UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from___ to ___

Commission File Number: 033-03094

Brighthouse Life Insurance Company

(Exact name of registrant as specified in its charter)

Delaware	**06-0566090**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
11225 North Community House Road, Charlotte, North Carolina	**28277**
(Address of principal executive offices)	*(Zip Code)*

(980) 365-7100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☑ (Do not check if a smaller reporting company)	Smaller reporting company ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At August 8, 2018, 3,000 shares of the registrant's common stock, $25,000 par value per share, were outstanding, all of which were owned indirectly by Brighthouse Financial, Inc.

REDUCED DISCLOSURE FORMAT

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

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Part I — Financial Information

Item 1. Financial Statements

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

Interim Condensed Consolidated Balance Sheets
June 30, 2018 (Unaudited) and December 31, 2017

(In millions, except share and per share data)

	June 30, 2018	December 31, 2017
Assets		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: $58,523 and $58,599, respectively)	$ 60,753	$ 63,333
Equity securities, at estimated fair value (cost: $140 and $142, respectively)	153	161
Mortgage loans (net of valuation allowances of $51 and $46, respectively; includes $96 and $115, respectively, at estimated fair value, relating to variable interest entities)	12,237	10,640
Policy loans	1,043	1,106
Real estate joint ventures	449	433
Other limited partnership interests	1,704	1,667
Short-term investments, principally at estimated fair value	115	269
Other invested assets, principally at estimated fair value	2,317	2,519
Total investments	78,771	80,128
Cash and cash equivalents, principally at estimated fair value	1,717	1,363
Accrued investment income (includes $0 and $1, respectively, relating to variable interest entities)	583	575
Premiums, reinsurance and other receivables	13,024	12,918
Deferred policy acquisition costs and value of business acquired	5,343	5,623
Current income tax recoverable	807	735
Other assets	533	547
Separate account assets	103,801	110,156
Total assets	$ 204,579	$ 212,045
Liabilities and Equity		
Liabilities		
Future policy benefits	$ 35,183	$ 35,715
Policyholder account balances	37,629	37,069
Other policy-related balances	2,681	2,720
Payables for collateral under securities loaned and other transactions	4,255	4,158
Long-term debt (includes $5 and $11, respectively, at estimated fair value, relating to variable interest entities)	40	46
Deferred income tax liability	646	894
Other liabilities	4,589	4,419
Separate account liabilities	103,801	110,156
Total liabilities	188,824	195,177
Contingencies, Commitments and Guarantees (Note 11)		
Equity		
Brighthouse Life Insurance Company’s stockholder’s equity:		
Common stock, par value $25,000 per share; 4,000 shares authorized; 3,000 shares issued and outstanding	75	75
Additional paid-in capital	19,073	19,073
Retained earnings (deficit)	(4,223)	(4,132)
Accumulated other comprehensive income (loss)	815	1,837
Total Brighthouse Life Insurance Company’s stockholder’s equity	15,740	16,853
Noncontrolling interests	15	15
Total equity	15,755	16,868
Total liabilities and equity	$ 204,579	$ 212,045

See accompanying notes to the interim condensed consolidated financial statements.

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Three Months and Six Months Ended June 30, 2018 and 2017 (Unaudited)

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Premiums	$ 215	$ 209	$ 435	$ 379
Universal life and investment-type product policy fees	797	784	1,621	1,570
Net investment income	780	740	1,572	1,499
Other revenues	70	137	149	199
Net investment gains (losses)	(74)	—	(78)	(55)
Net derivative gains (losses)	(278)	(89)	(565)	(902)
Total revenues	1,510	1,781	3,134	2,690
Expenses				
Policyholder benefits and claims	797	812	1,507	1,670
Interest credited to policyholder account balances	260	275	520	542
Amortization of deferred policy acquisition costs and value of business acquired	235	689	516	647
Other expenses	447	460	844	896
Total expenses	1,739	2,236	3,387	3,755
Income (loss) before provision for income tax	(229)	(455)	(253)	(1,065)
Provision for income tax expense (benefit)	(65)	(191)	(87)	(436)
Net income (loss)	$ (164)	$ (264)	$ (166)	$ (629)
Comprehensive income (loss)	$ (284)	$ 200	$ (1,109)	$ (16)

See accompanying notes to the interim condensed consolidated financial statements.

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

Interim Condensed Consolidated Statements of Equity
For the Six Months Ended June 30, 2018 and 2017 (Unaudited)

(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Brighthouse Life Insurance Company's Stockholder's Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	$ 75	$ 19,073	$ (4,132)	$ 1,837	$ 16,853	$ 15	$ 16,868
Cumulative effect of change in accounting principle and other, net of income tax (Note 1)			75	(79)	(4)		(4)
Balance at January 1, 2018	75	19,073	(4,057)	1,758	16,849	15	16,864
Change in noncontrolling interests					—		—
Net income (loss)			(166)		(166)		(166)
Other comprehensive income (loss), net of income tax				(943)	(943)		(943)
Balance at June 30, 2018	$ 75	$ 19,073	$ (4,223)	$ 815	$ 15,740	$ 15	$ 15,755

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Brighthouse Life Insurance Company's Stockholder's Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	$ 75	$ 18,461	$ (2,919)	$ 1,248	$ 16,865	$ —	$ 16,865
Sale of operating joint venture interest to a former affiliate		202			202		202
Return of capital		(2,737)			(2,737)		(2,737)
Capital contributions		1,350			1,350		1,350
Change in noncontrolling interests					—	15	15
Net income (loss)			(629)		(629)		(629)
Other comprehensive income (loss), net of income tax				613	613		613
Balance at June 30, 2017	$ 75	$ 17,276	$ (3,548)	$ 1,861	$ 15,664	$ 15	$ 15,679

See accompanying notes to the interim condensed consolidated financial statements.

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

Interim Condensed Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2018 and 2017 (Unaudited)

(In millions)

	Six Months Ended June 30,	
	2018	**2017**
Net cash provided by (used in) operating activities	$ 1,339	$ 1,614
Cash flows from investing activities		
Sales, maturities and repayments of:		
Fixed maturity securities	7,499	6,837
Equity securities	12	40
Mortgage loans	297	366
Real estate and real estate joint ventures	82	12
Other limited partnership interests	75	152
Purchases of:		
Fixed maturity securities	(7,310)	(7,069)
Equity securities	(1)	(2)
Mortgage loans	(1,916)	(1,178)
Real estate and real estate joint ventures	(27)	(92)
Other limited partnership interests	(99)	(109)
Cash received in connection with freestanding derivatives	721	1,763
Cash paid in connection with freestanding derivatives	(1,569)	(2,720)
Sale of operating joint venture interest to a former affiliate	—	42
Net change in policy loans	63	2
Net change in short-term investments	154	67
Net change in other invested assets	(6)	(10)
Net cash provided by (used in) investing activities	(2,025)	(1,899)
Cash flows from financing activities		
Policyholder account balances:		
Deposits	2,720	1,902
Withdrawals	(1,519)	(1,669)
Net change in payables for collateral under securities loaned and other transactions	97	(192)
Long-term debt repaid	(6)	(7)
Capital contribution	—	600
Returns of capital	—	(3,425)
Capital contribution associated with the sale of joint venture interest to a former affiliate	—	202
Financing element on certain derivative instruments and other derivative related transactions, net	(226)	50
Other, net	(26)	—
Net cash provided by (used in) financing activities	1,040	(2,539)
Change in cash, cash equivalents and restricted cash	354	(2,824)
Cash, cash equivalents and restricted cash, beginning of period	1,363	5,057
Cash, cash equivalents and restricted cash, end of period	$ 1,717	$ 2,233
Supplemental disclosures of cash flow information		
Net cash paid (received) for:		
Interest	$ 5	$ 75
Income tax	$ 2	$ 22
Non-cash transactions:		
Transfer of fixed maturity securities to former affiliates	$ —	$ 293
Reduction of policyholder account balances in connection with reinsurance transactions	$ —	$ 293

See accompanying notes to the interim condensed consolidated financial statements.

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

Business

"BLIC" and the "Company" refer to Brighthouse Life Insurance Company, a Delaware corporation originally incorporated in Connecticut in 1863, and its subsidiaries. Brighthouse Life Insurance Company is a wholly-owned subsidiary of Brighthouse Holdings, LLC, which is a direct wholly-owned subsidiary of Brighthouse Financial, Inc. (together with its subsidiaries and affiliates, "Brighthouse").

In 2016, MetLife, Inc. (together with its subsidiaries and affiliates, "MetLife") announced its plan to pursue the separation of a substantial portion of its former U.S. retail business (the "Separation"). In connection with the Separation, effective April 2017, following receipt of applicable regulatory approvals, MetLife, Inc. contributed certain affiliated reinsurance companies and Brighthouse Life Insurance Company of NY ("BHNY") to Brighthouse Life Insurance Company (the "Contribution Transactions"). The affiliated reinsurance companies were then merged into Brighthouse Reinsurance Company of Delaware ("BRCD"), a licensed reinsurance subsidiary of Brighthouse Life Insurance Company. On July 28, 2017, MetLife, Inc. contributed Brighthouse Holdings, LLC to Brighthouse Financial, Inc., resulting in Brighthouse Life Insurance Company becoming an indirect wholly-owned subsidiary of Brighthouse Financial, Inc. On August 4, 2017, MetLife, Inc. completed the Separation through a distribution of the common stock of Brighthouse Financial Inc., representing 80.8% of MetLife, Inc.'s interest in Brighthouse Financial, Inc., to holders of MetLife, Inc. common stock and MetLife, Inc. retained the remaining 19.2%. On June 14, 2018, MetLife, Inc. divested its remaining shares of Brighthouse Financial, Inc. common stock (the "MetLife Divestiture"). As a result, MetLife, Inc. and its subsidiaries and affiliates are no longer considered related parties subsequent to the MetLife Divestiture.

The Company offers a range of individual annuities and individual life insurance products. The Company reports results through three segments: Annuities, Life and Run-off. In addition, the Company reports certain of its results in Corporate & Other.

Basis of Presentation

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

Consolidation

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

The Company uses the equity method of accounting for equity securities when it has significant influence or at least 20% interest and for real estate joint ventures and other limited partnership interests ("investee") when it has more than a minor ownership interest or more than a minor influence over the investee's operations. The Company generally recognizes its share of the investee's earnings on a three-month lag in instances where the investee's financial information is not sufficiently timely or when the investee's reporting period differs from the Company's reporting period. When the Company has virtually no influence over the investee's operations, the investment is carried at fair value.

Reclassifications

Certain amounts in the prior year periods' interim condensed consolidated financial statements and related footnotes thereto have been reclassified to conform to the 2018 presentation as discussed throughout the Notes to the Interim Condensed Consolidated Financial Statements. Additionally, effective January 1, 2018 the Company recorded an increase to other liabilities of $46 million, a decrease to deferred tax liabilities of $22 million, a decrease to accumulated other comprehensive income ("AOCI") of $64 million, and an increase to retained earnings of $40 million, to reflect an adjustment, net of tax, to prior year accretion of certain investments in redeemable preferred stock.

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

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

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

The accompanying interim condensed consolidated financial statements are unaudited and reflect all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in conformity with GAAP. Interim results are not necessarily indicative of full year performance. The December 31, 2017 consolidated balance sheet data was derived from audited consolidated financial statements included in Brighthouse Life Insurance Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Annual Report”), which include all disclosures required by GAAP. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company included in the 2017 Annual Report.

Adoption of New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of accounting standards updates (“ASUs”) to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on the Company’s financial statements. The following table provides a description of new ASUs issued by the FASB and the expected impact of the adoption on the Company’s financial statements.

ASUs adopted as of June 30, 2018 are summarized in the table below.

Standard	Description	Effective Date	Impact on Financial Statements
ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities	The new guidance changes the current accounting guidance related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option (“FVO”) that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. Additionally, there will no longer be a requirement to assess equity securities for impairment since such securities will be measured at fair value through net income.	January 1, 2018 using the modified retrospective method	The Company 1) reclassified net unrealized gains related to equity securities previously classified as available-for-sale (“AFS”) from AOCI to retained earnings and 2) increased the carrying value of equity investments previously accounted for under the cost method to estimated fair value. The cumulative effect of the adoption is a net increase to retained earnings of $38 million and a net decrease of $15 million to AOCI, after taxes.
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	For those contracts that are impacted, the guidance will require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods or services.	January 1, 2018 using the modified retrospective method	The adoption did not have an impact on the Company’s financial statements other than expanded disclosures in Note 9.

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

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

ASUs issued but not yet adopted as of June 30, 2018 are summarized in the table below.

Standard	Description	Effective Date	Impact on Financial Statements
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	The amendments to Topic 815 (i) refine and expand the criteria for achieving hedge accounting on certain hedging strategies, (ii) require the earnings effect of the hedging instrument be presented in the same line item in which the earnings effect of the hedged item is reported, and (iii) eliminate the requirement to separately measure and report hedge ineffectiveness.	January 1, 2019 using modified retrospective method (with early adoption permitted)	The Company does not expect a material impact on its financial statements from adoption of the new guidance.
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The amendments to Topic 326 replace the incurred loss impairment methodology for certain financial instruments with one that reflects expected credit losses based on historical loss information, current conditions, and reasonable and supportable forecasts. The new guidance also requires that an other-than- temporary impairment ("OTTI") on a debt security will be recognized as an allowance going forward, such that improvements in expected future cash flows after an impairment will no longer be reflected as a prospective yield adjustment through net investment income, but rather a reversal of the previous impairment and recognized through realized investment gains and losses.	January 1, 2020 using the modified retrospective method (with early adoption permitted beginning January 1, 2019)	The Company is currently evaluating the impact of this guidance on its financial statements, with the most significant impact expected to be earlier recognition of credit losses on mortgage loan investments.

2. Segment Information

The Company is organized into three segments: Annuities; Life; and Run-off. In addition, the Company reports certain of its results of operations in Corporate & Other.

Annuities

The Annuities segment consists of a variety of variable, fixed, index-linked and income annuities designed to address contract holders' needs for protected wealth accumulation on a tax-deferred basis, wealth transfer and income security.

Life

The Life segment consists of insurance products and services, including term, whole, universal and variable life products designed to address policyholders' needs for financial security and protected wealth transfer, which may be provided on a tax-advantaged basis.

Run-off

The Run-off segment consists of products no longer actively sold and which are separately managed, including structured settlements, pension risk transfer contracts, certain company-owned life insurance policies, funding agreements and universal life with secondary guarantees.

Corporate & Other

Corporate & Other contains the excess capital not allocated to the segments and interest expense related to the majority of the Company's outstanding debt, as well as expenses associated with certain legal proceedings and income tax audit issues. Corporate & Other also includes the elimination of intersegment amounts, long-term care and workers compensation business reinsured through 100% quota share reinsurance agreements and term life insurance sold direct to consumers, which is no longer being offered for new sales.

Financial Measures and Segment Accounting Policies

Adjusted earnings is a financial measure used by management to evaluate performance, allocate resources and facilitate comparisons to industry results. Consistent with GAAP guidance for segment reporting, adjusted earnings is also used to measure segment performance. The Company believes the presentation of adjusted earnings, as the Company measures it for management purposes, enhances the understanding of its performance by highlighting the results of operations and the underlying profitability drivers of the business. Adjusted earnings should not be viewed as a substitute for net income (loss).

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

2. Segment Information (continued)

Adjusted earnings, which may be positive or negative, focuses on the Company’s primary businesses principally by excluding the impact of market volatility, which could distort trends, as well as businesses that have been or will be sold or exited by the Company, referred to as divested businesses.

The following are the significant items excluded from total revenues, net of income tax, in calculating adjusted earnings:

- Net investment gains (losses);
- Net derivative gains (losses) except earned income on derivatives and amortization of premium on derivatives that are hedges of investments or that are used to replicate certain investments, but do not qualify for hedge accounting treatment; and
- Amortization of unearned revenue related to net investment gains (losses) and net derivative gains (losses) and certain variable annuity guaranteed minimum income benefits (“GMIBs”) fees (“GMIB Fees”).

The following are the significant items excluded from total expenses, net of income tax, in calculating adjusted earnings:

- Amounts associated with benefits and hedging costs related to GMIBs (“GMIB Costs”);
- Amounts associated with periodic crediting rate adjustments based on the total return of a contractually referenced pool of assets and market value adjustments associated with surrenders or terminations of contracts (“Market Value Adjustments”); and
- Amortization of deferred policy acquisition cost (“DAC”) and value of business acquired (“VOBA”) related to: (i) net investment gains (losses), (ii) net derivative gains (losses), (iii) GMIB Fees and GMIB Costs and (iv) Market Value Adjustments.

The tax impact of the adjustments mentioned above are calculated net of the U.S. statutory tax rate, which could differ from the Company’s effective tax rate.

Set forth in the tables below is certain financial information with respect to the Company’s segments, as well as Corporate & Other, for the three months and six months ended June 30, 2018 and 2017 and at June 30, 2018 and December 31, 2017. The segment accounting policies are the same as those used to prepare the Company’s condensed consolidated financial statements, except for the adjustments to calculate adjusted earnings described above. In addition, segment accounting policies include the methods of capital allocation described below.

Beginning in the first quarter of 2018, the Company changed the methodology for how capital is allocated to segments and, in some cases, products (the “Portfolio Realignment”). Segment investment and capitalization targets are now based on statutory oriented risk principles and metrics. Segment invested assets backing liabilities are based on net statutory liabilities plus excess capital. For the variable annuity business, the excess capital held is based on the target statutory total asset requirement consistent with the Company’s variable annuity risk management strategy discussed in the 2017 Annual Report. For insurance businesses other than variable annuities, excess capital held is based on a percentage of required statutory risk-based capital. Assets in excess of those allocated to the segments, if any, are held in Corporate & Other. Segment net investment income reflects the performance of each segment’s respective invested assets.

Previously, invested assets held in the segments were based on net GAAP liabilities. Excess capital was retained in Corporate & Other and allocated to segments based on an internally developed statistics based capital model intended to capture the material risks to which the Company was exposed (referred to as “allocated equity”). Surplus assets in excess of the combined allocations to the segments were held in Corporate & Other with net investment income being credited back to the segments at a predetermined rate. Any excess or shortfall in net investment income from surplus assets was recognized in Corporate & Other.

The Portfolio Realignment had no effect on the Company’s consolidated net income (loss) or adjusted earnings, but it did impact segment results for the six months ended June 30, 2018. It was not practicable to determine the impact of the Portfolio Realignment to adjusted earnings in prior periods; however, the Company estimates that pre-tax adjusted earnings in the Life segment for the six months ended June 30, 2018 increased between $40 million and $50 million as a result of the change, with most of the offsetting impact in the Run-off segment. Impacts to the Annuities segment and Corporate & Other would not have been significantly different under the previous allocation method.

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

2. Segment Information (continued)

In addition, the total assets recognized in the segments changed as a result of the Portfolio Realignment. Total assets (on a book value basis) in the Annuities and Life segments increased approximately $2 billion and approximately $3 billion, respectively, under the new allocation method. The Run-off segment and Corporate & Other experienced decreases in total assets of approximately $3 billion and approximately $2 billion, respectively, as a result of the Portfolio Realignment.

