METLIFE INC
Form 10-Q/A
November 22, 2010

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

Form 10-Q/A
(Amendment No. 1)

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-15787

MetLife, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**13-4075851**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
200 Park Avenue, New York, N.Y.	**10166-0188**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

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

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

At April 30, 2010, 820,152,497 shares of the registrant s common stock, $0.01 par value per share, were outstanding.

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Explanatory Note

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act repealed Rule 436(g) promulgated under the Securities Act of 1933, as amended (the Securities Act), thereby eliminating the exemption from the expert consent and liability provisions under the Securities Act for any credit ratings issued by a nationally recognized statistical rating organization. As a result, companies that wish to include certain information relating to their ratings in periodic reports that may be incorporated by reference into future registration statements or prospectuses must obtain the consent of the applicable rating agencies. The rating agencies have indicated that they are not providing any consents at this time. The Staff of the Securities and Exchange Commission issued new Compliance & Disclosure Interpretations on July 22, 2010 stating that information constituting issuer disclosure-related ratings information will be permitted without the need for rating agencies consent.

This Quarterly Report on Form 10-Q/A (the Amendment) solely modifies Part I, Item 2 (Management s Discussion and Analysis of Financial Condition and Results of Operations) in our Form 10-Q for the quarter ended March 31, 2010, originally filed with the U.S. Securities and Exchange Commission on May 5, 2010 (the Original Form 10-Q), to delete disclosures and references to our credit ratings as it may not constitute issuer disclosure-related ratings information. All other Items of the Original Form 10-Q are unaffected by this Amendment and such Items have not been included in this Amendment. Information included in this Amendment is stated as of March 31, 2010, and does not reflect any subsequent events occurring after the filing of the Original Form 10-Q.

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Part I Financial Information

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

For purposes of this discussion, MetLife, the Company, we, our and us refers to MetLife, Inc., a Delaware corporation incorporated in 1999 (the Holding Company), and its subsidiaries, including Metropolitan Life Insurance Company (MLIC). 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 MetLife, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Annual Report) filed with the U.S. Securities and Exchange Commission (SEC), the forward-looking statement information included below, the Risk Factors set forth in Part II, Item 1A, and the additional risk factors referred to therein and the Company s interim condensed consolidated financial statements included elsewhere herein.

This Management s Discussion and Analysis of Financial Condition and Results of Operations may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe and other words and ter meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results. Any or all forward-looking statements may turn out to be wrong. Actual results could differ materially from those expressed or implied in the forward-looking statements. See Note Regarding Forward-Looking Statements.

The following discussion includes references to our performance measures operating earnings and operating earnings available to common shareholders, that are not based on generally accepted accounting principles in the United States of America (GAAP). Operating earnings is the measure of segment profit or loss we use to evaluate segment performance and allocate resources and, consistent with GAAP accounting guidance for segment reporting, is our measure of segment performance. Operating earnings is also a measure by which our senior management s and many other employees performance is evaluated for the purposes of determining their compensation under applicable compensation plans. Operating earnings is defined as operating revenues less operating expenses, net of income tax. Operating earnings available to common shareholders, which is used to evaluate the performance of Banking, Corporate & Other, as well as MetLife, is defined as operating earnings less preferred stock dividends.

Operating revenues is defined as GAAP revenues (i) less net investment gains (losses); (ii) less amortization of unearned revenue related to net investment gains (losses); (iii) plus scheduled periodic settlement payments on derivative instruments that are hedges of investments but do not qualify for hedge accounting treatment; (iv) plus income from discontinued real estate operations; and (v) plus, for operating joint ventures reported under the equity method of accounting, the aforementioned adjustments and those identified in the definition of operating expenses, net of income tax, if applicable to these joint ventures.

Operating expenses is defined as GAAP expenses (i) less changes in policyholder benefits associated with asset value fluctuations related to experience-rated contractholder liabilities and certain inflation-indexed liabilities; (ii) less costs related to business combinations (since January 1, 2009) and noncontrolling interests; (iii) less amortization of deferred policy acquisition costs (DAC) and value of business acquired (VOBA) and changes in the policyholder dividend obligation related to net investment gains (losses); and (iv) plus scheduled periodic settlement payments on derivative instruments that are hedges of policyholder account balances but do not qualify for hedge accounting treatment.

In addition, operating revenues and operating expenses do not reflect the consolidation of certain securitization vehicles that are variable interest entities (VIEs) as required under GAAP.

We believe the presentation of operating earnings and operating earnings available to common shareholders as we measure it for management purposes enhances the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of our businesses. Operating earnings and operating earnings available to common shareholders should not be viewed as substitutes for GAAP income (loss) from continuing operations, net of income tax. Reconciliations of operating earnings and operating earnings available to common shareholders to GAAP income (loss) from continuing operations, net of income tax, the most directly comparable GAAP measure, are included in Consolidated Results of Operations.

Executive Summary

MetLife is a leading provider of insurance, employee benefits and financial services with operations throughout the United States and the Latin America, Asia Pacific and Europe, Middle East and India (EMEI) regions. Through its subsidiaries and affiliates, MetLife offers life insurance, annuities, auto and homeowners insurance, retail banking and other financial services to individuals, as well as group insurance and retirement & savings products and services to corporations and other institutions. MetLife is organized into five operating segments: Insurance Products, Retirement Products, Corporate Benefit Funding and Auto & Home (collectively, U.S. Business) and International. In addition, the Company reports certain of its results of operations in Banking, Corporate & Other, which is comprised of MetLife Bank, National Association (MetLife Bank) and other business activities.

On March 7, 2010, the Holding Company entered into a stock purchase agreement (the Stock Purchase Agreement) with ALICO Holdings LLC (the Seller) and American International Group, Inc., pursuant to which the Holding Company agreed to acquire all of the issued and outstanding capital stock of American Life Insurance Company (Alico) and Delaware American Life Insurance Company. The transaction is expected to close by the end of 2010, subject to certain regulatory approvals and determinations, as well as other customary closing conditions. See Liquidity and Capital Resources Overview.

As the U.S. and global financial markets continue to recover, we have experienced a significant improvement in net investment income and a favorable change in net investment gains (losses). We also continue to experience an increase in market share and sales in some of our businesses from a flight to quality in the industry. These positive factors were somewhat dampened by the negative impact of general economic conditions, including high levels of unemployment, on the demand for certain of our products.

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(In millions)	
Income (loss) from continuing operations, net of income tax	$ 833	$ (585)
Less: Net investment gains (losses)	72	(906)
Less: Other adjustments to continuing operations (1)	(121)	(241)
Less: Provision for income tax expense	18	401
Operating earnings	864	161
Less: Preferred stock dividends	30	30
Operating earnings available to common shareholders	$ 834	$ 131

(1) See definitions of operating revenues and operating expenses for the components of such adjustments.

