Client Id: 77

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

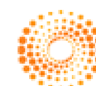
BHF.OQ - Q1 2018 Brighthouse Financial Inc Earnings Call

EVENT DATE/TIME: MAY 08, 2018 / 12:00PM GMT

OVERVIEW:

BHF reported 1Q18 adjusted earnings of $283m. Expects 2018 adjusted EPS of $8.50-9.00, excluding notable items.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



Client Id: 77

CORPORATE PARTICIPANTS

Anant Bhalla *Brighthouse Financial, Inc. - Executive VP & CFO*

David Rosenbaum

Eric Thomas Steigerwalt *Brighthouse Financial, Inc. - President, CEO & Director*

John Lloyd Rosenthal *Brighthouse Financial, Inc. - Executive VP & CIO*

Myles Joseph Lambert *Brighthouse Financial, Inc. - Executive VP and Chief Distribution & Marketing Officer*

CONFERENCE CALL PARTICIPANTS

Andrew Scott Kligerman *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Erik James Bass *Autonomous Research LLP - Partner of US Life Insurance*

John Matthew Nadel *UBS Investment Bank, Research Division - Analyst*

Joshua David Shanker *Deutsche Bank AG, Research Division - Research Analyst*

Randolph Binner *B. Riley FBR, Inc., Research Division - Analyst*

Ryan Joel Krueger *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Sean Robert Dargan *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Suneet Laxman L. Kamath *Citigroup Inc, Research Division - MD*

Taylor Alexander Scott *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Thomas George Gallagher *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brighthouse Financial's First Quarter 2018 Earnings Conference Call. My name is Sandra, and I will be your coordinator today. (Operator Instructions) As a reminder, the conference is being recorded for replay purposes. (Operator Instructions)

I would now like to turn the presentation over to David Rosenbaum, Head of Investor Relations. Mr. Rosenbaum, you may proceed.

David Rosenbaum

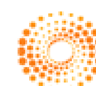
Thank you, operator. Good morning, and thank you for joining Brighthouse Financial's First Quarter 2018 Earnings Call.

Our earnings release, presentation and financial supplement were released last night and can be accessed on the Investor Relations section of our website at brighthousefinancial.com. We encourage you to review all of these materials, and we will refer to the slide presentation in our prepared remarks.

Today, you will hear from Eric Steigerwalt, our President and Chief Executive Officer; followed by Anant Bhalla, our Chief Financial Officer. Following our prepared remarks, we will open the call up for a question-and-answer period.

Also here with us today to participate in the discussion are other members of senior management.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Our discussion during this call will include forward-looking statements within the meaning of the federal securities laws. Brighthouse Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties, including those described from time to time in Brighthouse Financial's filings with the U.S. Securities and Exchange Commission. Information discussed on today's call speaks only as of today, May 8, 2018. The company undertakes no obligation to update any information discussed on today's call.

During this call, we will be discussing certain financial measures that are not based on generally accepted accounting principles, also known as non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures and related definitions may be found on the Investor Relations portion of our website, in our earnings release, slide presentation and financial supplement. And finally, references to statutory results are preliminary due to the timing of the filing of the statutory statement.

And now I'll turn the call over to our CEO, Eric Steigerwalt.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Thank you, David, and good morning, everyone. I'm very pleased with our results in the first quarter of 2018, including our strong adjusted earnings performance and outstanding quarter-over-quarter sales growth. I also feel very good about our progress relative to our plans.

We have a solid strategy in place, and it is working. Our focus is on executing with respect to the key elements of our strategy, including: offering a tailored set of annuity and life insurance solutions that are simpler, more transparent and provide value to advisers, their clients and our shareholders; selling our products through a broad, well-established network of independent distribution partners; and leveraging our financial discipline to manage our expenses and our balance sheet.

Our top priorities in 2018 reflect the following goals. First, we are focused on exiting our transition service agreements, or TSAs, with MetLife. Exiting TSAs supports our goal of reducing our overall cost structure as a stand-alone company. Second, we are enhancing our distribution platform and network and developing new products that respond to the evolving needs of our advisers and the clients that they serve. And third, actively managing through NAIC variable annuity capital reform and growing our earnings power.

With that as a backdrop, I will now discuss 4 topics: first, I'll touch on progress made on the product and distribution front; next, I will make a few comments on our first quarter results; third, I will provide an update on NAIC VA capital reform; and lastly, I will provide some perspectives on 3 key measures to help investors and analysts better understand Brighthouse Financial.

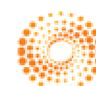
Let me start with product and distribution. I am very pleased with our annuity sales results in the first quarter of 2018. Annuity sales of approximately $1.3 billion were up 35% quarter-over-quarter, driven by Shield and fixed indexed annuities. Sales of Shield annuities were $729 million in the quarter, up 59% quarter-over-quarter. The quarter-over-quarter growth in annuity sales reflects the strength of our distribution relationships and the ongoing momentum from our targeted advertising campaigns. To that end, in April, we rolled out a new campaign designed to further build brand awareness and showcase our flagship Shield annuities.

