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THE HUMAN SIDE OF THE LEDGER

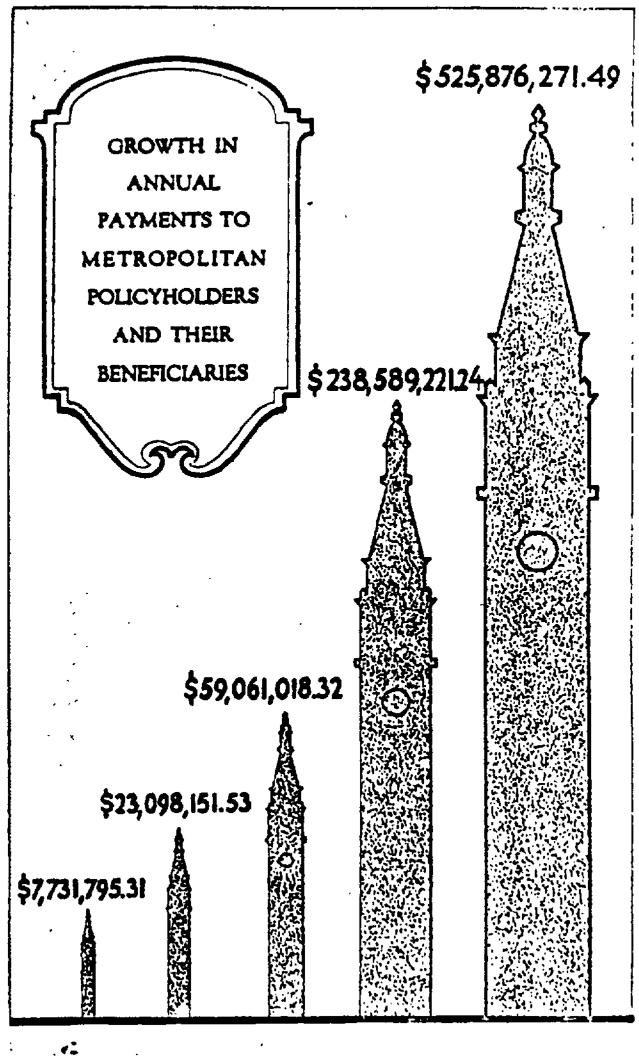
Report for 1937 to the Policyholders of Metropolitan Life Insurance Company

PLAINTIFF'S EXHIBIT

MET-679

THE HUMAN SIDE OF THE LEDGER

As Metropolitan is a mutual Life insurance company, it is operated solely for the benefit of its 29 million policyholders.


GROWTH IN
ANNUAL
PAYMENTS TO
METROPOLITAN
POLICYHOLDERS
AND THEIR
BENEFICIARIES
$525,876,271.49
$238,589,221.24
$59,061,018.32
$23,098,151.53
$7,731,795.31

METROPOLITAN'S PROGRESS IN 1937

THE YEAR 1937 presented an irregular economic picture—an upward trend in the beginning and a marked downward trend toward the end; but for Metropolitan, the year as a whole was one of progress.

There was an increase of more than 670,000 policyholders in the Metropolitan family during the year.

The increase in Life insurance in force was over $1,273,000,000, which brought the total Life insurance in force with Metropolitan to more than $22,500,000,000.

In addition, the Company had in force Accident and Health policies providing $1,510,264,310 of principal sum benefits payable in event of death by accident and $19,699,024 of weekly indemnity benefits.

Over 200,000 individuals have provided or are making provision for their old age by means of Annuity contracts.

The assets of the Company, held for the benefit of its policyholders, were over $4,719,000,000 at the end of 1937, an increase for the year of more than $225,000,000.

BENEFITS PAID

For the sixth consecutive year Metropolitan paid more than $500,000,000 to its policyholders or their beneficiaries. The amount in 1937 was more than $525,000,000, divided as follows:

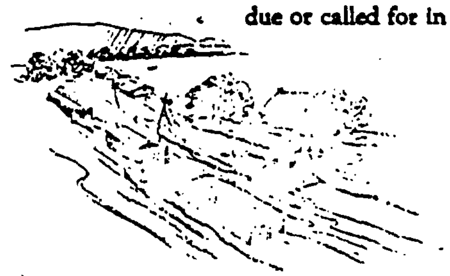
Industrial policies	more than $234,000,000
Ordinary policies	more than $228,000,000
Group Life, Health, and Annuity policies	more than $60,000,000
Personal Accident and Health policies	more than $2,500,000

When to these payments, the $225,000,000 of increased assets is added, it is found that during 1937 the Company actually paid or set aside for the benefit of its policyholders and their beneficiaries a sum approximately equal to the amount received in premiums during the year.