	Operating Results				
Three Months Ended June 30, 2018	**Annuities**	**Life**	**Run-off**	**Corporate & Other**	**Total**
			(In millions)		
Pre-tax adjusted earnings	$ 255	$ 26	$ (8)	$ (38)	$ 235
Provision for income tax expense (benefit)	43	6	(2)	(14)	33
Adjusted earnings	$ 212	$ 20	$ (6)	$ (24)	202
Adjustments for:					
Net investment gains (losses)					(74)
Net derivative gains (losses)					(278)
Other adjustments to net income					(112)
Provision for income tax (expense) benefit					98
Net income (loss)					$ (164)
Interest revenue	$ 374	$ 92	$ 314	$ 7	
Interest expense	$ —	$ —	$ —	$ 1	

	Operating Results				
Three Months Ended June 30, 2017	**Annuities**	**Life**	**Run-off**	**Corporate & Other**	**Total**
			(In millions)		
Pre-tax adjusted earnings	$ 264	$ 84	$ (597)	$ (12)	$ (261)
Provision for income tax expense (benefit)	65	16	(196)	(7)	(122)
Adjusted earnings	$ 199	$ 68	$ (401)	$ (5)	(139)
Adjustments for:					
Net investment gains (losses)					—
Net derivative gains (losses)					(89)
Other adjustments to net income					(105)
Provision for income tax (expense) benefit					69
Net income (loss)					$ (264)
Interest revenue	$ 308	$ 74	$ 338	$ 46	
Interest expense	$ —	$ —	$ 4	$ 19	

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

2. Segment Information (continued)

	Operating Results				
Six Months Ended June 30, 2018	**Annuities**	**Life**	**Run-off**	**Corporate & Other**	**Total**
	(In millions)				
Pre-tax adjusted earnings	$ 510	$ 90	$ 56	$ (55)	$ 601
Provision for income tax expense (benefit)	87	18	11	(23)	93
Adjusted earnings	$ 423	$ 72	$ 45	$ (32)	508
Adjustments for:					
Net investment gains (losses)					(78)
Net derivative gains (losses)					(565)
Other adjustments to net income					(211)
Provision for income tax (expense) benefit					180
Net income (loss)					$ (166)
Interest revenue	$ 733	$ 180	$ 657	$ 17	
Interest expense	$ —	$ —	$ —	$ 2	

	Operating Results				
Six Months Ended June 30, 2017	**Annuities**	**Life**	**Run-off**	**Corporate & Other**	**Total**
	(In millions)				
Pre-tax adjusted earnings	$ 529	$ (42)	$ (484)	$ 15	$ 18
Provision for income tax expense (benefit)	132	(16)	(171)	(3)	(58)
Adjusted earnings	$ 397	$ (26)	$ (313)	$ 18	76
Adjustments for:					
Net investment gains (losses)					(55)
Net derivative gains (losses)					(902)
Other adjustments to net income					(126)
Provision for income tax (expense) benefit					378
Net income (loss)					$ (629)
Interest revenue	$ 632	$ 154	$ 712	$ 102	
Interest expense	$ —	$ —	$ 19	$ 37	

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
	(In millions)			
Annuities	$ 985	$ 960	$ 1,962	$ 1,888
Life	278	265	578	486
Run-off	509	531	1,058	1,085
Corporate & Other	31	73	67	155
Adjustments	(293)	(48)	(531)	(924)
Total	$ 1,510	$ 1,781	$ 3,134	$ 2,690

2. Segment Information (continued)

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

	June 30, 2018	December 31, 2017
	(In millions)	
Annuities	$ 146,905	$ 149,920
Life	14,192	13,044
Run-off	32,458	36,719
Corporate & Other	11,024	12,362
Total	$ 204,579	$ 212,045

3. Insurance

Guarantees

As discussed in Notes 1 and 4 of the Notes to the Consolidated Financial Statements included in the 2017 Annual Report, the Company issues variable annuity products with guaranteed minimum benefits. Guaranteed minimum accumulation benefits ("GMABs"), the non-life contingent portion of guaranteed minimum withdrawal benefits ("GMWBs") and the portion of certain GMIBs that do not require annuitization are accounted for as embedded derivatives in policyholder account balances and are further discussed in Note 5.

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

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

	June 30, 2018		December 31, 2017	
	In the Event of Death	At Annuitization	In the Event of Death	At Annuitization
	(Dollars in millions)			
Annuity Contracts (1), (2)				
Variable Annuity Guarantees				
Total account value (3)	$ 104,974	$ 60,458	$ 105,061	$ 59,691
Separate account value	$ 100,115	$ 59,330	$ 100,043	$ 58,511
Net amount at risk	$ 6,473 (4)	$ 2,468 (5)	$ 5,200 (4)	$ 2,330 (5)
Average attained age of contract holders	68 years	68 years	68 years	68 years

	June 30, 2018	December 31, 2017
	Secondary Guarantees	
	(Dollars in millions)	
Universal Life Contracts		
Total account value (3)	$ 6,154	$ 6,244
Net amount at risk (6)	$ 74,152	$ 75,304
Average attained age of policyholders	65 years	64 years
Variable Life Contracts		
Total account value (3)	$ 1,037	$ 1,021
Net amount at risk (6)	$ 13,384	$ 13,848
Average attained age of policyholders	44 years	44 years

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(1) The Company's annuity contracts with guarantees may offer more than one type of guarantee in each contract. Therefore, the amounts listed above may not be mutually exclusive.

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3. Insurance (continued)

(2) Includes direct business, but excludes offsets from hedging or reinsurance, if any. Therefore, the net amount at risk presented reflects the economic exposures of living and death benefit guarantees associated with variable annuities, but not necessarily their impact on the Company. See Note 6 of the Notes to the Consolidated Financial Statements included in the 2017 Annual Report for a discussion of guaranteed minimum benefits which have been reinsured.

(3) Includes the contract holder's investments in the general account and separate account, if applicable.

(4) Defined as the death benefit less the total account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date and includes any additional contractual claims associated with riders purchased to assist with covering income taxes payable upon death.

(5) Defined as the amount (if any) that would be required to be added to the total account value to purchase a lifetime income stream, based on current annuity rates, equal to the minimum amount provided under the guaranteed benefit. This amount represents the Company's potential economic exposure to such guarantees in the event all contract holders 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 contract holders have achieved.

(6) Defined as the guarantee amount less the account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date.

4. Investments

See Note 6 for information about the fair value hierarchy for investments and the related valuation methodologies.

Fixed Maturity Securities AFS

Fixed Maturity Securities AFS by Sector

The following table presents the fixed maturity securities AFS by sector at:

	June 30, 2018					December 31, 2017				
		Gross Unrealized					Gross Unrealized			
	Amortized Cost	Gains	Temporary Losses	OTTI Losses (1)	Estimated Fair Value	Amortized Cost	Gains	Temporary Losses	OTTI Losses (1)	Estimated Fair Value
	(In millions)									
Fixed maturity securities: (2)										
U.S. corporate	$ 22,439	$ 963	$ 439	$ —	$ 22,963	$ 20,647	$ 1,822	$ 89	$ —	$ 22,380
U.S. government and agency	10,871	1,397	190	—	12,078	14,185	1,844	116	—	15,913
RMBS	7,615	249	173	(4)	7,695	7,588	283	57	(3)	7,817
Foreign corporate	6,751	171	176	—	6,746	6,457	376	62	—	6,771
State and political subdivision	3,583	435	25	(2)	3,995	3,573	532	6	1	4,098
CMBS	3,967	10	87	(1)	3,891	3,259	48	17	(1)	3,291
ABS	2,041	14	5	—	2,050	1,779	19	2	—	1,796
Foreign government	1,256	104	25	—	1,335	1,111	159	3	—	1,267
Total fixed maturity securities	$ 58,523	$ 3,343	$ 1,120	$ (7)	$ 60,753	$ 58,599	$ 5,083	$ 352	$ (3)	$ 63,333

(1) Noncredit OTTI losses included in AOCI in an unrealized gain position are due to increases in estimated fair value subsequent to initial recognition of noncredit losses on such securities. See also "— Net Unrealized Investment Gains (Losses)."

(2) Redeemable preferred stock is reported within U.S. corporate and foreign corporate fixed maturity securities. Included within fixed maturity securities are structured securities including residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and asset-backed securities ("ABS") (collectively, "Structured Securities").

The Company held non-income producing fixed maturity securities with an estimated fair value of $6 million and $3 million with unrealized gains (losses) of $2 million and ($2) million at June 30, 2018 and December 31, 2017, respectively.

4. Investments (continued)

Maturities of Fixed Maturity Securities

The amortized cost and estimated fair value of fixed maturity securities, by contractual maturity date, were as follows at June 30, 2018:

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years	Structured Securities	Total Fixed Maturity Securities
	(In millions)					
Amortized cost	$ 1,730	$ 8,028	$ 11,339	$ 23,803	$ 13,623	$ 58,523
Estimated fair value	$ 1,736	$ 8,111	$ 11,234	$ 26,036	$ 13,636	$ 60,753

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

Continuous Gross Unrealized Losses for Fixed Maturity Securities AFS by Sector

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

	June 30, 2018				December 31, 2017			
	Less than 12 Months		Equal to or Greater than 12 Months		Less than 12 Months		Equal to or Greater than 12 Months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(Dollars in millions)							
Fixed maturity securities:								
U.S. corporate	$ 9,566	$ 321	$ 1,229	$ 118	$ 1,762	$ 21	$ 1,413	$ 68
U.S. government and agency	2,587	61	1,318	129	4,764	36	1,573	80
RMBS	3,209	95	1,103	74	2,308	13	1,292	41
Foreign corporate	2,924	105	433	71	636	8	559	54
State and political subdivision	577	15	102	8	171	3	106	4
CMBS	2,897	66	344	20	603	6	335	10
ABS	735	4	33	1	165	—	75	2
Foreign government	500	21	68	4	152	2	50	1
Total fixed maturity securities	$ 22,995	$ 688	$ 4,630	$ 425	$ 10,561	$ 89	$ 5,403	$ 260
Total number of securities in an unrealized loss position	2,770		574		903		619	

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

4. Investments (continued)

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

Evaluation and Measurement Methodologies

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 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 loss or has exhausted natural resources; (vi) whether the Company has the intent to sell or will more likely than not be required to sell a particular security before the decline in estimated fair value below amortized cost recovers; (vii) with respect to Structured Securities, changes in forecasted cash flows after considering the quality of underlying collateral, expected prepayment speeds, current and forecasted loss severity, consideration of the payment terms of the underlying assets backing a particular security, and the payment priority within the tranche structure of the security; (viii) the potential for impairments due to weakening of foreign currencies on non-functional currency denominated fixed maturity securities that are near maturity; and (ix) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

Current Period Evaluation

Based on the Company's current evaluation of its AFS securities in an unrealized loss position in accordance with its impairment policy, and the Company's current intentions and assessments (as applicable to the type of security) about holding, selling and any requirements to sell these securities, the Company concluded that these securities were not other-than-temporarily impaired at June 30, 2018.

Gross unrealized losses on fixed maturity securities increased $764 million during the six months ended June 30, 2018 to $1.1 billion. The increase in gross unrealized losses for the six months ended June 30, 2018 was primarily attributable to increasing longer-term interest rates and widening credit spreads.

At June 30, 2018, $2 million of the total $1.1 billion of gross unrealized losses were from seven fixed maturity securities with an unrealized loss position of 20% or more of amortized cost for six months or greater.

Mortgage Loans

Mortgage Loans by Portfolio Segment

Mortgage loans are summarized as follows at:

	June 30, 2018		December 31, 2017	
	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in millions)			
Mortgage loans:				
Commercial	$ 8,058	65.8 %	$ 7,233	67.9 %
Agricultural	2,557	20.9	2,200	20.7
Residential	1,577	12.9	1,138	10.7
Subtotal (1)	12,192	99.6	10,571	99.3
Valuation allowances (2)	(51)	(0.4)	(46)	(0.4)
Subtotal mortgage loans, net	12,141	99.2	10,525	98.9
Commercial mortgage loans held by CSEs — FVO	96	0.8	115	1.1
Total mortgage loans, net	$ 12,237	100.0 %	$ 10,640	100.0 %

4. Investments (continued)

(1) Purchases of mortgage loans from third parties were $518 million and $604 million for the three months and six months ended June 30, 2018, respectively, and $147 million and $307 million for the three months and six months ended June 30, 2017, respectively, and were primarily comprised of residential mortgage loans.

(2) The valuation allowances were primarily from collective evaluation (non-specific loan related).

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

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

Valuation Allowance Methodology

Mortgage loans are considered to be impaired when it is probable that, based upon current information and events, the Company will be unable to collect all amounts due under the loan agreement. Specific valuation allowances are established using the same methodology for all three portfolio segments as the excess carrying value of a loan over either (i) the present value of expected future cash flows discounted at the loan's original effective interest rate, (ii) the estimated fair value of the loan's underlying collateral if the loan is in the process of foreclosure or otherwise collateral dependent, or (iii) the loan's observable market price. A common evaluation framework is used for establishing non-specific valuation allowances for all loan portfolio segments; however, a separate non-specific valuation allowance is calculated and maintained for each loan portfolio segment that is based on inputs unique to each loan portfolio segment. Non-specific valuation allowances are established for pools of loans with similar risk characteristics where a property-specific or market-specific risk has not been identified, but for which the Company expects to incur a credit loss. These evaluations are based upon several loan portfolio segment-specific factors, including the Company's experience for loan losses, defaults and loss severity, and loss expectations for loans with similar risk characteristics. These evaluations are revised as conditions change and new information becomes available.

Credit Quality of Commercial Mortgage Loans

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

	Recorded Investment						
	Debt Service Coverage Ratios						
	> 1.20x	1.00x - 1.20x	< 1.00x	Total	% of Total	Estimated Fair Value	% of Total
	(Dollars in millions)						
June 30, 2018							
Loan-to-value ratios:							
Less than 65%	$ 7,059	$ 115	$ 33	$ 7,207	89.5%	$ 7,244	89.5%
65% to 75%	612	107	81	800	9.9	797	9.9
76% to 80%	42	—	9	51	0.6	49	0.6
Total	$ 7,713	$ 222	$ 123	$ 8,058	100.0%	$ 8,090	100.0%
December 31, 2017							
Loan-to-value ratios:							
Less than 65%	$ 6,167	$ 293	$ 33	$ 6,493	89.7%	$ 6,654	90.0%
65% to 75%	642	—	14	656	9.1	658	8.9
76% to 80%	42	—	9	51	0.7	50	0.7
Greater than 80%	—	9	24	33	0.5	30	0.4
Total	$ 6,851	$ 302	$ 80	$ 7,233	100.0%	$ 7,392	100.0%

4. Investments (continued)

Credit Quality of Agricultural Mortgage Loans

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

	June 30, 2018		December 31, 2017	
	Recorded Investment	% of Total	Recorded Investment	% of Total
	(Dollars in millions)			
Loan-to-value ratios:				
Less than 65%	$ 2,330	91.1%	$ 2,039	92.7%
65% to 75%	227	8.9	161	7.3
Total	$ 2,557	100.0%	$ 2,200	100.0%

The estimated fair value of agricultural mortgage loans was $2.5 billion and $2.2 billion at June 30, 2018 and December 31, 2017, respectively.

Credit Quality of Residential Mortgage Loans

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

	June 30, 2018		December 31, 2017	
	Recorded Investment	% of Total	Recorded Investment	% of Total
	(Dollars in millions)			
Performance indicators:				
Performing	$ 1,548	98.2%	$ 1,106	97.2%
Nonperforming	29	1.8	32	2.8
Total	$ 1,577	100.0%	$ 1,138	100.0%

The estimated fair value of residential mortgage loans was $1.6 billion and $1.2 billion at June 30, 2018 and December 31, 2017, respectively.

Past Due, Nonaccrual and Modified Mortgage Loans

The Company has a high quality, well performing mortgage loan portfolio, with over 99% of all mortgage loans classified as performing at both June 30, 2018 and December 31, 2017. The Company defines delinquency consistent with industry practice, when mortgage loans are past due as follows: commercial and residential mortgage loans — 60 days and agricultural mortgage loans — 90 days. The Company had no commercial or agricultural mortgage loans past due and no commercial or agricultural mortgage loans in nonaccrual status at either June 30, 2018 or December 31, 2017. The recorded investment of residential mortgage loans past due and in nonaccrual status was $29 million and $32 million at June 30, 2018 and December 31, 2017, respectively. During the three months and six months ended June 30, 2018 and 2017, the Company did not have a significant amount of mortgage loans modified in a troubled debt restructuring.

Cash Equivalents

The carrying value of cash equivalents, which includes securities and other investments with an original or remaining maturity of three months or less at the time of purchase, was $1.1 billion and $1.0 billion at June 30, 2018 and December 31, 2017, respectively.

Net Unrealized Investment Gains (Losses)

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

Brighthouse Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

4. Investments (continued)

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

	June 30, 2018	December 31, 2017
	(In millions)	
Fixed maturity securities	$ 2,214	$ 4,722
Fixed maturity securities with noncredit OTTI losses included in AOCI	6	2
Total fixed maturity securities	2,220	4,724
Equity securities	—	39
Derivatives	247	231
Other	(9)	(8)
Subtotal	2,458	4,986
Amounts allocated from:		
Future policy benefits	(1,239)	(2,370)
DAC and VOBA related to noncredit OTTI losses recognized in AOCI	(5)	(2)
DAC, VOBA and DSI	(159)	(260)
Subtotal	(1,403)	(2,632)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	2	1
Deferred income tax benefit (expense)	(224)	(495)
Net unrealized investment gains (losses)	$ 833	$ 1,860

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

	Six Months Ended June 30, 2018
	(In millions)
Balance, December 31, 2017	$ 1,860
Unrealized investment gains (losses) change due to cumulative effect, net of income tax (1)	(79)
Balance, January 1, 2018	1,781
Fixed maturity securities on which noncredit OTTI losses have been recognized	4
Unrealized investment gains (losses) during the period	(2,453)
Unrealized investment gains (losses) relating to:	
Future policy benefits	1,131
DAC and VOBA related to noncredit OTTI losses recognized in AOCI	(3)
DAC, VOBA and DSI	101
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	1
Deferred income tax benefit (expense)	271
Balance, June 30, 2018	$ 833
Change in net unrealized investment gains (losses)	$ (948)

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(1) See Note 1 for more information related to the cumulative effect of change in accounting principle and other.

Concentrations of Credit Risk

There were no investments in any counterparty that were greater than 10% of the Company’s equity, other than the U.S. government and its agencies, at both June 30, 2018 and December 31, 2017.

4. Investments (continued)

Securities Lending

Elements of the securities lending program are presented below at:

	June 30, 2018		December 31, 2017	
	(In millions)			
Securities on loan: (1)				
Amortized cost	$	3,304	$	3,085
Estimated fair value	$	3,798	$	3,748
Cash collateral received from counterparties (2)	$	3,834	$	3,791
Security collateral received from counterparties (3)	$	56	$	29
Reinvestment portfolio — estimated fair value	$	3,843	$	3,823

(1) Included within fixed maturity securities.

(2) Included within payables for collateral under securities loaned and other transactions.

(3) Security collateral received from counterparties may not be sold or re-pledged, unless the counterparty is in default, and is not reflected on the consolidated financial statements.

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

	June 30, 2018				December 31, 2017			
	Remaining Tenor of Securities Lending Agreements				Remaining Tenor of Securities Lending Agreements			
	Open (1)	1 Month or Less	1 to 6 Months	Total	Open (1)	1 Month or Less	1 to 6 Months	Total
	(In millions)							
U.S. government and agency	$ 1,345	$ 1,596	$ 893	$ 3,834	$ 1,626	$ 964	$ 1,201	$ 3,791

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

If the Company is required to return significant amounts of cash collateral on short notice and is forced to sell securities to meet the return obligation, it may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than what otherwise would have been realized under normal market conditions, or both. The estimated fair value of the securities on loan related to the cash collateral on open at June 30, 2018 was $1.3 billion, all of which were U.S. government and agency securities which, if put back to the Company, could be immediately sold to satisfy the cash requirement.