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

During the three months ended March 31, 2010, MetLife s income (loss) from continuing operations, net of income tax increased $1.4 billion to income of $833 million from a loss of $585 million in the comparable 2009 period. The period over period change was largely due to a $756 million favorable change in net investment gains (losses) to gains of $37 million, net of related adjustments, in the first quarter of 2010, from losses of $719 million, net of related adjustments, in the comparable 2009 period. In addition, operating earnings available to common shareholders increased $703 million to $834 million in the current year period from $131 million in the prior year period.

The favorable change in net investment gains (losses) of $756 million, net of related adjustments, was primarily driven by a decrease in impairments and by lower additions to the mortgage loan valuation allowance, partially offset by a decrease in net gains on derivatives.

The improvement in the financial markets, which began in the latter part of 2009 and continued into 2010, was a key driver of the $703 million increase in operating earnings available to common shareholders. Such market improvement was most evident in higher net investment income and policy fees, as well as lower amortization of DAC, VOBA and deferred sales inducements (DSI). These increases were partially offset by a net increase in other expenses. The favorable impact of Operational Excellence, our enterprise-wide cost reduction and revenue enhancement initiative, was more than offset by an increase in other expenses related to our International business, which primarily stemmed from the impact of a benefit recorded in the prior year period related to the pesification in Argentina as well as current period business growth in the segment.

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Consolidated Company Outlook

In 2009, the general economic conditions of the marketplace, particularly in the early part of the year, continued to be volatile and negatively impacted the results of the Company. In 2010, as discussed in our 2009 Annual Report, we continue to expect meaningful earnings recovery for the Company, driven primarily by the following:

- Continued growth in premiums, fees & other revenues for the full year of 2010 of approximately 6% over 2009 primarily from the following businesses:
  - Higher fees earned on separate accounts, as the recovery in the equity market continues, thereby increasing the value of those separate accounts;
  - Increased sales in the pension closeout business, both in the United States and the United Kingdom, as the demand for these products rebounds from the lower levels seen in 2009;
  - Increases in our International segment, as a result of ongoing investments and improvements in the various distribution and service operations throughout the regions; and
  - Modest growth in Insurance Products. Our growth continues to be impacted by the current higher levels of unemployment and it is possible that certain customers may further reduce or eliminate coverages in response to the financial pressures they are experiencing.
  - Offsetting these growth areas, MetLife Bank s premiums, fees & other revenues are expected to decline from the 2009 level, in line with current market expectations.
- Higher returns on the investment portfolio, as we believe returns on alternative investment classes will improve and expect to reinvest cash and U.S. Treasuries into higher yielding asset classes.
- Improvement in net investment gains (losses) from the large losses encountered in 2009 on our invested asset portfolio. We continue to expect a significant improvement in net investment gains (losses) on our invested asset portfolio as the financial markets stabilize across asset classes. More difficult to predict is the impact of potential changes in fair value of derivatives instruments as even relatively small movements in market variables, including interest rates, equity levels and volatility, can have a large impact on derivatives fair values. Additionally, changes in MetLife s credit spread, may have a material impact on net investment gains (losses) as it is required to be included in the valuation of certain embedded derivatives.
- Reduced volatility in guarantee-related liabilities. Certain annuity and life benefit guarantees are tied to market performance, which when markets are depressed, may require us to establish additional liabilities, even though these guarantees are significantly hedged. In line with the assumptions discussed above, we continue to expect a significant reduction in the volatility of these items in 2010 compared to 2009.
- Focus on disciplined underwriting. We continue to expect no significant changes to the underlying trends that drive underwriting results and anticipate solid results in 2010. While we did begin to see the negative impact of the economy on non-medical health experience in 2009, we expect to see improvement in our results in 2010 as the economy continues to improve.
- Focus on expense management. We expect that our continued focus on expense control throughout the Company, as well the continuing impact of specific initiatives such as Operational Excellence (our enterprise-wide cost reduction and revenue enhancement initiative), should contribute to increased profitability.
- Pending acquisition of Alico. This transaction is expected to close by the end of 2010, subject to certain regulatory approvals and determinations, as well as other customery closing conditions. Given the expected closing time frame, we do not anticipate that the impact on MetLife s 2010 financial results will be material.

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Industry Trends

The Company s segments continue to be influenced by a continuing unstable financial and economic environment that affects the industry.

Financial and Economic Environment. Our results of operations are materially affected by conditions in the global capital markets and the economy, generally, both in the United States and elsewhere around the world. The global economy and markets are now recovering from a period of significant stress that began in the second half of 2007 and substantially increased through the first quarter of 2009. This disruption adversely affected the financial services industry, in particular. The U.S. economy entered a recession in January 2008 and most economists believe this recession ended in the third quarter of 2009 when positive growth returned. Most economists now expect positive growth to continue through 2010. However, the recovery has been slow, and the unemployment rate is expected to remain high for some time.

Although the disruption in the global financial markets has moderated, not all global financial markets are functioning normally, and some remain reliant upon government intervention and liquidity. Throughout 2008 and continuing in 2009, Congress, the Federal Reserve Bank of New York, the U.S. Treasury and other agencies of the Federal government took a number of increasingly aggressive actions (in addition to continuing a series of interest rate reductions that began in the second half of 2007) intended to provide liquidity to financial institutions and markets, to avert a loss of investor confidence in particular troubled institutions, to prevent or contain the spread of the financial crisis and to spur economic growth. How and to whom these governmental institutions distribute amounts available under the governmental programs could have the effect of supporting some aspects of the financial services industry more than others or provide advantages to some of our competitors. Governments in many of the foreign markets in which MetLife operates have also responded to address market imbalances and have taken meaningful steps intended to restore market confidence. As market conditions have returned to more normal levels in 2010, the nature of the original government programs has changed and some of the programs have been terminated or allowed to expire. We cannot predict whether or when the U.S. or foreign governments will establish additional governmental programs or terminate or permit other programs to expire or the impact any additional measures, existing programs or termination or expiration of programs will have on the financial markets, whether on the levels of volatility currently being experienced, the levels of lending by financial institutions, the prices buyers are willing to pay for financial assets or otherwise.