During 1937, the Company paid death benefits on more than 400,000 policies. The great value of Life insurance is dramatically illustrated by the fact that over 6,000 of these benefits were paid on policies which had been in force less than three months, and 18,562 on policies in force less than one year.

One could scarcely name any catastrophe which has struck down human lives in the United States or Canada without finding that funds paid on Metropolitan Life insurance policies had helped to lighten the burden for some of the afflicted families; for example, payments were made for a number of deaths caused by disastrous Ohio and Mississippi Valley floods last year.

As the proceeds of Life insurance policies are generally due or called for in an hour of need, every effort is made to



expedite the payment of policy obligations. In December 1937, Examiners from the Insurance Departments of New York and five other States concluded an examination, begun in 1936, of the Company's affairs. Such an examination is made every three years in accordance with legal requirements. In addition to verifying the Company's statement as of December 31, 1936, they examined its methods of doing business and treatment of policyholders. In the course of their investigations, claim practices were studied and the following excerpt from their report may be of interest:

> ". . . The claims are settled with fairness and promptness . . . any reasonable doubt being resolved in favor of the claimant . . . Considering the large number of claims presented, comparatively few are contested."

HELPING POLICYHOLDERS TO LIVE LONGER

EVERY half second during the past year, a Metropolitan health booklet was placed in somebody's hands, making the year's distribution well over 60,000,000. These booklets treated with timely subjects—some on the care of children, others containing practical information for adults, and still others designed to improve community health and safety.

A vital part of Metropolitan's broad health program is the Visiting Nurse Service. This is offered without additional cost to persons insured under Industrial, Intermediate, and Group policies, who live in communities where the service is available. Every day in about 7,000 communities you will find these Nurses administering to policyholders who

are ill and who otherwise might not have skilled nursing care. In 1937 these Nurses made more than 3,766,000 separate calls.

Last year marked the Company's 15th anniversary in health education advertising. This effort to give accurate information on healthful living and the prevention of disease takes the form of a monthly message in leading magazines with a total circulation of about 25,000,000. Metropolitan is encouraged in this and other health conservation efforts by numerous letters of appreciation and of specific instances of services rendered, as illustrated by a letter from a doctor which concluded:

> "It is not at all improbable that in this instance the life of a valuable member of society was saved by your advertisement."

MORTALITY

THE LEADING causes of death in 1937 were heart disease, cancer, accidents, and pneumonia. A favorable development in recent years has been the decline in the death rate from heart disease at the younger ages. Tuberculosis, which 10 years ago was second among the causes of death, has been substantially reduced and now is in seventh place. Recent progress in the fight on pneumonia inspires the hope that this disease also may be curbed in the course of time.

The mortality among Metropolitan policyholders during 1937 indicated a favorable trend. The claim experience under the Disability Income provision contained in certain Ordinary policies continued to be unfavorable, as it has been for the past several years.

ECONOMY OF MANAGEMENT

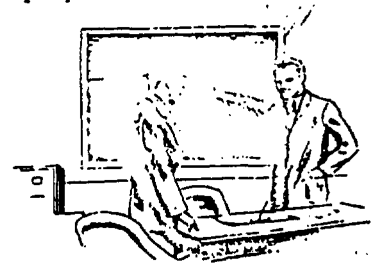
JUST AS policyholders had to spend more in 1937 than in the preceding year for many of the things they needed, so did Metropolitan. Notwithstanding the increase in costs beyond the Company's control, Metropolitan was successful in keeping expense rates comparable with those of 1936. While insurance in force increased during 1937 about 6 percent above the preceding year, total expenses increased less than 4 percent over the amount in 1936—and, if we exclude taxes, the increase in other expenses was only about 2.5 percent.

Metropolitan closely watches every item of expense. The Insurance Department Examiners in their report commented on this, in part, as follows:

> "Not only are surveys of functions and departments made, but cost accounting charts by departments are prepared quarterly for the information of the staff and detailed surveys interpreting the fluctuations in operating costs and opportunities for improving methods and service to policyholders are made."

INTEREST

THE YEAR 1937 continued to be one of low interest rates for Life insurance companies, just as it was for fiduciary institutions generally. As investments made in periods of higher money rates matured or were called for payment, the proceeds necessarily had to be reinvested at the current lower interest level. For example, during the last four years over $400,000,000 of the bonds held by the Company have



been called prior to maturity and replaced with securities bearing coupon rates 1 to 2 percent lower.