Now I'd like to take a moment to provide a few comments on our first quarter results. First, CTE95. I'm very pleased that the assets above CTE95 increased to $2.7 billion. Our hedging strategy continues to perform well. This quarter's performance is another proof point that the hedge strategy we put in place to operate Brighthouse on a stand-alone basis is working.

Second, our corporate expenses were $230 million in the quarter. This is down from the fourth quarter, but we continue to expect between $1 billion and $1.1 billion of expenses in our first year post separation. Additionally, we expect corporate expenses in the second and third quarters of this year to be the high watermark for expenses, consistent with the expense levels in the fourth quarter of 2017. As I've said before, a part of our business strategy is to be a cost-competitive product manufacturer.

Exiting TSAs with MetLife and replacing them with more cost-effective solutions is essential to executing on this strategy. We began the year with 147 TSAs remaining, and we were able to exit 8 in the first quarter. Consistent with our strategy, we fully intend to begin reducing expenses in 2019.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

We are also making necessary investments in our technology infrastructure and in our businesses. We refer to these investments as establishment costs. In the first quarter, establishment costs were approximately $47 million pretax.

Third, underwriting results were improved sequentially and in line with expectations for the first quarter.

And finally, taxes were lower, as expected, as a result of tax reform.

Let me turn now to NAIC VA capital reform. We remain actively involved in this important regulatory initiative. We are supportive of the principles behind this process and believe it aligns with our view of managing to a total asset requirement. As we said last quarter, there are many details to work through with the regulators in 2018. In March, the NAIC held its spring meeting where regulators and industry participants discussed approximately 1/3 of the proposals. While there is more work to do, we believe the discussions have been constructive. As a reminder, implementation would likely be year-end 2019 or later, with a phase-in over a few years.

We have multiple levers that we can utilize to adapt to the impacts of evolving regulatory and capital requirements. We have significant financial flexibility to address potential impacts, and we remain focused on growing assets above CTE95 and managing through NAIC reform.

Before I turn the call over to Anant, I want to provide a few perspectives on 3 key measures to help investors better understand Brighthouse and to provide a baseline for our foundational year as a new company. These measures are summarized on Slide 3 of our first quarter earnings call presentation.

The first is adjusted earnings per share. As I mentioned earlier, our adjusted earnings were strong this quarter. Many of the key drivers of performance were favorable. And as you know, these can vary quarter-to-quarter. As such, in our base case scenario, we project adjusted earnings per share of $8.50 to $9 for 2018, excluding notable items. We continue to expect an annual growth rate for EPS in the mid- to high single-digit range over the next few years.

The second measure I'd like to discuss is adjusted return on equity, or ROE. Adjusted ROE is an important metric for Brighthouse. In our Form 10 filing in connection with the separation, we established targets for selected financial metrics, including adjusted ROE. Since that filing, separation-related transactions in the second and third quarter of 2017 and tax reform in the fourth quarter of 2017 had a substantial impact on our balance sheet.

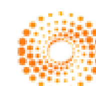
Additionally, in the first quarter of 2018, we began to reposition our investment portfolio. Specifically, we rotated almost $2 billion of treasuries into higher-yielding spread assets with the goal of improving investment income in 2018 and beyond. With all of this in mind, we still expect an approximately 8% adjusted ROE in 2018, but we now expect growth in adjusted ROE in both 2019 and 2020. In our base case, expense reduction begins in 2019, and capital return begins in 2020.

With the previously mentioned 2017 separation-related transaction impacts, VA hedging migration and tax reform now behind us, portfolio repositioning, expense reduction and capital return drive the improvement in expected adjusted ROE. We expect to provide more details on adjusted ROE growth targets later this year as clarity on NAIC VA capital reform emerges.

The final measure I'd like to discuss is establishment costs. As you can see on Slide 3, we anticipate establishment costs of approximately $235 million pretax in 2018 reducing to approximately $40 million pretax in 2020. It is important to note that these costs are already factored into our capital plan. These costs are a critical component of our strategy as we build out our technology infrastructure to support our needs as a stand-alone company and expand our branding initiatives to make Brighthouse Financial a recognized and respected name throughout the United States.

With that, I'll turn the call over to Anant to discuss our first quarter financial results in more detail. Anant?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Thank you, Eric, and good morning, everyone. I'm very pleased with our performance in the quarter. We had a good start to the year, generating strong adjusted earnings. And our hedge strategy had solid performance in the quarter.

Before I discuss our results for the first quarter, let me explain some additional slides that we have provided last night. Specifically, Slides 4 through 6 that summarize the financial and risk profile of our variable annuity business as of year-end 2017. These 3 slides were previously furnished on March 16 on Form 8-K in conjunction with the filing of the underlying tables in our 2017 annual report.

