



# Chairman's Letter

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To my fellow shareholders:

When I became CEO in May of 2011, my mandate was clear: Improve the profitability and risk profile of the business. MetLife was the largest life insurer in the United States with a great brand and a nearly 145-year history of keeping its promises to policyholders, but we had taken on too much risk in certain parts of our business and our profitability was in the middle of the pack relative to industry peers.

The first order of business for the executive group in 2011 was to develop a strategy to achieve our goal. It is not easy to turn a ship as large as MetLife, especially in an industry where profits emerge slowly over time. The strategy we launched in 2012 was not a one- or two-year strategy. It was a five-year strategy to raise our return on equity, reduce our cost of equity, and return capital to shareholders.

Even though we have faced both economic and regulatory headwinds along the way, I am pleased to report that we are ahead of schedule on our plan to increase the profitability of MetLife's business while also decreasing its level of risk.

## **A Very Good Year**

Our progress was clearly evident in 2013. Operating earnings increased 11% over the prior year, exceeding our plan.<sup>1</sup> Premiums, fees and other revenues increased 2% on a reported basis and 5% on a constant currency basis – solid top-line growth in light of our efforts to improve MetLife's risk profile. And most important, operating return on equity in 2013 came in at 12%, hitting the low end of our 2016 target range three years ahead of schedule.

The four cornerstones of MetLife's strategy have held constant: Refocus the U.S. Business; Grow Emerging Markets; Build a Global Employee Benefits Business; and Drive Toward Customer Centricity and a Global Brand. We have made significant progress on implementing the strategy over the past year:

- We have refocused and de-risked the U.S. business while increasing operating earnings by more than 40% from 2011.
- We are well on our way toward our 2016 goal of having emerging markets contribute 20% of MetLife's operating earnings and believe the high-growth, high-return potential of these businesses is a key differentiator relative to peers.
- We are on track to achieve our target of \$1 billion in gross expense saves while reinvesting \$400 million in the business, much of it in technology to improve the customer experience – an imperative to realize our goal of becoming a world-class organization.

One element of our 2013 performance requires a word of explanation. While operating earnings grew by 11%, operating earnings per share increased by 7%. Our growth on a per-share basis was dampened by the conversion of equity units issued in 2010 to fund the acquisition of Alico. Of the \$3 billion in equity units issued to help fund the deal, \$2 billion have now converted into common shares, with the final \$1 billion scheduled to convert in 2014.

We originally anticipated repurchasing these shares as they converted, but we have grown more cautious due to uncertainty over the level of capital MetLife will be required to hold if we are named a non-bank systemically important financial institution (SIFI). Even though we are holding more capital, the strength of our franchise and strong execution of our strategy have lifted operating return on equity from 9.8% in 2010 to 12% in 2013.

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<sup>1</sup> See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP and Other Financial Disclosures" for non-GAAP definitions and financial information.

## Running a Business for the Long Term

Like all publicly traded companies, we sometimes face pressure to manage the business for the short term. We do not believe this is in the best interest of MetLife's customers, employees or shareholders. In the life insurance business, we generally sell policies that represent long-term promises to our customers. An excessive near-term focus could lead us to take actions contrary to the long-term health of the business. Our decision to replace operating earnings per share guidance for 2014 with a more detailed multi-year outlook for investors should be viewed in this light (see sidebar).

We have demonstrated that we will not make decisions that put the business at risk simply to boost earnings today. For example, we continue to intentionally limit our variable annuity sales despite a strong bull market in equities. We want to limit our exposure to any one risk factor even when current returns look attractive, and we must always be mindful of the size of our in-force business when establishing risk budgets.

Similarly, we have exited the market for universal life with secondary guarantees and announced the sale of our pension risk-transfer subsidiary in the United Kingdom because we were not confident these businesses could earn their cost of capital. As I said in my first letter to shareholders two years ago, MetLife will not pursue growth for growth's sake. Businesses that cannot earn their long-term cost of capital destroy shareholder value and do not belong in our portfolio.

Even our decision to refrain from more aggressive capital management should be viewed from a longer-term perspective. This decision has probably impacted our operating return on equity by 100 basis points over the near term, but I believe it was the correct course of action given the risk of an adverse regulatory outcome.

