CORPORATE OVERVIEW

Metropolitan Tower Life Insurance Company (the "Company" or "MTL") is a wholly-owned subsidiary of MetLife, Inc. ("MetLife"), a Delaware corporation. The Company is domiciled in the State of Nebraska ("Nebraska") and is licensed to transact insurance business in, and is subject to regulation by all 50 states, the District of Columbia and Canada. The Company is currently actively selling a broad range of group annuity and investment products, including guaranteed investment contracts and other stable value products, structured settlements and certain products to fund company-, bank- or trust owned life insurance used to finance nonqualified benefit programs for executives. While the Company is not actively selling annuities, variable and universal life insurance, and traditional life insurance, including whole life, to individuals, this business has a significant impact on the financial statements of the Company.

After receiving all regulatory approvals, on April 27, 2018, the Company changed its state of domicile from the state of Delaware to Nebraska and merged with its former affiliate, General American Life Insurance Company ("GALIC") (the "Merger"). The Company was the surviving entity of the merger.

This Management's Discussion and Analysis ("MD&A") is a supplement to the statutory annual statement of the Company. This discussion clarifies significant financial items that may not be readily apparent from statement amounts, and highlights certain changes in trends that may be reasonably available from statement sources, but are deemed worthy of note. It is not intended to be a complete overview of the Company and its operations. Since it deals mainly with a limited set of financial events, it should be viewed only for its intended use.

SIGNIFICANT INITIATIVES AND TRANSACTIONS

During June 2018, MetLife divested its remaining shares of Brighthouse Financial, Inc. ("Brighthouse"), and as a result MetLife is no longer affiliated with Brighthouse.

On January 16, 2018, MetLife, its parent, announced its plan to merge MTL and GALIC. GALIC was a domestic life insurance company domiciled in the State of Missouri. The Company has accounted for this transaction as a statutory merger in accordance with SSAP No. 68, *Business Combinations and Goodwill*. Per the terms of the Merger, and as clarified with the State of Nebraska Department of Insurance (the "Department"), MTL's shares remained as the outstanding shares of the merged company. No new shares were issued by the Company, and the common capital stock of GALIC was canceled under the agreement.

After receiving all regulatory approvals, MTL changed its state of domicile from the State of Delaware to the State of Nebraska. The surviving entity of the Merger was the Company.

In December 2017, President Trump signed into law H.R.1, commonly referred to as the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform"). As a result, the Company recognized the tax effects of U.S. Tax Reform for the year ended December 31, 2017. While the Company recorded a reasonable estimate of the tax effects of U.S. Tax Reform in the period of enactment, its income tax accounting was not complete due to uncertainties that existed at the time. In addition, given the complexities of U.S. Tax Reform, there still remain uncertainties surrounding aspects of the new law that may impact results in the future.

In accordance with INT 18-01, *Updated Tax Estimates under the Tax Cuts and Jobs Act,* adopted by the National Association of Insurance Commissioners ("NAIC") in February 2018, the Company recorded provisional amounts in 2017 for certain items for which the income tax accounting is not complete. For these items, the Company recorded a reasonable estimate of the tax effects of U.S. Tax Reform. The estimates were reported as provisional amounts during the measurement period, which did not exceed one year from the date of enactment of U.S. Tax Reform. The Company reflected adjustments to its provisional amounts upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the enactment date that, if known, would have affected the income tax effects initially reported as provisional amounts.

As of December 31, 2017, the following items were considered provisional estimates due to complexities and ambiguities in U.S. Tax Reform, which resulted in incomplete accounting for the tax effects of these provisions. Further guidance, either legislative or interpretive, and analysis was completed during the measurement period. As a result, the following updates were made to complete the accounting for these items as of December 31, 2018:

The Company has recorded provisional amounts in 2017 for certain items for which the income tax accounting is not complete. The following items are considered provisional estimates due to complexities and ambiguities in the U.S. Tax Reform which resulted in incomplete accounting for the tax effects of these provisions. Further guidance, either legislative or interpretive, availability of certain financial information and analysis will be required to complete the accounting for these items:

Alternative Minimum Tax Credits - U.S. Tax Reform eliminates the corporate alternative minimum tax and allows for minimum tax credit carryforwards to be used to offset future regular tax or to be refunded 50% each tax year beginning in 2018 with any remaining balance fully refunded in 2021. However, pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, refund payments issued for corporations claiming refundable prior year alternative minimum tax liability credits are subject to a sequestration rate of 6.2%. The application of this fee to alternative minimum tax credit refunds in future years is subject to further guidance. Further, the sequestration reduction rate in effect at the time is subject to uncertainty. The Company has recorded less than a $1 million reduction to deferred tax assets ("DTA") for this item for the year ended December 31, 2017. For the year ended December 31, 2018, the Company recorded less than a $1 million increase to DTA, and less than a $1 million increase to current tax liabilities for this item as a result of the issuance of additional tax reform guidance. In early 2019, the Internal Revenue Service ("IRS") issued guidance indicating that for years beginning after December 31, 2017, refund payments and credit elect and refund offset transactions due to refundable minimum tax credits will not be subject to sequestration. The Company will incorporate the impacts of this IRS announcement in 2019.

Tax Credit Partnerships - The reduction in the federal corporate income tax rate due to U.S. Tax Reform required adjustments for multiple investment portfolios, including tax credit partnerships and tax-advantaged leverage leases. The tax-advantaged leverage lease portfolio is valued on an after-tax yield basis. In the fourth quarter of 2018, the Company received third party data that was used to complete a comprehensive review of its portfolio to determine the full and complete impact of U.S. Tax Reform on these investments. As a result of this review, the Company recorded a $15 million decrease to DTA for this item for the year ended December 31, 2018.

Correction of Errors

During 2018, the company discovered an error related to the calculation of a policy loan accrual. The correction of this error was reported as a prior period adjustment in surplus. The impact of the correction on surplus was a decrease of $3 million, net of taxes.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management prepares the Company's statutory financial statements in conformity with accounting practices prescribed or permitted by the Department. The Department requires that insurance companies domiciled in Nebraska prepare the statutory financial statements in accordance with the NAIC *Accounting Practices and Procedures Manual* ("NAIC SAP") as modified by the Department ("NE SAP"). NAIC SAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the financial statements. The most critical estimates and assumptions include those used in determining: (i) investment impairments; (ii) the estimated fair value of investments in the absence of quoted market values; (iii) the estimated fair value of and accounting for derivatives; (iv) policy reserves; (v) accounting for reinsurance transactions; and (vi) the liability for litigation and regulatory matters. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Company's businesses and operations. Actual results could differ from these estimates.

Under NE SAP, results of subsidiaries are not consolidated with the results of the Company on a line-by-line basis, but rather are generally recorded at their underlying net equity value as affiliated common stocks, with the current year change in net equity value reflected in unrealized capital gains (losses) through surplus.

Investments

The Company's principal investments are in bonds, preferred and common stocks, mortgage loans, other invested assets, cash equivalents, short-term investments, real estate and derivatives. The Company is exposed to the following primary sources of investment risk: credit risk, interest rate risk, liquidity risk, market valuation risk, foreign currency exchange rate risk and tenant and occupancy risk on real estate. The financial statement risks, stemming from such investment risks, are those associated with the determination of estimated fair values, the diminished ability to sell certain investments in times of strained market conditions, the recognition of impairments, and the recognition of income on certain investments. The use of different methodologies, assumptions and inputs relating to these financial statement risks may have a material effect on the amounts presented within the financial statements or estimated fair value amounts disclosed in the notes to financial statements.

