant to a shelf registration statement, effective June 29, 2001. The Company acquired 15,244,492, 45,242,966 and 26,108,315 shares of common stock for $471 million, $1,322 million and $613 million during the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, the Company had approximately $806 million remaining on its existing share repurchase authorization. DIVIDEND RESTRICTIONS Under the New York Insurance Law, Metropolitan Life is permitted without prior insurance regulatory clearance to pay a stockholder dividend to the Holding Company as long as the aggregate amount of all such dividends in any calendar year does not exceed the lesser of (i) 10% of its surplus to policyholders as of the immediately preceding calendar year and (ii) its statutory net gain from operations for the immediately preceding calendar year (excluding realized capital gains). Metropolitan Life will be permitted to pay a stockholder dividend to the Holding Company in excess of the lesser of such two amounts only if it files notice of its intention to declare such a dividend and the amount thereof with the Superintendent and the Superintendent does not disapprove the distribution. Under the New York Insurance Law, the Superintendent has broad discretion in determining whether the financial condition of a stock life insurance company would support the payment of such dividends to its stockholders. The Department has established informal guidelines for such determinations. The guidelines, among other things, focus on the insurer's overall financial condition and profitability under statutory accounting practices. For the year ended December 31, 2002, Metropolitan Life paid to MetLife, Inc. $535 million in dividends for which prior insurance regulatory clearance was not required and $369 million in special dividends, as approved by the Superintendent. For the year ended December 31, 2001, Metropolitan Life   paid to MetLife, Inc. $721 million in dividends for which prior insurance regulatory clearance was not required and $3,033 million in special dividends, as approved by the Superintendent. For the year ended December 31, 2000, Metropolitan Life paid to MetLife, Inc. $763 million in dividends for which prior insurance regulatory clearance was not required. At December 31, 2002, Metropolitan Life could pay the Holding Company a dividend of $662 million without prior approval of the Superintendent. MIAC paid to MetLife, Inc. $25 million and $31 million in dividends for which prior insurance regulatory clearance was not required for the years ended December 31, 2002 and 2001, respectively. MIAC is subject to similar restrictions based on the regulations of its state of domicile, and at December 31, 2002, could pay the Holding Company dividends of $104 million without prior approval. STOCK COMPENSATION PLANS Under the MetLife, Inc. 2000 Stock Incentive Plan (the "Stock Incentive Plan"), awards granted may be in the form of non-qualified or incentive stock

options qualifying under Section 422A of the Internal Revenue Code. Under the MetLife, Inc. 2000 Directors Stock Plan, (the "Directors Stock Plan") awards granted may be in the form of stock awards or non-qualified stock options or a combination of the foregoing to outside Directors of the Company. The aggregate number of shares of stock that may be awarded under the Stock Incentive Plan is subject to a maximum limit of 37,823,333 shares for the duration of the plan. The Directors Stock Plan has a maximum limit of 500,000 share awards. All options granted have an exercise price equal to the fair market value price of the Company's common stock on the date of grant, and an option's maximum term is ten years. Certain options under the Stock Incentive Plan become exercisable over a three-year period commencing with date of grant, while other options become exercisable three years after the date of grant. Options issued under the Directors Stock Plan are exercisable at any time after April 7, 2002. The Company applies APB 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, in the measurement of compensation expense, the Company utilizes the excess of market price over exercise price on the first date that both the number of shares and award price are known. For the years ended December 31, 2002 and 2001, compensation expense for non-employees related to the Company's Stock Incentive Plan and Directors Stock Plan was $2 million and $1 million, respectively. F-60 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Had compensation cost for the Company's Stock Incentive Plan and Directors Stock Plan been determined based on fair value at the grant date for awards under those plans consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts below:

| | YEARS ENDED DECEMBER 31, | |
|---|---|---|
| | 2002 | 2001 |
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA) | |
| NET INCOME | | |
| As reported | $1,605 | $ 473 |
| Pro forma(1)(2) | $1,563 | $ 454 |
| BASIC EARNINGS PER SHARE | | |
| As reported | $ 2.28 | $0.64 |
| Pro forma(1)(2) | $ 2.22 | $0.61 |
| DILUTED EARNINGS PER SHARE | | |
| As reported | $ 2.20 | $0.62 |
| Pro forma(1)(2) | $ 2.14 | $0.59 |

--------------- (1) The pro forma earnings disclosures are not necessarily representative of the effects on net income and earnings per share in future years. (2) Includes the Company's ownership share of compensation costs related to RGA's incentive stock plan determined in accordance with SFAS 123. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants for the:

| | YEARS ENDED DECEMBER 31, | |
|---|---|---|
| | 2002 | 2001 |
| Dividend yield | 0.68% | 0.68% |
| Risk-free rate of return | 4.74%-5.52% | 5.72% |
| Volatility | 25.3%-30.3% | 31.6% |
| Expected duration | 4-6 years | 4-6 years |

F-61 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) A summary of the status of options included in the Company's Stock Incentive Plan and Directors Stock Plan is presented below:

| | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | OPTIONS EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|---|---|
| Outstanding at December 31, 2000.... | -- | $ -- | -- | $ -- |
| Granted............................ | 12,263,550 | 29.93 | -- | -- |
| Canceled/expired.................... | (1,158,025) | 29.95 | -- | -- |
| Outstanding at December 31, 2001.... | 11,105,525 | 29.93 | -- | -- |
| Granted............................ | 7,275,855 | 30.35 | -- | -- |
| Exercised.......................... | (11,401) | 29.95 | -- | -- |
| Canceled/expired.................... | (2,098,821) | 30.07 | -- | -- |
| Outstanding at December 31, 2002.... | 16,271,158 | $30.10 | 1,357,034 | $30.01 |

| | YEARS ENDED DECEMBER 31, 2002 | 2001 |
|---|---|---|
| Weighted average fair value of options granted......... | $10.48 | $10.29 |

The following table summarizes information about stock options outstanding at December 31, 2002:

WEIGHTED AVERAGE NUMBER NUMBER REMAINING WEIGHTED EXERCISABLE AT WEIGHTED RANGE OF OUTSTANDING AT CONTRACTUAL AVERAGE DECEMBER 31, AVERAGE EXERCISE PRICES DECEMBER 31, 2002 LIFE (YEARS) EXERCISE PRICE 2002 EXERCISE PRICE --------------- ----------------- ------------ ---------------------------- -------------- ~~$23.75 -- $26.75 28,000 9.76 $23.75 -- $ -- 26.76 -- 28.75 150,400 9.21 27.36 -- -- 28.76 -- 30.75 15,887,628 8.34 30.11 1,319,253 29.93 30.76 -- 32.75 180,600 8.48 31.92 13,251 30.95 32.76 -- 33.64 24,530 9.32 33.64 24,530 33.64 ---------- --------- 16,271,158 8.26 $30.10 1,357,034 $30.01 ========== =========~~

STATUTORY EQUITY AND INCOME Applicable insurance department regulations require that the insurance subsidiaries prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile. Statutory accounting practices primarily differ from GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions, reporting surplus notes as surplus instead of debt and valuing securities on a different basis. As of December 31, 2001, New York Statutory Accounting Practices did not provide for deferred income taxes. The Department has adopted a modification to its regulations, effective December 31, 2002, with respect to the admissibility of deferred taxes by New York insurers, subject to certain limitations. Statutory net income of Metropolitan Life, as filed with the Department, was $1,478 million, $2,782 million and $1,027 million for the years ended 2002, 2001 and 2000, respectively; statutory capital and surplus, as filed, was $6,986 million and $5,358 million at December 31, 2002 and 2001, respectively. The National Association of Insurance Commissioners ("NAIC") adopted the Codification of Statutory Accounting Principles (the "Codification"), which is intended to standardize regulatory accounting and reporting   to state insurance departments, and became effective January 1, 2001. However, statutory accounting principles continue to be established by individual state laws and permitted practices. The Department required adoption of the Codification, with certain modifications, for the preparation of statutory financial statements effective January 1, 2001. Further modifications by state insurance departments may impact the effect of the Codification on the statutory capital and surplus of Metropolitan Life and the Holding Company's other insurance subsidiaries. 18. OTHER COMPREHENSIVE INCOME The following table sets forth the reclassification adjustments required for the years ended December 31, 2002, 2001 and 2000 to avoid double-counting in other comprehensive income (loss) items that are included as part of net income for the current year that have been reported as a part of other comprehensive income (loss) in the current or prior year:

YEARS ENDED DECEMBER 31, ------
------------------ 2002 2001 2000 ------- --
---- ------ (DOLLARS IN MILLIONS)
~~Holding gains on investments arising during the year....... $ 3,722 $1,319 $2,789 Income tax effect of holding gains......................... (1,169) (520) (969) Reclassification adjustments: Recognized holding losses included in current year income................................................ 369 534 989 Amortization of premiums and accretion of discounts associated with investments........................... (526) (488) (499) Recognized holding gains allocated to other policyholder amounts............................................... (145) (134) (54) Income tax effect........................................ 95 35 (151) Allocation of holding losses on investments relating to other policyholder amounts............................... (2,832) (69) (971) Income tax effect of allocation of holding losses to other policyholder amounts..................................... 889 27 338 ------- ------ ------ Net unrealized investment gains........................... 403 704 1,472 Foreign currency translation adjustment.................... (69) (60) (6) Minimum pension liability adjustment....................... -- (18) (9) ------- ------ ------ Other comprehensive income................................. $ 334 $ 626 $1,457 ======= ====== ======~~

19. EARNINGS PER SHARE AND EARNINGS AFTER DATE OF DEMUTUALIZATION Net income after the date of demutualization is based on the results of operations after March 31, 2000, adjusted for the payments to the former Canadian policyholders and costs of demutualization recorded in April 2000 which are applicable to the period prior to April 7, 2000. F-63 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The following presents a reconciliation of the weighted average shares used in calculating basic earnings per share to those used in calculating diluted earnings per share:

FOR THE YEARS ENDED DECEMBER 31, -----------------
------------------------------------
2002 2001 2000 ---------------- -
--------------- ----------------
(DOLLARS IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA) ~~Weighted average common stock outstanding for basic earnings per share............ 704,599,115 741,041,654 772,027,666 Incremental shares from assumed: Conversion of forward purchase contracts............................ 24,596,950 25,974,114 16,480,028 Exercise of stock options................ 5,233 1,133 -- ------------ ------------ ------------ Weighted average~~

~~common stock outstanding for diluted earnings per share........... 729,201,298 767,016,901 788,507,694 ============~~
___________

~~============ ============ INCOME FROM CONTINUING OPERATIONS.......... $ 1,155 $ 387 $ 1,114(1) ============ ============ ============ Basic earnings per share................. $ 1.64 $ 0.52 $ 1.44 ============ ============ ============ Diluted earnings per share............... $ 1.58 $ 0.51 $ 1.41 ============ ============ ============ INCOME FROM DISCONTINUED OPERATIONS........ $ 450 $ 86 $ 59(1) ============ ============ ============ Basic earnings per share................. $ 0.64 $ 0.12 $ 0.08 ============ ============ ============ Diluted earnings per share............... $ 0.62 $ 0.11 $ 0.08 ============ ============ ============ NET INCOME................................. $ 1,605 $ 473 $ 1,173(1) ============ ============ ============ Basic earnings per share................. $ 2.28 $ 0.64 $ 1.52 ============ ============ ============ Diluted earnings per share............... $ 2.20 $ 0.62 $ 1.49 ============ ============ ============~~

-------------- (1) For the period April 7, 2000 through December 31, 2000. F-64 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 20. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) The unaudited quarterly results of operations for the years ended December 31, 2002 and 2001 are summarized in the table below:

| THREE MONTHS ENDED (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA) | MARCH 31 | JUNE 30 | SEPTEMBER 30 | DECEMBER 31 |
|---|---|---|---|---|
| 2002 | | | | |
| Total revenues | $7,973 | $8,244 | $8,120 | $8,810 |
| Total expenses | $7,482 | $7,715 | $7,686 | $8,593 |
| Income from continuing operations | $ 305 | $ 368 | $ 311 | $ 171 |
| Income before cumulative effect of change in accounting | $ 324 | $ 387 | $ 333 | $ 561 |
| Net income | $ 329 | $ 387 | $ 328 | $ 561 |
| Basic earnings per share | | | | |
| Income from continuing operations | $ 0.43 | $ 0.52 | $ 0.44 | $ 0.24 |
| Income before cumulative effect of change in accounting | $ 0.46 | $ 0.55 | $ 0.47 | $ 0.80 |
| Net income | $ 0.46 | $ 0.55 | $ 0.47 | $ 0.80 |
| Diluted earnings per share | | | | |
| Income from continuing operations | $ 0.41 | $ 0.50 | $ 0.43 | $ 0.24 |
| Income before cumulative effect of change in accounting | $ 0.44 | $ 0.53 | $ 0.46 | $ 0.78 |
| Net income | $ 0.44 | $ 0.53 | $ 0.45 | $ 0.78 |
| 2001 | | | | |
| Total revenues | $7,757 | $7,627 | $7,815 | $8,061 |
| Total expenses | $7,363 | $7,169 | $7,603 | $8,511 |
| Income (loss) from continuing operations | $ 265 | $ 296 | $ 144 | $ (318) |
| Net income (loss) | $ 287 | $ 320 | $ 162 | $ (296) |
| Basic earnings per share | | | | |
| Income (loss) from continuing operations | $ 0.35 | $ 0.40 | $ 0.20 | $(0.44) |
| Net income (loss) | $ 0.38 | $ 0.43 | $ 0.22 | $(0.41) |
| Diluted earnings per share | | | | |
| Income (loss) from continuing operations | $ 0.34 | $ 0.38 | $ 0.19 | $(0.43) |
| Net income (loss) | $ 0.37 | $ 0.41 | $ 0.21 | $(0.40) |

Due to changes in the number of average shares outstanding, quarterly earnings per share of common stock do not add to the totals for the years. Unaudited net income for the first quarter of 2002 includes a charge of $48 million related to Metropolitan Life's wholly-owned subsidiary, General American, in connection with its former Medicare business and the resolution of a federal government investigation. Unaudited net income for the second quarter of 2002 includes a benefit of $30 million related to a reduction of the Company's previously established liability for its sales practice class action settlement recorded in 1999. Unaudited net income for the fourth quarter of 2002 includes a charge of $169 million related to the Company's asbestos-related litigation, a $20 million benefit related to the reduction of a previously established liability for the Company's 2001 business realignment initiatives and a $17 million F-65 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) benefit related to the reduction of a previously established liability for disability insurance-related losses from the September 11, 2001 tragedies. Unaudited net income for the third quarter of 2001 includes charges for insurance-related losses of $208 million related to the September 11, 2001 tragedies. Unaudited net income for the fourth quarter of 2001 includes charges of $159 million related to a class action lawsuit and a related regulatory inquiry pending against Metropolitan Life, $330 million related to business realignment initiatives and $74 million related to the establishment of a policyholder liability for certain group annuity policies. 21. BUSINESS SEGMENT INFORMATION The Company provides insurance and financial services to customers in the United States, Canada, Central America, South America, Europe, South Africa, Asia and Australia. The Company's business is divided into six major segments: Individual, Institutional, Reinsurance, Auto & Home, Asset Management and International. These segments are managed separately because they either provide different products and services, require different strategies or have different technology requirements. Individual offers a wide variety of individual insurance and investment products, including life insurance, annuities and mutual funds. Institutional offers a broad range of group insurance and retirement and savings products and services, including group life insurance, non-medical health insurance such as short and long-term disability, long-term care, and dental insurance, and other insurance products and services. Reinsurance provides primarily reinsurance of life and annuity policies in North America and various international markets. Additionally, reinsurance of critical illness policies is provided in select international markets. Auto & Home provides insurance coverages, including private passenger automobile, homeowners and personal excess liability insurance. Asset Management provides a broad variety of asset management products and services to individuals and institutions. International provides life insurance, accident and health insurance, annuities and retirement and savings products to both individuals and groups, and auto and homeowners coverage to individuals. Set forth in the tables below is certain financial information with respect to the Company's operating segments as of or for the years ended December 31, 2002, 2001 and 2000. The accounting policies of the segments are the same as those described in the summary of significant accounting policies, except for the method of capital allocation and the accounting for gains and losses from inter-company sales which are eliminated in consolidation. The Company allocates capital to each segment based upon an internal capital allocation system that allows the Company to more effectively manage its capital. The Company evaluates the performance of each operating segment based upon income or loss from operations before provision for income taxes and non-recurring items (e.g. items of unusual or infrequent nature). The Company allocates certain non-recurring items (primarily consisting of expenses associated with the resolution of proceedings alleging race-conscious underwriting practices, sales practices claims and claims for personal injuries caused by exposure to asbestos or asbestos-containing products and demutualization costs) to Corporate & Other. F-66 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

AT OR FOR THE YEAR ENDED AUTO & ASSET DECEMBER 31, 2002 INDIVIDUAL INSTITUTIONAL REINSURANCE HOME MANAGEMENT INTERNATIONAL -------- ---------------- ---------- ------- ------ ----------- ------ --------- - ------------- (DOLLARS IN MILLIONS)