The low interest rate on new investments during recent years has resulted in a steady decrease in the return on the Company's total holdings. The backlog of older investments has tended to "cushion" this decline; in fact, the current net interest rate of 3.64 percent would have been lower still were it not for these older investments.

DIVIDENDS

Since Metropolitan is a mutual company, there are no profits to stockholders—because there are no stockholders. Its assets are held for the benefit of its policyholders, and any divisible surplus is returned to policyholders in the form of dividends. In other words, after benefits and expenses have been paid, and after funds needed to meet future obligations have been set aside, including such additions as may be made to the extra safety fund (the maximum size of which is limited by law), the amount remaining at the end of the year is equitably distributed to policyholders in the form of dividends.

The aggregate amount of dividends payable to policyholders in 1938 is over $101,000,000. Even though the mortality was satisfactory last year and there was little change in expense rates, the continued decrease in interest earnings—irrespective of changes in market values—makes it inadvisable to maintain the relatively high dividend scales of recent years. New reduced dividend scales have therefore been adopted.

The reduction in dividends on Ordinary policies will be more pronounced on those in which interest is an important factor in the determination of dividends; for example, on policies with substantial reserves, such as Single-Premium policies, Endowment policies, and policies of long duration. Because of the continued unfavorable experience under Ordinary policies containing a Disability Income provision, the dividends on this type of policy will again be less than under policies that do not contain such a provision. Only small changes have been made in the Industrial dividends.

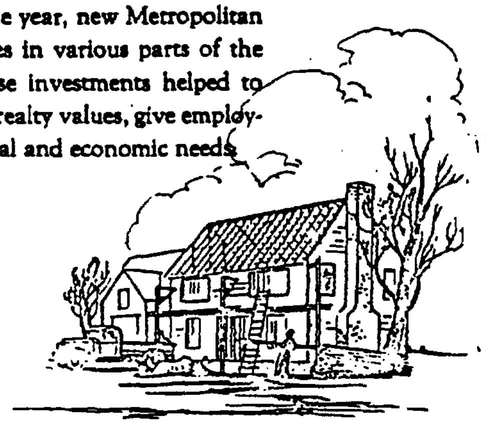
Even after making these reductions, policyholders of the Company will continue to have insurance at a low net cost. Since 1933 dividends on participating policies have been reduced by Life insurance companies generally.

MONEY AT WORK

THE RESERVES of Metropolitan consist principally of two classes. The first, and by far the largest, is called policy reserves. These are required by law as assurance that policy obligations will be paid when due. The amount of these reserves exceeds $4,000,000,000. Then there is the contingency reserve, or surplus, set aside as a safeguard or cushion against unforeseeable events, such as shrinkage in investment values or epidemics. This exceeds $311,000,000.

What happens to these billions of dollars? They are not, as some people might suppose, locked in a vault for safekeeping. For although the Metropolitan's first responsibility is to safeguard these dollars, it is also necessary that they go to work to earn more dollars . . . dollars which help pay for your insurance.

Each working day throughout the year, new Metropolitan investments went into communities in various parts of the United States and Canada. These investments helped to create a demand for goods, sustain realty values, give employment, and serve other modern social and economic needs.



SAFEGUARDING INVESTMENTS

THE first consideration must be the safety of Metropolitan dollars. If you have ever invested a single dollar of your own money, you well know there is no such thing as an investment so safe that it is absolutely without risk. But in a Life insurance company like Metropolitan, it is possible to increase the factor of safety in various ways, such as by employing investment specialists and by following the principle of broad diversification. The money the Company has invested in many sections of the United States and Canada for the protection of policyholders is spread over many different types of selected securities and mortgages. You, as a policyholder of Metropolitan, are interested in each of more than 100,000 individual investments. The distribution of these investments, by classes, is shown on page 14.

As economic conditions unfortunately have led to foreclosures of real estate mortgages, Metropolitan has undertaken them reluctantly and only as a last resort when the interests of policyholders left no alternative.

When the Company takes title to foreclosed property, it aims to be a "good citizen" in the community in which the property is located. Back taxes are paid and the necessary rehabilitation undertaken. This not only brings work and money to the community, but helps to maintain or increase realty values—and likewise protects the interests of policyholders. While the Company is unwilling to sell property at sacrifice prices, it has no desire to wait for speculative profits. Metropolitan disposes of its properties when offered fair prices. In commenting upon this policy of handling foreclosed properties, the Insurance Department Examiners said in their report:

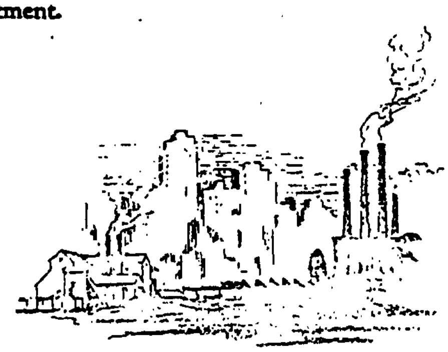
> "Due to the improvement in the real estate market and to the expenditure of substantial sums in reconstruction and modernization of foreclosed properties, the Company has improved the earning power of these investments . . .
>
> "It is believed the book value of real estate reflects a conservative valuation."