The economic crisis and the resulting recession have had and could continue to have an adverse effect on the financial results of companies in the financial services industry, including MetLife. The declining financial markets and economic conditions have negatively impacted our investment income, our net investment gains (losses), and the demand for and the cost and profitability of certain of our products, including variable annuities and guarantee benefits. See Consolidated Results of Operations and Liquidity and Capital Resources.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the interim condensed consolidated financial statements. The most critical estimates include those used in determining:

(i) the estimated fair value of investments in the absence of quoted market values;

(ii) investment impairments;

(iii) the recognition of income on certain investment entities and the application of the consolidation rules to certain investments;

(iv) the estimated fair value of and accounting for freestanding derivatives and the existence and estimated fair value of embedded derivatives requiring bifurcation;

(v) the capitalization and amortization of DAC and the establishment and amortization of VOBA;

(vi) the measurement of goodwill and related impairment, if any;

(vii) the liability for future policyholder benefits and the accounting for reinsurance contracts;

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(viii) accounting for income taxes and the valuation of deferred tax assets;

(ix) accounting for employee benefit plans; and

(x) the liability for litigation and regulatory matters.

In applying the Company s accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Company s businesses and operations. Actual results could differ from these estimates.

The above critical accounting estimates are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Summary of Critical Accounting Estimates and Note 1 of the Notes to the Consolidated Financial Statements of our 2009 Annual Report. In addition, effective January 1, 2010 the Company adopted new accounting guidance relating to the consolidation of VIEs. See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements.

Economic Capital

Economic capital is an internally developed risk capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. The economic capital model accounts for the unique and specific nature of the risks inherent in MetLife s businesses. As a part of the economic capital process, a portion of net investment income is credited to the segments based on the level of allocated equity. This is in contrast to the standardized regulatory risk-based capital (RBC) formula, which is not as refined in its risk calculations with respect to the nuances of the Company s businesses.

Consolidated Results of Operations

Three Months Ended March 31, 2010 compared with the Three Months Ended March 31, 2009

We have continued to experience growth and an increase in market share in several of our businesses, especially in the structured settlement business, income annuities business, and our pension closeout business in the United Kingdom. Market conditions continued to improve in 2010, positively impacting our results, most significantly through improved yields on our investment portfolio. Sales of our domestic annuity products were down 40% driven by a decline in fixed annuity sales compared with the prior period. The unusually high level of domestic fixed annuity sales experienced in the first quarter of 2009 were in response to the market disruption and dislocation at that time and, as expected, were not sustained in the current period reflecting the stabilization of the financial markets. Higher levels of unemployment continued to impact certain group businesses as a decrease in covered payrolls dampened growth and general economic conditions negatively impacted revenues, particularly in our non-medical health and individual life businesses. An improvement in the global financial markets contributed to a recovery of sales in most of our international regions and resulted in improved investment performance in some regions during the first quarter of 2010. In 2010, mortgage interest rates increased and the mortgage refinancing market began a return to more moderate levels compared to the unusually high level experienced in 2009 in response to the low interest rate environment.

	Three Months Ended March 31,			
	2010	2009	Change	% Change
	(In millions)			
Revenues				
Premiums	$ 6,854	$ 6,122	$ 732	12.0%
Universal life and investment-type product policy fees	1,407	1,183	224	18.9%
Net investment income	4,344	3,261	1,083	33.2%
Other revenues	513	554	(41)	(7.4)%

Net investment gains (losses)	72	(906)	978	107.9%
Total revenues	13,190	10,214	2,976	29.1%
Expenses				
Policyholder benefits and claims and policyholder dividends	7,914	7,006	908	13.0%
Interest credited to policyholder account balances	1,143	1,168	(25)	(2.1)%
Interest credited to bank deposits	39	43	(4)	(9.3)%
Capitalization of DAC	(744)	(786)	42	5.3%
Amortization of DAC and VOBA	602	929	(327)	(35.2)%
Interest expense	370	245	125	51.0%
Other expenses	2,675	2,571	104	4.0%
Total expenses	11,999	11,176	823	7.4%
Income (loss) from continuing operations before provision for income tax	1,191	(962)	2,153	223.8%
Provision for income tax expense (benefit)	358	(377)	735	195.0%
Income (loss) from continuing operations, net of income tax	833	(585)	1,418	242.4%
Income (loss) from discontinued operations, net of income tax	1	37	(36)	(97.3)%
Net Income (loss)	834	(548)	1,382	252.2%
Less: Net income (loss) attributable to noncontrolling interests	(1)	(4)	3	75.0%
Net income (loss) attributable to MetLife, Inc.	835	(544)	1,379	253.5%
Less: Preferred stock dividends	30	30		%
Net income (loss) available to MetLife, Inc. s common shareholders	$ 805	$ (574)	$ 1,379	240.2%

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

During the three months ended March 31, 2010, MetLife s income (loss) from continuing operations, net of income tax increased $1.4 billion to income of $833 million from a loss of $585 million in the comparable 2009 period. The period over period change was largely due to a $756 million favorable change in net investment gains (losses) to gains of $37 million, net of related adjustments, in the first quarter of 2010, from losses of $719 million, net of related adjustments, in the comparable 2009 period.

We manage our investment portfolio using disciplined Asset/Liability Management (ALM) principles, focusing on cash flow and duration to support our current and future liabilities. Our intent is to match the timing and amount of liability cash outflows with invested assets that have cash inflows of comparable timing and amount, while optimizing risk-adjusted net investment income and risk-adjusted total return. Our investment portfolio is heavily weighted toward fixed income investments, with over 80% of our portfolio invested in fixed maturity securities and mortgage loans. These securities and loans have varying maturities and other characteristics which cause them to be generally well suited for matching the cash flow and duration of insurance liabilities. Other invested asset classes including, but not limited to equity securities, other limited partnership interests and real estate and real estate joint ventures provide additional diversification and opportunity for long term yield enhancement in addition to supporting the cash flow and duration objectives of our investment portfolio. We also use derivatives as an integral part of our management of the investment portfolio to hedge certain risks, including changes in interest rates, foreign currencies, credit spreads and equity market levels. Additional considerations for our investment portfolio include current and expected market conditions and expectations for changes within our unique mix of products and business segments.

The composition of the investment portfolio of each business segment is tailored to the unique characteristics of its insurance liabilities, causing certain portfolios to be shorter in duration and others to be longer in duration. Accordingly, certain portfolios are more heavily weighted in fixed maturity securities, or certain sub-sectors of fixed maturity securities, than other portfolios.

Investments are purchased to support our insurance liabilities and not to generate net investment gains and losses. However, net investment gains and losses are generated and can change significantly from period to period, due to changes in external influences including movements in interest rates, equity markets, foreign currencies and credit spreads, counterparty specific factors such as financial performance, credit rating and collateral valuation, and internal factors such as portfolio rebalancing. As an investor in the fixed income, equity security, mortgage loan and certain other invested asset classes, we are exposed to the above stated risks, which can lead to both impairments and credit-related losses.