~~Premiums....................... $ 4,507 $ 8,254 $ 2,005 $2,828 $ -- $1,511 Universal life and investment-type product policy fees.................. 1,380 615 -- -- -- 144 Net investment income.......... 6,259 3,928 421 177 59 461 Other revenues................. 418 609 43 26 166 14 Net investment (losses) gains......................... (164) (506) 2 (46) (4) (9) Policyholder benefits and claims.......................~~

~~5,220 9,339 1,554 2,019 -- 1,388 Interest credited to policyholder account balances..................... 1,793 932 146 -- -- 79 Policyholder~~

~~Policyholder dividends......... 1,770 115 22 -- -- 35 Other expenses................. 2,629 1,531 622 793 211 507 Income (loss) from continuing operations before provision for income taxes............. 988 983 127 173 10 112 Income from discontinued operations, net of income taxes........................ 201 123 -- -- -- -- Net income (loss).............. 826 759 84 132 6 84 Total assets................... 138,783 94,950 10,229 4,957 191 8,963 Deferred policy acquisition costs........................ 8,521 608 1,477 175 -- 945 Goodwill, net.................. 223 62 96 155 18 193 Separate account assets........ 27,457 31,935 11 -- -- 307 Policyholder liabilities....... 95,813 55,497 7,387 2,673 -- 5,883 Separate account liabilities... 27,457 31,935 11 -- -- 307~~
AT OR FOR THE YEAR ENDED AUTO & ASSET DECEMBER 31, 2001 INDIVIDUAL INSTITUTIONAL REINSURANCE HOME MANAGEMENT INTERNATIONAL --------
---------------- ---------- -------
------ ----------- ------ ---------
- ------------- (DOLLARS IN MILLIONS)
~~Premiums....................... $ 4,563 $ 7,288 $1,762 $2,755 $ -- $ 846 Universal life and investment-type product policy fees.................. 1,260 592 -- -- -- 38 Net investment income.......... 6,188 3,966 390 200 71 267 Other revenues................. 495 649 42 22 198 16 Net investment gains (losses).....................~~

~~827 (15) (6) (17) 25 (16) Policyholder benefits and claims....................... 5,233 8,924 1,484 2,121 -- 689 Interest credited to policyholder account balances.....................~~

~~1,898 1,013 122 -- -- 51 Policyholder dividends......... 1,767 259 24 -- -- 36 Other expenses................. 2,747 1,746 491 800 252 329 Income (loss) from continuing operations before provision for income taxes............. 1,688 538 67 39 42 46 Income from discontinued operations, net of income taxes........................ 38 23 -- -- -- -- Net income (loss).............. 1,095 382 40 41 27 14 Total assets................... 131,314 89,661 7,983 4,581 256 5,308 Deferred policy acquisition costs........................ 8,757 509 1,196 179 -- 525 Goodwill, net.................. 223 55 106 159 20 37 Separate account assets........ 31,261 31,177 13 -- -- 277 Policyholder liabilities....... 88,287 52,075 5,427 2,610 -- 3,419 Separate account liabilities... 31,261 31,177 13 -- -- 277~~

AT OR FOR THE YEAR ENDED AUTO & ASSET DECEMBER 31, 2000 INDIVIDUAL INSTITUTIONAL REINSURANCE HOME MANAGEMENT ----------- ------------ ---------- ----------- -- ----------- ------ ---------- (DOLLARS IN MILLIONS)

~~Premiums......................... $4,673 $6,900 $1,450 $2,636 $ -- Universal life and investment-type product policy fees.......................... 1,221 547 -- -- -- Net investment income........... 6,108 3,712 379 194 90 Other revenues.................. 650~~

~~650 29 40 760 Net investment gains (losses)... 227 (475) (2) (20) -- Policyholder benefits and claims........................ 5,054 8,178 1,096 2,005 -- Interest credited to policyholder account balances...................... 1,680 1,090 109 -- -- Policyholder dividends.......... 1,742 124 21 -- -- Payments to former Canadian policyholders................. -- -- -- -- -- Demutualization costs........... -- -- -- -- -- Other expenses.................. 3,012 1,514 513 827 784 Income (loss) from continuing operations before provision for income taxes.............. 1,391 428 117 18 66 Income from discontinued operations, net of income taxes......................... 36 21 -- -- -- Net income (loss)............... 920 307 69 30 34~~

The International segment's assets at December 31, 2002 and results of operations for the year ended December 31, 2002 include the assets and results of operations of Hidalgo, a Mexican life insurer that was acquired in June 2002. For the year ended December 31, 2001 the Institutional, Individual, Reinsurance and Auto & Home segments include $287 million, $24 million, $9 million and $5 million, respectively, of pre-tax losses associated with the September 11, 2001 tragedies. See Note 2. The Institutional, Individual and Auto & Home segments include $399 million, $97 million and $3 million, respectively, in pre-tax charges associated with business realignment initiatives for the year ended December 31, 2001. See Note 13. For the year ended December 31, 2001, the Individual segment includes $118 million of pre-tax expenses associated with the establishment of a policyholder liability for certain group annuity policies. For the year ended December 31, 2001, pre-tax gross investment gains and (losses) of $1,027 million, $142 million and ($1,172) million (comprised of a $354 million gain and an intercompany elimination of ($1,526) million), resulting from the sale of certain real estate properties from Metropolitan Life to Metropolitan Insurance and Annuity Company, a subsidiary of MetLife, Inc., are included in the Individual segment, Institutional segment and Corporate & Other, respectively. The Individual segment included an equity ownership interest in Nvest under the equity method of accounting. Nvest was included within the Asset Management segment due to the types of products and strategies employed by the entity. The Individual segment's equity in earnings of Nvest, which is included in net investment income, was $30 million for the year ended December 31, 2000. The Individual segment includes $538 million (after allocating $118 million to participating contracts) of the pre-tax gross investment gain on the sale of Nvest in 2000. F-68 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) As part of the GenAmerica acquisition in 2000, the Company acquired Conning, the results of which are included in the Asset Management segment due to the types of products and strategies employed by the entity from its acquisition date to July 2001, the date of its disposition. The Company sold Conning, receiving $108 million in the transaction and reported a gain of approximately $25 million, in the third quarter of 2001. The Corporate & Other segment consists of various start-up entities, including Grand Bank, N.A., and run-off entities, as well as the elimination of all intersegment amounts. The principal component of the intersegment amounts relates to intersegment loans, which bear interest rates commensurate with related borrowings. In addition, the elimination of the Individual segment's ownership interest in Nvest is included for the year ended December 31, 2000. Net investment income and net investment gains and losses are based upon the actual results of each segment's specifically identifiable asset portfolio adjusted for allocated capital. Other costs and operating costs were 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. Revenues derived from any customer did not exceed 10% of consolidated revenues. Revenues from U.S. operations were $31,026 million, $30,109 million and $30,006 million for the years ended December 31, 2002, 2001 and 2000, respectively, which represented 94%, 96% and 97%, respectively, of consolidated revenues. 22. DISCONTINUED OPERATIONS The Company actively manages its real estate portfolio with the objective to maximize earnings through selective acquisitions and dispositions. Accordingly, the Company sold certain real estate holdings out of its portfolio during 2002. In accordance with SFAS No. 144, income related to real estate classified as held-for-sale on or after January 1, 2002 is presented as discontinued operations. The following table presents the components of income from discontinued operations:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | (DOLLARS IN MILLIONS) | | |
| Investment income | $ 375 | $ 422 | $ 418 |
| Investment expense | (251) | (297) | (297) |
| Net investment gains | 582 | -- | -- |
| Total revenues | 706 | 125 | 121 |
| Provision for income taxes | 256 | 39 | 42 |
| Income from discontinued operations | $ 450 | $ 86 | $ 79 |

The carrying value of real estate related to discontinued operations was $223 million and $1,580 million at December 31, 2002 and 2001, respectively. See Note 21 for discontinued operations by business segment. 23. SUBSEQUENT EVENTS In connection with MetLife, Inc.'s initial public offering in April 2000, the Holding Company and MetLife Capital Trust I (the "Trust") issued equity security units (the "units"). Each unit originally consisted of (i) a F-69 METLIFE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) contract to purchase, for $50, shares of the Holding Company's common stock on May 15, 2003, and (ii) a capital security of the Trust, with a stated liquidation amount of $50. In accordance with the terms of the units, the Trust was dissolved on February 5, 2003 and $1,006 million aggregate principal amount 8% debentures of the Holding Company ("MetLife debentures"), the sole asset of the Trust, were distributed to the unitholders in exchange for the capital securities. As required by the terms of the units, the MetLife debentures were remarketed on behalf of the debenture holders on February 12, 2003 and the interest rate on the MetLife debentures was reset as of February 15, 2003 to 3.911% per annum for a yield to maturity of 2.876%. F-70 ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE None. PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT The information called for by this Item pertaining to Directors is incorporated herein by reference to the sections entitled "Proposal One -- Election of Directors" and "Stock Ownership of Directors and Executive Officers -- Section 16(a) Beneficial Ownership Reporting Compliance" in the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2003, to be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002. The information called for by this Item pertaining to Executive Officers appears in "Part I -- Item 1. Business -- Executive Officers of the Registrant." ITEM 11. EXECUTIVE COMPENSATION The information called for by this Item is incorporated herein by reference to the section entitled "Executive Compensation" in the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2003, to be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS The information called for by this Item, other than the equity compensation plan information set forth below, is incorporated herein by reference to the sections entitled "Stock Ownership of Directors and Executive Officers" and "Ownership of MetLife Common Stock" in the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 22, 2003, to be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002. EQUITY COMPENSATION PLANS The following table provides information, as of December 31, 2002, regarding the securities authorized for issuance under the Company's equity compensation plans.