In its impairment evaluation of bonds and preferred and common stocks, management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the estimated fair value has been below cost or amortized cost; (ii) the potential for impairments when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; (vi) both the Company's intent to sell a security before the recovery of its estimated fair value and its intent and ability to hold the security for a period of time sufficient to allow for the recovery of its value to an amount equal to or greater than cost or amortized cost; (vii) unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities; (viii) the potential for impairments due to weakening of foreign currencies on non-functional currency denominated securities that are near maturity; and (ix) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

In management's impairment evaluation for commercial and agricultural mortgage loans, valuation allowances are established on a loan specific basis for those loans considered impaired where a property specific or market specific risk has been identified that could likely result in a future loss. In addition, in certain circumstances, management also establishes general reserve valuation allowances for loan losses when a loss contingency exists for pools of loans with similar characteristics, such as mortgage loans based on similar property types or loans with similar loan-to-value or similar debt service coverage ratio factors. A loss contingency exists when, based on past experience, it is probable that a credit loss has occurred and the amount of credit loss can be reasonably estimated. The general reserve valuation allowance is recorded when the loss contingency based loan loss amount is greater than the mortgage component of the asset valuation reserve ("AVR"), and it is recorded in the amount by which the loss contingency based loan loss amount exceeds the mortgage component of the AVR. If the mortgage component of the AVR is greater than the loss contingency amount, no general reserve is recorded. Changes in the general reserve valuation allowance are included in net unrealized capital gains (losses) which are credited or charged directly to surplus.

In management's impairment evaluation for real estate held-for-investment, properties are evaluated for recoverability whenever events or circumstances indicate the carrying amount of the investment may not be recoverable and the carrying value of the property exceeds its estimated fair value. For real estate investments whose carrying values are greater than estimated fair value and carrying values are greater than undiscounted cash flows, the properties are written down to their estimated fair value, with the other-than-temporary impairment ("OTTI") loss included in realized capital losses. OTTI losses are based upon the estimated fair value of real estate, which is generally computed using either (i) the present value of expected future cash flows from the real estate discounted at a rate commensurate with the underlying risks or (ii) the estimated sales proceeds. Real estate acquired upon foreclosure of mortgage loans is recorded at the lower of estimated fair value of the real estate or the carrying value of the mortgage loan at the date of foreclosure.

In management's impairment evaluation for real estate joint ventures and other limited partnership interests, in addition to such entities performing regular evaluations for the impairment of underlying investments, management routinely evaluates investments for impairments. Management considers financial and other information provided by such entities, other known information and inherent risks in the underlying investments, as well as future capital commitments, in determining whether an impairment has occurred.

The determination of impairments and valuation allowances is highly subjective and is based upon periodic evaluations and assessments of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. In addition, the earnings on certain investments are dependent upon market conditions, which could result in prepayments and changes in amounts to be earned due to changing interest rates or equity markets.

In determining the estimated fair value of the Company's investments, fair values are based on unadjusted quoted prices for identical investments in active markets that are readily and regularly obtainable. When such quoted prices are not available, fair values are based on quoted prices in markets that are not active, quoted prices for similar but not identical investments, or other observable inputs. If these inputs are not available, or observable inputs are not determinable, unobservable inputs and/or adjustments to observable inputs requiring management judgment are used to determine the estimated fair value of investments. The use of different methodologies, assumptions and inputs may have a material effect on the estimated fair values of the Company's investment holdings.

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

Derivatives are financial instruments whose values are derived from interest rates, foreign currency exchange rates, credit spreads 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 Company uses a variety of derivatives, including swaps, forwards, and options, to manage risks that may include interest rate risk, foreign currency exchange rate risk, credit risk and equity market risk. Derivative hedges are designed to reduce risk on an economic basis while considering their impact on accounting results and statutory capital. To a lesser extent, the Company uses credit derivatives in replication synthetic asset transactions ("RSATs") to synthetically replicate investment risks and returns which are not readily available in the cash market.

The accounting for derivatives is complex and interpretations of the primary accounting standards continue to evolve in practice. Judgment is applied in determining the availability and application of hedge accounting designations and the appropriate accounting treatment under these accounting standards. If it were determined that hedge accounting designations were not appropriately applied, reported capital and surplus could be materially affected. Differences in judgment as to the availability and application of hedge accounting designations and the appropriate accounting treatment may have a material effect on the amounts presented within the financial statements of the Company. Assessments of the hedge effectiveness of hedging relationships are also subject to interpretations and estimations; the use of different interpretations or estimates may have a material effect on the amounts presented within the financial statements of the Company.

Regulation of Investments

The Company is subject to state laws and regulations that require diversification of investment portfolios and limit the amount of investments that an insurer may have in certain asset categories, such as below investment grade bonds, real estate, equity investments, other investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments. Management believes that the Company's investments complied, in all material respects, with such laws and regulations at December 31, 2018.

Policy Reserves

Policy reserves are established for all unmatured contractual obligations of the Company arising out of the provisions of insurance contracts. Where separate benefits are included in a contract, a reserve for each benefit is established. These policy reserves are generally calculated as the excess of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. The actuarial methodologies used in the calculation meet the criteria required for reasonable estimates.

The reserving methodologies and assumptions used in computation of policy reserves meet the provisions of statutory valuation law and applicable actuarial guidelines. Further, policy reserves comply with those Actuarial Standards of Practice promulgated by the Actuarial Standards Board.

Differences between actual experience and the assumptions used in the establishment of liabilities result in variances in profit and could result in losses. The effects of changes in such estimated liabilities are included in the results of operations in the period in which the changes occur.

Reinsurance

The Company enters into reinsurance agreements primarily as a purchaser of reinsurance for its various insurance products and also as a provider of reinsurance for some insurance products issued by affiliates and third parties. Accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. Management periodically reviews actual and anticipated experience compared to the aforementioned assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluates the financial strength of counterparties to its reinsurance agreements using criteria similar to that evaluated in the security impairment process discussed previously. Additionally, for each of its reinsurance agreements, management determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable statutory accounting standards. Management must review all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. If management determines that a reinsurance agreement does not expose the reinsurer to all of the significant risks inherent in the business reinsured, the agreement is recorded using the deposit method of accounting.

Litigation

Various litigation, claims and assessments against the Company, in addition to those discussed above and those otherwise provided for in the Company's 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 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, large and/or indeterminate amounts, including punitive and treble damages, may be 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 pending investigations and legal proceedings are not likely to have such an effect. However, given the large and/or indeterminate amounts that may be 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 any particular period.

On a quarterly and annual basis, management reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in the Company's financial statements. Liabilities are established when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

DISCUSSION OF OPERATING RESULTS

2018 Market and Economic Events Impacting the Company's Business

Financial and Economic Environment

Stressed conditions, volatility and disruptions in financial asset classes or various markets can have an adverse effect on MetLife and its subsidiaries (the "Enterprise"), in part because the Enterprise has a large investment portfolio and the insurance liabilities are sensitive to changing market factors. Global market factors, including interest rates, credit spreads, equity prices, derivative prices and availability, real estate markets, foreign currency exchange rates, consumer spending, business investment, government spending, the volatility and strength of the capital markets, and deflation and inflation, and government actions taken in response to any of these factors, could all adversely affect the Enterprise's financial condition, including our liquidity and capital levels, the Enterprise's business operations and MetLife's ability to receive dividends from its insurance subsidiaries and meet its obligations, by virtue of their impact on levels of economic activity, employment, customer behavior, or mismatched impacts on the value of the Enterprise's assets and liabilities. Such factors could also have a material adverse effect on the Enterprise's results of operations, financial condition, liquidity or cash flows through realized investment losses, derivative losses, changes in insurance liabilities, impairments, increased valuation allowances, increases in reserves for future policyholder benefits, reduced net investment income and changes in unrealized gain or loss positions.

