

THIRD BASE PROSPECTUS SUPPLEMENT, DATED AUGUST 19, 2016

MetLife Institutional Funding II

\$7,000,000,000 Global Medium Term Note Issuance Program

This supplement (the “**Third Base Prospectus Supplement**”) is supplemental to and must be read in conjunction with the Offering Circular, dated November 20, 2015 (the “**Base Prospectus**”), the First Base Prospectus Supplement, dated April 4, 2016 (the “**First Base Prospectus Supplement**”) and the Second Base Prospectus Supplement, dated May 19, 2016 (the “**Second Base Prospectus Supplement**”), prepared by MetLife Institutional Funding II (the “**Issuer**”) under the Issuer’s global medium term note issuance program for the issuance of senior secured medium term notes (the “**Notes**”).

This Third Base Prospectus Supplement has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”). The Central Bank of Ireland only approves this Third Base Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

This document constitutes a supplement for the purposes of Article 16 of the Prospectus Directive.

This Third Base Prospectus Supplement contains a quarterly report of MetLife Insurance Company USA (“**MLUSA**”) on Form 10-Q filed with the United States Securities and Exchange Commission on August 11, 2016, attached as Annex I hereto, which contains certain updated risk factors and unaudited interim condensed consolidated financial statements of MLUSA and its consolidated subsidiaries as of June 30, 2016 and December 31, 2015 and for the three months and six months ended June 30, 2016 and 2015 (including any notes thereto, the “**Consolidated Financial Statements**”), together with Management’s Discussion and Analysis of Financial Condition and Results of Operations relating to such Consolidated Financial Statements.

Except as disclosed in this Third Base Prospectus Supplement, the First Base Prospectus Supplement and the Second Base Prospectus Supplement, there has been no significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus since the publication of the Base Prospectus. Where there is any inconsistency among the Base Prospectus, the First Base Prospectus Supplement, the Second Base Prospectus Supplement and this Third Base Prospectus Supplement, language used in this Third Base Prospectus Supplement shall prevail.

Each of the Issuer and MLUSA accepts responsibility for the information contained in this Third Base Prospectus Supplement. To the best of the knowledge of each of the Issuer and MLUSA (having taken all reasonable care to ensure that such is the case) the information contained in this Third Base Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Third Base Prospectus Supplement dated August 19, 2016

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ANNEX I

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

or

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 033-03094

MetLife Insurance Company USA

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

11225 North Community House Road, Charlotte, North Carolina

(Address of principal executive offices)

06-0566090

*(I.R.S. Employer
Identification No.)*

28277

(Zip Code)

(212) 578-9500

(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 No

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 No

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

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

At August 11, 2016, 3,000 shares of the registrant's common stock, \$25,000 par value per share, were outstanding, all of which were owned directly by MetLife, Inc.

REDUCED DISCLOSURE FORMAT

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

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As used in this Form 10-Q, “MetLife USA,” the “Company,” “we,” “our” and “us” refer to MetLife Insurance Company USA (formerly, MetLife Insurance Company of Connecticut), a Delaware corporation originally incorporated in Connecticut in 1863, and its subsidiaries. MetLife Insurance Company USA is a wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”).

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and other words and terms of similar meaning, or are tied to future periods, 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. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the actual future results of MetLife USA. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Risks, uncertainties, and other factors that might cause such differences include the risks, uncertainties and other factors identified in MetLife Insurance Company USA’s filings with the U.S. Securities and Exchange Commission. These factors include: (1) our ability to address difficulties, unforeseen liabilities, asset impairments, or rating agency actions arising from (a) business acquisitions and integrating and managing the growth of such acquired businesses, (b) dispositions of businesses via sale, initial public offering, spin-off or otherwise, (c) entry into joint ventures, or (d) legal entity reorganizations; (2) difficult conditions in the global capital markets; (3) increased volatility and disruption of the global capital and credit markets, which may affect our ability to meet liquidity needs and access capital, including through credit facilities, generate fee income and market-related revenue and finance statutory reserve requirements and may require us to pledge collateral or make payments related to declines in value of specified assets, including assets supporting risks ceded to certain affiliated captive reinsurers or hedging arrangements associated with those risks; (4) exposure to global financial and capital market risks, including as a result of the disruption in Europe and possible withdrawal of one or more countries from the Euro zone; (5) impact on us of comprehensive financial services regulation reform, including potential regulation of MetLife, Inc. as a non-bank systemically important financial institution, or otherwise; (6) numerous rulemaking initiatives required or permitted by the Dodd-Frank Wall Street Reform and Consumer Protection Act which may impact how we conduct our business, including those compelling the liquidation of certain financial institutions; (7) regulatory, legislative or tax changes relating to our insurance or other operations that may affect the cost of, or demand for, our products or services, or increase the cost or administrative burdens of providing benefits to employees; (8) adverse results or other consequences from litigation, arbitration or regulatory investigations; (9) potential liquidity and other risks resulting from our participation in a securities lending program and other transactions; (10) investment losses and defaults, and changes to investment valuations; (11) changes in assumptions related to investment valuations, deferred policy acquisition costs, deferred sales inducements, value of business acquired or goodwill; (12) impairments of goodwill and realized losses or market value impairments to illiquid assets; (13) defaults on our mortgage loans; (14) the defaults or deteriorating credit of other financial institutions that could adversely affect us; (15) fluctuations in foreign currency exchange rates; (16) downgrades in our claims paying ability, financial strength or credit ratings or MetLife, Inc.’s credit ratings; (17) availability and effectiveness of reinsurance or indemnification arrangements, as well as any default or failure of counterparties to perform; (18) differences between actual claims experience and underwriting and reserving assumptions; (19) ineffectiveness of MetLife’s risk management policies and procedures; (20) catastrophe losses; (21) increasing cost and limited market capacity for statutory life insurance reserve financings; (22) heightened competition, including with respect to pricing, entry of new competitors, consolidation of distributors, the development of new products by new and existing competitors, and for personnel; (23) exposure to losses related to variable annuity guarantee benefits, including from significant and sustained downturns or extreme volatility in equity markets, reduced interest rates, unanticipated policyholder behavior, mortality or longevity; (24) changes in accounting standards, practices and/or policies; (25) increased expenses relating to pension and postretirement benefit plans for employees and retirees of MetLife, as well as health care and other employee benefits; (26) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (27) difficulties in marketing and distributing products through our distribution channels; (28) the effects of business disruption or economic contraction due to disasters such as terrorist attacks, cyberattacks, other hostilities, or natural catastrophes, including any related impact on the value of our investment portfolio, MetLife’s disaster recovery systems, cyber- or other information security systems and management continuity planning; (29) the effectiveness of

MetLife's programs and practices in avoiding giving associates incentives to take excessive risks; and (30) other risks and uncertainties described from time to time in MetLife Insurance Company USA's filings with the U.S. Securities and Exchange Commission.

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

Note Regarding Reliance on Statements in Our Contracts

See "Exhibit Index — Note Regarding Reliance on Statements in Our Contracts" for information regarding agreements included as exhibits to this Quarterly Report on Form 10-Q.

Part I — Financial Information

Item 1. Financial Statements

MetLife Insurance Company USA
(A Wholly-Owned Subsidiary of MetLife, Inc.)
Interim Condensed Consolidated Balance Sheets
June 30, 2016 (Unaudited) and December 31, 2015
(In millions, except share and per share data)

	June 30, 2016	December 31, 2015
Assets		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: \$58,297 and \$50,154, respectively)	\$ 64,043	\$ 52,409
Equity securities available-for-sale, at estimated fair value (cost: \$362 and \$384, respectively)	390	409
Mortgage loans (net of valuation allowances of \$41 and \$36, respectively; includes \$159 and \$172, respectively, at estimated fair value, relating to variable interest entities)	8,179	7,262
Policy loans	1,190	1,266
Real estate and real estate joint ventures (includes \$5 and \$5 respectively, of real estate held-for-sale)	498	628
Other limited partnership interests	1,757	1,846
Short-term investments, principally at estimated fair value	2,648	1,737
Other invested assets, principally at estimated fair value	7,224	4,942
Total investments	85,929	70,499
Cash and cash equivalents, principally at estimated fair value	2,298	1,383
Accrued investment income (includes \$1 and \$1, respectively, relating to variable interest entities)	536	505
Premiums, reinsurance and other receivables	18,878	22,251
Deferred policy acquisition costs and value of business acquired	5,047	4,809
Current income tax recoverable	90	—
Goodwill	381	381
Other assets	658	799
Separate account assets	101,020	101,735
Total assets	<u>\$ 214,837</u>	<u>\$ 202,362</u>
Liabilities and Stockholder's Equity		
Liabilities		
Future policy benefits	\$ 33,083	\$ 29,894
Policyholder account balances	38,611	35,661
Other policy-related balances	3,529	3,549
Payables for collateral under securities loaned and other transactions	13,669	10,619
Long-term debt (includes \$35 and \$48, respectively, at estimated fair value, relating to variable interest entities)	817	836
Current income tax payable	—	20
Deferred income tax liability	441	803
Other liabilities (includes \$1 and \$1, respectively, relating to variable interest entities)	10,905	7,682
Separate account liabilities	101,020	101,735
Total liabilities	202,075	190,799
Contingencies, Commitments and Guarantees (Note 9)		
Stockholder's Equity		
Common stock, par value \$25,000 per share; 4,000 shares authorized; 3,000 shares issued and outstanding	75	75
Additional paid-in capital	12,413	10,871
Retained earnings (deficit)	(2,407)	(1,011)
Accumulated other comprehensive income (loss)	2,681	1,628
Total stockholder's equity	12,762	11,563
Total liabilities and stockholder's equity	<u>\$ 214,837</u>	<u>\$ 202,362</u>

See accompanying notes to the interim condensed consolidated financial statements.

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

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Three Months and Six Months Ended June 30, 2016 and 2015 (Unaudited)

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Premiums	\$ 202	\$ 253	\$ 511	\$ 536
Universal life and investment-type product policy fees	678	711	1,322	1,429
Net investment income	678	689	1,305	1,324
Other revenues	397	130	506	250
Net investment gains (losses):				
Other-than-temporary impairments on fixed maturity securities	—	—	(15)	(2)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	—	—	—	(1)
Other net investment gains (losses)	15	(5)	(18)	40
Total net investment gains (losses)	15	(5)	(33)	37
Net derivative gains (losses)	(3,230)	(17)	(3,235)	68
Total revenues	(1,260)	1,761	376	3,644
Expenses				
Policyholder benefits and claims	813	582	1,394	1,174
Interest credited to policyholder account balances	239	262	477	519
Other expenses	131	445	756	1,092
Total expenses	1,183	1,289	2,627	2,785
Income (loss) before provision for income tax	(2,443)	472	(2,251)	859
Provision for income tax expense (benefit)	(886)	132	(855)	235
Net income (loss)	\$ (1,557)	\$ 340	\$ (1,396)	\$ 624
Comprehensive income (loss)	\$ (1,464)	\$ (708)	\$ (343)	\$ (130)

See accompanying notes to the interim condensed consolidated financial statements.

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

Interim Condensed Consolidated Statements of Stockholder's Equity
For the Six Months Ended June 30, 2016 and 2015 (Unaudited)

(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Balance at December 31, 2015	\$ 75	\$ 10,871	\$ (1,011)	\$ 1,628	\$ 11,563
Capital contributions from MetLife, Inc.		1,542			1,542
Dividends paid to MetLife, Inc.			—		—
Net income (loss)			(1,396)		(1,396)
Other comprehensive income (loss), net of income tax				1,053	1,053
Balance at June 30, 2016	<u>\$ 75</u>	<u>\$ 12,413</u>	<u>\$ (2,407)</u>	<u>\$ 2,681</u>	<u>\$ 12,762</u>

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's Equity
Balance at December 31, 2014	\$ 75	\$ 10,855	\$ (1,350)	\$ 2,426	\$ 12,006
Capital contributions from MetLife, Inc.		2			2
Dividends paid to MetLife, Inc.			(500)		(500)
Net income (loss)			624		624
Other comprehensive income (loss), net of income tax				(754)	(754)
Balance at June 30, 2015	<u>\$ 75</u>	<u>\$ 10,857</u>	<u>\$ (1,226)</u>	<u>\$ 1,672</u>	<u>\$ 11,378</u>

See accompanying notes to the interim condensed consolidated financial statements.

MetLife Insurance Company USA
(A Wholly-Owned Subsidiary of MetLife, Inc.)
Interim Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2016 and 2015 (Unaudited)
(In millions)

	Six Months Ended June 30,	
	2016	2015
Net cash provided by (used in) operating activities	\$ 2,085	\$ 1,598
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturity securities	16,782	18,511
Equity securities	80	19
Mortgage loans	488	314
Real estate and real estate joint ventures	154	190
Other limited partnership interests	152	80
Purchases of:		
Fixed maturity securities	(19,513)	(19,269)
Equity securities	(56)	(47)
Mortgage loans	(1,016)	(1,261)
Real estate and real estate joint ventures	(35)	(43)
Other limited partnership interests	(89)	(110)
Cash received in connection with freestanding derivatives	401	97
Cash paid in connection with freestanding derivatives	(625)	(521)
Cash received under repurchase agreements (Note 4)	—	199
Cash paid under reverse repurchase agreements (Note 4)	—	(199)
Net change in policy loans	12	12
Net change in short-term investments	(817)	(1,349)
Net change in other invested assets	(7)	49
Net cash provided by (used in) investing activities	(4,089)	(3,328)
Cash flows from financing activities		
Policyholder account balances:		
Deposits	6,166	8,401
Withdrawals	(7,700)	(9,154)
Net change in payables for collateral under securities loaned and other transactions	3,050	2,565
Long-term debt repaid	(13)	(18)
Financing element on certain derivative instruments	(124)	(38)
Dividends paid to MetLife, Inc.	—	(500)
Capital contributions	1,540	—
Net cash provided by (used in) financing activities	2,919	1,256
Effect of change in foreign currency exchange rates on cash and cash equivalents balances	—	(1)
Change in cash and cash equivalents	915	(475)
Cash and cash equivalents, beginning of period	1,383	1,206
Cash and cash equivalents, end of period	\$ 2,298	\$ 731
Supplemental disclosures of cash flow information		
Net cash paid (received) for:		
Interest	\$ 36	\$ 36
Income tax	\$ 191	\$ 82
Non-cash transactions:		
Capital contributions from MetLife, Inc.	\$ 2	\$ 2
Transfer of fixed maturity securities from affiliates	\$ 3,565	\$ —
Transfer of mortgage loans from affiliates	\$ 395	\$ —
Transfer of short-term investments from affiliates	\$ 94	\$ —

See accompanying notes to the interim condensed consolidated financial statements.

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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

Business

“MetLife USA” and the “Company” refer to MetLife Insurance Company USA (formerly, MetLife Insurance Company of Connecticut), a Delaware corporation originally incorporated in Connecticut in 1863, and its subsidiaries. MetLife Insurance Company USA is a wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”).

The Company offers individual annuities, individual life insurance, and institutional protection and asset accumulation products and is organized into two segments: Retail and Corporate Benefit Funding.

On January 12, 2016, MetLife, Inc. announced its plan to pursue the separation of a substantial portion of its Retail segment, which is organized into two U.S. businesses, Life & Other and Annuities, as well as certain portions of its Corporate Benefit Funding segment and Corporate & Other (the “Separation”). Additionally, on July 21, 2016, MetLife, Inc. announced that the separated business will be rebranded as “Brighthouse Financial” after the Separation. MetLife currently plans to include MetLife USA and certain affiliates in the proposed separated business. MetLife is currently evaluating structural alternatives for the proposed Separation, including a public offering of shares in an independent, publicly traded company, a spin-off, or a sale. The completion of a public offering would depend on, among other things, the U.S. Securities and Exchange Commission (“SEC”) filing and review process, as well as market conditions. A Separation, depending on the specific form, would be subject to the satisfaction of various conditions and approvals, including, among other things, approval of any transaction by the MetLife, Inc. Board of Directors, satisfaction of any applicable requirements of the SEC, and receipt of insurance and other regulatory approvals and other anticipated conditions.

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported on the interim condensed consolidated financial statements. In applying these policies and estimates, management makes subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Company’s business and operations. Actual results could differ from estimates.

Consolidation

The accompanying interim condensed consolidated financial statements include the accounts of MetLife Insurance Company USA and its subsidiaries, as well as partnerships and joint ventures in which the Company has control, and variable interest entities (“VIEs”) for which the Company is the primary beneficiary. Intercompany accounts and transactions have been eliminated.

The Company uses the equity method of accounting for equity securities when it has significant influence or at least 20% interest and for real estate joint ventures and other limited partnership interests (“investees”) when it has more than a minor ownership interest or more than a minor influence over the investee’s operations, but does not have a controlling financial interest. The Company generally recognizes its share of the investee’s earnings on a three-month lag in instances where the investee’s financial information is not sufficiently timely or when the investee’s reporting period differs from the Company’s reporting period. The Company uses the cost method of accounting for investments in which it has virtually no influence over the investee’s operations.

Reclassifications

Certain amounts in the prior year periods’ interim condensed consolidated financial statements and related footnotes thereto have been reclassified to conform with the 2016 presentation as discussed throughout the Notes to the Interim Condensed Consolidated Financial Statements.

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

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

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

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

The accompanying interim condensed consolidated financial statements are unaudited and reflect all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in conformity with GAAP. Interim results are not necessarily indicative of full year performance. The December 31, 2015 consolidated balance sheet data was derived from audited consolidated financial statements included in MetLife Insurance Company USA's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Annual Report"), which include all disclosures required by GAAP. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company included in the 2015 Annual Report.

Adoption of New Accounting Pronouncement

Effective January 1, 2016, the Company retrospectively adopted new guidance relating to the consolidation of certain entities. The objective of the new standard is to improve targeted areas of the consolidation guidance and to reduce the number of consolidation models. The new consolidation standard provides guidance on how a reporting entity (i) evaluates whether the entity should consolidate limited partnerships and similar entities, (ii) assesses whether the fees paid to a decision maker or service provider are variable interests in a VIE, and (iii) assesses the variable interests in a VIE held by related parties of the reporting entity. The new guidance also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The adoption of the new guidance did not impact which entities are consolidated by the Company. The consolidated VIE assets and liabilities and unconsolidated VIE carrying amounts and maximum exposure to loss as of June 30, 2016, disclosed in Note 4, reflect the application of the new guidance.

Future Adoption of New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued new guidance on measurement of credit losses on financial instruments (Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*). The new guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In January 2016, the FASB issued new guidance (ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*) on the recognition and measurement of financial instruments. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the instrument-specific credit risk provision. The new guidance changes the current accounting guidance related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option ("FVO") that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In May 2015, the FASB issued new guidance on short-duration insurance contracts (ASU 2015-09, *Financial Services - Insurance (Topic 944): Disclosures about Short-Duration Contracts*). The amendments in this new guidance are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. The new guidance should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. The new guidance requires insurance entities to provide users of financial statements with more transparent information about initial claim estimates and subsequent adjustments to these estimates, including information on: (i) reconciling from the claim development table to the balance sheet liability, (ii) methodologies and judgments in estimating claims, and (iii) the timing, and frequency of claims. The adoption will not have an impact on the Company's consolidated financial statements other than expanded disclosures in Note 3.

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

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

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

In May 2014, the FASB issued a comprehensive new revenue recognition standard (ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*), effective for fiscal years beginning after December 15, 2016 and interim periods within those years and should be applied retrospectively. In August 2015, the FASB amended the guidance to defer the effective date by one year, effective for the fiscal years beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The new guidance will supersede nearly all existing revenue recognition guidance under GAAP; however, it will not impact the accounting for insurance contracts, leases, financial instruments and guarantees. For those contracts that are impacted by the new guidance, the guidance will require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods or services. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

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

2. Segment Information

The Company is organized into two segments: Retail and Corporate Benefit Funding. In addition, the Company reports certain of its results of operations in Corporate & Other.

Retail

The Retail segment offers a broad range of protection products and a variety of annuities primarily to individuals, and is organized into two U.S. businesses: Annuities and Life & Other. Annuities includes a variety of variable, fixed and indexed annuities which provide for both asset accumulation and asset distribution needs. Life & Other insurance products and services include variable life, universal life, term life and whole life products, as well as individual disability income products. Additionally, through broker-dealer affiliates, the Company offers a full range of mutual funds and other securities products.

Corporate Benefit Funding

The Corporate Benefit Funding segment offers a broad range of annuity and investment products, including guaranteed interest contracts and other stable value products, income annuities and separate account contracts for the investment management of defined benefit and defined contribution plan assets. This segment also includes structured settlements and certain products to fund company-, bank- or trust-owned life insurance used to finance nonqualified benefit programs for executives.

Corporate & Other

Corporate & Other contains the excess capital and run-off businesses, not allocated to the segments, the Company's ancillary international operations, ancillary U.S. direct business sold direct to consumer, and interest expense related to the majority of the Company's outstanding debt, as well as expenses associated with certain legal proceedings and income tax audit issues. Corporate & Other also includes the elimination of intersegment amounts.

Financial Measures and Segment Accounting Policies

Operating earnings is the measure of segment profit or loss the Company uses to evaluate segment performance and allocate resources. Consistent with GAAP guidance for segment reporting, operating earnings is the Company's measure of segment performance and is reported below. Operating earnings should not be viewed as a substitute for net income (loss). The Company believes the presentation of operating earnings as the Company measures it for management purposes enhances the understanding of its performance by highlighting the results of operations and the underlying profitability drivers of the business.

Operating earnings is defined as operating revenues less operating expenses, both net of income tax.

Operating revenues and operating expenses exclude results of discontinued operations and other businesses that have been or will be sold or exited by MetLife and are referred to as divested businesses. Operating revenues also excludes net investment gains (losses) and net derivative gains (losses). Operating expenses also excludes goodwill impairments.

The following additional adjustments are made to revenues, in the line items indicated, in calculating operating revenues:

- Universal life and investment-type product policy fees excludes the amortization of unearned revenue related to net investment gains (losses) and net derivative gains (losses) and certain variable annuity guaranteed minimum income benefits ("GMIBs") fees ("GMIB Fees"); and
- Net investment income: (i) includes investment hedge adjustments which represent earned income on derivatives and amortization of premium on derivatives that are hedges of investments or that are used to replicate certain investments, but do not qualify for hedge accounting treatment, (ii) includes income from discontinued real estate operations, (iii) excludes post-tax operating earnings adjustments relating to insurance joint ventures accounted for under the equity method and (iv) excludes certain amounts related to securitization entities that are VIEs consolidated under GAAP.

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

2. Segment Information (continued)

The following additional adjustments are made to expenses, in the line items indicated, in calculating operating expenses:

- Policyholder benefits and claims excludes: (i) amounts associated with periodic crediting rate adjustments based on the total return of a contractually referenced pool of assets, (ii) benefits and hedging costs related to GMIBs (“GMIB Costs”) and (iii) market value adjustments associated with surrenders or terminations of contracts (“Market Value Adjustments”);
- Interest credited to policyholder account balances includes adjustments for earned income on derivatives and amortization of premium on derivatives that are hedges of policyholder account balances but do not qualify for hedge accounting treatment;
- Amortization of deferred policy acquisition costs (“DAC”) and value of business acquired (“VOBA”) excludes amounts related to: (i) net investment gains (losses) and net derivative gains (losses), (ii) GMIB Fees and GMIB Costs and (iii) Market Value Adjustments;
- Interest expense on debt excludes certain amounts related to securitization entities that are VIEs consolidated under GAAP; and
- Other expenses excludes costs related to: (i) implementation of new insurance regulatory requirements and (ii) acquisition and integration costs.

Set forth in the tables below is certain financial information with respect to the Company’s segments, as well as Corporate & Other, for the three months and six months ended June 30, 2016 and 2015. The segment accounting policies are the same as those used to prepare the Company’s consolidated financial statements, except for operating earnings adjustments as defined above. In addition, segment accounting policies include the method of capital allocation described below.

Economic capital is an internally developed risk capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. The economic capital model accounts for the unique and specific nature of the risks inherent in MetLife’s and the Company’s business.

MetLife’s economic capital model, coupled with considerations of local capital requirements, aligns segment allocated equity with emerging standards and consistent risk principles. The model applies statistics-based risk evaluation principles to the material risks to which the Company is exposed. These consistent risk principles include calibrating required economic capital shock factors to a specific confidence level and time horizon while applying an industry standard method for the inclusion of diversification benefits among risk types. MetLife’s management is responsible for the ongoing production and enhancement of the economic capital model and reviews its approach periodically to ensure that it remains consistent with emerging industry practice standards.

Segment net investment income is credited or charged based on the level of allocated equity; however, changes in allocated equity do not impact the Company’s consolidated net investment income, operating earnings or net income (loss).

Net investment income is based upon the actual results of each segment’s specifically identifiable investment portfolios adjusted for allocated equity. Other costs are allocated to each of the segments based upon: (i) a review of the nature of such costs; (ii) time studies analyzing the amount of employee compensation costs incurred by each segment; and (iii) cost estimates included in the Company’s product pricing.