NUMBER OF NUMBER OF SECURITIES REMAINING SECURITIES TO BE AVAILABLE FOR FUTURE ISSUED UPON WEIGHTED-AVERAGE ISSUANCE UNDER EXERCISE OF EXERCISE PRICE OF EQUITY COMPENSATION OUTSTANDING OUTSTANDING OPTIONS, PLANS (EXCLUDING OPTIONS, WARRANTS WARRANTS, AND SECURITIES REFLECTED AND RIGHTS RIGHTS IN COLUMN (A)) PLAN CATEGORY (A) (B) (C) ------------- ------------ ----- -------------------- ---- ---------------- ~~Equity compensation plans approved by security holders(1)................... 16,271,158 $30.10 22,018,543(2)(3)(4) Equity compensation plans not approved by security holders...................... None -- -- ---------- ---------------- Total.......................... 16,271,158 $30.10 22,018,543 ========= ====== ==========~~

-------------- (1) The MetLife, Inc. 2000 Stock Incentive Plan and the MetLife, Inc. 2000 Directors Stock Plan were each approved by Metropolitan Life, the sole shareholder of the Holding Company at the time of approval. The policyholders of Metropolitan Life entitled to vote on its plan of reorganization (the "plan of reorganiza- 108 tion") approved that plan of reorganization, which included both the MetLife, Inc. 2000 Stock Incentive Plan and the MetLife, Inc. 2000 Directors Stock Plan. The policyholders entitled to so vote received a summary description of each plan, including the applicable limits on the number of shares available for issuance under each plan. (2) Under the plan of reorganization, the Holding Company is authorized to issue a maximum of 38,323,333 shares of common stock under certain compensation plans. Of the 38,323,333 shares: - 37,823,333 shares, representing five percent of the total number of shares of Holding Company common stock outstanding immediately after the effective date of the plan of reorganization, may be utilized (i) for issuances pursuant to options granted under the MetLife, Inc. 2000 Stock Incentive Plan and the MetLife, Inc. 2000 Directors Stock Plan, (ii) for issuances under the MetLife Long Term Performance Compensation Plan, (iii) for investment tracking valuation under the Metropolitan Life Auxiliary Savings and Investment Plan (a non-qualified savings and investment plan under which distributions are made in cash) and (iv) for investment tracking valuation and issuance under the MetLife Deferred Compensation Plan for Officers (a non-qualified deferred compensation plan). As of December 31, 2002, a total of 2,729 shares had been utilized with respect to the plans described in (ii), (iii) and (iv) above; and - 500,000 shares are available for issuance as share awards under the MetLife, Inc. 2000 Directors Stock Plan. As of December 31, 2002, a total of 30,903 shares had been utilized with respect to share awards under this plan. Under the plan of reorganization, (i) the total number of shares of Holding Company common stock available for issuance under each of the above authorizations will be appropriately adjusted in the event of a common stock dividend or split, recapitalization, merger, spin-off or similar change and (ii) shares subject to options that are canceled, terminated or otherwise settled without the issuance of Holding Company common stock are again available for issuance under the plans. (3) Under the MetLife, Inc. 2000 Stock Incentive Plan, options covering no more than 60% of the total shares available for issuance under the plan could have been awarded prior to April 8, 2002 and options covering no more than 80% of the total shares available under the plan may be awarded prior to April 8, 2003. (4) Under the MetLife, Inc. 2000 Directors Stock Plan, the number of shares issuable pursuant to options may not exceed 378,233. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information called for by this Item is incorporated herein by reference to the section entitled "Corporate Governance -- Certain Relationships and Related Transactions" in the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on

April 22, 2003, to be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002. ITEM 14. CONTROLS AND PROCEDURES Evaluation of disclosure controls and procedures. Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K (the "Evaluation Date"), the Holding Company's principal executive officer and principal financial officer have concluded that the Holding Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) were effective for the purposes set forth in the definition thereof in Rule 13a-14(c). Change in Internal Controls. There were no significant changes in the Holding Company's internal controls or in other factors that could significantly affect internal controls subsequent to the Evaluation Date, including any corrective actions with regard to significant deficiencies and material weaknesses. 109 PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (a) The following documents are filed as part of this report: 1. Financial Statements The financial statements are listed in the Index to Consolidated Financial Statements and Schedules on page 106. 2. Financial Statement Schedules The financial statement schedules are listed in the Index to Consolidated Financial Statements and Schedules on page 106. 3. Exhibits The exhibits are listed in the Exhibit Index which begins on page E-1. (b) Reports on Form 8-K The following Reports on Form 8-K were filed during the fourth quarter of 2002: 1. Form 8-K filed October 22, 2002 (dated October 22, 2002) attaching press release regarding the declaration of the annual dividend on common stock. 2. Form 8-K filed November 6, 2002 (dated November 5, 2002) attaching press release regarding third quarter 2002 results. 3. Form 8-K filed December 3, 2002 (dated December 3, 2002) regarding correction of certain amounts in Quarterly Report on Form 10-Q for the quarter ended September 30, 2002. 4. Form 8-K filed December 11, 2002 (dated December 11, 2002) attaching press release regarding operating earnings guidance for 2003-2005 and disclosing presentation slides to be used in presentations to investors. 5. Form 8-K filed December 17, 2002 (dated December 3, 2002) reporting the issuance of $400,000,000 in Senior Notes due December 15, 2012 and $600,000,000 in Senior Notes due December 15, 2032 in an underwritten public offering. 110 METLIFE, INC. SCHEDULE I CONSOLIDATED SUMMARY OF INVESTMENTS -- OTHER THAN INVESTMENTS IN AFFILIATES DECEMBER 31, 2002 (DOLLARS IN MILLIONS)

| TYPE OF INVESTMENT | COST OR AMORTIZED COST(1) | ESTIMATED FAIR VALUE | AMOUNT AT WHICH SHOWN ON BALANCE SHEET |
|---|---|---|---|
| Fixed Maturities: | | | |
| Bonds: | | | |
| U.S. treasuries/agencies | $ 14,373 | $ 15,934 | $ 15,934 |
| States and political subdivisions | 2,580 | 2,742 | 2,742 |
| Foreign government securities | 7,012 | 7,596 | 7,596 |
| Public utilities | 7,195 | 7,218 | 7,218 |
| Convertibles and bonds with warrants attached | 70 | 58 | 58 |
| All other corporate bonds | 57,757 | 61,210 | 61,210 |
| Mortgage- and asset-backed securities | 42,739 | 44,386 | 44,386 |
| Other | 609 | 697 | 697 |
| Redeemable preferred stock | 817 | 712 | 712 |
| Total fixed maturities | 133,152 | 140,553 | 140,553 |
| Equity Securities: | | | |
| Common stocks: | | | |
| Banks, trust and insurance companies | 58 | 60 | 60 |
| Industrial, miscellaneous and all other | 819 | 853 | 853 |
| Non-Redeemable preferred stocks | 426 | 435 | 435 |
| Total equity securities | 1,303 | 1,348 | 1,348 |
| Mortgage loans on real estate | 25,086 | 27,778 | 25,086 |
| Policy loans | 8,580 | 8,580 | 8,580 |
| Real estate and real estate joint ventures | 4,715 | -- | 4,715 |
| Real estate acquired in satisfaction of debt | 10 | -- | 10 |
| Other limited partnership interests | 2,395 | -- | 2,395 |
| Short-term investments | 1,921 | 1,921 | 1,921 |
| Other invested assets | 3,727 | -- | 3,727 |
| Total investments | $180,889 | | $188,335 |

--------------

(1) Cost for fixed maturities and mortgage loans on real estate represents original cost reduced by repayments, net valuation allowances and writedowns from other-than-temporary declines in value and adjusted for amortization of premiums or accretion of discount; for equity securities, cost represents original cost reduced by writedowns from other-than-temporary declines in value; for real estate, cost represents original cost reduced by writedowns and adjusted for valuation allowances and depreciation; cost for real estate joint ventures and limited partnership interests represents original cost reduced for other-than-temporary impairments or original cost adjusted for equity in earnings and distributions.