The key takeaway from these 3 slides is the meaningful improvement in the expected financial and risk profiles of the in-force variable annuity business as of year-end 2017 compared to year-end 2016. More specifically, in the 5 capital market scenarios that we provide to illustrate our financial profile, the following is observable: distributable earnings are expected to be higher driven by lower future expected hedge costs; the risk profile is projected to be improved as seen in the lower variability of cash flows across the 5 scenarios; assets above CTE95 are projected to reach $3 billion by year 3 in the base case and in scenarios 2, 3 and 4; finally, the present value of cash flows over the lifetime of the book of business is also expected to be improved in scenarios 3, 4 and 5, driven by market performance in 2017.

Now with that background, let me move on to discuss the first quarter results and provide some perspective on the key underlying themes beginning on Slide 7. Adjusted earnings were strong in the quarter at $283 million compared to adjusted earnings of $280 million in the first quarter of 2017. Notable items were small in the quarter with 2 items that impacted adjusted earnings for a total unfavorable of $5 million after-tax impact or $0.04 per share.

Now I'd like to provide some perspectives on the 5 themes related to our adjusted earnings this quarter. The first theme for the quarter that I would like to discuss is expenses. Corporate expenses were $230 million pretax in the quarter, down approximately $57 million pretax compared to the fourth quarter of 2017. This result is approximately $25 million after tax or $0.21 per share lower than our quarterly expectations, which are based on full year corporate expenses of $1 billion to $1.1 billion in the first full year post separation, as seen on Slide 8. Additionally, similar to prior quarters, corporate expenses do not include the establishment costs, which we expect as a notable item through 2020, as Eric outlined on Slide 3.

The second theme for the quarter is the investment portfolio. Net investment income was higher sequentially, primarily driven by an increase in alternative investment income. Alternative investment income was approximately $15 million after tax or $0.13 per share higher than the 4-quarter historical average for 2017, as seen on Slide 8. This performance is related to strong results from private equity funds, which we report on a 1-quarter lag.

Staying with invested assets, I would also like to note that in the first quarter of 2018, we completed our realignment of assets across our segments, now all based on statutory target asset requirements. Prior to this, assets in each segment were based on a GAAP methodology. While this asset realignment did not change our earnings in total, it did and we expect it will continue to have an impact on our segment results. Specifically, the impact will be beneficial to the life insurance segment and, to a lesser extent, the Annuities segment.

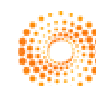
The third theme is the impact of equity market performance in the first quarter. DAC amortization was about $10 million after tax or $0.09 higher than our expectation in the base case scenario.

The next theme is underwriting. Underwriting results were solid and improved sequentially by approximately $20 million after tax. These underwriting results across the segments were in line with expectations for the current quarter.

And lastly, taxes. On a sequential basis, earnings benefited from a lower effective tax rate driven by tax reform. Specifically, the effective tax rate decreased from roughly 25% last quarter to approximately 14% this quarter, with a sequential benefit to earnings of approximately $25 million. This effective tax rate is at the low end of our expected range of a mid- to high-teens GAAP tax rate, driven primarily by timing differences during the year.

Now turning to results at the segment level. Adjusted earnings in the Annuities segment were $226 million in the quarter. Sequentially, results reflected higher net investment income, lower expenses and lower taxes, partially offset by higher DAC amortization given the equity market

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

performance this quarter. Net flows and first quarter separate account fund performance resulted in a $3.2 billion sequential decrease in annuity account values to $130 billion.

Adjusted earnings in the Life segment were $66 million in the quarter, including a favorable notable item of $16 million related to the reinsurance recapture noted last quarter. Sequentially, net investment income was approximately $30 million higher pretax due to portfolio realignment, and taxes were lower. Additionally, Life underwriting results were favorable on a sequential basis.

Adjusted earnings in the Run-off segment were $50 million in the quarter, including a favorable notable item of $16 million related to the previously mentioned reinsurance recapture. Sequentially, underwriting performance, expenses and taxes were all favorable.

Corporate & Other had an adjusted loss of $59 million and included a $37 million unfavorable notable item for establishment costs. Expenses were lower sequentially, partially offset by lower net investment income in Corporate & Other related to the portfolio realignment into the business segment.

Let me close with an update on our capital position as of March 31, 2018. First, with respect to our variable annuity exposure management program, results were solid in the quarter. Assets above CTE95 were $2.7 billion, up $100 million in the quarter. In a fairly volatile quarter for capital market with higher interest rates and volatility and mixed performance across equity indices, we saw solid performance from our hedging program. Second, our leverage capacity and holding company liquid assets were consistent with the prior quarter's levels.

With that, we'd like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Erik Bass with Autonomous Research.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

First, want to go back to the NAIC variable annuity process. I appreciate the update there. But just wondering if you could provide any color on what are the next steps and when you expect to get more clarity on the final standard.