The favorable variance in net investment gains (losses) of $756 million, net of related adjustments, was primarily driven by a decrease in impairments and by lower additions to the mortgage loan valuation allowance, partially offset by a decrease in net gains on derivatives. Improving market conditions across several invested asset classes and sectors as compared to the prior year resulted in decreased impairments in fixed maturity securities, equity securities, and other limited partnership interests and a decrease in additions to the mortgage valuation allowance. Period over period, there was a small unfavorable variance in derivatives, as net gains decreased. Underlying this small net variance were large decreases in gross gains on embedded derivatives offsetting large decreases in gross losses on freestanding derivatives. In the prior year period there was significant movement in interest rates, equity markets and credit spreads, driving large gross gains and gross losses on derivatives, while in the current period there was much less movement in these markets resulting in lower levels of both gross gains and gross losses related to our derivatives programs.

We use freestanding interest rate, currency, credit and equity derivatives to provide economic hedges of certain invested assets and insurance liabilities, as well as to hedge certain of the risks inherent in our embedded derivatives associated with our variable annuity minimum benefit guarantees. Modest decreases in mid- and long-term interest rates in the current period compared to more significant increases in such rates in the prior period drove decreased losses on interest rate derivatives, which we use to hedge interest rate risk. This favorable variance was partially offset by the unfavorable variance, from gains in the prior year period to losses in the current year period, that was driven by the impact of both improving equity market valuations and decreased volatility in the equity markets on our equity derivatives used to hedge variable annuity minimum benefit guarantees. To a much lesser degree there was a favorable variance from the impact of U.S. dollar strengthening on certain of our foreign currency derivatives, which are used to hedge foreign denominated asset and liability exposures.

We issue variable annuity products with minimum benefit guarantees. Certain of these products contain embedded derivatives that are measured at fair value separately from the host variable annuity contract, with changes in estimated fair value reported in net investment gains (losses). The estimated fair value of these embedded derivatives also includes the impact of MetLife s own credit spread. Decreased embedded derivative gains in the current period resulted from a modest change in MetLife s own credit spread as compared with a significant widening of MetLife s own credit spread in the prior year period. This was partially offset by a favorable change from improving equity markets and decreasing equity volatility. Losses on the freestanding derivatives that hedge these embedded derivative risks substantially offset the change in liabilities attributable to market factors, excluding the adjustment for the change in MetLife s own credit spread, which is unhedged.

Income from continuing operations, net of income tax, for the first quarter of 2010 includes $19 million of expenses related to the pending acquisition of Alico. This expense, which primarily consisted of investment banking and legal fees, is recorded in Banking, Corporate & Other. This expense is not included as a component of operating earnings.

As more fully described in the discussion of performance measures above, we use operating earnings, which does not equate to income (loss) from continuing operations as determined in accordance with GAAP, to analyze our performance, evaluate segment performance, and allocate resources. Operating earnings is also a measure by which senior management s and many other employees performance is evaluated for the purposes of determining their compensation under applicable compensation plans. We believe that the presentation of operating earnings, as we measure it for management purposes, enhances the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of the business. Operating earnings should not be viewed as a substitute for GAAP income (loss) from continuing operations, net of income tax. Operating earnings available to common shareholders increased by $703 million to $834 million in the first quarter of 2010 from $131 million in the comparable 2009 period.

Reconciliation of income (loss) from continuing operations, net of income tax to operating earnings available to common shareholders
Three Months Ended March 31, 2010

	Insurance Products	Retirement Products	Corporate Benefit Funding	Auto & Home	International	Banking, Corporate & Other	Total
				(In millions)			
Income (loss) from continuing operations, net of income tax	$ 289	$ 180	$ 256	$ 71	$ 111	$ (74)	$ 833
Less: Net investment gains (losses)	33	101	(5)	(1)	(29)	(27)	72
Less: Other adjustments to	(47)	(69)	50		(35)	(20)	(121)

continuing operations (1)							
Less: Provision for income tax expense (benefit)	5	(11)	(17)		24	17	18
Operating earnings	$ 298	$ 159	$ 228	$ 72	$ 151	(44)	864
Less: Preferred stock dividends						30	30
Operating earnings available to common shareholders						$ (74)	$ 834

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Three Months Ended March 31, 2009

	Insurance Products	Retirement Products	Corporate Benefit Funding	Auto & Home	International	Banking, Corporate & Other	Total
				(In millions)			
Income (loss) from continuing operations, net of income tax	$ (573)	$ (142)	$ (439)	$ 96	$ 435	$ 38	$ (585)
Less: Net investment gains (losses)	(1,036)	150	(809)	31	454	304	(906)
Less: Other adjustments to continuing operations (1)	(82)	(185)	37		(1)	(10)	(241)
Less: Provision for income tax expense (benefit)	390	11	268	(11)	(149)	(108)	401
Operating earnings	$ 155	$ (118)	$ 65	$ 76	$ 131	(148)	161
Less: Preferred stock dividends						30	30
Operating earnings available to common shareholders						$ (178)	$ 131

(1) See definitions of operating revenues and operating expenses for the components of such adjustments.

Reconciliation of GAAP revenues to operating revenues and GAAP expenses to operating expenses
Three Months Ended March 31, 2010

	Insurance Products	Retirement Products	Corporate Benefit Funding	Auto & Home	International	Banking Corporate & Other	Total
				(In millions)			
Total revenues	$ 6,562	$ 1,493	$ 2,235	$ 764	$ 1,593	$ 543	$ 13,190
Less: Net investment gains (losses)	33	101	(5)	(1)	(29)	(27)	72
Less: Adjustments related to net investment gains (losses)	(1)						(1)
Less: Other adjustments to revenues (1)	(35)	(65)	50		(13)	114	51

Total operating revenues	$ 6,565	$ 1,457	$ 2,190	$ 765	$ 1,635	$ 456	$ 13,068
Total expenses	$ 6,117	$ 1,217	$ 1,839	$ 676	$ 1,447	$ 703	$ 11,999
Less: Adjustments related to net investment gains (losses)	10	4					14
Less: Other adjustments to expenses (1)	1				22	134	157
Total operating expenses	$ 6,106	$ 1,213	$ 1,839	$ 676	$ 1,425	$ 569	$ 11,828