Interest Rate Risk

In a low interest rate environment, the Company may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, which could reduce the investment spread. Moreover, borrowers may prepay or redeem the fixed income securities and commercial or agricultural mortgage loans in the Company's investment portfolio with greater frequency in order to borrow at lower market rates, thereby exacerbating this risk. Although lowering interest crediting rates can help offset decreases in spreads on some products, the Company's ability to lower these rates is limited to the portion of the Company's in-force product portfolio that has adjustable interest crediting rates, and could be limited by competition or contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, the Company's spread could decrease or potentially become negative, which could have a material adverse effect on the Company's results of operations and financial condition.

Increases in interest rates could also negatively affect the Company's profitability. In periods of rapidly increasing interest rates, the Company may not be able to replace, in a timely manner, the investments in its General Account with higher yielding investments needed to fund the higher crediting rates necessary to keep interest rate sensitive products competitive. The Company therefore may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In addition, policy loans, surrenders and withdrawals may increase as policyholders seek investments with higher perceived returns as interest rates rise. This process may result in cash outflows requiring that the

Company sell investments at a time when the prices of those investments are adversely affected by the increase in interest rates, which may result in realized investment losses. An increase in interest rates could also have a material adverse effect on the value of the Company's investment portfolio. Additionally, an increase in interest rates could increase the Company's daily settlement payments on interest rate futures and cleared swaps, which may result in increased cash outflows and increase the Company's liquidity needs. Finally, an increase in interest rates could result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds.

Actions resulting from the monetary policy of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and of central banks around the world, including with respect to interest rates, may also impact the pricing levels of risk-bearing investments and may adversely impact the income the Company earns on its investments or the level of product sales.

Equity Risk

Downturns and volatility in equity markets can have a material adverse effect on the revenues and investment returns from the Company's savings and investment products and services, where fee income is earned based upon the estimated fair value of the assets that the Company manages. The variable annuity business in particular is highly sensitive to equity markets, and a sustained weakness or stagnation in the equity markets could decrease revenues and earnings with respect to those products. Furthermore, certain of the Company's variable annuity products offer guaranteed benefits that increase its potential benefit exposure should equity markets decline or stagnate.

Sustained declines in long-term equity returns or interest rates likely would have a negative effect on the funded status of the Company's pension plans and other postretirement benefit obligations. An increase in equity markets could increase settlement payments on equity futures, which may result in increased cash outflows and increase the Company's liquidity needs.

The timing of distributions from and valuations of leveraged buy-out funds, hedge funds and other private equity funds in which the Company invests can be difficult to predict and depends on the performance of the underlying investments, the funds' schedules for making distributions, and the Company's needs for cash. As a result, the amount of net investment income from these investments can vary substantially from period to period. Significant volatility could adversely impact returns and net investment income on these alternative investment classes. In addition, the estimated fair value of such alternative investments or equity securities the Company holds may be adversely impacted by downturns or volatility in equity markets.

Effects of Inflation

Management believes that inflation has not had a material effect on the Company's results of operations, except insofar as inflation may affect interest rates.

An increase in inflation could affect the business in several ways. During inflationary periods, the value of fixed income investments falls which could increase realized and unrealized losses. Inflation also increases expenses for labor and other materials, potentially putting pressure on profitability if such costs cannot be passed through the product prices. Inflation could also lead to increased costs for losses and loss adjustment expenses in certain businesses, which could require the Company to adjust pricing to reflect the Company's expectations for future inflation. Prolonged and elevated inflation could adversely affect the financial markets and the economy generally, and dispelling it may require governments to pursue a restrictive fiscal and monetary policy, which could constrain overall economic activity, inhibit revenue growth and reduce the number of attractive investment opportunities.

Real Estate Risk

The Company's investments in commercial and agricultural mortgage loans, and the Company's investments in real estate and real estate joint ventures, can be adversely affected by changes in the supply and demand of leasable commercial space, creditworthiness of tenants and partners, capital markets volatility, interest rate fluctuations, commodity prices, farm incomes and commercial property market conditions. These factors, which are beyond the Company's control, could have a material adverse effect on the Company's results of operations, financial condition, liquidity or cash flows.

Currency Exchange Rate Risks

The Company is exposed to risks associated with fluctuations in foreign currency exchange rates against the U.S. dollar resulting from its holdings of non-U.S. dollar denominated investments and issuance of non-U.S. dollar denominated instruments, including funding agreements. In general, the weakening of foreign currencies versus the U.S. dollar will adversely affect the estimated fair value of the Company's non-U.S. dollar denominated investments. The negative effects described above may be exacerbated if international markets, particularly emerging markets, experience severe economic or financial disruptions or significant currency devaluations, if a foreign economy is determined to be "highly inflationary," or if a country withdraws from the Euro zone. Fluctuations in foreign currency exchange rates could thus have a material adverse effect on the Company's operations, earnings and investments in the affected countries.

Competitive Pressures

The life insurance industry remains highly competitive. Product development is focused on differentiation leading to more intense competition with respect to product features and services. Several of the industry's products can be quite homogeneous and subject to intense price competition. Cost reduction efforts are a priority for industry players, with benefits resulting in price adjustments to favor customers and reinvestment capacity. Larger companies have the ability to invest in brand equity, product development, technology optimization, risk management, and innovation, which are among the fundamentals for sustained profitable growth in the life insurance industry. Insurers are focused on their core businesses, specifically in markets where they can achieve scale. Insurers are increasingly seeking alternative sources of revenue; there is a focus on monetization of assets, fee-based services, and opportunities to offer comprehensive solutions, which include providing value-added services along with traditional products. Financial strength and flexibility and technology modernization are prerequisites for sustainable growth in the life insurance industry. Larger market participants tend to have the capacity to invest in analytics, distribution, and information technology and have the capability to engage with the new digital entrants. There is a shift in distribution from proprietary to third party models in mature markets, due to the lower cost structure. Evolving customer expectations are having a significant impact on the competitive environment as insurers strive to offer the superior customer service demanded by an increasingly sophisticated industry client base. The Company believes that the continued volatility of the financial markets and its impact on the capital position of many competitors will continue to strain the competitive environment. Legislative and other changes affecting the regulatory environment can also affect the competitive environment within the life insurance industry and within the broader financial services industry. The Company believes that the aforementioned factors have highlighted financial strength, technology efficiency, and organizational agility as the most significant differentiators and, as a result, the Company believes it is well positioned to compete in this environment.

Analysis of Results of Operations – For the Years Ended December 31, 2018 and 2017

The following table sets forth the components of statutory net income (loss) for the years presented (dollars in millions):

	Years Ended December 31, 2018	Years Ended December 31, 2017	% Change
INCOME			
Premiums and annuity considerations	$ 1,869	$ 1,395	34 %
Considerations for supplementary contracts and dividend accumulations	8	9	(11)
Net investment income	739	700	6
Other income (loss)	137	140	(2)
Total income	2,753	2,244	23
BENEFITS AND EXPENSES			
Benefit payments (other than dividends)	1,003	809	24
Changes to reserves, deposit funds and other policy liabilities	561	214	162
Insurance expenses and taxes (other than Federal income and capital gains taxes)	252	231	9
Net transfers to (from) Separate Accounts	709	689	3
Total benefits and expenses before dividends to policyholders	2,525	1,943	30
Gain (loss) from operations before dividends to policyholders and Federal income tax	228	301	(24)
Dividends to policyholders	161	150	7
Gain (loss) from operations before Federal income tax	67	151	(56)
Federal income tax expense (benefit) (excluding income tax on capital gains and losses)	14	14	—
Gain (loss) from operations	53	137	(61)
Net realized capital gains (losses), net of Federal income tax and interest maintenance reserve transfer	23	27	(15)
NET INCOME (LOSS)	76	164	(54)
CHANGES IN CAPITAL AND SURPLUS			
Change in General Account net unrealized capital gains (losses)	2	(26)	
Change in net deferred income tax	12	(53)	
Change in nonadmitted assets	(36)	(4)	
Change in asset valuation reserve	(48)	(2)	
Change in surplus notes	(4)	—	
Change in surplus as a result of reinsurance	(13)	(16)	
Dividends to stockholder	(191)	(1)	
Prior period adjustment	(3)	6	
Other - net	3	—	
NET CHANGE IN CAPITAL AND SURPLUS	(202)	68	
CAPITAL AND SURPLUS AT BEGINNING OF YEAR	1,751	1,683	
CAPITAL AND SURPLUS AT END OF YEAR	$ 1,549	$ 1,751	(12) %

The figures for the year 2017 have been restated for the merger of Metropolitan Tower Life Insurance Company with General American Life Insurance Company.