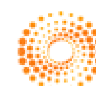
Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Erik, it's Anant. Thank you for the question. We had -- as Eric mentioned in our prepared remarks, we worked through around 1/3 of the proposals at the meeting in March. There's another meeting on, actually, May 16. We're actively involved in this. It's constructive, and we expect to update you in the second half of this year.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

Got it. And I mean, what are the key debates, I guess? And what are the pieces that you're most concerned about getting clarity on to feel comfortable, whether it's returning capital or just with your -- I guess, your capital positioning?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

First of all, we feel very confident about our ability to manage through this, a, based on our cash flows and our leverage capacity, as we mentioned in the past. So we feel very confident of being able to manage through this. It boils down to your question that a few moving parts, there were 28 proposals. Of those, we, in the last call, shared what categories to think of them in. The standard scenario reform is important. That probably is going to be the focus of the May 16 conversation. The scenarios are moving as expected. So second half of this year, we'll be able to update you. It's about the timing of returning capital. We have the resources to manage through this with the levels we mentioned.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

Got it. And maybe just last one on the annuities. Could you just talk about the level of consumer and adviser interest in annuity products and how that's shifted over the past couple of quarters? And I guess, given the pickup in volatility, are you seeing any differences in the level of interest in buffered products?

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Erik, it's Eric. I'll let Myles Lambert, who I'm not sure have spoken on any of these calls yet. Myles is in charge of all distribution and marketing. Myles, why don't you give some color here?

Myles Joseph Lambert - *Brighthouse Financial, Inc. - Executive VP and Chief Distribution & Marketing Officer*

Sure. Thank you, Eric. So we remain very bullish on the buffered annuities base, in particular. As Eric mentioned during his opening comments, we were very pleased with our sales results for the quarter. Our Shield product at $729 million of sales, up 59% quarter-over-quarter, and our expectations are that we're going to continue to see that type of momentum, especially in light of some of the marketing campaigns that we're working on now.

Operator

And our next question comes from the line of Sean Dargan with Wells Fargo.

Sean Robert Dargan - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I just have a question about the guidance to make sure we're level setting expectations. So the $8.50 to $9 assumes a normalized, was it, $2.40 in the first quarter? And the way you're going to be reporting adjusting earnings going forward will include establishment costs, but this $8.50 to $9 will exclude the establishment costs. Is that way we should think about it?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes.

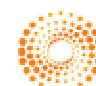
Sean Robert Dargan - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. All right. And so that excluding the establishment costs is the way you're getting us to focus on that 8% ROE?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Sean Robert Dargan - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And then, so looking out to the out-years, the EPS growth rate is the same. And now you're telling us that there -- we should expect some growth in adjusted ROE in 2019. And I thought before we were kind of pointed to a similar ROE in 2019. So if the base case is we're not going to be returning capital in 2020, where will that ROE expansion be coming from in 2019?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

2019, we start ROE expansion. As Eric mentioned in his comments, we'll get expense reduction going and then capital return in 2020.

Sean Robert Dargan - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. So any ROE expansion in 2019 will be coming from expense reduction.

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Plus the investment portfolio repositioning that we mentioned.

Operator

And our next question comes from the line of John Nadel with UBS.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

A question on -- I'm just wondering if you could update us on the net cost that you incurred in the quarter and you expect to incur going forward related to the hedging program. And I was just wondering if you would consider splitting out that cost from the change in fair value that we're seeing coming through the results. I think you're indicating that with an update to your scenarios that you expect those actual hedge costs to decline relative to your prior expectations. So if you could give us some dimensioning on that, that would be very helpful.

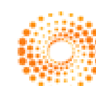
Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

John, it's Anant. Happy to break it out for you. So as you rightly mentioned, there's the derivative mark-to-market that goes through NDGL, which is approximately $1 billion. The way I would break it out is in this quarter, you had ULSG hedges, which were around $450 million, with rising rates. As we've previously mentioned, the GAAP liability is fairly insensitive; the stat liability is protected in the way we hedge. If you eliminate the ULSG hedging mark-to-market, the VA program by itself had around $371 million, as you can see on Page 16 of the supplement. Embedded in that is the concept of when we think of hedge costs at an option program, it's really one of the value of an option decay as time goes by because if nothing happens in markets, you give up a cost of the option. That, over our projection period should come down, and it runs around $200 million as we think about it.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

And that $200 million, Anant, is that an annual cost or a quarterly cost?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

That's the quarterly. It can be $200 million to $250 million a quarter, so around $800 million to $1 billion a year. When you look at our GMLB Rider P&L, we have around $800 million a year of fees from the riders, and we want those to offset the time decay of options as they expire.

John Matthew Nadel - *UBS Investment Bank, Research Division - Analyst*

Okay. And so the way we -- and that's why I was sort of talking about net cost. So the net cost we should be thinking about, the roughly $800 million of rider fees, which is used effectively to fund the option costs. And so the net right now between the 2 is the net drag in the range of a couple hundred million dollars, and I assume that's pretax?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

That is correct. And when you look at the rider P&L this quarter on the VA business, we saw a fair amount of convergence between operating and net income because the rider P&L was pretty much flat.