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

2. Segment Information (continued)

Three Months Ended June 30, 2016	Operating Results				Adjustments	Total Consolidated
	Retail	Corporate Benefit Funding	Corporate & Other	Total		
(In millions)						
Revenues						
Premiums	\$ 196	\$ 2	\$ 4	\$ 202	\$ —	\$ 202
Universal life and investment-type product policy fees	598	10	—	608	70	678
Net investment income	557	186	(2)	741	(63)	678
Other revenues	396	1	—	397	—	397
Net investment gains (losses)	—	—	—	—	15	15
Net derivative gains (losses)	—	—	—	—	(3,230)	(3,230)
Total revenues	1,747	199	2	1,948	(3,208)	(1,260)
Expenses						
Policyholder benefits and claims	564	104	10	678	135	813
Interest credited to policyholder account balances	215	23	—	238	1	239
Capitalization of DAC	(55)	—	(13)	(68)	—	(68)
Amortization of DAC and VOBA	372	—	5	377	(659)	(282)
Interest expense on debt	—	—	17	17	2	19
Other expenses	418	6	27	451	11	462
Total expenses	1,514	133	46	1,693	(510)	1,183
Provision for income tax expense (benefit)	47	23	(17)	53	(939)	(886)
Operating earnings	\$ 186	\$ 43	\$ (27)	202		
Adjustments to:						
Total revenues				(3,208)		
Total expenses				510		
Provision for income tax (expense) benefit				939		
Net income (loss)				\$ (1,557)		\$ (1,557)

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

2. Segment Information (continued)

Three Months Ended June 30, 2015	Operating Results			Total	Adjustments	Total Consolidated
	Retail	Corporate Benefit Funding	Corporate & Other			
	(In millions)					
Revenues						
Premiums	\$ 223	\$ 3	\$ 27	\$ 253	\$ —	\$ 253
Universal life and investment-type product policy fees	636	8	—	644	67	711
Net investment income	523	231	(11)	743	(54)	689
Other revenues	128	1	1	130	—	130
Net investment gains (losses)	—	—	—	—	(5)	(5)
Net derivative gains (losses)	—	—	—	—	(17)	(17)
Total revenues	<u>1,510</u>	<u>243</u>	<u>17</u>	<u>1,770</u>	<u>(9)</u>	<u>1,761</u>
Expenses						
Policyholder benefits and claims	349	109	21	479	103	582
Interest credited to policyholder account balances	233	28	—	261	1	262
Capitalization of DAC	(70)	—	(16)	(86)	—	(86)
Amortization of DAC and VOBA	159	—	5	164	(107)	57
Interest expense on debt	—	—	17	17	1	18
Other expenses	418	4	34	456	—	456
Total expenses	<u>1,089</u>	<u>141</u>	<u>61</u>	<u>1,291</u>	<u>(2)</u>	<u>1,289</u>
Provision for income tax expense (benefit)	119	35	(20)	134	(2)	132
Operating earnings	<u>\$ 302</u>	<u>\$ 67</u>	<u>\$ (24)</u>	<u>345</u>		
Adjustments to:						
Total revenues				(9)		
Total expenses				2		
Provision for income tax (expense) benefit				2		
Net income (loss)				<u>\$ 340</u>		<u>\$ 340</u>

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

2. Segment Information (continued)

Six Months Ended June 30, 2016	Operating Results			Total	Adjustments	Total Consolidated
	Retail	Corporate Benefit Funding	Corporate & Other			
	(In millions)					
Revenues						
Premiums	\$ 414	\$ 14	\$ 83	\$ 511	\$ —	\$ 511
Universal life and investment-type product policy fees	1,161	25	—	1,186	136	1,322
Net investment income	1,068	376	(11)	1,433	(128)	1,305
Other revenues	504	2	—	506	—	506
Net investment gains (losses)	—	—	—	—	(33)	(33)
Net derivative gains (losses)	—	—	—	—	(3,235)	(3,235)
Total revenues	<u>3,147</u>	<u>417</u>	<u>72</u>	<u>3,636</u>	<u>(3,260)</u>	<u>376</u>
Expenses						
Policyholder benefits and claims	973	209	53	1,235	159	1,394
Interest credited to policyholder account balances	429	46	—	475	2	477
Capitalization of DAC	(130)	—	(31)	(161)	—	(161)
Amortization of DAC and VOBA	486	—	12	498	(601)	(103)
Interest expense on debt	—	—	34	34	2	36
Other expenses	879	17	63	959	25	984
Total expenses	<u>2,637</u>	<u>272</u>	<u>131</u>	<u>3,040</u>	<u>(413)</u>	<u>2,627</u>
Provision for income tax expense (benefit)	117	50	(27)	140	(995)	(855)
Operating earnings	<u>\$ 393</u>	<u>\$ 95</u>	<u>\$ (32)</u>	456		
Adjustments to:						
Total revenues				(3,260)		
Total expenses				413		
Provision for income tax (expense) benefit				995		
Net income (loss)				<u>\$ (1,396)</u>		<u>\$ (1,396)</u>

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

2. Segment Information (continued)

Six Months Ended June 30, 2015	Operating Results				Adjustments	Total Consolidated
	Retail	Corporate Benefit Funding	Corporate & Other	Total		
(In millions)						
Revenues						
Premiums	\$ 494	\$ 7	\$ 35	\$ 536	\$ —	\$ 536
Universal life and investment-type product policy fees	1,279	17	—	1,296	133	1,429
Net investment income	1,027	449	(37)	1,439	(115)	1,324
Other revenues	246	2	2	250	—	250
Net investment gains (losses)	—	—	—	—	37	37
Net derivative gains (losses)	—	—	—	—	68	68
Total revenues	<u>3,046</u>	<u>475</u>	<u>—</u>	<u>3,521</u>	<u>123</u>	<u>3,644</u>
Expenses						
Policyholder benefits and claims	734	206	42	982	192	1,174
Interest credited to policyholder account balances	461	56	—	517	2	519
Capitalization of DAC	(144)	—	(41)	(185)	—	(185)
Amortization of DAC and VOBA	323	—	12	335	(83)	252
Interest expense on debt	—	—	34	34	2	36
Other expenses	890	16	83	989	—	989
Total expenses	<u>2,264</u>	<u>278</u>	<u>130</u>	<u>2,672</u>	<u>113</u>	<u>2,785</u>
Provision for income tax expense (benefit)	217	68	(54)	231	4	235
Operating earnings	<u>\$ 565</u>	<u>\$ 129</u>	<u>\$ (76)</u>	618		
Adjustments to:						
Total revenues				123		
Total expenses				(113)		
Provision for income tax (expense) benefit				(4)		
Net income (loss)				<u>\$ 624</u>		<u>\$ 624</u>

The following table presents total assets with respect to the Company's segments, as well as Corporate & Other, at:

	June 30, 2016	December 31, 2015
(In millions)		
Retail	\$ 177,712	\$ 167,142
Corporate Benefit Funding	23,591	25,043
Corporate & Other	13,534	10,177
Total	<u>\$ 214,837</u>	<u>\$ 202,362</u>

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

3. Insurance

Guarantees

As discussed in Notes 1 and 5 of the Notes to the Consolidated Financial Statements included in the 2015 Annual Report, the Company issues variable annuity products with guaranteed minimum benefits. Guaranteed minimum accumulation benefits (“GMABs”), the non-life contingent portion of guaranteed minimum withdrawal benefits (“GMWBs”) and the portion of certain GMIBs that do not require annuitization are accounted for as embedded derivatives in policyholder account balances and are further discussed in Note 5.

The Company also issues universal and variable life contracts where the Company contractually guarantees to the contractholder a secondary guarantee.

Information regarding the Company’s guarantee exposure was as follows at:

	June 30, 2016		December 31, 2015	
	In the Event of Death	At Annuitization	In the Event of Death	At Annuitization
	(Dollars in millions)			
Annuity Contracts (1), (2):				
Variable Annuity Guarantees:				
Total account value (3)	\$ 103,043	\$ 58,197	\$ 103,830	\$ 58,615
Separate account value	\$ 98,022	\$ 56,830	\$ 98,897	\$ 57,284
Net amount at risk	\$ 7,394 (4)	\$ 3,079 (5)	\$ 8,168 (4)	\$ 2,088 (5)
Average attained age of contractholders	67 years	67 years	66 years	66 years

	June 30, 2016		December 31, 2015	
	Secondary Guarantees			
	(Dollars in millions)			
Universal and Variable Life Contracts:				
Total account value (3)	\$	7,011	\$	6,919
Net amount at risk (6)	\$	90,534	\$	90,940
Average attained age of policyholders		60 years		59 years

- (1) The Company’s annuity contracts with guarantees may offer more than one type of guarantee in each contract. Therefore, the amounts listed above may not be mutually exclusive.
- (2) Includes direct business, but excludes offsets from hedging or reinsurance, if any. Therefore, the net amount at risk presented reflects the economic exposures of living and death benefit guarantees associated with variable annuities, but not necessarily their impact on the Company. See Note 7 of the Notes to the Consolidated Financial Statements included in the 2015 Annual Report for a discussion of certain living and death benefit guarantees which have been reinsured.
- (3) Includes the contractholder’s investments in the general account and separate account, if applicable.
- (4) Defined as the death benefit less the total account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date and includes any additional contractual claims associated with riders purchased to assist with covering income taxes payable upon death.
- (5) Defined as the amount (if any) that would be required to be added to the total account value to purchase a lifetime income stream, based on current annuity rates, equal to the minimum amount provided under the guaranteed benefit. This amount represents the Company’s potential economic exposure to such guarantees in the event all contractholders were to annuitize on the balance sheet date, even though the contracts contain terms that allow annuitization of the guaranteed amount only after the 10th anniversary of the contract, which not all contractholders have achieved.
- (6) Defined as the guarantee amount less the account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date.

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

4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

Fixed Maturity and Equity Securities Available-for-Sale by Sector

The following table presents the fixed maturity and equity securities available-for-sale (“AFS”) by sector. Redeemable preferred stock is reported within U.S. corporate and foreign corporate fixed maturity securities and non-redeemable preferred stock is reported within equity securities. Included within fixed maturity securities are structured securities including residential mortgage-backed securities (“RMBS”), asset-backed securities (“ABS”) and commercial mortgage-backed securities (“CMBS”) (collectively, “Structured Securities”).

	June 30, 2016					December 31, 2015				
	Cost or Amortized Cost	Gross Unrealized			Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized			Estimated Fair Value
		Gains	Temporary Losses	OTTI Losses			Gains	Temporary Losses	OTTI Losses	
(In millions)										
Fixed maturity securities:										
U.S. corporate	\$ 17,349	\$ 1,798	\$ 130	\$ —	\$ 19,017	\$ 16,160	\$ 979	\$ 393	\$ —	\$ 16,746
U.S. government and agency	14,927	2,838	—	—	17,765	12,562	1,297	53	—	13,806
RMBS	10,398	291	84	21	10,584	8,391	201	95	19	8,478
Foreign corporate	5,671	306	121	—	5,856	4,995	153	194	—	4,954
State and political subdivision	2,620	572	1	—	3,191	2,398	321	13	1	2,705
ABS	3,173	21	23	—	3,171	2,694	14	34	—	2,674
CMBS (1)	3,333	148	5	(1)	3,477	2,303	20	23	(1)	2,301
Foreign government	826	157	1	—	982	651	104	10	—	745
Total fixed maturity securities	<u>\$ 58,297</u>	<u>\$ 6,131</u>	<u>\$ 365</u>	<u>\$ 20</u>	<u>\$ 64,043</u>	<u>\$ 50,154</u>	<u>\$ 3,089</u>	<u>\$ 815</u>	<u>\$ 19</u>	<u>\$ 52,409</u>
Equity securities:										
Non-redeemable preferred stock	\$ 201	\$ 18	\$ 13	\$ —	\$ 206	\$ 217	\$ 16	\$ 9	\$ —	\$ 224
Common stock	161	23	—	—	184	167	23	5	—	185
Total equity securities	<u>\$ 362</u>	<u>\$ 41</u>	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ 390</u>	<u>\$ 384</u>	<u>\$ 39</u>	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 409</u>

- (1) The noncredit loss component of other-than-temporary impairment (“OTTI”) losses for CMBS was in an unrealized gain position of \$1 million at both June 30, 2016 and December 31, 2015, due to increases in estimated fair value subsequent to initial recognition of noncredit losses on such securities. See also “— Net Unrealized Investment Gains (Losses).”

The Company held non-income producing fixed maturity securities with an estimated fair value of \$42 million and \$11 million with unrealized gains (losses) of \$5 million and \$1 million at June 30, 2016 and December 31, 2015, respectively.

Maturities of Fixed Maturity Securities

The amortized cost and estimated fair value of fixed maturity securities, by contractual maturity date, were as follows at June 30, 2016:

	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Structured Securities		Total Fixed Maturity Securities	
	(In millions)											
Amortized cost	\$ 1,898	\$ 12,214	\$ 9,467	\$ 17,814	\$ 16,904	\$ 58,297						
Estimated fair value	\$ 1,912	\$ 12,737	\$ 9,971	\$ 22,191	\$ 17,232	\$ 64,043						

Actual maturities may differ from contractual maturities due to the exercise of call or prepayment options. Fixed maturity securities not due at a single maturity date have been presented in the year of final contractual maturity. Structured Securities are shown separately, as they are not due at a single maturity.

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

4. Investments (continued)

Continuous Gross Unrealized Losses for Fixed Maturity and Equity Securities AFS by Sector

The following table presents the estimated fair value and gross unrealized losses of fixed maturity and equity securities AFS in an unrealized loss position, aggregated by sector and by length of time that the securities have been in a continuous unrealized loss position.

	June 30, 2016				December 31, 2015			
	Less than 12 Months		Equal to or Greater than 12 Months		Less than 12 Months		Equal to or Greater than 12 Months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(Dollars in millions)							
Fixed maturity securities:								
U.S. corporate	\$ 906	\$ 27	\$ 1,005	\$ 103	\$ 4,569	\$ 278	\$ 571	\$ 115
U.S. government and agency	50	—	—	—	4,037	53	—	—
RMBS	1,318	48	842	57	4,305	73	495	41
Foreign corporate	687	27	712	94	1,650	96	605	98
State and political subdivision	47	1	6	—	373	12	19	2
ABS	1,017	11	703	12	1,818	28	194	6
CMBS	150	1	179	3	1,346	21	44	1
Foreign government	6	—	12	1	130	9	6	1
Total fixed maturity securities	<u>\$ 4,181</u>	<u>\$ 115</u>	<u>\$ 3,459</u>	<u>\$ 270</u>	<u>\$ 18,228</u>	<u>\$ 570</u>	<u>\$ 1,934</u>	<u>\$ 264</u>
Equity securities:								
Non-redeemable preferred stock	\$ 19	\$ 2	\$ 40	\$ 11	\$ 25	\$ 1	\$ 40	\$ 8
Common stock	2	—	1	—	6	5	1	—
Total equity securities	<u>\$ 21</u>	<u>\$ 2</u>	<u>\$ 41</u>	<u>\$ 11</u>	<u>\$ 31</u>	<u>\$ 6</u>	<u>\$ 41</u>	<u>\$ 8</u>
Total number of securities in an unrealized loss position	<u>751</u>		<u>592</u>		<u>1,850</u>		<u>394</u>	

Evaluation of AFS Securities for OTTI and Evaluating Temporarily Impaired AFS Securities

As described more fully in Notes 1 and 8 of the Notes to the Consolidated Financial Statements included in the 2015 Annual Report, the Company performs a regular evaluation of all investment classes for impairment, including fixed maturity securities, equity securities and perpetual hybrid securities, in accordance with its impairment policy, in order to evaluate whether such investments are other-than-temporarily impaired.

Current Period Evaluation

Based on the Company's current evaluation of its AFS securities in an unrealized loss position in accordance with its impairment policy, and the Company's current intentions and assessments (as applicable to the type of security) about holding, selling and any requirements to sell these securities, the Company concluded that these securities were not other-than-temporarily impaired at June 30, 2016. Future OTTI will depend primarily on economic fundamentals, issuer performance (including changes in the present value of future cash flows expected to be collected), changes in credit ratings, collateral valuation, interest rates and credit spreads. If economic fundamentals deteriorate or if there are adverse changes in the above factors, OTTI may be incurred in upcoming periods.

Gross unrealized losses on fixed maturity securities decreased \$449 million during the six months ended June 30, 2016 to \$385 million. The decrease in gross unrealized losses for the six months ended June 30, 2016 was primarily attributable to a decrease in interest rates and, to a lesser extent, narrowing credit spreads and the impact of strengthening foreign currencies on non-functional currency denominated fixed maturity securities.

At June 30, 2016, \$84 million of the total \$385 million of gross unrealized losses were from 34 fixed maturity securities with an unrealized loss position of 20% or more of amortized cost for six months or greater.

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

4. Investments (continued)

Investment Grade Fixed Maturity Securities

Of the \$84 million of gross unrealized losses on fixed maturity securities with an unrealized loss of 20% or more of amortized cost for six months or greater, \$65 million, or 77%, were related to gross unrealized losses on 13 investment grade fixed maturity securities. Unrealized losses on investment grade fixed maturity securities are principally related to widening credit spreads and, with respect to fixed-rate fixed maturity securities, rising interest rates since purchase.

Below Investment Grade Fixed Maturity Securities

Of the \$84 million of gross unrealized losses on fixed maturity securities with an unrealized loss of 20% or more of amortized cost for six months or greater, \$19 million, or 23%, were related to gross unrealized losses on 21 below investment grade fixed maturity securities. Unrealized losses on below investment grade fixed maturity securities are principally related to U.S. and foreign corporate securities (primarily industrial securities) and are the result of significantly wider credit spreads resulting from higher risk premiums since purchase, largely due to economic and market uncertainties including concerns over lower oil prices in the energy sector. Management evaluates U.S. and foreign corporate securities based on factors such as expected cash flows and the financial condition and near-term and long-term prospects of the issuers.

Equity Securities

Gross unrealized losses on equity securities decreased \$1 million during the six months ended June 30, 2016 to \$13 million. Of the \$13 million, \$7 million were from two securities with gross unrealized losses of 20% or more of cost for 12 months or greater. Of the \$7 million, 43% were rated A or better, and all were from financial services industry investment grade non-redeemable preferred stock.

Mortgage Loans

Mortgage Loans by Portfolio Segment

Mortgage loans are summarized as follows at:

	June 30, 2016		December 31, 2015	
	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in millions)			
Mortgage loans:				
Commercial	\$ 5,971	73.0%	\$ 5,331	73.4%
Agricultural	1,557	19.0	1,460	20.1
Residential	533	6.5	335	4.6
Subtotal (1)	8,061	98.5	7,126	98.1
Valuation allowances	(41)	(0.5)	(36)	(0.5)
Subtotal mortgage loans, net	8,020	98.0	7,090	97.6
Commercial mortgage loans held by CSEs - FVO	159	2.0	172	2.4
Total mortgage loans, net	\$ 8,179	100.0%	\$ 7,262	100.0%

- (1) Purchases of mortgage loans were \$192 million and \$231 million for the three months and six months ended June 30, 2016, respectively. Purchases of mortgage loans were \$40 million for both the three months and six months ended June 30, 2015.

See “— Variable Interest Entities” for discussion of consolidated securitization entities (“CSEs”).

See “— Related Party Investment Transactions” for discussion of related party mortgage loans.

Information on commercial, agricultural and residential mortgage loans is presented in the tables below. Information on commercial mortgage loans held by CSEs - FVO is presented in Note 6. The Company elects the FVO for certain commercial mortgage loans and related long-term debt that are managed on a total return basis.

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

4. Investments (continued)

Mortgage Loans, Valuation Allowance and Impaired Loans by Portfolio Segment

Mortgage loans by portfolio segment, by method of evaluation of credit loss, impaired mortgage loans including those modified in a troubled debt restructuring, and the related valuation allowances, were as follows at:

	Evaluated Individually for Credit Losses					Evaluated Collectively for Credit Losses		Impaired Loans
	Impaired Loans with a Valuation Allowance			Impaired Loans without a Valuation Allowance		Recorded Investment	Valuation Allowances	Carrying Value
	Unpaid Principal Balance	Recorded Investment	Valuation Allowances	Unpaid Principal Balance	Recorded Investment			
(In millions)								
June 30, 2016								
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,971	\$ 32	\$ —
Agricultural	4	3	—	—	—	1,554	5	3
Residential	—	—	—	—	—	533	4	—
Total	<u>\$ 4</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,058</u>	<u>\$ 41</u>	<u>\$ 3</u>
December 31, 2015								
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,331	\$ 28	\$ —
Agricultural	4	3	—	—	—	1,457	5	3
Residential	—	—	—	—	—	335	3	—
Total	<u>\$ 4</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,123</u>	<u>\$ 36</u>	<u>\$ 3</u>

The average recorded investment for impaired commercial, agricultural and residential mortgage loans was \$0, \$3 million and \$0, respectively, for both the three months and six months ended June 30, 2016 and 2015.

Valuation Allowance Rollforward by Portfolio Segment

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

	Six Months Ended June 30,							
	2016				2015			
	Commercial	Agricultural	Residential	Total	Commercial	Agricultural	Residential	Total
(In millions)								
Balance, beginning of period	\$ 28	\$ 5	\$ 3	\$ 36	\$ 21	\$ 4	\$ —	\$ 25
Provision (release)	4	—	1	5	4	—	1	5
Balance, end of period	<u>\$ 32</u>	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 41</u>	<u>\$ 25</u>	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 30</u>

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

4. Investments (continued)

Credit Quality of Commercial Mortgage Loans

The credit quality of commercial mortgage loans was as follows at:

	Recorded Investment				% of Total	Estimated Fair Value	% of Total
	Debt Service Coverage Ratios			Total			
	> 1.20x	1.00x - 1.20x	< 1.00x				
(Dollars in millions)							
June 30, 2016							
Loan-to-value ratios:							
Less than 65%	\$ 5,157	\$ 177	\$ 134	\$ 5,468	91.6%	\$ 5,853	92.0%
65% to 75%	413	—	14	427	7.1	438	6.9
76% to 80%	—	—	—	—	—	—	—
Greater than 80%	62	14	—	76	1.3	73	1.1
Total	<u>\$ 5,632</u>	<u>\$ 191</u>	<u>\$ 148</u>	<u>\$ 5,971</u>	<u>100.0%</u>	<u>\$ 6,364</u>	<u>100.0%</u>
December 31, 2015							
Loan-to-value ratios:							
Less than 65%	\$ 4,659	\$ 151	\$ 100	\$ 4,910	92.1%	\$ 5,124	92.6%
65% to 75%	330	—	8	338	6.3	330	6.0
76% to 80%	—	—	—	—	—	—	—
Greater than 80%	44	25	14	83	1.6	80	1.4
Total	<u>\$ 5,033</u>	<u>\$ 176</u>	<u>\$ 122</u>	<u>\$ 5,331</u>	<u>100.0%</u>	<u>\$ 5,534</u>	<u>100.0%</u>

Credit Quality of Agricultural Mortgage Loans

The credit quality of agricultural mortgage loans was as follows at:

	June 30, 2016		December 31, 2015	
	Recorded Investment	% of Total	Recorded Investment	% of Total
(Dollars in millions)				
Loan-to-value ratios:				
Less than 65%	\$ 1,451	93.2%	\$ 1,366	93.6%
65% to 75%	106	6.8	94	6.4
Total	<u>\$ 1,557</u>	<u>100.0%</u>	<u>\$ 1,460</u>	<u>100.0%</u>

The estimated fair value of agricultural mortgage loans was \$1.6 billion and \$1.5 billion at June 30, 2016 and December 31, 2015, respectively.

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

4. Investments (continued)

Credit Quality of Residential Mortgage Loans

The credit quality of residential mortgage loans was as follows at:

	June 30, 2016		December 31, 2015	
	Recorded Investment	% of Total	Recorded Investment	% of Total
(Dollars in millions)				
Performance indicators:				
Performing	\$ 525	98.5%	\$ 331	98.8%
Nonperforming	8	1.5	4	1.2
Total	\$ 533	100.0%	\$ 335	100.0%

The estimated fair value of residential mortgage loans was \$546 million and \$345 million at June 30, 2016 and December 31, 2015, respectively.

Past Due and Interest Accrual Status of Mortgage Loans

The Company has a high quality, well performing mortgage loan portfolio, with 99% of all mortgage loans classified as performing at both June 30, 2016 and December 31, 2015. The Company defines delinquency consistent with industry practice, when mortgage loans are past due as follows: commercial and residential mortgage loans — 60 days and agricultural mortgage loans — 90 days. The past due and accrual status of mortgage loans at recorded investment, prior to valuation allowances, by portfolio segment, were as follows at:

	Past Due		Nonaccrual Status	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
(In millions)				
Commercial	\$ —	\$ —	\$ —	\$ —
Agricultural	—	—	—	—
Residential	8	4	8	4
Total	\$ 8	\$ 4	\$ 8	\$ 4

Mortgage Loans Modified in a Troubled Debt Restructuring

There were no mortgage loans modified in a troubled debt restructuring during the three months and six months ended June 30, 2016 and 2015.

Cash Equivalents

The carrying value of cash equivalents, which includes securities and other investments with an original or remaining maturity of three months or less at the time of purchase, was \$2.0 billion and \$1.1 billion at June 30, 2016 and December 31, 2015, respectively.

Net Unrealized Investment Gains (Losses)

Unrealized investment gains (losses) on fixed maturity and equity securities AFS and the effect on DAC, VOBA, deferred sales inducements (“DSI”) and future policy benefits, that would result from the realization of the unrealized gains (losses), are included in net unrealized investment gains (losses) in accumulated other comprehensive income (loss) (“AOCI”).

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

4. Investments (continued)

The components of net unrealized investment gains (losses), included in AOCI, were as follows:

	June 30, 2016	December 31, 2015
	(In millions)	
Fixed maturity securities	\$ 5,757	\$ 2,265
Fixed maturity securities with noncredit OTTI losses included in AOCI	(20)	(19)
Total fixed maturity securities	5,737	2,246
Equity securities	71	54
Derivatives	438	368
Other	84	78
Subtotal	6,330	2,746
Amounts allocated from:		
Future policy benefits	(1,979)	(56)
DAC and VOBA related to noncredit OTTI losses recognized in AOCI	(1)	(1)
DAC, VOBA and DSI	(243)	(198)
Subtotal	(2,223)	(255)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	8	7
Deferred income tax benefit (expense)	(1,417)	(844)
Net unrealized investment gains (losses)	\$ 2,698	\$ 1,654

The changes in fixed maturity securities with noncredit OTTI losses included in AOCI were as follows:

	Six Months Ended June 30, 2016	Year Ended December 31, 2015
	(In millions)	
Balance, beginning of period	\$ (19)	\$ (34)
Noncredit OTTI losses and subsequent changes recognized	3	9
Securities sold with previous noncredit OTTI loss	3	17
Subsequent changes in estimated fair value	(7)	(11)
Balance, end of period	\$ (20)	\$ (19)

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

	Six Months Ended June 30, 2016
	(In millions)
Balance, beginning of period	\$ 1,654
Fixed maturity securities on which noncredit OTTI losses have been recognized	(1)
Unrealized investment gains (losses) during the period	3,585
Unrealized investment gains (losses) relating to:	
Future policy benefits	(1,923)
DAC, VOBA and DSI	(45)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	1
Deferred income tax benefit (expense)	(573)
Balance, end of period	\$ 2,698
Change in net unrealized investment gains (losses)	\$ 1,044

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

4. Investments (continued)

Concentrations of Credit Risk

There were no investments in any counterparty that were greater than 10% of the Company's stockholder's equity, other than the U.S. government and its agencies, at both June 30, 2016 and December 31, 2015.

Securities Lending

Elements of the securities lending program are presented below at:

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
	(In millions)	
Securities on loan: (1)		
Amortized cost	\$ 8,149	\$ 8,047
Estimated fair value	\$ 9,983	\$ 8,830
Cash collateral on deposit from counterparties (2)	\$ 10,134	\$ 8,981
Security collateral on deposit from counterparties (3)	\$ 117	\$ 23
Reinvestment portfolio — estimated fair value	\$ 10,192	\$ 8,938

- (1) Included within fixed maturity securities, cash equivalents and short-term investments. At June 30, 2016, both amortized cost and estimated fair value also included \$106 million, at estimated fair value, of securities which are not reflected on the consolidated financial statements.
- (2) Included within payables for collateral under securities loaned and other transactions.
- (3) Security collateral on deposit from counterparties may not be sold or re-pledged, unless the counterparty is in default, and is not reflected on the consolidated financial statements.

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

4. Investments (continued)

The cash collateral liability by loaned security type and remaining tenor of the agreements were as follows at:

	June 30, 2016				
	Remaining Tenor of Securities Lending Agreements				
	Open (1)	1 Month or Less	1 to 6 Months	Total	% of Total
	(Dollars in millions)				
Cash collateral liability by loaned security type:					
U.S. government and agency	\$ 2,525	\$ 2,678	\$ 3,295	\$ 8,498	83.8%
Agency RMBS	—	—	1,254	1,254	12.4
U.S. corporate	5	319	—	324	3.2
Foreign government	—	46	—	46	0.5
Foreign corporate	—	12	—	12	0.1
Total	\$ 2,530	\$ 3,055	\$ 4,549	\$ 10,134	100%

	December 31, 2015				
	Remaining Tenor of Securities Lending Agreements				
	Open (1)	1 Month or Less	1 to 6 Months	Total	% of Total
	(Dollars in millions)				
Cash collateral liability by loaned security type:					
U.S. government and agency	\$ 2,631	\$ 3,140	\$ 1,338	\$ 7,109	79.1%
Agency RMBS	—	939	579	1,518	16.9
U.S. corporate	9	302	—	311	3.5
Foreign government	1	42	—	43	0.5
Foreign corporate	—	—	—	—	—
Total	\$ 2,641	\$ 4,423	\$ 1,917	\$ 8,981	100%

(1) The related loaned security could be returned to the Company on the next business day which would require the Company to immediately return the cash collateral.

If the Company is required to return significant amounts of cash collateral on short notice and is forced to sell securities to meet the return obligation, it may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than what otherwise would have been realized under normal market conditions, or both. The estimated fair value of the securities on loan related to the cash collateral on open at June 30, 2016 was \$2.5 billion, over 99% of which were U.S. government and agency securities which, if put back to the Company, could be immediately sold to satisfy the cash requirement.

The reinvestment portfolio acquired with the cash collateral consisted principally of fixed maturity securities (including U.S. government and agency, agency RMBS, ABS, short-term investments and non-agency RMBS) with 68% invested in U.S. government and agency securities, agency RMBS, short-term investments, or held in cash and cash equivalents. If the securities on loan or the reinvestment portfolio become less liquid, the Company has the liquidity resources of most of its general account available to meet any potential cash demands when securities on loan are put back to the Company.

Repurchase Agreement Transactions

The Company participates in short-term repurchase agreements and reverse repurchase agreements with unaffiliated financial institutions. Under these agreements, the Company lends fixed maturity securities and contemporaneously borrows other fixed maturity securities (e.g., repurchase and reverse repurchase, respectively). The Company obtains cash collateral in an amount greater than or equal to 95% of the estimated fair value of the securities loaned, and pledges cash collateral in an amount generally equal to 98% of the estimated fair value of the borrowed securities at the inception of the transaction. The Company monitors the estimated fair value of the securities loaned and borrowed on a daily basis with additional collateral obtained as necessary throughout the duration of the transaction.