Total Company Overview

The Company reported net income of $76 million for the year ended December 31, 2018, compared to a net income of $164 million for the year ended December 31, 2017. This decrease is driven by unfavorable variable, universal and traditional life insurance underwriting and higher expenses partially offset by higher net investment income. The unfavorable underwriting is due to claim experience, as well as the impact of reserve refinements in both years.

Financial Statement Line Analysis

Premiums and Annuity Considerations

Premiums and annuity considerations increased $474 million to $1,869 million for the year ended December 31, 2018, from $1,395 million for the year ended December 31, 2017. The increase is primarily due to new private placement variable life ("PPVL") and structured settlement sales.

Net Investment Income

Net investment income, including Interest Maintenance Reserve ("IMR") amortization, increased $39 million to $739 million for the year ended December 31, 2018, from $700 million for the year ended December 31, 2017. This increase was attributable to a $48 million increase from an increase in average invested assets, which were invested mainly in bonds, mortgage loans and other invested assets. The increase in average invested assets was from positive net flows from deposit type contracts and cash flows from operations from new product sales. This increase in net investment income was partially offset by a $9 million decrease in yields driven by lower bonds prepayment fee income. Additionally, there was a decrease in IMR amortization of less than $1 million.

Benefit Payments (other than Dividends)

Benefit payments (other than dividends) increased $194 million to $1,003 million for the year ended December 31, 2018, from $809 million for the year ended December 31, 2017. This increase was primarily due to unfavorable variable and universal life insurance death claim experiences related to higher claim severity and an increase in annuity benefits driven by higher structured settlement sales that are in immediate payout. Also contributing to this increase is higher surrender benefits in life and a policy lapse on a large case.

Changes to Reserves, Deposit Funds and Other Policy Liabilities

Changes to reserves, deposit funds and other policy liabilities increased $347 million to $561 million for the year ended December 31, 2018, from $214 million for the year ended December 31, 2017. The increase was primarily driven by the assumption of reserves for two group life private placement contracts and structured settlement sales.

Analysis of Financial Condition – at December 31, 2018 compared to December 31, 2017

The following table sets forth the Company's admitted assets, liabilities and capital and surplus at the dates presented (dollars in millions, except share data):

	December 31, 2018	December 31, 2017	% Change
ADMITTED ASSETS			
Bonds	$ 11,951	$ 11,318	6 %
Preferred stocks	11	11	—
Common stocks - unaffiliated	50	62	(19)
Mortgage loans	1,882	1,276	47
Real estate	247	497	(50)
Cash, cash equivalents and short-term investments	403	422	(5)
Contract loans	1,818	1,914	(5)
Derivative assets	149	89	67
Other invested assets	761	442	72
Total invested assets	17,272	16,031	8
Investment income due and accrued	159	155	3
Premiums and annuity considerations deferred and uncollected	231	248	(7)
Deferred income tax assets	65	88	(26)
Other assets	341	365	(7)
Total assets excluding Separate Accounts	18,068	16,887	7
Separate Account assets	2,549	1,944	31
Total Admitted Assets	$ 20,617	$ 18,831	9
LIABILITIES AND CAPITAL AND SURPLUS			
Liabilities			
Reserves for life and health insurance and annuity contracts	$ 11,881	$ 11,395	4
Liability for deposit-type contracts	1,878	1,229	53
Dividends due to policyholders	171	157	9
Interest maintenance reserve	17	40	(58)
Other policy liabilities	251	222	13
Borrowed money (including interest thereon)	12	8	50
Asset valuation reserve	173	125	38
Derivative liabilities	13	48	(73)
Payable for collateral under securities loaned and other transactions	1,064	919	16
Funds held under reinsurance treaties	710	681	4
Other liabilities	349	312	12
Total liabilities excluding Separate Accounts	16,519	15,136	9
Separate Account liabilities	2,549	1,944	31
Total Liabilities	19,068	17,080	12
Capital and Surplus			
Capital stock (par value $2,000 per share, 4,000 shares authorized, of which 1,000 shares are issued and outstanding)	3	3	—
Paid-in surplus	924	924	—
Surplus notes	107	111	(4)
Unassigned surplus (deficit)	515	713	(28)
Total Capital and Surplus	1,549	1,751	(12)
Total Liabilities and Capital and Surplus	$ 20,617	$ 18,831	9 %

The figures for the year 2017 have been restated for the merger of Metropolitan Tower Life Insurance Company with General American Life Insurance Company.

Admitted Assets

Total admitted assets increased $1,786 million to $20,617 million at December 31, 2018, from $18,831 million at December 31, 2017. General Account assets increased $1,181 million to $18,068 million, primarily due to an increase in total invested assets. Separate Account assets increased $605 million to $2,549 million at December 31, 2018, from $1,944 million at December 31, 2017, due to PPVL sales in the current year.

Total Invested Assets

Total invested assets increased $1,241 million to $17,272 million at December 31, 2018, from $16,031 million at December 31, 2017, primarily from sales of structured settlements and positive cash flows from operations. These funds were invested primarily in bonds and mortgage loans. The increase in bonds was primarily invested in private placements, collateralized mortgage obligations, commercial mortgage-backed securities, asset backed-securities and syndicated loans. The increase in mortgage loans primarily invested in agricultural and commercial mortgage loans.

Liabilities

Total liabilities increased $1,988 million to a total of $19,068 million at December 31, 2018, from $17,080 million at December 31, 2017. General Account liabilities increased $1,383 million to $16,519 million at December 31, 2018 from $15,136 million at December 31, 2017, mainly driven by sales of structured settlements. Separate Account liabilities increased $605 million to $2,549 million at December 31, 2018, from $1,944 million at December 31, 2017, primarily due to an increase in PPVL.

Capital and Surplus

At December 31, 2018, the Company's capital and surplus was $1,549 million, comprised of $3 million in common stock and $1,546 million of surplus. Capital and surplus decreased $202 million from December 31, 2017, primarily due to dividends paid to MetLife.

Analysis of Cash Flows – For the Years Ended December 31, 2018 and 2017

The following table sets forth the Company's cash activities for the years presented (dollars in millions):

	Years Ended December 31,	
	2018	**2017**
CASH FROM OPERATIONS		
Premiums and annuity considerations, net of reinsurance, received	$ 1,896	$ 1,436
Net investment income received	640	584
Other income (loss) received	122	123
Total receipts	2,658	2,143
Benefits paid (other than dividends)	1,041	861
Insurance expenses and taxes paid (other than Federal income and capital gains taxes)	256	242
Net transfers to (from) Separate Accounts	711	440
Dividends paid to policyholders	148	139
Federal income tax paid (recovered) (net of tax on capital gains and losses)	(25)	21
Total payments	2,131	1,703
Net cash provided by (used in) operations	527	440
CASH FROM INVESTMENTS		
Proceeds from invested assets sold, matured or repaid	5,076	4,131
Cost of invested assets acquired	(6,347)	(4,927)
Net change in contract loans	96	23
Net cash provided by (used in) investments	(1,175)	(773)
CASH FROM FINANCING AND OTHER SOURCES		
Dividends to stockholder	191	—
Net change in deposit-type contracts	649	300
Net change in payable for collateral under securities loaned and other transactions	143	—
Other-net	28	99
Net cash provided by (used in) financing and other sources	629	399
NET CHANGE IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	(19)	66
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:		
BEGINNING OF YEAR	422	356
END OF YEAR	$ 403	$ 422

The figures for the year 2017 have been restated for the merger of Metropolitan Tower Life Insurance Company with General American Life Insurance Company.