The reinvestment portfolio acquired with the cash collateral consisted principally of fixed maturity securities (including agency RMBS, U.S. government and agency securities, ABS, U.S. and foreign corporate securities, and non-agency RMBS) with 64% invested in agency RMBS, U.S. government and agency securities, short-term investments, cash equivalents or held in cash at June 30, 2018. If the securities on loan or the reinvestment portfolio become less liquid, the Company has the liquidity resources of most of its general account available to meet any potential cash demands when securities on loan are put back to the Company.

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

4. Investments (continued)

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

Invested assets on deposit, held in trust and pledged as collateral are presented below at estimated fair value at:

	June 30, 2018	December 31, 2017
	(In millions)	
Invested assets on deposit (regulatory deposits) (1)	$ 8,041	$ 8,259
Invested assets held in trust (reinsurance agreements) (2)	2,985	2,634
Invested assets pledged as collateral (3)	3,823	3,199
Total invested assets on deposit, held in trust and pledged as collateral	$ 14,849	$ 14,092

(1) The Company has assets, primarily fixed maturity securities, on deposit with governmental authorities relating to certain policyholder liabilities, of which $70 million and $34 million of the assets on deposit balance represents restricted cash at June 30, 2018 and December 31, 2017, respectively.

(2) The Company has assets, primarily fixed maturity securities, held in trust relating to certain reinsurance transactions. $27 million and $42 million of the assets held in trust balance represents restricted cash at June 30, 2018 and December 31, 2017, respectively.

(3) The Company has pledged invested assets in connection with various agreements and transactions, including funding agreements (see Note 4 of the Notes to the Consolidated Financial Statements included in the 2017 Annual Report) and derivative transactions (see Note 5).

See "— Securities Lending" for information regarding securities on loan.

Variable Interest Entities

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

Consolidated VIEs

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

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

4. Investments (continued)

The following table presents the total assets and total liabilities relating to VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated at:

	June 30, 2018	December 31, 2017
	(In millions)	
CSEs: (1)		
Assets		
Mortgage loans (commercial mortgage loans)	$ 96	$ 115
Accrued investment income	—	1
Total assets	$ 96	$ 116
Liabilities		
Long-term debt	$ 5	$ 11
Total liabilities	$ 5	$ 11

(1) The Company consolidates entities that are structured as CMBS. The assets of these entities can only be used to settle their respective liabilities, and under no circumstances is the Company liable for any principal or interest shortfalls should any arise. The Company's exposure was limited to that of its remaining investment in these entities of $73 million and $86 million at estimated fair value at June 30, 2018 and December 31, 2017, respectively.

Unconsolidated VIEs

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

	June 30, 2018		December 31, 2017	
	Carrying Amount	Maximum Exposure to Loss (1)	Carrying Amount	Maximum Exposure to Loss (1)
	(In millions)			
Fixed maturity securities AFS:				
Structured Securities (2)	$ 11,084	$ 11,084	$ 11,136	$ 11,136
U.S. and foreign corporate	437	437	501	501
Other limited partnership interests	1,549	2,772	1,509	2,460
Other investments (3)	78	81	71	79
Total	$ 13,148	$ 14,374	$ 13,217	$ 14,176

(1) The maximum exposure to loss relating to fixed maturity securities AFS is equal to their carrying amounts or the carrying amounts of retained interests. The maximum exposure to loss relating to other limited partnership interests and real estate joint ventures is equal to the carrying amounts plus any unfunded commitments. Such a maximum loss would be expected to occur only upon bankruptcy of the issuer or investee.

(2) For these variable interests, the Company's involvement is limited to that of a passive investor in mortgage-backed or asset-backed securities issued by trusts that do not have substantial equity.

(3) Other investments is comprised of real estate joint ventures and other invested assets.

As described in Note 10, the Company makes commitments to fund partnership investments in the normal course of business. Excluding these commitments, the Company did not provide financial or other support to investees designated as VIEs during both the three months and six months ended June 30, 2018 and 2017.

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

4. Investments (continued)

Net Investment Income

The components of net investment income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Investment income:				
Fixed maturity securities	$ 621	$ 582	$ 1,233	$ 1,174
Equity securities	2	3	4	5
Mortgage loans	127	110	244	218
Policy loans	28	11	38	23
Real estate joint ventures	10	14	24	26
Other limited partnership interests	24	48	89	105
Cash, cash equivalents and short-term investments	5	9	10	17
Other	9	6	16	14
Subtotal	826	783	1,658	1,582
Less: Investment expenses	48	45	90	87
Subtotal, net	778	738	1,568	1,495
FVO CSEs — interest income — commercial mortgage loans	2	2	4	4
Net investment income	$ 780	$ 740	$ 1,572	$ 1,499

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

See “— Related Party Investment Transactions” for discussion of related party investment expenses.

Brighthouse Life Insurance Company
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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (continued)

4. Investments (continued)

Net Investment Gains (Losses)

Components of Net Investment Gains (Losses)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Total gains (losses) on fixed maturity securities:				
Total OTTI losses recognized — by sector:				
State and political subdivision	$ —	$ (1)	$ —	$ (1)
OTTI losses on fixed maturity securities recognized in earnings	—	(1)	—	(1)
Fixed maturity securities — net gains (losses) on sales and disposals	(65)	1	(103)	(36)
Total gains (losses) on fixed maturity securities	(65)	—	(103)	(37)
Total gains (losses) on equity securities:				
Equity securities — Mark to market and net gains (losses) on sales and disposals	(2)	2	(3)	1
Total gains (losses) on equity securities	(2)	2	(3)	1
Mortgage loans	(3)	(2)	(7)	(5)
Real estate joint ventures	—	1	42	3
Other limited partnership interests	—	—	—	(10)
Other	1	—	1	(5)
Subtotal	(69)	1	(70)	(53)
FVO CSEs:				
Commercial mortgage loans	(5)	(1)	(8)	(1)
Long-term debt — related to commercial mortgage loans	—	—	—	—
Non-investment portfolio gains (losses)	—	—	—	(1)
Subtotal	(5)	(1)	(8)	(2)
Total net investment gains (losses)	$ (74)	$ —	$ (78)	$ (55)

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

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

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

4. Investments (continued)

Sales or Disposals and Impairments of Fixed Maturity Securities

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Proceeds	$ 2,450	$ 2,403	$ 5,288	$ 4,363
Gross investment gains	$ 9	$ 11	$ 12	$ 20
Gross investment losses	(74)	(10)	(115)	(56)
OTTI losses	—	(1)	—	(1)
Net investment gains (losses)	$ (65)	$ —	$ (103)	$ (37)

Credit Loss Rollforward

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Balance, beginning of period	$ —	$ 10	$ —	$ 28
Reductions:				
Sales (maturities, pay downs or prepayments) of securities previously impaired as credit loss OTTI	—	(1)	—	(19)
Balance, end of period	$ —	$ 9	$ —	$ 9

Related Party Investment Transactions

The Company previously transferred invested assets primarily consisting of fixed maturity securities to former affiliates, which were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Estimated fair value of invested assets transferred to former affiliates	$ —	$ —	$ —	$ 292
Amortized cost of invested assets transferred to former affiliates	$ —	$ —	$ —	$ 294
Net investment gains (losses) recognized on transfers	$ —	$ —	$ —	$ (2)

At March 31, 2017, the Company had $1.1 billion of loans due from MetLife, Inc., which were included in other invested assets. These loans were carried at fixed interest rates of 4.21% and 5.10%, payable semiannually, and were due on September 30, 2032 and December 31, 2033, respectively. In April 2017, these loans were satisfied in a non-cash exchange for $1.1 billion of notes due to MetLife, Inc. See Notes 3 and 10 of the Notes to the Consolidated Financial Statements included in the 2017 Annual Report.

4. Investments (continued)

In January 2017, Metropolitan Life Insurance Company ("MLIC"), a former affiliate, recaptured risks related to guaranteed minimum benefit guarantees on certain variable annuities being reinsured by the Company. The Company transferred invested assets and cash and cash equivalents which are included in the table above. See Note 11 for additional information related to these transfers.

In March 2017, the Company sold an operating joint venture with a book value of $89 million to MLIC for $286 million. The operating joint venture was accounted for under the equity method and included in other invested assets. This sale resulted in an increase in additional paid-in capital of $202 million in the first quarter of 2017.

The Company receives investment administrative services from MetLife Investment Advisors, LLC ("MLIA"), which was considered a related party investment manager until the completion of the MetLife Divestiture. The related investment administrative service charges were $26 million and $49 million for the three months and six months ended June 30, 2018, respectively, and $23 million and $48 million for the three months and six months ended June 30, 2017, respectively. See Note 1 regarding the MetLife Divestiture.

5. Derivatives

Accounting for Derivatives

Freestanding Derivatives

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

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

If a derivative is not designated as an accounting hedge or its use in managing risk does not qualify for hedge accounting, changes in the estimated fair value of the derivative are generally reported in net derivative gains (losses) except for economic hedges of variable annuity guarantees which are presented in future policy benefits and claims.

Hedge Accounting

The Company primarily designates derivatives as a hedge of a forecasted transaction or a variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). When a derivative is designated as a cash flow hedge and is determined to be highly effective, changes in fair value are recorded in OCI and subsequently reclassified into the statement of operations when the Company's earnings are affected by the variability in cash flows of the hedged item. The Company also designates derivatives as a hedge of the estimated fair value of a recognized asset or liabilities (fair value hedge). When a derivative is designated as fair value hedge and is determined to be highly effective, changes in fair value are recorded in net derivative gains (losses), consistent with the change in estimated fair value of the hedged item attributable to the designated risk being hedged.

To qualify for hedge accounting, at the inception of the hedging relationship, the Company formally documents its risk management objective and strategy for undertaking the hedging transaction, as well as its designation of the hedge. In its hedge documentation, the Company sets forth how the hedging instrument is expected to hedge the designated risks related to the hedged item and sets forth the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method that will be used to measure ineffectiveness. A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk of the hedged item. Hedge effectiveness is formally assessed at inception and at least quarterly throughout the life of the designated hedging relationship.

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

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

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

Embedded Derivatives

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

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

Such embedded derivatives are carried on the balance sheet at estimated fair value with the host contract and changes in their estimated fair value are generally reported in net derivative gains (losses), except for those in policyholder benefits and claims related to ceded reinsurance of GMIB.

See "— Variable Annuity Guarantees" in Note 1 of the Notes to the Consolidated Financial Statements included in the 2017 Annual Report for additional information on the accounting policy for embedded derivatives bifurcated from variable annuity host contracts.

Derivative Strategies

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

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

Interest Rate Derivatives

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

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

5. Derivatives (continued)

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

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

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

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

Foreign Currency Exchange Rate Derivatives

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

To a lesser extent, the Company uses foreign currency forwards in nonqualifying hedging relationships.

Credit Derivatives

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

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

5. Derivatives (continued)

Equity Derivatives

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

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

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

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

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

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

5. Derivatives (continued)

Primary Risks Managed by Derivatives

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

		June 30, 2018			December 31, 2017		
		Gross Notional Amount	Estimated Fair Value		Gross Notional Amount	Estimated Fair Value	
	Primary Underlying Risk Exposure		Assets	Liabilities		Assets	Liabilities
		(In millions)					
Derivatives Designated as Hedging Instruments:							
Fair value hedges:							
Interest rate swaps	Interest rate	$ 145	$ 35	$ —	$ 175	$ 44	$ —
Cash flow hedges:							
Interest rate swaps	Interest rate	27	3	—	27	5	—
Foreign currency swaps	Foreign currency exchange rate	2,105	108	62	1,762	86	75
Subtotal		2,132	111	62	1,789	91	75
Total qualifying hedges		2,277	146	62	1,964	135	75
Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate swaps	Interest rate	15,879	576	888	20,213	922	774
Interest rate caps	Interest rate	3,428	29	—	2,671	7	—
Interest rate futures	Interest rate	282	—	—	282	1	—
Interest rate options	Interest rate	14,500	119	97	24,600	133	63
Foreign currency swaps	Foreign currency exchange rate	1,130	69	30	1,103	69	41
Foreign currency forwards	Foreign currency exchange rate	128	1	1	130	—	2
Credit default swaps — purchased	Credit	80	2	1	65	—	1
Credit default swaps — written	Credit	1,927	26	1	1,878	40	—
Equity futures	Equity market	1,619	—	1	2,713	15	—
Equity index options	Equity market	46,292	905	1,680	47,066	794	1,664
Equity variance swaps	Equity market	9,713	127	429	8,998	128	430
Equity total return swaps	Equity market	2,433	45	33	1,767	—	79
Total non-designated or nonqualifying derivatives		97,411	1,899	3,161	111,486	2,109	3,054
Total		$ 99,688	$ 2,045	$ 3,223	$ 113,450	$ 2,244	$ 3,129

Based on gross notional amounts, a substantial portion of the Company's derivatives was not designated or did not qualify as part of a hedging relationship at both June 30, 2018 and December 31, 2017. The Company's use of derivatives includes (i) derivatives that serve as macro hedges of the Company's exposure to various risks and that generally do not qualify for hedge accounting due to the criteria required under the portfolio hedging rules; (ii) derivatives that economically hedge insurance liabilities that contain mortality or morbidity risk and that generally do not qualify for hedge accounting because the lack of these risks in the derivatives cannot support an expectation of a highly effective hedging relationship; (iii) derivatives that economically hedge embedded derivatives that do not qualify for hedge accounting because the changes in estimated fair value of the embedded derivatives are already recorded in net income; and (iv) written credit default swaps that are used to create synthetic credit investments and that do not qualify for hedge accounting because they do not involve a hedging relationship. For these nonqualified derivatives, changes in market factors can lead to the recognition of fair value changes on the statement of operations without an offsetting gain or loss recognized in earnings for the item being hedged.

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

5. Derivatives (continued)

The following table presents earned income on derivatives:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Qualifying hedges:				
Net investment income	$ 7	$ 5	$ 12	$ 11
Nonqualifying hedges:				
Net derivative gains (losses)	37	67	90	186
Policyholder benefits and claims	—	3	—	7
Total	$ 44	$ 75	$ 102	$ 204

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

5. Derivatives (continued)

The following tables present the amount and location of gains (losses) recognized for derivatives and gains (losses) pertaining to hedged items presented in net derivative gains (losses):

	Net Derivative Gains (Losses) Recognized for Derivatives (1)	Net Derivative Gains (Losses) Recognized for Hedged Items (2)	Net Investment Income (3)	Policyholder Benefits and Claims (4)	Amount of Gains (Losses) deferred in AOCI
			(In millions)		
Three Months Ended June 30, 2018					
Derivatives Designated as Hedging Instruments:					
Fair value hedges (5):					
Interest rate derivatives	$ (2)	$ 3	$ —	$ —	$ —
Total fair value hedges	(2)	3	—	—	—
Cash flow hedges (5):					
Interest rate derivatives	10	—	2	—	—
Foreign currency exchange rate derivatives	(1)	—	—	—	108
Total cash flow hedges	9	—	2	—	108
Derivatives Not Designated or Not Qualifying as Hedging Instruments:					
Interest rate derivatives	(165)	—	—	—	—
Foreign currency exchange rate derivatives	56	(5)	—	—	—
Credit derivatives	(3)	—	—	—	—
Equity derivatives	(440)	—	—	—	—
Embedded derivatives	232	—	—	(1)	—
Total non-qualifying hedges	(320)	(5)	—	(1)	—
Total	$ (313)	$ (2)	$ 2	$ (1)	$ 108
Three Months Ended June 30, 2017					
Derivatives Designated as Hedging Instruments:					
Fair value hedges (5):					
Interest rate derivatives	$ 3	$ (3)	$ —	$ —	$ —
Total fair value hedges	3	(3)	—	—	—
Cash flow hedges (5):					
Interest rate derivatives	—	—	1	—	1
Foreign currency exchange rate derivatives	1	(1)	—	—	(33)
Total cash flow hedges	1	(1)	1	—	(32)
Derivatives Not Designated or Not Qualifying as Hedging Instruments:					
Interest rate derivatives	205	—	—	3	—
Foreign currency exchange rate derivatives	(22)	2	—	—	—
Credit derivatives	5	—	—	—	—
Equity derivatives	(474)	—	(1)	(93)	—
Embedded derivatives	128	—	—	14	—
Total non-qualifying hedges	(158)	2	(1)	(76)	—
Total	$ (154)	$ (2)	$ —	$ (76)	$ (32)

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

5. Derivatives (continued)

	Net Derivative Gains (Losses) Recognized for Derivatives (1)	Net Derivative Gains (Losses) Recognized for Hedged Items (2)	Net Investment Income (3)	Policyholder Benefits and Claims (4)	Amount of Gains (Losses) deferred in AOCI
			(In millions)		
Six Months Ended June 30, 2018					
Derivatives Designated as Hedging Instruments:					
Fair value hedges (5):					
Interest rate derivatives	$ (10)	$ 10	$ —	$ —	$ —
Total fair value hedges	(10)	10	—	—	—
Cash flow hedges (5):					
Interest rate derivatives	17	—	3	—	(2)
Foreign currency exchange rate derivatives	(1)	—	—	—	37
Total cash flow hedges	16	—	3	—	35
Derivatives Not Designated or Not Qualifying as Hedging Instruments:					
Interest rate derivatives	(974)	—	—	—	—
Foreign currency exchange rate derivatives	15	(2)	—	—	—
Credit derivatives	(10)	—	—	—	—
Equity derivatives	(484)	—	—	—	—
Embedded derivatives	784	—	—	(2)	—
Total non-qualifying hedges	(669)	(2)	—	(2)	—
Total	$ (663)	$ 8	$ 3	$ (2)	$ 35
Six Months Ended June 30, 2017					
Derivatives Designated as Hedging Instruments:					
Fair value hedges (5):					
Interest rate derivatives	$ 1	$ (1)	$ —	$ —	$ —
Total fair value hedges	1	(1)	—	—	—
Cash flow hedges (5):					
Interest rate derivatives	—	—	3	—	1
Foreign currency exchange rate derivatives	9	(9)	—	—	(52)
Total cash flow hedges	9	(9)	3	—	(51)
Derivatives Not Designated or Not Qualifying as Hedging Instruments:					
Interest rate derivatives	(64)	—	—	2	—
Foreign currency exchange rate derivatives	(42)	(32)	—	—	—
Credit derivatives	11	—	—	—	—
Equity derivatives	(1,412)	—	(1)	(277)	—
Embedded derivatives	451	—	—	(1)	—
Total non-qualifying hedges	(1,056)	(32)	(1)	(276)	—
Total	$ (1,046)	$ (42)	$ 2	$ (276)	$ (51)

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(1) Includes gains (losses) reclassified from AOCI for cash flow hedges.

(2) Includes foreign currency transaction gains (losses) on hedged items in cash flow and nonqualifying hedging relationships. Hedged items in fair value hedging relationship includes fixed rate liabilities reported in policyholder account balances or future policy benefits and fixed maturity securities. Ineffective portion of the gains (losses) recognized in income is not significant.

5. Derivatives (continued)

(3) Includes changes in estimated fair value related to economic hedges of equity method investments in joint ventures and gains (losses) reclassified from AOCI for cash flow hedges.

