

MetLife, Inc.

Notes to the Consolidated Financial Statements — (Continued)

The Company enters into various collateral arrangements which require both the pledging and accepting of collateral in connection with its OTC derivatives. At December 31, 2012 and 2011, the Company was obligated to return cash collateral under its control of \$6.0 billion and \$9.5 billion, respectively. This cash collateral is included in cash and cash equivalents or in short-term investments and the obligation to return it is included in payables for collateral under securities loaned and other transactions in the consolidated balance sheets. At December 31, 2012 and 2011, the Company had received collateral consisting of various securities with a fair market value of \$3.7 billion and \$2.5 billion, respectively, which were held in separate custodial accounts. Subject to certain constraints, the Company is permitted by contract to sell or repledge this collateral, but at December 31, 2012, none of the collateral had been sold or repledged.

The Company's collateral arrangements for its OTC derivatives generally require the counterparty in a net liability position, after considering the effect of netting agreements, to pledge collateral when the fair value of that counterparty's derivatives reaches a pre-determined threshold. Certain of these arrangements also include credit-contingent provisions that provide for a reduction of these thresholds (on a sliding scale that converges toward zero) in the event of downgrades in the credit ratings of the Company and/or the counterparty. In addition, certain of the Company's netting agreements for derivatives contain provisions that require both the Company and the counterparty to maintain a specific investment grade credit rating from each of Moody's and S&P. If a party's credit ratings were to fall below that specific investment grade credit rating, that party would be in violation of these provisions, and the other party to the derivatives could terminate the transactions and demand immediate settlement and payment based on such party's reasonable valuation of the derivatives.

The following table presents the estimated fair value of the Company's OTC derivatives that are in a net liability position after considering the effect of netting agreements, together with the estimated fair value and balance sheet location of the collateral pledged. The table also presents the incremental collateral that the Company would be required to provide if there was a one notch downgrade in the Company's credit rating at the reporting date or if the Company's credit rating sustained a downgrade to a level that triggered full overnight collateralization or termination of the derivative position at the reporting date. Derivatives that are not subject to collateral agreements are not included in the scope of this table.

	Estimated Fair Value of Collateral Provided:		Fair Value of Incremental Collateral Provided Upon:		
	Estimated Fair Value of Derivatives in Net Liability Position (1)	Fixed Maturity Securities (2)	Cash (3)	One Notch Downgrade in the Company's Credit Rating	Downgrade in the Company's Credit Rating to a Level that Triggers Full Overnight Collateralization or Termination of the Derivative Position
			(In millions)		
December 31, 2012:					
Derivatives subject to credit-contingent provisions	\$771	\$775	\$—	\$35	\$ 73
Derivatives not subject to credit-contingent provisions	79	100	1	—	—
Total	<u>\$850</u>	<u>\$875</u>	<u>\$ 1</u>	<u>\$35</u>	<u>\$ 73</u>
December 31, 2011:					
Derivatives subject to credit-contingent provisions	\$447	\$405	\$ 4	\$48	\$104
Derivatives not subject to credit-contingent provisions	28	11	4	—	—
Total	<u>\$475</u>	<u>\$416</u>	<u>\$ 8</u>	<u>\$48</u>	<u>\$104</u>

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

(2) Included in fixed maturity securities in the consolidated balance sheets. Subject to certain constraints, the counterparties are permitted by contract to sell or repledge this collateral.

(3) Included in premiums, reinsurance and other receivables in the consolidated balance sheets.

The Company also has exchange-traded futures and options, which require the pledging of collateral. At December 31, 2012 and 2011, the Company pledged securities collateral for exchange-traded futures and options of \$40 million and \$42 million, respectively, which is included in fixed maturity securities. Subject to certain constraints, the counterparties are permitted by contract to sell or repledge this collateral. At December 31, 2012 and 2011, the Company provided cash collateral for exchange-traded futures and options of \$441 million and \$680 million, respectively, which is included in premiums, reinsurance and other receivables.

Embedded Derivatives

The Company issues certain products or purchases certain investments that contain embedded derivatives that are required to be separated from their host contracts and accounted for as freestanding derivatives. These host contracts principally include: variable annuities with guaranteed minimum benefits, including GMWBs, GMABs and certain GMIBs; ceded reinsurance of guaranteed minimum benefits related to GMABs and certain GMIBs; assumed reinsurance of guaranteed minimum benefits related to GMWBs and GMABs; funding agreements with equity or bond indexed crediting rates; funds withheld on assumed and ceded reinsurance; and certain debt and equity securities.