Overview

The overall cash, cash equivalents and short-term investments position has decreased by $19 million to $403 million. This decrease was primarily due to cash used in investments, partially offset by net cash provided by operations and financing and other sources.

Cash Flows from Operations

Cash flows from operations increased $87 million to a net inflow of $527 million in 2018, from a net inflow of $440 million in 2017. Total cash receipts increased $515 million, primarily due to structured settlement sales and higher net investment income discussed previously. Total payments increased $428 million, primarily due to a $271 million increase in net transfers to Separate Accounts and a $180 million increase in benefits paid.

Cash Flows from Investments

Cash flows from investments decreased $402 million to a net outflow of $1,175 million in 2018, from a net outflow of $773 million in 2017, driven by sales of structured settlements which positively impacted cash flows from operations and cash flows from financing other sources.

Cash Flows from Financing and Other Sources

Cash flows from financing and other sources increased by $230 million to a net inflow of $629 million in 2018, from a net inflow of $399 million in 2017. The increase was primarily due to growth in deposit-type contract funds and payable for collateral under securities loaned and other transactions, partially offset by dividends paid.

INVESTMENTS

Below Investment Grade or Non-rated Bonds

Short-term and long-term bonds at book/adjusted carrying value that were below investment grade (NAIC 3-6) or not rated by an independent rating agency totaled $823 million and $884 million at December 31, 2018 and 2017, respectively.

Non-Income Producing Bonds

Non-income producing bonds (NAIC 6) had a book/adjusted carrying value of $9 million and less than $1 million at December 31, 2018 and 2017, respectively.

Subprime Mortgage Related Risk Exposure

While there is no market standard definition, the Company defines subprime mortgage lending as the origination of residential mortgage loans to borrowers with weak credit profiles. The Company's exposure to subprime mortgage loans exists through investments in subprime residential mortgage-backed securities ("RMBS"). The Company has exposure to unrealized losses due to a reduction in fair value. During the past several years, the Company purchased subprime RMBS at significant discounts to the expected principal recovery value of the bonds. These newer purchases are performing within management's expectations. The Company continues to closely monitor the performance of the subprime RMBS portfolio and the credit quality of the underlying assets. The Company had no direct exposure through investments in subprime loans, but the Company had direct exposure through bonds (RMBS) backed by subprime mortgage loans. At December 31, 2018 and 2017, the Company had exposure to bonds backed by subprime mortgage loans with a book/adjusted carrying value of $243 million and $118 million, respectively. The Company had no underwriting exposure to subprime mortgage risk through mortgage guaranty or financial guaranty insurance coverage during 2018 and 2017.

Securities Lending Program

The Company participates in a securities lending program whereby securities, which are included in invested assets, are loaned to third parties, primarily brokerage firms and commercial banks. The Company accepts collateral of 102% of the fair value of the loaned securities to be separately maintained as collateral for the loans.

Securities with a cost or amortized cost of $829 million and an estimated fair value of $953 million were on loan under the program at December 31, 2018. The Company was liable for cash collateral under its control of $958 million at December 31, 2018.

Additionally, in order to satisfy the above mentioned collateral requirements, the Company holds security collateral over which it does not have exclusive control. Therefore, the Company's share of this collateral, totaling $14 million at December 31, 2018, which may not be sold or repledged unless the counterparty is in default, is not reflected in the accompanying financial statements.

The Company does not have collateral for securities lending that extends beyond one year from December 31, 2018.

VARIABLE PRODUCT GUARANTEES

Certain of the Company's variable annuity products include guaranteed minimum death benefit riders ("GMDB"). GMDBs provide a death benefit if the account value is less than a specified amount.

Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. The Company uses reinsurance to mitigate the liability exposure and the volatility of net income associated with these liabilities, and while management believes that these and other actions have mitigated the risks related to these benefits, the Company remains liable for the guaranteed benefits in the event that reinsurers are unable or unwilling to pay.

The following table summarizes the direct account values, net amount at risk and weighted average attained age for variable annuity contracts with GMDBs classified as policyholders' reserves. The net amount at risk is 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 (dollars in millions):

	December 31, 2018			December 31, 2017		
	Account Value	Net Amount at Risk	Weighted Average Attained Age	Account Value	Net Amount at Risk	Weighted Average Attained Age
GMDB	$ 7	$ 8	72	$ 11	$ 9	75

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to a company's ability to generate adequate amounts of cash to meet its needs. The Company's short-term liquidity position is defined as cash, cash equivalents and short-term investments, totaled $403 million and $422 million at December 31, 2018 and December 31, 2017, respectively. Asset mix and maturities are adjusted based on forecast and the portfolio of assets is monitored daily. Cash flow testing and stress testing provide additional perspectives on liquidity, which include various scenarios of the potential risk of early contract holder and policyholder withdrawal. The Company includes provisions limiting withdrawal rights on many of its products. Certain of these provisions prevent the customer from making withdrawals prior to the maturity date of the product. In the event of significant cash requirements beyond anticipated liquidity needs, the Company has various alternatives available, either directly or through MetLife, depending on market conditions and the amount and timing of the liquidity need. These options include cash flows from operations, the sale of liquid assets, global funding sources, various credit facilities, borrowings from MetLife or other affiliates and capital contributions from MetLife.

Under certain stressful market and economic conditions, the Company's access to liquidity may deteriorate, or the cost to access liquidity may increase. If the Company requires significant amounts of cash on short notice in excess of anticipated cash requirements or if we are required to post or return cash collateral in connection with derivatives or the Company's securities lending program, the Company may have difficulty selling investments in a timely manner, be forced to sell them for less than the Company otherwise would have been able to realize, or both. In addition, in the event of such forced sale, for securities in an unrealized loss position, realized losses would be incurred on securities sold and impairments would be incurred, if there is a need to sell securities prior to recovery, which may negatively impact the Company's financial condition.

Asset/Liability Management

The Company's assets are actively managed using an approach that is liability driven and balances quality, diversification, asset/liability matching, liquidity, concentration and investment return. The goals of the investment process are to optimize, net of income tax, risk-adjusted investment income and risk-adjusted total return while ensuring that the assets and liabilities are reasonably aligned on a cash flow and duration basis. The Asset/Liability Management ("ALM") process is the shared responsibility of the ALM, Global Risk Management, and Investments departments, with the engagement of senior members of the business segments, and is governed by the ALM Committees. The ALM Committees' duties include reviewing and approving target portfolios investment guidelines and limits, approving significant portfolio and ALM strategies and providing oversight of the ALM process. The directives of the ALM Committees are carried out and monitored through ALM Working Groups which are set up to manage risk by geography, product or portfolio type. The ALM Steering Committee oversees the activities of the underlying ALM Committees and Working Groups. The ALM Steering Committee reports to the Enterprise Risk Committee ("ERC").