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

4. Investments (continued)

The Company accounted for these transactions as collateralized borrowing and lending. The amount of fixed maturity securities lent and borrowed, at estimated fair value, was \$320 million and \$308 million, respectively, at June 30, 2016. There were no such transactions outstanding as of December 31, 2015. Securities loaned under such transactions may be sold or re-pledged by the transferee. Securities borrowed under such transactions may be re-pledged and are not reflected on the consolidated financial statements. The amount of borrowed securities which were re-pledged was \$106 million, at estimated fair value, at June 30, 2016.

The Company has elected to offset amounts recognized as receivables and payables resulting from these transactions. The gross amounts of the receivables and payables related to these transactions at June 30, 2016 were both \$300 million. After the effect of offsetting of \$300 million, the net amount presented on the consolidated balance sheet at June 30, 2016 was a liability of less than \$1 million. Amounts owed to and due from counterparties may be settled in cash or offset, in accordance with the agreements. Cash inflows and outflows for cash settlements are reported on the consolidated statements of cash flows. At June 30, 2016, all \$300 million of payables from repurchase agreements had a remaining tenor of one to six months and were loans of U.S. and foreign corporate securities.

See Note 5 for information regarding the estimated fair value of the Company’s net derivative assets and net derivative liabilities after the application of master netting agreements and collateral.

Invested Assets on Deposit, Held in Trust and Pledged as Collateral

Invested assets on deposit, held in trust and pledged as collateral are presented below at estimated fair value for all asset classes, except mortgage loans, which are presented at carrying value at:

	June 30, 2016	December 31, 2015
	(In millions)	
Invested assets on deposit (regulatory deposits)	\$ 8,171	\$ 7,245
Invested assets held in trust (reinsurance agreements) (1)	1,121	952
Invested assets pledged as collateral (2)	5,168	2,801
Total invested assets on deposit, held in trust and pledged as collateral	\$ 14,460	\$ 10,998

- (1) The Company has held in trust certain investments, primarily fixed maturity securities, in connection with certain reinsurance transactions.
- (2) The Company has pledged invested assets in connection with various agreements and transactions, including funding agreements (see Note 5 of the Notes to the Consolidated Financial Statements included in the 2015 Annual Report) and derivative transactions (see Note 5).

See “— Securities Lending” and “— Repurchase Agreement Transactions” for information regarding securities on loan.

Variable Interest Entities

The Company is involved with certain legal entities that are VIEs. In certain instances, the Company holds both the power to direct the most significant activities of the entity, as well as an economic interest in the entity and, as such, is deemed to be the primary beneficiary or consolidator of the entity. The determination of the VIE’s primary beneficiary requires an evaluation of the contractual and implied rights and obligations associated with each party’s relationship with or involvement in the entity.

Consolidated VIEs

Creditors or beneficial interest holders of VIEs where the Company is the primary beneficiary have no recourse to the general credit of the Company, as the Company’s obligation to the VIEs is limited to the amount of its committed investment.

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

4. Investments (continued)

The following table presents the total assets and total liabilities relating to VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated at June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
	(In millions)	
CSEs: (1)		
Assets		
Mortgage loans (commercial mortgage loans)	\$ 159	\$ 172
Accrued investment income	1	1
Total assets	<u>\$ 160</u>	<u>\$ 173</u>
Liabilities		
Long-term debt	\$ 35	\$ 48
Other liabilities	1	1
Total liabilities	<u>\$ 36</u>	<u>\$ 49</u>

- (1) The Company consolidates entities that are structured as CMBS. The assets of these entities can only be used to settle their respective liabilities, and under no circumstances is the Company liable for any principal or interest shortfalls should any arise. The Company's exposure was limited to that of its remaining investment in these entities of \$106 million and \$105 million at estimated fair value at June 30, 2016 and December 31, 2015, respectively. The long-term debt bears interest primarily at fixed rates, ranging from 2.25% to 5.57%, payable primarily on a monthly basis. Interest expense related to these obligations, included in other expenses, was \$2 million and \$3 million for the three months and six months ended June 30, 2016, respectively and \$1 million and \$2 million for the three months and six months ended June 30, 2015, respectively.

Unconsolidated VIEs

The carrying amount and maximum exposure to loss relating to VIEs in which the Company holds a significant variable interest but is not the primary beneficiary and which have not been consolidated were as follows at:

	June 30, 2016		December 31, 2015	
	Carrying Amount	Maximum Exposure to Loss (1)	Carrying Amount	Maximum Exposure to Loss (1)
	(In millions)			
Fixed maturity securities AFS:				
Structured Securities (2)	\$ 17,232	\$ 17,232	\$ 13,453	\$ 13,453
U.S. and foreign corporate	479	479	461	461
Other limited partnership interests	1,576	2,175	1,367	1,647
Real estate joint ventures (3)	256	262	35	38
Other investments (4)	59	66	57	62
Total	<u>\$ 19,602</u>	<u>\$ 20,214</u>	<u>\$ 15,373</u>	<u>\$ 15,661</u>

- (1) The maximum exposure to loss relating to fixed maturity and equity securities AFS is equal to their carrying amounts or the carrying amounts of retained interests. The maximum exposure to loss relating to other limited partnership interests and real estate joint ventures is equal to the carrying amounts plus any unfunded commitments. For certain of its investments in other invested assets, the Company's return is in the form of income tax credits which are guaranteed by creditworthy third parties. For such investments, the maximum exposure to loss is equal to the carrying amounts plus any unfunded commitments, reduced by income tax credits guaranteed by third parties of less than \$1 million at both June 30, 2016 and December 31, 2015. Such a maximum loss would be expected to occur only upon bankruptcy of the issuer or investee.
- (2) For these variable interests, the Company's involvement is limited to that of a passive investor in mortgage-backed or asset-backed securities issued by trusts that do not have substantial equity.

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

4. Investments (continued)

- (3) Included in real estate joint ventures are investments in affiliated real estate joint ventures with a carrying value and maximum exposure to loss of \$204 million at June 30, 2016.
- (4) Other investments is comprised of other invested assets and non-redeemable preferred stock.

As described in Note 9, the Company makes commitments to fund partnership investments in the normal course of business. Excluding these commitments, the Company did not provide financial or other support to investees designated as VIEs during both the six months ended June 30, 2016 and 2015.

Net Investment Income

The components of net investment income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Investment income:				
Fixed maturity securities	\$ 556	\$ 506	\$ 1,071	\$ 993
Equity securities	4	4	9	8
Mortgage loans	106	83	194	155
Policy loans	15	13	29	26
Real estate and real estate joint ventures	2	44	15	66
Other limited partnership interests	20	55	41	107
Cash, cash equivalents and short-term investments	5	3	9	5
Operating joint venture	5	6	7	8
Other	2	(1)	2	3
Subtotal	<u>715</u>	<u>713</u>	<u>1,377</u>	<u>1,371</u>
Less: Investment expenses	39	29	77	56
Subtotal, net	<u>676</u>	<u>684</u>	<u>1,300</u>	<u>1,315</u>
FVO CSEs — interest income — commercial mortgage loans	2	5	5	9
Net investment income	<u>\$ 678</u>	<u>\$ 689</u>	<u>\$ 1,305</u>	<u>\$ 1,324</u>

See “— Variable Interest Entities” for discussion of CSEs.

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

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

4. Investments (continued)

Net Investment Gains (Losses)

Components of Net Investment Gains (Losses)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Total gains (losses) on fixed maturity securities:				
Total OTTI losses recognized — by sector and industry:				
U.S. and foreign corporate securities — by industry:				
Industrial	\$ —	\$ —	\$ (13)	\$ (1)
Total U.S. and foreign corporate securities	—	—	(13)	(1)
RMBS	—	—	(2)	(2)
OTTI losses on fixed maturity securities recognized in earnings	—	—	(15)	(3)
Fixed maturity securities — net gains (losses) on sales and disposals	21	(9)	(12)	16
Total gains (losses) on fixed maturity securities	21	(9)	(27)	13
Total gains (losses) on equity securities:				
Total OTTI losses recognized — by sector:				
Common stock	—	(1)	(1)	(1)
OTTI losses on equity securities recognized in earnings	—	(1)	(1)	(1)
Equity securities — net gains (losses) on sales and disposals	—	3	4	2
Total gains (losses) on equity securities	—	2	3	1
Mortgage loans	(4)	(4)	(6)	(5)
Real estate and real estate joint ventures	—	6	(1)	29
Other limited partnership interests	(2)	—	(6)	(1)
Other	3	(3)	5	(1)
Subtotal	18	(8)	(32)	36
FVO CSEs:				
Commercial mortgage loans	(1)	1	—	(2)
Long-term debt — related to commercial mortgage loans	—	1	—	2
Non-investment portfolio gains (losses)	(2)	1	(1)	1
Subtotal	(3)	3	(1)	1
Total net investment gains (losses)	\$ 15	\$ (5)	\$ (33)	\$ 37

See “— Variable Interest Entities” for discussion of CSEs.

See “— Related Party Investment Transactions” for discussion of affiliated net investment gains (losses) related to transfers of invested assets to affiliates.

Gains (losses) from foreign currency transactions included within net investment gains (losses) were \$2 million and \$5 million for the three months and six months ended June 30, 2016, respectively, and (\$4) million and (\$3) million for the three months and six months ended June 30, 2015, respectively.

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

4. Investments (continued)

Sales or Disposals and Impairments of Fixed Maturity and Equity Securities

Investment gains and losses on sales of securities are determined on a specific identification basis. Proceeds from sales or disposals of fixed maturity and equity securities and the components of fixed maturity and equity securities net investment gains (losses) were as shown in the table below.

	Three Months Ended June 30,			
	2016		2015	
	Fixed Maturity Securities		Equity Securities	
	(In millions)			
Proceeds	\$ 5,035	\$ 7,948	\$ 2	\$ 12
Gross investment gains	\$ 38	\$ 32	\$ —	\$ 3
Gross investment losses	(17)	(41)	—	—
OTTI losses	—	—	—	(1)
Net investment gains (losses)	\$ 21	\$ (9)	\$ —	\$ 2

	Six Months Ended June 30,			
	2016		2015	
	Fixed Maturity Securities		Equity Securities	
	(In millions)			
Proceeds	\$ 13,873	\$ 15,932	\$ 6	\$ 14
Gross investment gains	\$ 71	\$ 80	\$ 4	\$ 3
Gross investment losses	(83)	(64)	—	(1)
OTTI losses	(15)	(3)	(1)	(1)
Net investment gains (losses)	\$ (27)	\$ 13	\$ 3	\$ 1

Credit Loss Rollforward

The table below presents a rollforward of the cumulative credit loss component of OTTI loss recognized in earnings on fixed maturity securities still held for which a portion of the OTTI loss was recognized in other comprehensive income (loss) (“OCI”):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016		2015	
	Fixed Maturity Securities		Equity Securities	
	(In millions)			
Balance, beginning of period	\$ 51	\$ 56	\$ 52	\$ 57
Additions:				
Initial impairments — credit loss OTTI on securities not previously impaired	—	1	—	1
Additional impairments — credit loss OTTI on securities previously impaired	1	—	2	2
Reductions:				
Sales (maturities, pay downs or prepayments) of securities previously impaired as credit loss OTTI	(3)	(8)	(5)	(10)
Increase in cash flows — accretion of previous credit loss OTTI	—	(1)	—	(2)
Balance, end of period	\$ 49	\$ 48	\$ 49	\$ 48

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

4. Investments (continued)

Related Party Investment Transactions

The Company transfers invested assets, primarily consisting of fixed maturity securities and mortgage loans to and from affiliates. Invested assets transferred to and from affiliates were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Estimated fair value of invested assets transferred to affiliates	\$ —	\$ 101	\$ —	\$ 101
Amortized cost of invested assets transferred to affiliates	\$ —	\$ 95	\$ —	\$ 95
Net investment gains (losses) recognized on transfers	\$ —	\$ 6	\$ —	\$ 6
Estimated fair value of invested assets transferred from affiliates	\$ 4,226	\$ —	\$ 4,463	\$ 525

In April 2016, the Company received a transfer of investments and cash and cash equivalents of \$4.3 billion for the recapture of risks related to certain single premium deferred annuity contracts previously reinsured to Metropolitan Life Insurance Company (“MLIC”), an affiliate, which are included in the table above. See Note 10 for additional information related to the transfer.

The Company receives investment administrative services from an affiliate. The related investment administrative service charges were \$20 million and \$41 million for the three months and six months ended June 30, 2016, respectively, and \$17 million and \$34 million for the three months and six months ended June 30, 2015, respectively.

See “— Variable Interest Entities” for information on investments in affiliated real estate joint ventures.

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

5. Derivatives

Accounting for Derivatives

Freestanding Derivatives

Freestanding derivatives are carried on the Company’s balance sheet either as assets within other invested assets or as liabilities within other liabilities at estimated fair value. The Company does not offset the estimated fair value amounts recognized for derivatives executed with the same counterparty under the same master netting agreement.

Accruals on derivatives are generally recorded in accrued investment income or within other liabilities. However, accruals that are not scheduled to settle within one year are included with the derivatives carrying value in other invested assets or other liabilities.

If a derivative is not designated as an accounting hedge or its use in managing risk does not qualify for hedge accounting, changes in the estimated fair value of the derivative are reported in net derivative gains (losses) except as follows:

Statement of Operations Presentation:	Derivative:
Policyholder benefits and claims	<ul style="list-style-type: none"> • Economic hedges of variable annuity guarantees included in future policy benefits
Net investment income	<ul style="list-style-type: none"> • Economic hedges of equity method investments in joint ventures

Hedge Accounting

To qualify for hedge accounting, at the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction, as well as its designation of the hedge. Hedge designation and financial statement presentation of changes in estimated fair value of the hedging derivatives are as follows:

- Fair value hedge (a hedge of the estimated fair value of a recognized asset or liability) - in net derivative gains (losses), consistent with the change in estimated fair value of the hedged item attributable to the designated risk being hedged.
- Cash flow hedge (a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability) - effectiveness in OCI (deferred gains or losses on the derivative are reclassified into the statement of operations when the Company’s earnings are affected by the variability in cash flows of the hedged item); ineffectiveness in net derivative gains (losses).

The changes in estimated fair values of the hedging derivatives are exclusive of any accruals that are separately reported on the statement of operations within interest income or interest expense to match the location of the hedged item.

In its hedge documentation, the Company sets forth how the hedging instrument is expected to hedge the designated risks related to the hedged item and sets forth the method that will be used to retrospectively and prospectively assess the hedging instrument’s effectiveness and the method that will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and at least quarterly throughout the life of the designated hedging relationship. Assessments of hedge effectiveness and measurements of ineffectiveness are also subject to interpretation and estimation and different interpretations or estimates may have a material effect on the amount reported in net income.

The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivative is no longer highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item; (ii) the derivative expires, is sold, terminated, or exercised; (iii) it is no longer probable that the hedged forecasted transaction will occur; or (iv) the derivative is de-designated as a hedging instrument.

When hedge accounting is discontinued because it is determined that the derivative is not highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item, the derivative continues to be carried on the balance sheet at its estimated fair value, with changes in estimated fair value recognized in net derivative gains (losses). The carrying value of the hedged recognized asset or liability under a fair value hedge is no longer adjusted for changes in its estimated fair value due to the hedged risk, and the cumulative adjustment to its carrying value is amortized into income over the remaining life of the hedged item. Provided the hedged forecasted transaction is still probable of occurrence, the changes in estimated fair value of derivatives recorded in OCI related to discontinued cash flow hedges are released into the statement of operations when the Company’s earnings are affected by the variability in cash flows of the hedged item.

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

5. Derivatives (continued)

When hedge accounting is discontinued because it is no longer probable that the forecasted transactions will occur on the anticipated date or within two months of that date, the derivative continues to be carried on the balance sheet at its estimated fair value, with changes in estimated fair value recognized currently in net derivative gains (losses). Deferred gains and losses of a derivative recorded in OCI pursuant to the discontinued cash flow hedge of a forecasted transaction that is no longer probable are recognized immediately in net derivative gains (losses).

In all other situations in which hedge accounting is discontinued, the derivative is carried at its estimated fair value on the balance sheet, with changes in its estimated fair value recognized in the current period as net derivative gains (losses).

Embedded Derivatives

The Company sells variable annuities and issues certain insurance products and investment contracts and is a party to certain reinsurance agreements that have embedded derivatives. The Company assesses each identified embedded derivative to determine whether it is required to be bifurcated. The embedded derivative is bifurcated from the host contract and accounted for as a freestanding derivative if:

- the combined instrument is not accounted for in its entirety at estimated fair value with changes in estimated fair value recorded in earnings;
- the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract; and
- a separate instrument with the same terms as the embedded derivative would qualify as a derivative instrument.

Such embedded derivatives are carried on the balance sheet at estimated fair value with the host contract and changes in their estimated fair value are generally reported in net derivative gains (losses), except for those in policyholder benefits and claims related to ceded reinsurance of GMIB. If the Company is unable to properly identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at estimated fair value, with changes in estimated fair value recognized in the current period in net investment gains (losses) or net investment income. Additionally, the Company may elect to carry an entire contract on the balance sheet at estimated fair value, with changes in estimated fair value recognized in the current period in net investment gains (losses) or net investment income if that contract contains an embedded derivative that requires bifurcation. At inception, the Company attributes to the embedded derivative a portion of the projected future guarantee fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits. Any additional fees represent “excess” fees and are reported in universal life and investment-type product policy fees.

See Note 6 for information about the fair value hierarchy for derivatives.

Derivative Strategies

The Company is exposed to various risks relating to its ongoing business operations, including interest rate, foreign currency exchange rate, credit and equity market. The Company uses a variety of strategies to manage these risks, including the use of derivatives.

Derivatives are financial instruments with values derived from interest rates, foreign currency exchange rates, credit spreads and/or other financial indices. Derivatives may be exchange-traded or contracted in the over-the-counter (“OTC”) market. Certain of the Company’s OTC derivatives are cleared and settled through central clearing counterparties (“OTC-cleared”), while others are bilateral contracts between two counterparties (“OTC-bilateral”). The types of derivatives the Company uses include swaps, forwards, futures and option contracts. To a lesser extent, the Company uses credit default swaps to synthetically replicate investment risks and returns which are not readily available in the cash market.

Interest Rate Derivatives

The Company uses a variety of interest rate derivatives to reduce its exposure to changes in interest rates, including interest rate swaps, interest rate total return swaps, caps, floors, swaptions, futures and forwards.

Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). In an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional amount. The Company utilizes interest rate swaps in fair value, cash flow and nonqualifying hedging relationships.

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

5. Derivatives (continued)

Interest rate total return swaps are swaps whereby the Company agrees with another party to exchange, at specified intervals, the difference between the economic risk and reward of an asset or a market index and the London Interbank Offered Rate (“LIBOR”), calculated by reference to an agreed notional amount. No cash is exchanged at the outset of the contract. Cash is paid and received over the life of the contract based on the terms of the swap. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by the counterparty at each due date. Interest rate total return swaps are used by the Company to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). The Company utilizes interest rate total return swaps in nonqualifying hedging relationships.

The Company purchases interest rate caps and floors primarily to protect its floating rate liabilities against rises in interest rates above a specified level, and against interest rate exposure arising from mismatches between assets and liabilities, as well as to protect its minimum rate guarantee liabilities against declines in interest rates below a specified level, respectively. In certain instances, the Company locks in the economic impact of existing purchased caps and floors by entering into offsetting written caps and floors. The Company utilizes interest rate caps and floors in nonqualifying hedging relationships.

In exchange-traded interest rate (Treasury and swap) futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different classes of interest rate securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded interest rate (Treasury and swap) futures are used primarily to hedge mismatches between the duration of assets in a portfolio and the duration of liabilities supported by those assets, to hedge against changes in value of securities the Company owns or anticipates acquiring, to hedge against changes in interest rates on anticipated liability issuances by replicating Treasury or swap curve performance, and to hedge minimum guarantees embedded in certain variable annuity products offered by the Company. The Company utilizes exchange-traded interest rate futures in nonqualifying hedging relationships.

Swaptions are used by the Company to hedge interest rate risk associated with the Company’s long-term liabilities and invested assets. A swaption is an option to enter into a swap with a forward starting effective date. In certain instances, the Company locks in the economic impact of existing purchased swaptions by entering into offsetting written swaptions. The Company pays a premium for purchased swaptions and receives a premium for written swaptions. The Company utilizes swaptions in nonqualifying hedging relationships. Swaptions are included in interest rate options.

The Company enters into interest rate forwards to buy and sell securities. The price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. The Company utilizes interest rate forwards in cash flow hedging relationships.

Foreign Currency Exchange Rate Derivatives

The Company uses foreign currency swaps to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. In a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a fixed exchange rate, generally set at inception, calculated by reference to an agreed upon notional amount. The notional amount of each currency is exchanged at the inception and termination of the currency swap by each party. The Company utilizes foreign currency swaps in cash flow and nonqualifying hedging relationships.

To a lesser extent, the Company uses foreign currency forwards and exchange-traded currency futures in nonqualifying hedging relationships.

Credit Derivatives

The Company enters into purchased credit default swaps to hedge against credit-related changes in the value of its investments. In a credit default swap transaction, the Company agrees with another party to pay, at specified intervals, a premium to hedge credit risk. If a credit event occurs, as defined by the contract, the contract may be cash settled or it may be settled gross by the delivery of par quantities of the referenced investment equal to the specified swap notional amount in exchange for the payment of cash amounts by the counterparty equal to the par value of the investment surrendered. Credit events vary by type of issuer but typically include bankruptcy, failure to pay debt obligations, repudiation, moratorium, involuntary restructuring or governmental intervention. In each case, payout on a credit default swap is triggered only after the Credit Derivatives Determinations Committee of the International Swaps and Derivatives Association, Inc. (“ISDA”) deems that a credit event has occurred. The Company utilizes credit default swaps in nonqualifying hedging relationships.

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

5. Derivatives (continued)

The Company enters into written credit default swaps to synthetically create credit investments that are either more expensive to acquire or otherwise unavailable in the cash markets. These transactions are a combination of a derivative and one or more cash instruments, such as U.S. government and agency securities or other fixed maturity securities. These credit default swaps are not designated as hedging instruments.

To a lesser extent, the Company uses credit forwards to lock in the price to be paid for forward purchases of certain securities. The Company utilizes credit forwards in cash flow hedging relationships.

Equity Derivatives

The Company uses a variety of equity derivatives to reduce its exposure to equity market risk, including equity index options, equity variance swaps, exchange-traded equity futures and equity total return swaps.

Equity index options are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products offered by the Company. To hedge against adverse changes in equity indices, the Company enters into contracts to sell the equity index within a limited time at a contracted price. The contracts will be net settled in cash based on differentials in the indices at the time of exercise and the strike price. Certain of these contracts may also contain settlement provisions linked to interest rates. In certain instances, the Company may enter into a combination of transactions to hedge adverse changes in equity indices within a pre-determined range through the purchase and sale of options. The Company utilizes equity index options in nonqualifying hedging relationships.

Equity variance swaps are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products offered by the Company. In an equity variance swap, the Company agrees with another party to exchange amounts in the future, based on changes in equity volatility over a defined period. The Company utilizes equity variance swaps in nonqualifying hedging relationships.

In exchange-traded equity futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different classes of equity securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded equity futures are used primarily to hedge minimum guarantees embedded in certain variable annuity products offered by the Company. The Company utilizes exchange-traded equity futures in nonqualifying hedging relationships.

In an equity total return swap, the Company agrees with another party to exchange, at specified intervals, the difference between the economic risk and reward of an asset or a market index and LIBOR, calculated by reference to an agreed notional amount. No cash is exchanged at the outset of the contract. Cash is paid and received over the life of the contract based on the terms of the swap. The Company uses equity total return swaps to hedge its equity market guarantees in certain of its insurance products. Equity total return swaps can be used as hedges or to synthetically create investments. The Company utilizes equity total return swaps in nonqualifying hedging relationships.

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

5. Derivatives (continued)

Primary Risks Managed by Derivatives

The following table presents the gross notional amount, estimated fair value and primary underlying risk exposure of the Company's derivatives, excluding embedded derivatives, held at:

Primary Underlying Risk Exposure	June 30, 2016			December 31, 2015			
	Gross Notional Amount	Estimated Fair Value		Gross Notional Amount	Estimated Fair Value		
		Assets	Liabilities		Assets	Liabilities	
(In millions)							
Derivatives Designated as Hedging Instruments							
Fair value hedges							
Interest rate swaps	Interest rate	\$ 349	\$ 63	\$ 3	\$ 420	\$ 38	\$ 1
Cash flow hedges							
Interest rate swaps	Interest rate	123	52	—	230	60	—
Interest rate forwards	Interest rate	35	16	—	35	8	—
Foreign currency swaps	Foreign currency exchange rate	1,186	173	3	937	126	3
Subtotal		1,344	241	3	1,202	194	3
Total qualifying hedges		1,693	304	6	1,622	232	4
Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate swaps	Interest rate	22,648	3,111	1,019	23,134	1,804	638
Interest rate floors	Interest rate	2,100	20	14	7,036	33	24
Interest rate caps	Interest rate	14,192	8	—	13,792	38	—
Interest rate futures	Interest rate	2,357	—	3	630	2	—
Interest rate options	Interest rate	16,720	1,051	—	18,620	472	5
Interest rate total return swaps	Interest rate	1,262	66	—	—	—	—
Foreign currency swaps	Foreign currency exchange rate	1,107	118	12	659	75	—
Foreign currency forwards	Foreign currency exchange rate	141	3	—	185	4	1
Credit default swaps — purchased	Credit	44	—	1	21	—	—
Credit default swaps — written	Credit	1,957	17	1	2,093	13	1
Equity futures	Equity market	8,512	1	96	3,669	37	—
Equity index options	Equity market	42,061	1,266	783	44,035	1,032	626
Equity variance swaps	Equity market	14,935	128	463	14,866	120	434
Equity total return swaps	Equity market	2,946	42	29	2,814	31	49
Total non-designated or nonqualifying derivatives		130,982	5,831	2,421	131,554	3,661	1,778
Total		\$ 132,675	\$ 6,135	\$ 2,427	\$ 133,176	\$ 3,893	\$ 1,782

Based on gross notional amounts, a substantial portion of the Company's derivatives was not designated or did not qualify as part of a hedging relationship at both June 30, 2016 and December 31, 2015. The Company's use of derivatives includes (i) derivatives that serve as macro hedges of the Company's exposure to various risks and that generally do not qualify for hedge accounting due to the criteria required under the portfolio hedging rules; (ii) derivatives that economically hedge insurance liabilities that contain mortality or morbidity risk and that generally do not qualify for hedge accounting because the lack of these risks in the derivatives cannot support an expectation of a highly effective hedging relationship; (iii) derivatives that economically hedge embedded derivatives that do not qualify for hedge accounting because the changes in estimated fair value of the embedded derivatives are already recorded in net income; and (iv) written credit default swaps that are used to synthetically create credit investments and that do not qualify for hedge accounting because they do not involve a hedging relationship. For these nonqualified derivatives, changes in market factors can lead to the recognition of fair value changes on the statement of operations without an offsetting gain or loss recognized in earnings for the item being hedged.

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

5. Derivatives (continued)

Net Derivative Gains (Losses)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(In millions)				
Freestanding derivatives and hedging gains (losses) (1)	\$ 512	\$ (787)	\$ 1,287	\$ (466)
Embedded derivatives gains (losses)	(3,742)	770	(4,522)	534
Total net derivative gains (losses)	<u>\$ (3,230)</u>	<u>\$ (17)</u>	<u>\$ (3,235)</u>	<u>\$ 68</u>

- (1) Includes foreign currency transaction gains (losses) on hedged items in cash flow and nonqualifying hedging relationships, which are not presented elsewhere in this note.