(4) Changes in estimated fair value related to economic hedges of variable annuity guarantees included in future policy benefits.

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

In certain instances, the Company discontinued cash flow hedge accounting because the forecasted transactions were no longer probable of occurring. Because certain of the forecasted transactions also were not probable of occurring within two months of the anticipated date, the Company reclassified amounts from AOCI into net derivative gains (losses). These amounts were $0 for both the three months and six months ended June 30, 2018, and $0 and $9 million for the three months and six months ended June 30, 2017, respectively.

At June 30, 2018 and December 31, 2017, the maximum length of time over which the Company was hedging its exposure to variability in future cash flows for forecasted transactions did not exceed one year and two years, respectively.

At June 30, 2018 and December 31, 2017, the balance in AOCI associated with cash flow hedges was $247 million and $231 million, respectively.

Credit Derivatives

In connection with synthetically created credit investment transactions, the Company writes credit default swaps for which it receives a premium to insure credit risk. Such credit derivatives are included within the nonqualifying derivatives and derivatives for purposes other than hedging table. If a credit event occurs, as defined by the contract, the contract may be cash settled or it may be settled gross by the Company paying the counterparty the specified swap notional amount in exchange for the delivery of par quantities of the referenced credit obligation. The Company 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.

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

	June 30, 2018			December 31, 2017		
Rating Agency Designation of Referenced Credit Obligations (1)	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)
	(Dollars in millions)					
Aaa/Aa/A	$ 9	$ 677	2.7	$ 12	$ 558	2.8
Baa	16	1,250	5.0	28	1,295	4.7
Ba	—	—	—	—	25	4.5
Total	$ 25	$ 1,927	4.2	$ 40	$ 1,878	4.1

(1) Includes both single name credit default swaps that may be referenced to the credit of corporations, foreign governments, or state and political subdivisions and credit default swaps referencing indices. The rating agency designations are based on availability and the midpoint of the applicable ratings among Moody’s Investors Service (“Moody’s”), Standard & Poor’s Global Ratings (“S&P”) and Fitch Ratings. If no rating is available from a rating agency, then an internally developed rating is used.

(2) The weighted average years to maturity of the credit default swaps is calculated based on weighted average gross notional amounts.

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5. Derivatives (continued)

Counterparty Credit Risk

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

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

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

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

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

	June 30, 2018		December 31, 2017	
Derivatives Subject to a Master Netting Arrangement or a Similar Arrangement	**Assets**	**Liabilities**	**Assets**	**Liabilities**
	(In millions)			
Gross estimated fair value of derivatives:				
OTC-bilateral (1)	$ 2,072	$ 3,211	$ 2,222	$ 3,080
OTC-cleared and Exchange-traded (1), (6)	17	6	69	40
Total gross estimated fair value of derivatives (1)	2,089	3,217	2,291	3,120
Amounts offset on the consolidated balance sheets	—	—	—	—
Estimated fair value of derivatives presented on the consolidated balance sheets (1), (6)	2,089	3,217	2,291	3,120
Gross amounts not offset on the consolidated balance sheets:				
Gross estimated fair value of derivatives: (2)				
OTC-bilateral	(1,834)	(1,834)	(1,942)	(1,942)
OTC-cleared and Exchange-traded	(1)	(1)	(1)	(1)
Cash collateral: (3), (4)				
OTC-bilateral	(215)	—	(247)	—
OTC-cleared and Exchange-traded	(16)	—	(27)	(39)
Securities collateral: (5)				
OTC-bilateral	(22)	(1,375)	(31)	(1,138)
OTC-cleared and Exchange-traded	—	(4)	—	—
Net amount after application of master netting agreements and collateral	$ 1	$ 3	$ 43	$ —

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(1) At June 30, 2018 and December 31, 2017, derivative assets included income or (expense) accruals reported in accrued investment income or in other liabilities of $44 million and $47 million, respectively, and derivative liabilities included (income) or expense accruals reported in accrued investment income or in other liabilities of ($6) million and ($9) million, respectively.

5. Derivatives (continued)

(2) Estimated fair value of derivatives is limited to the amount that is subject to set-off and includes income or expense accruals.

(3) Cash collateral received by the Company for OTC-bilateral and OTC-cleared derivatives is included in cash and cash equivalents, short-term investments or in fixed maturity securities, and the obligation to return it is included in payables for collateral under securities loaned and other transactions on the balance sheet.

(4) The receivable for the return of cash collateral provided by the Company is inclusive of initial margin on exchange-traded and OTC-cleared derivatives and is included in premiums, reinsurance and other receivables on the balance sheet. The amount of cash collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements. At June 30, 2018 and December 31, 2017, the Company received excess cash collateral of $191 million and $93 million, respectively, and provided excess cash collateral of $0 and $5 million, respectively, which is not included in the table above due to the foregoing limitation.

(5) Securities collateral received by the Company is held in separate custodial accounts and is not recorded on the balance sheet. Subject to certain constraints, the Company is permitted by contract to sell or re-pledge this collateral, but at June 30, 2018, none of the collateral had been sold or re-pledged. Securities collateral pledged by the Company is reported in fixed maturity securities on the balance sheet. Subject to certain constraints, the counterparties are permitted by contract to sell or re-pledge this collateral. The amount of securities collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements and cash collateral. At June 30, 2018 and December 31, 2017, the Company received excess securities collateral with an estimated fair value of $170 million and $337 million, respectively, for its OTC-bilateral derivatives, which are not included in the table above due to the foregoing limitation. At June 30, 2018 and December 31, 2017, the Company provided excess securities collateral with an estimated fair value of $328 million and $471 million, respectively, for its OTC-bilateral derivatives, and $148 million and $426 million, respectively, for its OTC-cleared derivatives, and $83 million and $118 million, respectively, for its exchange-traded derivatives, which are not included in the table above due to the foregoing limitation.

(6) Effective January 16, 2018, the London Clearing House ("LCH") amended its rulebook, resulting in the characterization of variation margin transfers as settlement payments, as opposed to adjustments to collateral. These amendments impacted the accounting treatment of the Company's centrally cleared derivatives, for which the LCH serves as the central clearing party.

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 counterparty reaches a minimum transfer amount. A small number of these arrangements also include credit-contingent provisions that include a threshold above which collateral must be posted. Such agreements provide for a reduction of these thresholds (on a sliding scale that converges toward zero) in the event of downgrades in the credit ratings of the Company and/or the counterparty. In addition, substantially all of the Company's netting agreements for derivatives contain provisions that require both the Company and the counterparty to maintain a specific investment grade credit rating from each of Moody's and S&P. If a party's financial strength or credit ratings were to fall below that specific investment grade credit rating, that party would be in violation of these provisions, and the other party to the derivatives could terminate the transactions and demand immediate settlement and payment based on such party's reasonable valuation of the derivatives.

The following table presents the estimated fair value of the Company's OTC-bilateral derivatives that are in a net liability position after considering the effect of netting agreements, together with the estimated fair value and balance sheet location of the collateral pledged. The Company's collateral agreements require both parties to be fully collateralized, as such, the Company would not be required to post additional collateral as a result of a downgrade in its financial strength rating. OTC-bilateral derivatives that are not subject to collateral agreements are excluded from this table.

	June 30, 2018	December 31, 2017
	(In millions)	
Estimated fair value of derivatives in a net liability position (1)	$ 1,377	$ 1,138
Estimated Fair Value of Collateral Provided:		
Fixed maturity securities	$ 1,690	$ 1,414

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

5. Derivatives (continued)

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

Embedded Derivatives

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

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

	Balance Sheet Location	June 30, 2018	December 31, 2017
		(In millions)	
Embedded derivatives within asset host contracts:			
Ceded guaranteed minimum benefits	Premiums, reinsurance and other receivables	$ 184	$ 227
Options embedded in debt or equity securities (1)	Investments	—	(52)
Embedded derivatives within asset host contracts		$ 184	$ 175
Embedded derivatives within liability host contracts:			
Direct guaranteed minimum benefits	Policyholder account balances	$ 619	$ 1,122
Assumed reinsurance on fixed deferred annuities	Policyholder account balances	—	1
Assumed guaranteed minimum benefits	Policyholder account balances	321	437
Fixed annuities with equity indexed returns	Policyholder account balances	742	674
Embedded derivatives within liability host contracts		$ 1,682	$ 2,234

(1) In connection with the adoption of new guidance related to the recognition and measurement of financial instruments (see Note 1), effective January 1, 2018, the Company is no longer required to bifurcate and account separately for derivatives embedded in equity securities. Beginning January 1, 2018, the entire change in the estimated fair value of equity securities is recognized as a component of net investment gains and losses.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Net derivative gains (losses) (1), (2)	$ 232	$ 128	$ 784	$ 451
Policyholder benefits and claims	$ (1)	$ 14	$ (2)	$ (1)

(1) The valuation of direct and assumed guaranteed minimum benefits includes a nonperformance risk adjustment. The amounts included in net derivative gains (losses) in connection with this adjustment were $58 million and $43 million for the three months and six months ended June 30, 2018, respectively, and ($36) million and ($80) million for the three months and six months ended June 30, 2017, respectively.

(2) See Note 11 for discussion of related party net derivative gains (losses).

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

6. Fair Value

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

Recurring Fair Value Measurements

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

	June 30, 2018			
	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(In millions)			
Assets				
Fixed maturity securities:				
U.S. corporate	$ —	$ 22,144	$ 819	$ 22,963
U.S. government and agency	4,634	7,444	—	12,078
RMBS	—	6,766	929	7,695
Foreign corporate	—	5,750	996	6,746
State and political subdivision	—	3,987	8	3,995
CMBS	—	3,713	178	3,891
ABS	—	1,896	154	2,050
Foreign government	—	1,335	—	1,335
Total fixed maturity securities	4,634	53,035	3,084	60,753
Equity securities	15	18	120	153
Short-term investments	53	62	—	115
Real estate joint ventures (1)	—	—	17	17
Other limited partnership interests (1)	—	—	24	24
Commercial mortgage loans held by CSEs — FVO	—	96	—	96
Derivative assets: (2)				
Interest rate	—	762	—	762
Foreign currency exchange rate	—	178	—	178
Credit	—	20	8	28
Equity market	—	934	143	1,077
Total derivative assets	—	1,894	151	2,045
Embedded derivatives within asset host contracts (3)	—	—	184	184
Separate account assets	182	103,615	4	103,801
Total assets	$ 4,884	$ 158,720	$ 3,584	$ 167,188
Liabilities				
Derivative liabilities: (2)				
Interest rate	$ —	$ 985	$ —	$ 985
Foreign currency exchange rate	—	92	1	93
Credit	—	2	—	2
Equity market	1	1,708	434	2,143
Total derivative liabilities	1	2,787	435	3,223
Embedded derivatives within liability host contracts (3)	—	—	1,682	1,682
Long-term debt of CSEs — FVO	—	5	—	5
Total liabilities	$ 1	$ 2,792	$ 2,117	$ 4,910

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

6. Fair Value (continued)

	December 31, 2017			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
	(In millions)			
Assets				
Fixed maturity securities:				
U.S. corporate	$ —	$ 21,491	$ 889	$ 22,380
U.S. government and agency	8,002	7,911	—	15,913
RMBS	—	6,836	981	7,817
Foreign corporate	—	5,723	1,048	6,771
State and political subdivision	—	4,098	—	4,098
CMBS	—	3,155	136	3,291
ABS	—	1,691	105	1,796
Foreign government	—	1,262	5	1,267
Total fixed maturity securities	8,002	52,167	3,164	63,333
Equity securities (4)	18	19	124	161
Short-term investments	135	120	14	269
Commercial mortgage loans held by CSEs — FVO	—	115	—	115
Derivative assets: (2)				
Interest rate	1	1,111	—	1,112
Foreign currency exchange rate	—	155	—	155
Credit	—	30	10	40
Equity market	15	773	149	937
Total derivative assets	16	2,069	159	2,244
Embedded derivatives within asset host contracts (3)	—	—	227	227
Separate account assets	410	109,741	5	110,156
Total assets	$ 8,581	$ 164,231	$ 3,693	$ 176,505
Liabilities				
Derivative liabilities: (2)				
Interest rate	$ —	$ 837	$ —	$ 837
Foreign currency exchange rate	—	117	1	118
Credit	—	1	—	1
Equity market	—	1,736	437	2,173
Total derivative liabilities	—	2,691	438	3,129
Embedded derivatives within liability host contracts (3)	—	—	2,234	2,234
Long-term debt of CSEs — FVO	—	11	—	11
Total liabilities	$ —	$ 2,702	$ 2,672	$ 5,374

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(1) In connection with the adoption of new guidance related to the recognition and measurement of financial instruments (see Note 1), effective January 1, 2018 on a modified retrospective basis, the Company carries real estate joint ventures and other limited partnership interests previously accounted under the cost method of accounting at estimated fair value.

(2) Derivative assets are presented within other invested assets on the consolidated balance sheets and derivative liabilities are presented within other liabilities on the consolidated balance sheets. The amounts are presented gross in the tables above to reflect the presentation on the consolidated balance sheets, but are presented net for purposes of the rollforward in the Fair Value Measurements Using Significant Unobservable Inputs (Level 3) tables.

6. Fair Value (continued)

(3) Embedded derivatives within asset host contracts are presented within premiums, reinsurance and other receivables and other invested assets on the consolidated balance sheets. Embedded derivatives within liability host contracts are presented within policyholder account balances on the consolidated balance sheets. At June 30, 2018 and December 31, 2017, debt and equity securities also included embedded derivatives of $0 and ($52) million, respectively.

(4) The Company reclassified Federal Home Loan Bank stock in the prior period from equity securities to other invested assets.

Valuation Controls and Procedures

The Company monitors and provides oversight of valuation controls and policies for securities, mortgage loans and derivatives, which are primarily executed by MLIA. The valuation methodologies used to determine fair values prioritize the use of observable market prices and market-based parameters and determines that judgmental valuation adjustments, when applied, are based upon established policies and are applied consistently over time. The valuation methodologies for securities, mortgage loans and derivatives are reviewed on an ongoing basis and revised when necessary, based on changing market conditions. In addition, the Chief Accounting Officer periodically reports to the Audit Committee of Brighthouse's Board of Directors regarding compliance with fair value accounting standards.

The fair value of financial assets and financial liabilities is based on quoted market prices, where available. The Company assesses whether prices received represent a reasonable estimate of fair value through controls designed to ensure valuations represent an exit price. MLIA performs several controls, including certain monthly controls, which include, but are not limited to, analysis of portfolio returns to corresponding benchmark returns, comparing a sample of executed prices of securities sold to the fair value estimates, reviewing the bid/ask spreads to assess activity, comparing prices from multiple independent pricing services and ongoing due diligence to confirm that independent pricing services use market-based parameters. The process includes a determination of the observability of inputs used in estimated fair values received from independent pricing services or brokers by assessing whether these inputs can be corroborated by observable market data. Independent non-binding broker quotes, also referred to herein as "consensus pricing," are used for non-significant portion of the portfolio. Prices received from independent brokers are assessed to determine if they represent a reasonable estimate of fair value by considering such pricing relative to the current market dynamics and current pricing for similar financial instruments. Fixed maturity securities priced using independent non-binding broker quotations represent less than 1% of the total estimated fair value of fixed maturity securities and 4% of the total estimated fair value of Level 3 fixed maturity securities at June 30, 2018.

MLIA also applies a formal process to challenge any prices received from independent pricing services that are not considered representative of estimated fair value. If prices received from independent pricing services are not considered reflective of market activity or representative of estimated fair value, independent non-binding broker quotations are obtained. If obtaining an independent non-binding broker quotation is unsuccessful, MLIA will use the last available price.

The Company reviews outputs of MLIA's controls and performs additional controls, including certain monthly controls, which include but are not limited to, performing balance sheet analytics to assess reasonableness of period to period pricing changes, including any price adjustments. Price adjustments are applied if prices or quotes received from independent pricing services or brokers are not considered reflective of market activity or representative of estimated fair value. The Company did not have significant price adjustments during the six months ended June 30, 2018.

Determination of Fair Value

Fixed maturity securities

The fair values for actively traded marketable bonds, primarily U.S. government and agency securities, are determined using the quoted market prices and are classified as Level 1 assets. For fixed maturity securities classified as Level 2 assets, fair values are determined using either a market or income approach and are valued based on a variety of observable inputs as described below.

U.S. corporate and foreign corporate securities: Fair value is determined using third-party commercial pricing services, with the primary inputs being quoted prices in markets that are not active, benchmark yields, spreads off benchmark yields, new issuances, issuer rating, trades of identical or comparable securities, or duration. Privately-placed securities are valued using the additional key inputs: market yield curve, call provisions, observable prices and spreads for similar public or private securities that incorporate the credit quality and industry sector of the issuer, and delta spread adjustments to reflect specific credit-related issues.

6. Fair Value (continued)

U.S. government and agency, state and political subdivision and foreign government securities: Fair value is determined using third-party commercial pricing services, with the primary inputs being quoted prices in markets that are not active, benchmark U.S. Treasury yield or other yields, spread off the U.S. Treasury yield curve for the identical security, issuer ratings and issuer spreads, broker dealer quotes, and comparable securities that are actively traded.

Structured securities: Fair value is determined using third-party commercial pricing services, with the primary inputs being quoted prices in markets that are not active, spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, ratings, geographic region, weighted average coupon and weighted average maturity, average delinquency rates and debt-service coverage ratios. Other issuance-specific information is also used, including, but not limited to; collateral type, structure of the security, vintage of the loans, payment terms of the underlying asset, payment priority within tranche, and deal performance.

Equity securities, short-term investments, real estate joint ventures, other limited partnership interests, commercial mortgage loans held by CSEs — FVO and long-term debt of CSEs — FVO

The fair value for actively traded equity securities and short-term investments are determined using quoted market prices and are classified as Level 1 assets. For financial instruments classified as Level 2 assets or liabilities, fair values are determined using a market approach and are valued based on a variety of observable inputs as described below.

Equity securities and short-term investments: Fair value is determined using third-party commercial pricing services, with the primary input being quoted prices in markets that are not active.

Real Estate Joint Ventures and Other Limited Partnership Interests: Fair values is generally based on the Company’s share of the net asset value (“NAV”) as provided on the financial statements of the investees.

Commercial mortgage loans held by CSEs — FVO and long-term debt of CSEs — FVO: Fair value is determined using third-party commercial pricing services, with the primary input being quoted securitization market price determined principally by independent pricing services using observable inputs or quoted prices or reported NAV provided by the fund managers.

Derivatives

The fair values for exchange-traded derivatives are determined using the quoted market prices and are classified as Level 1 assets. For OTC-bilateral derivatives and OTC-cleared derivatives classified as Level 2 assets or liabilities, fair values are determined using the income approach. Valuations of non-option-based derivatives utilize present value techniques, whereas valuations of option-based derivatives utilize option pricing models which are based on market standard valuation methodologies and a variety of observable inputs.

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

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

6. Fair Value (continued)

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

Embedded Derivatives

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

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

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

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

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

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

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

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

The estimated fair value of the embedded derivatives within funds withheld related to certain ceded reinsurance is determined based on the change in estimated fair value of the underlying assets held by the Company in a reference portfolio backing the funds withheld liability. The estimated fair value of the underlying assets is determined as previously described in "— Equity securities, short-term investments, real estate joint ventures, other limited partnership interests, commercial mortgage loans held by CSEs — FVO and long-term debt of CSEs — FVO." The estimated fair value of these embedded derivatives is included, along with their funds withheld hosts, in other liabilities on the consolidated balance sheets with changes in estimated fair value recorded in net derivative gains (losses). Changes in the credit spreads on the underlying assets, interest rates and market volatility may result in significant fluctuations in the estimated fair value of these embedded derivatives that could materially affect net income.