Three Months Ended March 31, 2009

	Insurance Products	Retirement Products	Corporate Benefit Funding	Auto & Home	International	Banking Corporate & Other	Total
				(In millions)			
Total revenues	$ 5,176	$ 1,261	$ 772	$ 802	$ 1,580	$ 623	$ 10,214
Less: Net investment gains (losses)	(1,036)	150	(809)	31	454	304	(906)
Less: Adjustments related to net investment gains (losses)	(6)						(6)
Less: Other adjustments to revenues (1)	(24)	(50)	37		25	(1)	(13)
Total operating revenues	$ 6,242	$ 1,161	$ 1,544	$ 771	$ 1,101	$ 320	$ 11,139
Total expenses	$ 6,059	$ 1,478	$ 1,448	$ 672	$ 940	$ 579	$ 11,176
Less: Adjustments related to net investment gains (losses)	59	135					194
Less: Other adjustments to expenses (1)	(7)				26	9	28
Total operating expenses	$ 6,007	$ 1,343	$ 1,448	$ 672	$ 914	$ 570	$ 10,954

(1) See definitions of operating revenues and operating expenses for the components of such adjustments.

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The improvement in the financial markets which began in the latter part of 2009 and continued into 2010, was a key driver of the increase in operating earnings available to common shareholders. Such market improvement was most evident in higher net investment income and policy fees as well as lower amortization of DAC, VOBA and DSI.

A $662 million increase in net investment income was primarily the result of increasing yields. The improvement in yields increased net investment income by $637 million and growth in average invested assets increased net investment income by $25 million. The increase in yields resulted from the effects of improving equity markets, which began in the latter part of 2009, and stabilizing real estate markets, which began in the first quarter of 2010. In light of these improving market conditions, we continued to reposition the accumulated liquidity in our portfolio to longer duration and higher yielding investments. The impact of the improvement in yields was concentrated in other limited partnership interests, real estate joint ventures and fixed maturity securities. Since many of our products are interest spread-based, higher investment income is typically offset by higher interest credited expense. However, since a large portion of our crediting rates can move consistent with the underlying market indices (for example, London Inter-Bank Offer Rate (LIBOR)), interest credited has decreased compared to the first quarter of 2009 despite the increase in net investment income, most notably for our funding agreement products. The increase in interest credited expense attributable to business growth was more than offset by the impact of declining crediting rates.

The financial market improvement was a key factor in the determination of our expected future gross profits, the increase of which triggered a decrease of $114 million in DAC, VOBA and DSI amortization, most significantly in the Retirement Products segment. The prior year period had an unusually high level of such amortization as a result of the economic conditions at that time. The increase in our expected future gross profits stemmed primarily from an increase in the market value of our separate account balances, which is attributable, in part, to the improving financial markets. The increase in separate account balances resulted in higher policy fee income of $114 million. The financial market conditions also resulted in a $46 million increase in net guaranteed annuity benefit costs in our Retirement Products segment, as increased hedging losses were only partially offset by lower guaranteed benefit costs. As mortgage interest rates increased and the level of mortgage refinancing moderated in 2010, a $6.4 billion decline in residential mortgage loan production resulted in a $45 million decrease in operating earnings, $11 million of which is reflected in net investment income. This was partially offset by a $15 million increase in operating earnings from a $22.5 billion increase in the serviced residential mortgage loan portfolio, consistent with the high level of mortgage refinancing experienced in 2009.

A lower effective tax rate provided an increased benefit of $95 million from the first quarter of 2009. This benefit was the result of increased utilization of tax preferenced investments, which provide tax credits and deductions. This benefit was largely offset by a $75 million charge related to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (together, the Health Care Act). The federal government currently provides a subsidy, on a tax-free basis that provides certain retiree prescription drug benefits (the Medicare Part D subsidy). The Health Care Act reduces the tax deductibility of retiree health care costs to the extent of any Medicare Part D subsidy received beginning in 2013. Because the deductibility of future retiree health care costs is reflected in our financial statements, the entire future impact of this change in law was required to be recorded as a charge in the period in which the legislation was enacted.

The $57 million increase in other expenses was primarily due to our International businesses, which stemmed from the impact of a benefit recorded in the prior year period related to the pesification in Argentina as well as business growth in the segment. The prior period benefit was largely due to a reassessment of our approach in managing existing and potential future claims related to certain social security pension annuity contract holders in Argentina resulting in a liability release. These increases were partially offset by the positive impact of our Operational Excellence initiative, which was reflected in lower information technology, professional services and printing and postage expenses. In addition, lower variable expenses, such as commissions, resulted in a decrease in other expenses. Also partially offsetting the increase in operating earnings available to common shareholders, was a $27 million decrease in DAC capitalization compared to the prior year period.

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Insurance Products

	Three Months Ended March 31,			
	2010	2009	Change	% Change
		(In millions)		
OPERATING REVENUES				
Premiums	$ 4,323	$ 4,201	$ 122	2.9%
Universal life and investment-type product policy fees	549	583	(34)	(5.8)%
Net investment income	1,504	1,281	223	17.4%
Other revenues	189	177	12	6.8%
Total operating revenues	6,565	6,242	323	5.2%
OPERATING EXPENSES				
Policyholder benefits and claims and policyholder dividends	4,847	4,748	99	2.1%
Interest credited to policyholder account balances	234	231	3	1.3%
Capitalization of DAC	(206)	(206)		%
Amortization of DAC and VOBA	239	210	29	13.8%
Interest expense		1	(1)	(100.0)%
Other expenses	992	1,023	(31)	(3.0)%
Total operating expenses	6,106	6,007	99	1.6%
Provision for income tax expense (benefit)	161	80	81	101.3%
Operating earnings	$ 298	$ 155	$ 143	92.3%

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

The improvement in the global financial markets, which began in the latter part of 2009 and continued into 2010, positively impacted operating earnings for our Insurance Products segment, as evidenced by a significant increase in net investment income. However, high levels of unemployment continued to impact certain group businesses as a decrease in covered payrolls challenged growth. In addition, general economic conditions negatively impacted revenues, resulting in essentially flat revenues in our non-medical health and individual life businesses.

The significant components of the $143 million increase in operating earnings were the aforementioned improvement in net investment income and the impact of a reduction in dividends to certain policyholders, partially offset by net unfavorable claims experience across several of our businesses. Group life had favorable mortality experience this quarter, which was more than offset by the unfavorable mortality experience in the traditional life business coupled with the impact of a higher benefit ratio in our non-medical health business. This elevated benefit ratio was largely driven by higher, but stabilizing, dental benefit utilization and the combined impact of an increase in incidence and lower recoveries in our disability business.