Operator

And our next question comes from the line of Ryan Krueger with KBW.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

First question, can you give us a sense of where you think your debt capacity is at this point?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Ryan, good morning. So debt capacity is really a range as you think about traditional debt or more rating agency-friendly hybrid kind of debt. We would put it in the $500 million to $1 billion-plus range.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Got it. And then just a follow-up on the portfolio repositioning. The $2 billion that you've done so far, is that -- are you anticipating additional repositioning going forward? Or was what you already did pretty much the repositioning?

John Lloyd Rosenthal - *Brighthouse Financial, Inc. - Executive VP & CIO*

Ryan, it's John Rosenthal. We would anticipate continuing to rotate out of treasuries over time -- more treasuries over time.

Operator

And our next question comes from the line of Suneet Kamath with Citi.

Suneet Laxman L. Kamath - *Citigroup Inc, Research Division - MD*

Just on the CTE95 with Voya disposing of their block pretty soon if we look at sort of the public universe of VA companies. It seems like most other companies are CTE97 or 98. So I guess, how do you get comfort being at the CTE95 level?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Well, Suneet, it's Eric. I'll start. So we're at CTE98-plus when you think about the buffer. The whole notion here is that through a cycle, we will floor out at CTE95. And the way we got comfortable with that is, first, going through the design of the program; but then, second, walking the rating agencies through it over numerous months before we went public. That gave us great comfort. They understand it. They understand that the notion is through the cycle. And I think sometimes, people might get confused. We're well above CTE95 right now, well above it. Anant, anything you want to add?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Eric covered it, Suneet. I'll maybe emphasize is, we're at 98-plus like Eric said. And 95 is the floor across markets, and everyone appreciates the clarity on a floor to protect.

Suneet Laxman L. Kamath - *Citigroup Inc, Research Division - MD*

Okay. And so then if we just think about the philosophy around capital returns. So let's assume you get to your buffer of $3 billion, you change the hedging strategy, you start to distribute earnings. And if we're in a flat market from that point for a year, would that fee -- would that buffer essentially go down to around $2.2 billion because of that $200 million per quarter passage-of-time concept?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

The concept you outlined is in the range of possibilities, I would say, yes, because you can see the difference between scenario 1 and scenario 4. That's sort of what that outlines.

Suneet Laxman L. Kamath - *Citigroup Inc, Research Division - MD*

Okay, and -- but in that environment where the buffer is coming down to around $2 billion, let's say, $2.2 billion, the presumption is that you would still be comfortable distributing earnings in terms of share repurchase over that period even as the buffer is approaching $2 billion?

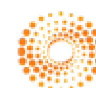
Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Yes, depending -- Suneet, depending on what's going on, I mean, you'd have to take environmental factors into consideration. But yes, I mean, even as we sit here now, the buffer is at $2.7 billion, and we've thrown out this $3 billion target to get to. But I would say really where we are now, it's all about VA capital reform. I mean, we're a big variable annuity company. You all know that. And as a result, I don't think it would be prudent for us to think about this until we get this clarity. Now the clarity isn't long in coming. We expect it sometime around the end of the summer or in the fall, and I think that's the key measure. I mean, whether the buffer is a $2.9 billion or a $3 billion, that differential, I don't think to me, is anywhere near as important as understanding VA capital reform and then thinking about, and obviously discussing with our board, capital returns. So I know I added some things here, but I think to your main point, yes, we expect that the buffer will eventually slip below $3 billion. And VA capital reform behind us and taking into consideration some environmental impacts, we'd be comfortable continuing to return capital.

Suneet Laxman L. Kamath - *Citigroup Inc, Research Division - MD*

Yes, makes sense. Maybe just one numbers one if I could. Just on the lapse rate for the deep in the money VA. I remember on the third quarter call, I think you reduced your GAAP assumption to around 1.5%. Do you know -- can you give us what that assumption is? Sort of what's embedded in your CTE calculation in terms of the lapse rate? Is it the same number? Is it something different?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

It's the same.

Operator

And our next question comes from the line of Andrew Kligerman with Credit Suisse.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

First question, just back to what John was asking about a few questions ago. Could you reconcile your presented $1.6-plus billion in gross hedging costs to the numbers that you provided to John? And I'm not talking about the rider fees. I get that $800 million, but more the gross $1.6 billion, $1.7 billion.

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Andrew, it's Anant. So the gross $1.6-ish billion number that you referenced for the year, if you look at it for the quarter, the VA program was around just shy of $400 million. And you can see that in the NDTL line.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Right. And okay, so that's -- so if you multiply that times 4, that's $1.2 billion -- I mean, $1.6 billion, right? So you've got...

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Right.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

So you were telling John, though, $200 million to $250 million in cost a quarter?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

In that $371 million, so John was dissecting -- okay, you got total derivative mark-to-market of let's just say $400 million to stay with your example. Is that good?

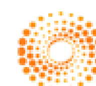
Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Yes.