The following table presents earned income on derivatives:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(In millions)				
Qualifying hedges:				
Net investment income	\$ 4	\$ 2	\$ 7	\$ 5
Interest credited to policyholder account balances	—	(1)	—	(1)
Nonqualifying hedges:				
Net derivative gains (losses)	99	86	196	177
Policyholder benefits and claims	3	4	7	7
Total	<u>\$ 106</u>	<u>\$ 91</u>	<u>\$ 210</u>	<u>\$ 188</u>

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

5. Derivatives (continued)

Nonqualifying Derivatives and Derivatives for Purposes Other Than Hedging

The following table presents the amount and location of gains (losses) recognized in income for derivatives that were not designated or not qualifying as hedging instruments:

	Net Derivative Gains (Losses)	Net Investment Income (1)	Policyholder Benefits and Claims (2)
	(In millions)		
Three Months Ended June 30, 2016			
Interest rate derivatives	\$ 599	\$ —	\$ 10
Foreign currency exchange rate derivatives	29	—	—
Credit derivatives — written	(1)	—	—
Equity derivatives	(215)	(1)	(47)
Total	\$ 412	\$ (1)	\$ (37)
Three Months Ended June 30, 2015			
Interest rate derivatives	\$ (682)	\$ —	\$ (17)
Foreign currency exchange rate derivatives	(34)	—	—
Credit derivatives — written	(6)	—	—
Equity derivatives	(157)	—	(23)
Total	\$ (879)	\$ —	\$ (40)
Six Months Ended June 30, 2016			
Interest rate derivatives	\$ 1,416	\$ —	\$ 29
Foreign currency exchange rate derivatives	29	—	—
Credit derivatives — written	(1)	—	—
Equity derivatives	(351)	(4)	(17)
Total	\$ 1,093	\$ (4)	\$ 12
Six Months Ended June 30, 2015			
Interest rate derivatives	\$ (281)	\$ —	\$ (6)
Foreign currency exchange rate derivatives	1	—	—
Credit derivatives — written	(5)	—	—
Equity derivatives	(366)	(1)	(96)
Total	\$ (651)	\$ (1)	\$ (102)

- (1) Changes in estimated fair value related to economic hedges of equity method investments in joint ventures.
- (2) Changes in estimated fair value related to economic hedges of variable annuity guarantees included in future policy benefits.

Fair Value Hedges

The Company designates and accounts for interest rate swaps to convert fixed rate assets and liabilities to floating rate assets and liabilities as fair value hedges when they have met the requirements of fair value hedging.

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

5. Derivatives (continued)

The Company recognizes gains and losses on derivatives and the related hedged items in fair value hedges within net derivative gains (losses). The following table presents the amount of such net derivative gains (losses):

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Net Derivative Gains (Losses) Recognized for Derivatives	Net Derivative Gains (Losses) Recognized for Hedged Items	Ineffectiveness Recognized in Net Derivative Gains (Losses)
(In millions)				
Three Months Ended June 30, 2016				
Interest rate swaps:	Fixed maturity securities	\$ (1)	\$ —	\$ (1)
	Policyholder liabilities (1)	10	(10)	—
Total		<u>\$ 9</u>	<u>\$ (10)</u>	<u>\$ (1)</u>
Three Months Ended June 30, 2015				
Interest rate swaps:	Fixed maturity securities	\$ 1	\$ —	\$ 1
	Policyholder liabilities (1)	(16)	16	—
Total		<u>\$ (15)</u>	<u>\$ 16</u>	<u>\$ 1</u>
Six Months Ended June 30, 2016				
Interest rate swaps:	Fixed maturity securities	\$ (3)	\$ 2	\$ (1)
	Policyholder liabilities (1)	24	(24)	—
Total		<u>\$ 21</u>	<u>\$ (22)</u>	<u>\$ (1)</u>
Six Months Ended June 30, 2015				
Interest rate swaps:	Fixed maturity securities	\$ —	\$ 1	\$ 1
	Policyholder liabilities (1)	(7)	7	—
Total		<u>\$ (7)</u>	<u>\$ 8</u>	<u>\$ 1</u>

(1) Fixed rate liabilities reported in policyholder account balances or future policy benefits.

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

Cash Flow Hedges

The Company designates and accounts for the following as cash flow hedges when they have met the requirements of cash flow hedging: (i) interest rate swaps to convert floating rate assets and liabilities to fixed rate assets and liabilities; (ii) foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated assets and liabilities; (iii) interest rate forwards and credit forwards to lock in the price to be paid for forward purchases of investments; and (iv) interest rate swaps and interest rate forwards to hedge the forecasted purchases of fixed-rate investments.

In certain instances, the Company discontinued cash flow hedge accounting because the forecasted transactions were no longer probable of occurring. Because certain of the forecasted transactions also were not probable of occurring within two months of the anticipated date, the Company reclassified amounts from AOCI into net derivative gains (losses). For both the three months and six months ended June 30, 2016, there were no amounts reclassified into net derivative gains (losses) related to such discontinued cash flow hedges. For both the three months and six months ended June 30, 2015, the amounts reclassified into net derivative gains (losses) related to such discontinued cash flow hedges were not significant.

At June 30, 2016 and December 31, 2015, the maximum length of time over which the Company was hedging its exposure to variability in future cash flows for forecasted transactions did not exceed three years and four years, respectively.

At June 30, 2016 and December 31, 2015, the balance in AOCI associated with cash flow hedges was \$438 million and \$368 million, respectively.

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

5. Derivatives (continued)

The following table presents the effects of derivatives in cash flow hedging relationships on the consolidated statements of operations and comprehensive income (loss) and the consolidated statements of stockholder's equity:

Derivatives in Cash Flow Hedging Relationships	Amount of Gains (Losses) Deferred in AOCI on Derivatives	Amount and Location of Gains (Losses) Reclassified from AOCI into Income (Loss)		Amount and Location of Gains (Losses) Recognized in Income (Loss) on Derivatives
	(Effective Portion)	(Effective Portion)		(Ineffective Portion)
		Net Derivative Gains (Losses)	Net Investment Income	Net Derivative Gains (Losses)
(In millions)				
Three Months Ended June 30, 2016				
Interest rate swaps	\$ 10	\$ 12	\$ —	\$ —
Interest rate forwards	3	(1)	1	—
Foreign currency swaps	57	(1)	—	—
Credit forwards	—	—	—	—
Total	<u>\$ 70</u>	<u>\$ 10</u>	<u>\$ 1</u>	<u>\$ —</u>
Three Months Ended June 30, 2015				
Interest rate swaps	\$ (41)	\$ —	\$ 1	\$ 1
Interest rate forwards	(11)	—	—	—
Foreign currency swaps	(31)	2	—	—
Credit forwards	—	—	—	—
Total	<u>\$ (83)</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 1</u>
Six Months Ended June 30, 2016				
Interest rate swaps	\$ 36	\$ 12	\$ 1	\$ —
Interest rate forwards	7	1	2	—
Foreign currency swaps	44	1	—	—
Credit forwards	—	—	—	—
Total	<u>\$ 87</u>	<u>\$ 14</u>	<u>\$ 3</u>	<u>\$ —</u>
Six Months Ended June 30, 2015				
Interest rate swaps	\$ (12)	\$ 1	\$ 1	\$ 1
Interest rate forwards	—	1	1	—
Foreign currency swaps	21	(2)	—	—
Credit forwards	—	(1)	—	—
Total	<u>\$ 9</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ 1</u>

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

At June 30, 2016, the Company expects to reclassify \$33 million of deferred net gains (losses) on derivatives in AOCI to earnings within the next 12 months.

Credit Derivatives

In connection with synthetically created credit investment transactions, the Company writes credit default swaps for which it receives a premium to insure credit risk. Such credit derivatives are included within the nonqualifying derivatives and derivatives for purposes other than hedging table. If a credit event occurs, as defined by the contract, the contract may be cash settled or it may be settled gross by the Company paying the counterparty the specified swap notional amount in exchange for the delivery of par quantities of the referenced credit obligation. The Company's maximum amount at risk, assuming the value of all referenced credit obligations is zero, was \$2.0 billion and \$2.1 billion at June 30, 2016 and December 31, 2015, respectively. The Company can terminate these contracts at any time through cash settlement with the counterparty at an amount equal to the then current estimated fair value of the credit default swaps. At June 30, 2016 and December 31, 2015, the Company would have received \$16 million and \$12 million, respectively, to terminate all of these contracts.

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

5. Derivatives (continued)

The following table presents the estimated fair value, maximum amount of future payments and weighted average years to maturity of written credit default swaps at:

Rating Agency Designation of Referenced Credit Obligations (1)	June 30, 2016			December 31, 2015		
	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)
(Dollars in millions)						
Aaa/Aa/A						
Single name credit default swaps (corporate)	\$ —	\$ 102	1.8	\$ 1	\$ 207	1.5
Credit default swaps referencing indices	3	318	3.8	1	219	4.0
Subtotal	3	420	3.4	2	426	2.8
Baa						
Single name credit default swaps (corporate)	1	274	1.7	2	409	1.6
Credit default swaps referencing indices	12	1,263	5.0	8	1,222	4.8
Subtotal	13	1,537	4.4	10	1,631	4.0
B						
Single name credit default swaps (corporate)	—	—	—	—	—	—
Credit default swaps referencing indices	—	—	—	—	36	5.0
Subtotal	—	—	—	—	36	5.0
Total	\$ 16	\$ 1,957	4.2	\$ 12	\$ 2,093	3.8

- (1) The rating agency designations are based on availability and the midpoint of the applicable ratings among Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings. If no rating is available from a rating agency, then an internally developed rating is used.
- (2) The weighted average years to maturity of the credit default swaps is calculated based on weighted average gross notional amounts.

Credit Risk on Freestanding Derivatives

The Company may be exposed to credit-related losses in the event of nonperformance by its counterparties to derivatives. Generally, the current credit exposure of the Company's derivatives is limited to the net positive estimated fair value of derivatives at the reporting date after taking into consideration the existence of master netting or similar agreements and any collateral received pursuant to such agreements.

The Company manages its credit risk related to derivatives by entering into transactions with creditworthy counterparties and establishing and monitoring exposure limits. The Company's OTC-bilateral derivative transactions are generally governed by ISDA Master Agreements which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties in the event of early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from the counterparty against payables to the same counterparty arising out of all included transactions. Substantially all of the Company's ISDA Master Agreements also include Credit Support Annex provisions which require both the pledging and accepting of collateral in connection with its OTC-bilateral derivatives.

The Company's OTC-cleared derivatives are effected through central clearing counterparties and its exchange-traded derivatives are effected through regulated exchanges. Such positions are marked to market and margined on a daily basis (both initial margin and variation margin), and the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivatives.

See Note 6 for a description of the impact of credit risk on the valuation of derivatives.

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

5. Derivatives (continued)

The estimated fair values of the Company's net derivative assets and net derivative liabilities after the application of master netting agreements and collateral were as follows at:

Derivatives Subject to a Master Netting Arrangement or a Similar Arrangement (6)	June 30, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Gross estimated fair value of derivatives:				
OTC-bilateral (1)	\$ 5,773	\$ 2,209	\$ 3,870	\$ 1,725
OTC-cleared (1)	452	127	78	78
Exchange-traded	1	99	39	—
Total gross estimated fair value of derivatives (1)	6,226	2,435	3,987	1,803
Amounts offset on the consolidated balance sheets	—	—	—	—
Estimated fair value of derivatives presented on the consolidated balance sheets (1)	6,226	2,435	3,987	1,803
Gross amounts not offset on the consolidated balance sheets:				
Gross estimated fair value of derivatives: (2)				
OTC-bilateral	(2,062)	(2,062)	(1,577)	(1,577)
OTC-cleared	(127)	(127)	(70)	(70)
Exchange-traded	(1)	(1)	—	—
Cash collateral: (3), (4)				
OTC-bilateral	(3,047)	—	(1,605)	—
OTC-cleared	(321)	—	(8)	(8)
Exchange-traded	—	(18)	—	—
Securities collateral: (5)				
OTC-bilateral	(627)	(91)	(552)	(148)
OTC-cleared	—	—	—	—
Exchange-traded	—	(80)	—	—
Net amount after application of master netting agreements and collateral	\$ 41	\$ 56	\$ 175	\$ —

- (1) At June 30, 2016 and December 31, 2015, derivative assets included income or expense accruals reported in accrued investment income or in other liabilities of \$91 million and \$94 million, respectively, and derivative liabilities included income or expense accruals reported in accrued investment income or in other liabilities of \$8 million and \$21 million, respectively.
- (2) Estimated fair value of derivatives is limited to the amount that is subject to set-off and includes income or expense accruals.
- (3) Cash collateral received by the Company for OTC-bilateral and OTC-cleared derivatives is included in cash and cash equivalents, short-term investments or in fixed maturity securities, and the obligation to return it is included in payables for collateral under securities loaned and other transactions on the balance sheet.
- (4) The receivable for the return of cash collateral provided by the Company is inclusive of initial margin on exchange-traded and OTC-cleared derivatives and is included in premiums, reinsurance and other receivables on the balance sheet. The amount of cash collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements. At June 30, 2016 and December 31, 2015, the Company received excess cash collateral of \$167 million and \$1 million, respectively, and provided excess cash collateral of \$46 million and \$62 million, respectively, which is not included in the table above due to the foregoing limitation.

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

5. Derivatives (continued)

- (5) Securities collateral received by the Company is held in separate custodial accounts and is not recorded on the balance sheet. Subject to certain constraints, the Company is permitted by contract to sell or re-pledge this collateral, but at June 30, 2016, none of the collateral had been sold or re-pledged. Securities collateral pledged by the Company is reported in fixed maturity securities on the balance sheet. Subject to certain constraints, the counterparties are permitted by contract to sell or re-pledge this collateral. The amount of securities collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements and cash collateral. At June 30, 2016 and December 31, 2015, the Company received excess securities collateral with an estimated fair value of \$216 million and \$0, respectively, for its OTC-bilateral derivatives, which are not included in the table above due to the foregoing limitation. At June 30, 2016 and December 31, 2015, the Company provided excess securities collateral with an estimated fair value of \$8 million and \$36 million, respectively, for its OTC-bilateral derivatives, and \$99 million and \$34 million, respectively, for its OTC-cleared derivatives, and \$285 million and \$156 million, respectively, for its exchange-traded derivatives, which are not included in the table above due to the foregoing limitation.
- (6) See Note 4 for information regarding the Company’s gross and net payables and receivables under repurchase agreement transactions.

The Company’s collateral arrangements for its OTC-bilateral derivatives generally require the party in a net liability position, after considering the effect of netting agreements, to pledge collateral when the estimated fair value of that party’s derivatives reaches a minimum transfer amount. In addition, the Company’s netting agreements for derivatives contain provisions that require both MetLife Insurance Company USA and the counterparty to maintain a specific investment grade financial strength or credit rating from each of Moody’s and S&P. If a party’s financial strength or credit ratings were to fall below that specific investment grade financial strength or credit rating, that party would be in violation of these provisions, and the other party to the derivatives could terminate the transactions and demand immediate settlement and payment based on such party’s reasonable valuation of the derivatives.

The following table presents the estimated fair value of the Company’s OTC-bilateral derivatives that 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 MetLife Insurance Company USA would be required to provide if there was a one-notch downgrade in MetLife Insurance Company USA’s financial strength rating at the reporting date or if MetLife Insurance Company USA’s financial strength rating sustained a downgrade to a level that triggered full overnight collateralization or termination of the derivative position at the reporting date. OTC-bilateral derivatives that are not subject to collateral agreements are excluded from this table.

	June 30, 2016		December 31, 2015
	(In millions)		
Estimated Fair Value of Derivatives in a Net Liability Position (1)	\$	147	\$ 148
Estimated Fair Value of Collateral Provided:			
Fixed maturity securities	\$	99	\$ 179
Cash	\$	—	\$ —
Estimated Fair Value of Incremental Collateral Provided Upon:			
One-notch downgrade in financial strength rating	\$	—	\$ —
Downgrade in financial strength rating to a level that triggers full overnight collateralization or termination of the derivative position	\$	—	\$ —

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

Embedded Derivatives

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

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

5. Derivatives (continued)

The following table presents the estimated fair value and balance sheet location of the Company's embedded derivatives that have been separated from their host contracts at:

	<u>Balance Sheet Location</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
		(In millions)	
Net embedded derivatives within asset host contracts:			
Ceded guaranteed minimum benefits	Premiums, reinsurance and other receivables	\$ 350	\$ 242
Funds withheld on assumed reinsurance	Other invested assets	63	35
Options embedded in debt or equity securities	Investments	(77)	(63)
Net embedded derivatives within asset host contracts		<u>\$ 336</u>	<u>\$ 214</u>
Net embedded derivatives within liability host contracts:			
Direct guaranteed minimum benefits	Policyholder account balances	\$ 4,205	\$ 177
Assumed guaranteed minimum benefits	Policyholder account balances	1,297	897
Funds withheld on ceded reinsurance	Other liabilities	603	244
Other	Policyholder account balances	10	6
Net embedded derivatives within liability host contracts		<u>\$ 6,115</u>	<u>\$ 1,324</u>

The following table presents changes in estimated fair value related to embedded derivatives:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(In millions)			
Net derivative gains (losses) (1), (2)	\$ (3,742)	\$ 770	\$ (4,522)	\$ 534
Policyholder benefits and claims	\$ 60	\$ (43)	\$ 105	\$ (19)

(1) The valuation of direct and assumed guaranteed minimum benefits includes a nonperformance risk adjustment. The amounts included in net derivative gains (losses) in connection with this adjustment were \$513 million and \$657 million for the three months and six months ended June 30, 2016, respectively, and (\$30) million and (\$14) million for the three months and six months ended June 30, 2015, respectively.

(2) See Note 10 for discussion of affiliated net derivative gains (losses).

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

6. Fair Value

Considerable judgment is often required in interpreting market data to develop estimates of fair value, and the use of different assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

Recurring Fair Value Measurements

The assets and liabilities measured at estimated fair value on a recurring basis and their corresponding placement in the fair value hierarchy, including those items for which the Company has elected the FVO, are presented below.

	June 30, 2016			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
(In millions)				
Assets				
Fixed maturity securities:				
U.S. corporate	\$ —	\$ 17,383	\$ 1,634	\$ 19,017
U.S. government and agency	10,109	7,631	25	17,765
RMBS	1,563	7,566	1,455	10,584
Foreign corporate	—	4,982	874	5,856
State and political subdivision	—	3,183	8	3,191
ABS	—	3,008	163	3,171
CMBS	—	3,303	174	3,477
Foreign government	—	973	9	982
Total fixed maturity securities	<u>11,672</u>	<u>48,029</u>	<u>4,342</u>	<u>64,043</u>
Equity securities:				
Short-term investments (1)	42	175	173	390
Commercial mortgage loans held by CSEs — FVO	—	159	—	159
Derivative assets: (2)				
Interest rate	—	4,306	81	4,387
Foreign currency exchange rate	—	294	—	294
Credit	—	13	4	17
Equity market	1	1,222	214	1,437
Total derivative assets	<u>1</u>	<u>5,835</u>	<u>299</u>	<u>6,135</u>
Net embedded derivatives within asset host contracts (3)	—	—	413	413
Separate account assets (4)	546	100,332	142	101,020
Total assets	<u>\$ 12,373</u>	<u>\$ 156,840</u>	<u>\$ 5,480</u>	<u>\$ 174,693</u>
Liabilities				
Derivative liabilities: (2)				
Interest rate	\$ 3	\$ 1,036	\$ —	\$ 1,039
Foreign currency exchange rate	—	15	—	15
Credit	—	2	—	2
Equity market	96	794	481	1,371
Total derivative liabilities	<u>99</u>	<u>1,847</u>	<u>481</u>	<u>2,427</u>
Net embedded derivatives within liability host contracts (3)	—	—	6,115	6,115
Long-term debt of CSEs — FVO	—	35	—	35
Total liabilities	<u>\$ 99</u>	<u>\$ 1,882</u>	<u>\$ 6,596</u>	<u>\$ 8,577</u>

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

6. Fair Value (continued)

	December 31, 2015			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
(In millions)				
Assets				
Fixed maturity securities:				
U.S. corporate	\$ —	\$ 15,295	\$ 1,451	\$ 16,746
U.S. government and agency	7,998	5,808	—	13,806
RMBS	—	7,138	1,340	8,478
Foreign corporate	—	4,263	691	4,954
State and political subdivision	—	2,692	13	2,705
ABS	—	2,357	317	2,674
CMBS	—	2,120	181	2,301
Foreign government	—	719	26	745
Total fixed maturity securities	7,998	40,392	4,019	52,409
Equity securities:	44	268	97	409
Short-term investments (1)	59	1,623	47	1,729
Commercial mortgage loans held by CSEs — FVO	—	172	—	172
Derivative assets: (2)				
Interest rate	2	2,445	8	2,455
Foreign currency exchange rate	—	205	—	205
Credit	—	12	1	13
Equity market	37	968	215	1,220
Total derivative assets	39	3,630	224	3,893
Net embedded derivatives within asset host contracts (3)	—	—	277	277
Separate account assets (4)	624	100,965	146	101,735
Total assets	\$ 8,764	\$ 147,050	\$ 4,810	\$ 160,624
Liabilities				
Derivative liabilities: (2)				
Interest rate	\$ —	\$ 668	\$ —	\$ 668
Foreign currency exchange rate	—	4	—	4
Credit	—	1	—	1
Equity market	—	653	456	1,109
Total derivative liabilities	—	1,326	456	1,782
Net embedded derivatives within liability host contracts (3)	—	—	1,324	1,324
Long-term debt of CSEs — FVO	—	48	—	48
Total liabilities	\$ —	\$ 1,374	\$ 1,780	\$ 3,154

- (1) Short-term investments as presented in the tables above differ from the amounts presented on the consolidated balance sheets because certain short-term investments are not measured at estimated fair value on a recurring basis.
- (2) Derivative assets are presented within other invested assets on the consolidated balance sheets and derivative liabilities are presented within other liabilities on the consolidated balance sheets. The amounts are presented gross in the tables above to reflect the presentation on the consolidated balance sheets, but are presented net for purposes of the rollforward in the Fair Value Measurements Using Significant Unobservable Inputs (Level 3) tables.

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

6. Fair Value (continued)

- (3) Net embedded derivatives within asset host contracts are presented within premiums, reinsurance and other receivables and other invested assets on the consolidated balance sheets. Net embedded derivatives within liability host contracts are presented within policyholder account balances and other liabilities on the consolidated balance sheets. At June 30, 2016 and December 31, 2015, debt and equity securities also included embedded derivatives of (\$77) million and (\$63) million, respectively.
- (4) Investment performance related to separate account assets is fully offset by corresponding amounts credited to contractholders whose liability is reflected within separate account liabilities. Separate account liabilities are set equal to the estimated fair value of separate account assets.

The following describes the valuation methodologies used to measure assets and liabilities at fair value. The description includes the valuation techniques and key inputs for each category of assets or liabilities that are classified within Level 2 and Level 3 of the fair value hierarchy.

Investments

Valuation Controls and Procedures

On behalf of the Company and MetLife, Inc.'s Chief Investment Officer and Chief Financial Officer, a pricing and valuation committee that is independent of the trading and investing functions and comprised of senior management, provides oversight of control systems and valuation policies for securities, mortgage loans and derivatives. On a quarterly basis, this committee reviews and approves new transaction types and markets, ensures that observable market prices and market-based parameters are used for valuation, wherever possible, and determines that judgmental valuation adjustments, when applied, are based upon established policies and are applied consistently over time. This committee also provides oversight of the selection of independent third-party pricing providers and the controls and procedures to evaluate third-party pricing. Periodically, the Chief Accounting Officer reports to the Audit Committee of MetLife Insurance Company USA's Board of Directors regarding compliance with fair value accounting standards.

The Company reviews its valuation methodologies on an ongoing basis and revises those methodologies when necessary based on changing market conditions. Assurance is gained on the overall reasonableness and consistent application of input assumptions, valuation methodologies and compliance with fair value accounting standards through controls designed to ensure valuations represent an exit price. Several controls are utilized, including certain monthly controls, which include, but are not limited to, analysis of portfolio returns to corresponding benchmark returns, comparing a sample of executed prices of securities sold to the fair value estimates, comparing fair value estimates to management's knowledge of the current market, reviewing the bid/ask spreads to assess activity, comparing prices from multiple independent pricing services and ongoing due diligence to confirm that independent pricing services use market-based parameters. The process includes a determination of the observability of inputs used in estimated fair values received from independent pricing services or brokers by assessing whether these inputs can be corroborated by observable market data. The Company ensures that prices received from independent brokers, also referred to herein as "consensus pricing," represent a reasonable estimate of fair value by considering such pricing relative to the Company's knowledge of the current market dynamics and current pricing for similar financial instruments. While independent non-binding broker quotations are utilized, they are not used for a significant portion of the portfolio. For example, fixed maturity securities priced using independent non-binding broker quotations represent less than 1% of the total estimated fair value of fixed maturity securities and 4% of the total estimated fair value of Level 3 fixed maturity securities at June 30, 2016.

The Company also applies a formal process to challenge any prices received from independent pricing services that are not considered representative of estimated fair value. If prices received from independent pricing services are not considered reflective of market activity or representative of estimated fair value, independent non-binding broker quotations are obtained, or an internally developed valuation is prepared. Internally developed valuations of current estimated fair value, which reflect internal estimates of liquidity and nonperformance risks, compared with pricing received from the independent pricing services, did not produce material differences in the estimated fair values for the majority of the portfolio; accordingly, overrides were not material. This is, in part, because internal estimates of liquidity and nonperformance risks are generally based on available market evidence and estimates used by other market participants. In the absence of such market-based evidence, management's best estimate is used.

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

6. Fair Value (continued)

Securities, Short-term Investments and Long-term Debt of CSEs — FVO

When available, the estimated fair value of these financial instruments is based on quoted prices in active markets that are readily and regularly obtainable. Generally, these are the most liquid of the Company's securities holdings and valuation of these securities does not involve management's judgment.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data. When observable inputs are not available, the market standard valuation methodologies rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from, or corroborated by, observable market data. These unobservable inputs can be based in large part on management's judgment or estimation and cannot be supported by reference to market activity. Even though these inputs are unobservable, management believes they are consistent with what other market participants would use when pricing such securities and are considered appropriate given the circumstances.

The estimated fair value of long-term debt of CSEs — FVO is determined on a basis consistent with the methodologies described herein for securities.

The valuation of most instruments listed below is determined using independent pricing sources, matrix pricing, discounted cash flow methodologies or other similar techniques that use either observable market inputs or unobservable inputs.

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

6. Fair Value (continued)

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Fixed Maturity Securities		
U.S. corporate and Foreign corporate securities		
	Valuation Techniques: Principally the market and income approaches. Key Inputs: <ul style="list-style-type: none"> • quoted prices in markets that are not active • benchmark yields; spreads off benchmark yields; new issuances; issuer rating • trades of identical or comparable securities; duration • Privately-placed securities are valued using the additional key inputs: <ul style="list-style-type: none"> • market yield curve; call provisions • observable prices and spreads for similar public or private securities that incorporate the credit quality and industry sector of the issuer • delta spread adjustments to reflect specific credit-related issues 	Valuation Techniques: Principally the market approach. Key Inputs: <ul style="list-style-type: none"> • illiquidity premium • delta spread adjustments to reflect specific credit-related issues • credit spreads • quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 • independent non-binding broker quotations
U.S. government and agency, State and political subdivision and Foreign government securities		
	Valuation Techniques: Principally the market approach. Key Inputs: <ul style="list-style-type: none"> • quoted prices in markets that are not active • benchmark U.S. Treasury yield or other yields • the spread off the U.S. Treasury yield curve for the identical security • issuer ratings and issuer spreads; broker-dealer quotes • comparable securities that are actively traded 	Valuation Techniques: Principally the market approach. Key Inputs: <ul style="list-style-type: none"> • independent non-binding broker quotations • quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 • credit spreads
Structured Securities		
	Valuation Techniques: Principally the market and income approaches. Key Inputs: <ul style="list-style-type: none"> • quoted prices in markets that are not active • spreads for actively traded securities; spreads off benchmark yields • expected prepayment speeds and volumes • current and forecasted loss severity; ratings; geographic region • weighted average coupon and weighted average maturity • average delinquency rates; debt-service coverage ratios • issuance-specific information, including, but not limited to: <ul style="list-style-type: none"> • collateral type; structure of the security; vintage of the loans • payment terms of the underlying assets • payment priority within the tranche; deal performance 	Valuation Techniques: Principally the market and income approaches. Key Inputs: <ul style="list-style-type: none"> • credit spreads • quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 • independent non-binding broker quotations

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

6. Fair Value (continued)

Instrument	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Equity Securities		
	Valuation Techniques: Principally the market approach. Key Input: <ul style="list-style-type: none"> • quoted prices in markets that are not considered active 	Valuation Techniques: Principally the market and income approaches. Key Inputs: <ul style="list-style-type: none"> • credit ratings; issuance structures • quoted prices in markets that are not active for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 • independent non-binding broker quotations
Short-term investments		
	<ul style="list-style-type: none"> • Short-term investments are of a similar nature and class to the fixed maturity and equity securities described above; accordingly, the valuation techniques and observable inputs used in their valuation are also similar to those described above. 	<ul style="list-style-type: none"> • Short-term investments are of a similar nature and class to the fixed maturity and equity securities described above; accordingly, the valuation techniques and unobservable inputs used in their valuation are also similar to those described above.
Commercial mortgage loans held by CSEs — FVO		
	Valuation Techniques: Principally the market approach. Key Input: <ul style="list-style-type: none"> • quoted securitization market price of the obligations of the CSEs determined principally by independent pricing services using observable inputs 	<ul style="list-style-type: none"> • N/A
Separate Account Assets (1)		
Mutual funds without readily determinable fair values as prices are not published publicly		
	Key Input: <ul style="list-style-type: none"> • quoted prices or reported NAV provided by the fund managers 	<ul style="list-style-type: none"> • N/A
Other limited partnership interests		
	<ul style="list-style-type: none"> • N/A 	Valuation Techniques: Valued giving consideration to the underlying holdings of the partnerships and by applying a premium or discount, if appropriate. Key Inputs: <ul style="list-style-type: none"> • liquidity; bid/ask spreads; performance record of the fund manager • other relevant variables that may impact the exit value of the particular partnership interest

- (1) Estimated fair value equals carrying value, based on the value of the underlying assets, including: mutual fund interests, fixed maturity securities, equity securities, derivatives, other limited partnership interests, short-term investments and cash and cash equivalents. Fixed maturity securities, equity securities, derivatives, short-term investments and cash and cash equivalents are similar in nature to the instruments described under “— Securities, Short-term Investments and Long-term Debt of CSEs — FVO” and “— Derivatives — Freestanding Derivatives.”