The increase in net investment income of $145 million was due to a $101 million increase from higher yields and a $44 million increase from growth in average invested assets. Yields were positively impacted by the effects of improving financial markets on several invested asset classes, primarily other limited partnership interests and real estate joint ventures; a slight increase in yields on fixed maturity securities reflected the continued repositioning of the accumulated liquidity and short duration structured securities to longer duration U.S. Treasury, agency and government guaranteed securities and corporate fixed maturity securities. The equity market recovery, which began in the second half of 2009, and real estate market stabilization, which began in the first quarter of 2010, led to improved yields on other limited partnership interests and real estate joint ventures. The growth in the average invested asset base was from an increase in net flows from our individual life, non-medical health, and group life businesses and was primarily invested in fixed maturity securities. To manage the needs of our intermediate to longer-term liabilities, our portfolio consists primarily of corporate fixed maturity securities, mortgage loans, structured finance securities (comprised of mortgage and asset-backed securities), and U.S. Treasury, agency and government guaranteed fixed maturity securities and, to a lesser extent, certain other invested asset classes including other limited partnership interests, real estate joint ventures and other invested assets to provide additional diversification and opportunity for long-term yield enhancement.

The dividend scale reduction in the fourth quarter of 2009 resulted in a $30 million decrease in policyholder dividends in the traditional life business in the current period. This benefit was offset by net unfavorable claim experience across several of our businesses. This result stemmed primarily from higher incidence and severity of group and individual disability claims and higher benefit utilization in our dental business. We also experienced unfavorable mortality in our individual life business. This unfavorable experience was somewhat offset by favorable mortality results in our group life business and an improvement in morbidity results in our long term care business.

Other expenses decreased $20 million predominantly from declines in information technology, rent, printing and postage and professional services which includes the positive impact of our Operational Excellence initiative. Partially offsetting this reduction was an increase in variable expenses, such as commissions, a portion of which is offset by DAC capitalization. The decrease in other expenses was almost entirely offset by an increase in DAC amortization. This increase was primarily attributable to the impact of higher current period gross margins in the closed block, partially offset by the favorable impact from the improvement in the global financial markets.

Retirement Products

	Three Months Ended March 31,			
	2010	2009	Change	% Change
		(In millions)		
OPERATING REVENUES				
Premiums	$ 123	$ 152	$ (29)	(19.1)%
Universal life and investment-type product policy fees	513	356	157	44.1%
Net investment income	773	623	150	24.1%
Other revenues	48	30	18	60.0%
Total operating revenues	1,457	1,161	296	25.5%
OPERATING EXPENSES				
Policyholder benefits and claims and policyholder dividends	354	325	29	8.9%
Interest credited to policyholder account balances	406	402	4	1.0%
Capitalization of DAC	(234)	(329)	95	28.9%
Amortization of DAC and VOBA	133	326	(193)	(59.2)%
Other expenses	554	619	(65)	(10.5)%
Total operating expenses	1,213	1,343	(130)	(9.7)%
Provision for income tax expense (benefit)	85	(64)	149	232.8%
Operating earnings	$ 159	$ (118)	$ 277	234.7%

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

During the first quarter of 2010, overall annuity sales have decreased 40% when compared to the first quarter of 2009 as the fixed annuity sales decline was partially offset by a slight increase in sales of our variable annuity products. The financial market turmoil in early 2009 resulted in extraordinarily high sales of fixed annuity products in the first quarter of 2009. The high sales level was not expected to continue after the financial markets returned to more stable levels. Surrender rates for both variable and fixed annuities remained low as our customers continue to value our products compared to other alternatives in the marketplace. Separate account balances are $29 billion higher than the previous year, driven by higher variable annuity sales and favorable investment performance resulting from strong market conditions. This resulted in higher policy fees and other revenues which are based on daily asset balances in the policyholder separate accounts.

The improvement in the financial markets was the primary driver of the $277 million increase in operating earnings, with the largest impacts resulting from a decrease in DAC, VOBA and DSI amortization of $138 million and a $114 million increase in policy fees and other revenues. During the first quarter of 2009, results reflected increased, or accelerated, amortization primarily stemming from a decline in the market value of our separate account balances. A factor that determines the amount of amortization is expected future earnings, which in the annuity business are derived, in part, from fees earned on separate account balances. The market value of our separate account balances declined significantly in the first quarter of 2009, resulting in a decrease in the expected future gross profits, triggering an acceleration of amortization. In 2010, the increase in market value of our separate account balances was due to improved market conditions, resulting in an increase in the expected future gross profits and a corresponding lower level of amortization and higher policy fee and other revenues.

Also contributing to the increase in operating earnings was an increase in net investment income of $98 million, consisting of a $132 million increase from higher yields and a $34 million decrease from a decline in average invested assets. The increase in yields was primarily due to the continued repositioning of the accumulated liquidity in the portfolio to longer duration, higher yielding assets, particularly investment-grade corporate fixed maturity securities. Yields were also positively impacted by the effects of improving economic conditions and the recovering financial markets on several invested asset classes, primarily other limited partnership interests and real estate joint ventures. The decrease in average invested assets was due to negative general account cash flows as more customers elected to transfer funds into the separate account over the past nine months as market conditions improved. To manage the needs of our intermediate to longer-term liabilities, our portfolio consists primarily of investment grade corporate fixed maturity securities, structured finance securities, mortgage loans and U.S. Treasury, agency and government guaranteed fixed maturity securities and, to a lesser extent, certain other invested asset classes, including other limited partnership interests and real estate joint ventures, in order to provide additional diversification and opportunity for long-term yield enhancement. Growth in our fixed rate annuity policyholder account balances, mainly due to compounding interest, increased interest credited expense by $14 million in 2010, partially offset by lower average crediting rates which decreased interest credited expense by $9 million.

Operating earnings were negatively impacted by $46 million of losses related to the hedging programs for variable annuity minimum death and income benefit guarantees, which are not embedded derivatives, partially offset by a decrease in the liability established for these variable annuity guarantees. The various hedging strategies in place to offset the risk associated with these variable annuity guarantee benefits were more sensitive to market movements than the liability for the guaranteed benefit. Market volatility, improvements in the equity markets, and higher interest rates produced losses on these hedging strategies in the current period. These hedging strategies, which are a key part of our risk management, performed as anticipated and somewhat offset a decrease in annuity guarantee benefit liabilities, which was primarily due to the improvement in the equity markets.

Other expenses decreased by $42 million primarily due to lower variable expenses, such as commissions, as well as declines in information technology, printing and postage travel, and professional services, all of which were largely due to our Operational Excellence initiative. The favorable impact of the reduction in other expenses was more than offset by a decrease in DAC capitalization.