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Right. You then isolate out derivative mark-to-market versus what you think is cost, you take cash and you buy derivative, it has some value. So that's not really cost. Cost is if what you buy expires worthless, the time value of that option. And that's around $200 million to $250 million a year -- a quarter, sorry. So it becomes $800 million to $1 billion a year.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

I see. Okay. Got you. And just in terms of the March sensitivity that you put out, what changed from the Form 10 that allowed you to, I guess, pun intended, make the house a little brighter in terms of improved sensitivity? What type of sensitivity input was different in March versus what you did in the Form 10?

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

I'll -- you want me to start?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Much better.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

I -- if you check my prepared remarks, Andrew, you'll kind of see a litany of them laid out. One is you had -- look, we knew there were going to be separation-related impacts. We knew that, and we couldn't be sure when those were going to end. So that's number one, and they were pretty big. Two, you had tax reform on the horizon. And there, we really couldn't anticipate what was going to happen. As you may remember when you go back there, it was touch and go there with respect to what was going to happen. So we -- it would just be impossible to project that. And then three, part and parcel of what John Rosenthal was talking about, this repositioning of the portfolio, we were working through all our modeling, liquidity modeling, et cetera, to figure out what and when we could reposition the portfolio. And so as those became clear, then we got more comfort in saying, in fact, you will see ROE growth here. Now I can't quantify that yet because, of course, VA reform is going to come in there, and that will have -- whatever we do there will have GAAP effects, as you well know. So at this point, I feel comfortable, very comfortable in saying that we will have ROE accretion. And by the way, it'll be meaningful. I'm not -- I wouldn't have said it if we were talking about 20 basis points here, okay? And so hopefully, when we get VA capital reform understood, as I said again maybe late summer, early fall, then we'll put out some targets. Anant, you want to add anything there?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Well, Eric covered the ROE part. I'll just add to the meaningful improvement in VA statutory distributable cash flows that we put out in the few slides. That's driven by lower hedge gains and losses, and that's driven by 2 primary things. First of all, the strategy to execute it. We can see that we're being -- we are optimizing relative to what we put out in the Form 10. And secondly, the more tangible measure that you can actually probably put your arms around is we made a tax selection at year-end 2017, which allows us to look at hedging needs on a pretax basis and not a post-tax basis. That's beneficial because we need to hedge less. We need less hedge gains in a stress. So we leave it at that, and Andrew we'll take any follow-up you have.

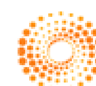
Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Yes, just clarify that pretax, after-tax basis on the hedge again. Just come back to that.

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sure. Historically, if we had gains on -- from hedges in a market correction, we'd have to pay taxes on those gains. We had some tax friction. We made a tax selection at the end of 2017 separate from tax reform. We made a tax selection that does not have that tax friction. So now when you look for a hedge gain in a market correction, we're not paying for tax friction. So we need to hedge a little less because we don't have to compensate

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

for tax friction anymore. We're marking and spreading the hedge mark-to-market for taxes over a number of years versus having to realize it immediately.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

And that had an impact -- a material impact on the net present value in some of those sensitivities?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes.

Operator

And our next question comes from the line of Josh Shanker with Deutsche Bank.

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. Please correct me if I'm missing something where I think you said in the prepared remarks that corporate overhead was high in 4Q '17, would be high in 2Q '18 and 3Q '18, but low in 1Q '18. If that's right, why is that variable? And what's the difference between corporate overhead and establishment costs that would be variable in that regard?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

It's Anant. Corporate expenses are basically expenses of running the company, all the functions. Think of the finance department, the cost of running the finance department. And that gets sprinkled across each of the segments. So it's not only in Corporate & Other. It's in Annuities. It's in Life. It's in Run-off and Corporate & Other. Those expenses, as Eric mentioned in our comments, were at $230 million, less than our $1 billion to $1.1 billion range. So around -- and we've given the estimate on Slide 7, the difference over there. Establishment costs are really onetime-ish in nature through 2020, which are the cost of building out our infrastructure, our technology, our brand. And that's the difference.

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

No, I get that. My question, I guess, is I would just think that corporate overhead costs would be fairly consistent quarter-to-quarter. Sometimes some of these companies that obviously pay out bonuses in 1 quarter, which would make that elevate, but why would we -- why would corporate costs, I guess, over -- and I'm understanding what you're talking about there. Why would they bounce around and be highly variable quarter-to-quarter? And maybe is 4Q '18 a run rate for a normal sort of corporate cost expectation?

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Josh, it's Eric. I'll start. Anant, you're probably going to want to jump in here. But look, think about marketing costs. You think about seasonality of sales, well, you've got marketing cost seasonality as well. Consulting costs, projects end. The other one doesn't finish at the same time here. I mean, you're going to have some lumpiness here in the first 4 or 5 quarters. We expected that, and it's just not perfectly projectable. And so we're giving a little guidance here so that you can understand that we can only project so much. We're running the business day to day. And as those costs then fall out, in 1 quarter it's higher, in 1 quarter it's lower. Eventually, I agree with you, those will normalize. And I think they'll be much easier to project. Do you want to add anything?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

You've covered it, Eric. And it's -- first quarter generally is running lighter for the reasons Eric said, consulting, marketing. And we've outlined some of the impacts of that.