Management establishes portfolio guidelines that define ranges and limits related to asset allocation, interest rate risk, liquidity, concentration and other risks for each major business segment, legal entity or insurance product group. These guidelines support implementation of investment strategies used to adequately fund its liabilities within acceptable levels of risk. The Company also establishes hedging programs and associated investment portfolios for different blocks of business. The ALM Working Groups monitor these strategies and programs through regular review of portfolio metrics, such as effective duration, yield curve sensitivity, convexity, value at risk, market sensitivities (to interest rates, equity market levels, equity volatility, and foreign exchange rates), stress scenario payoffs, liquidity, foreign exchange, asset sector concentration and credit quality.

The Company's individual insurance products tend to behave differently under volatile market conditions. In the Company's individual insurance products, which include individual life insurance and annuity products, lapses and surrenders occur in the normal course of business in many product areas. These lapses and surrenders have not deviated materially from management's expectations.

Based upon the strength of the Company's capital and surplus position, management continues to believe the Company has adequate liquidity to meet business requirements under current market conditions and unlikely but reasonably possible stress scenarios.

Capital Management

MetLife has established several senior management committees as part of the capital management process. These committees, including the Capital Management Committee and the ERC, regularly review actual and projected capital levels (under a variety of scenarios including stress scenarios) and the annual capital plan in accordance with capital policy. The Capital Management Committee is comprised of members of senior management, including MetLife's Chief Financial Officer ("CFO"), Treasurer and Chief Risk Officer ("CRO"). The ERC is also comprised of members of senior management, including MetLife's CFO, CRO and Chief Investment Officer.

MetLife's Board of Directors and senior management are directly involved in the development and maintenance of the capital policy. The capital policy sets forth, among other things, minimum and target capital levels and the governance of the capital management process. All capital actions, including proposed changes to the annual capital plan, capital targets or capital policy, are reviewed by the Finance and Risk Committee of the board of MetLife prior to obtaining full board approval. The board of MetLife approves the capital policy and the annual capital plan and authorizes capital actions, as required.

Collateral

The Company does not operate a financial guarantee or financial products business with exposures in derivative products that could give rise to extremely large collateral calls. The Company is a net receiver of collateral from counterparties under the Company's current derivatives.

The Company enters into various collateral arrangements, which may require both the pledging and accepting of collateral in connection with its derivatives.

The table below summarizes the collateral pledged by the Company in connection with its OTC derivatives as of December 31, (dollars in millions):

	Cash (1)		Securities (2)		Total	
	2018	2017	2018	2017	2018	2017
Initial Margin:						
OTC-cleared	$ —	$ —	$ 5	$ 5	$ 5	$ 5
Variation Margin:						
OTC-bilateral	—	—	4	25	4	25
OTC-cleared	—	—	—	—	—	—
Total OTC	$ —	$ —	$ 9	$ 30	$ 9	$ 30

(1) Cash collateral pledged for OTC-cleared is reported in aggregate write-ins for invested assets as cash collateral pledged on derivatives.

(2) Securities pledged as collateral are reported in bonds. Subject to certain constraints, the counterparties are permitted by contract to sell or repledge this collateral.

The table below summarizes the collateral received by the Company in connection with its OTC derivatives as of December 31, (dollars in millions):

	Cash (1)		Securities (2)		Total	
	2018	2017	2018	2017	2018	2017
Variation Margin:						
OTC-bilateral	$ 103	$ 53	$ 12	$ 5	$ 115	$ 58
OTC-cleared	2	7	—	—	2	7
Total OTC	$ 105	$ 60	$ 12	$ 5	$ 117	$ 65

(1) Cash collateral received is reported in cash, cash equivalents and short-term investments and the obligation to return the collateral is reported in payable for collateral under securities loaned and other transactions.

(2) Securities collateral received is held in separate custodial accounts and is not reflected in the financial statements.

The Company's collateral arrangements for its OTC-bilateral derivatives generally require the counterparty in a net liability position, after considering the effect of netting agreements, to pledge collateral when the amount owed by that party reaches a minimum transfer amount. In addition, the Company's netting agreements for derivatives contain provisions that require both the Company and the counterparty to maintain a specific investment grade credit rating from each of Moody's Investors Service ("Moody's") and Standard & Poor's Global Ratings ("S&P"). If a party's credit ratings were to fall below that specific investment grade credit rating, that party would be in violation of these provisions, and the other party to the derivatives could terminate the transactions and demand immediate settlement and payment based on such party's reasonable valuation of the derivatives. With respect to derivatives with credit ratings downgrade triggers, a two-notch downgrade would have no material impact on the Company's derivative collateral requirements.

Common Stock

The Company's capital is comprised of 4,000 shares of common stock authorized, of which 1,000 shares are issued and outstanding, at $2,000 per share par value.

Preferred Stock

The Company's capital is comprised of 2,000 shares of preferred stock authorized, of which there are no shares issued and outstanding, at $1 per share par value.

Surplus Notes

The Company had the following surplus note at December 31, 2018 (dollars in millions):

Date Issued	Interest Rate	Par Value (Face Amount of Notes	Carrying Value of Note	Interest and/or Principal Paid Current Year	Total Interest and/or Principal Paid	Unapproved Interest and/or Principal	Date of Maturity
1/14/1994	7.625%	$ 107	$ 107	$ 8	$ 200	$ —	1/15/2024

The surplus note was issued pursuant to Rule 144A under the Securities Act of 1933 in exchange for cash. The surplus note is registered in the name of a nominee, CEDE & Co., of the Depository Trust Company. At December 31, 2018, the surplus note had $4 million of approved interest, all of which was accrued in the current reporting period, and no unapproved interest.

The surplus note is subordinate in right of payment to policy claims, prior claims and senior indebtedness, but is senior to the claims of shareholders. The surplus note has the following restrictions on payment:

Each payment of principal and interest on the surplus note may be made only with the prior written approval of the Director of the Nebraska Department of Insurance (the "Nebraska Director"), which approval will only be granted if, in the judgment of the Director, the financial condition of the Company warrants such payment. In addition, pursuant to the terms of the surplus note, any payment of principal or interest on the surplus note must be deducted from the Company's unassigned funds.

In accordance with the terms of the approval of the surplus note issuance, the Company has established and maintained a liability since inception of the surplus note, separate from the semi-annual interest payments, equal to the amount of interest expected to accrue annually on the surplus note in the amount of $8 million.

Dividend Restrictions

Under the Nebraska Insurance Code, the Company is permitted, without prior insurance regulatory clearance, to pay a stockholder dividend to its stockholders as long as the amount of the dividend, when aggregated with all other dividends in the preceding 12 months, does not exceed the greater of: (i) 10% of its surplus to policyholders as of the end of the immediately preceding calendar year, or (ii) its statutory net gain from operations for the immediately preceding calendar year (excluding realized capital gains), not including pro rata distributions of the Company's own securities. The Company will be permitted to pay a dividend to its stockholders in excess of the greater of such two amounts only if it files notice of the declaration of such a dividend and the amount thereof with the Director of the Nebraska Director and the Nebraska Director either approves the distribution of the dividend or does not disapprove the distribution within 30 days of its filing. In addition, any dividend that exceeds earned surplus (defined as "unassigned funds (surplus)", excluding unrealized capital gains) as of the immediately preceding calendar year requires insurance regulatory approval. Under the Nebraska Insurance Code, the Nebraska Director has broad discretion in determining whether the financial condition of a stock life insurance company would support the payment of such dividends to its stockholders. Based on amounts at December 31, 2018, the Company could pay its parent a stockholder dividend of $154 million in 2019 without prior approval of the Nebraska Director.

Risk Based Capital ("RBC")

The Nebraska Insurance Code requires that Nebraska domestic life insurers report their RBC based on a formula calculated by applying factors to various asset, premium and statutory reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk and business risk. The Department uses the formula as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. The Nebraska Insurance Code imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on the Department as to the use and publication of RBC data.