Corporate Benefit Funding

	Three Months Ended March 31,			
	2010	**2009**	**Change**	**% Change**
		(In millions)		
OPERATING REVENUES				
Premiums	$ 801	$ 324	$ 477	147.2%
Universal life and investment-type product policy fees	55	40	15	37.5%
Net investment income	1,270	1,111	159	14.3%
Other revenues	64	69	(5)	(7.2)%
Total operating revenues	2,190	1,544	646	41.8%
OPERATING EXPENSES				
Policyholder benefits and claims and policyholder dividends	1,362	879	483	54.9%
Interest credited to policyholder account balances	355	459	(104)	(22.7)%
Capitalization of DAC	(8)	(2)	(6)	(300.0)%
Amortization of DAC and VOBA	4	5	(1)	(20.0)%
Interest expense	2	2		%
Other expenses	124	105	19	18.1%
Total operating expenses	1,839	1,448	391	27.0%
Provision for income tax expense (benefit)	123	31	92	296.8%

Operating earnings	$ 228	$ 65	$ 163	250.8%

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

Corporate Benefit Funding benefited in the first quarter of 2010 as a flight to quality continued to help increase our market share, especially in the structured settlement business, where we experienced a 60% increase in premiums. In addition, an improvement in the economic environment has led to an increase in annuity purchases, and as a result, premiums in our income annuities business have doubled. Our pension closeout business in the United Kingdom continues to expand and we experienced premium growth in the first quarter of 2010 of $291 million, before income tax. Although improving, a combination of poor equity returns and lower interest rates have contributed to pension plans being under funded, which reduces our customers flexibility to engage in transactions such as pension closeouts. Our customers plans funded status may be affected by a variety of factors, including the ongoing phased implementation of the Pension Protection Act of 2006. For each of these businesses, the movement in premiums is almost entirely offset by the related change in policyholder benefits. The insurance liability that is established at the time we assume the risk under these contracts is typically equivalent to the premium recognized.

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Recent economic conditions contributed to a lower demand for several of our investment-type products. The decrease in sales of these investment-type products is not necessarily evident in our results of operations as the transactions related to these products are recorded through the balance sheet. Our funding agreement products, primarily the LIBOR-based contracts, experienced the most significant impact from the volatile financial market conditions, as evidenced by a $3.3 billion decrease in policyholder account balances due to scheduled maturities and a lack of new issuances. As companies seek greater liquidity, investment managers are refraining from purchasing new contracts with us when they mature and are opting for more liquid investments. The improvement in the financial markets positively impacted the demand for global guaranteed interest contracts, a type of funding agreement, as issuances in the first quarter of 2010 were more than half of all 2009 issuances.

The primary driver of the $163 million increase in operating earnings was higher net investment income of $103 million reflecting a $144 million increase from higher yields and a $41 million decrease from a reduction in average invested assets. Yields were positively impacted by the effects of improving economic conditions and the recovering financial markets on several invested asset classes, primarily other limited partnership interests, fixed maturity securities and real estate joint ventures. The increased yields were partially offset by decreased yields on fixed maturity securities due to the reinvestment of accumulated liquidity in 2009 when market yields were lower. The decrease in average invested assets was driven by the maturing of certain funding agreements which were not replaced by new issuances. To manage the needs of our longer-term liabilities, our portfolio consists primarily of investment grade corporate fixed maturity securities, mortgage loans, U.S. Treasury, agency and government guaranteed securities and, to a lesser extent, certain other invested asset classes including other limited partnership interests and real estate joint ventures in order to provide additional diversification and opportunity for long-term yield enhancement. For our shorter-term obligations, we invest primarily in structured finance securities, mortgage loans and investment grade corporate fixed maturity securities. The yields on these investments have moved consistent with the underlying market indices, primarily LIBOR and U.S. Treasury, on which they are based.

As many of our products are interest spread-based, changes in net investment income are typically offset by a corresponding change in interest credited expense. However, interest credited expense decreased $68 million, primarily related to the funding agreement business as a result of lower crediting rates combined with lower average account balances. Certain crediting rates can move consistent with the underlying market indices, primarily LIBOR rates, which have decreased significantly since the first quarter of 2009. Interest credited related to the structured settlement and closeouts businesses increased $9 million as a result of the increase in the average policyholder liabilities.

Other expenses increased $12 million primarily due to higher variable expenses, such as commissions, a portion of which was offset by DAC capitalization. This increase was partially offset by a decrease in information technology and professional services expenses, both of which were largely due to our Operational Excellence initiative.

Auto & Home

	Three Months Ended March 31,			
	2010	**2009**	**Change**	**% Change**
		(In millions)		
OPERATING REVENUES				
Premiums	$ 714	$ 722	$ (8)	(1.1)%
Net investment income	53	40	13	32.5%
Other revenues	(2)	9	(11)	(122.2)%
Total operating revenues	765	771	(6)	(0.8)%
OPERATING EXPENSES				

Policyholder benefits and claims and policyholder dividends	494	479	15	3.1%
Capitalization of DAC	(104)	(104)		%
Amortization of DAC and VOBA	107	110	(3)	(2.7)%
Other expenses	179	187	(8)	(4.3)%
Total operating expenses	676	672	4	0.6%
Provision for income tax expense (benefit)	17	23	(6)	(26.1)%
Operating earnings	$ 72	$ 76	$ (4)	(5.3)%

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

The declining housing market, the deterioration of the new auto sales market and the lack of consumer credit availability, all of which negatively impacted Auto & Home in 2009, began to moderate in the first quarter of 2010. Sales of new policies increased in the first quarter of 2010 compared to the same period in 2009 for both the auto and homeowners lines of business. However, new sales were not sufficient to offset the impact of policies that were not renewed resulting in a slight decrease in earned exposures which caused a decline in premiums for auto, slightly offset by an increase in premiums for the homeowners line of business. Average premiums per policy for the first quarter of 2010 were essentially unchanged when compared to 2009.

Unfavorable claim experience was the primary driver of the $4 million decrease in operating earnings. We recorded $12 million less of a benefit in the first quarter of 2010 from favorable development of prior year non-catastrophe losses; catastrophe-related losses increased by $5 million compared to the first quarter of 2009. The negative impact of these items was partially offset by a $7 million decrease in current period claim costs driven primarily by lower claim frequency in both our auto and homeowners lines of business, somewhat offset by higher severities in our auto line. In the first quarter of 2010, we experienced a slight decline in insured exposures, which contributed $2 million to the decrease in operating earnings. While this decrease in exposures had a positive impact on the amount of claims, it was more than offset by the negative impact on premiums.