METLIFE, INC. SCHEDULE II CONDENSED FINANCIAL INFORMATION OF METLIFE, INC. (REGISTRANT) (DOLLARS IN MILLIONS)

AT DECEMBER 31, ----------------- 2002 2001 ------- ------- ~~BALANCE SHEET ASSETS Investments Fixed maturities, available-for-sale, at fair value (amortized cost: $1,222)............................... $ 1,235 $ -- Short-term investments.................................... 96 -- ------- ------- Total investments...................................... 1,331 -- Cash and cash equivalents.................................... 12 2,981 Investment in subsidiaries.................................. 19,674 15,689 Loans to affiliates......................................... 500 -- Other assets................................................. 31 6 ------- ------- Total assets........................................... $21,548 $18,676 ======= ======= LIABILITIES AND STOCKHOLDERS' EQUITY Liabilities: Short-term debt -- unaffiliated.............................. $ 249 $ -- Long-term debt -- unaffiliated.............................. 2,240 1,248 Long-term debt -- affiliated................................ 1,037 1,037 Payables under securities loaned transactions............... 478 -- Other liabilities............................................. 159 329 ------- ------- Total liabilities...................................... 4,163 2,614 Total stockholders' equity............................. 17,385 16,062 ------- ------- Total liabilities and stockholders' equity............. $21,548 $18,676 ======= =======~~

FOR THE PERIOD YEARS ENDED APRIL 7, 2000 DECEMBER 31, (DATE OF DEMUTUALIZATION) -------------- THROUGH 2002 2001 DECEMBER 31, 2000(1) ------ ----- ------------------------ ~~STATEMENT OF INCOME Interest income........................................ $ 64 $ 91 $ 78 Other income........................................... 2 -- -- Interest expense........................................ (162) (104) (74) Other expenses.......................................... (43) (40) (38) ------ ----- ------ Loss before income tax benefit....................... (139) (53) (34) Income tax benefit..................................... (49) (18) (12) Equity in earnings of subsidiaries...................... 1,695 508 1,195 ------ ----- ------ Net income........................................... $1,605 $ 473 $1,173 ====== ===== ======~~

-------------- (1) MetLife, Inc. was incorporated August 10, 1999 as a wholly-owned subsidiary of Metropolitan Life. On April 7, 2000, Metropolitan Life converted from a mutual life insurance company to a stock life insurance company and became a wholly-owned subsidiary of MetLife, Inc. MetLife, Inc. commenced operations as a holding company on April 7, 2000. 112 METLIFE, INC. SCHEDULE II -- (CONTINUED) CONDENSED FINANCIAL INFORMATION OF METLIFE, INC. (REGISTRANT) (DOLLARS IN MILLIONS)

FOR THE PERIOD YEARS ENDED

FOR THE PERIOD YEARS ENDED APRIL 7, 2000 DECEMBER 31 (DATE OF DEMUTUALIZATION) ---------------- THROUGH 2002 2001 DECEMBER 31, 2000 ------- ------- --- --------------------- ~~CONDENSED STATEMENT OF CASH FLOWS Cash flows from operating activities: Net income.......................................... $ 1,605 $ 473 $ 1,173 Undistributed earnings of subsidiaries............... (1,695) (508) (1,195) Dividends from subsidiaries.......................... 986 3,785 763 Other, net........................................... (190) 256 67 ------- ------- ------- Net cash provided by operating activities.......... 706 4,006 808 ------- ------- ------- Cash flows from investing activities: Sale of fixed maturity securities.................... 917 -- -- Purchase of fixed maturity securities................ (2,147) -- -- Net change in short-term investments................. (96) 339 (339) Purchase of mandatorily convertible note............. -- -- (1,006) Repayment of mandatorily convertible note............ -- 1,006 -- Net change in payable under securities loaned transactions....................................... 478 -- -- Purchase of subsidiaries............................ (2,355) (1,293) (33) Capital contribution to subsidiaries................. (595) (870) (3,700) Loans to affiliate.................................. (500) -- -- ------- ------- ------- Net cash used in investing activities........... (4,298) (818) (5,078) ------- ------- ------- Cash flows from financing activities: Common stock issued................................. -- -- 4,009 Treasury stock acquired............................. (471) (1,321) (613) Dividends paid...................................... (147) (145) (152) Long-term debt, issued............................... 992 1,248 1,037 Short-term debt, issued............................. 249 -- -- ------- ------- ------- Net cash provided by (used in) financing activities.................................... 623 (218) 4,281 ------- ------- ------- Change in cash and cash equivalents................. (2,969) 2,970 11 Cash and cash equivalents, beginning of period....... 2,981 11 -- ------- ------- ------- Cash and cash equivalents, end of period............. $ 12 $ 2,981 $ 11~~

~~======= ======= ======= Supplemental disclosures of cash flow information: Cash paid (refunded) during the period for: Interest........................................ $ 158 $ 107 $ 63 ======= =======~~

~~=======~~
~~Taxes............................................ $ 28 $ (9) $ -- ======= =======~~
~~=======~~

113 METLIFE, INC. SCHEDULE III CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION AT AND FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (DOLLARS IN MILLIONS)

FUTURE POLICY BENEFITS, OTHER POLICYHOLDER FUNDS AND DEFERRED POLICY POLICYHOLDER POLICYHOLDER POLICYHOLDER ACQUISITION DIVIDEND ACCOUNT DIVIDENDS UNEARNED PREMIUM REVENUE SEGMENT COSTS OBLIGATION BALANCES PAYABLE REVENUE(1) AND POLICY CHARGES ------- --- ------------ --------------- --- ------------ ----------- - ---------- --------------- --- ~~2002~~

~~Individual............ $ 8,521 $56,118 $38,832 $ 863 $856 $ 5,887 Institutional......... 608 32,516 22,819 162 4 8,869 Reinsurance........... 1,477 3,974 3,413 -- -- 2,005 Auto & Home........... 175 2,673 -- -- -- 2,828 Asset Management...... -- -- -- -- -- -- International......... 945 3,919 1,959 5 47 1,655 Corporate & Other..... 1 (1,818) (193) -- -- (19) ------- ------- ------- ------ ---- ------- $11,727 $97,382 $66,830 $1,030 $907 $21,225 ======= ======= ======= ====== ==== =======~~

~~2001~~

~~Individual............ $ 8,757 $52,468 $34,945 $ 874 $855 $ 5,823 Institutional......... 509 30,944 20,964 167 2 7,880~~

Reinsurance

~~Reinsurance........... 1,196 3,129 2,298 -- -- 1,762 Auto & Home........... 179 2,610 -- -- -- 2,755 Asset Management...... -- -- -- -- -- -- International......... 525 2,696 718 5 20 884 Corporate & Other..... 1 (811) (2) -- -- (3) ------- ------- ------- ------ ---- ------- $11,167 $91,036 $58,923 $1,046 $877 $19,101 ======= ======= ======= ====== ==== =======~~

~~2000 Individual............ $ 8,610 $50,940 $32,242 $ 867 $796 $ 5,894 Institutional......... 446 30,739 18,719 211 4 7,447 Reinsurance........... 1,030 2,927 2,129 -- -- 1,450 Auto & Home........... 176 2,559 -- -- -- 2,636 Asset Management...... -- -- -- -- -- -- International......... 354 1,423 1,008 4 25 713 Corporate & Other..... 2 (1,166) (3) -- -- (3) ------- ------- ------- ------ ---- ------- $10,618 $87,422 $54,095 $1,082 $825 $18,137 ======= ======= ======= ====== ==== =======~~

-------------- (1) Amounts are included in Future Policy Benefits and Other Policyholder Funds. 114 METLIFE, INC. SCHEDULE III -- (CONTINUED) CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION AT AND FOR THE YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000 (DOLLARS IN MILLIONS)