The Nebraska Insurance Code gives the Department's Commissioner explicit regulatory authority to require various actions by, or take various actions against, insurers whose total adjusted capital does not exceed certain RBC levels. At December 31, 2018, the Company's total adjusted capital was $1,802 million or 468% of company action level RBC, which is in excess of those levels.

Insolvency Assessments

Most of the jurisdictions in which the Company is admitted to transact business require life insurers doing business within the jurisdiction to participate in guaranty associations, which are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed life insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

As of December 31, 2018, the Company had a $5 million liability for retrospective premium-based guaranty fund assessments and a $5 million asset for the related premium tax offset. As of December 31, 2017, the Company had a $6 million liability for retrospective premium-based guaranty fund assessments and a $5 million asset for the related premium tax offset.

The change in the guaranty asset balance summarized below reflects estimated 2018 premium tax offsets used and revised estimated premium tax offsets for accrued liabilities.

Assets Recognized from Paid and Accrued Premium Tax Offsets (dollars in millions)		
Balance as of December 31, 2017	$	5
Decreases current year:		—
Increases current year:		—
Balance as of December 31, 2018	$	5

The Company did not receive any refunds of assessments for each of the years ended December 31, 2018 and 2017. Assessments levied against the Company were less than $1 million for the years ended December 31, 2018 and 2017, respectively.

The Company's discount rate applied as of December 31, 2018, for guaranty fund assessments was 4.25%.

The Company's undiscounted and discounted amount of guaranty fund assessments and related assets by insolvency as of December 31, 2018 were less than $1 million.

The Company's number of jurisdictions, ranges of years used to discount and weighted average number of years of discounting period for payables and recoverables by insolvency as of December 31, 2018 were as follows:

	Payables			Recoverables		
Name of Insolvency	Number of Jurisdictions	Range of Years	Weighted Average Number of Years	Number of Jurisdictions	Range of Years	Weighted Average Number of Years
Penn Treaty Network American Insurance Company	50	1-70	1-70	42	1-20	6
American Network Insurance Company	50	1-70	1-70	42	1-20	6

It is possible that a large catastrophic event could render such guaranty funds inadequate and the Company may be called upon to contribute additional amounts, which may have a material impact on its financial condition or results of operations in a particular period. The Company has established liabilities for guaranty fund assessments which it considers adequate for assessments with respect to insurers that are currently subject to insolvency proceedings, but additional liabilities may be necessary.

Company Ratings

Insurer financial strength ratings represent the opinions of rating agencies, including A.M. Best Company ("A.M. Best"), Fitch Ratings ("Fitch"), Moody's, and S&P, regarding the ability of an insurance company to meet its financial obligations to policyholders and contractholders.

Rating Stability Indicators

Rating agencies use an "outlook statement" of "positive," "stable," "negative" or "developing" to indicate a medium- or long-term trend in credit fundamentals which, if continued, may lead to a rating change. A rating may have a "stable" outlook to indicate that the rating is not expected to change; however, a "stable" rating does not preclude a rating agency from changing a rating at any time, without notice. Certain rating agencies assign rating modifiers such as "CreditWatch" or "under review" to indicate their opinion regarding the potential direction of a rating. These ratings modifiers are generally assigned in connection with certain events such as potential mergers, acquisitions, dispositions or material changes in a company's results, in order for the rating agency to perform its analysis to fully determine the rating implications of the event.

Insurer Financial Strength Ratings

The following insurer financial strength ratings represent each rating agency's opinion of the Company's ability to pay obligations under insurance policies and contracts in accordance with their terms and are not evaluations directed toward the protection of investors in MetLife's securities. Insurer financial strength ratings are not statements of fact nor are they recommendations to purchase, hold or sell any security, contract or policy. Each rating should be evaluated independently of any other rating.

The Company's financial strength ratings at the date of this filing are as follows:

A.M. Best [1]	A+ (stable outlook)
Fitch [2]	AA- (stable outlook)
Moody's [3]	Aa3 (stable outlook)
S&P [4]	AA- (stable outlook)

[1] A.M. Best financial strength ratings range from "A++ (superior)" to "S (suspended)". A rating of "A+" is the second highest of sixteen rating categories.

[2] Fitch insurer financial strength ratings range from "AAA (exceptionally strong)" to "C (distressed)." A "+" or "-" may be appended to ratings from "AA" to "B" to indicate relative position within a category. A rating of "AA-" is the fourth highest of nineteen rating categories.

[3] Moody's insurance financial strength ratings range from "Aaa (exceptional)" to "C (lowest rated)." A numeric modifier may be appended to ratings from "Aa" to "Caa" to indicate relative position within a category, with 1 being the highest and 3 being the lowest. A rating of "Aa3" is the fourth highest of twenty-one rating categories.

[4] S&P long-term insurer financial strength ratings range from "AAA (extremely strong)" to "SD (selective default)" or "D (default)". A "+" or "-" may be appended to ratings from "AA" to "CCC" to indicate relative position within a category. A rating of "AA-" is the fourth highest of twenty-two rating categories.

Nationally Recognized Statistical Rating Organizations and similar entities could downgrade the Company's financial strength ratings or the Company's credit ratings, or lower the Company's ratings outlooks, at any time and without notice. Such changes could have a material adverse effect on the Company's financial condition and results of operations in many ways, including:

- reducing new sales of insurance products, annuities and other investment products;
- impacting the cost and availability of financing for the Enterprise;
- adversely affecting the Company's relationships with its sales force and independent sales intermediaries;
- materially increasing the number or amount of policy surrenders and withdrawals by contractholders and policyholders;
- requiring the Company to post collateral, including additional collateral under certain financing and derivative transactions;
- requiring the Company to reduce prices for many of the products and services to remain competitive;
- providing termination rights for the benefit of the Company's derivative instrument counterparties;
- adversely affecting the Company's ability to obtain reinsurance at reasonable prices or at all;
- limiting the Company's access to the capital markets;
- increasing the cost of debt; and
- subjecting the Company to increased regulatory scrutiny.

OFF-BALANCE SHEET ARRANGEMENTS

Commitments to Fund Partnership Investments and Private Corporate Bond Investments

The Company makes commitments to fund partnership investments and to lend funds under private corporate bond investments in the normal course of business. The amounts of these unfunded commitments were $616 million and $241 million at December 31, 2018 and 2017, respectively. Management anticipates that these amounts will be invested over the next five years.

Mortgage Loan Commitments

The Company commits to lend funds under mortgage loan commitments. The amount of the mortgage loan commitments was $150 million at December 31, 2018 and $10 million at December 31, 2017. The purpose of these loans is to enhance the Company's total return on its investment portfolio. There are no other obligations or liabilities arising from such arrangements that are reasonably likely to become material.

Credit Exposure

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 governed by International Swaps and Derivatives Association, Inc. ("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 may 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. 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.

Off-balance sheet credit exposure is the excess of positive estimated fair value over positive book/adjusted carrying value for the Company's highly effective hedges and derivatives used in replications at the reporting date. All collateral received from counterparties to mitigate credit-related losses is deemed worthless for the purpose of calculating the Company's off-balance sheet credit exposure. The off-balance sheet credit exposure of the Company's swaps was $14 million and $2 million at December 31, 2018 and December 31, 2017, respectively.