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

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

Transfers between Levels

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

Transfers between Levels 1 and 2:

For assets and liabilities measured at estimated fair value and still held at June 30, 2018 and December 31, 2017, transfers between Levels 1 and 2 were not significant.

Transfers into or out of Level 3:

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

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6. Fair Value (continued)

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

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

	Valuation Techniques	Significant Unobservable Inputs	June 30, 2018		December 31, 2017		Impact of Increase in Input on Estimated Fair Value (2)
			Range	Weighted Average (1)	Range	Weighted Average (1)	
Fixed maturity securities (3)							
U.S. corporate and foreign corporate	• Matrix pricing	• Offered quotes (4)	87 - 137	106	93 - 142	110	Increase
	• Market pricing	• Quoted prices (4)	53 - 353	105	— - 443	76	Increase
RMBS	• Market pricing	• Quoted prices (4)	56 - 107	95	3 - 107	94	Increase (5)
ABS	• Market pricing	• Quoted prices (4)	100 - 102	100	100 - 104	101	Increase (5)
	• Consensus pricing	• Offered quotes (4)			100 - 100	100	Increase (5)
Derivatives							
Credit	• Present value techniques	• Credit spreads (7)	97 - 99		— - —		Decrease (6)
	• Consensus pricing	• Offered quotes (8)					
Equity market	• Present value techniques or option pricing models	• Volatility (9)	17% - 30%		11% - 31%		Increase (6)
		• Correlation (10)	10% - 30%		10% - 30%		
Embedded derivatives							
Direct, assumed and ceded guaranteed minimum benefits	• Option pricing techniques	• Mortality rates:					
		Ages 0 - 40	0% - 0.09%		0% - 0.09%		Decrease (11)
		Ages 41 - 60	0.04% - 0.65%		0.04% - 0.65%		Decrease (11)
		Ages 61 - 115	0.26% - 100%		0.26% - 100%		Decrease (11)
		• Lapse rates:					
		Durations 1 - 10	0.25% - 100%		0.25% - 100%		Decrease (12)
		Durations 11 - 20	2% - 100%		2% - 100%		Decrease (12)
		Durations 21 - 116	2% - 100%		2% - 100%		Decrease (12)
		• Utilization rates	0% - 25%		0% - 25%		Increase (13)
		• Withdrawal rates	0.25% - 10%		0.25% - 10%		(14)
		• Long-term equity volatilities	17.40% - 25%		17.40% - 25%		Increase (15)
		• Nonperformance risk spread	1.12% - 2.06%		0.64% - 1.43%		Decrease (16)

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(1) The weighted average for fixed maturity securities is determined based on the estimated fair value of the securities.

(2) The impact of a decrease in input would have the opposite impact on estimated fair value. For embedded derivatives, changes to direct and assumed guaranteed minimum benefits are based on liability positions; changes to ceded guaranteed minimum benefits are based on asset positions.

(3) Significant increases (decreases) in expected default rates in isolation would result in substantially lower (higher) valuations.

(4) Range and weighted average are presented in accordance with the market convention for fixed maturity securities of dollars per hundred dollars of par.

(5) Changes in the assumptions used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumptions used for prepayment rates.

(6) Changes in estimated fair value are based on long U.S. dollar net asset positions and will be inversely impacted for short U.S. dollar net asset positions.

6. Fair Value (continued)

(7) Represents the risk quoted in basis points of a credit default event on the underlying instrument. Credit derivatives with significant unobservable inputs are primarily comprised of written credit default swaps.

(8) At June 30, 2018 and December 31, 2017, independent non-binding broker quotations were used in the determination of less than 1% and 1% of the total net derivative estimated fair value, respectively.

(9) Ranges represent the underlying equity volatility quoted in percentage points. Since this valuation methodology uses a range of inputs across multiple volatility surfaces to value the derivative, presenting a range is more representative of the unobservable input used in the valuation.

(10) Ranges represent the different correlation factors utilized as components within the valuation methodology. Presenting a range of correlation factors is more representative of the unobservable input used in the valuation. Increases (decreases) in correlation in isolation will increase (decrease) the significance of the change in valuations.

(11) Mortality rates vary by age and by demographic characteristics such as gender. Mortality rate assumptions are based on company experience. A mortality improvement assumption is also applied. For any given contract, mortality rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.

(12) Base lapse rates are adjusted at the contract level based on a comparison of the actuarially calculated guaranteed values and the current policyholder account value, as well as other factors, such as the applicability of any surrender charges. A dynamic lapse function reduces the base lapse rate when the guaranteed amount is greater than the account value as in the money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. For any given contract, lapse rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.

(13) The utilization rate assumption estimates the percentage of contract holders with a GMIB or lifetime withdrawal benefit who will elect to utilize the benefit upon becoming eligible. The rates may vary by the type of guarantee, the amount by which the guaranteed amount is greater than the account value, the contract's withdrawal history and by the age of the policyholder. For any given contract, utilization rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.

(14) The withdrawal rate represents the percentage of account balance that any given policyholder will elect to withdraw from the contract each year. The withdrawal rate assumption varies by age and duration of the contract, and also by other factors such as benefit type. For any given contract, withdrawal rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. For GMWBs, any increase (decrease) in withdrawal rates results in an increase (decrease) in the estimated fair value of the guarantees. For GMABs and GMIBs, any increase (decrease) in withdrawal rates results in a decrease (increase) in the estimated fair value.

(15) Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. For any given contract, long-term equity volatility rates vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative.

(16) Nonperformance risk spread varies by duration and by currency. For any given contract, multiple nonperformance risk spreads will apply, depending on the duration of the cash flow being discounted for purposes of valuing the embedded derivative.

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

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

6. Fair Value (continued)

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Fixed Maturity Securities				
	Corporate (1)	Structured Securities	State and Political Subdivision	Foreign Government	Equity Securities
	(In millions)				
Three Months Ended June 30, 2018					
Balance, beginning of period	$ 1,845	$ 1,195	$ —	$ —	$ 123
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	6	5	—	—	—
Total realized/unrealized gains (losses) included in AOCI	(70)	—	2	—	—
Purchases (8)	81	202	2	—	—
Sales (8)	(24)	(54)	—	—	(3)
Issuances (8)	—	—	—	—	—
Settlements (8)	—	—	—	—	—
Transfers into Level 3 (9)	3	—	4	—	—
Transfers out of Level 3 (9)	(26)	(87)	—	—	—
Balance, end of period	$ 1,815	$ 1,261	$ 8	$ —	$ 120
Three Months Ended June 30, 2017					
Balance, beginning of period	$ 2,344	$ 1,626	$ 7	$ —	$ 142
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	1	6	—	—	1
Total realized/unrealized gains (losses) included in AOCI	21	22	—	—	1
Purchases (8)	171	24	—	—	—
Sales (8)	(247)	(138)	—	—	(10)
Issuances (8)	—	—	—	—	—
Settlements (8)	—	—	—	—	—
Transfers into Level 3 (9)	29	—	—	—	—
Transfers out of Level 3 (9)	(24)	(59)	(7)	—	—
Balance, end of period	$ 2,295	$ 1,481	$ —	$ —	$ 134
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2018 (10)	$ 6	$ 5	$ —	$ —	$ —
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (10)	$ —	$ 6	$ —	$ —	$ —

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6. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Real Estate Joint Ventures (2)	Other Limited Partnership Interests (2)	Short-term Investments	Net Derivatives (3)	Net Embedded Derivatives (4)	Separate Account Assets (5)
	(In millions)					
Three Months Ended June 30, 2018						
Balance, beginning of period	$ 22	$ 26	$ —	$ (273)	$ (1,587)	$ 7
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	(2)	—	—	(13)	231	—
Total realized/unrealized gains (losses) included in AOCI	—	—	—	—	—	—
Purchases (8)	—	—	—	2	—	—
Sales (8)	(3)	(2)	—	—	—	(3)
Issuances (8)	—	—	—	—	—	—
Settlements (8)	—	—	—	—	(142)	(1)
Transfers into Level 3 (9)	—	—	—	—	—	1
Transfers out of Level 3 (9)	—	—	—	—	—	—
Balance, end of period	$ 17	$ 24	$ —	$ (284)	$ (1,498)	$ 4
Three Months Ended June 30, 2017						
Balance, beginning of period	$ —	$ —	$ 1	$ (890)	$ (2,377)	$ 15
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	—	—	—	106	151	—
Total realized/unrealized gains (losses) included in AOCI	—	—	—	—	—	—
Purchases (8)	—	—	91	4	—	7
Sales (8)	—	—	—	—	—	(8)
Issuances (8)	—	—	—	—	—	—
Settlements (8)	—	—	—	—	(251)	(1)
Transfers into Level 3 (9)	—	—	—	—	—	—
Transfers out of Level 3 (9)	—	—	(1)	—	—	(7)
Balance, end of period	$ —	$ —	$ 91	$ (780)	$ (2,477)	$ 6
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2018 (10)	$ (2)	$ —	$ —	$ (13)	$ 183	$ —
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (10)	$ —	$ —	$ —	$ 106	$ 235	$ —

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

6. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Fixed Maturity Securities				
	Corporate (1)	Structured Securities	State and Political Subdivision	Foreign Government	Equity Securities
	(In millions)				
Six Months Ended June 30, 2018					
Balance, beginning of period	$ 1,937	$ 1,222	$ —	$ 5	$ 124
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	9	11	—	—	(1)
Total realized/unrealized gains (losses) included in AOCI	(77)	(9)	3	—	—
Purchases (8)	136	213	2	—	—
Sales (8)	(164)	(119)	—	(2)	(3)
Issuances (8)	—	—	—	—	—
Settlements (8)	—	—	—	—	—
Transfers into Level 3 (9)	33	—	3	—	—
Transfers out of Level 3 (9)	(59)	(57)	—	(3)	—
Balance, end of period	$ 1,815	$ 1,261	$ 8	$ —	$ 120
Six Months Ended June 30, 2017					
Balance, beginning of period	$ 2,310	$ 1,695	$ 17	$ —	$ 137
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	(2)	9	—	—	—
Total realized/unrealized gains (losses) included in AOCI	127	37	—	—	3
Purchases (8)	291	68	—	—	4
Sales (8)	(298)	(224)	—	—	(10)
Issuances (8)	—	—	—	—	—
Settlements (8)	—	—	—	—	—
Transfers into Level 3 (9)	3	—	—	—	—
Transfers out of Level 3 (9)	(136)	(104)	(17)	—	—
Balance, end of period	$ 2,295	$ 1,481	$ —	$ —	$ 134
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2018 (10)	$ 7	$ 11	$ —	$ —	$ —
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (10)	$ —	$ 10	$ —	$ —	$ —

6. Fair Value (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Real Estate Joint Ventures (2)	Other Limited Partnership Interests (2)	Short-term Investments	Net Derivatives (3)	Net Embedded Derivatives (4)	Separate Account Assets (5)
	(In millions)					
Six Months Ended June 30, 2018						
Balance, beginning of period	$ 22	$ 28	$ 14	$ (279)	$ (2,007)	$ 5
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	(1)	(1)	—	(8)	782	—
Total realized/unrealized gains (losses) included in AOCI	—	—	—	—	—	—
Purchases (8)	—	—	—	3	—	1
Sales (8)	(4)	(3)	(14)	—	—	(1)
Issuances (8)	—	—	—	—	—	—
Settlements (8)	—	—	—	—	(273)	(1)
Transfers into Level 3 (9)	—	—	—	—	—	—
Transfers out of Level 3 (9)	—	—	—	—	—	—
Balance, end of period	$ 17	$ 24	$ —	$ (284)	$ (1,498)	$ 4
Six Months Ended June 30, 2017						
Balance, beginning of period	$ —	$ —	$ 2	$ (954)	$ (2,761)	$ 10
Total realized/unrealized gains (losses) included in net income (loss) (6) (7)	—	—	—	96	468	—
Total realized/unrealized gains (losses) included in AOCI	—	—	—	—	—	—
Purchases (8)	—	—	91	4	—	1
Sales (8)	—	—	(1)	—	—	(2)
Issuances (8)	—	—	—	—	—	—
Settlements (8)	—	—	—	74	(184)	—
Transfers into Level 3 (9)	—	—	—	—	—	2
Transfers out of Level 3 (9)	—	—	(1)	—	—	(5)
Balance, end of period	$ —	$ —	$ 91	$ (780)	$ (2,477)	$ 6
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2018 (10)	$ (1)	$ (1)	$ —	$ (8)	$ 752	$ —
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (10)	$ —	$ —	$ —	$ 93	$ 521	$ —

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(1) Comprised of U.S. and foreign corporate securities.

(2) In connection with the adoption of new guidance related to the recognition and measurement of financial instruments (see Note 1), effective January 1, 2018 on a modified retrospective basis, the Company carries real estate joint ventures and other limited partnership interests previously accounted under the cost method of accounting at estimated fair value.

(3) Freestanding derivative assets and liabilities are presented net for purposes of the rollforward.

(4) Embedded derivative assets and liabilities are presented net for purposes of the rollforward.

(5) Investment performance related to separate account assets is fully offset by corresponding amounts credited to contract holders within separate account liabilities. Therefore, such changes in estimated fair value are not recorded in net income (loss). For the purpose of this disclosure, these changes are presented within net investment gains (losses).

6. Fair Value (continued)

(6) Amortization of premium/accretion of discount is included within net investment income. Impairments charged to net income (loss) on securities are included in net investment gains (losses). Lapses associated with net embedded derivatives are included in net derivative gains (losses). Substantially all realized/unrealized gains (losses) included in net income (loss) for net derivatives and net embedded derivatives are reported in net derivative gains (losses).

(7) Interest and dividend accruals, as well as cash interest coupons and dividends received, are excluded from the rollforward.

(8) Items purchased/issued and then sold/settled in the same period are excluded from the rollforward. Fees attributed to embedded derivatives are included in settlements.

(9) Gains and losses, in net income (loss) and OCI, are calculated assuming transfers into and/or out of Level 3 occurred at the beginning of the period. Items transferred into and then out of Level 3 in the same period are excluded from the rollforward.

(10) Changes in unrealized gains (losses) included in net income (loss) relate to assets and liabilities still held at the end of the respective periods. Substantially all changes in unrealized gains (losses) included in net income (loss) for net derivatives and net embedded derivatives are reported in net derivative gains (losses).

Fair Value Option

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

	June 30, 2018	December 31, 2017
	(In millions)	
Assets (1)		
Unpaid principal balance	$ 59	$ 70
Difference between estimated fair value and unpaid principal balance	37	45
Carrying value at estimated fair value	$ 96	$ 115
Liabilities (1)		
Contractual principal balance	$ 5	$ 10
Difference between estimated fair value and contractual principal balance	—	1
Carrying value at estimated fair value	$ 5	$ 11

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

Fair Value of Financial Instruments Carried at Other Than Fair Value

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

6. Fair Value (continued)

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

	June 30, 2018				
		Fair Value Hierarchy			
	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(In millions)				
Assets					
Mortgage loans	$ 12,141	$ —	$ —	$ 12,225	$ 12,225
Policy loans	$ 1,043	$ —	$ 683	$ 423	$ 1,106
Other invested assets	$ 85	$ —	$ 72	$ 13	$ 85
Premiums, reinsurance and other receivables	$ 1,475	$ —	$ 88	$ 1,586	$ 1,674
Liabilities					
Policyholder account balances	$ 15,724	$ —	$ —	$ 14,687	$ 14,687
Long-term debt	$ 35	$ —	$ 40	$ —	$ 40
Other liabilities	$ 475	$ —	$ 125	$ 344	$ 469
Separate account liabilities	$ 1,188	$ —	$ 1,188	$ —	$ 1,188

	December 31, 2017				
		Fair Value Hierarchy			
	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
	(In millions)				
Assets					
Mortgage loans	$ 10,525	$ —	$ —	$ 10,768	$ 10,768
Policy loans	$ 1,106	$ —	$ 746	$ 439	$ 1,185
Real estate joint ventures (1)	$ 5	$ —	$ —	$ 22	$ 22
Other limited partnership interests (1)	$ 36	$ —	$ —	$ 28	$ 28
Other invested assets (2)	$ 71	$ —	$ 71	$ —	$ 71
Premiums, reinsurance and other receivables	$ 1,556	$ —	$ 126	$ 1,783	$ 1,909
Liabilities					
Policyholder account balances	$ 15,626	$ —	$ —	$ 15,760	$ 15,760
Long-term debt	$ 35	$ —	$ 42	$ —	$ 42
Other liabilities	$ 459	$ —	$ 93	$ 368	$ 461
Separate account liabilities	$ 1,206	$ —	$ 1,206	$ —	$ 1,206

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(1) In connection with the adoption of new guidance related to the recognition and measurement of financial instruments (see Note 1), effective January 1, 2018 on a modified retrospective basis, the Company carries real estate joint ventures and other limited partnership interests previously accounted under the cost method of accounting at estimated fair value.

(2) The Company reclassified Federal Home Loan Bank stock in the prior period from equity securities to other invested assets.

7. Long-term Debt

Repurchase Facility

In April 2018, Brighthouse Life Insurance Company entered into a committed repurchase facility (the "Repurchase Facility") with a financial institution, pursuant to which Brighthouse Life Insurance Company may enter into repurchase transactions in an aggregate amount up to $2.0 billion in respect of certain eligible securities. The Repurchase Facility has a term of three years, beginning on July 31, 2018 and ending on July 31, 2021.