The impact of the items discussed above can be seen in the unfavorable change in the combined ratio, excluding catastrophes, to 88.8% in 2010 from 88.1% in 2009 and the unfavorable change in the combined ratio, including catastrophes, to 94.1% in 2010 from 92.4% in 2009.

A $7 million decrease in other expenses, including the net change in DAC, partially offset the declines in operating earnings discussed above. The decrease in expenses resulted from lower compensation-related expenses, a decrease in sales-related expenses and from minor fluctuations in a number of expense categories.

An $8 million increase in net investment income also partially offset the declines in operating earnings discussed above. Net investment income was higher primarily as a result of an increase of $5 million due to improved yields and a $3 million increase from an increase in average invested assets.

In addition, the write-off of an equity interest in a mandatory state underwriting pool required by a change in legislation drove a $7 million decrease in other revenues.

International

	Three Months Ended March 31, 2010	2009	Change	% Change
		(In millions)		
OPERATING REVENUES				
Premiums	$ 893	$ 721	$ 172	23.9%
Universal life and investment-type product policy fees	291	210	81	38.6%
Net investment income	450	168	282	167.9%
Other revenues	1	2	(1)	(50.0)%
Total operating revenues	1,635	1,101	534	48.5%
OPERATING EXPENSES				
Policyholder benefits and claims and policyholder dividends	838	548	290	52.9%
Interest credited to policyholder account balances	151	78	73	93.6%
Capitalization of DAC	(192)	(145)	(47)	(32.4)%
Amortization of DAC and VOBA	105	95	10	10.5%
Interest expense	1	2	(1)	(50.0)%

Other expenses	522	336	186	55.4%
Total operating expenses	1,425	914	511	55.9%
Provision for income tax expense (benefit)	59	56	3	5.4%
Operating earnings	$ 151	$ 131	$ 20	15.3%

Unless otherwise stated, all amounts are net of income tax and at constant foreign currency exchange rates.

An improvement in the global financial markets has contributed to a recovery of sales in most of our International regions and has resulted in improved investment performance in some regions during the first quarter of 2010. Excluding Japan, sales in our Asia Pacific region are up 42% primarily due to higher fixed annuity and variable universal life sales. In Japan, sales are down 51%, primarily due to lower annuity sales reflecting current market trends. Our Latin America region experienced notable growth in Chile and Mexico. Higher fixed annuity sales in Chile improved premiums, fees and other revenues by $40 million, or 40%, before income tax. Growth in the pension and universal life businesses in Mexico increased premiums, fees and other revenues by $19 million, or 6%, before income tax. Our EMEI region benefited from increased sales of traditional life products in India which resulted in a $22 million, or 77%, increase in premiums, fees and other revenues, before income tax.

The increase in operating earnings includes the positive impact of changes in foreign currency exchange rates in the first quarter of 2010. This improved operating earnings by $12 million for the first quarter of 2010 relative to the first quarter of 2009. Excluding the impact of changes in foreign currency exchange rates, operating earnings increased $8 million, or 6%, from the prior period. This increase was primarily driven by higher core operating earnings in the Latin America and Asia Pacific regions, partially offset by the impact of pesification in Argentina and a change in the foreign controlled tax provision.

Asia Pacific Region. Improving financial market conditions was the primary driver of the $45 million increase in operating earnings. Net investment income in the region increased by $52 million primarily due to an increase of $38 million from the change in results of operating joint ventures, $9 million from asset growth in our investment portfolio and an increase of $3 million as a result of higher yields. The increase in net investment income due to a higher asset base was primarily due to business growth. The Asia Pacific region was also negatively impacted by $5 million from the non-renewal of a foreign-controlled corporate tax provision.

In Japan, operating earnings improved by $49 million ($33 million of which is attributable to an operating joint venture which was included in the discussion above) due to favorable investment results, lower amortization of DAC and VOBA, and growth in the reinsurance business. Favorable investment results were due to higher income of $32 million on the trading securities portfolio, stemming from equity markets experiencing some recovery in the first quarter of 2010. The decrease in DAC and VOBA amortization was primarily due to an increase in the market value of the joint venture s separate account balances, which is directly tied to the improving financial markets. A factor that determines the amount of DAC and VOBA amortization is expected future fees earned on separate account balances. Since the market value of separate account balances have increased, it is expected that future earnings on this block of business will be higher than previously anticipated. As a result, the amortization of DAC and VOBA was less in the current period. Japan also benefited from the impact of a smaller increase in the liability for our variable annuity guarantees in the first quarter of 2010. The prior year period change in the liability was primarily due to a decrease in separate account balances. These liabilities are accrued over the life of the contract in proportion to actual and future expected policy assessments based on the level of guaranteed minimum benefits generated using multiple scenarios of separate account returns. The scenarios use best estimate assumptions consistent with those used to amortize DAC. Because separate account balances had positive returns relative to the prior year period, 2010 estimates of future benefits increased by a smaller amount than in the prior year period.

Latin America Region. The $40 million decrease in operating earnings was primarily driven by pesification in Argentina which favorably impacted reported earnings by $95 million in the first quarter of 2009. This prior year period benefit was largely due to a liability release resulting from a reassessment of our approach in managing existing and potential future claims related to certain social security pension annuity contract holders in Argentina. The Latin America region was also negatively impacted by $8 million in the current quarter by non-renewal of a foreign-controlled corporate tax provision. These items more than offset the positive impact from business growth in Mexico and Chile which increased operating earnings by $19 million. In addition, Mexico s operating earnings benefited from a $34 million decrease in net income tax due to the unfavorable impact in the first quarter of 2009 of a change in assumption regarding the repatriation of earnings.

Net investment income in the region increased by $96 million primarily due to increases of $84 million from inflation, $8 million due to an increase in average invested assets and $6 million due to gains in the trading securities portfolio, partially offset by a decline of $1 million due to lower yields. The increase in inflation, primarily in Chile and Argentina, is largely offset by an increase of $77 million in the related insurance liabilities due to higher inflation.

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Banking, Corporate & Other

	Three Months Ended March 31,			
	2010	2009	Change	% Change
		(In millions)		
OPERATING REVENUES				
Premiums	$	$ 2	$ (2)	(100.0)%
Net investment income	243	51	192	376.5%
Other revenues	213	267	(54)	(20.2)%
Total operating revenues	456	320	136	42.5%
OPERATING EXPENSES				
Policyholder benefits and claims and policyholder dividends	(5)		(5)	%
Interest credited to bank deposits	39	43	(4)	(9.3)%
Interest expense	261	240	21	8.8%
Other expenses	274	287	(13)	