Running a business this way takes patience and a recognition that what managers choose not to do is often just as important as what they choose to do. Waiting for the right moment and only then acting with conviction is a key ingredient of success over time. This was true pre-crisis when MetLife's decision to pass on aggressive M&A deals helped position us to buy Alico from AIG in 2010. And it is true today, as our patience for the right opportunity allowed us to pay \$2 billion in cash for ProVida, the largest private pension fund administrator in Chile.

We closed the ProVida deal on October 1, 2013, at a compelling valuation of 10 times projected earnings. ProVida is a great strategic fit and should increase our emerging markets business from 14% of total operating earnings to approximately 17%, halfway toward our goal of 20%. Because it earns fees on salaries as opposed to assets under management, ProVida is not heavily dependent on the capital markets. This is exactly what we want: low capital intensity to help balance MetLife's risk profile and strong free cash flow to provide greater capital management flexibility in the future.

It is this approach to the business – establishing a consistent pattern of sound financial decisions over many years – that I believe charts the clearest path to shareholder value creation.

## An Attractive Portfolio of Businesses

With upward moves in equity markets and interest rates, investors are starting to shift their focus from risk toward growth. We welcome this change in focus for two reasons. First, we thought the market was overly concerned in recent years with MetLife's balance sheet risk, which is why we worked diligently to illustrate our ability to manage downside scenarios. Second, we think we have a good story to tell on both our level of growth and quality of earnings going forward.

As MetLife's Chief Investment Officer from 2005 through April 2011, my goal was to maximize investment returns within well-defined risk limits. Achieving that goal required an attractive portfolio of securities. Now, as CEO, my job is to develop and manage an attractive portfolio of businesses.

### More on Our Guidance Decision

After careful study and deliberation, we determined that operating EPS guidance no longer makes sense for MetLife. Others in the financial services industry agree, as half of our North American peers, most of our global peers, and all of the largest U.S. banks do not provide operating earnings guidance. In December 2013, we provided an outlook for operating earnings over the next one-to-three-year period as well as over the long term. This new approach to communicating with you reflects our internal emphasis on long-term strategic and financial goals and has shifted the external discussion to our business model, which is the real driver of shareholder value over time.

Our multi-year outlook provides significant new information to the market, including a more comprehensive discussion of key financial metrics and business drivers. In combination with our discussion of operating earnings sensitivities, the new information will contribute to a more informed view of MetLife's future prospects. We believe higher-quality information and more transparency should have a positive impact on our cost of equity capital and valuation multiples over time.

In November of 2011, roughly one year after we acquired Alico, we reorganized MetLife into three broad regions – the Americas, Asia, and Europe, Middle East & Africa (EMEA). From a portfolio point of view, all three regions have different risk profiles, which aids diversification, and all three regions are expected to increase earnings over time. Combined with our strategy to shift the business mix from market-sensitive, capital-intensive products toward protection-oriented, capital-efficient products, we believe we are well positioned for profitable growth.

Our outlook for MetLife's biggest region, the Americas, is mid-single-digit operating earnings growth over the long term. While the United States is a mature life insurance market, we still see a number of attractive growth opportunities. We believe the voluntary and worksite businesses within Group, Voluntary & Worksite Benefits hold particularly strong promise, and we expect heightened demand for pension closeouts to fuel growth in Corporate Benefit Funding. Our Retail business is expected to grow more modestly but with a dramatically improved risk profile. In Latin America, we expect growth rates in the low teens. We have market-leading positions in Mexico and Chile and a growing presence in markets such as Brazil and Colombia. All of our markets in Latin America feature an attractive combination of relatively low insurance penetration rates and a growing middle class.

In Asia, we see long-term operating earnings growth in the high-single to low-double digits, with the upper end of the range dependent on our success in emerging markets. Today, our earnings are predominantly sourced from Japan. Although Japan is a mature market, our diverse distribution platform, enhanced customer centricity, and opportunities within risk and protection products should allow us to achieve a 5-to-7% top-line growth rate, faster than the low-single-digit growth rate for the overall market. Overall, we saw the Asia region deliver 12% growth in premiums, fees and other revenues last year on a constant currency basis. Looking ahead, we see Southeast Asian markets contributing to our growth story. In 2013, we expanded our footprint in the region by signing joint ventures with leading banks in Malaysia and Vietnam and establishing a representative office in Myanmar.