AMORTIZATION OF AMORTIZATION OF DEFERRED POLICY DEFERRED POLICY ACQUISITION

COSTS PREMIUMS INVESTMENT POLICYHOLDER ACQUISITION COSTS CHARGED AGAINST OTHER WRITTEN INCOME, BENEFITS AND

CHARGED TO NET INVESTMENT OPERATING (EXCLUDING SEGMENT NET INTEREST CREDITED OTHER EXPENSES GAINS (LOSSES) EXPENSES LIFE) ------- ---------- -------- --------- ----------------- ------------------ ------- -- ---------- ~~2002 Individual........... $ 6,259 $ 7,013 $ 744 $ 10 $3,655 $ -- Institutional........ 3,928 10,271 61 -- 1,585 -- Reinsurance.......... 421 1,700 275 (5) 369 -- Auto & Home.......... 177 2,019 431 -- 362 2,866 Asset Management..... 59 -- -- -- 211 -- International........ 461 1,467 128 -- 414 127 Corporate & Other.... 24 3 -- -- 768 -- ------- ------- ------ ---- ------ ------ $11,329 $22,473 $1,639 $ 5 $7,364 $2,993 ======= ======= ====== ==== ====== ====== 2001 Individual........... $ 6,188 $ 7,131 $ 633 $ 21 $3,881 $ -- Institutional........ 3,966 9,937 64 -- 1,941 -- Reinsurance.......... 390 1,606 220 4 295 -- Auto & Home.......... 200 2,121 432 -- 368 2,779 Asset Management..... 71 -- -- -- 252 -- International........~~

~~267 740 64 -- 301 102 Corporate & Other.... 173 3 -- -- 657 -- ------- ------- ------- ---- ---- ------ ------ $11,255 $21,538 $1,413 $ 25 $7,695 $2,881 ======= ======= ====== ==== ====== ====== 2000 Individual........... $~~

~~6,108 $ 6,734 $ 723 $(95) $4,031 $ -- Institutional........ 3,712 9,268 76 -- 1,562 -- Reinsurance.......... 379 1,205 207 -- 327 -- Auto & Home.......... 194 2,005 422 -- 405 2,686 Asset Management..... 90 -- -- -- 784 -- International........ 254 618 50 -- 601 268 Corporate & Other.... 287 (2) -- -- 689 -- ------- ------- ------ ---- ------ ------ $11,024 $19,828 $1,478 $(95) $8,399(1) $2,954 ======= ======= ====== ==== ====== ======~~

(1) Includes demutualization costs of $230 million and payments to Canadian policyholders of $327 million in 2000. 115 METLIFE, INC. SCHEDULE IV CONSOLIDATED REINSURANCE FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (DOLLARS IN MILLIONS)

% AMOUNT ASSUMED GROSS AMOUNT CEDED ASSUMED NET AMOUNT TO NET ---------- -- -------- -------- ---------- -------- ~~2002 Life insurance in-force................. $2,426,970 $572,931 $825,831 $2,679,870 30.8% ========== ======== ======== ========== Insurance Premium: Life insurance.......................... $ 12,254 $ 1,931 $ 2,756 $ 13,079 21.1% Accident and health..................... 3,198 286 140 3,052 4.6% Property and casualty insurance......... 2,940 107 122 2,955 4.1% ---------- -------- -------- ---------- Total insurance premium............ $ 18,392 $ 2,324 $ 3,018 $ 19,086 15.8% ========== ======== ======== ==========~~

| 2001 | GROSS AMOUNT | CEDED | ASSUMED | NET AMOUNT | % AMOUNT ASSUMED TO NET |
|---|---|---|---|---|---|
| Life insurance in-force................. | $2,110,254 | $360,830 | $669,917 | $2,419,341 | 27.7% |
| Insurance Premium: | | | | | |
| Life insurance.......................... | $ 11,057 | $ 1,641 | $ 2,195 | $ 11,611 | 18.9% |
| Accident and health..................... | 2,906 | 317 | 155 | 2,744 | 5.6% |
| Property and casualty insurance......... | 2,369 | 69 | 557 | 2,857 | 19.5% |
| Total insurance premium............ | $ 16,332 | $ 2,027 | $ 2,907 | $ 17,212 | 16.9% |

| 2000 | GROSS AMOUNT | CEDED | ASSUMED | NET AMOUNT | % AMOUNT ASSUMED TO NET |
|---|---|---|---|---|---|
| Life insurance in-force................. | $1,967,481 | $363,038 | $604,780 | $2,209,223 | 27.4% |
| Insurance Premium: | | | | | |
| Life insurance.......................... | $ 11,049 | $ 1,894 | $ 2,069 | $ 11,224 | 18.4% |
| Accident and health..................... | 2,542 | 318 | 153 | 2,377 | 6.4% |
| Property and casualty insurance......... | 2,070 | 50 | 696 | 2,716 | 25.6% |
| Total insurance premium............ | $ 15,661 | $ 2,262 | $ 2,918 | $ 16,317 | 17.9% |



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of New York, State of New York on the 19th day of March, 2003.

METLIFE, INC.

By: /s/ ROBERT H. BENMOSCHE
------------------------------------
Name: Robert H. Benmosche
Title: Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ ROBERT H. BENMOSCHE | Chairman of the Board, President | March 19 |

March 19, 2003 ------------------------------ and Chief Executive Officer Robert H. Benmosche /s/ CURTIS H. BARNETTE Director March 19, 2003 ------------------------------ Curtis H. Barnette /s/ GERALD CLARK Vice Chairman of the Board and March 19, 2003 ------------------------------ Chief Investment

Officer Gerald Clark /s/ JOHN C. DANFORTH Director March 19, 2003 ------------------------------ John C. Danforth /s/ BURTON A. DOLE, JR. Director March 19, 2003 ------------------------------ Burton A. Dole, Jr. /s/ JAMES R. HOUGHTON Director March 19, 2003 ------------------------------ James R. Houghton Director ------------------------------ Harry P. Kamen /s/ HELENE L. KAPLAN Director March 19, 2003 ------------------------------ Helene L. Kaplan /s/ CATHERINE R. KINNEY Director March 19, 2003 ------------------------------ Catherine R. Kinney /s/

~~CHARLES M. LEIGHTON Director March 19, 2003 ------------------------------------- Charles M. Leighton~~



SIGNATURE TITLE DATE --------- ----- ---- ~~/s/ STEWART G. NAGLER Vice Chairman of the Board and March 19, 2003 ------------------------------------~~

~~Chief Financial Officer Stewart G. Nagler /s/ JOHN J. PHELAN, JR. Director March 19, 2003 ------------------------------------- John J. Phelan, Jr. /s/ HUGH B. PRICE Director March 19, 2003 ------------------------------------- Hugh B. Price /s/ WILLIAM C. STEERE, JR. Director March 19, 2003 ------------------------------------- William C. Steere, Jr. /s/ VIRGINIA M. WILSON Senior Vice President and Controller March 19, 2003 ------------------------------------- Virginia M. Wilson~~

 SECTION 302 CERTIFICATION I, Robert H. Benmosche, Chief Executive Officer of MetLife, Inc., certify that: 1. I have reviewed this annual report on Form 10-K of MetLife, Inc.; 2. Based on my knowledge, this annual 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 annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a) designed such disclosure controls and procedures 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 annual report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: March 19, 2003 /s/ ROBERT H. BENMOSCHE ------------------------------------- Robert H. Benmosche Chairman, President and Chief Executive Officer 119 SECTION 302 CERTIFICATION I, Stewart G. Nagler, Chief Financial Officer of MetLife, Inc., certify that: 1. I have reviewed this annual report on Form 10-K of MetLife, Inc.; 2. Based on my knowledge, this annual 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 annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a) designed such disclosure controls and procedures 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 annual report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: March 19, 2003 /s/ STEWART G. NAGLER ------------------------------------- Stewart G. Nagler Vice Chairman and Chief Financial Officer 120 EXHIBIT INDEX

EXHIBIT PAGE NO. DESCRIPTION NO. ------- ----------- ---- ~~2.1 -- Plan of Reorganization (Incorporated by reference to Exhibit 2.1 to MetLife, Inc.'s Registration Statement on Form S-1 (No. 333-91517) (the "S-1 Registration Statement"))......... 2.2 -- Amendment to Plan of Reorganization dated as of March 9, 2000 (Incorporated by reference to Exhibit 2.2 to the S-1 Registration Statement)..................................... 3.1 -- Amended and Restated Certificate of Incorporation of MetLife, Inc. (Incorporated by reference to Exhibit 3.1 to MetLife, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "2000 Annual Report"))\.... 3.2 -- Amended and Restated By-Laws of MetLife, Inc. (Incorporated by reference to Exhibit 3.2 to the 2000 Annual Report)...... 4.1 -- Indenture dated as of November 9, 2001 between MetLife, Inc. and Bank One Trust Company, N.A. relating to Senior Debt Securities (Incorporated by reference to Exhibit 4.1 to MetLife, Inc.'s Current Report on Form 8-K dated November 28, 2001 (the "2001 Form 8-K"))............................ 4.2 -- First Supplemental Indenture dated as of~~

~~Supplemental Indenture dated as of November 27, 2001 between MetLife, Inc. and Bank One Trust~~

~~Company, N.A. relating to the 5.25% Senior Notes due December 1, 2006 (Incorporated by reference to Exhibit 4.2 to the 2001 Form 8-K)......................................................... 4.3 -- Second Supplemental Indenture dated as of November 27, 2001 between MetLife, Inc. and Bank One Trust Company, N.A. relating to the 6.125% Senior Notes due December 1, 2011 (Incorporated by reference to Exhibit 4.3 to the 2001 Form 8-K)......................................................... 4.4 -- Third Supplemental Indenture dated as of December 10, 2002 between MetLife, Inc. and Bank One Trust Company, N.A. relating to the 5.375% Senior Notes due December 15, 2012 (Incorporated by reference to Exhibit 4.1 to MetLife, Inc.'s Current Report on Form 8-K dated December 17, 2002 (the "2002 Form 8-K"))............................................ 4.5 -- Fourth Supplemental Indenture dated as of December 10, 2002 between MetLife, Inc. and Bank One Trust Company, N.A. relating to the 6.50% Senior Notes due December 15, 2032 (Incorporated by reference to Exhibit 4.2 to the 2002 Form 8-K)......................................................... 4.6 -- Form of Subordinated Indenture (Incorporated by reference to Exhibit 4.2 to MetLife, Inc.'s, MetLife Capital Trust II's and MetLife Capital Trust III's Registration Statement on Form S-3 (Nos. 333-61282, 333-61282-01 and 333-61282-02) (the "S-3 Registration Statement").......................... 4.7 -- Form of 5.25% Senior Note due December 1, 2006 (Included in Exhibit 4.2 incorporated by reference to Exhibit 4.2 to the 2001 Form 8-K).............................................. 4.8 -- Form of 6.125% Senior Note due December 1, 2011 (Included in Exhibit 4.3 incorporated by reference to Exhibit 4.3 to the 2001 Form 8-K).............................................. 4.9 -- Form of 5.375% Senior Note due December 15, 2012 (Included in Exhibit 4.4 incorporated by reference to Exhibit 4.1 to the 2002 Form 8-K).......................................... 4.10 -- Form of 6.50% Senior Note due December 15, 2032 (Included in Exhibit 4.5 incorporated by reference to Exhibit 4.2 to the 2002 Form 8-K).............................................. 4.11 -- Certificate of Trust of MetLife Capital Trust II (Incorporated by reference to Exhibit 4.6 to the S-3 Registration Statement).................................... 4.12 -- Certificate of Trust of MetLife Capital Trust III (Incorporated by~~

~~reference to Exhibit 4.7 to the S-3 Registration Statement)....................................~~
~~4.13 -- Declaration of Trust of MetLife Capital Trust II (Incorporated by reference to Exhibit 4.8 to the S-3 Registration Statement)....................................~~
~~4.14 -- Declaration of Trust of MetLife Capital Trust III (Incorporated by reference to Exhibit 4.9 to the S-3 Registration Statement)....................................~~
~~4.15 -- Form of Amended and Restated Declaration of Trust of MetLife Capital Trust II (Incorporated by reference to Exhibit 4.10 to the S-3 Registration Statement)..........................~~



EXHIBIT PAGE NO. DESCRIPTION NO. - ------ ----------- ---- ~~4.16 -- Form of Amended and Restated Declaration of Trust of MetLife Capital Trust III (Incorporated by reference to Exhibit 4.11 to the S-3 Registration Statement)..........................~~
~~4.17 -- Form of Trust Preferred Security Certificate of MetLife Capital Trust II (Included in Exhibit 4.11 incorporated by reference to Exhibit 4.10 to the S-3 Registration Statement)..................................................~~
~~4.18 -- Form of Trust Preferred Security Certificate of MetLife Capital Trust III (Included in Exhibit 4.12 incorporated by reference to Exhibit 4.11 to the S-3 Registration Statement)..................................................~~
~~4.19 -- Form of Trust Preferred Securities Guarantee Agreement for MetLife Capital Trust II (Incorporated by reference to Exhibit 4.14 to the S-3 Registration Statement)............. 4.20 -- Form of Trust Preferred Securities Guarantee Agreement for MetLife Capital Trust III (Incorporated by reference to Exhibit 4.15 to the S-3 Registration Statement).............~~
~~4.21 -- Form of Common Securities Guarantee Agreement for MetLife Capital Trust II (Incorporated by reference to Exhibit 4.16 to the S-3 Registration Statement)......................... 4.22 -- Form of Common Securities Guarantee Agreement for MetLife Capital Trust III (Incorporated by reference to Exhibit 4.17 to the S-3 Registration Statement)......................... 4.23 -- Form of Certificate for Common Stock, par value $0.01 per share (Incorporated by reference to Exhibit 4.1 to the S-1 Registration Statement).................................... 4.24 -- Indenture between MetLife, Inc. and The Bank of New York, as trustee, relating to the debt securities (Incorporated by reference to Exhibit 4.2 to the 2000 Annual Report)......... 4.25 -- First Supplemental Indenture between MetLife,~~

~~Inc. and The Bank of New York, as trustee, relating to the Debentures~~

~~trustee, relating to the Debentures (Incorporated by reference to Exhibit 4.3 to the 2000 Annual Report)...................................................... 4.26 -- Certificate of Trust of MetLife Capital Trust I (Incorporated by reference to Exhibit 4.3 to MetLife, Inc.'s and MetLife Capital Trust I's Registration Statement on Form S-1 (Nos. 333-32074 and 333-32074-01) (the "Trust Registration Statement").................................... 4.27 -- Declaration of Trust of MetLife Capital Trust I (Incorporated by reference to Exhibit 4.4 to the Trust Registration Statement)..................................... 4.28 -- Amended and Restated Declaration of Trust of MetLife Capital Trust I (Incorporated by reference to Exhibit 4.6 to the 2000 Annual Report).......................................... 4.29 -- Capital Securities Guarantee Agreement for MetLife Capital Trust I (Incorporated by reference to Exhibit 4.7 to the 2000 Annual Report)......................................... 4.30 -- Capital Security Certificate of MetLife Capital Trust I (Included in Exhibit 4.24 incorporated by reference to Exhibit 4.6 to the 2000 Annual Report)...................... 4.31 -- Purchase Contract Agreement (Incorporated by reference to Exhibit 4.9 to the 2000 Annual Report)...................... 4.32 -- Pledge Agreement (Incorporated by reference to Exhibit 4.10 to the 2000 Annual Report).................................. 4.33 -- Form of Debenture (Included in Exhibit 4.21 incorporated by reference to Exhibit 4.3 to the 2000 Annual Report).......... 4.34 -- Form of Normal Unit (Included in Exhibit 4.27 incorporated by reference to Exhibit 4.9 to the 2000 Annual Report)...... 4.35 -- Form of Stripped Unit (Included in Exhibit 4.27 incorporated by reference to Exhibit 4.9 to the 2000 Annual Report)...... 4.36 -- Common Securities Guarantee Agreement (Incorporated by reference to Exhibit 4.14 to the 2000 Annual Report)........ 10.1 -- Form of Amended and Restated Employment Continuation Agreement with Messrs. Benmosche, Nagler and Clark (Incorporated by reference to Exhibit 10.8 to MetLife, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (the "2001 Annual Report"))*..............~~



EXHIBIT PAGE NO. DESCRIPTION NO. ------- ----------- ---- ~~10.2 -- Form of Amended and Restated Employment Continuation Agreement with Messrs. Beller, Henrikson and Toppeta (Incorporated by reference to Exhibit 10.9 to the 2001 Annual Report)*............................................. 10.3 -- Rights Agreement (Incorporated by reference to Exhibit 10.6 to the 2000 Annual~~

~~Report)................................. 10.4 -- MetLife, Inc. 2000 Stock Incentive Plan, as amended and restated March 28, 2000 (Incorporated by~~