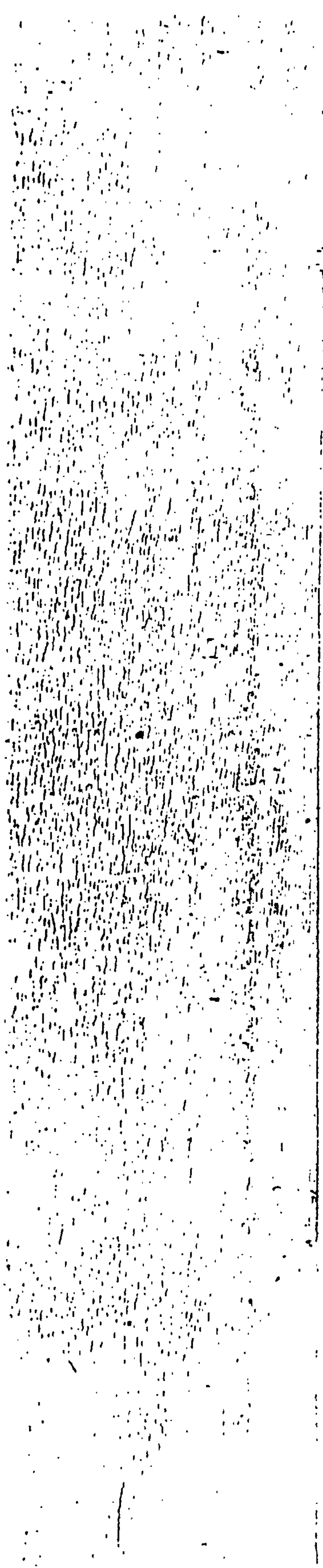
During 1937 not only did city and farm foreclosures decline, but the Company sold many properties for an aggregate sum in excess of book value.

The Company's bond investments at the end of 1937 were of the same general character as those of the preceding year. The Insurance Department Examiners commented upon Metropolitan's bond portfolio at the end of 1936 as follows:

> "A study of the Company's bond investments . . . on the basis of book value reveals that this very substantial sum has been invested in sound securities and that such investments have suffered little impairment as a result of the unprecedented disruption in economic conditions of the past eight years."

In the Company's Annual Statement to the Insurance Department as of December 31, 1937, these investments are valued on a conservative basis. To illustrate, if a bond is in default, it is carried at market value in arriving at the asset value. After making all adjustments, Metropolitan's contingency reserve, or surplus, amounted to $311,000,000 as reported to the Insurance Department.





You will find in the following pages additional information about the business side of Metropolitan's ledger during 1937. But you will not find any reference in this statement to one of the Company's assets — its loyal employees.

Here in the Home Office there are more than 1,600 people, and in the Field fully 1,900, who are veterans of 20 or more years of service. Among the Officers there are likewise many who have served the Company for decades. The seasoned judgment and loyalty of Metropolitan employees give added assurance that policyholders' interests will continue to be well served.

Chairman of the Board

President

FREDERICK H. ECKER, Chairman of the Board

LEROY A. LINCOLN, President

FREDERIC W. ECKER, Vice-President
JAMES D. CRAIG, Vice-President
JAMES E. KAVANAGH, Vice-President
ERNEST H. WILKES, Vice-President
HENRY E. NORTH, Vice-President
JAMES P. BRADLEY, Secretary
HARRY C. HAGERTY, Treasurer
RAYMOND V. CARPENTER, Senior Actuary
WILLIAM S. NORTON, Comptroller
CHARLES G. TAYLOR, Jr., Second Vice-President
SAMUEL MILLIGAN, Second Vice-President
ALEXANDER C. CAMPBELL, Second Vice-President
HARRY D. WRIGHT, Second Vice-President
HORACE R. BASSFORD, Actuary

FREDERIC G. DUNHAM, General Counsel
HARRY COLE BATES, General Counsel
CHARLES L. CHRISTIERNIN, M.D., Medical Director
FRANCIS M. SMITH, Third Vice-President
STEWART M. LAMONT, Third Vice-President
JAMES L. MADDEN, Third Vice-President
DONALD B. ARMSTRONG, M.D., Third Vice-President
LOUIS I. DUBLIN, Ph.D., Third Vice-President and Statistician
CECIL J. NORTH, Third Vice-President
ARTHUR W. TRETHEWEY, Third Vice-President
HENRY H. SHEEHAN, Auditor
WILLIAM A. BERRIDGE, Ph. D., Economist
WILLIAM J. HARPER, Personnel Officer

DIRECTORS

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FREDERICK H. ECKER
JOHN ANDERSON
ALANSON B. HOUGHTON
MITCHELL D. FOLLANSBEE
JOSEPH P. DAY
LANGDON P. MARVIN
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CHARLES M. SCHWAB
WILLIAM L. DeBOST
JEREMIAH MILBANK
D'ALTON CORRY COLEMAN
NEWCOMB CARLTON
LEROY A. LINCOLN
HARRY W. CROFT
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WALTER EWING HOPE
SAMUEL W. FORDYCE
CARROLL B. MERRIAM
GEORGE McANENY
ROBERT V. FLEMING
FREDERIC W. ECKER
WINTHROP W. ALDRICH
EDWARD R. STETTINIUS, JR.

THE BUSINESS SIDE OF

ASSETS*

DECEMBER 31, 1937

Government Securities:		**$845,465,919.71**
U. S. Government	$732,172,007.89	
Canadian Government . .	$63,293,911.82	
Other Bonds:		**1,655,208,167.35**
U. S. State and Municipal .	$130,036,072.20	
Canadian Provincial and Municipal	$108,728,136.17	
Railroad	$604,695,039.09	
Public Utilities	$479,281,913.46	
Industrial and Miscellaneous	$332,467,006.43	
Stocks:		**81,482,758.76**
All but $38,047.76 are Preferred or Guaranteed		
Mortgage Loans on Real Estate:		**994,096,712.57**
First Liens on Farms . . .	$73,652,107.08	
First Liens on other property	$920,444,605.49	
Loans on Policies		**513,947,859.36**
Real Estate Owned:		**383,912,325.74**
Includes real estate held for Company use		
Cash		**102,584,804.52**
Premiums outstanding and deferred		**83,727,136.16**
Interest due and accrued, etc.		**59,295,142.84**
TOTAL		$4,719,720,827.01

LIABILITIES*

DECEMBER 31, 1937

Statutory Policy Reserves: . . . . Amount which, with interest and future premiums, will assure payment of policy claims	$4,141,778,793.00
Dividends to Policyholders: . . . . Set aside for payment for the year 1938	101,023,188.00
Reserve for Future Payments on Supplementary Contracts	74,737,947.93
Held for Claims: . . . . Including claims awaiting completion of proof and estimated amount of unreported claims	20,479,248.83
Other Policy Obligations: . . . . Including dividends left with Company, premiums paid in advance, etc.	26,055,985.89
Miscellaneous Liabilities: . . . . Including reserves for Accident and Health Insurance, accrued taxes payable in 1938, etc.	44,141,003.74
Surplus and General Voluntary Reserve: . . This serves as a margin of safety — a cushion against contingencies which cannot be foreseen	311,504,659.62
TOTAL	$4,719,720,827.01

*In accordance with the Annual Statement filed with the New York State Insurance Department.

HIGHLIGHTS FROM METROPOLITAN'S REPORT

TOTAL LIFE INSURANCE IN FORCE DECEMBER 31, 1937

Ordinary	$11,400,690,229
Industrial	7,511,537,957
Group	3,671,865,512
TOTAL	$22,584,093,698
Accident and Health:	
Weekly benefits	$19,699,024
Principal sum benefits	1,510,264,310

PAYMENTS TO BENEFICIARIES AND POLICYHOLDERS DURING 1937

Ordinary	$228,626,251.52
Industrial	234,266,144.68
Group Life, Health, and Annuities	60,451,881.28
Personal Accident and Health	2,531,994.01
TOTAL	$525,876,271.49

BONUSES AND DIVIDENDS TO POLICYHOLDERS

Total Paid to Date Plus Declarations for 1938

Ordinary (including Group)	$666,071,417.39
Industrial	624,961,882.23
Accident and Health	26,484,717.05
TOTAL	$1,317,518,016.67

THE LIGHT THAT NEVER FAILS

Metropolitan Life Insurance Company

HOME OFFICE: NEW YORK
Pacific Coast Head Office: San Francisco
Canadian Head Office: Ottawa

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