In EMEA, we see long-term operating earnings growth in the low teens. Key earnings contributors in the region include Poland and the Gulf States. With 30 markets overall, EMEA is well diversified not just from a product and distribution standpoint but also in terms of geopolitical risk. We believe that rigorous analysis combined with broad country diversification is the best way to manage political risk in emerging markets. What makes these markets so attractive is that the product mix generally has a more favorable risk-return profile than products sold in mature markets.

### **Focus on Cash**

One of the tangible ways our strategy will demonstrate success is by generating an increasing amount of free cash flow.<sup>2</sup> We currently anticipate that the ratio of free cash flow to operating earnings will improve from approximately 35% today to a range of 45% to 55% during 2015-2016, assuming a reasonable regulatory environment and a gradual rise in interest rates.

One of the lessons from my career in private equity and fixed income is the importance of cash flow. In private equity, cash flow expectations drive the investment decision-making process, and success or failure often hinges on the accuracy of these forecasts. In fixed income, you learn quickly that companies service debt with cash flow, not GAAP earnings. For a life insurance company, free cash flow is meaningful not only because it determines what can be distributed to shareholders in the form of dividends and share repurchases, but also because it provides a reality check on the quality of operating earnings. Life insurance companies have complex financial statements that can lead to valuation discounts in the marketplace. We believe a higher ratio of free cash flow to operating earnings will improve our valuation over time.

No discussion of cash would be complete without some commentary on capital management. I know that a number of our shareholders are frustrated with our cautious approach to returning cash during this period of regulatory uncertainty. We share your frustration.

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<sup>2</sup> Free cash flow is defined as cash generated by subsidiaries less expenses and other net flows at the holding company and potentially available for dividends, stock buybacks, debt reduction and M&A, subject to our target of maintaining an AA financial strength rating.

If we are named a SIFI, we will be subject to enhanced prudential standards by the Federal Reserve. However, those standards have not yet been written, and the Fed maintains that its ability to tailor capital standards for insurers is limited by the Collins Amendment to the Dodd-Frank Act. It is taking much longer for clarity on the capital rules than anyone had anticipated, and in the meantime MetLife's capital continues to grow.

To be clear, MetLife is still taking capital actions. In the second quarter of 2013, we increased our common stock dividend by 49%. Our philosophy is that excess capital belongs to our shareholders. The challenge is to strike the right balance between adherence to our philosophy and recognition that required capital levels for MetLife are still unknown and might increase. Any capital actions we take in 2014 must reflect both of these realities.

### **Sound Regulation**

To no one's surprise, the regulatory mantra in the post-financial-crisis world is more capital for financial institutions. However, sound regulation of life insurers must achieve two goals simultaneously: ensure that companies are adequately capitalized and preserve affordable products for consumers. Leaning too far in the direction of more capital will limit access to the kinds of financial protection that only life insurers can provide.

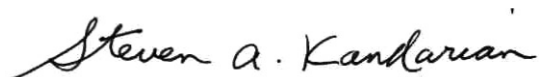
If federal capital rules for life insurers do not appropriately reflect the business model of insurance, we could be forced to raise prices to consumers or exit markets entirely. All regulatory decisions involve trade-offs, and regulators in Washington must recognize that imposing higher capital requirements on certain life insurance companies is not cost-free. The costs will be borne by consumers with an urgent need for financial protection and stable retirement income, especially at a time when government social safety nets are under increasing pressure.

### **Conclusion**

Just as MetLife's achievements in 2012 raised the bar for our performance in 2013, once again your company delivered improved results and raised the bar for 2014 and beyond. I cannot promise that every year will be better than the last, but I *can* promise you that we are more focused than ever on growing operating earnings, improving free cash flow, and ensuring that we earn an appropriate risk-adjusted return on the capital you have invested in MetLife.

On behalf of the entire MetLife team, thank you for the continued trust you place in us to run your company.

Sincerely,



Steven A. Kandarian  
Chairman of the Board, President and Chief Executive Officer  
MetLife, Inc.

March 18, 2014