Derivatives

The estimated fair value of derivatives is determined through the use of quoted market prices for exchange-traded derivatives, or through the use of pricing models for OTC-bilateral and OTC-cleared derivatives. The determination of estimated fair value, when quoted market values are not available, is based on market standard valuation methodologies and inputs that management believes are consistent with what other market participants would use when pricing such instruments. Derivative valuations can be affected by changes in interest rates, foreign currency exchange rates, financial indices, credit spreads, default risk, nonperformance risk, volatility, liquidity and changes in estimates and assumptions used in the pricing models. The valuation controls and procedures for derivatives are described in “— Investments.”

The significant inputs to the pricing models for most OTC-bilateral and OTC-cleared derivatives are inputs that are observable in the market or can be derived principally from, or corroborated by, observable market data. Certain OTC-bilateral and OTC-cleared derivatives may rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from, or corroborated by, observable market data. These unobservable inputs may involve significant management judgment or estimation. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and management believes they are consistent with what other market participants would use when pricing such instruments.

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

6. Fair Value (continued)

Most inputs for OTC-bilateral and OTC-cleared derivatives are mid-market inputs but, in certain cases, liquidity adjustments are made when they are deemed more representative of exit value. Market liquidity, as well as the use of different methodologies, assumptions and inputs, may have a material effect on the estimated fair values of the Company’s derivatives and could materially affect net income.

The credit risk of both the counterparty and the Company are considered in determining the estimated fair value for all OTC-bilateral and OTC-cleared derivatives, and any potential credit adjustment is based on the net exposure by counterparty after taking into account the effects of netting agreements and collateral arrangements. The Company values its OTC-bilateral and OTC-cleared derivatives using standard swap curves which may include a spread to the risk-free rate, depending upon specific collateral arrangements. This credit spread is appropriate for those parties that execute trades at pricing levels consistent with similar collateral arrangements. As the Company and its significant derivative counterparties generally execute trades at such pricing levels and hold sufficient collateral, additional credit risk adjustments are not currently required in the valuation process. The Company’s ability to consistently execute at such pricing levels is in part due to the netting agreements and collateral arrangements that are in place with all of its significant derivative counterparties. An evaluation of the requirement to make additional credit risk adjustments is performed by the Company each reporting period.

Freestanding Derivatives

Level 2 Valuation Techniques and Key Inputs:

This level includes all types of derivatives utilized by the Company with the exception of exchange-traded derivatives included within Level 1 and those derivatives with unobservable inputs as described in Level 3.

Level 3 Valuation Techniques and Key Inputs:

These valuation methodologies generally use the same inputs as described in the corresponding sections for Level 2 measurements of derivatives. However, these derivatives result in Level 3 classification because one or more of the significant inputs are not observable in the market or cannot be derived principally from, or corroborated by, observable market data.

Freestanding derivatives are principally valued using the income approach. Valuations of non-option-based derivatives utilize present value techniques, whereas valuations of option-based derivatives utilize option pricing models. Key inputs are as follows:

Instrument	Interest Rate	Foreign Currency Exchange Rate	Credit	Equity Market
Inputs common to Level 2 and Level 3 by instrument type	<ul style="list-style-type: none"> • swap yield curves • basis curves • interest rate volatility (1) 	<ul style="list-style-type: none"> • swap yield curves • basis curves • currency spot rates • cross currency basis curves 	<ul style="list-style-type: none"> • swap yield curves • credit curves • recovery rates 	<ul style="list-style-type: none"> • swap yield curves • spot equity index levels • dividend yield curves • equity volatility (1)
Level 3	<ul style="list-style-type: none"> • swap yield curves (2) • basis curves (2) • repurchase rates 	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • swap yield curves (2) • credit curves (2) • credit spreads • repurchase rates • independent non-binding broker quotations 	<ul style="list-style-type: none"> • dividend yield curves (2) • equity volatility (1), (2) • correlation between model inputs (1)

- (1) Option-based only.
(2) Extrapolation beyond the observable limits of the curve(s).

Embedded Derivatives

Embedded derivatives principally include certain direct, assumed and ceded variable annuity guarantees, equity or bond indexed crediting rates within certain annuity contracts, and those related to funds withheld on ceded reinsurance agreements. Embedded derivatives are recorded at estimated fair value with changes in estimated fair value reported in net income.

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

6. Fair Value (continued)

The Company issues certain variable annuity products with guaranteed minimum benefits. GMWBs, GMABs and certain GMIBs contain embedded derivatives, which are measured at estimated fair value separately from the host variable annuity contract, with changes in estimated fair value reported in net derivative gains (losses). These embedded derivatives are classified within policyholder account balances on the consolidated balance sheets.

The Company's actuarial department calculates the fair value of these embedded derivatives, which are estimated as the present value of projected future benefits minus the present value of projected future fees using actuarial and capital market assumptions including expectations concerning policyholder behavior. The calculation is based on in-force business, and is performed using standard actuarial valuation software which projects future cash flows from the embedded derivative over multiple risk neutral stochastic scenarios using observable risk-free rates.

Capital market assumptions, such as risk-free rates and implied volatilities, are based on market prices for publicly traded instruments to the extent that prices for such instruments are observable. Implied volatilities beyond the observable period are extrapolated based on observable implied volatilities and historical volatilities. Actuarial assumptions, including mortality, lapse, withdrawal and utilization, are unobservable and are reviewed at least annually based on actuarial studies of historical experience.

The valuation of these guarantee liabilities includes nonperformance risk adjustments and adjustments for a risk margin related to non-capital market inputs. The nonperformance adjustment is determined by taking into consideration publicly available information relating to spreads in the secondary market for MetLife, Inc.'s debt, including related credit default swaps. These observable spreads are then adjusted, as necessary, to reflect the priority of these liabilities and the claims paying ability of the issuing insurance subsidiaries compared to MetLife, Inc.

Risk margins are established to capture the non-capital market risks of the instrument which represent the additional compensation a market participant would require to assume the risks related to the uncertainties of such actuarial assumptions as annuitization, premium persistency, partial withdrawal and surrenders. The establishment of risk margins requires the use of significant management judgment, including assumptions of the amount and cost of capital needed to cover the guarantees. These guarantees may be more costly than expected in volatile or declining equity markets. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates; changes in nonperformance risk; and variations in actuarial assumptions regarding policyholder behavior, mortality and risk margins related to non-capital market inputs, may result in significant fluctuations in the estimated fair value of the guarantees that could materially affect net income.

The Company assumed from an affiliated insurance company the risk associated with certain GMIBs. These embedded derivatives are included in policyholder account balances on the consolidated balance sheets with changes in estimated fair value reported in net derivative gains (losses). The value of the embedded derivatives on these assumed risks is determined using a methodology consistent with that described previously for the guarantees directly written by the Company.

The Company ceded to an affiliate the risk associated with certain of the GMIBs, GMABs and GMWBs described above that are also accounted for as embedded derivatives. In addition to ceding risks associated with guarantees that are accounted for as embedded derivatives, the Company also cedes, to an affiliated company, certain directly written GMIBs that are accounted for as insurance (i.e., not as embedded derivatives), but where the reinsurance agreement contains an embedded derivative. These embedded derivatives are included within premiums, reinsurance and other receivables on the consolidated balance sheets with changes in estimated fair value reported in net derivative gains (losses). The value of the embedded derivatives on the ceded risk is determined using a methodology consistent with that described previously for the guarantees directly written by the Company with the exception of the input for nonperformance risk that reflects the credit of the reinsurer.

The estimated fair value of the embedded derivatives within funds withheld related to certain ceded reinsurance is determined based on the change in estimated fair value of the underlying assets held by the Company in a reference portfolio backing the funds withheld liability. The estimated fair value of the underlying assets is determined as previously described in "— Investments — Securities, Short-term Investments and Long-term Debt of CSEs — FVO." The estimated fair value of these embedded derivatives is included, along with their funds withheld hosts, in other liabilities on the consolidated balance sheets with changes in estimated fair value recorded in net derivative gains (losses). Changes in the credit spreads on the underlying assets, interest rates and market volatility may result in significant fluctuations in the estimated fair value of these embedded derivatives that could materially affect net income.

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

6. Fair Value (continued)

The Company issues certain annuity contracts which allow the policyholder to participate in returns from equity indices. These equity indexed features are embedded derivatives which are measured at estimated fair value separately from the host fixed annuity contract, with changes in estimated fair value reported in net derivative gains (losses). These embedded derivatives are classified within policyholder account balances on the consolidated balance sheets.

The estimated fair value of the embedded equity indexed derivatives, based on the present value of future equity returns to the policyholder using actuarial and present value assumptions including expectations concerning policyholder behavior, is calculated by the Company's actuarial department. The calculation is based on in-force business and uses standard capital market techniques, such as Black-Scholes, to calculate the value of the portion of the embedded derivative for which the terms are set. The portion of the embedded derivative covering the period beyond where terms are set is calculated as the present value of amounts expected to be spent to provide equity indexed returns in those periods. The valuation of these embedded derivatives also includes the establishment of a risk margin, as well as changes in nonperformance risk.

Embedded Derivatives Within Asset and Liability Host Contracts

Level 3 Valuation Techniques and Key Inputs:

Direct and assumed guaranteed minimum benefits

These embedded derivatives are principally valued using the income approach. Valuations are based on option pricing techniques, which utilize significant inputs that may include swap yield curves, currency exchange rates and implied volatilities. These embedded derivatives result in Level 3 classification because one or more of the significant inputs are not observable in the market or cannot be derived principally from, or corroborated by, observable market data. Significant unobservable inputs generally include: the extrapolation beyond observable limits of the swap yield curves and implied volatilities, actuarial assumptions for policyholder behavior and mortality and the potential variability in policyholder behavior and mortality, nonperformance risk and cost of capital for purposes of calculating the risk margin.

Reinsurance ceded on certain guaranteed minimum benefits

These embedded derivatives are principally valued using the income approach. The valuation techniques and significant market standard unobservable inputs used in their valuation are similar to those described above in “— Direct and assumed guaranteed minimum benefits” and also include counterparty credit spreads.

Transfers between Levels

Overall, transfers between levels occur when there are changes in the observability of inputs and market activity. Transfers into or out of any level are assumed to occur at the beginning of the period.

Transfers between Levels 1 and 2:

For assets and liabilities measured at estimated fair value and still held at June 30, 2016, there were no transfers between Levels 1 and 2. For assets and liabilities measured at estimated fair value and still held at December 31, 2015, transfers between Levels 1 and 2 were not significant.

Transfers into or out of Level 3:

Assets and liabilities are transferred into Level 3 when a significant input cannot be corroborated with market observable data. This occurs when market activity decreases significantly and underlying inputs cannot be observed, current prices are not available, and/or when there are significant variances in quoted prices, thereby affecting transparency. Assets and liabilities are transferred out of Level 3 when circumstances change such that a significant input can be corroborated with market observable data. This may be due to a significant increase in market activity, a specific event, or one or more significant input(s) becoming observable.

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

6. Fair Value (continued)

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

The following table presents certain quantitative information about the significant unobservable inputs used in the fair value measurement, and the sensitivity of the estimated fair value to changes in those inputs, for the more significant asset and liability classes measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at:

	Valuation Techniques	Significant Unobservable Inputs	June 30, 2016		December 31, 2015		Impact of Increase in Input on Estimated Fair Value (2)
			Range	Weighted Average (1)	Range	Weighted Average (1)	
Fixed maturity securities (3)							
U.S. corporate and foreign corporate	• Matrix pricing	• Delta spread adjustments (4)	(106) - 545	(2)	(65) - 240	49	Decrease
	• Market pricing	• Quoted prices (5)	13 - 884	321	13 - 780	314	Increase
	• Consensus pricing	• Offered quotes (5)	6 - 95	83	68 - 95	80	Increase
RMBS	• Market pricing	• Quoted prices (5)	36 - 112	90	29 - 292	93	Increase (6)
ABS	• Market pricing	• Quoted prices (5)	97 - 103	101	97 - 103	100	Increase (6)
	• Consensus pricing	• Offered quotes (5)	98 - 101	99	66 - 105	99	Increase (6)
Derivatives							
Interest rate	• Present value techniques	• Swap yield (7)	231 - 231		317 - 317		Increase (8)
		• Repurchase rates (9)	(16) - (3)				Decrease (8)
Credit	• Present value techniques	• Credit spreads (10)	97 - 100		— - —		Decrease (8)
	• Consensus pricing	• Offered quotes (11)					
Equity market	• Present value techniques or option pricing models	• Volatility (12)	16% - 35%		17% - 36%		Increase (8)
		• Correlation (13)	70% - 70%		70% - 70%		
Embedded derivatives							
Direct, assumed and ceded guaranteed minimum benefits	• Option pricing techniques	• Mortality rates:					
		Ages 0 - 40	0% - 0.09%		0% - 0.09%		Decrease (14)
		Ages 41 - 60	0.04% - 0.65%		0.04% - 0.65%		Decrease (14)
		Ages 61 - 115	0.26% - 100%		0.26% - 100%		Decrease (14)
		• Lapse rates:					
		Durations 1 - 10	0.25% - 100%		0.25% - 100%		Decrease (15)
		Durations 11 - 20	3% - 100%		3% - 100%		Decrease (15)
		Durations 21 - 116	3% - 100%		3% - 100%		Decrease (15)
		• Utilization rates	0% - 25%		0% - 25%		Increase (16)
		• Withdrawal rates	0.25% - 10%		0.25% - 10%		(17)
• Long-term equity volatilities	17.40% - 25%		17.40% - 25%		Increase (18)		
• Nonperformance risk spread	0.07% - 0.72%		0.04% - 0.52%		Decrease (19)		

- (1) The weighted average for fixed maturity securities is determined based on the estimated fair value of the securities.
- (2) The impact of a decrease in input would have the opposite impact on estimated fair value. For embedded derivatives, changes to direct and assumed guaranteed minimum benefits are based on liability positions; changes to ceded guaranteed minimum benefits are based on asset positions.
- (3) Significant increases (decreases) in expected default rates in isolation would result in substantially lower (higher) valuations.
- (4) Range and weighted average are presented in basis points.
- (5) Range and weighted average are presented in accordance with the market convention for fixed maturity securities of dollars per hundred dollars of par.
- (6) Changes in the assumptions used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumptions used for prepayment rates.

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

6. Fair Value (continued)

- (7) Ranges represent the rates across different yield curves and are presented in basis points. The swap yield curves are utilized among different types of derivatives to project cash flows, as well as to discount future cash flows to present value. Since this valuation methodology uses a range of inputs across a yield curve to value the derivative, presenting a range is more representative of the unobservable input used in the valuation.
- (8) Changes in estimated fair value are based on long U.S. dollar net asset positions and will be inversely impacted for short U.S. dollar net asset positions.
- (9) Ranges represent different repurchase rates utilized as components within the valuation methodology and are presented in basis points.
- (10) Represents the risk quoted in basis points of a credit default event on the underlying instrument. Credit derivatives with significant unobservable inputs are primarily comprised of written credit default swaps.
- (11) At both June 30, 2016 and December 31, 2015, independent non-binding broker quotations were used in the determination of less than 1% of the total net derivative estimated fair value.
- (12) Ranges represent the underlying equity volatility quoted in percentage points. Since this valuation methodology uses a range of inputs across multiple volatility surfaces to value the derivative, presenting a range is more representative of the unobservable input used in the valuation.
- (13) Ranges represent the different correlation factors utilized as components within the valuation methodology. Presenting a range of correlation factors is more representative of the unobservable input used in the valuation. Increases (decreases) in correlation in isolation will increase (decrease) the significance of the change in valuations.
- (14) Mortality rates vary by age and by demographic characteristics such as gender. Mortality rate assumptions are based on company experience. A mortality improvement assumption is also applied. For any given contract, mortality rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (15) Base lapse rates are adjusted at the contract level based on a comparison of the actuarially calculated guaranteed values and the current policyholder account value, as well as other factors, such as the applicability of any surrender charges. A dynamic lapse function reduces the base lapse rate when the guaranteed amount is greater than the account value as in the money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. For any given contract, lapse rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (16) The utilization rate assumption estimates the percentage of contract holders with a GMIB or lifetime withdrawal benefit who will elect to utilize the benefit upon becoming eligible. The rates may vary by the type of guarantee, the amount by which the guaranteed amount is greater than the account value, the contract's withdrawal history and by the age of the policyholder. For any given contract, utilization rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (17) The withdrawal rate represents the percentage of account balance that any given policyholder will elect to withdraw from the contract each year. The withdrawal rate assumption varies by age and duration of the contract, and also by other factors such as benefit type. For any given contract, withdrawal rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. For GMWBs, any increase (decrease) in withdrawal rates results in an increase (decrease) in the estimated fair value of the guarantees. For GMABs and GMIBs, any increase (decrease) in withdrawal rates results in a decrease (increase) in the estimated fair value.
- (18) Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. For any given contract, long-term equity volatility rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.
- (19) Nonperformance risk spread varies by duration and by currency. For any given contract, multiple nonperformance risk spreads will apply, depending on the duration of the cash flow being discounted for purposes of valuing the embedded derivative.

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

6. Fair Value (continued)

The following is a summary of the valuation techniques and significant unobservable inputs used in the fair value measurement of assets and liabilities classified within Level 3 that are not included in the preceding table. Generally, all other classes of securities classified within Level 3, including those within separate account assets and embedded derivatives within funds withheld related to certain ceded and assumed reinsurance, use the same valuation techniques and significant unobservable inputs as previously described for Level 3 securities. This includes matrix pricing and discounted cash flow methodologies, inputs such as quoted prices for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2, as well as independent non-binding broker quotations. The sensitivity of the estimated fair value to changes in the significant unobservable inputs for these other assets and liabilities is similar in nature to that described in the preceding table. The valuation techniques and significant unobservable inputs used in the fair value measurement for the more significant assets measured at estimated fair value on a nonrecurring basis and determined using significant unobservable inputs (Level 3) are summarized in “— Nonrecurring Fair Value Measurements.”

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6. Fair Value (continued)

The following tables summarize the change of all assets and (liabilities) measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Fixed Maturity Securities				
	Corporate (1)	U.S. Government and Agency	Structured Securities	State and Political Subdivision	Foreign Government
	(In millions)				
Three Months Ended June 30, 2016					
Balance, beginning of period	\$ 2,135	\$ 20	\$ 1,635	\$ 8	\$ —
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	8	—	—
Total realized/unrealized gains (losses) included in AOCI	70	1	(5)	—	—
Purchases (7)	229	4	376	—	9
Sales (7)	(19)	—	(130)	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	—	—	—
Transfers into Level 3 (8)	101	—	12	—	—
Transfers out of Level 3 (8)	(8)	—	(104)	—	—
Balance, end of period	<u>\$ 2,508</u>	<u>\$ 25</u>	<u>\$ 1,792</u>	<u>\$ 8</u>	<u>\$ 9</u>
Three Months Ended June 30, 2015					
Balance, beginning of period	\$ 2,151	\$ —	\$ 1,527	\$ —	\$ —
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	2	—	7	—	—
Total realized/unrealized gains (losses) included in AOCI	(70)	—	(1)	—	—
Purchases (7)	49	—	523	8	—
Sales (7)	(75)	—	(88)	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	—	—	—
Transfers into Level 3 (8)	32	—	44	—	—
Transfers out of Level 3 (8)	(13)	—	(248)	—	—
Balance, end of period	<u>\$ 2,076</u>	<u>\$ —</u>	<u>\$ 1,764</u>	<u>\$ 8</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2015 (9)	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ —</u>

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

6. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Equity Securities	Short-term Investments	Net Derivatives (2)	Net Embedded Derivatives (3)	Separate Account Assets (4)
	(In millions)				
Three Months Ended June 30, 2016					
Balance, beginning of period	\$ 171	\$ 50	\$ (243)	\$ (1,906)	\$ 143
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	54	(3,664)	—
Total realized/unrealized gains (losses) included in AOCI	3	—	4	—	—
Purchases (7)	—	111	4	—	—
Sales (7)	(1)	—	—	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	(1)	(132)	—
Transfers into Level 3 (8)	—	—	—	—	—
Transfers out of Level 3 (8)	—	(50)	—	—	(1)
Balance, end of period	<u>\$ 173</u>	<u>\$ 111</u>	<u>\$ (182)</u>	<u>\$ (5,702)</u>	<u>\$ 142</u>
Three Months Ended June 30, 2015					
Balance, beginning of period	\$ 90	\$ 307	\$ (225)	\$ (662)	\$ 156
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	(40)	718	—
Total realized/unrealized gains (losses) included in AOCI	2	—	(10)	—	—
Purchases (7)	—	324	4	—	—
Sales (7)	—	(170)	—	—	(2)
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	(23)	(114)	—
Transfers into Level 3 (8)	18	—	—	—	—
Transfers out of Level 3 (8)	—	(87)	—	—	(4)
Balance, end of period	<u>\$ 110</u>	<u>\$ 374</u>	<u>\$ (294)</u>	<u>\$ (58)</u>	<u>\$ 150</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 57</u>	<u>\$ (3,668)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2015 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (32)</u>	<u>\$ 695</u>	<u>\$ —</u>

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

6. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Fixed Maturity Securities				
	Corporate (1)	U.S. Government and Agency	Structured Securities	State and Political Subdivision	Foreign Government
	(In millions)				
Six Months Ended June 30, 2016					
Balance, beginning of period	\$ 2,142	\$ —	\$ 1,838	\$ 13	\$ 26
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	(12)	—	14	—	—
Total realized/unrealized gains (losses) included in AOCI	174	2	(18)	—	—
Purchases (7)	274	4	447	—	9
Sales (7)	(96)	—	(221)	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	—	—	—
Transfers into Level 3 (8)	160	19	24	—	—
Transfers out of Level 3 (8)	(134)	—	(292)	(5)	(26)
Balance, end of period	<u>\$ 2,508</u>	<u>\$ 25</u>	<u>\$ 1,792</u>	<u>\$ 8</u>	<u>\$ 9</u>
Six Months Ended June 30, 2015					
Balance, beginning of period	\$ 2,065	\$ —	\$ 1,045	\$ —	\$ —
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	6	—	10	—	—
Total realized/unrealized gains (losses) included in AOCI	(70)	—	(2)	—	—
Purchases (7)	97	—	948	8	—
Sales (7)	(90)	—	(125)	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	—	—	—
Transfers into Level 3 (8)	72	—	43	—	—
Transfers out of Level 3 (8)	(4)	—	(155)	—	—
Balance, end of period	<u>\$ 2,076</u>	<u>\$ —</u>	<u>\$ 1,764</u>	<u>\$ 8</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ (10)</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2015 (9)	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ —</u>

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

6. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Equity Securities	Short-term Investments	Net Derivatives (2)	Net Embedded Derivatives (3)	Separate Account Assets (4)
	(In millions)				
Six Months Ended June 30, 2016					
Balance, beginning of period	\$ 97	\$ 47	\$ (232)	\$ (1,047)	\$ 146
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	37	(4,399)	—
Total realized/unrealized gains (losses) included in AOCI	—	—	8	—	—
Purchases (7)	—	111	7	—	1
Sales (7)	(13)	(47)	—	—	(4)
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	(2)	(256)	—
Transfers into Level 3 (8)	129	—	—	—	—
Transfers out of Level 3 (8)	(40)	—	—	—	(1)
Balance, end of period	<u>\$ 173</u>	<u>\$ 111</u>	<u>\$ (182)</u>	<u>\$ (5,702)</u>	<u>\$ 142</u>
Six Months Ended June 30, 2015					
Balance, beginning of period	\$ 100	\$ 71	\$ (196)	\$ (347)	\$ 158
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	(72)	519	(1)
Total realized/unrealized gains (losses) included in AOCI	(2)	—	—	—	—
Purchases (7)	—	374	4	—	—
Sales (7)	—	(16)	—	—	(4)
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	(30)	(230)	—
Transfers into Level 3 (8)	19	—	—	—	—
Transfers out of Level 3 (8)	(7)	(55)	—	—	(3)
Balance, end of period	<u>\$ 110</u>	<u>\$ 374</u>	<u>\$ (294)</u>	<u>\$ (58)</u>	<u>\$ 150</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 43</u>	<u>\$ (4,404)</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2015 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (65)</u>	<u>\$ 496</u>	<u>\$ —</u>

- (1) Comprised of U.S. and foreign corporate securities.
- (2) Freestanding derivative assets and liabilities are presented net for purposes of the rollforward.
- (3) Embedded derivative assets and liabilities are presented net for purposes of the rollforward.
- (4) Investment performance related to separate account assets is fully offset by corresponding amounts credited to contractholders within separate account liabilities. Therefore, such changes in estimated fair value are not recorded in net income (loss). For the purpose of this disclosure, these changes are presented within net investment gains (losses).
- (5) Amortization of premium/accretion of discount is included within net investment income. Impairments charged to net income (loss) on securities are included in net investment gains (losses). Lapses associated with net embedded derivatives are included in net derivative gains (losses). Substantially all realized/unrealized gains (losses) included in net income (loss) for net derivatives and net embedded derivatives are reported in net derivatives gains (losses).
- (6) Interest and dividend accruals, as well as cash interest coupons and dividends received, are excluded from the rollforward.
- (7) Items purchased/issued and then sold/settled in the same period are excluded from the rollforward. Fees attributed to embedded derivatives are included in settlements.

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

6. Fair Value (continued)

- (8) Gains and losses, in net income (loss) and OCI, are calculated assuming transfers into and/or out of Level 3 occurred at the beginning of the period. Items transferred into and then out of Level 3 in the same period are excluded from the rollforward.
- (9) Changes in unrealized gains (losses) included in net income (loss) relate to assets and liabilities still held at the end of the respective periods. Substantially all changes in unrealized gains (losses) included in net income (loss) for net derivatives and net embedded derivatives are reported in net derivative gains (losses).

Fair Value Option

The following table presents information for certain assets and liabilities of CSEs, which are accounted for under the FVO. These assets and liabilities were initially measured at fair value.

	June 30, 2016	December 31, 2015
	(In millions)	
Assets (1)		
Unpaid principal balance	\$ 109	\$ 121
Difference between estimated fair value and unpaid principal balance	50	51
Carrying value at estimated fair value	<u>\$ 159</u>	<u>\$ 172</u>
Liabilities (1)		
Contractual principal balance	\$ 33	\$ 46
Difference between estimated fair value and contractual principal balance	2	2
Carrying value at estimated fair value	<u>\$ 35</u>	<u>\$ 48</u>

- (1) These assets and liabilities are comprised of commercial mortgage loans and long-term debt. Changes in estimated fair value on these assets and liabilities and gains or losses on sales of these assets are recognized in net investment gains (losses). Interest income on commercial mortgage loans held by CSEs — FVO is recognized in net investment income. Interest expense from long-term debt of CSEs — FVO is recognized in other expenses.