8. Equity

Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended June 30, 2018			
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Total
	(In millions)			
Balance, March 31, 2018	$ 870	$ 86	$ (21)	$ 935
OCI before reclassifications	(311)	108	4	(199)
Deferred income tax benefit (expense)	82	(23)	(1)	58
AOCI before reclassifications, net of income tax	641	171	(18)	794
Amounts reclassified from AOCI	41	(11)	—	30
Deferred income tax benefit (expense)	(11)	2	—	(9)
Amounts reclassified from AOCI, net of income tax	30	(9)	—	21
Balance, June 30, 2018	$ 671	$ 162	$ (18)	$ 815

	Three Months Ended June 30, 2017			
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Total
	(In millions)			
Balance, March 31, 2017	$ 1,190	$ 239	$ (33)	$ 1,396
OCI before reclassifications	749	(32)	2	719
Deferred income tax benefit (expense)	(267)	11	—	(256)
AOCI before reclassifications, net of income tax	1,672	218	(31)	1,859
Amounts reclassified from AOCI	(2)	(2)	—	(4)
Deferred income tax benefit (expense)	5	1	—	6
Amounts reclassified from AOCI, net of income tax	3	(1)	—	2
Balance, June 30, 2017	$ 1,675	$ 217	$ (31)	$ 1,861

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

8. Equity (continued)

	Six Months Ended June 30, 2018			
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Total
	(In millions)			
Balance, December 31, 2017	$ 1,709	$ 151	$ (23)	$ 1,837
Cumulative effect of change in accounting principle and other, net of income tax (see Note 1)	(79)	—	—	(79)
Balance, January 1, 2018	1,630	151	(23)	1,758
OCI before reclassifications	(1,335)	35	6	(1,294)
Deferred income tax benefit (expense)	300	(8)	(1)	291
AOCI before reclassifications, net of income tax	595	178	(18)	755
Amounts reclassified from AOCI	99	(19)	—	80
Deferred income tax benefit (expense)	(23)	3	—	(20)
Amounts reclassified from AOCI, net of income tax	76	(16)	—	60
Balance, June 30, 2018	$ 671	$ 162	$ (18)	$ 815

	Six Months Ended June 30, 2017			
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Total
	(In millions)			
Balance, December 31, 2016	$ 1,019	$ 258	$ (29)	$ 1,248
OCI before reclassifications	958	(51)	(5)	902
Deferred income tax benefit (expense)	(357)	18	3	(336)
AOCI before reclassifications, net of income tax	1,620	225	(31)	1,814
Amounts reclassified from AOCI	88	(12)	—	76
Deferred income tax benefit (expense)	(33)	4	—	(29)
Amounts reclassified from AOCI, net of income tax	55	(8)	—	47
Balance, June 30, 2017	$ 1,675	$ 217	$ (31)	$ 1,861

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

8. Equity (continued)

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

AOCI Components	Amounts Reclassified from AOCI				Consolidated Statements of Operations and Comprehensive Income (Loss) Locations
	Three Months Ended June 30,		Six Months Ended June 30,		
	2018	2017	2018	2017	
	(In millions)				
Net unrealized investment gains (losses):					
Net unrealized investment gains (losses)	$ (42)	$ 2	$ (100)	$ (46)	Net investment gains (losses)
Net unrealized investment gains (losses)	1	1	1	2	Net investment income
Net unrealized investment gains (losses)	—	(1)	—	(44)	Net derivative gains (losses)
Net unrealized investment gains (losses), before income tax	(41)	2	(99)	(88)	
Income tax (expense) benefit	11	(5)	23	33	
Net unrealized investment gains (losses), net of income tax	(30)	(3)	(76)	(55)	
Unrealized gains (losses) on derivatives - cash flow hedges:					
Interest rate swaps	10	—	16	—	Net derivative gains (losses)
Interest rate swaps	2	1	2	2	Net investment income
Interest rate forwards	—	—	1	—	Net derivative gains (losses)
Interest rate forwards	—	—	1	1	Net investment income
Foreign currency swaps	(1)	1	(1)	9	Net derivative gains (losses)
Gains (losses) on cash flow hedges, before income tax	11	2	19	12	
Income tax (expense) benefit	(2)	(1)	(3)	(4)	
Gains (losses) on cash flow hedges, net of income tax	9	1	16	8	
Total reclassifications, net of income tax	$ (21)	$ (2)	$ (60)	$ (47)	

9. Other Revenues and Other Expenses

Other Revenues

The Company has entered into contracts with mutual funds, fund managers, and their affiliates (collectively, the “Funds”) whereby the Company is paid monthly or quarterly fees (“12b-1 fees”) for providing certain services to customers and distributors of the Funds. The 12b-1 fees are generally equal to a fixed percentage of the average daily balance of the customer’s investment in a fund are based on a specified in the contract between the Company and the Funds. Payments are generally collected when due and are neither refundable nor able to offset future fees.

To earn these fees, the Company performs services such as responding to phone inquiries, maintaining records, providing information to distributors and shareholders about fund performance and providing training to account managers and sales agents. The passage of time reflects the satisfaction of the Company’s performance obligations to the Funds, and is used to recognize revenue associated with 12b-1 fees.

Other revenues consisted primarily of 12b-1 fees of $64 million and $130 million for the three months and six months ended June 30, 2018, respectively, and $69 million and $131 million for the three months and six months ended June 30, 2017, respectively, of which substantially all were reported in the Annuities segment.

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

9. Other Revenues and Other Expenses (continued)

Other Expenses

Information on other expenses was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Compensation	$ 78	$ 63	$ 150	$ 118
Commissions	191	174	383	368
Volume-related costs	26	59	56	115
Related party expenses on ceded and assumed reinsurance	(3)	(4)	(8)	4
Capitalization of DAC	(76)	(61)	(151)	(128)
Interest expense on debt	(3)	25	(2)	57
Premium taxes, licenses and fees	24	17	40	30
Professional services	60	46	93	81
Rent and related expenses	3	4	6	7
Other	147	137	277	244
Total other expenses	$ 447	$ 460	$ 844	$ 896

Related Party Expenses

Commissions and capitalization of DAC include the impact of related party reinsurance transactions. See Note 11 for a discussion of related party expenses included in the table above.

10. Contingencies, Commitments and Guarantees

Contingencies

Litigation

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

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

The Company establishes liabilities for litigation and regulatory loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require the Company to pay damages or make other expenditures or establish accruals in amounts that could not be estimated at June 30, 2018.

10. Contingencies, Commitments and Guarantees (continued)

Matters as to Which an Estimate Can Be Made

For some loss contingency matters, the Company is able to estimate a reasonably possible range of loss. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. As of June 30, 2018, the Company estimates the aggregate range of reasonably possible losses in excess of amounts accrued for these matters was not material.

Matters as to Which an Estimate Cannot Be Made

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

Sales Practices Claims

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

Unclaimed Property Litigation

Total Asset Recovery Services, LLC on its own behalf and on behalf of the State of New York v. Brighthouse Financial, Inc., et al. (Supreme Court, New York County, NY, second amended complaint filed November 17, 2017). Total Asset Recovery Services, LLC (the “Relator”) has brought a qui tam action against Brighthouse Financial, Inc. and its subsidiaries and affiliates under the New York False Claims Act seeking to recover damages on behalf of the State of New York. The action originally was filed under seal on or about December 3, 2010. The State of New York declined to intervene in the action, and the Relator is now prosecuting the action. The Relator alleges that from on or about April 1, 1986 and continuing annually through on or about September 10, 2017, the defendants violated New York State Finance Law Section 189 (1) (g) by failing to timely report and deliver unclaimed insurance property to the State of New York. The Relator is seeking, among other things, treble damages, penalties, expenses and attorneys’ fees and prejudgment interest. No specific dollar amount of damages is specified by the Relator who also is suing numerous insurance companies and John Doe defendants. Brighthouse Financial, Inc. filed a motion to dismiss. The Court has entered an order of voluntary discontinuance without prejudice pursuant to which the Relator dismissed Brighthouse Financial, Inc. without prejudice but reserved its right to file a motion to amend to name other Brighthouse entities as defendants. If other Brighthouse entities are named, the Brighthouse defendants intend to defend this action vigorously.

Group Annuity Class Action

Edward Roycroft v. Brighthouse Financial, Inc., et al. (U.S. District Court, Southern District of New York, filed June 18, 2018). Edward Roycroft filed a purported class action against Brighthouse Financial, Inc., MetLife, Inc., and Metropolitan Life Insurance Company. The complaint alleges plaintiff is a beneficiary of a Martindale-Hubbell group annuity contract and did not receive payments plaintiff claims he was entitled to upon his retirement in 1999. Plaintiff seeks to represent a class of all beneficiaries who were due annuity benefits pursuant to group annuity contracts and whose annuity benefits were released from reserves. Plaintiff’s causes of action are for conversion, unjust enrichment, an accounting and for a constructive trust. Plaintiff seeks damages, attorneys’ fees, declaratory and injunctive relief and other equitable remedies. Brighthouse Financial, Inc. intends to defend this action vigorously.

Summary

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

10. Contingencies, Commitments and Guarantees (continued)

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

Commitments

Mortgage Loan Commitments

The Company commits to lend funds under mortgage loan commitments. The amounts of these mortgage loan commitments were $371 million and $388 million at June 30, 2018 and December 31, 2017, respectively.

Commitments to Fund Partnership Investments and Private Corporate Bond Investments

The Company commits to fund partnership investments and to lend funds under private corporate bond investments. The amounts of these unfunded commitments were $1.5 billion and $1.4 billion at June 30, 2018 and December 31, 2017, respectively.

Guarantees

In the normal course of its business, the Company has provided certain indemnities, guarantees and commitments to third parties such that it may be required to make payments now or in the future. In the context of acquisition, disposition, investment and other transactions, the Company has provided indemnities and guarantees, including those related to tax, environmental and other specific liabilities and other indemnities and guarantees that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. In addition, in the normal course of business, the Company provides indemnifications to counterparties in contracts with triggers similar to the foregoing, as well as for certain other liabilities, such as third-party lawsuits. These obligations are often subject to time limitations that vary in duration, including contractual limitations and those that arise by operation of law, such as applicable statutes of limitation. In some cases, the maximum potential obligation under the indemnities and guarantees is subject to a contractual limitation ranging from $6 million to $169 million, with a cumulative maximum of $175 million, while in other cases such limitations are not specified or applicable. Since certain of these obligations are not subject to limitations, the Company does not believe that it is possible to determine the maximum potential amount that could become due under these guarantees in the future. Management believes that it is unlikely the Company will have to make any material payments under these indemnities, guarantees, or commitments.

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

The Company's recorded liabilities were $2 million at both June 30, 2018 and December 31, 2017 for indemnities, guarantees and commitments.

Brighthouse Life Insurance Company
(An Indirect Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

11. Related Party Transactions

The Company has various existing arrangements with its Brighthouse affiliates and MetLife for services necessary to conduct its activities. Subsequent to the Separation, certain of the MetLife services continued, as provided for under a master service agreement and various transition services agreements entered into in connection with the Separation. MetLife was no longer considered a related party upon the completion of the MetLife Divestiture on June 14, 2018. See Note 1 for information regarding the MetLife Divestiture.

Non-Broker-Dealer Transactions

The following table summarizes income and expense from transactions with related parties (excluding broker-dealer transactions) for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Income	$ 11	$ 96	$ 60	$ (110)
Expense	$ 168	$ 209	$ 349	$ 409

The following table summarizes assets and liabilities from transactions with related parties (excluding broker-dealer transactions) at:

	June 30, 2018	December 31, 2017
	(In millions)	
Assets	$ 5	$ 2,839
Liabilities	$ 383	$ 2,675

The material arrangements between the Company and its related parties are as follows:

Reinsurance Agreements

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 related parties. The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks and provide additional capacity for future growth.

The Company has reinsurance agreements with its affiliate New England Life Insurance Company (“NELICO”) and certain MetLife, Inc. subsidiaries, including MLIC, Metropolitan Tower Life Insurance Company and MetLife Reinsurance Company of Vermont, all of which were related parties until the completion of the MetLife Divestiture.

11. Related Party Transactions (continued)

Information regarding the significant effects of reinsurance with NELICO and former MetLife affiliates included on the interim condensed consolidated statements of operations and comprehensive income (loss) was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Premiums				
Reinsurance assumed	$ 3	$ 4	$ 7	$ 9
Reinsurance ceded	(105)	(140)	(201)	(317)
Net premiums	$ (102)	$ (136)	$ (194)	$ (308)
Universal life and investment-type product policy fees				
Reinsurance assumed	$ 21	$ 24	$ 47	$ 50
Reinsurance ceded	2	(5)	1	(18)
Net universal life and investment-type product policy fees	$ 23	$ 19	$ 48	$ 32
Other revenues				
Reinsurance assumed	$ —	$ 28	$ 1	$ 28
Reinsurance ceded	6	39	18	39
Net other revenues	$ 6	$ 67	$ 19	$ 67
Policyholder benefits and claims				
Reinsurance assumed	$ 10	$ 17	$ 30	$ 35
Reinsurance ceded	(93)	(94)	(177)	(228)
Net policyholder benefits and claims	$ (83)	$ (77)	$ (147)	$ (193)

Information regarding the significant effects of reinsurance with NELICO and former MetLife affiliates included on the interim condensed consolidated balance sheets was as follows at:

	June 30, 2018		December 31, 2017	
	Assumed	Ceded	Assumed	Ceded
	(In millions)			
Assets				
Premiums, reinsurance and other receivables	$ 19	$ —	$ 34	$ 3,254
Liabilities				
Policyholder account balances	$ 321	$ —	$ 436	$ —
Other policy-related balances	$ 14	$ —	$ 1,683	$ —
Other liabilities	$ (45)	$ —	$ (8)	$ 401

The Company assumes risks from NELICO related to guaranteed minimum benefits written directly by the cedent. The assumed reinsurance agreements contain embedded derivatives and changes in the estimated fair value are also included within net derivative gains (losses). The embedded derivatives associated with these agreements are included within policyholder account balances and were $321 million and $436 million at June 30, 2018 and December 31, 2017, respectively. Net derivative gains (losses) associated with the embedded derivatives were $50 million and $117 million for the three months and six months ended June 30, 2018, respectively, and ($7) million and $28 million for the three months and six months ended June 30, 2017, respectively. In January 2017, the Company executed a novation and assignment agreement whereby it replaced MLIC as the reinsurer of certain variable annuities, including guaranteed minimum benefits, issued by NELICO. At the time of the novation and assignment, the transaction resulted in an increase in cash and cash equivalents of $184 million, an increase in future policy benefits of $34 million, an increase in policyholder account balances of $219 million and a decrease in other liabilities of $68 million. The Company recognized no gain or loss as a result of this transaction.

11. Related Party Transactions (continued)

The Company cedes risks to MLIC related to guaranteed minimum benefits written directly by the Company. The ceded reinsurance agreements contain embedded derivatives and changes in the estimated fair value are also included within net derivative gains (losses). The embedded derivatives associated with the cessions are included within premiums, reinsurance and other receivables and were $0 and $2 million at June 30, 2018 and December 31, 2017, respectively. Net derivative gains (losses) associated with the embedded derivatives were less than ($1) million for both three months and six months ended June 30, 2018, and $0 and ($125) million for the three months and six months ended June 30, 2017, respectively.

In May 2017, the Company and BHNY recaptured from MLIC risks related to multiple life products ceded under yearly renewable term and coinsurance agreements. This recapture resulted in an increase in cash and cash equivalents of $214 million and a decrease in premiums, reinsurance and other receivables of $189 million. The Company recognized a gain of $17 million, net of income tax, as a result of this reinsurance termination.

In January 2017, MLIC recaptured risks related to guaranteed minimum benefit guarantees on certain variable annuities being reinsured by the Company. This recapture resulted in a decrease in investments and cash and cash equivalents of $568 million, a decrease in future policy benefits of $106 million, and a decrease in policyholder account balances of $460 million. In June 2017, there was an adjustment to the recapture amounts of this transaction, which resulted in an increase in premiums, reinsurance and other receivables of $140 million at June 30, 2017. The Company recognized a gain of $91 million and $89 million, net of income tax, for the three months and six months ended, as a result of this transaction.

In January 2017, the Company recaptured risks related to certain variable annuities, including guaranteed minimum benefits, issued by BHNY ceded to MLIC. This recapture resulted in a decrease in cash and cash equivalents of $150 million, an increase in future policy benefits of $45 million, an increase in policyholder account balances of $168 million and a decrease in other liabilities of $359 million. The Company recognized no gain or loss as a result of this transaction.

Financing Arrangements

Prior to the Separation, the Company had collateral financing arrangements with MetLife that were used to support reinsurance obligations arising under previously affiliated reinsurance agreements. The Company recognized interest expense for such arrangements of $24 million and $55 million for the three months and six months ended June 30, 2017, respectively. These arrangements were terminated in April 2017.

Investment Transactions

In the ordinary course of business, the Company had previously transferred invested assets, primarily consisting of fixed maturity securities, to and from former affiliates. See Note 4 for further discussion of the related party investment transactions.

Shared Services and Overhead Allocations

Brighthouse affiliates and MetLife provide the Company certain services, which include, but are not limited to, treasury, financial planning and analysis, legal, human resources, tax planning, internal audit, financial reporting and information technology. The Company is charged for the MetLife services through a transition services agreement and allocated to the legal entities and products within the Company. When specific identification to a particular legal entity and/or product is not practicable, an allocation methodology based on various performance measures or activity-based costing, such as sales, new policies/contracts issued, reserves, and in-force policy counts is used. The bases for such charges are modified and adjusted by management when necessary or appropriate to reflect fairly and equitably the actual incidence of cost incurred by the Company and/or affiliate. Management believes that the methods used to allocate expenses under these arrangements are reasonable. Expenses incurred with the Brighthouse affiliates and MetLife related to these arrangements, recorded in other expenses, were $254 million and $501 million for the three months and six months ended June 30, 2018, respectively, and $240 million and $432 million for the three months and six months ended June 30, 2017, respectively.

Brighthouse affiliates incur costs related to the establishment of services and infrastructure to replace those previously provided by MetLife. The Company is charged a fee to reflect the value of the available infrastructure and services provided by these costs. While management believes that the method used to allocate expenses under this arrangement is reasonable, the allocated expenses may not be indicative of those of a stand-alone entity. If expenses were allocated to the Company under this arrangement as incurred by Brighthouse affiliates, the Company would have incurred additional expenses under this arrangement of $53 million and $98 million for the three months and six months ended June 30, 2018, respectively. The Company would have incurred no additional expenses under this arrangement in 2017.

11. Related Party Transactions (continued)

Broker-Dealer Transactions

Beginning in March 2017, Brighthouse Securities, LLC, a registered broker-dealer affiliate, began distributing certain of the Company's existing and future variable insurance products, and the MetLife broker-dealers discontinued such distributions. Prior to March 2017, the Company recognized related party revenues and expenses arising from transactions with MetLife broker-dealers that previously sold the Company's variable annuity and life products. The related party expense for the Company was commissions collected on the sale of variable products by the Company and passed through to the broker-dealer. The related party revenue for the Company was fee income from trusts and mutual funds whose shares serve as investment options of policyholders of the Company.

The following table summarizes income and expense from transactions with related party broker-dealers for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Fee income	$ 55	$ 56	$ 111	$ 110
Commission expense	$ 162	$ 194	$ 326	$ 320

The following table summarizes assets from transactions with related party broker-dealers at:

	June 30, 2018	December 31, 2017
	(In millions)	
Fee income receivables	$ 18	$ 19

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

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

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Introduction

For purposes of this discussion, “BLIC,” the “Company,” “we,” “our” and “us” refer to Brighthouse Life Insurance Company (formerly, MetLife Insurance Company USA), a Delaware corporation originally incorporated in Connecticut in 1863, and its subsidiaries. Brighthouse Life Insurance Company is a wholly-owned subsidiary of Brighthouse Holdings, LLC, which is a wholly-owned subsidiary of Brighthouse Financial, Inc. (together with its subsidiaries and affiliates, “Brighthouse”). Management’s narrative analysis of the results of operations is presented pursuant to General Instruction H(2)(a) of Form 10-Q. This narrative analysis should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and related notes included elsewhere herein; (ii) our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission (“SEC”) on March 22, 2018 (the “2017 Annual Report”); (iii) our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (the “First Quarter Form 10-Q”) filed with the SEC on May 10, 2018; and (iv) our current reports on Form 8-K filed in 2018.

The term “Separation” refers to the separation of MetLife, Inc.’s (together with its subsidiaries and affiliates, “MetLife”) former Brighthouse Financial segment from MetLife’s other businesses and the creation of a separate, publicly traded company, Brighthouse Financial, Inc., to hold the assets (including the equity interests of certain MetLife, Inc. subsidiaries, including the Company) and liabilities associated with MetLife, Inc.’s former Brighthouse Financial segment from and after the Distribution; the term “Distribution” refers to the distribution on August 4, 2017 of 96,776,670, or 80.8%, of the 119,773,106 shares of Brighthouse Financial, Inc. common stock outstanding immediately prior to the Distribution date by MetLife, Inc. to shareholders of MetLife, Inc. as of the record date for the Distribution. The term “MetLife Divestiture” refers to the disposition by MetLife, Inc. on June 14, 2018 of all its remaining shares of Brighthouse Financial, Inc. common stock. Effective with the MetLife Divestiture, MetLife and its subsidiaries and affiliates are no longer considered related parties to Brighthouse Financial, Inc. and its subsidiaries and affiliates.