Other Commitments

The Company is a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh and holds common stock of the FHLB of Pittsburgh at book value which was included in common stocks. The Company's aggregate total for FHLB capital stock in the General Account was $36 million at December 31, 2018 and $46 million at December 31, 2017. The Company has also entered into funding agreements with the FHLB of Pittsburgh in exchange for cash and for which the FHLB of Pittsburgh has been granted a lien on certain Company assets, including RMBS, to collateralize the Company's obligations under the funding agreements. The Company maintains control over these pledged assets to the extent that they are in excess of a collateral maintenance amount, generally slightly above the specific amount borrowed, and may use, commingle, encumber or dispose of such portion of the collateral as long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level. Upon any event of default by the

Company, the FHLB of Pittsburgh's recovery on the collateral is limited to the amount of the Company's liability to the FHLB of Pittsburgh. The Company used FHLB of Pittsburgh funding for the issuance of funding agreements and may also use such funding for ALM or liquidity management.

These funding agreements are collateralized by mortgage-backed securities with the estimated fair values presented below. All FHLB of Pittsburgh funding agreement assets and liabilities are classified in the Company's General Account.

The Company's collateral pledged to FHLB was as follows at (dollars in millions):

	December 31, 2018		
	Fair Value	Carrying Value	Aggregate Total Borrowing
Total collateral pledged - Total General and Separate Accounts	$ 1,107	$ 1,052	$ 875
Total collateral pledged - General Account	$ 1,107	$ 1,052	$ 875
Total collateral pledged - Separate Account	$ —	$ —	$ —
	December 31, 2017		
Total collateral pledged - Total General and Separate Accounts	$ 1,012	$ 932	$ 875

The Company's maximum collateral pledged to FHLB during the reporting period ended (dollars in millions):

	December 31, 2018		
	Fair Value	Carrying Value	Amount Borrowed at Time of Maximum Collateral
Maximum collateral pledged - Total General and Separate Accounts	$ 1,241	$ 1,180	$ 875
Maximum collateral pledged - General Account	$ 1,241	$ 1,180	$ 875
Maximum collateral pledged - Separate Account	$ —	$ —	$ —
	December 31, 2017		
Maximum collateral pledged - Total General and Separate Accounts	$ 1,192	$ 1,098	$ 875

Financial 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 are subject to contractual limitations, as noted below, while in other cases such limitations are not specified or applicable. Since certain of these obligations are not subject to limitations, management 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, management 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 and various affiliates ("Contributors") contributed real property (or interests in real property) to MetLife Core Plus Partners, LLC ("MCPP") pursuant to a contribution agreement. In exchange, the Contributors received limited liability company interests in MCPP Owners, LLC. The Company, along with Metropolitan Life Insurance Company, ("MLIC"), is obligated to pay certain potential costs up to specified limits, as outlined in a tenant lease agreement, for one of the contributed properties. The Company and MLIC have agreed to hold the other member within MCPP Owners, LLC harmless from any such potential payment. The Company has a recorded liability of less than $1 million and a maximum potential obligation of $2 million at December 31, 2018.

GALIC, which merged with the Company on April 27, 2018, had agreed to guarantee certain contractual obligations of its former subsidiaries, Paragon Life Insurance Company ("Paragon") (which merged into MLIC in 2006), Security Equity Life Insurance Company ("SELIC") (which merged into MLIC in 2003), and Brighthouse Life Insurance company of NY ("Brighthouse NY") (formerly known as First MetLife Investors Insurance Company). GALIC's obligations under these guarantees became the Company's obligations by operation of law upon merger into the Company. The Company's ongoing guarantee obligations are limited to inforce contracts that were issued by these insurers while GALIC still owned them. Each guarantee was terminated prospectively with respect to contracts that were issued by these insurers after GALIC ceased to own them (for Paragon, on May 1, 2006; for SELIC, on October 31, 2003; and for Brighthouse NY, on December 31, 2002).

Management is comfortable that these arrangements will not place significant demands upon the Company's liquidity resources.

In connection with RSATs, the Company writes credit default swaps for which it receives a premium to insure 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 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 $280 million at both December 31, 2018 and December 31, 2017. 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 December 31, 2018 and 2017, the Company would have received $2 million and $7 million, respectively, to terminate all of these contracts. The credit default swaps expire at various times during the next five years.

FORWARD-LOOKING OUTLOOK

Management intends to achieve favorable operating results through controlling the Company's expenses with the goal of maintaining its capital position and an appropriate RBC ratio. In addition, the Company may begin marketing and selling certain products and may participate in future reinsurance arrangements in support of capital and risk management.

Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects on the Company. Such forward-looking statements are not guarantees of future performance.

Insurance Regulation

U.S. Federal Regulation Affecting Insurance

Although the insurance business in the U.S. is primarily regulated by the states, Federal initiatives often have an impact on the Company's business in a variety of ways. From time to time, Federal measures are proposed that may significantly affect the insurance business. Impacted areas include financial services regulation, securities regulation, derivatives regulation, pension regulation, health care regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct and indirect Federal regulation of insurance have been proposed from time to time, including proposals for the establishment of an optional Federal charter for insurance companies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") effected the most far-reaching overhaul of financial regulation in the U.S. in decades, including the creation of the Financial Stability Oversight Council ("FSOC"), which was given the authority to designate certain financial companies as non-bank systemically important financial institutions subject to supervision by the Federal Reserve Board and the Federal Reserve Bank of New York (collectively with the Federal Reserve Board, the "Federal Reserve"). The Enterprise is not able to predict with certainty whether or what changes may be made to Dodd-Frank in the future or whether such changes would have a material effect on the Enterprise's business operations. As such, the Enterprise cannot currently identify all of the risks or opportunities, if any, that may be posed to its businesses as a result of changes to, or legislative replacements for, Dodd-Frank.

Dodd-Frank also established the Federal Insurance Office within the Department of the Treasury, which has the authority to participate in the negotiations of international insurance agreements with foreign regulators for the U.S., as well as to collect information about the insurance industry and recommend prudential standards. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including serving as a non-voting member of the FSOC and making recommendations to the FSOC regarding insurers to be designated for more stringent regulation.

Under the provisions of Dodd-Frank relating to the resolution or liquidation of certain types of financial institutions, if MetLife or another financial institution were to become insolvent or were in danger of defaulting on its obligations, it could be compelled to undergo liquidation with the Federal Deposit Insurance Corporation ("FDIC") as receiver. For this new regime to be applicable, a number of determinations would have to be made, including that a default by the affected company would have serious adverse effects on financial stability in the U.S. While under this new regime an insurance company would be resolved in accordance with state insurance law, if the FDIC were to be appointed as the receiver for another type of company (including an insurance holding company such as MetLife), the liquidation of that company would occur under the provisions of the new liquidation authority, and not under the Bankruptcy Code, which ordinarily governs liquidations. The FDIC's purpose under the liquidation regime is to mitigate the systemic risks the institution's failure poses, which is different from that of a bankruptcy trustee under the Bankruptcy Code. In such a liquidation, the holders of such company's debt could in certain respects be treated differently than under the Bankruptcy Code. As required by Dodd-Frank, the FDIC has established rules relating to the priority of creditors' claims and the potentially dissimilar treatment of similarly situated creditors. These provisions could apply to some financial institutions whose outstanding debt securities it holds in the Enterprise's investment portfolios.

Dodd-Frank also includes provisions that may impact the investments and investment activities of the Enterprise, including the Federal regulation of such activities. Until the various final regulations are promulgated pursuant to Dodd-Frank, and perhaps for some time thereafter, the full impact of Dodd-Frank on such activities will remain unclear.

Insurance Regulatory Examinations

As part of the regulatory oversight process, U.S. state insurance departments conduct periodic detailed examinations of the books, records, accounts, and business practices of insurers domiciled in their states. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states. In 2019, the New York State Department of Financial Services, the California Department of Insurance, the State of Delaware Department of Insurance, the Department, the South Carolina Department of Insurance and the Texas Department of Insurance will commence an examination of the financial condition of various MetLife insurance subsidiaries for unexamined years up to and including December 31, 2018.