~~reference to Exhibit 10.7 to the S-1 Registration Statement)*............ 10.5 -- MetLife, Inc. 2000 Stock Incentive Plan, as amended effective February 8, 2002 (Incorporated by reference to Exhibit 10.13 to the 2001 Annual Report)*................... 10.6 -- Form of Management Stock Option Agreement (Incorporated by reference to Exhibit 10.2 to MetLife, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (the "Second Quarter 2002 10-Q"))*.............................. 10.7 -- Form of Director Stock Option Agreement (Incorporated by reference to Exhibit 10.3 to the Second Quarter 2002 10-Q)*......................................................~~
~~10.8 -- MetLife, Inc. 2000 Directors Stock Plan, as amended and restated March 28, 2000 (Incorporated by reference to Exhibit 10.8 to the S-1 Registration Statement)*............ 10.9 -- MetLife, Inc. 2000 Directors Stock Plan, as amended effective February 8, 2002 (Incorporated by reference to Exhibit 10.16 to the 2001 Annual Report)*................... 10.10 -- Amended and Restated Employment Continuation Agreement with Ms. Rein (Incorporated by reference to Exhibit 10.17 to the 2001 Annual Report)*........................................~~
~~10.11 -- Separation Agreement, Waiver and General Release dated July 16, 2002 by and between Metropolitan Life Insurance Company and James M. Benson (Incorporated by reference to Exhibit 10.3 to MetLife, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (the "Third Quarter 2002 10-Q")*...............................................~~
~~10.12 -- Policyholder Trust Agreement (Incorporated by reference to Exhibit 10.12 to the S-1 Registration Statement)............~~
~~10.13 -- Restatement of the Excess Asbestos Indemnity Insurance Policy, dated as of December 31, 1998, between Stockwood Reinsurance Company, Ltd. and Metropolitan Life Insurance Company (Incorporated by reference to Exhibit 10.13 to the S-1 Registration Statement)................................~~
~~10.14 -- Restatement of the Excess Asbestos Indemnity Insurance Policy, dated as of December 31, 1998, between European Reinsurance Corporation of America~~

~~and Metropolitan Life Insurance Company (Incorporated by reference to Exhibit 10.14 to the S-1 Registration Statement)....................~~
~~10.15 -- Restatement of the Excess Asbestos Indemnity Insurance Policy, dated as of December 31~~

~~Policy, dated as of December 31, 1998, between Granite State Insurance Company and Metropolitan Life Insurance Company (Incorporated by reference to Exhibit 10.16 to the S-1 Registration Statement)..................................... 10.16 -- Amended and Restated Aggregate Excess of Loss Reinsurance Agreement, dated as of March 1, 2000 between American International Life Assurance Company of New York and Metropolitan Life Insurance Company (Incorporated by reference to Exhibit 10.1 to the MetLife, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 (the "First Quarter 2000 10-Q")).......................... 10.17 -- Amended and Restated Aggregate Excess of Loss Reinsurance Agreement, dated as of March 1, 2000, between Stockwood Reinsurance Company, Ltd. and Metropolitan Life Insurance Company (Incorporated by reference to Exhibit 10.2 to the First Quarter 2000 10-Q)................................... 10.18 -- Five-Year Credit Agreement, dated as of April 27, 1998, and as amended as of April 26, 1999, among Metropolitan Life Insurance Company, MetLife Funding, Inc. and the other parties signatory thereto (Incorporated by reference to Exhibit 10.18 to the S-1 Registration Statement)............ 10.19 -- Amendment No. 2, dated as of June 30, 2000, to the Five Year Credit Agreement, among Metropolitan Life Insurance Company, MetLife Funding, Inc. and the other parties signatory thereto (Incorporated by reference to Exhibit 10.20 to the 2000 Annual Report).........................................~~



EXHIBIT PAGE NO. DESCRIPTION NO. -- ----- ----------- ---- ~~10.20 -- Credit Agreement, dated as of April 23, 2002, among MetLife, Inc., Metropolitan Life Insurance Company, MetLife Funding, Inc. and other parties signatory thereto (Incorporated by reference to Exhibit 10.1 to the Second Quarter 2002 10-Q)...................................................... 10.21 -- Stipulation of Settlement, as amended, relating to Metropolitan Life Insurance Company Sales Practices Litigation (Incorporated by reference to~~

~~Exhibit 10.21 to the S-1 Registration Statement)............................ 10.22 -- Regulatory Settlement Agreement dated as of August 29, 2002, by and between Metropolitan Life Insurance Company and the State of New York Insurance Department, along with the insurance regulators of each of the states of the United States and of the District of~~

~~Columbia that adopt, approve and agree to the Regulatory Settlement Agreement (Incorporated by reference to Exhibit 10.1 to the Third Quarter 2002 10-Q)......................................... 10.23 -- Stipulation of Settlement dated August 29, 2002, by and between Thompson et al., as Plaintiffs in their individual and representative capacities, and Metropolitan Life Insurance Company, as Defendant (Incorporated by reference to Exhibit 10.2 to the Third Quarter 2002 10-Q)............ 10.24 -- Long Term Performance Compensation Plan (for performance periods starting on or after April 1, 2001, as amended)*.... 10.25 -- Long Term Performance Compensation Plan (for performance periods starting on or after January 1, 2000) (Incorporated by reference to Exhibit 10.24 to the S-1 Registration Statement)*................................................ 10.26 -- Long Term Performance Compensation Plan (for performance periods starting on or after January 1, 1999) (Incorporated by reference to Exhibit 10.25 to the S-1 Registration Statement)*................................................ 10.27 -- Annual Variable Incentive Plan (for performance periods starting on or after January 1, 2003)*...................... 10.28 -- Annual Variable Incentive Plan (for performance periods starting on or after January 1, 2000) (Incorporated by reference to Exhibit 10.28 to the S-1 Registration Statement)*................................................ 10.29 -- Metropolitan Life Auxiliary Savings and Investment Plan, restated effective through August 15, 1998 (Incorporated by reference to Exhibit 10.31 to the S-1 Registration Statement)*................................................ 10.30 -- Amendment to the Metropolitan Life Auxiliary Savings and Investment Plan, effective September 11, 2001 (Incorporated by reference to Exhibit 10.38 to the 2001 Annual Report)*... 10.31 -- Amendment to the Metropolitan Life Auxiliary Savings and Investment Plan, effective November 8, 2002*................ 10.32 -- Amendment to the Metropolitan Life Auxiliary Savings and Investment Plan, effective January 1, 2003*................ 10.33 -- Amendment to the Metropolitan Life Auxiliary Savings and Investment Plan, effective January 1, 2003*................ 10.34 -- Metropolitan Life Supplemental Auxiliary Savings and Investment Plan (as~~

~~amended and restated as of September 1, 1998) and Amendment thereto (Incorporated by reference to Exhibit 10.32 to the S-1 Registration Statement)*........... 10.35 -- Amendment to the Metropolitan Life Supplemental Auxiliary Savings and Investment Plan (Incorporated by reference to Exhibit 10.60 to the 2000 Annual Report)*................... 10.36 -- Amendment to the Metropolitan Life Supplemental Auxiliary Savings and Investment Plan, effective September 11~~

~~Investment Plan, effective September 11, 2001 (Incorporated by reference to Exhibit 10.40 to the 2001 Annual Report)*............................................ 10.37 -- Amendment to the Metropolitan Life Supplemental Auxiliary Savings and Investment Plan, effective January 1, 2003*.....~~



EXHIBIT PAGE NO. DESCRIPTION NO.
------- ----------- ---- ~~10.38 -- Amendment to the Metropolitan Life Supplemental Auxiliary Savings and Investment Plan, effective January 1, 2003*..... 10.39 -- New England Life Insurance Company Select Employees Supplemental 401(k) Plan, as amended and restated effective January 1, 2000 (Incorporated by reference to Exhibit 10.37 to the S-1 Registration Statement)*......................... 10.40 -- The New England Life Insurance Company Senior Executive Nonqualified Elective Deferral Plan, effective January 1, 1998 (Incorporated by reference to Exhibit 10.40 to the S-1 Registration Statement)*.................................... 10.41 -- Amendment (excerpt) to The New England Life Insurance Company Senior Executive Nonqualified Elective Deferral Plan, effective January 1, 1999 (Incorporated by reference to Exhibit 10.50 to the 2001 Annual Report)*................ 10.42 -- Form of Capital Note (Incorporated by reference to Exhibit 10.44 to the S-1 Registration Statement).................... 10.43 -- 1993 Fiscal Agency Agreement between Metropolitan Life Insurance Company and The Chase Manhattan Bank, N.A., dated as of November 1, 1993 (Incorporated by reference to Exhibit 10.45 to the S-1 Registration Statement).................... 10.44 -- 1995 Fiscal Agency Agreement between Metropolitan Life Insurance Company and The Chase Manhattan Bank, N.A., dated as of November 13, 1995 (Incorporated by reference to Exhibit 10.46 to the S-1 Registration Statement)............ 10.45 -- Fiscal Agency Agreement between New England Mutual Life Insurance Company and The First National Bank of Boston, dated as of February 10, 1994 (Incorporated by reference to Exhibit 10.47 to the S-1 Registration~~

~~Statement)............ 10.46 -- Fiscal Agency Agreement between General American Life Insurance Company and The Bank of New York, dated as of January 24, 1994 (Incorporated by reference to Exhibit 10.48 to the S-1 Registration Statement)......................... 10.47 -- Amended and Restated Employment Continuation Agreement with Ms. Weber (Incorporated by reference to Exhibit 10.58 to the 2001 Annual Report)*........................................ 10.48 -- Amended and Restated Employment~~

--------------- * Indicates management contracts or compensatory plans or arrangements.