Overview

We offer a range of individual annuities and individual life insurance products. We are licensed and regulated in each U.S. jurisdiction where we conduct insurance business. Brighthouse Life Insurance Company is licensed to issue insurance products in all U.S. states (except New York), the District of Columbia, the Bahamas, Guam, Puerto Rico, the British Virgin Islands and the U.S. Virgin Islands. Our insurance subsidiary, Brighthouse Life Insurance Company of NY (“BHNY”), is only licensed to issue insurance products in New York.

For operating purposes, we have established three segments: (i) Annuities, (ii) Life and (iii) Run-off, which consists of operations relating to products we are not actively selling and which are separately managed. In addition, we report certain of our results of operations not included in the segments in Corporate & Other. See “Business — Segments and Corporate & Other” included in the 2017 Annual Report and Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements for further information on our segments and Corporate & Other.

See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements for information regarding the adoption of new accounting pronouncements in 2018.

Changes in Accounting Standards

Our financial statements are subject to the application of GAAP, which is periodically revised by the Financial Accounting Standards Board (“FASB”).

The FASB exposed several proposed amendments to the accounting for long-duration insurance contracts in 2016, and on June 6, 2018 voted to issue a final accounting standards update (“ASU”) effective January 1, 2021. The proposed ASU would require all guarantees associated with our variable annuity business to be accounted for at fair value, with changes in fair value reported in net income (excluding the change in fair value attributable to nonperformance risk, which would be reported in other comprehensive income). The proposed ASU would also require more frequent updating of assumptions for other long-duration insurance contract liabilities and changes to the amortization of deferred acquisition costs. It is not possible at this time to predict the impact to our financial statements from the proposed ASU as the final guidance has not been issued and the implementation will likely take several years to complete. Any required adoption of changes to long-duration insurance contracts could have a material adverse effect on our stockholders’ equity and results of operations, including our net income.

Regulatory Developments

We and our life insurance subsidiaries, Brighthouse Reinsurance Company of Delaware and BHNY, are regulated primarily at the state level, with some products and services also subject to federal regulation. Furthermore, some of our operations, products and services are subject to the Employee Retirement Income Security Act of 1974 (“ERISA”), consumer protection laws, securities, broker-dealer and investment advisor regulations, and environmental and unclaimed property laws and regulations.

NAIC

In 2015, the National Association of Insurance Commissioners (the “NAIC”) commissioned an initiative to identify changes to the statutory framework for variable annuities that can remove or mitigate the motivation for insurers to engage in captive reinsurance transactions. In September 2015, a third-party consultant engaged by the NAIC provided the NAIC with a preliminary report identifying motivations for using variable annuity captives. In August 2016, the third-party consultant released several sets of recommendations regarding Actuarial Guideline 43 (“AG 43”) and Life Risk-Based Capital Phase II Instructions (“RBC C3 Phase II”) reserve requirements. These recommendations generally focus on (i) mitigating the asset-liability accounting mismatch between hedge instruments and statutory instruments and statutory liabilities, (ii) removing the non-economic volatility in statutory capital charges and the resulting solvency ratios, and (iii) facilitating greater harmonization across insurers and their products for greater comparability. After considering recommendations from the third-party consultant and industry, the NAIC requested the third-party consultant to undertake a study to evaluate and parameterize the recommended structural revisions further. That work occurred between February and October 2017, and in December 2017, the third-party consultant issued a report containing 28 recommended revisions to AG 43 and RBC C3 Phase II reserve requirements. Over the next few months, the NAIC held multiple public conference calls to allow state insurance regulators, industry representatives, actuaries and the third-party consultant to discuss and refine the proposed recommendations. In July 2018, the regulators on the NAIC working group and committee overseeing the revised framework proposal reached consensus on the proposed recommendations and presented such revisions for adoption by the NAIC Executive and Plenary (the “Plenary”), a body comprised of all U.S. state insurance commissioners and the NAIC Executive Committee. On August 7, 2018 the Plenary formally approved the revised framework proposal as amended by the regulators during their discussion. After adoption by the Plenary, other NAIC working groups and task forces will consider specific revisions to AG 43 and RBC C3 Phase II reserve requirements in order to implement the agreed-upon recommendations. The adopted framework will apply to all of our existing variable annuity business and may materially change the sensitivity of reserve and capital requirements to capital markets including interest rate, equity markets and volatility, our estimates of which historically did not reflect the impact of variable annuity capital reform or changes in tax rates, as well as prescribed assumptions for policyholder behavior. Since the implementation details are very early in their development, it is not possible to predict what impacts this reform will have on current risk mitigation and hedging programs. See “Risk Factors — Regulatory and Legal Risks — Our business is highly regulated, and changes in regulation and in supervisory and enforcement policies may materially impact our capitalization or cash flows, reduce our profitability and limit our growth” included in the 2017 Annual Report.

In addition, following the reduction in the federal corporate income tax rate pursuant to the Tax Cuts and Jobs Act, the NAIC reviewed the methodology by which taxes are incorporated into the risk-based capital (“RBC”) calculation. On August 7, 2018 the NAIC Plenary adopted changes to the RBC calculation effective December 31, 2018 to reflect lower corporate income tax rates, which will result in a reduction to our insurance subsidiaries’ RBC ratios. If such revisions to the NAIC’s RBC calculation would result in a reduction in the RBC ratio for one or more of our insurance subsidiaries below certain prescribed levels, we may be required to hold additional capital in such subsidiary or subsidiaries. “Risk Factors — Regulatory and Legal Risks — A decrease in our RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) of our insurance subsidiaries could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our results of operations and financial condition” included in the 2017 Annual Report.

The NAIC has adopted a new approach for the calculation of life insurance reserves, known as principle-based reserving (“PBR”). PBR became operative on January 1, 2017 in those states where it has been adopted, to be followed by a three-year phase-in period for business issued on or after this date. With respect to the states in which our insurance subsidiaries are domiciled, the Delaware Department of Insurance implemented PBR on January 1, 2017, and the New York Department of Financial Services (“NYDFS”) has publicly stated its intention to implement this approach, subject to a working group of the NYDFS establishing the necessary reserves safeguards and the adopting of enabling legislation by the New York legislature. The New York legislature enacted legislation adopting PBR in June 2018, but the legislation has not yet been delivered to the Governor for approval or veto. See “Risk Factors — Regulatory and Legal Risks — Our business is highly regulated, and changes in regulation and in supervisory and enforcement policies may materially impact our capitalization or cash flows, reduce our profitability and limit our growth” included in the 2017 Annual Report.

The NAIC is considering revisions to RBC factors for bonds and real estate, as well as developing RBC charges for longevity risk. We cannot predict the impact of any potential proposals that may result from these studies.

We can give no assurances that any of our expectations will be met regarding the capital and reserve impacts or compliance costs, if any, that may result from the above initiatives.

New York Regulation 187

The NAIC, as well as certain state regulators, are currently considering implementing regulations that would apply an impartial conduct standard to recommendations made in connection with certain annuities and, in the case of New York, life insurance policies. In particular, on July 18, 2018, the NYDFS issued a final version of Regulation 187, which adopts a “best interest” standard for the sale of life insurance and annuity products in New York. The regulation requires a consumer’s best interest, and not the financial interests of a producer or insurer, to influence a producer’s recommendation as to which life insurance or annuity product a consumer should purchase. Regulation 187 will become effective for annuity products on August 1, 2019 and for life insurance products on February 1, 2020. We are continuing to assess the impact of the regulation on our business. The regulation, when implemented, may have adverse effects on our business and consolidated results of operations.

Department of Labor and ERISA Considerations

We manufacture annuities for third parties to sell to tax-qualified pension plans, retirement plans and individual retirement accounts and annuities (“IRAs”), as well as individual retirement annuities sold to individuals that are subject to ERISA or the Internal Revenue Code of 1986, as amended (the “Code”). Also, a portion of our in-force life insurance products are held by tax-qualified pension and retirement plans. While we currently believe manufacturers do not have as much exposure to ERISA and the Code as distributors, certain activities are subject to the restrictions imposed by ERISA and the Code, including the requirement under ERISA that fiduciaries of a Plan subject to Title I of ERISA (an “ERISA Plan”) must perform their duties solely in the interests of the ERISA Plan participants and beneficiaries, and those fiduciaries may not cause a covered plan to engage in certain prohibited transactions. The applicable provisions of ERISA and the Code are subject to enforcement by the Department of Labor (“DOL”), the Internal Revenue Service (“IRS”) and the Pension Benefit Guaranty Corporation.

In addition, the prohibited transaction rules of ERISA and the Code generally restrict the provision of investment advice to ERISA qualified plans, plan participants and IRAs if the investment recommendation results in fees paid to an individual advisor, the firm that employs the advisor or their affiliates that vary according to the investment recommendation chosen. Similarly, without an exemption, fiduciary advisors are prohibited from receiving compensation from third parties in connection with their advice. ERISA also affects certain of our in-force insurance policies and annuity contracts, as well as insurance policies and annuity contracts we may sell in the future.

The DOL issued regulations (the “Fiduciary Rule”) that became applicable on June 9, 2017 but were subsequently vacated by the Fifth Circuit Court of Appeals effective June 21, 2018. While the Fiduciary Rule was effective, it substantially expanded the definition of “investment advice,” thereby broadening the circumstances under which distributors and manufacturers could be considered fiduciaries under ERISA or the Code, and subject to an impartial or “best interests” standard in providing such advice. Under the rule, certain communications with plans, plan participants and IRA holders, including the marketing of products, and marketing of investment management or advisory services, were deemed fiduciary investment advice, thus, causing increased exposure to fiduciary liability if the distributor did not recommend what was in the client’s best interests.

It is uncertain whether the DOL will propose new investment advice fiduciary regulations to replace the nullified Fiduciary Rule. We cannot predict what other proposals may be made, what legislation or regulations may be introduced or enacted, or what impact any such legislation or regulations may have on our business, results of operations and financial condition. See “— NAIC” above and “Risk Factors — Regulatory and Legal Risks — NAIC - Existing and proposed insurance regulation” in our 2017 Annual Report for a discussion of efforts by the NAIC and state regulators to include a “best interest” standard as part of their suitability requirements. This uncertainty could create confusion among our distribution partners, which could negatively impact product sales.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported on the Interim Condensed Consolidated Financial Statements.

The most critical estimates include those used in determining:

(i) liabilities for future policy benefits;

(ii) accounting for reinsurance;

(iii) capitalization and amortization of deferred policy acquisition costs (“DAC”) and the establishment and amortization of value of business acquired (“VOBA”);

(iv) estimated fair values of investments in the absence of quoted market values;

(v) investment impairments;

(vi) estimated fair values of freestanding derivatives and the recognition and estimated fair value of embedded derivatives requiring bifurcation;

(vii) measurement of income taxes and the valuation of deferred tax assets; and

(viii) liabilities for litigation and regulatory matters.

In applying our accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our business and operations. Actual results could differ from these estimates.

The above critical accounting estimates are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates” and Note 1 of the Notes to the Consolidated Financial Statements included in the 2017 Annual Report.

Non-GAAP and Other Financial Disclosures

Our definitions of the non-GAAP and other financial measures may differ from those used by other companies.

Non-GAAP Financial Disclosures

Adjusted Earnings

In this report, we present adjusted earnings as a measure of our performance that is not calculated in accordance with GAAP. We believe that this non-GAAP financial measure highlights our results of operations and the underlying profitability drivers of our business, as well as enhances the understanding of our performance by the investor community. However, adjusted earnings should not be viewed as a substitute for net income (loss), which is the most directly comparable financial measure calculated in accordance with GAAP. See “— Results of Operations” for a reconciliation of adjusted earnings to net income (loss).

Adjusted earnings, which may be positive or negative, is used by management to evaluate performance, allocate resources and facilitate comparisons to industry results. This financial measure focuses on our primary businesses principally by excluding the impact of market volatility, which could distort trends, as well as businesses that have been or will be sold or exited by us, referred to as divested businesses.

The following are the significant items excluded from total revenues, net of income tax, in calculating adjusted earnings:

- Net investment gains (losses);
- Net derivative gains (losses) except earned income on derivatives and amortization of premium on derivatives that are hedges of investments or that are used to replicate certain investments, but do not qualify for hedge accounting treatment (“Investment Hedge Adjustments”); and
- Amortization of unearned revenue related to net investment gains (losses) and net derivative gains (losses) and certain variable annuity guaranteed minimum income benefits (“GMIBs”) fees (“GMIB Fees”).

The following are the significant items excluded from total expenses, net of income tax, in calculating adjusted earnings:

- Amounts associated with benefits and hedging costs related to GMIBs (“GMIB Costs”);
- Amounts associated with periodic crediting rate adjustments based on the total return of a contractually referenced pool of assets and market value adjustments associated with surrenders or terminations of contracts (“Market Value Adjustments”); and
- Amortization of DAC and VOBA related to (i) net investment gains (losses), (ii) net derivative gains (losses), (iii) GMIB Fees and GMIB Costs and (iv) Market Value Adjustments.

The tax impact of the adjustments mentioned are calculated net of the U.S. statutory tax rate, which could differ from our effective tax rate.

We present adjusted earnings in a manner consistent with management’s view of the primary business activities that drive the profitability of our core businesses. The following table illustrates how each component of adjusted earnings is calculated from the GAAP statement of operations line items:

Component of Adjusted Earnings	How Derived from GAAP (1)
(i) Fee income	(i) *Universal life and investment-type policy fees* (excluding (a) unearned revenue adjustments related to net investment gains (losses) and net derivative gains (losses) and (b) GMIB Fees) plus *Other revenues* (excluding other revenues associated with related party reinsurance) and amortization of deferred gain on reinsurance.
(ii) Net investment spread	(ii) *Net investment income* (excluding securitization entities income) plus Investment Hedge Adjustments and interest received on ceded fixed annuity reinsurance deposit funds reduced by *Interest credited to policyholder account balances* and interest on future policy benefits.
(iii) Insurance-related activities	(iii) *Premiums* less *Policyholder benefits and claims* (excluding (a) GMIB Costs, (b) Market Value Adjustments, (c) interest on future policy benefits and (d) amortization of deferred gain on reinsurance) plus the pass through of performance of ceded separate account assets.
(iv) Amortization of DAC and VOBA	(iv) Amortization of DAC and VOBA (excluding amounts related to (a) net investment gains (losses), (b) net derivative gains (losses), (c) GMIB Fees and GMIB Costs and (d) Market Value Adjustments).
(v) Other expenses, net of DAC capitalization	(v) *Other expenses* reduced by capitalization of DAC and securitization entities expense.
(vi) Provision for income tax expense (benefit)	(vi) Tax impact of the above items.

(1) Italicized items indicate GAAP statement of operations line items.

Consistent with GAAP guidance for segment reporting, adjusted earnings is also our GAAP measure of segment performance. Accordingly, we report adjusted earnings by segment in Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements.

Other Financial Disclosures

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

- We sometimes refer to sales activity for various products. Statistical sales information for life sales are calculated using the LIMRA (Life Insurance Marketing and Research Association) definition of sales for core direct sales, excluding company sponsored internal exchanges, corporate-owned life insurance, bank-owned life insurance, and private placement variable universal life insurance. Annuity sales consist of 10% of direct statutory premiums, excluding company sponsored internal exchanges. These sales statistics do not correspond to revenues under GAAP, but are used as relevant measures of business activity.
- Allocated equity is the portion of common stockholder's equity that management allocated to each of its segments prior to 2018. See "— Segment Capital" and Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements for further information.

Segment Capital

Beginning in the first quarter of 2018, we changed the methodology for how capital is allocated to segments and, in some cases, products. Segment investment and capitalization targets are now based on statutory oriented risk principles and metrics. Segment invested assets backing liabilities are based on net statutory liabilities plus excess capital. For our variable annuity business, the excess capital held is based on the target statutory total asset requirement consistent with our variable annuity risk management strategy discussed in the 2017 Annual Report. For insurance businesses other than variable annuities, excess capital held is based on a percentage of required statutory RBC. Assets in excess of those allocated to the segments, if any, are held in Corporate & Other. Segment net investment income reflects the performance of each segment's respective invested assets.

We refer to this change in methodology as the "Portfolio Realignment." While this change had no effect on our consolidated net income (loss) or adjusted earnings, it did, and we expect will continue to, impact segment results. Prior period segment results were not recast for this change in methodology as the inventory of assets has changed over time. Therefore, it is not reasonably possible to replicate the asset transfers as of prior periods and estimating such would not provide a meaningful comparison. In the future, management will evaluate, on a periodic basis, the excess capital held by each segment and may rebalance or move capital between segments based on market changes or changes in our statutory metrics.

Previously, invested assets held in the segments were based on net GAAP liabilities. Excess capital was retained in Corporate & Other and allocated to segments based on an internally developed statistics based capital model intended to capture the material risks to which we were exposed (referred to as "allocated equity"). Surplus assets in excess of the combined allocations to the segments were held in Corporate & Other with net investment income being credited back to the segments at a predetermined rate. Any excess or shortfall in net investment income from surplus assets was recognized in Corporate & Other.

Management is responsible for the periodic review and enhancement of the capital allocation model to ensure it remains consistent with the Company's overall objectives and emerging industry practices.

Results of Operations

Consolidated Results for the Six Months Ended June 30, 2018 and 2017

Business Overview. We continue to evaluate our product offerings with the goal to provide new products that are simpler, more transparent and provide value to our advisors, clients and shareholders. New business efforts in both 2017 and 2018 centered on the sale of our suite of structured annuities consisting of products marketed under various names (collectively, “Shield Annuities”), which increased 41% compared to the first half of 2017. In addition, as part of our distribution agreement with Massachusetts Mutual Life Insurance Company, we launched a new fixed index annuity product in the second half of 2017.

Unless otherwise noted, all amounts in the following discussions of our results of operations are stated before income tax except for adjusted earnings, which are presented net of income tax.

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Revenues		
Premiums	$ 435	$ 379
Universal life and investment-type product policy fees	1,621	1,570
Net investment income	1,572	1,499
Other revenues	149	199
Net investment gains (losses)	(78)	(55)
Net derivative gains (losses)	(565)	(902)
Total revenues	3,134	2,690
Expenses		
Policyholder benefits and claims	1,507	1,670
Interest credited to policyholder account balances	520	542
Capitalization of DAC	(151)	(128)
Amortization of DAC and VOBA	516	647
Interest expense on debt	(2)	57
Other expenses	997	967
Total expenses	3,387	3,755
Income (loss) before provision for income tax	(253)	(1,065)
Provision for income tax expense (benefit)	(87)	(436)
Net income (loss)	$ (166)	$ (629)

The table below shows the components of net income (loss), in addition to adjusted earnings.

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
GMLB Riders	$ (336)	$ (889)
Other derivative instruments	(480)	(109)
Net investment gains (losses)	(78)	(55)
Other adjustments	40	(30)
Adjusted earnings before provision for income tax	601	18
Income (loss) before provision for income tax	(253)	(1,065)
Provision for income tax expense (benefit)	(87)	(436)
Net income (loss)	$ (166)	$ (629)

Six Months Ended June 30, 2018 Compared with the Six Months Ended June 30, 2017

Overview. The loss before provision for income tax in the current period decreased $812 million ($463 million, net of income tax) when compared to the loss in the prior period. The lower net loss was driven primarily by higher adjusted earnings as well as favorable changes in GMLB Riders and other adjustments (described below), partially offset by unfavorable changes in other derivative instruments.