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And then investment income on the Corporate & Other side. What kind of investment -- I guess, what kind of assets fall into that Corporate & Other category as opposed to segment investment income?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

So just to clarify, you're asking about the investment realignment between the segments?

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

No, if you look through the various segment in the Corporate & Other, there's an NII component in there that doesn't feel related to a product necessarily. I'm wondering -- and that's also a little bit variable. I'm trying to understand how to model that out.

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sure. There's a legacy direct business in there, which is very small. It'll have some reserves and some NII on those reserves.

Joshua David Shanker - *Deutsche Bank AG, Research Division - Research Analyst*

And that will bounce around quarter-to-quarter, I guess, as well?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Well, this quarter, we moved assets out of Corporate & Other into Life and Annuities. So from here onwards, it should be around the level that it was in this quarter.

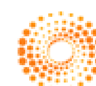
Operator

(Operator Instructions) And our next question comes from the line of Alex Scott with Goldman Sachs.

Taylor Alexander Scott - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I had a follow-up question on CTE levels. And I guess, the question is just around the tax rate that's being used in the calculation. Is it 21% or 35%? And am I right that it's after-tax calculation? And then just any kind of color you can provide around how we should think about that sensitivity if the tax rate was changed.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Alex, it Anant. So it's 35%. For it to change, it will have to go through the NAIC process to change. And when we talk about VA reform, we've already factored in the fact of this change would -- may happen. And so we'll give you guys a view on it later. It's a couple of hundred million dollars if you went to 21%, but we believe it's manageable along what we said about VA reform overall.

Taylor Alexander Scott - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it. Okay. That's helpful. And then just on the NII yield, when I look at, I guess, it was around 20 basis point increase quarter-over-quarter, and I think around half of that was alternatives. Was it the -- some of the repositioning that drove the other 10 basis points? And I guess, any color on how much more we could expect that to go up over the next few quarters?

John Lloyd Rosenthal - *Brighthouse Financial, Inc. - Executive VP & CIO*

It's John. There were a number of things, including a bit of the repositioning. The portfolio was a little bigger, some benefits from our floating rate assets as rates rose. I would say the repositioning and the floating rate benefits and the asset growth, which are smaller compared to variable income, will continue over the next quarters.

Operator

And our next question comes from the line of Tom Gallagher with Evercore ISI.

Thomas George Gallagher - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Eric, just going back to the comments you made on the capital buffer of $3 billion and why that's not necessarily the end-all and be-all, but it's more about visibility on VA reform. If that's the case, once you do get clarity at some point this year, unless there's a pretty adverse development versus what you're thinking now, why wouldn't a 2019 capital return make more sense for you? Is it because of the distributable free cash flow isn't strong enough yet? Or is 2019 a possibility here?

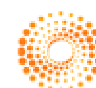
Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Well, I don't -- I'd never want to front-run my board. But if we're just being theoretical, why would you take it off the table? Your logic there seems sound. I really need to know where VA capital reform comes out. I imagine all of you think that's pretty prudent, but we want to return capital. We really do. That is creating value, and we want to do value-creating things. We've tried to be transparent with you as to where we are now. You had to have a base case. And so in the base case, it begins in 2020. But you read my comments correctly. I don't want to be completely tied to this $3 billion. I know over time that that's been out there. But it -- in my mind, it's kind of been tied to the timing of VA capital reform. They're both going to sort of occur if markets continue here, you would imagine, in the not-too-distant future. I'll also add, if you go back to the Form 10, we said, look, a $2 billion to $3 billion buffer would make us comfortable. So at this point, it really is VA capital reform. And as Anant said, we are participating in that. It's very constructive, and I'm very hopeful. So there's my comment.

Thomas George Gallagher - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. And I guess, my other question related to that is I know when the Form 10 first came out, the -- or, I guess, in your net road show, you were talking about it, I think it was 50% to 70% distributable free cash flow as a percent of GAAP earnings. Is that still a decent way to think about if and when the capital return does start, the kind of annual sizing of how much you might want to do? Or -- because I presume it's going to be more tied to what you think you're generating annually. Or might it be some drawdown of excess if you do determine there's excess at that point? And any help you can give on the way you'd be thinking about the size when you do get to that point?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

I love you, Tom. Look, let me just say something here in addition to sort of I think the thrust of your question. Look, we're very pleased. You heard my opening remarks. They were not throwaway comments. This was a clean quarter for us. Most of the drivers are going in the right direction. I don't think the concept of free cash flow there is going to be a restraint on us. But for now, I'm just going to hold off on taking now the second leap towards, well, if you are thinking of returning capital, how much will it be? But I think the operative line that I said is it's not going to be constraint for us. Anant, you want to add anything?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Well, the only thing I'll add is we want you guys to think about it in dollar terms so you can see the dollar impact. And then as you see the earnings power emerge as we execute, you can then do the ratio after that.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Does that make sense, Tom?