Nonrecurring Fair Value Measurements

The following table presents information for assets measured at estimated fair value on a nonrecurring basis during the periods and still held at the reporting dates (for example, when there is evidence of impairment). The estimated fair values for these assets were determined using significant unobservable inputs (Level 3).

	At June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015	2016	2015
	Carrying Value After Measurement		Gains (Losses)			
	(In millions)					
Mortgage loans (1)	\$ 3	\$ 3	\$ —	\$ —	\$ —	\$ —
Other limited partnership interests (2)	\$ 2	\$ —	\$ (1)	\$ —	\$ (2)	\$ (1)
Other assets (3)	\$ —	\$ —	\$ —	\$ —	\$ (11)	\$ —

- (1) Estimated fair values for impaired mortgage loans are based on independent broker quotations or valuation models using unobservable inputs or, if the loans are in foreclosure or are otherwise determined to be collateral dependent, are based on the estimated fair value of the underlying collateral or the present value of the expected future cash flows.

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

6. Fair Value (continued)

- (2) For these cost method investments, estimated fair value is determined from information provided on the financial statements of the underlying entities including net asset value (“NAV”) data. These investments include private equity and debt funds that typically invest primarily in various strategies including domestic and international leveraged buyout funds; power, energy, timber and infrastructure development funds; venture capital funds; and below investment grade debt and mezzanine debt funds. Distributions will be generated from investment gains, from operating income from the underlying investments of the funds and from liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over the next two to 10 years. Unfunded commitments for these investments at both June 30, 2016 and 2015 were not significant.
- (3) During the six months ended June 30, 2016, the Company recognized an impairment of computer software in connection with the sale of MetLife, Inc.’s U.S. Retail advisor force to Massachusetts Mutual Life Insurance Company (“MassMutual”). See Note 10.

Fair Value of Financial Instruments Carried at Other Than Fair Value

The following tables provide fair value information for financial instruments that are carried on the balance sheet at amounts other than fair value. These tables exclude the following financial instruments: cash and cash equivalents, accrued investment income, payables for collateral under securities loaned and other transactions and those short-term investments that are not securities, such as time deposits, and therefore are not included in the three level hierarchy table disclosed in the “— Recurring Fair Value Measurements” section. The estimated fair value of the excluded financial instruments, which are primarily classified in Level 2, approximates carrying value as they are short-term in nature such that the Company believes there is minimal risk of material changes in interest rates or credit quality. All remaining balance sheet amounts excluded from the tables below are not considered financial instruments subject to this disclosure.

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows at:

	June 30, 2016				
	Carrying Value	Fair Value Hierarchy			Total Estimated Fair Value
		Level 1	Level 2	Level 3	
(In millions)					
Assets					
Mortgage loans	\$ 8,020	\$ —	\$ —	\$ 8,522	\$ 8,522
Policy loans	\$ 1,190	\$ —	\$ 846	\$ 451	\$ 1,297
Real estate joint ventures	\$ 21	\$ —	\$ —	\$ 61	\$ 61
Other limited partnership interests	\$ 46	\$ —	\$ —	\$ 50	\$ 50
Premiums, reinsurance and other receivables	\$ 2,091	\$ —	\$ 130	\$ 2,968	\$ 3,098
Liabilities					
Policyholder account balances	\$ 16,586	\$ —	\$ —	\$ 18,692	\$ 18,692
Long-term debt	\$ 782	\$ —	\$ 1,076	\$ —	\$ 1,076
Other liabilities	\$ 1,998	\$ —	\$ 1,830	\$ 168	\$ 1,998
Separate account liabilities	\$ 1,224	\$ —	\$ 1,224	\$ —	\$ 1,224

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

6. Fair Value (continued)

	December 31, 2015				
	Carrying Value	Fair Value Hierarchy			Total Estimated Fair Value
		Level 1	Level 2	Level 3	
		(In millions)			
Assets					
Mortgage loans	\$ 7,090	\$ —	\$ —	\$ 7,386	\$ 7,386
Policy loans	\$ 1,266	\$ —	\$ 917	\$ 430	\$ 1,347
Real estate joint ventures	\$ 23	\$ —	\$ —	\$ 65	\$ 65
Other limited partnership interests	\$ 52	\$ —	\$ —	\$ 57	\$ 57
Premiums, reinsurance and other receivables	\$ 6,074	\$ —	\$ 80	\$ 7,163	\$ 7,243
Liabilities					
Policyholder account balances	\$ 18,968	\$ —	\$ —	\$ 20,339	\$ 20,339
Long-term debt	\$ 788	\$ —	\$ 1,070	\$ —	\$ 1,070
Other liabilities	\$ 217	\$ —	\$ 43	\$ 174	\$ 217
Separate account liabilities	\$ 1,275	\$ —	\$ 1,275	\$ —	\$ 1,275

The methods, assumptions and significant valuation techniques and inputs used to estimate the fair value of financial instruments are summarized as follows:

Mortgage Loans

The estimated fair value of mortgage loans is primarily determined by estimating expected future cash flows and discounting them using current interest rates for similar mortgage loans with similar credit risk, or is determined from pricing for similar loans.

Policy Loans

Policy loans with fixed interest rates are classified within Level 3. The estimated fair values for these loans are determined using a discounted cash flow model applied to groups of similar policy loans determined by the nature of the underlying insurance liabilities. Cash flow estimates are developed by applying a weighted-average interest rate to the outstanding principal balance of the respective group of policy loans and an estimated average maturity determined through experience studies of the past performance of policyholder repayment behavior for similar loans. These cash flows are discounted using current risk-free interest rates with no adjustment for borrower credit risk, as these loans are fully collateralized by the cash surrender value of the underlying insurance policy. Policy loans with variable interest rates are classified within Level 2 and the estimated fair value approximates carrying value due to the absence of borrower credit risk and the short time period between interest rate resets, which presents minimal risk of a material change in estimated fair value due to changes in market interest rates.

Real Estate Joint Ventures and Other Limited Partnership Interests

The estimated fair values of these cost method investments are generally based on the Company's share of the NAV as provided on the financial statements of the investees. In certain circumstances, management may adjust the NAV by a premium or discount when it has sufficient evidence to support applying such adjustments.

Premiums, Reinsurance and Other Receivables

Premiums, reinsurance and other receivables are principally comprised of certain amounts recoverable under reinsurance agreements, amounts on deposit with financial institutions to facilitate daily settlements related to certain derivatives and amounts receivable for securities sold but not yet settled.

Amounts recoverable under ceded reinsurance agreements, which the Company has determined do not transfer significant risk such that they are accounted for using the deposit method of accounting, have been classified as Level 3. The valuation is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using interest rates determined to reflect the appropriate credit standing of the assuming counterparty.

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

6. Fair Value (continued)

The amounts on deposit for derivative settlements, classified within Level 2, essentially represent the equivalent of demand deposit balances and amounts due for securities sold are generally received over short periods such that the estimated fair value approximates carrying value.

Policyholder Account Balances

These policyholder account balances include investment contracts which primarily include certain funding agreements, fixed deferred annuities, modified guaranteed annuities, fixed term payout annuities and total control accounts. The valuation of these investment contracts is based on discounted cash flow methodologies using significant unobservable inputs. The estimated fair value is determined using current market risk-free interest rates adding a spread to reflect the nonperformance risk in the liability.

Long-term Debt

The estimated fair value of long-term debt is principally determined using market standard valuation methodologies. Valuations of instruments are based primarily on quoted prices in markets that are not active or using matrix pricing that use standard market observable inputs such as quoted prices in markets that are not active and observable yields and spreads in the market. Instruments valued using discounted cash flow methodologies use standard market observable inputs including market yield curve, duration, observable prices and spreads for similar publicly traded or privately traded issues.

Other Liabilities

Other liabilities consist primarily of interest payable, amounts due for securities purchased but not yet settled, and funds withheld amounts payable, which are contractually withheld by the Company in accordance with the terms of the reinsurance agreements. The Company evaluates the specific terms, facts and circumstances of each instrument to determine the appropriate estimated fair values, which are not materially different from the carrying values.

Separate Account Liabilities

Separate account liabilities represent those balances due to policyholders under contracts that are classified as investment contracts.

Separate account liabilities classified as investment contracts primarily represent variable annuities with no significant mortality risk to the Company such that the death benefit is equal to the account balance and certain contracts that provide for benefit funding.

Since separate account liabilities are fully funded by cash flows from the separate account assets which are recognized at estimated fair value as described in the section “— Recurring Fair Value Measurements,” the value of those assets approximates the estimated fair value of the related separate account liabilities. The valuation techniques and inputs for separate account liabilities are similar to those described for separate account assets.

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

7. Equity

Capital Contribution

In February 2016, MetLife USA received, in cash, a capital contribution of \$1.5 billion from MetLife, Inc.

Accumulated Other Comprehensive Income (Loss)

Information regarding changes in the balances of each component of AOCI was as follows:

	Three Months Ended June 30, 2016			Total
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	
	(In millions)			
Balance, beginning of period	\$ 2,372	\$ 246	\$ (30)	\$ 2,588
OCI before reclassifications	107	70	15	192
Deferred income tax benefit (expense)	(51)	(24)	(2)	(77)
AOCI before reclassifications, net of income tax	2,428	292	(17)	2,703
Amounts reclassified from AOCI	(23)	(11)	—	(34)
Deferred income tax benefit (expense)	8	4	—	12
Amounts reclassified from AOCI, net of income tax	(15)	(7)	—	(22)
Balance, end of period	\$ 2,413	\$ 285	\$ (17)	\$ 2,681

	Three Months Ended June 30, 2015			Total
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	
	(In millions)			
Balance, beginning of period	\$ 2,488	\$ 245	\$ (13)	\$ 2,720
OCI before reclassifications	(1,519)	(83)	(20)	(1,622)
Deferred income tax benefit (expense)	536	28	7	571
AOCI before reclassifications, net of income tax	1,505	190	(26)	1,669
Amounts reclassified from AOCI	7	(3)	—	4
Deferred income tax benefit (expense)	(2)	1	—	(1)
Amounts reclassified from AOCI, net of income tax	5	(2)	—	3
Balance, end of period	\$ 1,510	\$ 188	\$ (26)	\$ 1,672

	Six Months Ended June 30, 2016			Total
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	
	(In millions)			
Balance, beginning of period	\$ 1,415	\$ 239	\$ (26)	\$ 1,628
OCI before reclassifications	1,520	87	11	1,618
Deferred income tax benefit (expense)	(539)	(30)	(2)	(571)
AOCI before reclassifications, net of income tax	2,396	296	(17)	2,675
Amounts reclassified from AOCI	26	(17)	—	9
Deferred income tax benefit (expense)	(9)	6	—	(3)
Amounts reclassified from AOCI, net of income tax	17	(11)	—	6
Balance, end of period	\$ 2,413	\$ 285	\$ (17)	\$ 2,681

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

7. Equity (continued)

	Six Months Ended June 30, 2015			Total
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	
	(In millions)			
Balance, beginning of period	\$ 2,250	\$ 183	\$ (7)	\$ 2,426
OCI before reclassifications	(1,126)	9	(30)	(1,147)
Deferred income tax benefit (expense)	398	(3)	11	406
AOCI before reclassifications, net of income tax	1,522	189	(26)	1,685
Amounts reclassified from AOCI	(19)	(1)	—	(20)
Deferred income tax benefit (expense)	7	—	—	7
Amounts reclassified from AOCI, net of income tax	(12)	(1)	—	(13)
Balance, end of period	\$ 1,510	\$ 188	\$ (26)	\$ 1,672

(1) See Note 4 for information on offsets to investments related to future policy benefits, DAC, VOBA and DSI.

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

AOCI Components	Amounts Reclassified from AOCI				Consolidated Statement of Operations and Comprehensive Income (Loss) Locations
	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
	(In millions)				
Net unrealized investment gains (losses):					
Net unrealized investment gains (losses)	\$ 21	\$ (8)	\$ (25)	\$ 11	Net investment gains (losses)
Net unrealized investment gains (losses)	2	2	(1)	13	Net investment income
Net unrealized investment gains (losses)	—	(1)	—	(5)	Net derivative gains (losses)
Net unrealized investment gains (losses), before income tax	23	(7)	(26)	19	
Income tax (expense) benefit	(8)	2	9	(7)	
Net unrealized investment gains (losses), net of income tax	15	(5)	(17)	12	
Unrealized gains (losses) on derivatives - cash flow hedges:					
Interest rate swaps	\$ 12	\$ —	\$ 12	\$ 1	Net derivative gains (losses)
Interest rate swaps	—	1	1	1	Net investment income
Interest rate forwards	(1)	—	1	1	Net derivative gains (losses)
Interest rate forwards	1	—	2	1	Net investment income
Foreign currency swaps	(1)	2	1	(2)	Net derivative gains (losses)
Credit forwards	—	—	—	(1)	Net derivative gains (losses)
Gains (losses) on cash flow hedges, before income tax	11	3	17	1	
Income tax (expense) benefit	(4)	(1)	(6)	—	
Gains (losses) on cash flow hedges, net of income tax	7	2	11	1	
Total reclassifications, net of income tax	\$ 22	\$ (3)	\$ (6)	\$ 13	

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

8. Other Expenses

Information on other expenses was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In millions)			
Compensation	\$ 98	\$ 111	\$ 220	\$ 236
Commissions	109	150	272	314
Volume-related costs	31	12	62	59
Affiliated expense on ceded and assumed reinsurance	73	71	136	158
Capitalization of DAC	(68)	(86)	(161)	(185)
Amortization of DAC and VOBA	(282)	57	(103)	252
Interest expense on debt	19	18	36	36
Premium taxes, licenses and fees	13	14	29	22
Professional services	21	4	26	10
Rent and related expenses	15	13	29	30
Other	102	81	210	160
Total other expenses	<u>\$ 131</u>	<u>\$ 445</u>	<u>\$ 756</u>	<u>\$ 1,092</u>

Affiliated Expenses

Commissions, capitalization of DAC and amortization of DAC and VOBA include the impact of affiliated reinsurance transactions. See Note 10 for a discussion of affiliated expenses included in the table above.

9. Contingencies, Commitments and Guarantees

Contingencies

Litigation

The Company is a defendant in a number of litigation matters. In some of the matters, large and/or indeterminate amounts, including punitive and treble damages, are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. In addition, jurisdictions may permit plaintiffs to allege monetary damages in amounts well exceeding reasonably possible verdicts in the jurisdiction for similar matters. This variability in pleadings, together with the actual experience of the Company in litigating or resolving through settlement numerous claims over an extended period of time, demonstrates to management that the monetary relief which may be specified in a lawsuit or claim bears little relevance to its merits or disposition value.

Due to the vagaries of litigation, the outcome of a litigation matter and the amount or range of potential loss at particular points in time may normally be difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how trial and appellate courts will apply the law in the context of the pleadings or evidence presented, whether by motion practice, or at trial or on appeal. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel will themselves view the relevant evidence and applicable law.

The Company establishes liabilities for litigation and regulatory loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require the Company to pay damages or make other expenditures or establish accruals in amounts that could not be reasonably estimated at June 30, 2016.

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

9. Contingencies, Commitments and Guarantees (continued)

Matters as to Which an Estimate Can Be Made

For some loss contingency matters, the Company is able to estimate a reasonably possible range of loss. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. As of June 30, 2016, the aggregate range of reasonably possible losses in excess of amounts accrued for these matters was not material for the Company.

Matters as to Which an Estimate Cannot Be Made

For other matters, the Company is not currently able to estimate the reasonably possible loss or range of loss. The Company is often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts, and the progress of settlement negotiations. On a quarterly and annual basis, the Company reviews relevant information with respect to litigation contingencies and updates its accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

Unclaimed Property Litigation

On November 14, 2012, the West Virginia Treasurer filed an action against MetLife Investors USA Insurance Company in West Virginia state court (*West Virginia ex rel. John D. Perdue v. MetLife Investors USA Insurance Company, Circuit Court of Putnam County, Civil Action No. 12-C-363*) alleging that MetLife Investors USA Insurance Company violated the West Virginia Uniform Unclaimed Property Act (the “Act”), seeking to compel compliance with the Act, and seeking payment of unclaimed property, interest, and penalties. On December 28, 2012, the Treasurer filed a substantially identical suit against MetLife Insurance Company of Connecticut (*West Virginia ex rel. John D. Perdue v. MetLife Insurance Company of Connecticut, Circuit Court of Putnam County, Civil Action No. 12-C-430*). MetLife Insurance Company USA, successor by merger to these defendants, intends to defend these actions vigorously.

Sales Practices Claims

Over the past several years, the Company has faced claims and regulatory inquiries and investigations, alleging improper marketing or sales of individual life insurance policies, annuities, mutual funds or other products. The Company continues to defend vigorously against the claims in these matters. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for sales practices matters.

Summary

Various litigation, claims and assessments against the Company, in addition to those discussed previously and those otherwise provided for in the Company’s consolidated financial statements, have arisen in the course of the Company’s business, including, but not limited to, in connection with its activities as an insurer, investor and taxpayer. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning the Company’s compliance with applicable insurance and other laws and regulations.

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings. In some of the matters referred to previously, large and/or indeterminate amounts, including punitive and treble damages, are sought. Although in light of these considerations it is possible that an adverse outcome in certain cases could have a material effect upon the Company’s financial position, based on information currently known by the Company’s management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect. However, given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on the Company’s consolidated net income or cash flows in particular quarterly or annual periods.

Commitments

Mortgage Loan Commitments

The Company commits to lend funds under mortgage loan commitments. The amounts of these mortgage loan commitments were \$84 million and \$124 million at June 30, 2016 and December 31, 2015, respectively.

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

9. Contingencies, Commitments and Guarantees (continued)

Commitments to Fund Partnership Investments and Private Corporate Bond Investments

The Company commits to fund partnership investments and to lend funds under private corporate bond investments. The amounts of these unfunded commitments were \$992 million and \$1.0 billion at June 30, 2016 and December 31, 2015, respectively.

Other Commitments

The Company has entered into collateral arrangements with affiliates which require the transfer of collateral in connection with secured demand notes. At both June 30, 2016 and December 31, 2015, the Company had agreed to fund up to \$20 million of cash upon the request by these affiliates and had transferred collateral consisting of various securities with a fair market value of \$27 million and \$25 million at June 30, 2016 and December 31, 2015, respectively, to custody accounts to secure the demand notes. Each of these affiliates is permitted by contract to sell or re-pledge this collateral.

Guarantees

In the normal course of its business, the Company has provided certain indemnities, guarantees and commitments to third parties such that it may be required to make payments now or in the future. In the context of acquisition, disposition, investment and other transactions, the Company has provided indemnities and guarantees, including those related to tax, environmental and other specific liabilities and other indemnities and guarantees that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. In addition, in the normal course of business, the Company provides indemnifications to counterparties in contracts with triggers similar to the foregoing, as well as for certain other liabilities, such as third-party lawsuits. These obligations are often subject to time limitations that vary in duration, including contractual limitations and those that arise by operation of law, such as applicable statutes of limitation. In some cases, the maximum potential obligation under the indemnities and guarantees is subject to a contractual limitation ranging from \$6 million to \$223 million, with a cumulative maximum of \$229 million, while in other cases such limitations are not specified or applicable. Since certain of these obligations are not subject to limitations, the Company does not believe that it is possible to determine the maximum potential amount that could become due under these guarantees in the future. Management believes that it is unlikely the Company will have to make any material payments under these indemnities, guarantees, or commitments.

In addition, the Company indemnifies its directors and officers as provided in its charters and by-laws. Also, the Company indemnifies its agents for liabilities incurred as a result of their representation of the Company's interests. Since these indemnities are generally not subject to limitation with respect to duration or amount, the Company does not believe that it is possible to determine the maximum potential amount that could become due under these indemnities in the future.

The Company's recorded liabilities were \$2 million at both June 30, 2016 and December 31, 2015, for indemnities, guarantees and commitments.

10. Related Party Transactions

Service Agreements

The Company has entered into various agreements with affiliates for services necessary to conduct its activities. Typical services provided under these agreements include personnel, policy administrative functions and distribution services. For certain agreements, charges are based on various performance measures or activity-based costing. The bases for such charges are modified and adjusted by management when necessary or appropriate to reflect fairly and equitably the actual cost incurred by the Company and/or affiliate. Expenses and fees incurred with affiliates related to these agreements, recorded in other expenses, were \$388 million and \$758 million for the three months and six months ended June 30, 2016, respectively, and \$365 million and \$756 million for the three months and six months ended June 30, 2015, respectively. Revenues received from affiliates related to these agreements, recorded in universal life and investment-type product policy fees, were \$56 million and \$110 million for the three months and six months ended June 30, 2016, respectively, and \$63 million and \$126 million for the three months and six months ended June 30, 2015, respectively. Revenues received from affiliates related to these agreements, recorded in other revenues, were \$45 million and \$94 million for the three months and six months ended June 30, 2016, respectively, and \$54 million and \$104 million for the three months and six months ended June 30, 2015, respectively.

The Company had net receivables from affiliates, related to the items discussed above, of \$45 million and \$136 million at June 30, 2016 and December 31, 2015, respectively.

See Note 4 for additional information on related party transactions.

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

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

10. Related Party Transactions (continued)

Sales Distribution Services

In July 2016, MetLife, Inc. completed the sale to MassMutual of MetLife’s U.S. Retail advisor force and certain assets associated with the MetLife Premier Client Group, including all of the issued and outstanding shares of MetLife’s affiliated broker-dealer, MetLife Securities, Inc., a wholly-owned subsidiary of MetLife, Inc. MassMutual assumed all of the liabilities related to such assets and that arise or occur after the closing of the sale.

Related Party Reinsurance Transactions

The Company has reinsurance agreements with certain of MetLife, Inc.’s subsidiaries, including MLIC, MetLife Reinsurance Company of South Carolina, First MetLife Investors Insurance Company, General American Life Insurance Company, MetLife Europe Limited, MetLife Reinsurance Company of Vermont, New England Life Insurance Company, MetLife Reinsurance Company of Delaware (“MRD”), Delaware American Life Insurance Company and American Life Insurance Company, all of which are related parties.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(In millions)				
Premiums				
Reinsurance assumed	\$ 7	\$ 12	\$ 52	\$ 37
Reinsurance ceded	(237)	(215)	(464)	(415)
Net premiums	<u>\$ (230)</u>	<u>\$ (203)</u>	<u>\$ (412)</u>	<u>\$ (378)</u>
Universal life and investment-type product policy fees				
Reinsurance assumed	\$ 30	\$ 33	\$ 59	\$ 64
Reinsurance ceded	(74)	(99)	(181)	(186)
Net universal life and investment-type product policy fees	<u>\$ (44)</u>	<u>\$ (66)</u>	<u>\$ (122)</u>	<u>\$ (122)</u>
Other revenues				
Reinsurance assumed	\$ —	\$ —	\$ —	\$ —
Reinsurance ceded	340	64	391	122
Net other revenues	<u>\$ 340</u>	<u>\$ 64</u>	<u>\$ 391</u>	<u>\$ 122</u>
Policyholder benefits and claims				
Reinsurance assumed	\$ 14	\$ 31	\$ 58	\$ 66
Reinsurance ceded	(457)	(244)	(694)	(484)
Net policyholder benefits and claims	<u>\$ (443)</u>	<u>\$ (213)</u>	<u>\$ (636)</u>	<u>\$ (418)</u>
Interest credited to policyholder account balances				
Reinsurance assumed	\$ 19	\$ 19	\$ 38	\$ 38
Reinsurance ceded	(36)	(34)	(72)	(71)
Net interest credited to policyholder account balances	<u>\$ (17)</u>	<u>\$ (15)</u>	<u>\$ (34)</u>	<u>\$ (33)</u>
Other expenses				
Reinsurance assumed	\$ (10)	\$ 9	\$ 21	\$ 24
Reinsurance ceded	(44)	33	(44)	83
Net other expenses	<u>\$ (54)</u>	<u>\$ 42</u>	<u>\$ (23)</u>	<u>\$ 107</u>

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

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

10. Related Party Transactions (continued)

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

	June 30, 2016		December 31, 2015	
	Assumed	Ceded	Assumed	Ceded
	(In millions)			
Assets				
Premiums, reinsurance and other receivables	\$ 77	\$ 9,173	\$ 129	\$ 12,746
Deferred policy acquisition costs and value of business acquired	157	(773)	120	(861)
Total assets	\$ 234	\$ 8,400	\$ 249	\$ 11,885
Liabilities				
Future policy benefits	\$ 635	\$ (245)	\$ 630	\$ (70)
Policyholder account balances	1,297	—	897	—
Other policy-related balances	1,740	707	1,785	755
Other liabilities	19	5,349	27	4,691
Total liabilities	\$ 3,691	\$ 5,811	\$ 3,339	\$ 5,376

The Company assumes risks from affiliates related to guaranteed minimum benefit guarantees written directly by the affiliates. These assumed reinsurance agreements contain embedded derivatives and changes in their estimated fair value are also included within net derivative gains (losses). The embedded derivatives associated with these agreements are included within policyholder account balances and were \$1.3 billion and \$897 million at June 30, 2016 and December 31, 2015, respectively. Net derivative gains (losses) associated with the embedded derivatives were (\$259) million and (\$395) million for the three months and six months ended June 30, 2016, respectively, and \$131 million and \$68 million for the three months and six months ended June 30, 2015, respectively.

The Company ceded two blocks of business to two affiliates on a 90% coinsurance with funds withheld basis. Certain contractual features of these agreements qualify as embedded derivatives, which are separately accounted for at estimated fair value on the Company's consolidated balance sheets. The embedded derivatives related to the funds withheld associated with these reinsurance agreements are included within other liabilities and increased the funds withheld balance by \$603 million and \$244 million at June 30, 2016 and December 31, 2015, respectively. Net derivative gains (losses) associated with these embedded derivatives were (\$193) million and (\$359) million for the three months and six months ended June 30, 2016, respectively, and \$218 million and \$142 million for the three months and six months ended June 30, 2015, respectively.

The Company ceded risks to an affiliate related to guaranteed minimum benefit guarantees written directly by the Company. This ceded reinsurance agreement contains embedded derivatives and changes in the estimated fair value are also included within net derivative gains (losses). The embedded derivative associated with this cession is included within premiums, reinsurance and other receivables and were \$5 million and \$4 million at June 30, 2016 and December 31, 2015, respectively. Net derivative gains (losses) associated with the embedded derivative were less than \$1 million and \$1 million for the three months and six months ended June 30, 2016, respectively, and less than \$1 million for both the three months and six months ended June 30, 2015.

In December 2015, the Company entered into a reinsurance agreement to cede one block of business to MRD on a 90% coinsurance with funds withheld basis. This agreement covers certain term life policies issued in 2015 by the Company. This agreement transfers risk to MRD and, therefore, is accounted for as reinsurance. As a result of the agreement, affiliated reinsurance recoverables, included in premiums, reinsurance and other receivables, were \$68 million and \$126 million at June 30, 2016 and December 31, 2015, respectively. The Company also recorded a funds withheld liability and other reinsurance payables, included in other liabilities, which were \$19 million and \$79 million at June 30, 2016 and December 31, 2015, respectively. The Company's consolidated statement of operations and comprehensive income (loss) includes a loss for this agreement of \$4 million and income for this agreement of \$38 million for the three months and six months ended June 30, 2016, respectively.

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

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

10. Related Party Transactions (continued)

In December 2014, the Company entered into a reinsurance agreement to cede two blocks of business to MRD on a 90% coinsurance with funds withheld basis. This agreement covers certain term and certain universal life policies issued in 2014 by the Company. This agreement transfers risk to MRD and, therefore, is accounted for as reinsurance. As a result of the agreement, affiliated reinsurance recoverables, included in premiums, reinsurance and other receivables, were \$114 million and \$81 million at June 30, 2016 and December 31, 2015, respectively. The Company also recorded a funds withheld liability and other reinsurance payables, included in other liabilities, which were \$58 million and \$23 million at June 30, 2016 and December 31, 2015, respectively. The Company's consolidated statement of operations and comprehensive income (loss) includes income for this agreement of \$3 million and a loss for this agreement of \$49 million for the three months and six months ended June 30, 2016, respectively, and a loss for this agreement of \$8 million and \$11 million for the three months and six months ended June 30, 2015, respectively.

In April 2016, the Company recaptured risks related to certain single premium deferred annuity contracts previously reinsured to MLIC, an affiliate. As a result of this recapture, the significant effects to the Company were an increase in investments and cash and cash equivalents of \$4.3 billion and an increase in DAC of \$87 million, offset by a decrease in premiums, reinsurance and other receivables of \$4.0 billion. The Company recognized a gain of \$246 million, net of income tax, as a result of this reinsurance termination.

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

Index to Management’s Discussion and Analysis of Financial Condition and Results of Operations

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Forward-Looking Statements and Other Financial Information

For purposes of this discussion, “MetLife USA,” the “Company,” “we,” “our” and “us” refer to MetLife Insurance Company USA (formerly, MetLife Insurance Company of Connecticut), a Delaware corporation originally incorporated in Connecticut in 1863, and its subsidiaries. MetLife Insurance Company USA is a wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”). Management’s narrative analysis of the results of operations is presented pursuant to General Instruction H(2)(a) of Form 10-Q. This narrative analysis should be read in conjunction with MetLife Insurance Company USA’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report”), the cautionary language regarding forward-looking statements included below, the “Risk Factors” set forth in Part II, Item 1A, and the additional risk factors referred to therein, and the Company’s interim condensed consolidated financial statements included elsewhere herein.

This narrative analysis may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 terms of similar meaning, or are tied to future periods, 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.”

This narrative analysis includes references to our performance measure, operating earnings, that is not based on accounting principles generally accepted 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. Consistent with GAAP guidance for segment reporting, operating earnings is our measure of segment performance. See “— Non-GAAP and Other Financial Disclosures” for definitions and a discussion of these measures, and “— Results of Operations” for reconciliations of non-GAAP measures to the most directly comparable GAAP measures.

Business

Overview

The Company offers individual annuities, individual life insurance, and institutional protection and asset accumulation products and is organized into two segments: Retail and Corporate Benefit Funding. In addition, the Company reports certain of its results of operations in Corporate & Other. See Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements for further information on the Company’s segments and Corporate & Other. See also “— Other Key Information” for information on MetLife, Inc.’s announcement of its plan to pursue the separation of a substantial portion of its Retail segment, which is organized into two U.S. businesses, Life & Other and Annuities, as well as certain portions of its Corporate Benefit Funding segment and Corporate & Other (the “Separation”). Management continues to evaluate the Company’s segment performance and allocated resources and may adjust related measurements in the future to better reflect segment profitability, including in connection with the planned Separation.

Other Key Information

In July 2016, MetLife, Inc. completed the sale to Massachusetts Mutual Life Insurance Company (“MassMutual”) of MetLife’s U.S. Retail advisor force and certain assets associated with the MetLife Premier Client Group, including all of the issued and outstanding shares of MetLife’s affiliated broker-dealer, MetLife Securities, Inc., a wholly-owned subsidiary of MetLife, Inc. MassMutual assumed all of the liabilities related to such assets and that arise or occur at or after the closing of the sale. As part of the transactions, MetLife, Inc. and MassMutual entered into a product development agreement under which MetLife’s U.S. Retail business will be the exclusive developer of certain annuity products to be issued by MassMutual.

On December 18, 2014, the Financial Stability Oversight Council (“FSOC”) designated MetLife, Inc. as a non-bank systemically important financial institution (“non-bank SIFI”) subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and the Federal Reserve Bank of New York (collectively with the Federal Reserve Board, the “Federal Reserve”) and the Federal Deposit Insurance Corporation (the “FDIC”), as well as to enhanced supervision and prudential standards. On March 30, 2016, the D.C. District Court ordered that the designation of MetLife, Inc. as a non-bank SIFI by the FSOC be rescinded. On April 8, 2016, the FSOC filed a notice of appeal of the D.C. District Court’s order. If the FSOC prevails on appeal or designates MetLife, Inc. as systemically important as part of its ongoing review of non-bank financial companies, MetLife, Inc. could once again be subject to regulation as a non-bank SIFI. See “— Regulatory Developments — Potential Regulation of MetLife, Inc. as a Non-Bank SIFI.”

On January 12, 2016, MetLife, Inc. announced its plan to pursue the Separation and on July 21, 2016, MetLife, Inc. announced that the separated business will be rebranded as “Brighthouse Financial” after the Separation. The separated business would include a substantial portion of MetLife, Inc.’s Retail segment and certain portions of the Corporate Benefit Funding segment and Corporate & Other. MetLife, Inc. currently plans to include MetLife Insurance Company USA, New England Life Insurance Company, First MetLife Investors Insurance Company, MetLife Advisers, LLC and certain captive reinsurance companies in the proposed separated business. MetLife is currently evaluating structural alternatives for the proposed Separation, including a public offering of shares in an independent, publicly traded company, a spin-off, or a sale. The completion of a public offering would depend on, among other things, the U.S. Securities and Exchange Commission (“SEC”) filing and review process, as well as market conditions. A Separation, depending on the specific form, would be subject to the satisfaction of various conditions and approvals, including, among other things, approval of any transaction by the MetLife, Inc. Board of Directors, satisfaction of any applicable requirements of the SEC, and receipt of insurance and other regulatory approvals and other anticipated conditions.

Regulatory Developments

The U.S. insurance industry is regulated primarily at the state level, with some products and services also subject to federal regulation. In addition, we are subject to regulation under the insurance holding company laws of our state of domicile, Delaware. Furthermore, some of our operations, products and services are subject to consumer protection laws, securities regulation, environmental and unclaimed property laws and regulations, and to the Employee Retirement Income Security Act of 1974 (“ERISA”). If MetLife, Inc. were re-designated as a non-bank SIFI, it could also be subject to regulation by the Federal Reserve and the FDIC and, as a subsidiary of MetLife, Inc., we could be affected by such regulation. We may also be affected by any additional capital requirements to which MetLife, Inc. may become subject as a global systemically important insurer (“G-SII”). See “— Insurance Regulation,” “— ERISA Considerations,” “— Potential Regulation of MetLife, Inc. as a Non-Bank SIFI” and “— Designation Process and Policy Measures that May Apply to Global Systemically Important Insurers” below, as well as “Business — Regulation,” “Risk Factors — Regulatory and Legal Risks — Our Insurance Businesses Are Highly Regulated, and Changes in Regulation and in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth,” “Risk Factors — Risks Related to Our Business — Our Statutory Life Insurance Reserve Financings May Be Subject to Cost Increases and New Financings May Be Subject to Limited Market Capacity,” and “Risk Factors — Regulatory and Legal Risks — Changes in U.S. Federal, State Securities and State Insurance Laws and Regulations May Affect Our Operations and Our Profitability” included in the 2015 Annual Report, as amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Business — Regulatory Developments” and similarly named sections under the caption “Risk Factors.”

Insurance Regulation

Insurance Regulatory Examinations and Other Activities

The International Association of Insurance Supervisors (“IAIS”) has encouraged U.S. insurance supervisors to establish Supervisory Colleges for U.S.-based insurance groups with international operations, including MetLife, to facilitate cooperation and coordination among the insurance groups’ supervisors and to enhance the member regulators’ understanding of an insurance group’s risk profile. MetLife, Inc. was the subject of Supervisory College meetings in prior years chaired by the New York State Department of Financial Services (the “Department of Financial Services”) and attended by MetLife’s key U.S. and international insurance regulators. Because MetLife, Inc. was supervised as a non-bank SIFI, an April 2015 Supervisory College was co-chaired by the Department of Financial Services and the Federal Reserve Bank of New York and attended by MetLife’s key U.S. and international regulators, including the FDIC, which has joint authority with the Federal Reserve Board over any resolution plan that MetLife, Inc. may be required to submit. See “— Potential Regulation of MetLife, Inc. as a Non-Bank SIFI — Enhanced Prudential Standards for Non-Bank SIFIs” below. The next meeting is scheduled for September 2016 and will be chaired by the Department of Financial Services. MetLife, Inc. has not received any reports or recommendations from the Supervisory College meetings, and we do not expect any outcome of the meetings to have a material adverse effect on our business.

NAIC

In December 2012, the National Association of Insurance Commissioners (“NAIC”) approved a new valuation manual containing a principle-based approach to life insurance company reserves. Principle-based reserving is designed to better address reserving for products, including the current generation of products for which the current formulaic basis for reserve determination does not work effectively. The principle-based approach has been enacted into law by the required number of state legislatures and will become effective on January 1, 2017, initially applying to individual life insurance business on a prospective basis.

ERISA Considerations

We provide products and services to certain employee benefit plans that are subject to ERISA or the Internal Revenue Code of 1986, as amended (the “Code”). As such, our activities are subject to the restrictions imposed by ERISA and the Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that fiduciaries may not cause a covered plan to engage in certain prohibited transactions. The applicable provisions of ERISA and the Code are subject to enforcement by the Department of Labor (“DOL”), the Internal Revenue Service and the Pension Benefit Guaranty Corporation.

The prohibited transaction rules of ERISA and the Code generally restrict the provision of investment advice to ERISA plans and participants and Individual Retirement Accounts (“IRAs”) if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen.

The DOL issued new regulations on April 6, 2016 with an effective date for most provisions of April 10, 2017. These rules substantially expand the definition of “investment advice” and thereby broaden the circumstances under which MetLife USA or its representatives, in providing investment advice with respect to ERISA plans, plan participants or IRAs, will be deemed a fiduciary under ERISA or the Code. Pursuant to the final rule, certain communications with plans, plan participants and IRA holders, including the marketing of products, and marketing of investment management or advisory services, could be deemed fiduciary investment advice, thus, causing increased exposure to fiduciary liability. The DOL also issued amendments to certain of its prohibited transaction exemptions, and issued a new exemption that applies more onerous disclosure and contract requirements to, and increase fiduciary requirements and fiduciary liability exposure in respect of, transactions involving ERISA plans, plan participants and IRAs. We are currently studying the impact of these developments on MetLife USA’s business.

Potential Regulation of MetLife, Inc. as a Non-Bank SIFI

On December 18, 2014, the FSOC designated MetLife, Inc. as a non-bank SIFI subject to regulation by the Federal Reserve and the FDIC, as well as to enhanced supervision and prudential standards. On January 13, 2015, MetLife, Inc. filed an action in the D.C. District Court asking the Court to review and rescind the FSOC’s designation. On March 30, 2016, the D.C. District Court ordered that the designation of MetLife, Inc. as a non-bank SIFI by the FSOC be rescinded. On April 8, 2016, the FSOC filed a notice of appeal of the D.C. District Court’s order. If the FSOC prevails on appeal or designates MetLife, Inc. as systemically important as part of its ongoing review of non-bank financial companies, MetLife, Inc. could once again be subject to regulation as a non-bank SIFI.

Regulation of MetLife, Inc. as a non-bank SIFI could materially and adversely affect our business. For example, the Federal Reserve Board has issued an advance notice of proposed rulemaking but not yet finally determined the enhanced capital requirements that would apply to insurance non-bank SIFIs. If MetLife, Inc. were re-designated as a non-bank SIFI, those capital requirements may adversely affect our ability to compete with other insurers that are not subject to those requirements, and our ability to issue guarantees could be constrained. In addition, if re-designated as a non-bank SIFI, MetLife, Inc. would need to obtain Federal Reserve approval before directly or indirectly acquiring, merging or consolidating with a financial company having more than \$10 billion of assets or acquiring 5% or more of any voting class of securities of a bank or bank holding company and, depending on the extent of the combined company's liabilities, would be subject to additional restrictions regarding its ability to merge. The Federal Reserve would also have the right to require us, or our insurance company affiliates, to take prompt action to correct any financial weaknesses.

Together with other large financial institutions and non-bank SIFIs, if MetLife, Inc. were re-designated as a non-bank SIFI, it would be subject to a number of Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") requirements including responsibility to pay certain assessments and other charges (i) equal to the total expenses the Federal Reserve Board thinks is necessary for its supervision of bank holding companies and savings and loan holding companies with assets of \$50 billion or more, and non-bank SIFIs, and (ii) in connection with the Financial Research Fund within the U.S. Department of Treasury that funds the Office of Financial Research, an agency established by Dodd-Frank to improve the quality of financial data available to policymakers and facilitate more robust and sophisticated analysis of the financial system.

Enhanced Prudential Standards for Non-Bank SIFIs

The Federal Reserve Board has indicated that it plans to apply enhanced prudential standards to non-bank SIFIs by rule or order, and recently issued a notice of proposed rulemaking addressing the governance, risk management and liquidity requirements it is proposing to apply to insurance company non-bank SIFIs. Accordingly, the manner in which these proposed standards might apply to MetLife, Inc., were it to be re-designated as a non-bank SIFI, and its impact on us, remain unclear.

Stress testing requirements have been implemented, which will, once capital requirements for non-bank SIFIs are determined, require non-bank SIFIs to undergo three stress tests each year: an annual supervisory stress test conducted by the Federal Reserve and two company-run stress tests (an annual test which coincides with the timing of the supervisory stress test, and a mid-cycle test). Companies will be required to take the results of the stress tests into consideration in their annual capital planning and resolution and recovery planning. If re-designated as a non-bank SIFI, MetLife, Inc.'s competitive position and its ability to pay dividends, repurchase common stock or other securities or engage in other transactions that could affect its capital or need for capital could be adversely affected by any additional capital requirements that might be imposed as a result of the stress testing requirements, as well as enhanced prudential standards, other measures imposed as a result of the enactment of Dodd-Frank and other regulatory initiatives.

Non-bank SIFIs are required to submit a resolution plan setting forth how the company could be resolved under the Bankruptcy Code in the event of material financial distress. Resolution plans have to be resubmitted annually and promptly following any event, occurrence, change in conditions or circumstances, or other change that results in, or could reasonably be foreseen to have, a material effect on the resolution plan. A failure to submit a "credible" resolution plan could result in the imposition of a variety of measures, including additional capital, leverage, or liquidity requirements, and forced divestiture of assets or operations. If re-designated as a non-bank SIFI, MetLife, Inc. would be required to comply with the requirements applicable to non-bank SIFIs, including the submission of a resolution plan.

In addition, if MetLife, Inc. were re-designated as a non-bank SIFI and if it were determined that MetLife, Inc. posed a substantial threat to U.S. financial stability, the applicable federal regulators would have the right to require it to take one or more other mitigating actions to reduce that risk, including limiting its ability to merge with or acquire another company, terminating activities, restricting its ability to offer financial products or requiring it to sell assets or off-balance sheet items to unaffiliated entities. Enhanced standards would also permit, but not require, regulators to establish requirements with respect to contingent capital, enhanced public disclosures and short-term debt limits. These standards are described as being more stringent than those otherwise imposed on bank holding companies; however, the Federal Reserve is permitted to apply them on an institution-by-institution basis, depending on its determination of the institution's level of risk.

Designation Process and Policy Measures that May Apply to Global Systemically Important Insurers

The IAIS, an association of insurance supervisors and regulators and a member of the Financial Stability Board (“FSB”), an international entity established to coordinate, develop and promote regulatory, supervisory and other financial sector policies in the interest of financial stability, is participating in the FSB’s initiative to identify and manage global systemically important financial institutions. To this end, the IAIS published a methodology to assess the systemic relevance of global insurers and a framework of policy measures to be applied to G-SIIs and, on this basis, the FSB again so designated MetLife, Inc. in 2015. The IAIS/FSB process is separate from the U.S. FSOC designation process and MetLife, Inc. remains a G-SII in spite of the rescission of its U.S. non-bank SIFI designation on March 30, 2016. The global designation process is an annual process. Every three years, the IAIS evaluates whether updates to its assessment methodology are necessary.

Current standards call for G-SIIs to be subject to higher loss absorbency requirements (“HLA”). Given the absence of a common global base on which to calculate HLA for insurers, the FSB directed the IAIS to develop basic capital requirements (“BCR”). The first version of the IAIS HLA framework was endorsed by the FSB and the G20 in September and November 2015, respectively, and the BCR and HLA requirements are expected to be refined based on data confidentially submitted by certain G-SIIs to their group-wide supervisors until they are fully adopted and implemented in 2019. The IAIS published a new assessment methodology on June 16, 2016 which it proposes to use this year to assess a pool of approximately 50 insurers, and has requested data from MetLife, Inc. in order to perform an assessment under the new methodology. The new methodology reflects changes in the previous definitions of non-traditional and non-insurance activity, along with certain other changes in both quantitative and qualitative assessments. It is uncertain whether MetLife, Inc. will be designated a G-SII by the FSB under this new methodology.

In addition, on December 17, 2014, the IAIS released a first exposure draft of a risk-based global insurance capital standard (“ICS”) which will apply to all internationally active insurance groups, including G-SIIs. A second exposure draft was published for comment on July 19, 2016, with comments due in 90 days. The IAIS expects to publish a draft of an interim version of the ICS in 2017 for further consultation and refinement by the end of 2019, the target for implementation by individual jurisdictions. The date by which the ICS will be finalized has not yet been specified. The IAIS intends to request confidential reporting to supervisors as of the release of the interim draft of the ICS.

The FSB and IAIS propose that national authorities consider additional requirements for G-SIIs, which include preparation of a systemic risk management plan, preparation of a recovery and resolution plan, enhanced liquidity planning and management, more intensive supervision, closer coordination among regulators through global supervisory colleges led by a regulator with group-wide supervisory authority, and a policy bias that targets non-traditional insurance and non-insurance activities as transmitters of systemic risk to the financial system. The IAIS proposals would need to be implemented at the consolidated group level by legislation or regulation in each applicable jurisdiction. As MetLife, Inc. is no longer a U.S. non-bank SIFI and, therefore, has no consolidated group regulator, the impact on MetLife, Inc. of such proposals is uncertain.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported on the Interim Condensed Consolidated Financial Statements. The most critical estimates include those used in determining:

- (i) liabilities for future policy benefits and the accounting for reinsurance;
- (ii) capitalization and amortization of deferred policy acquisition costs (“DAC”) and the establishment and amortization of value of business acquired (“VOBA”);
- (iii) estimated fair values of investments in the absence of quoted market values;
- (iv) investment impairments;
- (v) estimated fair values of freestanding derivatives and the recognition and estimated fair value of embedded derivatives requiring bifurcation;
- (vi) measurement of goodwill and related impairment;
- (vii) measurement of income taxes and the valuation of deferred tax assets; and
- (viii) liabilities for litigation and regulatory matters.

In applying our 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 our business 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 included in the 2015 Annual Report.

During the second quarter of 2016, we accelerated the annual review of our actuarial assumptions for the Retail variable annuities business in connection with the planned Separation. As a result of this review, we made changes to policyholder behavior and long-term economic assumptions, as well as risk margins. With respect to policyholder behavior, which was the significant update for this current period, we have recorded charges, and in some cases benefits, in prior years as a result of the availability of sufficient and credible data at the conclusion of each review. As an example in 2012, we recorded a charge to reflect better than expected persistency; and in 2014, we recorded a charge as we began to reflect lower utilization of the elective annuitization option in early generations of our guaranteed minimum income benefit (“GMIBs”). All other annual actuarial assumptions, including for our Retail fixed annuity business, our Retail life business and for our other segments, will be reviewed in the third quarter of 2016 as part of our annual review of actuarial assumptions. See “— Results of Operations — Consolidated Results — Six Months Ended June 30, 2016 Compared with the Six Months Ended June 30, 2015 — Actuarial Assumption Review” for further information.

Goodwill

Goodwill is tested for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test.

For purposes of goodwill impairment testing, if the carrying value of a reporting unit exceeds its estimated fair value, the implied fair value of the reporting unit goodwill is compared to the carrying value of that goodwill to measure the amount of impairment loss, if any. In such instances, the implied fair value of the goodwill is determined in the same manner as the amount of goodwill that would be determined in a business acquisition.

As a result of the proposed Separation, during the first quarter of 2016, the Company re-tested goodwill for impairment using an estimated revised carrying amount of the Corporate Benefit Funding reporting unit. The Company concluded that the fair value of the reporting unit was in excess of its carrying value and, therefore, goodwill was not impaired. See “Business — Overview — Other Key Information” for additional information on the proposed Separation.

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 and the Company’s business.

MetLife’s economic capital model, coupled with considerations of local capital requirements, aligns segment allocated equity with emerging standards and consistent risk principles. The model applies statistics-based risk evaluation principles to the material risks to which the Company is exposed. These consistent risk principles include calibrating required economic capital shock factors to a specific confidence level and time horizon while applying an industry standard method for the inclusion of diversification benefits among risk types. Economic capital-based risk estimation is an evolving science and industry best practices have emerged and continue to evolve. Areas of evolving industry best practices include stochastic liability valuation techniques, alternative methodologies for the calculation of diversification benefits, and the quantification of appropriate shock levels. MetLife’s management is responsible for the ongoing production and enhancement of the economic capital model and reviews its approach periodically to ensure that it remains consistent with emerging industry practice standards.

Segment net investment income is credited or charged based on the level of allocated equity; however, changes in allocated equity do not impact the Company’s consolidated net investment income, operating earnings or net income (loss).

Net investment income is based upon the actual results of each segment’s specifically identifiable investment portfolios adjusted for allocated equity. Other costs are allocated to each of the segments based upon: (i) a review of the nature of such costs; (ii) time studies analyzing the amount of employee compensation costs incurred by each segment; and (iii) cost estimates included in the Company’s product pricing.

Results of Operations

Consolidated Results

Business Overview. Life sales decreased 15% driven by declines in variable life, whole life and term life products, partially offset by higher sales of universal life products. Retail annuity sales decreased 10% mainly as a result of lower variable annuity sales due to the sales suspension by a major distributor this year, partially offset by higher indexed annuity sales. A significant portion of our operating earnings is driven by separate account balances. Most directly, these balances determine asset-based fee income but they also impact DAC amortization and asset-based commissions. Separate account balances are driven by sales, movements in the market, surrenders, withdrawals, benefit payments, transfers and policy charges. Separate account balances have declined due to market performance along with the impact of negative net flows, as benefits, surrenders and withdrawals exceeded sales. While net flows are still negative, we are seeing improvements in surrenders and withdrawals, as well as increases in sales.

	Six Months Ended June 30,	
	2016	2015
	(In millions)	
Revenues		
Premiums	\$ 511	\$ 536
Universal life and investment-type product policy fees	1,322	1,429
Net investment income	1,305	1,324
Other revenues	506	250
Net investment gains (losses)	(33)	37
Net derivative gains (losses)	(3,235)	68
Total revenues	<u>376</u>	<u>3,644</u>
Expenses		
Policyholder benefits and claims	1,394	1,174
Interest credited to policyholder account balances	477	519
Capitalization of DAC	(161)	(185)
Amortization of DAC and VOBA	(103)	252
Interest expense on debt	36	36
Other expenses	984	989
Total expenses	<u>2,627</u>	<u>2,785</u>
Income (loss) before provision for income tax	(2,251)	859
Provision for income tax expense (benefit)	(855)	235
Net income (loss)	<u>\$ (1,396)</u>	<u>\$ 624</u>

Six Months Ended June 30, 2016 Compared with the Six Months Ended June 30, 2015

During the six months ended June 30, 2016, income (loss) before provision for income tax decreased \$3.1 billion (\$2.0 billion, net of income tax) from the prior period primarily driven by an unfavorable change in net derivative gains (losses).

Management of Investment Portfolio and Hedging Market Risks with Derivatives. We manage our investment portfolio using disciplined asset/liability management principles, focusing on cash flow and duration to support our current and future liabilities. Our intent is to match the timing and amount of liability cash outflows with invested assets that have cash inflows of comparable timing and amount, while optimizing risk-adjusted 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. 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 currency exchange rates, credit spreads and equity market levels.

We purchase investments to support our insurance liabilities and not to generate net investment gains and losses. However, net investment gains and losses are incurred and can change significantly from period to period due to changes in external influences, including changes in market factors such as interest rates, foreign currency exchange rates, credit spreads and equity markets; counterparty specific factors such as financial performance, credit rating and collateral valuation; and internal factors such as portfolio rebalancing. Changes in these factors from period to period can significantly impact the levels of both impairments and realized gains and losses on investments sold.

We use freestanding interest rate, equity, credit and currency derivatives to hedge certain invested assets and insurance liabilities. Certain of these hedges are designated and qualify as accounting hedges, which reduce volatility in earnings. For those hedges not designated as accounting hedges, changes in market factors lead to the recognition of fair value changes in net derivative gains (losses) generally without an offsetting gain or loss recognized in earnings for the item being hedged, which creates volatility in earnings.

Certain direct or assumed variable annuity products with guaranteed minimum benefits contain embedded derivatives that are measured at estimated fair value separately from the host variable annuity contract, with changes in estimated fair value recorded in net derivative gains (losses). We use freestanding derivatives to hedge the market risks inherent in these variable annuity guarantees. The valuation of these embedded derivatives includes a nonperformance risk adjustment, which is unhedged, and can be a significant driver of net derivative gains (losses) and volatility in earnings, but does not have an economic impact on us.

Net Derivative Gains (Losses). Direct and assumed variable annuity embedded derivatives and associated freestanding derivative hedges are collectively referred to as “VA program derivatives” in the following table. All other embedded derivatives and freestanding derivatives that are economic hedges of certain invested assets and insurance liabilities are referred to as “non-VA program derivatives” in the following table. The table below presents the impact on net derivative gains (losses) from non-VA program derivatives and VA program derivatives:

	Six Months Ended June 30,	
	2016	2015
	(In millions)	
Non-VA program derivatives		
Interest rate	\$ 530	\$ (30)
Foreign currency exchange rate	20	9
Credit	8	3
Equity	(50)	(92)
Non-VA embedded derivatives	(351)	121
Total non-VA program derivatives	157	11
VA program derivatives		
Embedded derivatives-direct and assumed guarantees:		
Market risks	(1,148)	578
Nonperformance risk adjustment	657	(14)
Other risks	(3,680)	(151)
Total	(4,171)	413
Freestanding derivatives hedging direct and assumed embedded derivatives	779	(356)
Total VA program derivatives	(3,392)	57
Net derivative gains (losses)	\$ (3,235)	\$ 68

The favorable change in net derivative gains (losses) on non-VA program derivatives was \$146 million (\$95 million, net of income tax). This was primarily due to long-term interest rates decreasing in the current period and increasing in the prior period, favorably impacting interest rate swaptions and receive-fixed interest rate swaps primarily hedging long duration liability portfolios. Because certain of these hedging strategies are not designated or do not qualify as accounting hedges, the changes in the estimated fair value of these freestanding derivatives are recognized in net derivative gains (losses) without an offsetting gain or loss recognized in earnings for the item being hedged.

This favorable change was partially offset by a change in the value of the underlying assets unfavorably impacting non-VA embedded derivatives related to affiliated ceded reinsurance written on a coinsurance with funds withheld basis.

The unfavorable change in net derivative gains (losses) on VA program derivatives was \$3.4 billion (\$2.2 billion, net of income tax). This was due to an unfavorable change of \$3.5 billion (\$2.3 billion, net of income tax) in other risks in direct and assumed variable annuity embedded derivatives and an unfavorable change of \$591 million (\$384 million, net of income tax) in market risks on direct and assumed variable annuity embedded derivatives, net of the impact of freestanding derivatives hedging those risks, partially offset by a favorable change of \$671 million (\$436 million, net of income tax) related to the change in the nonperformance risk adjustment on direct and assumed variable annuity embedded derivatives. Other risks relate primarily to the impact of policyholder behavior and other non-market risks that generally cannot be hedged.

The foregoing \$3.5 billion (\$2.3 billion, net of income tax) unfavorable change in other risks in direct and assumed variable annuity embedded derivatives reflected:

- Updates to actuarial policyholder behavior assumptions within the valuation model. For details, see “— Actuarial Assumption Review.”
- An increase in the risk margin adjustment, measuring policyholder behavior risks, which was also affected by the actuarial assumption update, along with market and interest rate changes, and
- A combination of other factors, including reserve changes influenced by benefit features and actual policyholder behavior.

The foregoing \$591 million (\$384 million, net of income tax) unfavorable change was primarily driven by changes in market factors on the direct and assumed variable annuity embedded derivatives, net of the freestanding derivatives hedging those market factors. The primary change in market factors was that long-term interest rates decreased in the current period and increased in the prior period, contributing to a favorable change in our freestanding derivatives and an unfavorable change in our embedded derivatives. For example, the 30-year U.S. swap rate decreased by 30% in the current period and increased by 9% in the prior period.

We calculate the nonperformance risk adjustment as the change in the embedded derivative discounted at the risk-adjusted rate (which includes our own credit spread to the extent that the embedded derivative is in-the-money) less the change in the embedded derivative discounted at the risk-free rate. The aforementioned \$671 million (\$436 million, net of income tax) favorable change in the nonperformance risk adjustment, which includes the impact of the aforementioned recapture of certain variable annuity reinsurance by an affiliate, was due to a favorable change of \$86 million, before income tax, related to changes in our own credit spread and by a favorable change of \$585 million, before income tax, as a result of model changes and changes in capital market inputs, such as long-term interest rates and key equity index levels, on variable annuity guarantees.

When equity index levels decrease in isolation, the direct and assumed variable annuity guarantees become more valuable to policyholders, which results in an increase in the undiscounted embedded derivative liability. Discounting this unfavorable change by the risk-adjusted rate yields a smaller loss than by discounting at the risk-free rate, thus creating a gain from including an adjustment for nonperformance risk on the direct and assumed variable annuity embedded derivatives.

When the risk-free interest rate decreases in isolation, discounting the embedded derivative liability produces a higher valuation of the liability than if the risk-free interest rate had remained constant. Discounting this unfavorable change by the risk-adjusted rate yields a smaller loss than by discounting at the risk-free interest rate, thus creating a gain from including an adjustment for nonperformance risk on the direct and assumed variable annuity embedded derivatives.

When our own credit spread increases in isolation, discounting the embedded derivative liability produces a lower valuation of the liability than if our own credit spread had remained constant. As a result, a gain is created from including an adjustment for nonperformance risk on the direct and assumed variable annuity embedded derivatives. For each of these primary market drivers, the opposite effect occurs when they move in the opposite direction.

Net Investment Gains (Losses). The unfavorable change in net investment gains (losses) of \$70 million (\$46 million, net of income tax) primarily reflects current period net losses on sales and higher impairments on fixed maturity securities, as well as higher net gains on real estate and real estate joint ventures in the prior period.

Actuarial Assumption Review. We annually review our long-term actuarial assumptions for policyholder behavior, market returns and other actuarial items. With respect to policyholder behavior, we have recorded charges, and in some cases benefits, in prior years as a result of the availability of sufficient and credible data at the conclusion of each review. See “— Summary of Critical Accounting Estimates.”

During the current period, we accelerated the annual review of our actuarial assumptions for the Retail variable annuities business in connection with the planned Separation. As a result of this review, we made changes to policyholder behavior and long-term economic assumptions, as well as risk margins. With respect to policyholder behavior, because our GMIBs have a contractual ten-year waiting period prior to the policyholder being able to exercise its contractual options, we were only recently able to accumulate sufficient and credible data on the largest portions of our own block with respect to option exercises. Further, because of the unique features of our GMIBs, historically industry experience has been of limited utility in determining key behavioral assumptions for our products. However, the results of a recent industry study on policyholder behavior indicated that elective annuitizations were much lower than the industry has historically expected. The industry study, in combination with emerging experience on our own GMIB block, provided sufficient and credible data to support our changes to key policyholder behavior assumptions primarily relating to annuitization utilization as well as withdrawals, in our newer generation of GMIBs, which have an additional policyholder return of original purchase payment option not present in earlier generations of the product.

All other annual actuarial assumptions, including for our Retail fixed annuity business, our Retail life business and for our other segments, will be reviewed in the third quarter of 2016 as part of our annual review of actuarial assumptions.

Results for the current period include a \$2.5 billion (\$1.7 billion, net of income tax) non-cash charge associated with this review of assumptions related to reserves and DAC, of which a \$3.0 billion loss (\$1.9 billion, net of income tax) was recognized in net derivative gains (losses). Of the \$2.5 billion charge, \$3.2 billion (\$2.1 billion, net of income tax) was related to reserves and a benefit of \$628 million (\$408 million, net of income tax) was associated with DAC.

The \$3.0 billion loss recognized in net derivative gains (losses) associated with this review of assumptions was included within the other risks in embedded derivatives caption in the table above.

The significant impacts of the second quarter assumption review were on the variable annuity block of business and are summarized as follows:

- Changes in policyholder behavior assumptions resulted in reserve increases, partially offset by favorable DAC amortization, resulting in a net charge of \$2.0 billion (\$1.3 billion, net of income tax). The policyholder behavior assumption changes included:
 - Lower utilization of the elective annuitization option on the guarantee riders on the contracts;
 - Lower election of the guaranteed principal option in certain of our GMIBs, which, if exercised, returns to the policyholder the original purchase payment amounts;
 - Adjusting the rate at which policyholders withdrew funds through systematic withdrawals; and
 - Higher policyholder persistency related to the portion of the business that will remain with the Company after the planned Separation, dependent on the amount a contract is in-the-money.
- Changes in economic assumptions resulted in reserve increases and unfavorable DAC amortization resulting in a charge of \$342 million (\$222 million, net of income tax). These changes include reducing the long-term separate account return assumption from 7.25% to 7.00% (from 7.00% to 6.75% for GMIB's invested in managed volatility funds), and reducing the projected ultimate 10-year treasury rate from 4.50% to 4.25%.
- The remaining updates resulted in reserve increases from changes in risk margins, partially offset by favorable DAC, resulting in a charge of \$254 million (\$165 million, net of income tax).

Taxes. Income tax benefit for the six months ended June 30, 2016 was \$855 million, or 38% of income (loss) before provision for income tax, compared with an income tax expense of \$235 million, or 27% of income (loss) before provision for income tax, for the six months ended June 30, 2015. The Company's effective tax rates differ from the U.S. statutory rate of 35% primarily due to non-taxable investment income.

Operating Earnings. As more fully described in “— Non-GAAP and Other Financial Disclosures,” we use operating earnings, which does not equate to net income (loss) as determined in accordance with GAAP, to analyze our performance, evaluate segment performance, and allocate resources. We believe that the presentation of 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 net income (loss). Operating earnings decreased \$162 million, net of income tax, to \$456 million, net of income tax, for the six months ended June 30, 2016 from \$618 million, net of income tax, for the six months ended June 30, 2015.

Reconciliation of net income (loss) to operating earnings

	Six Months Ended June 30,	
	2016	2015
	(In millions)	
Net income (loss)	\$ (1,396)	\$ 624
Less: Net investment gains (losses)	(33)	37
Less: Net derivative gains (losses)	(3,235)	68
Less: Other adjustments to net income (1)	421	(95)
Less: Provision for income tax (expense) benefit	995	(4)
Operating earnings	<u>\$ 456</u>	<u>\$ 618</u>

- (1) See definitions of operating revenues and operating expenses under “— Non-GAAP and Other Financial Disclosures” for the components of such adjustments.

Reconciliation of revenues to operating revenues and expenses to operating expenses

	Six Months Ended June 30,	
	2016	2015
	(In millions)	
Total revenues	\$ 376	\$ 3,644
Less: Net investment gains (losses)	(33)	37
Less: Net derivative gains (losses)	(3,235)	68
Less: Adjustments related to net investment gains (losses) and net derivative gains (losses)	1	—
Less: Other adjustments to revenues (1)	7	18
Total operating revenues	<u>\$ 3,636</u>	<u>\$ 3,521</u>
Total expenses	<u>\$ 2,627</u>	<u>\$ 2,785</u>
Less: Adjustments related to net investment gains (losses) and net derivative gains (losses)	(802)	(54)
Less: Other adjustments to expenses (1)	389	167
Total operating expenses	<u>\$ 3,040</u>	<u>\$ 2,672</u>

- (1) See definitions of operating revenues and operating expenses under “— Non-GAAP and Other Financial Disclosures” for the components of such adjustments.

Consolidated Results — Operating

	Six Months Ended June 30,	
	2016	2015
(In millions)		
Operating revenues		
Premiums	\$ 511	\$ 536
Universal life and investment-type product policy fees	1,186	1,296
Net investment income	1,433	1,439
Other revenues	506	250
Total operating revenues	<u>3,636</u>	<u>3,521</u>
Operating expenses		
Policyholder benefits and claims	1,235	982
Interest credited to policyholder account balances	475	517
Capitalization of DAC	(161)	(185)
Amortization of DAC and VOBA	498	335
Interest expense on debt	34	34
Other expenses	959	989
Total operating expenses	<u>3,040</u>	<u>2,672</u>
Provision for income tax expense (benefit)	<u>140</u>	<u>231</u>
Operating earnings	<u>\$ 456</u>	<u>\$ 618</u>

Six Months Ended June 30, 2016 Compared with the Six Months Ended June 30, 2015

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

Overview. The primary drivers of the decrease in operating earnings were refinements made to DAC and certain insurance-related liabilities, the impact of our annual Retail variable annuity actuarial assumption review, lower investment yields, lower fee income and higher costs associated with our variable annuity guaranteed minimum death benefits (“GMDBs”), partially offset by the recapture of an assumed fixed annuity reinsurance agreement in the current period and higher net investment income from portfolio growth.

Business Growth. An \$81 million increase in operating earnings was attributable to business growth. An increase in invested assets was primarily due to positive net flows in our life businesses and the recapture of certain single premium deferred annuity contracts from Metropolitan Life Insurance Company, partially offset by funding agreement repayments in our Corporate Benefit Funding segment. Costs associated with our variable annuity GMDBs were also lower. These increases were partially offset by lower fees in our annuities business as average separate account balances declined. In addition, lower interest credited expense in our Corporate Benefit Funding segment was largely offset by higher interest credited expenses in our life and annuities businesses.

Market Factors. A \$194 million decrease in operating earnings was attributable to market factors, including volatile equity markets and sustained low interest rates. Investment yields were negatively impacted by the adverse impact of the sustained low interest rate environment on fixed maturity securities, as well as lower returns on real estate joint ventures, private equities and hedge funds. These decreases were partially offset by increased income on interest rate derivatives and increased income from our securities lending program, as well as lower interest credited expense as a result of declines in average interest credited rates. In our deferred annuities business, declines in our average separate account balances resulted in a decrease in asset-based fee income. In addition, higher costs associated with our variable annuity GMDBs were partially offset by lower asset-based commissions.

Underwriting, Actuarial Assumption Review and Other Insurance Adjustments. Favorable mortality in our traditional life business, partially offset by unfavorable mortality in our universal life and income annuities businesses resulted in a slight increase in operating earnings. The impact of our annual Retail variable annuity actuarial assumption review, which occurred in the current period, resulted in a net operating earnings decrease of \$129 million and was primarily related to unfavorable DAC unlockings. Refinements to DAC and certain insurance-related liabilities, which were recorded in both periods, resulted in a \$225 million decrease in operating earnings. This decrease was primarily driven by current period adjustments on our universal life with secondary guarantees products, attributable to modeling improvements in the reserving process, as well as loss recognition. These declines were partially offset an increase in operating earnings of \$247 million, as a result of the recapture of an assumed fixed annuity reinsurance agreement in the current period.

Amortization of DAC. DAC amortization decreased due to favorable separate account returns in the current period as compared to the prior period, partially offset by business growth, resulting in a \$54 million increase in operating earnings.

Adoption of New Accounting Pronouncements

See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements.

Future Adoption of New Accounting Pronouncements

See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements.

Non-GAAP and Other Financial Disclosures

In this report, the Company presents certain measures of its performance that are not calculated in accordance with GAAP. We believe that these non-GAAP financial measures enhance the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of our business. The following non-GAAP financial measures should not be viewed as substitutes for the most directly comparable financial measures calculated in accordance with GAAP:

Non-GAAP financial measures:	Comparable GAAP financial measures:
(i) operating revenues	(i) revenues
(ii) operating expenses	(ii) expenses
(iii) operating earnings	(iii) net income (loss)

See “— Results of Operations” for reconciliations of these measures to the most directly comparable GAAP measures.

Our definitions of the various non-GAAP and other financial measures discussed in this report may differ from those used by other companies:

Operating earnings is the measure of segment profit or loss we use to evaluate segment performance and allocate resources. Consistent with GAAP guidance for segment reporting, operating earnings is our measure of segment performance.

Operating earnings is defined as operating revenues less operating expenses, both net of income tax.

Operating revenues and operating expenses exclude results of discontinued operations and other businesses that have been or will be sold or exited by MetLife and are referred to as divested businesses. Operating revenues also excludes net investment gains (losses) and net derivative gains (losses). Operating expenses also excludes goodwill impairments.

The following additional adjustments are made to revenues, in the line items indicated, in calculating operating revenues:

- Universal life and investment-type product policy fees excludes the amortization of unearned revenue related to net investment gains (losses) and net derivative gains (losses) and certain variable annuity guaranteed minimum income benefits (“GMIBs”) fees (“GMIB Fees”); and
- Net investment income: (i) includes investment hedge adjustments which represent earned income on derivatives and amortization of premium on derivatives that are hedges of investments or that are used to replicate certain investments, but do not qualify for hedge accounting treatment, (ii) includes income from discontinued real estate operations, (iii) excludes post-tax operating earnings adjustments relating to insurance joint ventures accounted for under the equity method, and (iv) excludes certain amounts related to securitization entities that are variable interest entities (“VIEs”) consolidated under GAAP.

The following additional adjustments are made to expenses, in the line items indicated, in calculating operating expenses:

- Policyholder benefits and claims excludes: (i) amounts associated with periodic crediting rate adjustments based on the total return of a contractually referenced pool of assets, (ii) benefits and hedging costs related to GMIBs (“GMIB Costs”), and (iii) market value adjustments associated with surrenders or terminations of contracts (“Market Value Adjustments”);
- Interest credited to policyholder account balances includes adjustments for earned income on derivatives and amortization of premium on derivatives that are hedges of policyholder account balances but do not qualify for hedge accounting treatment;
- Amortization of DAC and VOBA excludes amounts related to: (i) net investment gains (losses) and net derivative gains (losses), (ii) GMIB Fees and GMIB Costs, and (iii) Market Value Adjustments;
- Interest expense on debt excludes certain amounts related to securitization entities that are VIEs consolidated under GAAP; and
- Other expenses excludes costs related to: (i) implementation of new insurance regulatory requirements, and (ii) acquisition, integration and other costs.

The following additional information is relevant to an understanding of our performance results:

- We sometimes refer to sales activity for various products. These sales statistics do not correspond to revenues under GAAP, but are used as relevant measures of business activity.
- Allocated equity - portion of common stockholders’ equity that MetLife’s management allocates to each of its segments and sub-segments based on local capital requirements and economic capital. See “— Economic Capital.”

Item 4. Controls and Procedures

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as defined in Rule 15d-15(e) under the Securities Exchange Act of 1934, (“Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

There were no changes to the Company’s internal control over financial reporting as defined in Exchange Act Rule 15d-15 (f) during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

The following should be read in conjunction with (i) Part I, Item 3, of the 2015 Annual Report; (ii) Part II, Item 1, of MetLife Insurance Company USA's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016; and (iii) Note 9 of the Notes to the Interim Condensed Consolidated Financial Statements in Part I of this report.

Various litigation, claims and assessments against the Company, in addition to those discussed previously and those otherwise provided for in the Company's consolidated financial statements, have arisen in the course of the Company's business, including, but not limited to, in connection with its activities as an insurer, investor and taxpayer. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning the Company's compliance with applicable insurance and other laws and regulations.

It is not possible to predict the ultimate outcome of all pending investigations and legal proceedings. In some of the matters referred to previously, large and/or indeterminate amounts, including punitive and treble damages, are sought. Although in light of these considerations it is possible that an adverse outcome in certain cases could have a material effect upon the Company's financial position, based on information currently known by the Company's management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect. However, given the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material effect on the Company's net income or cash flows in particular quarterly or annual periods.

Item 1A. Risk Factors

The following should be read in conjunction with, and supplements and amends, the factors that may affect the Company's business or operations described under "Risk Factors" in Part I, Item 1A, of the 2015 Annual Report, as amended or supplemented by the information under "Risk Factors" in Part II, Item 1A, of MetLife Insurance Company USA's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 (the "First Quarter 2016 Report"). Other than as described in this Item 1A, there have been no other material changes to our risk factors from the risk factors previously disclosed in the 2015 Annual Report, as amended or supplemented by such information in the First Quarter 2016 Report.

Economic Environment and Capital Markets-Related Risks

The following updates and replaces in its entirety the risk factor entitled "If Difficult Conditions in the Global Capital Markets and the Economy Generally Persist, They May Materially Adversely Affect Our Business and Results of Operations" included in the 2015 Annual Report.

If Difficult Conditions in the Global Capital Markets and the Economy Generally Persist, They May Materially Adversely Affect Our Business and Results of Operations

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility and disruptions in financial asset classes or various markets, including global capital markets, can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities are sensitive to changing market factors. Global market factors, including interest rates, credit spreads, equity prices, real estate markets, foreign currency exchange rates, consumer spending, business investment, government spending, the volatility and strength of the capital markets, deflation and inflation, all affect our financial condition, as well as the volume, profitability and results of our business operations, either directly or by virtue of their impact on the business and economic environment generally and on general levels of economic activity, employment and customer behavior specifically. Disruptions in one market or asset class can also spread to other markets or asset classes. Upheavals in the financial markets can also affect our financial condition (including our liquidity and capital levels) as a result of mismatched impacts on the value of our assets and our liabilities.

At times throughout the past several years, volatile conditions have characterized financial markets. Significant market volatility, and government actions taken in response, may exacerbate some of the risks we face. Events following the U.K.'s referendum on June 23, 2016 and the uncertainties associated with its potential withdrawal from the EU have contributed to market volatility. Such events and uncertainties, combined with foreign exchange risks, could contribute to weakening gross domestic product growth, primarily in the U.K. and Europe. The magnitude and longevity of the potential negative economic impacts would depend on the detailed agreements reached by the U.K. and EU as a result of the exit negotiations and negotiations regarding trade and other arrangements. Additionally, weakness in the energy and metals and mining sectors and concerns about the political and/or economic stability of countries in regions outside the EU, including China, Ukraine, Russia, Brazil, Japan, Turkey, Jordan and Lebanon, as well as Puerto Rico, have contributed to global market volatility. Concerns about global economic conditions, capital markets and the solvency of certain EU member states, their banking systems and the financial institutions that have significant direct or indirect exposure to debt issued by these countries or their respective banking systems, have also been a cause of elevated levels of market volatility. This market volatility has affected the performance of various asset classes at various times, and it could continue. Any of these factors could have significant adverse effects on the economy and financial markets generally.

To the extent these uncertain financial market conditions persist, our revenues and net investment income are likely to remain under pressure. Similarly, sustained periods of low interest rates could cause our profit margins to erode. See “Risk Factors — Economic Environment and Capital Markets-Related Risks — We Are Exposed to Significant Global Financial and Capital Markets Risks Which May Adversely Affect Our Results of Operations, Financial Condition and Liquidity, and May Cause Our Net Investment Income to Vary from Period to Period” in the 2015 Annual Report. Also, in the event of extreme prolonged market events, such as the global credit crisis, we could incur significant capital and/or operating losses due to, among other reasons, losses incurred in our general account and as a result of the impact on us of guarantees, capital maintenance obligations and/or collateral requirements associated with our affiliated reinsurers and other similar arrangements. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility, which may also increase the cost and limit the availability of the hedging instruments and other protective measures we take to mitigate such risk.

We are a significant writer of variable insurance products and certain other products issued through separate accounts. The account values of these products decrease as a result of declining equity markets. Lower interest rates generally increase account values in the near term, but may result in lower returns in fixed income options in the future. Decreases in account values reduce certain fees generated by these products, cause the amortization of DAC to accelerate, could increase the level of insurance liabilities we must carry to support such products issued with any associated guarantees and could require us to provide additional funding to affiliated captive reinsurers.

In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. Group insurance, in particular, is affected by higher unemployment rates. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Furthermore, our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Such adverse changes in the economy could negatively affect our earnings and have a material adverse effect on our business, results of operations and financial condition.

Difficult conditions in the global capital markets and the economy may continue to raise the possibility of legislative, judicial, regulatory and other governmental actions. See “Risk Factors — Regulatory and Legal Risks — Our Insurance Businesses Are Highly Regulated, and Changes in Regulation and in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth,” in the 2015 Annual Report, as amended or supplemented by the First Quarter 2016 Report, and “Risk Factors — Risks Related to Our Business — Competitive Factors May Adversely Affect Our Market Share and Profitability” in the 2015 Annual Report.

Regulatory and Legal Risks

The following updates and replaces the similarly named sections of the risk factor entitled “Regulation of MetLife, Inc. as a Non-Bank SIFI or as Systemically Important Under Other Regulations Proposed by National or International Authorities Could Adversely Affect Our Ability to Compete and Our Business and Results of Operations” included in the 2015 Annual Report, as amended or supplemented by such information in the First Quarter 2016 Report. There have been no other material changes to such risk factor.

Potential Regulation of MetLife, Inc. as a Non-Bank SIFI or Regulation as Systemically Important Under Other Regulations Proposed by National or International Authorities Could Adversely Affect Our Ability to Compete and Our Business and Results of Operations

Potential Regulation of MetLife, Inc. as a Non-Bank SIFI

On December 18, 2014, the FSOC designated MetLife, Inc. as a non-bank SIFI subject to regulation by the Federal Reserve and the FDIC, as well as to enhanced supervision and prudential standards. On January 13, 2015, MetLife, Inc. filed an action in the D.C. District Court asking the Court to review and rescind the FSOC's designation. On March 30, 2016, the D.C. District Court ordered that the designation of MetLife, Inc. as a non-bank SIFI by the FSOC be rescinded. On April 8, 2016, the FSOC filed a notice of appeal of the D.C. District Court's order.

If the FSOC prevails on appeal or designates MetLife, Inc. as systemically important as part of its ongoing review of non-bank financial companies, MetLife, Inc. could once again be subject to regulation as a non-bank SIFI. However, many of the regulatory requirements that would apply to MetLife, Inc. as a non-bank SIFI if it were again so designated have not been finalized. Regulation of MetLife, Inc. as a non-bank SIFI could materially and adversely affect our business. For example, the Federal Reserve Board has issued an advance notice of proposed rulemaking but not yet finally determined the enhanced capital requirements that would apply to insurance company non-bank SIFIs. If MetLife, Inc. were re-designated as a non-bank SIFI, our business and competitive position could be materially and adversely affected by any requirement of the Federal Reserve Board requiring insurers that are non-bank SIFIs to comply with capital standards or regimes that do not take into account the insurance business model and the differences between banks and insurers. Enhanced capital requirements could adversely affect our ability to compete with other insurers that are not subject to those requirements, and our ability to issue guarantees could be constrained. We could have to raise the price of the products we offer, reduce the amount of risk we take on, or stop offering certain products altogether.

The Federal Reserve Board previously implemented stress testing requirements for non-bank SIFIs that will apply once capital standards are adopted. It has also indicated that it plans to apply enhanced prudential standards to non-bank SIFIs by rule or order, and recently issued a notice of proposed rulemaking addressing the governance, risk management and liquidity requirements it is proposing to apply to insurance company non-bank SIFIs. Accordingly, the manner in which these proposed standards might apply to MetLife, Inc., were it to be re-designated as a non-bank SIFI, and its impact on us, remain unclear.

In addition, if re-designated as a non-bank SIFI, MetLife, Inc. will be required to comply with the requirements applicable to non-bank SIFIs, including the submission of a resolution plan setting forth how the company could be resolved under the Bankruptcy Code in the event of material financial distress. The Federal Reserve Board would also have the right to require any of our insurance companies, or insurance company affiliates, to take prompt action to correct any financial weaknesses. In addition, under the Volcker Rule, MetLife, Inc. could be subject to the imposition by the Federal Reserve Board of additional capital requirements and quantitative limits on certain of its trading and investment activities. Non-bank SIFIs and certain other large financial companies can be assessed under Dodd-Frank for any uncovered costs arising in connection with the resolution of a systemically important financial company. In addition, non-bank SIFIs must pay certain assessments and other charges to offset certain costs incurred by the Federal Reserve Board in fulfilling its oversight role and in connection with the Financial Research Fund within the U.S. Department of Treasury that funds the Office of Financial Research.

On January 12, 2016, MetLife, Inc. announced its plan to pursue the Separation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Business — Overview — Other Key Information." There can be no assurance that the new company that would be created in connection with the Separation will not be designated by the FSOC as a non-bank SIFI, although such a company would be separately evaluated by the FSOC and may not meet a necessary threshold to advance to possible designation, or that any actions taken in furtherance of this plan will affect any decision the FSOC may make to re-designate MetLife, Inc. as a non-bank SIFI. MetLife, Inc. may consider further structural and other business alternatives that may be available to it in response to any re-designation of MetLife as a non-bank SIFI, and we cannot predict the impact that any such alternatives, if implemented, may have on us. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Business — Regulatory Developments — Potential Regulation of MetLife, Inc. as a Non-Bank SIFI," as well as "Business — Regulation — Regulation of MetLife, Inc. as a Non-Bank SIFI" included in the 2015 Annual Report, for additional information regarding potential regulation of MetLife, Inc. as a non-bank SIFI.

Global Systemically Important Insurers

In the wake of the financial crisis, national and international authorities have proposed measures intended to increase the intensity of regulation of large financial institutions, requiring greater coordination among regulators and efforts to harmonize regulatory regimes. For example, the IAIS is participating in the FSB's initiative to identify and manage global systemically important financial institutions. To this end, the IAIS published a methodology to assess the systemic relevance of global insurers and a framework of policy measures to be applied to G-SIIs and, on this basis, the FSB again so designated MetLife, Inc. in 2015. G-SII designation is an annual process, and the IAIS published revised assessment methodology in June 2016. While the regulatory standards that would apply to G-SIIs are still being developed, they will include enhanced capital standards and supervision and other additional requirements that would not apply to companies that are not G-SIIs. The IAIS proposals would need to be implemented at the consolidated group level by legislation or regulation in each applicable jurisdiction. As MetLife, Inc. is no longer a U.S. non-bank SIFI and, therefore, has no consolidated group regulator, the impact on MetLife, Inc. of such proposals is uncertain. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Business — Regulatory Developments — Designation Process and Policy Measures that May Apply to Global Systemically Important Insurers," as well as "Business — Regulation — Designation Process and Policy Measures that May Apply to Global Systemically Important Insurers" included in the 2015 Annual Report.

General Risks

The following updates and replaces in its entirety the risk factor entitled "We May Be Unable to Attract and Retain Sales Representatives for Our Products" included in the 2015 Annual Report.

We May Experience Difficulty in Marketing and Distributing Products Through Our Distribution Channels

Following completion in July 2016 of the sale of MetLife's U.S. Retail advisor force and certain assets associated with the MetLife Premier Client Group, including MetLife's affiliated broker-dealer, MetLife Securities, Inc., we distribute our products through a variety of third-party distribution channels. We may periodically negotiate the terms of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition. Distributors may elect to reduce or terminate their distribution relationships with us, including for such reasons as adverse developments in our business, adverse rating agency actions or concerns about market-related risks. We are also at risk that key distribution partners may merge, change their business models in ways that affect how our products are sold, or terminate their distribution contracts with us, or that new distribution channels could emerge and adversely impact the effectiveness of our distribution efforts. An increase in bank and broker-dealer consolidation activity could increase competition for access to distributors, result in greater distribution expenses and impair our ability to market products through these channels. Consolidation of distributors and/or other industry changes may also increase the likelihood that distributors will try to renegotiate the terms of any existing selling agreements to terms less favorable to us.

When our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution despite our training and compliance programs. If our products are distributed by such firms in an inappropriate manner, or to customers for whom they are unsuitable, we may suffer reputational and other harm to our business.

Item 6. Exhibits

(Note Regarding Reliance on Statements in Our Contracts: In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about MetLife Insurance Company USA its subsidiaries or affiliates, or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and (i) should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement; (iii) may apply standards of materiality in a way that is different from what may be viewed as material to investors; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about MetLife Insurance Company USA its subsidiaries and affiliates may be found elsewhere in this Quarterly Report on Form 10-Q and MetLife Insurance Company USA's other public filings, which are available without charge through the U.S. Securities and Exchange Commission website at www.sec.gov.)

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

Exhibit Index

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