GMLB Riders. Results from GMLB Riders reflect (i) changes in the carrying value of guaranteed minimum living benefits ("GMLBs") liabilities, including GMIBs, guaranteed minimum withdrawal benefits and guaranteed minimum accumulation benefits; (ii) changes in the fair value of the hedges and reinsurance of GMLB liabilities; (iii) the fees earned from GMLB liabilities; and (iv) the related DAC and VOBA amortization offsets to each of the preceding components (collectively, "GMLB Riders").

GMLB Riders had a favorable impact on comparative results of $553 million as favorable results from the related hedges were partially offset by decreases from DAC offsets. For a detailed discussion of GMLB Riders, see "— GMLB Riders for the Six Months Ended June 30, 2018 and 2017."

Other Derivative Instruments. We have other derivative instruments, in addition to the hedges and embedded derivatives included in GMLB Riders, for which changes in fair value are recognized in net derivative gains (losses). Changes in the fair value of other derivative instruments had an unfavorable impact on comparative results of $371 million.

Freestanding Derivatives. Changes in the fair value of freestanding derivatives had an unfavorable impact on comparative results of $566 million, primarily due to the impact of changes in interest rates on the fair value of our interest rate swaps.

Embedded Derivatives. Changes in the fair value of embedded derivatives had a favorable impact on comparative results of $195 million, primarily due to an unfavorable impact in the prior period on our Shield Annuities liabilities from an increase in underlying equity index levels. In connection with the transition to our new variable annuity hedging program, changes in the fair value of the Shield Annuities liabilities are included in the hedging program component of GMLB Riders beginning in the third quarter of 2017 on a prospective basis.

Net Investment Gains (Losses). Net investment gains (losses) had an unfavorable impact on comparative results of $23 million, primarily due to higher current period net losses on sales of U.S. Treasuries due to portfolio repositioning actions and higher current period net losses on commercial mortgage loans. These losses were partially offset by higher current period net gains on real estate joint ventures and prior period net losses on disposals of other limited partnership interests.

Other Adjustments. Other adjustments to determine adjusted earnings had a favorable impact on comparative results of $70 million, primarily due to lower policyholder benefits and claims resulting from the adjustment for market performance related to participating products in our run-off business.

Adjusted Earnings. Adjusted earnings before provision for income tax increased $583 million ($432 million, net of income tax) for the six months ended June 30, 2018, compared to the prior period. Adjusted earnings are discussed in greater detail below.

Income Tax Expense (Benefit). Income tax benefit for the six months ended June 30, 2018 was $87 million, or 34% of income (loss) before provision for income tax, compared to an income tax benefit of $436 million, or 41% of income (loss) before provision for income tax, for the six months ended June 30, 2017. Our effective tax rates typically differ from the U.S. statutory rates primarily due to the impacts of the dividend received deductions and utilization of tax credits.

Reconciliation of net income (loss) to adjusted earnings

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Net income (loss)	$ (166)	$ (629)
Add: Provision for income tax expense (benefit)	(87)	(436)
Income (loss) before provision for income tax	(253)	(1,065)
Less: GMLB Riders	(336)	(889)
Less: Other derivative instruments	(480)	(109)
Less: Net investment gains (losses)	(78)	(55)
Less: Other adjustments	40	(30)
Adjusted earnings before provision for income tax	601	18
Less: Provision for income tax expense (benefit)	93	(58)
Adjusted earnings	$ 508	$ 76

Consolidated Results for the Six Months Ended June 30, 2018 and 2017 — Adjusted Earnings

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Fee income	$ 1,634	$ 1,631
Net investment spread	650	663
Insurance-related activities	(534)	(488)
Amortization of DAC and VOBA	(301)	(894)
Other expenses, net of DAC capitalization	(848)	(894)
Adjusted earnings before provision for income tax	601	18
Provision for income tax expense (benefit)	93	(58)
Adjusted earnings	$ 508	$ 76

Six Months Ended June 30, 2018 Compared with the Six Months Ended June 30, 2017

Overview. Adjusted earnings increased $432 million, primarily driven by lower amortization of DAC and lower expenses, partially offset by higher costs of insurance related activities.

Fee Income. Fee income was largely unchanged when compared to the prior period. Higher fees from previously recaptured universal life business were mostly offset by a decrease in other revenues due to previously recaptured variable annuity business.

Net Investment Spread. Net investment spread decreased $13 million, primarily due to (i) lower income on derivatives due to the termination of interest rate swaps, (ii) lower returns on other limited partnerships and (iii) lower income from our securities lending program as a result of a reduction in the program size and lower margins due to the impact of a flatter yield curve. This decrease was partially offset by higher income due to the lengthening of the overall portfolio duration and positive net flows.

Insurance-Related Activities. Net costs from insurance-related activities increased $46 million primarily due to unfavorable mortality experience in our run-off business and higher guaranteed minimum death benefit costs in our annuities business, driven by an increase in liability balances resulting from growth in the in-force and higher claims. These increases were partially offset by the charge in the prior period from additional ULSG loss recognition triggered by the Contribution Transaction and the favorable ongoing impacts from the second quarter 2017 recapture from Metropolitan Life Insurance Company (“MLIC”), a former affiliate, of a yearly renewable term reinsurance agreement for certain policies (“YRT Recapture”) in our life business. See Note 1 of the Notes to the Interim Condensed Consolidated Financial Statements for information regarding Contribution Transaction.

Amortization of DAC and VOBA. Lower DAC and VOBA amortization had a favorable impact on comparative results of $593 million, primarily due to:

- $588 million lower amortization in our ULSG business, from the write-down in the prior period of the remaining ULSG-related DAC as a result of additional loss recognition triggered by the Contribution Transaction;
- $56 million lower amortization due to a favorable ceded DAC adjustment in the prior year related to participating whole life business reinsured to MLIC; partially offset by
- $52 million higher amortization in our annuities business due to lower profits resulting from lower than expected separate account returns in the current period as well as changes in in-force and actuarial model refinements.

Other Expenses, Net of DAC Capitalization. Expenses decreased $46 million, primarily due to the allocation of establishment costs which began in the first quarter of 2018 and lower costs related to reinsurance financing arrangements which were terminated in the second quarter of 2017. These decreases were partially offset by higher operating costs as a result of being a stand-alone company.

Income Tax Expense (Benefit). Income tax expense for the six months ended June 30, 2018 was $93 million, or 15% of pre-tax adjusted earnings, compared to a benefit $58 million, or 322% of pre-tax adjusted earnings for the six months ended June 30, 2017. Our effective tax rates typically differ from the U.S. statutory rates primarily due to the dividend received deductions and the utilization of tax credits. Generally, the effect of our tax differences on our actual tax provision are relatively unchanged but the effective tax rate can vary significantly, when expressed as a percentage, due to significant changes in pre-tax income (loss). In 2018, our effective tax rate reflects the impact of tax reform, which lowered the U.S. statutory rate but also reduced the tax benefit for the dividend received deductions.

GMLB Riders for the Six Months Ended June 30, 2018 and 2017

The following table presents the overall impact to income (loss) before provision for income tax from the performance of GMLB Riders, which includes (i) changes in carrying value of the GAAP liabilities, (ii) the mark-to-market of hedges and reinsurance, (iii) fees, and (iv) associated DAC offsets:

	Six Months Ended June 30,	
	2018	2017
	(In millions)	
Directly Written Liabilities (1)	$ 287	$ 243
Assumed Reinsurance Liabilities	113	266
Total Liabilities	400	509
Hedging Program	(877)	(1,809)
Ceded Reinsurance	(45)	(226)
Total Hedging Program and Reinsurance	(922)	(2,035)
Directly Written Fees	402	403
Assumed Reinsurance Fees	4	(26)
Total Fees (2)	406	377
GMLB Riders before DAC Offsets	(116)	(1,149)
DAC Offsets	(220)	260
Total GMLB Riders	$ (336)	$ (889)

(1) Includes changes in fair value of the Shield Annuities embedded derivatives of $(69) million for the six months ended June 30, 2018. Changes in the fair value of the Shield Annuities embedded derivatives were not included in GMLB results for the six months ended June 30, 2017.

(2) Excludes living benefit fees of $35 million, included as a component of adjusted earnings, for both the six months ended June 30, 2018 and 2017, respectively.

Six Months Ended June 30, 2018 Compared with the Six Months Ended June 30, 2017

Comparative results from GMLB Riders were favorable by $553 million. Of this amount, a favorable change of $796 million was recorded in net derivative gains (losses).

GMLB Riders Liabilities. The change in the carrying value of GMLB Riders liabilities resulted in an unfavorable impact on comparative results of $109 million, primarily due to unfavorable impacts from assumed reinsurance, partially offset by net favorable changes in the direct liabilities. The direct liabilities were favorably impacted by changes in interest rates in the current period compared to the prior period and the change in the nonperformance risk adjustment due in part to changing to use of our own creditworthiness post-Separation. These favorable impacts were partially offset by (i) less favorable changes in equity markets in the current period than in the prior period, (ii) an unfavorable change in fair value of the Shield Annuities embedded derivatives, and (iii) in-force growth of GMIB insurance liabilities.

GMLB Riders Hedging Program and Reinsurance. The change in the fair value of GMLB Riders hedging program and reinsurance had a favorable impact on comparative results of approximately $1.1 billion, primarily due to:

- a net favorable change of $926 million from the inverse impacts of the same interest rate and equity market factors that impacted the directly written GMLB Riders liabilities; and
- a favorable change of $181 million due to a charge recognized in the prior period in connection with the recapture from MLIC of certain ceded and assumed variable annuity insurance agreements.

GMLB Riders Fees. Fees from GMLB Riders resulted in a favorable impact of comparative results of $29 million primarily due to the impact from the recapture and novation, in the prior period, of assumed and ceded agreements covering certain of our variable annuity business.

DAC Offsets. DAC offsets, which are inversely related to the changes in certain components of GMLB Riders discussed above, resulted in an unfavorable impact on comparative results of $480 million.

Note Regarding Forward-Looking Statements

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, and other oral or written statements that we make from time to time may contain information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve substantial risks and uncertainties. We have tried, wherever possible, to identify such statements using words such as "anticipate," "estimate," "expect," "project," "may," "will," "could," "intend," "goal," "target," "forecast," "objective," "continue," "aim," "plan," "believe" and other words and terms of similar meaning, or that are tied to future periods, in connection with a discussion of future operating or financial performance. In particular, these include, without limitation, statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operating and financial results, as well as statements regarding the expected benefits of the Separation and the recapitalization actions.

Any or all forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the actual future results of BLIC. These statements are based on current expectations and the current economic environment and involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements due to a variety of known and unknown risks, uncertainties and other factors. Although it is not possible to identify all of these risks and factors, they include, among others:

- differences between actual experience and actuarial assumptions and the effectiveness of our actuarial models;
- higher risk management costs and exposure to increased counterparty risk due to guarantees within certain of our products;
- the effectiveness of our exposure management strategy and the impact of such strategy on net income volatility and negative effects on our statutory capital;
- a sustained period of low equity market prices and interest rates that are lower than those we assumed when we issued our variable annuity products;
- the effect adverse capital and credit market conditions may have on our ability to meet liquidity needs and our access to capital;
- the impact of changes in regulation and in supervisory and enforcement policies on our insurance business or other operations;
- the effectiveness of our risk management policies and procedures;
- the availability of reinsurance and the ability of our counterparties to our reinsurance or indemnification arrangements to perform their obligations thereunder;
- heightened competition, including with respect to service, product features, scale, price, actual or perceived financial strength, claims-paying ratings, credit ratings, e-business capabilities and name recognition;
- changes in accounting standards, practices and/or policies applicable to us;
- the ability of our insurance subsidiaries to pay dividends to us;
- our ability to market and distribute our products through distribution channels;
- the impact of the Separation on our business and profitability due to MetLife's strong brand and reputation, the increased costs related to replacing arrangements with MetLife with those of third parties;
- any failure of third parties to provide services we need, any failure of the practices and procedures of these third parties and any inability to obtain information or assistance we need from third parties, including MetLife;
- whether the operational, strategic and other benefits of the Separation can be achieved, and our ability to implement our business strategy;
- whether all or any portion of the Separation tax consequences are not as expected, leading to material additional taxes or material adverse consequences to tax attributes that impact us;
- the uncertainty of the outcome of any disputes with MetLife over tax-related or other matters and agreements including the potential of outcomes adverse to us that could cause us to owe MetLife material tax reimbursements or payments or disagreements regarding MetLife's or our obligations under our other agreements;

- the impact on our business structure, profitability, cost of capital and flexibility due to restrictions we have agreed to that preserve the tax-free treatment of certain parts of the Separation;
- the potential material negative tax impact of the Tax Cuts and Jobs Act and other potential future tax legislation that could decrease the value of our tax attributes, lead to increased RBC requirements and cause other cash expenses, such as reserves, to increase materially and make some of our products less attractive to consumers;
- whether the Distribution will qualify for non-recognition treatment for U.S. federal income tax purposes and potential indemnification to MetLife if the Distribution does not so qualify;
- our ability to attract and retain key personnel; and
- other factors described in our 2017 Annual Report, the First Quarter Form 10-Q, this report, and from time to time in documents that we file with the SEC.

For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements included and the risks, uncertainties and other factors identified in our 2017 Annual Report and the First Quarter Form 10-Q, particularly in the sections entitled "Risk Factors" and "Quantitative and Qualitative Disclosures About Market Risk," and included elsewhere herein, as well as in our subsequent filings with the SEC. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as otherwise may be required by law. Please consult any further disclosures the Company makes on related subjects in reports to the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We regularly analyze our market risk exposure to interest rate, equity market price, credit and foreign currency exchange rate risks. As a result of that analysis, we have determined that the estimated fair values of certain assets and liabilities are significantly exposed to changes in interest rates, and to a lesser extent, to changes in equity market prices and foreign currency exchange rates. We have exposure to market risk through our insurance and annuity operations and general account investment activities. For purposes of this discussion, "market risk" is defined as changes in fair value resulting from changes in interest rates, equity market prices, credit spreads and foreign currency exchange rates. We may have additional financial impacts other than changes in fair value, which are beyond the scope of this discussion. A description of our market risk exposures may be found under "Quantitative and Qualitative Disclosures About Market Risk" in the 2017 Annual Report. There have been no material changes to our market risk exposures from the market risk exposures previously disclosed in the 2017 Annual Report.

Item 4. Controls and Procedures

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of June 30, 2018.

MetLife continues to provide certain services to the Company on a transitional basis through services agreements. The Company continues to change business processes and standup systems as a subsidiary of Brighthouse Financial, Inc. and identifies, documents and evaluates controls to ensure controls over our financial reporting are effective. We consider these to be a material change in our internal control over financial reporting.

Other than as noted above, there were no changes to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

The following should be read in conjunction with (i) Part I, Item 3 of the 2017 Annual Report and Note 14 to the Notes to the Consolidated Financial Statements included in the 2017 Annual Report; (ii) Part II, Item 1 of the First Quarter Form 10-Q; and (iii) Note 10 of the Notes to the Interim Condensed Consolidated Financial Statements in Part I of this report.

Unclaimed Property Litigation

Total Asset Recovery Services, LLC on its own behalf and on behalf of the State of New York v. Brighthouse Financial, Inc., et al. (Supreme Court, New York County, NY, second amended complaint filed November 17, 2017). Total Asset Recovery Services, LLC (the “Relator”) has brought a qui tam action against Brighthouse Financial, Inc. and its subsidiaries and affiliates under the New York False Claims Act seeking to recover damages on behalf of the State of New York. The action originally was filed under seal on or about December 3, 2010. The State of New York declined to intervene in the action, and the Relator is now prosecuting the action. The Relator alleges that from on or about April 1, 1986 and continuing annually through on or about September 10, 2017, the defendants violated New York State Finance Law Section 189 (1) (g) by failing to timely report and deliver unclaimed insurance property to the State of New York. The Relator is seeking, among other things, treble damages, penalties, expenses and attorneys’ fees and prejudgment interest. No specific dollar amount of damages is specified by the Relator who also is suing numerous insurance companies and John Doe defendants. Brighthouse Financial, Inc. filed a motion to dismiss. The Court has entered an order of voluntary discontinuance without prejudice pursuant to which the Relator dismissed Brighthouse Financial, Inc. without prejudice but reserved its right to file a motion to amend to name other Brighthouse entities as defendants. If other Brighthouse entities are named, the Brighthouse defendants intend to defend this action vigorously.

Group Annuity Class Action

Edward Roycroft v. Brighthouse Financial, Inc., et al. (U.S. District Court, Southern District of New York, filed June 18, 2018). Edward Roycroft filed a purported class action against Brighthouse Financial, Inc., MetLife, Inc., and Metropolitan Life Insurance Company. The complaint alleges plaintiff is a beneficiary of a Martindale-Hubbell group annuity contract and did not receive payments plaintiff claims he was entitled to upon his retirement in 1999. Plaintiff seeks to represent a class of all beneficiaries who were due annuity benefits pursuant to group annuity contracts and whose annuity benefits were released from reserves. Plaintiff’s causes of action are for conversion, unjust enrichment, an accounting and for a constructive trust. Plaintiff seeks damages, attorneys’ fees, declaratory and injunctive relief and other equitable remedies. Brighthouse Financial, Inc. intends to defend this action vigorously.

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

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

Item 1A. Risk Factors

We discuss in the 2017 Annual Report and our other filings with the SEC, including our First Quarter Form 10-Q, various risks that may materially affect our business. In addition, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Changes in Accounting Standards” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Developments” for regulatory and other updates, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Note Regarding Forward-Looking Statements” included in this report, each of which is incorporated by reference herein. There have otherwise been no other material changes to our risk factors from the risk factors previously disclosed in the 2017 Annual Report, as amended or supplemented by such information in the First Quarter Form 10-Q.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

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

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

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BRIGHTHOUSE LIFE INSURANCE COMPANY

By: /s/ Lynn A. Dumais

Name: Lynn A. Dumais

Title: Vice President and Chief Accounting Officer
(Authorized Signatory and Principal Accounting Officer)

Date: August 8, 2018

Exhibit 31.1

CERTIFICATIONS

I, Eric T. Steigerwalt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Brighthouse Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2018

/s/ Eric T. Steigerwalt

Eric T. Steigerwalt
Chairman of the Board, President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Anant Bhalla, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Brighthouse Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8 , 2018

/s/ Anant Bhalla

Anant Bhalla
Vice President and Chief Financial Officer

Exhibit 32.1

SECTION 906 CERTIFICATION
CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF
THE UNITED STATES CODE

I, Eric T. Steigerwalt, certify that, to my knowledge, (i) Brighthouse Life Insurance Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Brighthouse Life Insurance Company.

Date: August 8, 2018

/s/ Eric T. Steigerwalt

Eric T. Steigerwalt
Chairman of the Board, President and
Chief Executive Officer

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by Brighthouse Life Insurance Company (the "Company") for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

SECTION 906 CERTIFICATION
CERTIFICATION PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF
THE UNITED STATES CODE

I, Anant Bhalla, certify that, to my knowledge, (i) Brighthouse Life Insurance Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Brighthouse Life Insurance Company.

Date: August 8, 2018

/s/ Anant Bhalla

Anant Bhalla
Vice President and Chief Financial Officer

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by Brighthouse Life Insurance Company (the "Company") for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.