Thomas George Gallagher - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Yes, that does, that does. And then just one final question. Anant, on what you all are, I guess, most focused on with VA reform, I think the VM20 interest rate assumption is the obvious thing that may create a bit of pressure for you. Is there -- is that right? And is there any other issues or areas of focus regarding VA reform that you would direct us to where there's some uncertainty?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. So you've got it on the VM20 side. We feel very good about actually managing through all the moving parts, right? There were 28 parts, which we can summarize into the scenarios and the VM20. And that would probably be lower levels of interest rates for mean reversion. But the timing of when you get them makes a difference. The single thing that we're most focused on is getting the standard scenario reformed. The standard scenario, which drives TAC, that surplus, is punitive to GMIB companies versus GMWB companies. It's not harmonized across the industry. So if you ask me what we think about the most is we want to make sure, and the regulators are all pushing for this, the standard scenario to be harmonized. And then we can focus on a CTE high-type measure like CTE95 and start to distribute capital.

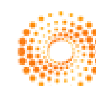
Operator

And our final question comes from the line of Randy Binner with B. Riley.

Randolph Binner - *B. Riley FBR, Inc., Research Division - Analyst*

Just a couple on the segments. So on Annuities, the negative flow, the sales are good. This is an -- kind of looking at variable and fixed annuity -- I'm sorry, variable and indexed annuities. But the flows continue to be significantly negative, and I think I've asked this question in the past. And I don't believe you've given an expectation of positive flows. But, I guess, when do we see kind of a material turn and when they stop being this materially negative?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

I'll start. Myles, you might want to jump in here. Look, we've been saying this range here of $1.5 billion to $2-ish billion for a while. As sales increase and frankly, as that book continues to mature, I think the lapses will stabilize, and we expect sales growth here. You heard Myles' comment on a previous question. We have a lot of momentum here. We had a lot of momentum coming into 2018. We've got a lot of momentum as we head into the second quarter here, new distribution channels, fabulous partners that we already have that are selling more of our products. And by the way, it's not just Shield. It's the new VA product as well. So look, with full transparency, though, it's still going to take a while. You got to remember, and I think most of you will remember, these lapses are coming off business that was put on the books, not solely, but in '10, '11 and '12 if you remember back. And that was a lot of business. I mean, in 2012, it was $28 billion of deposits. So when you're more in the $5-ish billion range of sales, you can see that math here. Now again, as lapse rates stabilize and as we grow sales, which we will do, it's going to start heading towards 0. But you cannot measure it in quarters. It -- that math doesn't work. I think you all know that. So it's going to take a couple of years. That's just the way it is.

Randolph Binner - *B. Riley FBR, Inc., Research Division - Analyst*

That's helpful. And then on the Life segment, the earnings pattern there has been kind of up and down. And can you characterize whether or not this is -- if you look at the adjusted earnings in the Life segment this quarter, is this an -- it's probably better than a normal quarter, but what -- is this within the realm of possibilities that we can plan on there? Or would that number be lower on a quarterly basis for the Life segment?

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

It's Anant. So Life earnings ex notables is $50 million ex notables, right? And almost half of that is from the investment income from the realignment of the portfolio. So we moved a lot of assets into the segment. So it's got its stat reserves and capital. Now everything in the Life segment went very well this quarter. Underwriting was good, expenses were lower, taxes were lower. And then I think of underwriting, both the severity was low and reserve development patterns were good. So if everything goes in the right direction, you get a quarter like this.

Operator

And we do have a follow-up question from the line of Alex Scott with Goldman Sachs.

Taylor Alexander Scott - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I just had a quick one on the captive. In the SGUL, when I think about the reserves that have been ceded there, could you just discuss the amount of hard assets and the amount of reinsurance that's been done in that entity relative to the amount of stat reserves that have been ceded and, I guess, also just the amount of GAAP reserves that have been ceded. I'm just trying to understand how much hard capital is there and sort of how conservatively capitalized that that's been done.

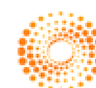
Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

Thanks, Alex. It's Anant. In the 10-K, we outlined around $16.9 billion of total target assets for the ULSG book, and around 2/3 of that is in the captive. Those are with hard assets, with invested assets.

Taylor Alexander Scott - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And then if I think about how much third-party reinsurance was used down there, would I just look at sort of the difference between the net and gross reserves in your supplement? I guess, that's on a GAAP basis. But is there any way to think about that piece of it?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Anant Bhalla - *Brighthouse Financial, Inc. - Executive VP & CFO*

The total stat reserve is around $19 billion, a little north of that. So the difference between -- there's around $4 billion of what people call noneconomic reserves, which are funded with third-party assets.

Operator

And that does conclude today's Q&A session, and I'd like to return the call to Mr. David Rosenbaum for any closing remarks.

David Rosenbaum

Thank you, operator. Thank you for joining us today for our first quarter earnings conference call and for your interest in Brighthouse Financial, and we'll speak again next quarter. Thank you very much.

Operator

Ladies and gentlemen, thank you for participating in today's call. This does conclude the program, and you may all disconnect. Everyone, have a great day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS