

**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, 2017**

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**

*(State of incorporation)*

**11225 North Community House Road, Charlotte, North Carolina**

*(Address of principal executive offices)*

**06-0566090**

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

**28277**

*(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. (Check one):

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 11, 2017, 3,000 shares of the registrant's common stock, \$25,000 par value per share, were outstanding, all of which were indirectly owned 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.**

## Table of Contents

	<u>Page</u>
<b><u>Part I — Financial Information</u></b>	
<b>Item 1.</b>	Financial Statements (at June 30, 2017 (Unaudited) and December 31, 2016 and for the Three Months and Six Months Ended June 30, 2017 and 2016 (Unaudited))
	<u>2</u>
	<u>Interim Condensed Consolidated Balance Sheets</u>
	<u>2</u>
	<u>Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)</u>
	<u>3</u>
	<u>Interim Condensed Consolidated Statements of Equity</u>
	<u>4</u>
	<u>Interim Condensed Consolidated Statements of Cash Flows</u>
	<u>5</u>
	<u>Notes to the Interim Condensed Consolidated Financial Statements:</u>
	<u>Note 1 — Business, Basis of Presentation and Summary of Significant Accounting Policies</u>
	<u>6</u>
	<u>Note 2 — Segment Information</u>
	<u>9</u>
	<u>Note 3 — Contribution Transactions</u>
	<u>14</u>
	<u>Note 4 — Insurance</u>
	<u>15</u>
	<u>Note 5 — Investments</u>
	<u>17</u>
	<u>Note 6 — Derivatives</u>
	<u>30</u>
	<u>Note 7 — Fair Value</u>
	<u>44</u>
	<u>Note 8 — Debt</u>
	<u>63</u>
	<u>Note 9 — Equity</u>
	<u>63</u>
	<u>Note 10 — Other Expenses</u>
	<u>66</u>
	<u>Note 11 — Contingencies, Commitments and Guarantees</u>
	<u>66</u>
	<u>Note 12 — Related Party Transactions</u>
	<u>68</u>
	<u>Note 13 — Subsequent Events</u>
	<u>73</u>
<b>Item 2.</b>	<b><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>
	<b><u>74</u></b>
<b>Item 3.</b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>
	<b><u>90</u></b>
<b>Item 4.</b>	<b><u>Controls and Procedures</u></b>
	<b><u>90</u></b>
<b><u>Part II — Other Information</u></b>	
<b>Item 1.</b>	<b><u>Legal Proceedings</u></b>
	<b><u>91</u></b>
<b>Item 1A.</b>	<b><u>Risk Factors</u></b>
	<b><u>92</u></b>
<b>Item 4.</b>	<b><u>Mine Safety Disclosures</u></b>
	<b><u>93</u></b>
<b>Item 6.</b>	<b><u>Exhibits</u></b>
	<b><u>94</u></b>
<b><u>Signatures</u></b>	<b><u>95</u></b>
<b><u>Exhibit Index</u></b>	<b><u>E-1</u></b>

**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, 2017 (Unaudited) and December 31, 2016**

(In millions, except share and per share data)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: \$57,480 and \$57,289, respectively)	\$ 61,622	\$ 59,899
Equity securities available-for-sale, at estimated fair value (cost: \$247 and \$280, respectively)	278	300
Mortgage loans (net of valuation allowances of \$44 and \$40, respectively; includes \$123 and \$136, respectively, at estimated fair value, relating to variable interest entities)	10,159	9,290
Policy loans	1,091	1,093
Real estate and real estate joint ventures	302	215
Other limited partnership interests	1,620	1,639
Short-term investments, principally at estimated fair value (includes \$0 and \$344, respectively, relating to variable interest entities)	1,246	1,272
Other invested assets, principally at estimated fair value	3,045	5,029
<b>Total investments</b>	<b>79,363</b>	<b>78,737</b>
Cash and cash equivalents, principally at estimated fair value (includes \$0 and \$3,078, respectively, relating to variable interest entities)	2,233	5,057
Accrued investment income (includes \$1 and \$1, respectively, relating to variable interest entities)	583	668
Premiums, reinsurance and other receivables	13,065	13,853
Deferred policy acquisition costs and value of business acquired	5,734	6,339
Current income tax recoverable	1,480	736
Other assets	553	689
Separate account assets	107,652	105,346
<b>Total assets</b>	<b>\$ 210,663</b>	<b>\$ 211,425</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Future policy benefits	\$ 33,711	\$ 32,752
Policyholder account balances	36,553	36,579
Other policy-related balances	2,661	2,712
Payables for collateral under securities loaned and other transactions	7,105	7,371
Long-term debt (includes \$16 and \$23, respectively, at estimated fair value, relating to variable interest entities)	53	1,904
Deferred income tax liability	2,517	2,451
Other liabilities (includes \$0 and \$1, respectively, relating to variable interest entities)	4,732	5,445
Separate account liabilities	107,652	105,346
<b>Total liabilities</b>	<b>194,984</b>	<b>194,560</b>
<b>Contingencies, Commitments and Guarantees (Note 11)</b>		
<b>Equity</b>		
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	17,276	18,461
Retained earnings (deficit)	(3,548)	(2,919)
Accumulated other comprehensive income (loss)	1,861	1,248
<b>Total Brighthouse Life Insurance Company's stockholder's equity</b>	<b>15,664</b>	<b>16,865</b>
Noncontrolling interests	15	—
<b>Total equity</b>	<b>15,679</b>	<b>16,865</b>
<b>Total liabilities and equity</b>	<b>\$ 210,663</b>	<b>\$ 211,425</b>

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, 2017 and 2016 (Unaudited)**

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Premiums	\$ 209	\$ 268	\$ 379	\$ 653
Universal life and investment-type product policy fees	784	762	1,570	1,523
Net investment income	740	782	1,499	1,507
Other revenues	137	349	199	437
Net investment gains (losses):				
Other-than-temporary impairments on fixed maturity securities	(1)	—	(1)	(17)
Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income (loss)	—	(1)	—	(1)
Other net investment gains (losses)	1	21	(54)	(22)
Total net investment gains (losses)	—	20	(55)	(40)
Net derivative gains (losses)	(89)	(2,938)	(902)	(2,727)
Total revenues	1,781	(757)	2,690	1,353
<b>Expenses</b>				
Policyholder benefits and claims	812	1,125	1,670	1,829
Interest credited to policyholder account balances	275	282	542	564
Amortization of deferred policy acquisition costs and value of business acquired	689	(568)	647	(349)
Other expenses	460	395	896	845
Total expenses	2,236	1,234	3,755	2,889
Income (loss) before provision for income tax	(455)	(1,991)	(1,065)	(1,536)
Provision for income tax expense (benefit)	(191)	(730)	(436)	(608)
Net income (loss)	\$ (264)	\$ (1,261)	\$ (629)	\$ (928)
Comprehensive income (loss)	\$ 200	\$ (1,149)	\$ (16)	\$ 289

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, 2017 and 2016 (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, 2016	\$ 75	\$ 18,461	\$ (2,919)	\$ 1,248	\$ 16,865	\$ —	\$ 16,865
Sale of operating joint venture interest to an affiliate		202			202		202
Return of capital (Note 3)		(2,737)			(2,737)		(2,737)
Capital contributions		1,350			1,350		1,350
Change in equity of 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

	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, 2015	\$ 75	\$ 16,850	\$ 117	\$ 1,594	\$ 18,636	\$ —	\$ 18,636
Capital contributions		1,547			1,547		1,547
Net income (loss)			(928)		(928)		(928)
Other comprehensive income (loss), net of income tax				1,217	1,217		1,217
Balance at June 30, 2016	\$ 75	\$ 18,397	\$ (811)	\$ 2,811	\$ 20,472	\$ —	\$ 20,472

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, 2017 and 2016 (Unaudited)**

(In millions)

	Six Months Ended June 30,	
	2017	2016
<b>Net cash provided by (used in) operating activities</b>	\$ 1,614	\$ 2,462
<b>Cash flows from investing activities</b>		
Sales, maturities and repayments of:		
Fixed maturity securities	6,837	17,968
Equity securities	40	80
Mortgage loans	366	503
Real estate and real estate joint ventures	12	154
Other limited partnership interests	152	152
Purchases of:		
Fixed maturity securities	(7,069)	(21,144)
Equity securities	(2)	(56)
Mortgage loans	(1,178)	(1,036)
Real estate and real estate joint ventures	(92)	(35)
Other limited partnership interests	(109)	(89)
Cash received in connection with freestanding derivatives	1,763	401
Cash paid in connection with freestanding derivatives	(2,720)	(625)
Sale of operating joint venture interest to an affiliate	42	—
Receipts on loans to affiliates	—	50
Net change in policy loans	2	12
Net change in short-term investments	67	(790)
Net change in other invested assets	(10)	(6)
<b>Net cash provided by (used in) investing activities</b>	<b>(1,899)</b>	<b>(4,461)</b>
<b>Cash flows from financing activities</b>		
Policyholder account balances:		
Deposits	1,902	6,354
Withdrawals	(1,669)	(7,857)
Net change in payables for collateral under securities loaned and other transactions	(192)	3,055
Long-term debt repaid	(7)	(13)
Financing element on certain derivative instruments and other derivative related transactions, net	50	(124)
Returns of capital (Note 3)	(3,425)	—
Capital contribution	600	1,540
Capital contribution associated with the sale of joint venture interest to an affiliate	202	—
<b>Net cash provided by (used in) financing activities</b>	<b>(2,539)</b>	<b>2,955</b>
<b>Change in cash and cash equivalents</b>	<b>(2,824)</b>	<b>956</b>
Cash and cash equivalents, beginning of period	5,057	1,507
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,233</b>	<b>\$ 2,463</b>
<b>Supplemental disclosures of cash flow information</b>		
Net cash paid (received) for:		
Interest	\$ 75	\$ 66
Income tax	\$ 22	\$ 191
Non-cash transactions:		
Transfer of fixed maturity securities from affiliates	\$ —	\$ 3,478
Transfer of mortgage loans from affiliates	\$ —	\$ 395
Transfer of short-term investments from affiliates	\$ —	\$ 94
Transfer of fixed maturity securities to affiliates	\$ 293	\$ —
Reduction of policyholder account balances in connection with reinsurance transactions	\$ 293	\$ —

See accompanying notes to the interim condensed consolidated financial statements.

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

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

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

***Business***

“Brighthouse Insurance” 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 until July 28, 2017 was a direct wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”). The Company offers a range of individual annuities and individual life insurance products.

On January 12, 2016, MetLife, Inc. announced its plan to pursue the separation of a substantial portion of its former U.S. retail business (the “Separation”). Additionally, on July 21, 2016, MetLife, Inc. announced that the separated business would be rebranded as “Brighthouse Financial.” Effective March 6, 2017, and in connection with the Separation, the Company changed its name from MetLife Insurance Company USA to Brighthouse Life Insurance Company.

On October 5, 2016, Brighthouse Financial, Inc. (together with its subsidiaries and affiliates, “Brighthouse”), which until the completion of the Separation on August 4, 2017, was a wholly-owned subsidiary of MetLife, Inc., filed a registration statement on Form 10 (as amended, the “Form 10”) with the U.S. Securities and Exchange Commission (“SEC”) that was declared effective by the SEC on July 6, 2017. The Form 10 disclosed MetLife, Inc.’s plans to undertake several actions, including an internal reorganization involving its U.S. retail business (the “Restructuring”) and include Brighthouse Insurance and certain affiliates in the planned separated business and distribute at least 80.1% of the shares of Brighthouse Financial, Inc.’s common stock on a pro rata basis to the holders of MetLife, Inc. common stock. In connection with the Restructuring, effective April 2017, following receipt of applicable regulatory approvals, MetLife, Inc. contributed certain affiliated reinsurance companies and Brighthouse Life Insurance Company of NY (“Brighthouse NY”) to Brighthouse Insurance (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. See Note 3 for further information on this change, which was applied retrospectively. 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 96,776,670 of the 119,773,106 shares of the common stock of Brighthouse, representing 80.8% of MetLife Inc.’s interest in Brighthouse, to holders of MetLife, Inc. common stock.

In anticipation of the Separation, in the third quarter of 2016, the Company reorganized its businesses into three segments: Annuities, Life and Run-off. See Note 2 for further information on the reorganization of the Company’s segments in the third quarter of 2016, which was applied retrospectively.

***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 (“investees”) 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. The Company uses the cost method of accounting for investments in which it has virtually no influence over the investee’s operations.

**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)**

**Reclassifications**

Certain amounts in the prior year periods' interim condensed consolidated financial statements and related footnotes thereto have been reclassified to conform to the 2017 presentation as discussed throughout the Notes to the Interim Condensed Consolidated Financial Statements.

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

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, 2016 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, 2016 (the "2016 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 2016 Annual Report.

**Adoption of New Accounting Pronouncements**

Effective January 1, 2017, the Company early adopted guidance relating to business combinations. The new guidance clarifies the definition of a business and requires that an entity apply certain criteria in order to determine when a set of assets and activities qualifies as a business. The adoption of this standard will result in fewer acquisitions qualifying as businesses and, accordingly, acquisition costs for those acquisitions that do not qualify as businesses will be capitalized rather than expensed. The adoption did not have an impact on the Company's consolidated financial statements.

Effective January 1, 2017, the Company retrospectively adopted guidance relating to consolidation. The new guidance does not change the characteristics of a primary beneficiary under current GAAP. It changes how a reporting entity evaluates whether it is the primary beneficiary of a VIE by changing how a reporting entity that is a single decisionmaker of a VIE handles indirect interests in the entity held through related parties that are under common control with the reporting entity. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

**Other**

Effective January 3, 2017, the Chicago Mercantile Exchange ("CME") 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 CME serves as the central clearing party. As of the effective date, the application of the amended rulebook, reduced gross derivative assets by \$206 million, gross derivative liabilities by \$927 million, accrued investment income by \$30 million, collateral receivables recorded within premiums, reinsurance and other receivables of \$765 million, and collateral payables recorded within payables for collateral under securities loaned and other transactions of \$74 million.

**Future Adoption of New Accounting Pronouncements**

In March 2017, the Financial Accounting Standards Board ("FASB") issued new guidance on purchased callable debt securities (Accounting Standards Update ("ASU") 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)*, *Premium Amortization on Purchased Callable Debt Securities*). The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. Early adoption is permitted. The ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. However, the new guidance does not require an accounting change for securities held at a discount whose discount continues to be amortized to maturity. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

**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)**

In February 2017, the FASB issued new guidance on derecognition of nonfinancial assets (ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*). The new guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted for interim or annual reporting periods beginning after December 15, 2016. The guidance may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption. The new guidance clarifies the scope and accounting of a financial asset that meets the definition of an “in-substance nonfinancial asset” and defines the term, “in-substance nonfinancial asset.” The ASU also adds guidance for partial sales of nonfinancial assets. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In November 2016, the FASB issued new guidance on restricted cash (ASU 2016-18, *Statement of Cash Flows (Topic 230): a consensus of the FASB Emerging Issues Task Force*). The new guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and should be applied on a retrospective basis. Early adoption is permitted. The new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, the new guidance requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance does not provide a definition of restricted cash or restricted cash equivalents. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In October 2016, the FASB issued new guidance on tax accounting for intra-entity transfers of assets (ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*). The new guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and should be applied on a modified retrospective basis. Early adoption is permitted in the first interim or annual reporting period. Current guidance prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Also, the guidance eliminates the exception for an intra-entity transfer of an asset other than inventory. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In August 2016, the FASB issued new guidance on cash flow statement presentation (ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*). The new guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and should be applied retrospectively to all periods presented. Early adoption is permitted in any interim or annual period. This ASU addresses diversity in how certain cash receipts and cash payments are presented and classified on the statement of cash flows. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In June 2016, the FASB issued new guidance on measurement of credit losses on financial instruments (ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*). The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The new guidance 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. The guidance also requires enhanced disclosures. The Company has assessed the asset classes impacted by the new guidance and is currently assessing the accounting and reporting system changes that will be required to comply with the new guidance. The Company believes that the most significant impact upon adoption will be to its mortgage loan investments. The Company is continuing to evaluate the overall impact of the new guidance on its consolidated financial statements.

**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)**

In January 2016, the FASB issued new guidance (ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*) on the recognition and measurement of financial instruments. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the instrument-specific credit risk provision. The new guidance changes the current accounting guidance related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option (“FVO”) that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. 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. The Company has assessed the population of financial instruments that are subject to the new guidance and has determined that the most significant impact will be the requirement to report changes in fair value in net income each reporting period for all equity securities currently classified as available-for-sale (“AFS”) and to a lesser extent, other limited partnership interests and real estate joint ventures that are currently accounted for under the cost method. The population of these investments accounted for under the cost method is not material. The Company is continuing to evaluate the overall impact of this guidance on its consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard (ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*), effective for fiscal years beginning after December 15, 2017 and interim periods within those years. The guidance may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption. The new guidance will supersede nearly all existing revenue recognition guidance under U.S. GAAP; however, it will not impact the accounting for insurance and investment contracts within the scope of Financial Services insurance (Topic 944), leases, financial instruments and guarantees. 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. Given the scope of the new revenue recognition guidance, the Company does not expect the adoption to have a material impact on its consolidated revenues or statements of operations, with the Company’s implementation efforts primarily focused on other revenues on the consolidated statements of operations.

**2. Segment Information**

In anticipation of the planned Separation, in the third quarter of 2016, the Company reorganized its businesses into three segments: Annuities; Life; and Run-off. In addition, the Company reports certain of its results of operations in Corporate & Other. Also, in the fourth quarter of 2016, the Company moved the universal life policies with secondary guarantees (“ULSG”) business from the Life segment to the Run-off segment. These and certain other presentation changes were applied retrospectively and did not have an impact on total consolidated net income (loss) or operating earnings in the prior periods.

***Annuities***

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

***Life***

The Life segment offers 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, certain company-owned life insurance policies, bank-owned life insurance policies, funding agreements and ULSG.

***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 and term life insurance sold direct to consumers, which is no longer being offered for new sales.

**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)**

***Financial Measures and Segment Accounting Policies***

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

Operating earnings is a measure that focuses on the Company's primary businesses principally by excluding the impact of market volatility, which could distort trends, and revenues and costs related to non-core products and businesses. Non-core businesses include discontinued operations and other businesses that have been or will be sold or exited by us, referred to as divested businesses, and certain entities required to be consolidated under GAAP.

The following are excluded from total revenues in calculating operating earnings:

- Net investment gains (losses);
- Net derivative gains (losses) except: (i) 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 (ii) earned income on derivatives that are hedges of policyholder account balances but do not qualify for hedge accounting treatment;
- 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");
- Certain amounts related to securitization entities that are VIEs consolidated under GAAP; and
- Revenues from divested businesses.

The following are excluded from total expenses in calculating operating 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");
- Amortization of deferred policy acquisition costs ("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;
- Recognition of certain contingent assets and liabilities that could not be recognized at acquisition or adjusted for during the measurement period under GAAP business combination accounting guidance;
- Expenses of divested businesses;
- Amounts related to securitization entities that are VIEs consolidated under GAAP;
- Goodwill impairment; and
- Costs related to: (i) implementation of new insurance regulatory requirements and (ii) acquisition and integration costs;

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, 2017 and 2016. The segment accounting policies are the same as those used to prepare the Company's consolidated financial statements, except for operating earnings adjustments as defined above. In addition, segment accounting policies include the method of capital allocation described below.

**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)**

The internal capital model is a MetLife developed risk capital model that reflects management's judgment and view of required capital to represent the measurement of the risk profile of the business, to meet the Company's long term promises to clients, to service long-term obligations and to support the credit ratings of the Company. It accounts for the unique and specific nature of the risks inherent in the Company's business. Management is responsible for the ongoing production and enhancement of the internal capital model and reviews its approach periodically to ensure that it remains consistent with emerging industry practice standards. As such, the internal capital allocation methodology in the future may differ from MetLife's historical model.

The Company allocates equity to the segments based on the internal capital model and aligns with emerging standards and consistent risk principles.

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

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

**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)**

Three Months Ended June 30, 2017	Operating Results				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Pre-tax operating earnings	\$ 264	\$ 84	\$ (597)	\$ (12)	\$ (261)
Provision for income tax expense (benefit)	65	16	(196)	(7)	(122)
Operating earnings	<u>\$ 199</u>	<u>\$ 68</u>	<u>\$ (401)</u>	<u>\$ (5)</u>	<u>(139)</u>
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)					<u>\$ (264)</u>
Inter-segment revenues	\$ 149	\$ (100)	\$ 51	\$ (52)	
Interest revenue	\$ 308	\$ 74	\$ 338	\$ 46	
Interest expense	\$ —	\$ —	\$ 4	\$ 19	

  

Three Months Ended June 30, 2016	Operating Results				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Pre-tax operating earnings	\$ 472	\$ 20	\$ (115)	\$ 14	\$ 391
Provision for income tax expense (benefit)	133	(3)	(32)	3	101
Operating earnings	<u>\$ 339</u>	<u>\$ 23</u>	<u>\$ (83)</u>	<u>\$ 11</u>	<u>290</u>
Adjustments for:					
Net investment gains (losses)					20
Net derivative gains (losses)					(2,938)
Other adjustments to net income					536
Provision for income tax (expense) benefit					831
Net income (loss)					<u>\$ (1,261)</u>
Inter-segment revenues	\$ 379	\$ (179)	\$ 11	\$ (5)	
Interest revenue	\$ 364	\$ 75	\$ 358	\$ 48	
Interest expense	\$ —	\$ —	\$ 15	\$ 17	

**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)**

Six Months Ended June 30, 2017	Operating Results				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Pre-tax operating earnings	\$ 529	\$ (42)	\$ (484)	\$ 15	\$ 18
Provision for income tax expense (benefit)	132	(16)	(171)	(3)	(58)
Operating earnings	<u>\$ 397</u>	<u>\$ (26)</u>	<u>\$ (313)</u>	<u>\$ 18</u>	<u>76</u>
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)					<u>\$ (629)</u>
Inter-segment revenues	\$ 246	\$ (241)	\$ 48	\$ (63)	
Interest revenue	\$ 632	\$ 154	\$ 712	\$ 102	
Interest expense	\$ —	\$ —	\$ 19	\$ 37	

  

Six Months Ended June 30, 2016	Operating Results				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Pre-tax operating earnings	\$ 784	\$ (14)	\$ 37	\$ 6	\$ 813
Provision for income tax expense (benefit)	211	(11)	17	(5)	212
Operating earnings	<u>\$ 573</u>	<u>\$ (3)</u>	<u>\$ 20</u>	<u>\$ 11</u>	<u>601</u>
Adjustments for:					
Net investment gains (losses)					(40)
Net derivative gains (losses)					(2,727)
Other adjustments to net income					418
Provision for income tax (expense) benefit					820
Net income (loss)					<u>\$ (928)</u>
Inter-segment revenues	\$ 505	\$ (338)	\$ 21	\$ 23	
Interest revenue	\$ 702	\$ 146	\$ 703	\$ 85	
Interest expense	\$ —	\$ —	\$ 30	\$ 34	

**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)**

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,	
	2017	2016	2017	2016
(In millions)				
Annuities	\$ 960	\$ 1,320	\$ 1,888	\$ 2,415
Life	265	233	486	458
Run-off	531	517	1,085	1,053
Corporate & Other	73	83	155	181
Adjustments	(48)	(2,910)	(924)	(2,754)
Total	<u>\$ 1,781</u>	<u>\$ (757)</u>	<u>\$ 2,690</u>	<u>\$ 1,353</u>

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

	June 30, 2017		December 31, 2016	
	(In millions)			
Annuities	\$	146,084	\$	146,224
Life		11,072		12,296
Run-off		41,286		40,575
Corporate & Other		12,221		12,330
Total	<u>\$</u>	<u>210,663</u>	<u>\$</u>	<u>211,425</u>

**3. Contribution Transactions**

In April 2017, in connection with the Separation, MetLife, Inc. contributed MetLife Reinsurance Company of Delaware, MetLife Reinsurance Company of South Carolina (“MRSC”), MetLife Reinsurance Company of Vermont II, all affiliated reinsurance companies, and Brighthouse NY to Brighthouse Life Insurance Company. The affiliated reinsurance companies were then merged into BRCD, and certain reserve financing arrangements were restructured, resulting in a net return of capital to MetLife of \$2.7 billion. The return of capital included \$3.4 billion in cash, offset by a non-cash capital contribution of \$703 million primarily comprised of the \$643 million tax impact of a basis adjustment for BRCD in connection with the Contribution Transactions. The affiliated reinsurance companies reinsured risks, including level premium term life and ULSG assumed from the Company and other entities and operations of Brighthouse.

Simultaneously with the Contribution Transactions, the following additional transactions occurred:

- The existing reserve financing arrangements of the affiliated reinsurance companies with unaffiliated financial institutions were terminated and replaced with a single financing arrangement supported by a pool of highly rated third-party reinsurers. See Note 8.
- Invested assets held in trust totaling \$3.4 billion were liquidated, of which \$2.7 billion provided funding for MetLife, Inc.’s repayment of the associated collateral financing arrangement, and the remainder was remitted to MetLife, Inc. See Notes 5 and 9.
- Loans outstanding to MetLife, Inc. totaling \$1.1 billion were repaid in an exchange transaction that resulted in the satisfaction of \$1.1 billion of surplus notes due to MetLife. See Notes 5 and 8.

The Contribution Transactions were between entities under common control and has been accounted for in a manner similar to the pooling-of-interests method, which requires that the acquired entities be combined at their historical cost. The Company’s consolidated financial statements and related footnotes are presented as if the transaction occurred at the beginning of the earliest date presented and the prior periods have been retrospectively adjusted.

The effect of the Contribution Transactions on net income (loss) was an increase of \$296 million and \$468 million for the three months and six months ended June 30, 2016, respectively.

**Brighthouse Life Insurance Company**  
(A Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)

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

The effect of the Contribution Transactions on other comprehensive income (loss) (“OCI”) was an increase of \$314 million and \$631 million for the three months and six months ended June 30, 2016 respectively.

**4. Insurance**

**Guarantees**

As discussed in Notes 1 and 5 of the Notes to the Consolidated Financial Statements included in the 2016 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 6.

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

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

	June 30, 2017		December 31, 2016	
	In the Event of Death	At Annuitization	In the Event of Death	At Annuitization
(Dollars in millions)				
<b>Annuity Contracts (1), (2)</b>				
<b>Variable Annuity Guarantees</b>				
Total account value (3)	\$ 109,788	\$ 62,665	\$ 106,590	\$ 61,340
Separate account value	\$ 104,985	\$ 61,425	\$ 101,991	\$ 60,016
Net amount at risk	\$ 5,802 (4)	\$ 2,733 (5)	\$ 6,763 (4)	\$ 3,116 (5)
Average attained age of contractholders	68 years	68 years	67 years	67 years

	June 30, 2017		December 31, 2016	
	Secondary Guarantees			
(Dollars in millions)				
<b>Universal and Variable Life Contracts</b>				
Total account value (3)	\$ 7,197		\$ 7,176	
Net amount at risk (6)	\$ 90,524		\$ 90,973	
Average attained age of policyholders	60 years		60 years	

- (1) The Company’s annuity contracts with guarantees may offer more than one type of guarantee in each contract. Therefore, the amounts listed above may not be mutually exclusive.
- (2) Includes direct business, but excludes offsets from hedging or reinsurance, if any. Therefore, the net amount at risk presented reflects the economic exposures of living and death benefit guarantees associated with variable annuities, but not necessarily their impact on the Company. See Note 7 of the Notes to the Consolidated Financial Statements included in the 2016 Annual Report for a discussion of certain living and death benefit guarantees which have been reinsured.
- (3) Includes the contractholder’s investments in the general account and separate account, if applicable.
- (4) Defined as the death benefit less the total account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date and includes any additional contractual claims associated with riders purchased to assist with covering income taxes payable upon death.

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

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

**4. Insurance (continued)**

- (5) Defined as the amount (if any) that would be required to be added to the total account value to purchase a lifetime income stream, based on current annuity rates, equal to the minimum amount provided under the guaranteed benefit. This amount represents the Company's potential economic exposure to such guarantees in the event all contractholders were to annuitize on the balance sheet date, even though the contracts contain terms that allow annuitization of the guaranteed amount only after the 10th anniversary of the contract, which not all contractholders have achieved.
- (6) Defined as the guarantee amount less the account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date.

***Liabilities for Unpaid Claims and Claim Expenses***

***Rollforward of Claims and Claim Adjustment Expenses***

Information regarding the liabilities for unpaid claims and claim adjustment expenses was as follows:

	Six Months Ended June 30,	
	2017	2016
(In millions)		
Balance at December 31 of prior period	\$ 1,970	\$ 1,693
Less: Reinsurance recoverables	1,811	1,545
Net balance at December 31 of prior period	159	148
Cumulative adjustment (1)	—	68
Net balance, beginning of period	159	216
Incurred related to:		
Current period	341	458
Prior periods (2)	(13)	(30)
Total incurred	328	428
Paid related to:		
Current period	(263)	(290)
Prior periods	(45)	(106)
Total paid	(308)	(396)
Net balance, end of period	179	248
Add: Reinsurance recoverables	1,820	1,632
Balance, end of period	\$ 1,999	\$ 1,880

- (1) Reflects the accumulated adjustment, net of reinsurance, upon implementation of the new short-duration contracts guidance which clarified the requirement to include claim information for long-duration contracts. The accumulated adjustment primarily reflects unpaid claim liabilities, net of reinsurance, for long-duration contracts as of the beginning of the period presented.
- (2) During the six months ended June 30, 2017 and 2016, the claims and claim adjustment expenses associated with prior years changed due to differences between the actual benefits paid and the expected benefits owed during those periods.

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

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

**5. Investments**

***Fixed Maturity and Equity Securities Available-for-Sale***

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

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

	June 30, 2017					December 31, 2016				
	Cost or Amortized Cost	Gross Unrealized			Estimated Fair Value	Cost or Amortized Cost	Gross Unrealized			Estimated Fair Value
		Gains	Temporary Losses	OTTI Losses (1)			Gains	Temporary Losses	OTTI Losses (1)	
<b>(In millions)</b>										
<b>Fixed maturity securities:</b>										
U.S. corporate	\$ 20,250	\$ 1,659	\$ 122	\$ —	\$ 21,787	\$ 20,663	\$ 1,287	\$ 285	\$ —	\$ 21,665
U.S. government and agency	13,385	1,655	121	—	14,919	11,872	1,281	237	—	12,916
RMBS	7,875	261	72	(5)	8,069	7,876	203	139	—	7,940
Foreign corporate	6,130	321	95	—	6,356	6,071	220	168	—	6,123
State and political subdivision	3,502	464	13	—	3,953	3,520	376	38	—	3,858
CMBS	3,136	61	15	(1)	3,183	3,687	40	32	(1)	3,696
ABS	2,176	19	4	—	2,191	2,600	11	13	—	2,598
Foreign government	1,026	141	3	—	1,164	1,000	114	11	—	1,103
<b>Total fixed maturity securities</b>	<b>\$ 57,480</b>	<b>\$ 4,581</b>	<b>\$ 445</b>	<b>\$ (6)</b>	<b>\$ 61,622</b>	<b>\$ 57,289</b>	<b>\$ 3,532</b>	<b>\$ 923</b>	<b>\$ (1)</b>	<b>\$ 59,899</b>
<b>Equity securities:</b>										
Non-redeemable preferred stock	\$ 147	\$ 11	\$ 2	\$ —	\$ 156	\$ 180	\$ 6	\$ 9	\$ —	\$ 177
Common stock	100	22	—	—	122	100	23	—	—	123
<b>Total equity securities</b>	<b>\$ 247</b>	<b>\$ 33</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 278</b>	<b>\$ 280</b>	<b>\$ 29</b>	<b>\$ 9</b>	<b>\$ —</b>	<b>\$ 300</b>

(1) Noncredit OTTI losses included in accumulated other comprehensive income (“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).”

The Company held non-income producing fixed maturity securities with an estimated fair value of less than \$1 million and \$5 million with unrealized gains (losses) of less than (\$1) million and less than \$1 million at June 30, 2017 and December 31, 2016, respectively.

***Maturities of Fixed Maturity Securities***

The amortized cost and estimated fair value of fixed maturity securities, by contractual maturity date, were as follows at June 30, 2017:

	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
<b>(In millions)</b>						
Amortized cost	\$ 1,733	\$ 10,923	\$ 9,323	\$ 22,314	\$ 13,187	\$ 57,480
Estimated fair value	\$ 1,743	\$ 11,331	\$ 9,610	\$ 25,495	\$ 13,443	\$ 61,622

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.

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

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

**5. Investments (continued)**

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

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

	June 30, 2017				December 31, 2016			
	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	\$ 2,807	\$ 81	\$ 505	\$ 41	\$ 4,632	\$ 187	\$ 699	\$ 98
U.S. government and agency	5,374	121	—	—	4,396	237	—	—
RMBS	2,814	51	522	16	3,457	107	818	32
Foreign corporate	639	21	567	74	1,443	64	573	104
State and political subdivision	403	11	29	2	887	35	29	3
CMBS	616	12	102	2	1,553	26	171	5
ABS	227	1	195	3	450	5	461	8
Foreign government	160	3	3	—	242	10	6	1
Total fixed maturity securities	<u>\$ 13,040</u>	<u>\$ 301</u>	<u>\$ 1,923</u>	<u>\$ 138</u>	<u>\$ 17,060</u>	<u>\$ 671</u>	<u>\$ 2,757</u>	<u>\$ 251</u>
Equity securities:								
Non-redeemable preferred stock	\$ 7	\$ —	\$ 22	\$ 2	\$ 57	\$ 2	\$ 40	\$ 7
Total equity securities	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 22</u>	<u>\$ 2</u>	<u>\$ 57</u>	<u>\$ 2</u>	<u>\$ 40</u>	<u>\$ 7</u>
Total number of securities in an unrealized loss position	<u>1,148</u>		<u>355</u>		<u>1,711</u>		<u>475</u>	

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

As described more fully in Notes 1 and 8 of the Notes to the Consolidated Financial Statements included in the 2016 Annual Report, the Company performs a regular evaluation of all investment classes for impairment, including fixed maturity securities, equity securities and perpetual hybrid securities, in accordance with its impairment policy, in order to evaluate whether such investments are other-than-temporarily impaired.

**Current Period Evaluation**

Based on the Company's current evaluation of its AFS securities in an unrealized loss position in accordance with its impairment policy, and the Company's current intentions and assessments (as applicable to the type of security) about holding, selling and any requirements to sell these securities, the Company concluded that these securities were not other-than-temporarily impaired at June 30, 2017. Future OTTI will depend primarily on economic fundamentals, issuer performance (including changes in the present value of future cash flows expected to be collected), changes in credit ratings, collateral valuation, interest rates and credit spreads, as well as a change in the Company's intention to hold or sell a security that is in an unrealized loss position. If economic fundamentals deteriorate or if there are adverse changes in the above factors, OTTI may be incurred in upcoming periods.

Gross unrealized losses on fixed maturity securities decreased \$483 million during the six months ended June 30, 2017 to \$439 million. The decrease in gross unrealized losses for the six months ended June 30, 2017 was primarily attributable to narrowing credit spreads and decreasing longer-term interest rates.

At June 30, 2017, \$4 million of the total \$439 million of gross unrealized losses were from nine fixed maturity securities with an unrealized loss position of 20% or more of amortized cost for six months or greater.

The change in gross unrealized losses on equity securities was not significant during the six months ended June 30, 2017.

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

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

**5. Investments (continued)**

*Investment Grade Fixed Maturity Securities*

Of the \$4 million of gross unrealized losses on fixed maturity securities with an unrealized loss of 20% or more of amortized cost for six months or greater, \$3 million, or 75%, were related to gross unrealized losses on three investment grade fixed maturity securities. Unrealized losses on investment grade fixed maturity securities are principally related to widening credit spreads since purchase and, with respect to fixed-rate fixed maturity securities, rising interest rates since purchase.

*Below Investment Grade Fixed Maturity Securities*

Of the \$4 million of gross unrealized losses on fixed maturity securities with an unrealized loss of 20% or more of amortized cost for six months or greater, \$1 million, or 25%, were related to gross unrealized losses on six below investment grade fixed maturity securities. Unrealized losses on below investment grade fixed maturity securities are principally related to U.S. and foreign corporate securities (primarily industrial securities) and are the result of significantly wider credit spreads resulting from higher risk premiums since purchase, largely due to economic and market uncertainties including concerns over lower oil prices in the energy sector. Management evaluates U.S. and foreign corporate securities based on factors such as expected cash flows and the financial condition and near-term and long-term prospects of the issuers.

**Mortgage Loans**

*Mortgage Loans by Portfolio Segment*

Mortgage loans are summarized as follows at:

	June 30, 2017		December 31, 2016	
	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in millions)			
Mortgage loans:				
Commercial	\$ 6,931	68.2 %	\$ 6,497	69.9 %
Agricultural	2,040	20.1	1,830	19.7
Residential	1,109	10.9	867	9.3
Subtotal (1)	10,080	99.2	9,194	98.9
Valuation allowances	(44)	(0.4)	(40)	(0.4)
Subtotal mortgage loans, net	10,036	98.8	9,154	98.5
Commercial mortgage loans held by CSEs - FVO	123	1.2	136	1.5
Total mortgage loans, net	\$ 10,159	100.0 %	\$ 9,290	100.0 %

- (1) Purchases of mortgage loans were \$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. Purchases of mortgage loans were \$192 million and \$231 million for the three months and six months ended June 30, 2016, and were primarily comprised of residential mortgage loans.

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 7. The Company elects the FVO for certain commercial mortgage loans and related long-term debt that are managed on a total return basis.

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

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

**5. Investments (continued)**

**Mortgage Loans, Valuation Allowance and Impaired Loans by Portfolio Segment**

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

	Evaluated Individually for Credit Losses					Evaluated Collectively for Credit Losses		Impaired Loans
	Impaired Loans with a Valuation Allowance			Impaired Loans without a Valuation Allowance		Recorded Investment	Valuation Allowances	Carrying Value
	Unpaid Principal Balance	Recorded Investment	Valuation Allowances	Unpaid Principal Balance	Recorded Investment			
<b>(In millions)</b>								
<b>June 30, 2017</b>								
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,931	\$ 34	\$ —
Agricultural	4	3	—	—	—	2,037	6	3
Residential	—	—	—	3	3	1,106	4	3
<b>Total</b>	<b>\$ 4</b>	<b>\$ 3</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 3</b>	<b>\$ 10,074</b>	<b>\$ 44</b>	<b>\$ 6</b>
<b>December 31, 2016</b>								
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,497	\$ 32	\$ —
Agricultural	4	3	—	—	—	1,827	5	3
Residential	—	—	—	1	1	866	3	1
<b>Total</b>	<b>\$ 4</b>	<b>\$ 3</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 9,190</b>	<b>\$ 40</b>	<b>\$ 4</b>

The average recorded investment for impaired commercial, agricultural and residential mortgage loans was \$0, \$3 million and \$2 million, respectively, for both the three months and six months ended June 30, 2017. The average recorded investment for impaired commercial, agricultural and residential mortgage loans was \$0, \$3 million and \$0, respectively, for both the three months and six months ended June 30, 2016.

**Valuation Allowance Rollforward by Portfolio Segment**

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

	Six Months Ended June 30,							
	2017				2016			
	Commercial	Agricultural	Residential	Total	Commercial	Agricultural	Residential	Total
<b>(In millions)</b>								
Balance, beginning of period	\$ 32	\$ 5	\$ 3	\$ 40	\$ 28	\$ 5	\$ 3	\$ 36
Provision (release)	2	1	1	4	4	—	1	5
<b>Balance, end of period</b>	<b>\$ 34</b>	<b>\$ 6</b>	<b>\$ 4</b>	<b>\$ 44</b>	<b>\$ 32</b>	<b>\$ 5</b>	<b>\$ 4</b>	<b>\$ 41</b>

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

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

**5. Investments (continued)**

**Credit Quality of Commercial Mortgage Loans**

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

	Recorded Investment						Estimated Fair Value	% of Total
	Debt Service Coverage Ratios			Total	% of Total			
	> 1.20x	1.00x - 1.20x	< 1.00x					
<b>(Dollars in millions)</b>								
<b>June 30, 2017</b>								
Loan-to-value ratios:								
Less than 65%	\$ 6,008	\$ 329	\$ —	\$ 6,337	91.4%	\$ 6,517	91.7%	
65% to 75%	476	34	18	528	7.6	528	7.4	
76% to 80%	—	33	9	42	0.6	42	0.6	
Greater than 80%	—	—	24	24	0.4	23	0.3	
<b>Total</b>	<b>\$ 6,484</b>	<b>\$ 396</b>	<b>\$ 51</b>	<b>\$ 6,931</b>	<b>100.0%</b>	<b>\$ 7,110</b>	<b>100.0%</b>	

<b>December 31, 2016</b>								
Loan-to-value ratios:								
Less than 65%	\$ 5,718	\$ 230	\$ 167	\$ 6,115	94.1%	\$ 6,197	94.3%	
65% to 75%	291	—	19	310	4.8	303	4.6	
76% to 80%	34	—	—	34	0.5	33	0.5	
Greater than 80%	24	14	—	38	0.6	37	0.6	
<b>Total</b>	<b>\$ 6,067</b>	<b>\$ 244</b>	<b>\$ 186</b>	<b>\$ 6,497</b>	<b>100.0%</b>	<b>\$ 6,570</b>	<b>100.0%</b>	

**Credit Quality of Agricultural Mortgage Loans**

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

	June 30, 2017		December 31, 2016	
	Recorded Investment	% of Total	Recorded Investment	% of Total
<b>(Dollars in millions)</b>				
Loan-to-value ratios:				
Less than 65%	\$ 1,926	94.4%	\$ 1,789	97.8%
65% to 75%	114	5.6	41	2.2
<b>Total</b>	<b>\$ 2,040</b>	<b>100.0%</b>	<b>\$ 1,830</b>	<b>100.0%</b>

The estimated fair value of agricultural mortgage loans was \$2.1 billion and \$1.9 billion at June 30, 2017 and December 31, 2016, respectively.

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

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

**5. Investments (continued)**

**Credit Quality of Residential Mortgage Loans**

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

	June 30, 2017		December 31, 2016	
	Recorded Investment	% of Total	Recorded Investment	% of Total
(Dollars in millions)				
Performance indicators:				
Performing	\$ 1,092	98.5%	\$ 856	98.7%
Nonperforming	17	1.5	11	1.3
Total	\$ 1,109	100.0%	\$ 867	100.0%

The estimated fair value of residential mortgage loans was \$1.1 billion and \$867 million at June 30, 2017 and December 31, 2016, respectively.

**Past Due and Nonaccrual Mortgage Loans**

The Company has a high quality, well performing mortgage loan portfolio, with 99% of all mortgage loans classified as performing at both June 30, 2017 and December 31, 2016. The Company defines delinquency consistent with industry practice, when mortgage loans are past due as follows: commercial and residential mortgage loans — 60 days and agricultural mortgage loans — 90 days. The past due and nonaccrual mortgage loans at recorded investment, prior to valuation allowances, by portfolio segment, were as follows at:

	Past Due		Nonaccrual Status	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
(Dollars in millions)				
Agricultural	\$ 1	\$ —	\$ —	\$ —
Residential	17	11	17	11
Total	\$ 18	\$ 11	\$ 17	\$ 11

**Mortgage Loans Modified in a Troubled Debt Restructuring**

During the three months and six months ended June 30, 2017, the Company did not have a significant amount of mortgage loans modified in a troubled debt restructuring. There were no mortgage loans modified in a troubled debt restructuring during the three months and six months ended June 30, 2016.

**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 \$1.6 billion and \$4.7 billion at June 30, 2017 and December 31, 2016, respectively.

**Net Unrealized Investment Gains (Losses)**

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

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

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

**5. Investments (continued)**

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

	June 30, 2017	December 31, 2016
	(In millions)	
Fixed maturity securities	\$ 4,126	\$ 2,600
Fixed maturity securities with noncredit OTTI losses included in AOCI	6	1
Total fixed maturity securities	4,132	2,601
Equity securities	58	32
Derivatives	334	397
Short-term investments	—	(42)
Other	(9)	59
Subtotal	4,515	3,047
Amounts allocated from:		
Future policy benefits	(1,309)	(922)
DAC and VOBA related to noncredit OTTI losses recognized in AOCI	(2)	(2)
DAC, VOBA and DSI	(291)	(193)
Subtotal	(1,602)	(1,117)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	(2)	—
Deferred income tax benefit (expense)	(1,019)	(653)
Net unrealized investment gains (losses)	\$ 1,892	\$ 1,277

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

	Six Months Ended June 30, 2017
	(In millions)
Balance, beginning of period	\$ 1,277
Fixed maturity securities on which noncredit OTTI losses have been recognized	4
Unrealized investment gains (losses) during the period	1,464
Unrealized investment gains (losses) relating to:	
Future policy benefits	(387)
DAC, VOBA and DSI	(98)
Deferred income tax benefit (expense) related to noncredit OTTI losses recognized in AOCI	(2)
Deferred income tax benefit (expense)	(366)
Balance, end of period	\$ 1,892
Change in net unrealized investment gains (losses)	\$ 615

**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, 2017 and December 31, 2016.

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

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

**5. Investments (continued)**

**Securities Lending**

Elements of the securities lending program are presented below at:

	<b>June 30, 2017</b>		<b>December 31, 2016</b>	
	<b>(In millions)</b>			
Securities on loan: (1)				
Amortized cost	\$	5,694	\$	5,895
Estimated fair value	\$	6,595	\$	6,555
Cash collateral received from counterparties (2)	\$	6,750	\$	6,642
Security collateral received from counterparties (3)	\$	24	\$	27
Reinvestment portfolio — estimated fair value	\$	6,788	\$	6,571

- (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:

	<b>June 30, 2017</b>				<b>December 31, 2016</b>			
	<b>Remaining Tenor of Securities Lending Agreements</b>				<b>Remaining Tenor of Securities Lending Agreements</b>			
	<b>Open (1)</b>	<b>1 Month or Less</b>	<b>1 to 6 Months</b>	<b>Total</b>	<b>Open (1)</b>	<b>1 Month or Less</b>	<b>1 to 6 Months</b>	<b>Total</b>
	<b>(In millions)</b>							
Cash collateral liability by loaned security type:								
U.S. government and agency	\$ 2,188	\$ 2,813	\$ 1,492	\$ 6,493	\$ 2,129	\$ 1,906	\$ 1,743	\$ 5,778
U.S. corporate	—	—	—	—	—	480	—	480
Agency RMBS	—	257	—	257	—	—	274	274
Foreign corporate	—	—	—	—	—	58	—	58
Foreign government	—	—	—	—	—	52	—	52
<b>Total</b>	<b>\$ 2,188</b>	<b>\$ 3,070</b>	<b>\$ 1,492</b>	<b>\$ 6,750</b>	<b>\$ 2,129</b>	<b>\$ 2,496</b>	<b>\$ 2,017</b>	<b>\$ 6,642</b>

- (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, 2017 was \$2.1 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, ABS, U.S. government and agency securities, non-agency RMBS and U.S. and foreign corporate securities) with 64% invested in agency RMBS, cash equivalents, short-term investments, U.S. government and agency securities, or held in cash at June 30, 2017. 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.

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

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

**5. 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 for all asset classes at:

	June 30, 2017	December 31, 2016
	(In millions)	
Invested assets on deposit (regulatory deposits)	\$ 8,015	\$ 7,644
Invested assets held in trust (reinsurance agreements)	4,237	9,054
Invested assets pledged as collateral	3,754	3,548
Total invested assets on deposit, held in trust and pledged as collateral	<u>\$ 16,006</u>	<u>\$ 20,246</u>

The Company has pledged invested assets in connection with various agreements and transactions, including funding agreements (see Note 5 of the Notes to the Consolidated Financial Statements included in the 2016 Annual Report) and derivative transactions (see Note 6). The Company has held in trust certain investments, in connection with certain reinsurance transactions. In April 2017, certain assets held in trust were liquidated in connection with the Contribution Transactions discussed in Note 3. Amounts in the table above include invested assets and cash and cash equivalents.

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.

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, 2017		December 31, 2016	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
	(In millions)			
MRSC (collateral financing arrangement (primarily securities)) (1)	\$ —	\$ —	\$ 3,422	\$ —
CSEs (assets (primarily loans) and liabilities (primarily debt)) (2)	124	16	137	24
Total	<u>\$ 124</u>	<u>\$ 16</u>	<u>\$ 3,559</u>	<u>\$ 24</u>

(1) In April 2017, these assets were liquidated in connection with the Contribution Transactions discussed in Note 3.

(2) 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 \$89 million and \$95 million at estimated fair value at June 30, 2017 and December 31, 2016, respectively.

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

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

**5. Investments (continued)**

**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, 2017		December 31, 2016	
	Carrying Amount	Maximum Exposure to Loss (1)	Carrying Amount	Maximum Exposure to Loss (1)
	(In millions)			
Fixed maturity securities AFS:				
Structured Securities (2)	\$ 11,912	\$ 11,912	\$ 12,809	\$ 12,809
U.S. and foreign corporate	499	499	536	536
Other limited partnership interests	1,468	2,326	1,491	2,287
Other investments (3)	67	77	77	88
Total	\$ 13,946	\$ 14,814	\$ 14,913	\$ 15,720

- (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. For certain of its investments in other invested assets, the Company's return is in the form of income tax credits which are guaranteed by creditworthy third parties. For such investments, the maximum exposure to loss is equal to the carrying amounts plus any unfunded commitments, reduced by income tax credits guaranteed by third parties. There were no income tax credits at both June 30, 2017 and December 31, 2016. 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, other invested assets and non-redeemable preferred stock.

As described in Note 11, the Company makes commitments to fund partnership investments in the normal course of business. Excluding these commitments, the Company did not provide financial or other support to investees designated as VIEs during both the six months ended June 30, 2017 and 2016.

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

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

**5. Investments (continued)**

***Net Investment Income***

The components of net investment income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Investment income:				
Fixed maturity securities	\$ 582	\$ 661	\$ 1,174	\$ 1,275
Equity securities	4	5	7	10
Mortgage loans	110	108	218	198
Policy loans	11	14	23	29
Real estate and real estate joint ventures	14	2	26	15
Other limited partnership interests	48	20	105	41
Cash, cash equivalents and short-term investments	9	6	17	9
Other	5	6	12	9
Subtotal	783	822	1,582	1,586
Less: Investment expenses	45	43	87	84
Subtotal, net	738	779	1,495	1,502
FVO CSEs — interest income — commercial mortgage loans	2	3	4	5
Net investment income	\$ 740	\$ 782	\$ 1,499	\$ 1,507

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

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

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

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

**5. 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,	
	2017	2016	2017	2016
(In millions)				
Total gains (losses) on fixed maturity securities:				
Total OTTI losses recognized — by sector and industry:				
U.S. and foreign corporate securities — by industry:				
Industrial	\$ —	\$ (1)	\$ —	\$ (16)
Total U.S. and foreign corporate securities	—	(1)	—	(16)
RMBS	—	—	—	(2)
State and political subdivision	(1)	—	(1)	—
OTTI losses on fixed maturity securities recognized in earnings	(1)	(1)	(1)	(18)
Fixed maturity securities — net gains (losses) on sales and disposals	1	27	(36)	(17)
Total gains (losses) on fixed maturity securities	—	26	(37)	(35)
Total gains (losses) on equity securities:				
Total OTTI losses recognized — by sector:				
Common stock	—	—	—	(1)
OTTI losses on equity securities recognized in earnings	—	—	—	(1)
Equity securities — net gains (losses) on sales and disposals	2	—	1	4
Total gains (losses) on equity securities	2	—	1	3
Mortgage loans	(2)	(4)	(5)	(6)
Real estate and real estate joint ventures	1	(1)	3	(1)
Other limited partnership interests	—	(2)	(10)	(6)
Other	—	4	(5)	6
Subtotal	1	23	(53)	(39)
FVO CSEs:				
Commercial mortgage loans	(1)	(2)	(1)	—
Long-term debt — related to commercial mortgage loans	—	—	—	—
Non-investment portfolio gains (losses)	—	(1)	(1)	(1)
Subtotal	(1)	(3)	(2)	(1)
Total net investment gains (losses)	\$ —	\$ 20	\$ (55)	\$ (40)

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

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

Gains (losses) from foreign currency transactions included within net investment gains (losses) were \$1 million and (\$5) million for the three months ended and six months ended June 30, 2017, respectively, and \$3 million and \$5 million for the three months and six months ended June 30, 2016, respectively.

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

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

**5. Investments (continued)**

**Sales or Disposals and Impairments of Fixed Maturity and Equity Securities**

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

	Three Months Ended June 30,			
	2017		2016	
	Fixed Maturity Securities	Equity Securities	Fixed Maturity Securities	Equity Securities
	(In millions)			
Proceeds	\$ 2,403	\$ 5,523	\$ 12	\$ 3
Gross investment gains	\$ 11	\$ 49	\$ 2	\$ —
Gross investment losses	(10)	(22)	—	—
OTTI losses	(1)	(1)	—	—
Net investment gains (losses)	\$ —	\$ 26	\$ 2	\$ —

	Six Months Ended June 30,			
	2017		2016	
	Fixed Maturity Securities	Equity Securities	Fixed Maturity Securities	Equity Securities
	(In millions)			
Proceeds	\$ 4,363	\$ 14,779	\$ 13	\$ 6
Gross investment gains	\$ 20	\$ 87	\$ 2	\$ 4
Gross investment losses	(56)	(104)	(1)	—
OTTI losses	(1)	(18)	—	(1)
Net investment gains (losses)	\$ (37)	\$ (35)	\$ 1	\$ 3

**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 OCI:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
		(In millions)		
Balance, beginning of period	\$ 10	\$ 64	\$ 28	\$ 66
Additions:				
Additional impairments — credit loss OTTI on securities previously impaired	—	1	—	2
Reductions:				
Sales (maturities, pay downs or prepayments) of securities previously impaired as credit loss OTTI	(1)	(5)	(19)	(8)
Balance, end of period	\$ 9	\$ 60	\$ 9	\$ 60

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

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

**5. Investments (continued)**

***Related Party Investment Transactions***

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Estimated fair value of invested assets transferred to affiliates	\$ —	\$ 158	\$ 292	\$ 158
Amortized cost of invested assets transferred to affiliates	\$ —	\$ 118	\$ 294	\$ 118
Net investment gains (losses) recognized on transfers	\$ —	\$ —	\$ (2)	\$ —
Change in additional paid-in-capital recognized on transfers	\$ —	\$ 40	\$ —	\$ 40
Estimated fair value of invested assets transferred from affiliates	\$ —	\$ 4,042	\$ —	\$ 4,279

In April 2016, the Company received a transfer of investments and cash and cash equivalents of \$4.3 billion for the recapture of risks related to certain single premium deferred annuity contracts previously reinsured to Metropolitan Life Insurance Company (“MLIC”), an affiliate, which are included in the table above. See Note 7 of the Notes to the Consolidated Financial Statements included in the 2016 Annual Report for additional information related to the transfer.

The Company had loans outstanding to MetLife, Inc., which were included in other invested assets, totaling \$1.1 billion at December 31, 2016. These loans bear interest at fixed rates of 4.21% and 5.10% payable semiannually, and were due on September 30, 2032 and December 31, 2033, respectively. In April, 2017, the two loans were repaid. See Notes 3 and 8. In March 2016, loans outstanding to an investment subsidiary of MLIC were repaid in cash prior to maturity.

The Company receives investment administrative services from an affiliate. The related investment administrative service charges were \$23 million and \$48 million for the three months and six months ended June 30, 2017, respectively, and \$24 million and \$47 million for the three months and six months ended June 30, 2016, respectively.

In January 2017, MLIC recaptured risks related to guaranteed minimum benefit guarantees on certain variable annuities being reinsured by the Company. The Company transferred investments and cash and cash equivalents which are included in the table above. See Note 12 for additional information related to the transfer.

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.

**6. 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.

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

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

**6. Derivatives (continued)**

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

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

***Hedge Accounting***

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

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

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

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

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

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

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

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

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

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

**6. Derivatives (continued)**

**Embedded Derivatives**

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

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

Such embedded derivatives are carried on the balance sheet at estimated fair value with the host contract and changes in their estimated fair value are generally reported in net derivative gains (losses), except for those in policyholder benefits and claims related to ceded reinsurance of GMIB. If the Company is unable to properly identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at estimated fair value, with changes in estimated fair value recognized in the current period in net investment gains (losses) or net investment income. Additionally, the Company may elect to carry an entire contract on the balance sheet at estimated fair value, with changes in estimated fair value recognized in the current period in net investment gains (losses) or net investment income if that contract contains an embedded derivative that requires bifurcation.

See Note 7 for information about the fair value hierarchy for derivatives.

**Derivative Strategies**

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

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

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.

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

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

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

**6. Derivatives (continued)**

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

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

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

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

**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.

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

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

**6. Derivatives (continued)**

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

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

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

In an equity total return swap 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, calculated by reference to an agreed notional amount. No cash is exchanged at the outset of the contract. Cash is paid and received over the life of the contract based on the terms of the swap. The Company uses equity total return swaps to hedge its equity market guarantees in certain of its insurance products. Equity total return swaps can be used as hedges or to synthetically create investments. The Company utilizes equity total return swaps in nonqualifying hedging relationships.

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

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

**6. 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:

Primary Underlying Risk Exposure	June 30, 2017			December 31, 2016			
	Gross Notional Amount	Estimated Fair Value		Gross Notional Amount	Estimated Fair Value		
		Assets	Liabilities		Assets	Liabilities	
(In millions)							
<b>Derivatives Designated as Hedging Instruments:</b>							
Fair value hedges:							
Interest rate swaps	Interest rate	\$ 225	\$ 43	\$ —	\$ 310	\$ 41	\$ —
Cash flow hedges:							
Interest rate swaps	Interest rate	45	8	—	45	7	—
Foreign currency swaps	Foreign currency exchange rate	1,471	137	24	1,420	186	10
Subtotal		1,516	145	24	1,465	193	10
Total qualifying hedges		1,741	188	24	1,775	234	10
<b>Derivatives Not Designated or Not Qualifying as Hedging Instruments:</b>							
Interest rate swaps	Interest rate	20,238	1,012	815	28,175	1,928	1,688
Interest rate floors	Interest rate	—	—	—	2,100	5	2
Interest rate caps	Interest rate	8,542	9	—	12,042	25	—
Interest rate futures	Interest rate	282	—	1	1,288	9	—
Interest rate options	Interest rate	20,800	133	—	15,520	136	—
Interest rate total return swaps	Interest rate	3,150	—	380	3,876	—	611
Foreign currency swaps	Foreign currency exchange rate	908	91	10	1,250	153	4
Foreign currency forwards	Foreign currency exchange rate	144	—	3	158	9	—
Credit default swaps — purchased	Credit	34	—	—	34	—	—
Credit default swaps — written	Credit	1,879	33	1	1,891	28	—
Equity futures	Equity market	3,336	2	1	8,037	38	—
Equity index options	Equity market	62,026	1,195	1,420	37,501	897	934
Equity variance swaps	Equity market	14,894	167	590	14,894	140	517
Equity total return swaps	Equity market	1,617	3	48	2,855	1	117
Total non-designated or nonqualifying derivatives		137,850	2,645	3,269	129,621	3,369	3,873
<b>Total</b>		<b>\$ 139,591</b>	<b>\$ 2,833</b>	<b>\$ 3,293</b>	<b>\$ 131,396</b>	<b>\$ 3,603</b>	<b>\$ 3,883</b>

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, 2017 and December 31, 2016. The Company's use of derivatives includes (i) derivatives that serve as macro hedges of the Company's exposure to various risks and that generally do not qualify for hedge accounting due to the criteria required under the portfolio hedging rules; (ii) derivatives that economically hedge insurance liabilities that contain mortality or morbidity risk and that generally do not qualify for hedge accounting because the lack of these risks in the derivatives cannot support an expectation of a highly effective hedging relationship; (iii) derivatives that economically hedge embedded derivatives that do not qualify for hedge accounting because the changes in estimated fair value of the embedded derivatives are already recorded in net income; and (iv) written credit default swaps that are used to synthetically create credit investments and that do not qualify for hedge accounting because they do not involve a hedging relationship. For these nonqualified derivatives, changes in market factors can lead to the recognition of fair value changes on the statement of operations without an offsetting gain or loss recognized in earnings for the item being hedged.

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

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

**6. Derivatives (continued)**

*Net Derivative Gains (Losses)*

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(In millions)				
Freestanding derivatives and hedging gains (losses) (1)	\$ (217)	\$ 514	\$ (1,353)	\$ 1,290
Embedded derivatives gains (losses)	128	(3,452)	451	(4,017)
Total net derivative gains (losses)	<u>\$ (89)</u>	<u>\$ (2,938)</u>	<u>\$ (902)</u>	<u>\$ (2,727)</u>

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

The following table presents earned income on derivatives:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(In millions)				
Qualifying hedges:				
Net investment income	\$ 5	\$ 5	\$ 11	\$ 8
Nonqualifying hedges:				
Net derivative gains (losses)	67	99	186	196
Policyholder benefits and claims	3	3	7	7
Total	<u>\$ 75</u>	<u>\$ 107</u>	<u>\$ 204</u>	<u>\$ 211</u>

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

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

**6. Derivatives (continued)**

***Nonqualifying Derivatives and Derivatives for Purposes Other Than Hedging***

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

	Net Derivative Gains (Losses)	Net Investment Income (1)	Policyholder Benefits and Claims (2)
(In millions)			
<b>Three Months Ended June 30, 2017</b>			
Interest rate derivatives	\$ 205	\$ —	\$ 3
Foreign currency exchange rate derivatives	(22)	—	—
Credit derivatives — written	5	—	—
Equity derivatives	(474)	(1)	(93)
Total	\$ (286)	\$ (1)	\$ (90)
<b>Three Months Ended June 30, 2016</b>			
Interest rate derivatives	\$ 598	\$ —	\$ 10
Foreign currency exchange rate derivatives	31	—	—
Credit derivatives — written	(1)	—	—
Equity derivatives	(214)	(1)	(47)
Total	\$ 414	\$ (1)	\$ (37)
<b>Six Months Ended June 30, 2017</b>			
Interest rate derivatives	(64)	—	2
Foreign currency exchange rate derivatives	(42)	—	—
Credit derivatives — written	11	—	—
Equity derivatives	(1,412)	(1)	(277)
Total	\$ (1,507)	\$ (1)	\$ (275)
<b>Six Months Ended June 30, 2016</b>			
Interest rate derivatives	\$ 1,416	\$ —	\$ 29
Foreign currency exchange rate derivatives	32	—	—
Credit derivatives — written	(1)	—	—
Equity derivatives	(351)	(4)	(17)
Total	\$ 1,096	\$ (4)	\$ 12

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

***Fair Value Hedges***

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

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

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

**6. Derivatives (continued)**

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

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Net Derivative Gains (Losses) Recognized for Derivatives	Net Derivative Gains (Losses) Recognized for Hedged Items	Ineffectiveness Recognized in Net Derivative Gains (Losses)
<b>(In millions)</b>				
<b>Three Months Ended June 30, 2017</b>				
Interest rate swaps:	Fixed maturity securities	\$ —	\$ —	\$ —
	Policyholder liabilities (1)	3	(3)	—
Total		<u>\$ 3</u>	<u>\$ (3)</u>	<u>\$ —</u>
<b>Three Months Ended June 30, 2016</b>				
Interest rate swaps:	Fixed maturity securities	\$ (1)	\$ —	\$ (1)
	Policyholder liabilities (1)	10	(10)	—
Total		<u>\$ 9</u>	<u>\$ (10)</u>	<u>\$ (1)</u>
<b>Six Months Ended June 30, 2017</b>				
Interest rate swaps:	Fixed maturity securities	\$ —	\$ —	\$ —
	Policyholder liabilities (1)	1	(1)	—
Total		<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ —</u>
<b>Six Months Ended June 30, 2016</b>				
Interest rate swaps:	Fixed maturity securities	\$ (3)	\$ 2	\$ (1)
	Policyholder liabilities (1)	24	(24)	—
Total		<u>\$ 21</u>	<u>\$ (22)</u>	<u>\$ (1)</u>

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

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

**Cash Flow Hedges**

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

In certain instances, the Company discontinued cash flow hedge accounting because the forecasted transactions were no longer probable of occurring. Because certain of the forecasted transactions also were not probable of occurring within two months of the anticipated date, the Company reclassified amounts from AOCI into net derivative gains (losses). For the three months and six months ended June 30, 2017, these amounts were \$0 and \$9 million, respectively. For the three months and six months ended June 30, 2016, there were no amounts reclassified into net derivative gains (losses) related to such discontinued cash flow hedges.

At June 30, 2017 and December 31, 2016, 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 two years and three years, respectively.

At June 30, 2017 and December 31, 2016, the balance in AOCI associated with cash flow hedges was \$334 million and \$397 million, respectively.

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

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

**6. Derivatives (continued)**

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gains (Losses) Deferred in AOCI on Derivatives		Amount and Location of Gains (Losses) Reclassified from AOCI into Income (Loss)		Amount and Location of Gains (Losses) Recognized in Income (Loss) on Derivatives	
	(Effective Portion)		(Effective Portion)		(Ineffective Portion)	
			Net Derivative Gains (Losses)	Net Investment Income	Net Derivative Gains (Losses)	
(In millions)						
<b>Three Months Ended June 30, 2017</b>						
Interest rate swaps	\$	1	\$	—	\$	1
Interest rate forwards		—		—		—
Foreign currency swaps		(33)		1		—
Credit forwards		—		—		—
Total	\$	(32)	\$	1	\$	1
<b>Three Months Ended June 30, 2016</b>						
Interest rate swaps	\$	10	\$	12	\$	—
Interest rate forwards		3		(1)		1
Foreign currency swaps		59		(1)		—
Credit forwards		—		—		—
Total	\$	72	\$	10	\$	1
<b>Six Months Ended June 30, 2017</b>						
Interest rate swaps	\$	1	\$	—	\$	2
Interest rate forwards		—		—		1
Foreign currency swaps		(52)		9		—
Credit forwards		—		—		—
Total	\$	(51)	\$	9	\$	3
<b>Six Months Ended June 30, 2016</b>						
Interest rate swaps	\$	36	\$	12	\$	1
Interest rate forwards		7		1		2
Foreign currency swaps		46		1		—
Credit forwards		—		—		—
Total	\$	89	\$	14	\$	3

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

At June 30, 2017, the Company expects to reclassify \$25 million of deferred net gains (losses) on derivatives in AOCI to earnings within the next 12 months.

**Credit Derivatives**

In connection with synthetically created credit investment transactions, the Company writes credit default swaps for which it receives a premium to insure credit risk. Such credit derivatives are included within the nonqualifying derivatives and derivatives for purposes other than hedging table. If a credit event occurs, as defined by the contract, the contract may be cash settled or it may be settled gross by the Company paying the counterparty the specified swap notional amount in exchange for the delivery of par quantities of the referenced credit obligation. The Company's maximum amount at risk, assuming the value of all referenced credit obligations is zero, was \$1.9 billion at both June 30, 2017 and December 31, 2016. The Company can terminate these contracts at any time through cash settlement with the counterparty at an amount equal to the then current estimated fair value of the credit default swaps. At June 30, 2017 and December 31, 2016, the Company would have received \$32 million and \$28 million, respectively, to terminate all of these contracts.

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

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

**6. Derivatives (continued)**

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

Rating Agency Designation of Referenced Credit Obligations (1)	June 30, 2017			December 31, 2016		
	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity (2)
(Dollars in millions)						
Aaa/Aa/A						
Single name credit default swaps (3)	\$ 1	\$ 25	3.1	\$ 1	\$ 45	2.2
Credit default swaps referencing indices	10	533	3.3	8	433	3.7
Subtotal	11	558	3.3	9	478	3.6
Baa						
Single name credit default swaps (3)	1	110	1.5	1	180	1.6
Credit default swaps referencing indices	21	1,166	5.1	18	1,213	4.8
Subtotal	22	1,276	4.8	19	1,393	4.4
Ba						
Single name credit default swaps (3)	(1)	45	3.8	—	20	2.7
Credit default swaps referencing indices	—	—	—	—	—	—
Subtotal	(1)	45	3.8	—	20	2.7
<b>Total</b>	<b>\$ 32</b>	<b>\$ 1,879</b>	<b>4.3</b>	<b>\$ 28</b>	<b>\$ 1,891</b>	<b>4.2</b>

- (1) The rating agency designations are based on availability and the midpoint of the applicable ratings among Moody's Investors Service ("Moody's"), Standard & Poor's 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.
- (3) Single name credit default swaps may be referenced to the credit of corporations, foreign governments, or state and political subdivisions.

**Credit Risk on Freestanding Derivatives**

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

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

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

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

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

**6. Derivatives (continued)**

See Note 7 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:

Derivatives Subject to a Master Netting Arrangement or a Similar Arrangement	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
(In millions)				
Gross estimated fair value of derivatives:				
OTC-bilateral (1)	\$ 2,857	\$ 3,215	\$ 3,394	\$ 2,929
OTC-cleared (1), (6)	23	58	267	905
Exchange-traded	2	2	46	—
Total gross estimated fair value of derivatives (1)	2,882	3,275	3,707	3,834
Amounts offset on the consolidated balance sheets				
Estimated fair value of derivatives presented on the consolidated balance sheets (1), (6)	—	—	—	—
	2,882	3,275	3,707	3,834
Gross amounts not offset on the consolidated balance sheets:				
Gross estimated fair value of derivatives: (2)				
OTC-bilateral	(2,376)	(2,376)	(2,231)	(2,231)
OTC-cleared	(2)	(2)	(165)	(165)
Exchange-traded	(1)	(1)	—	—
Cash collateral: (3), (4)				
OTC-bilateral	(195)	—	(634)	—
OTC-cleared	(20)	(22)	(91)	(740)
Exchange-traded	—	—	—	—
Securities collateral: (5)				
OTC-bilateral	(282)	(807)	(429)	(698)
OTC-cleared	—	(34)	—	—
Exchange-traded	—	(1)	—	—
Net amount after application of master netting agreements and collateral	\$ 6	\$ 32	\$ 157	\$ —

- (1) At June 30, 2017 and December 31, 2016, derivative assets included income or expense accruals reported in accrued investment income or in other liabilities of \$49 million and \$104 million, respectively, and derivative liabilities included (income) or expense accruals reported in accrued investment income or in other liabilities of (\$18) million and (\$49) million, respectively.
- (2) Estimated fair value of derivatives is limited to the amount that is subject to set-off and includes income or expense accruals.
- (3) Cash collateral received by the Company for OTC-bilateral and OTC-cleared derivatives is included in cash and cash equivalents, short-term investments or in fixed maturity securities, and the obligation to return it is included in payables for collateral under securities loaned and other transactions on the balance sheet.
- (4) The receivable for the return of cash collateral provided by the Company is inclusive of initial margin on exchange-traded and OTC-cleared derivatives and is included in premiums, reinsurance and other receivables on the balance sheet. The amount of cash collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreements. At June 30, 2017 and December 31, 2016, the Company received excess cash collateral of \$139 million and \$4 million, respectively, and provided excess cash collateral of \$0 and \$25 million, respectively, which is not included in the table above due to the foregoing limitation.

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

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

**6. Derivatives (continued)**

- (5) Securities collateral received by the Company is held in separate custodial accounts and is not recorded on the balance sheet. Subject to certain constraints, the Company is permitted by contract to sell or re-pledge this collateral, but at June 30, 2017, 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, 2017 and December 31, 2016, the Company received excess securities collateral with an estimated fair value of \$157 million and \$135 million, respectively, for its OTC-bilateral derivatives, which are not included in the table above due to the foregoing limitation. At June 30, 2017 and December 31, 2016, the Company provided excess securities collateral with an estimated fair value of \$161 million and \$108 million, respectively, for its OTC-bilateral derivatives, and \$277 million and \$630 million, respectively, for its OTC-cleared derivatives, and \$124 million and \$453 million, respectively, for its exchange-traded derivatives, which are not included in the table above due to the foregoing limitation.
- (6) Effective January 3, 2017, the CME amended its rulebook, resulting in the characterization of variation margin transfers as settlement payments, as opposed to adjustments to collateral. See Note 1 for further information on the CME amendments.

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 Brighthouse Life Insurance 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, Brighthouse Life Insurance Company would not be required to post additional collateral as a result of a downgrade in financial strength rating. OTC-bilateral derivatives that are not subject to collateral agreements are excluded from this table.

	June 30, 2017	December 31, 2016
	(In millions)	
Estimated fair value of derivatives in a net liability position (1)	\$ 839	\$ 698
<b>Estimated Fair Value of Collateral Provided:</b>		
Fixed maturity securities	\$ 956	\$ 777
Cash	\$ —	\$ —
<b>Fair Value of Incremental Collateral Provided Upon:</b>		
One-notch downgrade in financial strength rating	\$ —	\$ —
Downgrade in financial strength rating to a level that triggers full overnight collateralization or termination of the derivative position	\$ —	\$ —

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

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

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

**6. Derivatives (continued)**

***Embedded Derivatives***

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

	<u>Balance Sheet Location</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
(In millions)			
<b>Embedded derivatives within asset host contracts:</b>			
Ceded guaranteed minimum benefits	Premiums, reinsurance and other receivables	\$ 241	\$ 409
Options embedded in debt or equity securities	Investments	(60)	(49)
Embedded derivatives within asset host contracts		<u>\$ 181</u>	<u>\$ 360</u>
<b>Embedded derivatives within liability host contracts:</b>			
Direct guaranteed minimum benefits	Policyholder account balances	\$ 1,874	\$ 2,237
Assumed guaranteed minimum benefits	Policyholder account balances	474	741
Fixed annuities with equity indexed returns	Policyholder account balances	370	192
Embedded derivatives within liability host contracts		<u>\$ 2,718</u>	<u>\$ 3,170</u>

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
(In millions)				
Net derivative gains (losses) (1), (2)	\$ 128	\$ (3,452)	\$ 451	\$ (4,017)
Policyholder benefits and claims	\$ 14	\$ 60	\$ (1)	\$ 105

(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 (\$36) million and (\$80) million for the three months and six months ended June 30, 2017, respectively and \$500 million and \$642 million for the three months and six months ended June 30, 2016, respectively.

(2) See Note 12 for discussion of affiliated net derivative gains (losses).

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

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

**7. 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, 2017				
	Fair Value Hierarchy				Total Estimated Fair Value
	Level 1	Level 2	Level 3		
	(In millions)				
<b>Assets</b>					
Fixed maturity securities:					
U.S. corporate	\$ —	\$ 20,403	\$ 1,384	\$ —	\$ 21,787
U.S. government and agency	7,561	7,358	—	—	14,919
RMBS	—	6,904	1,165	—	8,069
Foreign corporate	—	5,445	911	—	6,356
State and political subdivision	—	3,953	—	—	3,953
CMBS	—	3,030	153	—	3,183
ABS	—	2,028	163	—	2,191
Foreign government	—	1,164	—	—	1,164
Total fixed maturity securities	7,561	50,285	3,776	—	61,622
Equity securities	41	103	134	—	278
Short-term investments	234	921	91	—	1,246
Commercial mortgage loans held by CSEs — FVO	—	123	—	—	123
Derivative assets: (1)					
Interest rate	—	1,205	—	—	1,205
Foreign currency exchange rate	—	228	—	—	228
Credit	—	23	10	—	33
Equity market	2	1,178	187	—	1,367
Total derivative assets	2	2,634	197	—	2,833
Embedded derivatives within asset host contracts (2)	—	—	241	—	241
Separate account assets (3)	457	107,189	6	—	107,652
Total assets	\$ 8,295	\$ 161,255	\$ 4,445	\$ —	\$ 173,995
<b>Liabilities</b>					
Derivative liabilities: (1)					
Interest rate	\$ 1	\$ 815	\$ 380	\$ —	\$ 1,196
Foreign currency exchange rate	—	37	—	—	37
Credit	—	1	—	—	1
Equity market	1	1,461	597	—	2,059
Total derivative liabilities	2	2,314	977	—	3,293
Embedded derivatives within liability host contracts (2)	—	—	2,718	—	2,718
Long-term debt of CSEs — FVO	—	16	—	—	16
Total liabilities	\$ 2	\$ 2,330	\$ 3,695	\$ —	\$ 6,027

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

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

**7. Fair Value (continued)**

	December 31, 2016			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
(In millions)				
<b>Assets</b>				
Fixed maturity securities:				
U.S. corporate	\$ —	\$ 20,221	\$ 1,444	\$ 21,665
U.S. government and agency	6,110	6,806	—	12,916
RMBS	—	6,627	1,313	7,940
Foreign corporate	—	5,257	866	6,123
State and political subdivision	—	3,841	17	3,858
CMBS	—	3,529	167	3,696
ABS	—	2,383	215	2,598
Foreign government	—	1,103	—	1,103
Total fixed maturity securities	6,110	49,767	4,022	59,899
Equity securities	39	124	137	300
Short-term investments	702	568	2	1,272
Commercial mortgage loans held by CSEs — FVO	—	136	—	136
Derivative assets: (1)				
Interest rate	9	2,142	—	2,151
Foreign currency exchange rate	—	348	—	348
Credit	—	20	8	28
Equity market	37	860	179	1,076
Total derivative assets	46	3,370	187	3,603
Embedded derivatives within asset host contracts (2)	—	—	409	409
Separate account assets (3)	720	104,616	10	105,346
Total assets	\$ 7,617	\$ 158,581	\$ 4,767	\$ 170,965
<b>Liabilities</b>				
Derivative liabilities: (1)				
Interest rate	\$ —	\$ 1,690	\$ 611	\$ 2,301
Foreign currency exchange rate	—	14	—	14
Equity market	—	1,038	530	1,568
Total derivative liabilities	—	2,742	1,141	3,883
Embedded derivatives within liability host contracts (2)	—	—	3,170	3,170
Long-term debt of CSEs — FVO	—	23	—	23
Total liabilities	\$ —	\$ 2,765	\$ 4,311	\$ 7,076

- (1) 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.
- (2) 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, 2017 and December 31, 2016, debt and equity securities also included embedded derivatives of (\$60) million and (\$49) million, respectively.
- (3) Investment performance related to separate account assets is fully offset by corresponding amounts credited to contractholders whose liability is reflected within separate account liabilities. Separate account liabilities are set equal to the estimated fair value of separate account assets.

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

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

**7. Fair Value (continued)**

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

**Investments**

**Valuation Controls and Procedures**

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

The Company reviews its valuation methodologies on an ongoing basis and revises those methodologies when necessary based on changing market conditions. Assurance is gained on the overall reasonableness and consistent application of input assumptions, valuation methodologies and compliance with fair value accounting standards through controls designed to ensure valuations represent an exit price. Several controls are utilized, including certain monthly controls, which include, but are not limited to, analysis of portfolio returns to corresponding benchmark returns, comparing a sample of executed prices of securities sold to the fair value estimates, comparing fair value estimates to management's knowledge of the current market, reviewing the bid/ask spreads to assess activity, comparing prices from multiple independent pricing services and ongoing due diligence to confirm that independent pricing services use market-based parameters. The process includes a determination of the observability of inputs used in estimated fair values received from independent pricing services or brokers by assessing whether these inputs can be corroborated by observable market data. The Company ensures that prices received from independent brokers, also referred to herein as "consensus pricing," represent a reasonable estimate of fair value by considering such pricing relative to the Company's knowledge of the current market dynamics and current pricing for similar financial instruments. While independent non-binding broker quotations are utilized, they are not used for a significant portion of the portfolio. For example, fixed maturity securities priced using independent non-binding broker quotations represent less than 1% of the total estimated fair value of fixed maturity securities and 6% of the total estimated fair value of Level 3 fixed maturity securities at June 30, 2017.

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

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

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

**7. Fair Value (continued)**

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

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

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

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

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

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

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

**7. Fair Value (continued)**

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

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

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

**7. Fair Value (continued)**

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

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

**Derivatives**

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

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.

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

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

**7. Fair Value (continued)**

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

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

Freestanding Derivatives

Level 2 Valuation Approaches and Key Inputs:

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

Level 3 Valuation Approaches and Key Inputs:

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

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

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

(1) Option-based only.

(2) Extrapolation beyond the observable limits of the curve(s).

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

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

**7. Fair Value (continued)**

**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 MetLife, Inc.'s debt, including related credit default swaps. These observable spreads are then adjusted, as necessary, to reflect the priority of these liabilities and the claims paying ability of the issuing insurance subsidiaries as compared to MetLife, Inc.

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

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

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

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

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

**7. Fair Value (continued)**

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

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

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

*Embedded Derivatives Within Asset and Liability Host Contracts*

*Level 3 Valuation Approaches and Key Inputs:*

*Direct and assumed guaranteed minimum benefits*

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

*Reinsurance ceded on certain guaranteed minimum benefits*

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

*Transfers between Levels*

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

*Transfers between Levels 1 and 2:*

For assets and liabilities measured at estimated fair value and still held at June 30, 2017, there were no transfers between Levels 1 and 2. For assets and liabilities measured at estimated fair value and still held at December 31, 2016, transfers between Levels 1 and 2 were not significant.

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

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

**7. Fair Value (continued)**

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.

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, 2017		December 31, 2016		Impact of Increase in Input on Estimated Fair Value (2)
			Range	Weighted Average (1)	Range	Weighted Average (1)	
<b>Fixed maturity securities (3)</b>							
U.S. corporate and foreign corporate	• Matrix pricing	• Offered quotes (4)	22 - 142	107	18 - 138	104	Increase
	• Market pricing	• Quoted prices (4)	13 - 559	104	13 - 700	99	Increase
	• Consensus pricing	• Offered quotes (4)	89 - 89	89	37 - 109	85	Increase
RMBS	• Market pricing	• Quoted prices (4)	49 - 113	93	38 - 111	91	Increase (5)
ABS	• Market pricing	• Quoted prices (4)	97 - 104	101	94 - 106	100	Increase (5)
	• Consensus pricing	• Offered quotes (4)	99 - 101	99	98 - 100	99	Increase (5)
<b>Derivatives</b>							
Interest rate	• Present value techniques	• Repurchase rates (7)	— - 13		(44) - 18		Decrease (6)
Credit	• Present value techniques	• Credit spreads (8)	96 - 98		97 - 98		Decrease (8)
	• Consensus pricing	• Offered quotes (9)					
Equity market	• Present value techniques or option pricing models	• Volatility (10)	10% - 34%		14% - 32%		Increase (6)
		• Correlation (11)	70% - 70%		40% - 40%		
<b>Embedded derivatives</b>							
Direct, assumed and ceded guaranteed minimum benefits	• Option pricing techniques	• Mortality rates:					
		Ages 0 - 40	0% - 0.09%		0% - 0.21%		Decrease (12)
		Ages 41 - 60	0.04% - 0.65%		0.01% - 0.78%		Decrease (12)
		Ages 61 - 115	0.26% - 100%		0.04% - 100%		Decrease (12)
		• Lapse rates:					
		Durations 1 - 10	0.25% - 100%		0.25% - 100%		Decrease (13)
		Durations 11 - 20	2% - 100%		2% - 100%		Decrease (13)
		Durations 21 - 116	2% - 100%		1.25% - 100%		Decrease (13)
		• Utilization rates	0% - 25%		0% - 25%		Increase (14)
		• Withdrawal rates	0.25% - 10%		0% - 20%		(15)
• Long-term equity volatilities	17.40% - 25%		9.95% - 33%		Increase (16)		
• Nonperformance risk spread	0.03% - 0.47%		0.04% - 1.70%		Decrease (17)		

- (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.

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

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

**7. Fair Value (continued)**

- (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.
- (7) Ranges represent different repurchase rates utilized as components within the valuation methodology and are presented in basis points.
- (8) 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.
- (9) At June 30, 2017 and December 31, 2016, independent non-binding broker quotations were used in the determination of 2% and 3%, respectively, of the total net derivative estimated fair value.
- (10) 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.
- (11) 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.
- (12) 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.
- (13) 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.
- (14) The utilization rate assumption estimates the percentage of contractholders 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.
- (15) 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.
- (16) 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.
- (17) 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.

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

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

**7. Fair Value (continued)**

The following is a summary of the valuation techniques and significant unobservable inputs used in the fair value measurement of assets and liabilities classified within Level 3 that are not included in the preceding table. Generally, all other classes of securities classified within Level 3, including those within separate account assets, 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.

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

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

**7. Fair Value (continued)**

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Fixed Maturity Securities				
	Corporate (1)	U.S. Government and Agency	Structured Securities	State and Political Subdivision	Foreign Government
	(In millions)				
<b>Three Months Ended June 30, 2017</b>					
Balance, beginning of period	\$ 2,344	\$ —	\$ 1,626	\$ 7	\$ —
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	1	—	6	—	—
Total realized/unrealized gains (losses) included in AOCI	21	—	22	—	—
Purchases (7)	171	—	24	—	—
Sales (7)	(247)	—	(138)	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	—	—	—
Transfers into Level 3 (8)	29	—	—	—	—
Transfers out of Level 3 (8)	(24)	—	(59)	(7)	—
Balance, end of period	<u>\$ 2,295</u>	<u>\$ —</u>	<u>\$ 1,481</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Three Months Ended June 30, 2016</b>					
Balance, beginning of period	\$ 2,390	\$ 21	\$ 1,732	\$ 8	\$ —
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	(1)	—	8	—	—
Total realized/unrealized gains (losses) included in AOCI	75	1	(5)	—	—
Purchases (7)	230	3	383	—	9
Sales (7)	(60)	—	(142)	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	—	—	—
Transfers into Level 3 (8)	101	—	12	—	—
Transfers out of Level 3 (8)	(41)	—	(129)	—	—
Balance, end of period	<u>\$ 2,694</u>	<u>\$ 25</u>	<u>\$ 1,859</u>	<u>\$ 8</u>	<u>\$ 9</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ —</u>

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

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

**7. Fair Value (continued)**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Equity Securities	Short-term Investments	Net Derivatives (2)	Net Embedded Derivatives (3)	Separate Account Assets (4)
(In millions)					
<b>Three Months Ended June 30, 2017</b>					
Balance, beginning of period	\$ 142	\$ 1	\$ (890)	\$ (2,377)	\$ 15
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	1	—	106	151	—
Total realized/unrealized gains (losses) included in AOCI	1	—	—	—	—
Purchases (7)	—	91	4	—	7
Sales (7)	(10)	—	—	—	(8)
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	—	(251)	(1)
Transfers into Level 3 (8)	—	—	—	—	—
Transfers out of Level 3 (8)	—	(1)	—	—	(7)
Balance, end of period	<u>\$ 134</u>	<u>\$ 91</u>	<u>\$ (780)</u>	<u>\$ (2,477)</u>	<u>\$ 6</u>
<b>Three Months Ended June 30, 2016</b>					
Balance, beginning of period	\$ 171	\$ 50	\$ (243)	\$ (884)	\$ 143
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	54	(3,373)	—
Total realized/unrealized gains (losses) included in AOCI	3	—	4	—	—
Purchases (7)	—	111	4	—	—
Sales (7)	(1)	—	—	—	—
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	(1)	(345)	—
Transfers into Level 3 (8)	—	—	—	—	—
Transfers out of Level 3 (8)	—	(50)	—	—	(1)
Balance, end of period	<u>\$ 173</u>	<u>\$ 111</u>	<u>\$ (182)</u>	<u>\$ (4,602)</u>	<u>\$ 142</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 106</u>	<u>\$ 235</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 57</u>	<u>\$ (3,375)</u>	<u>\$ —</u>

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

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

**7. Fair Value (continued)**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Fixed Maturity Securities					Foreign Government
	Corporate (1)	U.S. Government and Agency	Structured Securities	State and Political Subdivision		
(In millions)						
<b>Six Months Ended June 30, 2017</b>						
Balance, beginning of period	\$ 2,310	\$ —	\$ 1,695	\$ 17	\$ —	
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	(2)	—	9	—	—	
Total realized/unrealized gains (losses) included in AOCI	127	—	37	—	—	
Purchases (7)	291	—	68	—	—	
Sales (7)	(298)	—	(224)	—	—	
Issuances (7)	—	—	—	—	—	
Settlements (7)	—	—	—	—	—	
Transfers into Level 3 (8)	3	—	—	—	—	
Transfers out of Level 3 (8)	(136)	—	(104)	(17)	—	
Balance, end of period	<u>\$ 2,295</u>	<u>\$ —</u>	<u>\$ 1,481</u>	<u>\$ —</u>	<u>\$ —</u>	
<b>Six Months Ended June 30, 2016</b>						
Balance, beginning of period	\$ 2,410	\$ —	\$ 1,996	\$ 13	\$ 27	
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	(13)	—	13	—	—	
Total realized/unrealized gains (losses) included in AOCI	174	2	(18)	—	—	
Purchases (7)	276	4	453	—	9	
Sales (7)	(140)	—	(234)	—	—	
Issuances (7)	—	—	—	—	—	
Settlements (7)	—	—	—	—	—	
Transfers into Level 3 (8)	165	19	24	—	—	
Transfers out of Level 3 (8)	(178)	—	(375)	(5)	(27)	
Balance, end of period	<u>\$ 2,694</u>	<u>\$ 25</u>	<u>\$ 1,859</u>	<u>\$ 8</u>	<u>\$ 9</u>	
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ —</u>	
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ (12)</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ —</u>	

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

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

**7. Fair Value (continued)**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Equity Securities	Short-term Investments	Net Derivatives (2)	Net Embedded Derivatives (3)	Separate Account Assets (4)
(In millions)					
<b>Six Months Ended June 30, 2017</b>					
Balance, beginning of period	\$ 137	\$ 2	\$ (954)	\$ (2,761)	\$ 10
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	96	468	—
Total realized/unrealized gains (losses) included in AOCI	3	—	—	—	—
Purchases (7)	4	91	4	—	1
Sales (7)	(10)	(1)	—	—	(2)
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	74	(184)	—
Transfers into Level 3 (8)	—	—	—	—	2
Transfers out of Level 3 (8)	—	(1)	—	—	(5)
Balance, end of period	<u>\$ 134</u>	<u>\$ 91</u>	<u>\$ (780)</u>	<u>\$ (2,477)</u>	<u>\$ 6</u>
<b>Six Months Ended June 30, 2016</b>					
Balance, beginning of period	\$ 97	\$ 47	\$ (232)	\$ (442)	\$ 146
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	—	37	(3,894)	—
Total realized/unrealized gains (losses) included in AOCI	—	—	8	—	—
Purchases (7)	—	111	7	—	1
Sales (7)	(13)	(47)	—	—	(4)
Issuances (7)	—	—	—	—	—
Settlements (7)	—	—	(2)	(266)	—
Transfers into Level 3 (8)	129	—	—	—	—
Transfers out of Level 3 (8)	(40)	—	—	—	(1)
Balance, end of period	<u>\$ 173</u>	<u>\$ 111</u>	<u>\$ (182)</u>	<u>\$ (4,602)</u>	<u>\$ 142</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2017 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 93</u>	<u>\$ 521</u>	<u>\$ —</u>
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at June 30, 2016 (9)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 43</u>	<u>\$ (3,895)</u>	<u>\$ —</u>

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

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

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

**7. Fair Value (continued)**

- (7) Items purchased/issued and then sold/settled in the same period are excluded from the rollforward. Fees attributed to embedded derivatives are included in settlements.
- (8) Gains and losses, in net income (loss) and OCI, are calculated assuming transfers into and/or out of Level 3 occurred at the beginning of the period. Items transferred into and then out of Level 3 in the same period are excluded from the rollforward.
- (9) Changes in unrealized gains (losses) included in net income (loss) relate to assets and liabilities still held at the end of the respective periods. Substantially all changes in unrealized gains (losses) included in net income (loss) for net derivatives and 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, 2017	December 31, 2016
	(In millions)	
<b>Assets (1)</b>		
Unpaid principal balance	\$ 76	\$ 88
Difference between estimated fair value and unpaid principal balance	47	48
Carrying value at estimated fair value	\$ 123	\$ 136
<b>Liabilities (1)</b>		
Contractual principal balance	\$ 15	\$ 22
Difference between estimated fair value and contractual principal balance	1	1
Carrying value at estimated fair value	\$ 16	\$ 23

- (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.

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

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

**7. 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, 2017					
Carrying Value	Fair Value Hierarchy			Total Estimated Fair Value	
	Level 1	Level 2	Level 3		
(In millions)					
<b>Assets</b>					
Mortgage loans	\$ 10,036	\$ —	\$ —	\$ 10,299	\$ 10,299
Policy loans	\$ 1,091	\$ —	\$ 744	\$ 439	\$ 1,183
Real estate joint ventures	\$ 6	\$ —	\$ —	\$ 27	\$ 27
Other limited partnership interests	\$ 42	\$ —	\$ —	\$ 41	\$ 41
Loans to affiliates	\$ —	\$ —	\$ —	\$ —	\$ —
Premiums, reinsurance and other receivables	\$ 1,647	\$ —	\$ 170	\$ 2,000	\$ 2,170
<b>Liabilities</b>					
Policyholder account balances	\$ 15,734	\$ —	\$ —	\$ 17,120	\$ 17,120
Long-term debt	\$ 37	\$ —	\$ 44	\$ —	\$ 44
Other liabilities	\$ 728	\$ —	\$ 358	\$ 390	\$ 748
Separate account liabilities	\$ 1,163	\$ —	\$ 1,163	\$ —	\$ 1,163
December 31, 2016					
Carrying Value	Fair Value Hierarchy			Total Estimated Fair Value	
	Level 1	Level 2	Level 3		
(In millions)					
<b>Assets</b>					
Mortgage loans	\$ 9,154	\$ —	\$ —	\$ 9,298	\$ 9,298
Policy loans	\$ 1,093	\$ —	\$ 746	\$ 431	\$ 1,177
Real estate joint ventures	\$ 12	\$ —	\$ —	\$ 44	\$ 44
Other limited partnership interests	\$ 44	\$ —	\$ —	\$ 42	\$ 42
Loans to affiliates	\$ 1,100	\$ —	\$ 1,090	\$ —	\$ 1,090
Premiums, reinsurance and other receivables	\$ 2,363	\$ —	\$ 834	\$ 1,981	\$ 2,815
<b>Liabilities</b>					
Policyholder account balances	\$ 16,043	\$ —	\$ —	\$ 17,259	\$ 17,259
Long-term debt	\$ 1,881	\$ —	\$ 2,117	\$ —	\$ 2,117
Other liabilities	\$ 256	\$ —	\$ 90	\$ 166	\$ 256
Separate account liabilities	\$ 1,110	\$ —	\$ 1,110	\$ —	\$ 1,110

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

**Mortgage Loans**

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

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

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

**7. Fair Value (continued)**

**Policy Loans**

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

**Real Estate Joint Ventures and Other Limited Partnership Interests**

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

**Loans to Affiliates**

The estimated fair value of loans to affiliates is principally determined using market standard valuation methodologies. Valuations of instruments are based primarily on discounted cash flow methodologies that use standard market observable inputs including market yield curve, duration, observable prices and spreads for similar publicly traded or privately traded issues.

**Premiums, Reinsurance and Other Receivables**

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

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

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

**Policyholder Account Balances**

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

**Long-term Debt**

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

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

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

**7. Fair Value (continued)**

**Other Liabilities**

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

**Separate Account Liabilities**

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

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

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

**8. Debt**

On June 16, 2017, MetLife, Inc. forgave the Company’s obligation to pay the principal amount of \$750 million affiliated surplus notes held by MetLife, Inc. The forgiveness of the surplus notes was treated as a capital transaction and recorded as an increase to additional paid-in-capital. See Note 9.

On April 28, 2017, two surplus note obligations with MetLife, Inc. totaling \$1.1 billion, which were due on September 30, 2032 and December 31, 2033 and carried interest at 5.13% and 6.00%, respectively, were satisfied in a noncash exchange for \$1.1 billion of loans outstanding from MetLife. See Notes 3 and 5.

On April 28, 2017, BRCD entered into a new financing arrangement with a pool of highly rated third party reinsurers and a total capacity of \$10.0 billion. This financing arrangement consists of credit-linked notes that each have a term of 20 years. As of June 30, 2017, there were no drawdowns on such notes and there was \$8.1 billion of funding available under this arrangement. See Note 3.

**9. Equity**

**Capital Transactions**

In June 2017, the Company received a capital contribution of \$600 million in cash from Brighthouse Holdings, LLC.

In June 2017, MetLife, Inc. made a non-cash capital contribution of \$750 million in the form of forgiveness of debt to the Company. See Note 8.

In April 2017, the Contribution Transactions discussed in Note 3 included a net cash return of capital of \$2.7 billion.

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

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

**9. Equity (continued)**

**Accumulated Other Comprehensive Income (Loss)**

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

	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, beginning of period	\$ 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, end of period	\$ 1,675	\$ 217	\$ (31)	\$ 1,861

	Three Months Ended June 30, 2016			
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Total
	(In millions)			
Balance, beginning of period	\$ 2,479	\$ 248	\$ (28)	\$ 2,699
OCI before reclassifications	142	72	13	227
Deferred income tax benefit (expense)	(63)	(25)	(2)	(90)
AOCI before reclassifications, net of income tax	2,558	295	(17)	2,836
Amounts reclassified from AOCI	(27)	(11)	—	(38)
Deferred income tax benefit (expense)	9	4	—	13
Amounts reclassified from AOCI, net of income tax	(18)	(7)	—	(25)
Balance, end of period	\$ 2,540	\$ 288	\$ (17)	\$ 2,811

	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, beginning of period	\$ 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, end of period	\$ 1,675	\$ 217	\$ (31)	\$ 1,861

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

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

**9. Equity (continued)**

	Six Months Ended Ended June 30, 2016				Total
	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Total	
	(In millions)				
Balance, beginning of period	\$ 1,379	\$ 241	\$ (26)	\$ 1,594	
OCI before reclassifications	1,763	89	10	1,862	
Deferred income tax benefit (expense)	(624)	(31)	(1)	(656)	
AOCI before reclassifications, net of income tax	2,518	299	(17)	2,800	
Amounts reclassified from AOCI	34	(17)	—	17	
Deferred income tax benefit (expense)	(12)	6	—	(6)	
Amounts reclassified from AOCI, net of income tax	22	(11)	—	11	
Balance, end of period	<u>\$ 2,540</u>	<u>\$ 288</u>	<u>\$ (17)</u>	<u>\$ 2,811</u>	

(1) See Note 5 for information on offsets to investments related to future policy benefits, DAC, VOBA and DSI.

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

AOCI Components	Amounts Reclassified from AOCI				Consolidated Statements of Operations and Comprehensive Income (Loss) Locations
	Three Months Ended June 30,		Six Months Ended June 30,		
	2017	2016	2017	2016	
	(In millions)				
Net unrealized investment gains (losses):					
Net unrealized investment gains (losses)	\$ 2	\$ 25	\$ (46)	\$ (34)	Net investment gains (losses)
Net unrealized investment gains (losses)	1	2	2	—	Net investment income
Net unrealized investment gains (losses)	(1)	—	(44)	—	Net derivative gains (losses)
Net unrealized investment gains (losses), before income tax	2	27	(88)	(34)	
Income tax (expense) benefit	(5)	(9)	33	12	
Net unrealized investment gains (losses), net of income tax	(3)	18	(55)	(22)	
Unrealized gains (losses) on derivatives - cash flow hedges:					
Interest rate swaps	—	12	—	12	Net derivative gains (losses)
Interest rate swaps	1	—	2	1	Net investment income
Interest rate forwards	—	(1)	—	1	Net derivative gains (losses)
Interest rate forwards	—	1	1	2	Net investment income
Foreign currency swaps	1	(1)	9	1	Net derivative gains (losses)
Gains (losses) on cash flow hedges, before income tax	2	11	12	17	
Income tax (expense) benefit	(1)	(4)	(4)	(6)	
Gains (losses) on cash flow hedges, net of income tax	1	7	8	11	
Total reclassifications, net of income tax	<u>\$ (2)</u>	<u>\$ 25</u>	<u>\$ (47)</u>	<u>\$ (11)</u>	

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

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

**10. Other Expenses**

Information on other expenses was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Compensation	\$ 63	\$ 106	\$ 118	\$ 225
Commissions	174	132	368	317
Volume-related costs	59	57	115	113
Affiliated expenses on ceded and assumed reinsurance	(4)	(2)	4	1
Capitalization of DAC	(61)	(80)	(128)	(183)
Interest expense on debt	25	35	57	66
Premium taxes, licenses and fees	17	13	30	31
Professional services	46	15	81	26
Rent and related expenses	4	15	7	29
Other	137	104	244	220
<b>Total other expenses</b>	<b>\$ 460</b>	<b>\$ 395</b>	<b>\$ 896</b>	<b>\$ 845</b>

***Affiliated Expenses***

Commissions and capitalization of DAC include the impact of affiliated reinsurance transactions. See Note 12 for a discussion of affiliated expenses included in the table above.

**11. Contingencies, Commitments and Guarantees**

***Contingencies***

***Litigation***

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

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

The Company establishes liabilities for litigation and regulatory loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require the Company to pay damages or make other expenditures or establish accruals in amounts that could not be reasonably estimated at June 30, 2017.

***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, 2017, the aggregate range of reasonably possible losses in excess of amounts accrued for these matters was not material for the Company.

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

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

**11. Contingencies, Commitments and Guarantees (continued)**

*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, mutual funds or other products. The Company continues to defend vigorously against the claims in these matters. The Company believes adequate provision has been made in its consolidated financial statements for all probable and reasonably estimable losses for sales practices matters.

*Summary*

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

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

**Commitments**

*Mortgage Loan Commitments*

The Company commits to lend funds under mortgage loan commitments. The amounts of these mortgage loan commitments were \$168 million and \$335 million at June 30, 2017 and December 31, 2016, 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 \$1.3 billion at both June 30, 2017 and December 31, 2016.

*Other Commitments*

The Company has entered into collateral arrangements with affiliates which require the transfer of collateral in connection with secured demand notes. As of June 30, 2017, these arrangements had expired and the Company is no longer transferring collateral to custody accounts. As of December 31, 2016, the Company had agreed to fund up to \$20 million of cash upon the request by these affiliates and had transferred collateral consisting of various securities with a fair market value of \$25 million, to custody accounts to secure the demand notes. Each of these affiliates was permitted by contract to sell or repledge this collateral.

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

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

**11. Contingencies, Commitments and Guarantees (continued)**

**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 \$218 million, with a cumulative maximum of \$223 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, 2017 and December 31, 2016, for indemnities, guarantees and commitments.

**12. Related Party Transactions**

The Company has various existing relationships with MetLife for services necessary to conduct its activities.

**Non-Broker-Dealer Transactions**

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

	Three Months Ended June 30,			
	2017	2016	2017	2016
	Income		Expense	
	(In millions)			
MetLife	\$ 96	\$ 63	\$ 209	\$ 23

	Six Months Ended June 30,			
	2017	2016	2017	2016
	Income		Expense	
	(In millions)			
MetLife	\$ (110)	\$ (46)	\$ 409	\$ 218

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

	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
MetLife	\$ 2,950	\$ 2,649	\$ 4,288	\$ 5,125

The material arrangements between the Company and MetLife are as follows:

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

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

**12. Related Party Transactions (continued)**

***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 certain affiliates companies. 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 NELICO and certain MetLife, Inc. subsidiaries, including MLIC, General American Life Insurance Company, MetLife Europe d.a.c., MetLife Reinsurance Company of Vermont, Delaware American Life Insurance Company and American Life Insurance Company, all of which were related parties as of June 30, 2017.

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

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

**12. Related Party Transactions (continued)**

Information regarding the significant effects of affiliated reinsurance 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,	
	2017	2016	2017	2016
(In millions)				
<b>Premiums</b>				
Reinsurance assumed	\$ 4	\$ 8	\$ 9	\$ 54
Reinsurance ceded	(140)	(197)	(317)	(373)
Net premiums	<u>\$ (136)</u>	<u>\$ (189)</u>	<u>\$ (308)</u>	<u>\$ (319)</u>
<b>Universal life and investment-type product policy fees</b>				
Reinsurance assumed	\$ 24	\$ 29	\$ 50	\$ 57
Reinsurance ceded	(5)	(15)	(18)	(31)
Net universal life and investment-type product policy fees	<u>\$ 19</u>	<u>\$ 14</u>	<u>\$ 32</u>	<u>\$ 26</u>
<b>Other revenues</b>				
Reinsurance assumed	\$ 28	\$ —	\$ 28	\$ 1
Reinsurance ceded	39	288	39	316
Net other revenues	<u>\$ 67</u>	<u>\$ 288</u>	<u>\$ 67</u>	<u>\$ 317</u>
<b>Policyholder benefits and claims</b>				
Reinsurance assumed	\$ 17	\$ 13	\$ 35	\$ 58
Reinsurance ceded	(94)	(194)	(228)	(337)
Net policyholder benefits and claims	<u>\$ (77)</u>	<u>\$ (181)</u>	<u>\$ (193)</u>	<u>\$ (279)</u>
<b>Interest credited to policyholder account balances</b>				
Reinsurance assumed	\$ 18	\$ 19	\$ 36	\$ 38
Reinsurance ceded	(3)	(3)	(6)	(5)
Net interest credited to policyholder account balances	<u>\$ 15</u>	<u>\$ 16</u>	<u>\$ 30</u>	<u>\$ 33</u>
<b>Amortization of deferred policy acquisition costs and value of business acquired</b>				
Reinsurance assumed	\$ 21	\$ 2	\$ 22	\$ 5
Reinsurance ceded	(17)	(91)	14	(120)
Net amortization of deferred policy acquisition costs and value of business acquired	<u>\$ 4</u>	<u>\$ (89)</u>	<u>\$ 36</u>	<u>\$ (115)</u>
<b>Other expenses</b>				
Reinsurance assumed	\$ (3)	\$ (11)	\$ 11	\$ 16
Reinsurance ceded	(2)	(13)	7	(23)
Net other expenses	<u>\$ (5)</u>	<u>\$ (24)</u>	<u>\$ 18</u>	<u>\$ (7)</u>

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

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

**12. Related Party Transactions (continued)**

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

	June 30, 2017		December 31, 2016	
	Assumed	Ceded	Assumed	Ceded
	(In millions)			
<b>Assets</b>				
Premiums, reinsurance and other receivables	\$ 172	\$ 3,141	\$ 23	\$ 3,382
Deferred policy acquisition costs and value of business acquired	9	(386)	71	(356)
Total assets	\$ 181	\$ 2,755	\$ 94	\$ 3,026
<b>Liabilities</b>				
Future policy benefits	\$ 143	\$ —	\$ 211	\$ —
Policyholder account balances	474	—	741	—
Other policy-related balances	1,686	—	1,677	—
Other liabilities	(38)	384	11	578
Total liabilities	\$ 2,265	\$ 384	\$ 2,640	\$ 578

The Company assumes risks from affiliates related to guaranteed minimum benefit guarantees written directly by the affiliates. These assumed reinsurance agreements contain embedded derivatives and changes in their estimated fair value are also included within net derivative gains (losses). The embedded derivatives associated with these agreements are included within policyholder account balances and were \$474 million and \$741 million at June 30, 2017 and December 31, 2016, respectively. Net derivative gains (losses) associated with the embedded derivatives were \$105 million and \$138 million for the three months and six months ended June 30, 2017, respectively, and (\$193) million and (\$308) million for the three months and six months ended June 30, 2016, respectively.

The Company ceded risks to an affiliate related to guaranteed minimum benefit guarantees written directly by the Company. This ceded reinsurance agreement contains embedded derivatives and changes in the estimated fair value are also included within net derivative gains (losses). The embedded derivative associated with this cession is included within premiums, reinsurance and other receivables and were \$3 million and \$171 million at June 30, 2017 and December 31, 2016. Net derivative gains (losses) associated with the embedded derivative were \$0 and (\$125) million for the three months and six months ended June 30, 2017, respectively, and \$94 million and \$142 million for the three months and six months ended June 30, 2016, respectively.

In May 2017, the Company and Brighthouse NY 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 reinsurance termination.

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. This novation and assignment 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.

In January 2017, MLIC recaptured risks related to certain variable annuities, including guaranteed minimum benefits, issued by Brighthouse NY. 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.

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, three months and six months ended, as a result of this transaction.

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

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

**12. Related Party Transactions (continued)**

**Financing Arrangements**

The Company had financing arrangements with MetLife that are used to support reinsurance obligations arising under affiliated reinsurance agreements. The Company recognized interest expense for affiliated debt of \$24 million and \$55 million for the three months and six months ended June 30, 2017, respectively, and \$31 million and \$62 million for the three months six months ended June 30, 2016, respectively. See Note 3 for more information regarding the termination of these arrangements.

**Investment Transactions**

The Company has extended loans to certain subsidiaries of MetLife, Inc. Additionally, in the ordinary course of business, the Company transfers invested assets, primarily consisting of fixed maturity securities, to and from MetLife, Inc. affiliates. See Note 5 for further discussion of the related party investment transactions.

**Shared Services and Overhead Allocations**

MetLife, Inc. provides the Company certain services, which include, but are not limited to, executive oversight, treasury, finance, legal, human resources, tax planning, internal audit, financial reporting, information technology, distribution services and investor relations. The Company is charged for these services based on direct and indirect costs. When specific identification is not practicable, an allocation methodology is used, primarily based on sales, in-force liabilities, or headcount. For certain agreements, charges are based on various performance measures or activity-based costing, such as sales, new policies/contracts issued, reserves, and in-force policy counts. 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 MetLife, Inc. related to these arrangements, recorded in other operating expenses, were \$240 million and \$432 million for the three months and six months ended June 30, 2017, respectively, and \$245 million and \$484 million for the three months and six months ended June 30, 2016, respectively.

**Broker-Dealer Transactions**

The Company accrues related party revenues and expenses arising from transactions with affiliated broker-dealers whereby such affiliated broker-dealers sell the Company's variable annuity and life products. The affiliated expense for the Company is commissions collected on the sale of variable products by the Company and passed through to the broker-dealer. The affiliated revenue for the Company is fee income from trusts and mutual funds whose shares serve as investment options of policyholders of the Company. 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.

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

	Three Months Ended June 30,			
	2017	2016	2017	2016
	Fee Income		Commission Expense	
	(In millions)			
Affiliated broker-dealers	\$ 56	\$ 48	\$ 194	\$ 153

  

	Six Months Ended June 30,			
	2017	2016	2017	2016
	Fee Income		Commission Expense	
	(In millions)			
Affiliated broker-dealers	\$ 110	\$ 99	\$ 320	\$ 314

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

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

**12. Related Party Transactions (continued)**

The following table summarizes assets and liabilities from transactions with affiliated broker-dealers as follows:

	June 30, 2017		December 31, 2016	
	Fee Income Receivables	Secured Demand Notes	Fee Income Receivables	Secured Demand Notes
	(In millions)			
Affiliated broker-dealers	\$ (1)	\$ —	\$ 19	\$ 20

**13. Subsequent Events*****Capital Transactions***

On August 10, 2017, the Company received a capital contribution of \$400 million in cash from Brighthouse Holdings, LLC.

**Brighthouse Life Insurance Company**  
**(A Wholly-Owned Subsidiary of Brighthouse Financial, Inc.)**  
**Notes to the Interim Consolidated Financial Statements (Unaudited) — (continued)**

**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**

	<u>Page</u>
<a href="#">Business</a>	<a href="#">75</a>
<a href="#">Summary of Critical Accounting Estimates</a>	<a href="#">78</a>
<a href="#">Results of Operations</a>	<a href="#">78</a>
<a href="#">Adoption of New Accounting Pronouncements</a>	<a href="#">86</a>
<a href="#">Future Adoption of New Accounting Pronouncements</a>	<a href="#">86</a>
<a href="#">Non-GAAP and Other Financial Disclosures</a>	<a href="#">86</a>
<a href="#">Note Regarding Forward-Looking Statements</a>	<a href="#">89</a>

For purposes of this discussion, “Brighthouse Insurance,” 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. (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 in Item 1 of this Quarterly Report on Form 10-Q; (ii) our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Annual Report”); (iii) our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the “First Quarter 2017 Quarterly Report”); and (iv) our current reports on Form 8-K filed in 2017. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below and elsewhere in this report, particularly in “— Note Regarding Forward-Looking Statements” and the section entitled “Risk Factors” included in the 2016 Annual Report and the First Quarter 2017 Quarterly Report, as well as the Risk Factors set forth in Part II, Item IA of this Quarterly Report on Form 10-Q.

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 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.

## **Business**

### ***Overview***

The Company offers a range of individual annuities and individual life insurance products. 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. See “Business — Segments and Corporate & Other” included in the 2016 Annual Report and Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements for further information on the Company’s segments and Corporate & Other. See also “— Other Key Information — The Separation” for information on the Separation. Management continues to evaluate the Company’s segment performance and allocated resources and may adjust related measurements in the future to better reflect segment profitability.

### **Other Key Information**

#### **Segment Information**

As previously announced, in the third quarter of 2016, the Company reorganized its businesses in anticipation of the planned Separation. Also, in the fourth quarter of 2016, the Company moved the universal life policies with secondary guarantees (“ULSG”) business from the Life segment to the Run-off segment (“ULSG Re-segmentation”). These changes were applied retrospectively and did not have an impact on total consolidated net income (loss) or operating earnings in the prior periods. See Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements for further information on the Company’s segments.

#### **The Separation**

On January 12, 2016, MetLife, Inc. announced its plan to pursue the separation of a substantial portion of its former U.S. retail business. Additionally, on July 21, 2016, MetLife, Inc. announced that the separated business would be rebranded as “Brighthouse Financial.” Effective March 6, 2017, and in connection with the Separation, the Company changed its name from MetLife Insurance Company USA to Brighthouse Life Insurance Company.

On October 5, 2016, Brighthouse Financial, Inc., which until the completion of the Separation on August 4, 2017 was a wholly-owned subsidiary of MetLife, Inc., filed a registration statement on Form 10 (as amended, the “Form 10”) with the U.S. Securities and Exchange Commission (“SEC”) that was declared effective by the SEC on July 6, 2017. The Form 10 disclosed MetLife, Inc.’s plans to undertake several actions, including an internal reorganization involving its U.S. retail business (the “Restructuring”) and include, among others, Brighthouse Insurance, Brighthouse Life Insurance Company of NY (“Brighthouse NY”), New England Life Insurance Company, Brighthouse Investment Advisers, LLC (formerly known as MetLife Advisers, LLC) and certain affiliated reinsurance companies in the planned separated business, and distribute at least 80.1% of the shares of Brighthouse Financial, Inc.’s common stock on a pro rata basis to the holders of MetLife, Inc. common stock. In connection with the Restructuring, effective April 2017 following receipt of applicable regulatory approvals, MetLife, Inc. contributed certain affiliated reinsurance companies and Brighthouse NY to Brighthouse Insurance (the “Contribution Transactions”). The affiliated reinsurance companies were then merged into Brighthouse Reinsurance Company of Delaware, a licensed reinsurance subsidiary of Brighthouse Insurance. See Note 3 of the Notes to the Interim Condensed Consolidated Financial Statements for further information.

Additionally, in June 2017 in connection with the Separation: (i) MetLife, Inc. forgave the \$750 million principal amount of 8.595% surplus notes; and (ii) Brighthouse Holdings, LLC (“Brighthouse Holdings”) contributed \$600 million in cash to Brighthouse Life Insurance Company. On July 28, 2017, MetLife, Inc. contributed Brighthouse Holdings 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 96,776,670 of the 119,773,106 shares of the common stock of Brighthouse, representing 80.8% of MetLife Inc.’s interest in Brighthouse, to holders of MetLife, Inc. common stock.

On August 10, 2017, the Company received a capital contribution of \$400 million in cash from Brighthouse Holdings.

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

### ***Regulatory Developments***

We are domiciled in Delaware and regulated by the Delaware Department of Insurance. We are primarily regulated at the state level, with some products and services also subject to federal regulation. In addition, we are subject to regulation under the insurance holding company laws of Delaware. 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. See “Business — Regulation” and “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 2016 Annual Report, as amended in this Quarterly Report on Form 10-Q under this “Regulatory Developments” caption and “Risk Factors — Regulatory and Legal Risks.”

### ***Department of Labor and ERISA Considerations***

We manufacture life insurance products for third parties to sell to tax-qualified pension and retirement plans and Individual Retirement Accounts (“IRAs”) to individuals that are subject to ERISA or the Internal Revenue Code of 1986, as amended (the “Code”). 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 must perform their duties solely in the interests of 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 (“PBGC”).

The prohibited transaction rules of ERISA and the Code generally restrict the provision of investment advice to ERISA plans and 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.

The DOL issued new regulations on April 6, 2016 with an original applicable date for most provisions of April 10, 2017, although on April 4, 2017, the DOL released its final rule delaying the original applicable date for 60 days from April 10, 2017 until June 9, 2017. Further, on June 29, 2017, the DOL issued a request for information regarding its final rule defining who is a “fiduciary” for purposes of ERISA and the Code, and also the DOL’s new and amended exemptions (as described further below) that were published in conjunction with the final rule. These rules substantially expand the definition of “investment advice” and thereby broaden the circumstances under which distributors and even manufacturer can be considered fiduciaries under ERISA or the Code. Pursuant to the final rule, certain communications with plans, plan participants and IRA holders, including the marketing of products, and marketing of investment management or advisory services, could be deemed fiduciary investment advice, thus, causing increased exposure to fiduciary liability if the distributor does not recommend what is in the client’s best interests.

As noted above, the DOL also issued amendments to certain of its prohibited transaction exemptions, and issued a new exemption, that apply more onerous disclosure and contract requirements to, and increase fiduciary requirements and fiduciary liability exposure in respect of, transactions involving ERISA plans, plan participants and IRAs. In general, the changes the rule made to existing prohibited transaction exemptions and contract and disclosure requirements of the new exemption (other than the impartial interest standard) were delayed until January 1, 2018. Contracts entered into prior to the applicability date of the new regulations are generally “grandfathered” and, as such, are not subject to the requirements of the rule and related exemptions. To retain “grandfathered” status, no investment recommendations may be made after the applicability date of the new regulations with respect to such annuity products that were sold to ERISA plans or IRAs.

We will not be engaging in direct distribution of retail products, including IRA products and retail annuities sold into ERISA plans and IRAs, and therefore we anticipate that we will have limited exposure to the new DOL regulations, as the application of the vast majority of the provisions of the new DOL regulations targeted at such retail products will be reduced. Specifically, the most onerous of the requirements under the DOL fiduciary rule relate to the Best Interest Contract Exemption (“BIC”). The DOL guidance makes clear that distributors, not manufacturers, are primarily responsible for BIC compliance. However, we will be asked by our distributors, to assist them with preparing the voluminous disclosures required under BIC. Furthermore, if we want to retain the “grandfathered” status described above of current contracts, we will be limited in the interactions we can have directly with customers and the information that can be provided. We also anticipate that we will need to undertake certain additional tasks in order to comply with certain of the exemptions provided in the DOL regulations, including additional compliance reviews of material shared with distributors, wholesaler and call center training and product reporting and analysis. 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 2016 Annual Report.

On February 3, 2017, President Trump, in a memorandum to the Secretary of Labor, requested that the DOL prepare an updated economic and legal analysis concerning the likely impact of the new rules, and possible revisions to the rules. In response to President Trump’s request, and as noted above, on June 29, 2017, the DOL issued a request for information related to the fiduciary rule and providing for a 30-day comment period on all issues raised by its request for information (excepting the 15-day comment period on delaying the January 1, 2018 applicability date discussed above). On August 9, 2017, the DOL filed a public notice in the case of Thrivent Financial v. the DOL alerting the court that the DOL has submitted to the Office of Management and Budget proposed amendments to several prohibited transaction exemptions (including BIC and 84-24) further delaying application of these exemptions as re-written by the DOL, from January 1, 2018 to July 1, 2019. While we continue to analyze the impact of the final regulations on our business, we anticipate that we will need to undertake certain additional tasks in order to comply with certain of the exemptions provided in the DOL regulations, including additional compliance reviews of material shared with distributors, wholesaler and call center training and product reporting and analysis.

The change of administration and the DOL’s June 29, 2017 request for information related to the fiduciary rule and related exemptions leaves uncertainty over whether the regulations will be substantially modified or repealed. Application of the rules on June 9, 2017, in light of the DOL’s request for information and the overall reconsideration of the rules requested by President Trump, could create confusion among our distribution partners which could negatively impact product sales. We cannot predict what other proposals may be made, what legislation may be introduced or enacted, or what impact any such legislation may have on our business, results of operations and financial condition.

On July 11, 2016, the DOL, the IRS and the PBGC proposed revisions to the Form 5500, the form used for ERISA annual reporting. The revisions affect employee pension and welfare benefit plans, including our ERISA plans and require audits of information, self-directed brokerage account disclosure requirements and additional extensive disclosure. We cannot predict the effect these proposals, if enacted, will have on our business, or what other proposals may be made, what legislation may be introduced or enacted or the impact of any such legislation on our results of operations and financial condition.

## 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 goodwill and related impairment;
- (viii) measurement of income taxes and the valuation of deferred tax assets; and
- (ix) liabilities for litigation and regulatory matters.

In applying our accounting 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 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 2016 Annual Report.

We accelerated the annual review of our actuarial assumptions for our variable annuities business from the third quarter to the second quarter of 2016 in connection with the proposed Separation. As a result of this review, we made changes to policyholder behavior and long-term economic assumptions, as well as risk margins. With respect to policyholder behavior, which was the significant update for the second quarter of 2016, we have recorded charges, and in some cases benefits, in prior years as a result of the availability of sufficient and credible data at the conclusion of each review. As an example, in 2012, we recorded a charge to reflect better than expected persistency; and in 2014, we recorded a charge as we began to reflect lower utilization of the elective annuitization option in early generations of our guaranteed minimum income benefit (“GMIBs”). In addition, in the third quarter of 2016, we performed the annual review of our actuarial assumptions for our remaining annuity and life businesses. In 2017, we will perform the annual review of our actuarial assumptions for all of our businesses in the third quarter. See “— Results of Operations — GMLB Riders — Six Months Ended June 30, 2017 Compared with the Six Months Ended June 30, 2016 — GMLB Riders Actuarial Assumption Review” for further information.

## Results of Operations

In this report we present operating earnings as a financial measure that is not calculated in accordance with GAAP, along with other financial disclosures that we believe are relevant to understanding our results. See “— Non-GAAP and Other Financial Disclosures” for more detailed definitions of these measures.

**Consolidated Results for the Six Months Ended June 30, 2017 and 2016**

*Business Overview.* While sales of our index-linked annuities increased, overall annuity and life sales decreased for the six months ended June 30, 2017. The declines in both businesses were driven, in part, by the U.S. Retail Advisor Force Divestiture. The 22% decrease in annuity sales was also driven by the suspension of sales by a major distributor and discontinuance of sales of GMIB riders on our variable annuity products, both of which occurred in 2016. Life sales, which declined 59%, were also impacted by our discontinuance of new sales of whole life and certain term life products in the current period. Additionally, we ceased sales of all remaining ULSG products in the current period.

A significant portion of our net income is driven by separate account balances, particularly in our variable annuity business. Most directly, these balances determine asset-based fee income but also impact DAC amortization and asset-based commissions. Separate account balances are driven by sales, movements in the market, surrenders, withdrawals, benefit payments, transfers and policy charges. Average separate account balances increased in the current period, compared to the prior period, due to favorable equity market performance which more than offset the impact of continued negative net flows. We have experienced positive net flows in the general account in both periods.

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>(In millions)</b>		
<b>Revenues</b>		
Premiums	\$ 379	\$ 653
Universal life and investment-type product policy fees	1,570	1,523
Net investment income	1,499	1,507
Other revenues	199	437
Net investment gains (losses)	(55)	(40)
Net derivative gains (losses)	(902)	(2,727)
Total revenues	<u>2,690</u>	<u>1,353</u>
<b>Expenses</b>		
Policyholder benefits and claims	1,670	1,829
Interest credited to policyholder account balances	542	564
Capitalization of DAC	(128)	(183)
Amortization of DAC and VOBA	647	(349)
Interest expense on debt	57	66
Other expenses	967	962
Total expenses	<u>3,755</u>	<u>2,889</u>
Income (loss) before provision for income tax	(1,065)	(1,536)
Provision for income tax expense (benefit)	(436)	(608)
Net income (loss)	<u>\$ (629)</u>	<u>\$ (928)</u>

The table below shows the components of net income (loss), in addition to operating earnings for the six months ended June 30, 2017 and 2016.

	Six Months Ended June 30,	
	2017	2016
	(In millions)	
GMLB Riders	\$ (889)	\$ (2,328)
Amortization of DAC and VOBA	(13)	(30)
Other derivative instruments	(109)	117
Net investment gains (losses)	(55)	(40)
Other adjustments	(17)	(68)
Operating earnings before provision for income tax	18	813
Income (loss) before provision for income tax	(1,065)	(1,536)
Provision for income tax expense (benefit)	(436)	(608)
Net income (loss)	\$ (629)	\$ (928)

***Six Months Ended June 30, 2017 Compared with the Six Months Ended June 30, 2016***

*Overview.* Income (loss) before provision for income tax increased \$471 million (\$299 million, net of income tax) compared to the prior period. This increase was primarily due to a favorable change in GMLB Riders, partially offset by lower operating earnings and an unfavorable change in other derivative instruments. Excluding the impact of the annual actuarial assumption review in the prior period, income (loss) before provision for income tax decreased \$2.1 billion (\$1.3 billion, net of income tax).

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

GMLB Riders increased income (loss) before provision for income tax by \$1.4 billion (\$935 million, net of income tax), as our annual actuarial assumption review in the prior period resulted in changes to assumptions regarding policyholder behavior which significantly increased the carrying value of the liabilities. This current period favorable impact on the liabilities was partially offset by unfavorable impacts on hedges and reinsurance. See “—GMLB Riders for the Six Months Ended June 30, 2017 and 2016.”

*Amortization of DAC and VOBA.* Lower DAC and VOBA amortization, excluding the amounts in GMLB Riders and operating earnings, increased income (loss) before provision for income tax by \$17 million (\$11 million, net of income tax), primarily due to lower profits resulting from net investment gains (losses) and net derivative gains (losses) related to life and annuity products.

*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). The change in fair value of other derivative instruments decreased income (loss) before provision for income tax by \$226 million (\$147 million, net of income tax).

*Freestanding Derivatives.* We have freestanding derivatives that economically hedge certain invested assets and insurance liabilities. The majority of this hedging activity is focused in the following areas:

- use of interest rate swaps (i) when we have duration mismatches where suitable assets with maturities similar to those of our long-dated liabilities are not readily available in the market and (ii) to protect statutory capital during periods of declining or sustained low interest rates; and
- use of foreign currency swaps when we hold fixed maturity securities denominated in foreign currencies that are matching insurance liabilities denominated in U.S. dollars.

The market impacts on the hedges are accounted for in net income (loss) while the offsetting economic impact on the items they are hedging are either not recognized or recognized through other comprehensive income in equity.

Changes in the fair value of freestanding derivatives decreased income (loss) before provision for income tax by \$23 million (\$15 million, net of income tax), primarily due to unfavorable changes in our foreign currency swaps resulting from the U.S. dollar weakening against key foreign currencies more in the current period than in the prior period. This decrease was partially offset by favorable changes mostly from the impact of the current period decline in interest rates on the fair value of interest rate swaps that are hedging our ULSSG liabilities, which were not in place in the prior period, and, to a lesser extent, favorable impacts on credit derivatives from a tightening in credit spreads.

*Embedded Derivatives.* Ceded reinsurance agreements covering certain life products are written on a coinsurance with funds withheld basis. The funds withheld component is accounted for as an embedded derivative, reflecting the change in fair value of the underlying asset portfolio, with these changes in fair value recognized in net income (loss) in the period in which they occur. In addition, the changes in liability values of our index-linked annuity contracts that result from changes in the underlying equity indices are accounted for as embedded derivatives. Unfavorable changes in the fair value of embedded derivatives decreased income (loss) before provision for income tax by \$203 million (\$132 million, net of income tax), primarily due to the unfavorable change in the fair value of our equity index-linked embedded derivative liabilities resulting from an increase in the underlying equity index levels.

*Net Investment Gains (Losses).* Net investment gains (losses) decreased net income (loss) before provision for income tax by \$15 million (\$10 million, net of income tax), primarily due to higher net losses on sales of fixed maturity securities and current period losses, compared to gains in the prior period, on foreign currency transactions, partially offset by lower net losses on impairments of fixed maturity securities.

*Other Adjustments.* Other adjustments to determine operating earnings increased income (loss) before provision for income tax by \$51 million (\$33 million, net of income tax), primarily due to the pass-through adjustment related to participating general account products in our run-off business as well as direct expenses incurred in the prior period in connection with the U.S Retail Advisor Force Divestiture. The pass-through adjustment resulted from a decrease in the underlying general account asset values due to interest rates decreasing less in the current period than in the prior period.

*Income Tax Expense (Benefit).* Income tax benefit for the six months ended June 30, 2017 was \$436 million, or 41% of income (loss) before provision for income tax, compared to \$608 million, or 40% of income (loss) before provision for income tax, for the six months ended June 30, 2016. Our effective tax rates in both periods differ from the U.S. statutory rate of 35% primarily due to dividend received deductions and utilization of tax credits.

*Operating Earnings.* As more fully described in “— Non-GAAP and Other Financial Disclosures,” we use operating earnings, which does not equate to net income (loss) as determined in accordance with GAAP, to analyze our performance, evaluate segment performance, and allocate resources. We believe that the presentation of operating earnings, as we measure it for management purposes, enhances the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of the business. Operating earnings allows analysis of our performance and facilitates comparisons to industry results. Operating earnings should not be viewed as a substitute for net income (loss). Operating earnings before provision for income tax decreased \$795 million (\$525 million, net of income tax) compared to the prior period. Operating earnings is discussed in greater detail below.

Reconciliation of net income (loss) to operating earnings

	Six Months Ended June 30,	
	2017	2016
	(In millions)	
Net income (loss)	\$ (629)	\$ (928)
Add: Provision for income tax expense (benefit)	(436)	(608)
Net income (loss) before provision for income tax	(1,065)	(1,536)
Less: GMLB Riders	(889)	(2,328)
Less: Amortization of DAC and VOBA	(13)	(30)
Less: Other derivative instruments	(109)	117
Less: Net investment gains (losses)	(55)	(40)
Less: Other adjustments (1)	(17)	(68)
Operating earnings before provision for income tax	18	813
Less: Provision for income tax (expense) benefit	(58)	212
Operating earnings	\$ 76	\$ 601

(1) See “— Non-GAAP and Other Financial Disclosures” for a listing of other adjustments to net income (loss).

**Consolidated Results for the Six Months Ended June 30, 2017 and 2016 — Operating**

	Six Months Ended June 30,	
	2017	2016
	(In millions)	
Fee income	\$ 1,631	\$ 1,822
Net investment spread	663	716
Insurance-related activities	(488)	(641)
Amortization of DAC and VOBA	(894)	(267)
Other expenses, net of DAC capitalization	(894)	(817)
Operating earnings before provision for income tax	18	813
Provision for income tax expense (benefit)	(58)	212
Operating earnings	\$ 76	\$ 601

**Six Months Ended June 30, 2017 Compared with the Six Months Ended June 30, 2016**

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

*Overview.* Operating earnings decreased \$525 million compared to the prior period. This decrease was driven by higher DAC amortization, lower fee income, unfavorable underwriting experience and higher expenses, partially offset by lower GMDB costs. Excluding the impact of the annual actuarial assumption review in the prior period, operating earnings decreased \$655 million.

There were significant impacts to our results of operations due to charges recognized in 2016 related to refinements to our actuarial model that calculates reserves for our ULSG products (“ULSG Model Change”) and the ULSG Re-segmentation. For a detailed description of events that occurred in 2016 related to our ULSG business, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Consolidated Results — Operating — Year Ended December 31, 2016 Compared with the Year Ended December 31, 2015” included in our 2016 Annual Report. In the current period, the Contribution Transactions resulted in additional charges related to our ULSG business.

*Fee Income.* Lower fee income decreased operating earnings by \$124 million, primarily due to:

- a decrease of \$190 million from a benefit recorded in the prior period in connection with the recapture from an affiliate of a reinsurance agreement for certain single premium deferred annuity contracts (“SPDA Recapture”); partially offset by
- an increase of \$17 million from the recapture from an affiliate of a yearly renewable term reinsurance agreement for certain life contracts (“YRT Recapture”) in the current period; and
- an increase of \$17 million from the final settlement related to the recapture of an assumed reinsurance agreement for certain variable annuity contracts in the current period.

*Net Investment Spread.* Lower net investment spread decreased operating earnings by \$34 million, primarily due to lower net investment income and lower interest credited payments received on the reinsurance deposit fund in connection with the SPDA Recapture, partially offset by lower interest credited to policyholders. Net investment income decreased primarily due to the impacts from capital management actions taken in preparation for the Separation combined with lower bond and mortgage prepayment fees. Capital management actions included a reduction in size of our securities lending program and termination of interest rate swaps which resulted in lower derivative income. These decreases were partially offset by higher returns on other limited partnership interests, driven by favorable equity market performance in the current period. Lower interest credited to policyholders resulted primarily from a lower liability base in our funding agreement business, which is in run-off, and lower insurance-related liabilities in our life business resulting from several reinsurance recaptures that occurred in the fourth quarter of 2016.

*Insurance-Related Activities.* Insurance-related activities increased operating earnings by \$99 million, primarily due to:

- a \$103 million increase from lower GMDB costs, primarily from the charge recognized in the prior period related to the annual actuarial assumption review ;
- a \$42 million increase from the net of (i) a favorable impact of \$151 million from the charge recognized in the prior period resulting from the ULSG Model Change less (ii) an unfavorable impact of \$109 million from a charge recognized in the current period due to additional loss recognition triggered by the Contribution Transactions; and
- a \$29 million increase, recognized in other revenue, from a favorable change in the fair value of the underlying ceded separate account assets related to an affiliated reinsurance agreement for certain variable annuity contracts; partially offset by
- an \$66 million decrease, recognized in policyholder benefits and claims, driven by a decline in ceded claims in our life products due to a higher volume of low severity claims below our reinsurance retention limits, which more than offset the impact of lower direct claims, as well as the incremental increase in secondary guarantee liabilities since the implementation of the refinement to the actuarial valuation model in the second quarter of 2016.

Excluding the impact of the annual actuarial assumption review, insurance-related activities increased operating earnings by \$11 million.

*Amortization of DAC and VOBA.* Higher DAC and VOBA amortization decreased operating earnings by \$408 million, primarily due to:

- an increase in amortization of \$361 million from the write down of the remaining ULSG-related DAC as a result of additional loss recognition in the current period triggered by the Contribution Transactions, net of the impact from charges in the prior period due to the ULSG Model Change; and
- an increase in amortization of \$36 million from a ceded DAC adjustment related to participating whole life business reinsured to an affiliate of MetLife.

Excluding the impact of the annual actuarial assumption review, DAC and VOBA amortization decreased operating earnings by \$444 million.

*Other Expenses, Net of DAC Capitalization.* Higher expenses decreased operating earnings by \$50 million, primarily due to system implementation and branding costs in preparation for the Separation, which were partially offset by lower net operational expenses as a result of the U.S. Retail Advisor Force Divestiture.

*Actuarial Assumption Review.* The unfavorable adjustment recognized in the prior period as a result of the annual actuarial assumption review, which is included in the amounts discussed above, increased operating earnings by \$130 million, primarily due to:

- an increase in policyholder benefits and claims of \$88 million from changes in policyholder behavior assumptions in the prior period, and
- an increase in DAC amortization of \$42 million.

*Income Tax Expense (Benefit).* Income tax benefit for the six months ended June 30, 2017 was \$58 million, or 322% of operating earnings before provision for income tax, compared to income tax expense of \$212 million, or 26% of operating earnings before provision for income tax, for the six months ended June 30, 2016. Our effective tax rates in both periods differ from the U.S. statutory rate of 35% primarily due to dividend received deductions and utilization of tax credits. The effect of our tax differences on our actual tax provision was relatively unchanged but the effective tax rate varies significantly, when expressed as a percentage, primarily due to the significant decrease in operating earnings before provision for income tax in the current period when compared to the prior period.

**GMLB Riders for the Six Months Ended June 30, 2017 and 2016**

The following table presents the overall impact to income (loss) before provision for income tax from the performance of GMLB Riders for (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 for the six months ended June 30, 2017 and 2016, respectively.

	Six Months Ended June 30,	
	2017	2016
	(In millions)	
Directly Written Liabilities	\$ 243	\$ (4,405)
Assumed Reinsurance Liabilities	266	(315)
Total Liabilities	509	(4,720)
Core Hedges	(1,433)	722
Macro Overlay Hedges	(376)	361
Ceded Reinsurance	(226)	254
Total Hedges and Reinsurance	(2,035)	1,337
Directly Written Fees	403	399
Assumed Reinsurance Fees	(26)	10
Total Fees (1)	377	409
GMLB Riders before DAC Offsets	(1,149)	(2,974)
DAC Offsets	260	646
Total GMLB Riders	\$ (889)	\$ (2,328)

(1) Excludes living benefit fees of \$35 million and \$38 million, included as a component of operating earnings, for the six months ended June 30, 2017 and 2016, respectively.

**Six Months Ended June 30, 2017 Compared with the Six Months Ended June 30, 2016**

GMLB Riders increased income (loss) before provision for income tax by \$1.4 billion (\$935 million, net of income tax). Of this amount, a favorable change of \$3.4 billion (\$2.2 billion, net of income tax) was recorded in net derivative gains (losses). Excluding the impact of the annual actuarial assumption review in the prior period, GMLB Riders decreased income (loss) before provision for income tax by \$890 million (\$578 million, net of income tax).

**GMLB Riders Liabilities**

GMLB Riders liabilities represent our obligation to protect policyholders against the possibility that a downturn in the markets will reduce the specified benefits that can be claimed under the base annuity contract. Any periods of significant and/or sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of our GMLB Riders liabilities. An increase in these liabilities would result in a decrease to our net income, which could be significant.

The change in the carrying value of GMLB Riders liabilities increased income (loss) before provision for income tax by \$5.2 billion (\$3.4 billion, net of income tax), primarily due to the charge recognized in the prior period due to changes in actuarial assumptions related to rider utilization combined with favorable impacts from market factors in the current period. The favorable market factor impacts resulted from higher equity market performance in the current period and interest rates decreasing less in the current period than in the prior period.

Excluding the impact of the annual actuarial assumption review, GMLB Riders liabilities increased income (loss) before provision for income tax by \$2.2 billion (\$1.4 billion, net of income tax).

**GMLB Riders Hedges and Reinsurance**

We enter into freestanding derivatives, and to a lesser extent reinsurance, to hedge the market risks inherent in GMLB Riders liabilities. However, certain of the risks inherent in GMLB Riders liabilities are unhedged, including the adjustment for non-performance risk. Generally, the same market factors that impact the fair value of GMLB Riders liabilities impact the value of the hedges, though in the opposite direction. However, due to the complex nature of the business and any unhedged risks, the changes in fair value of GMLB Riders liabilities and GMLB Riders hedges and reinsurance are not always in an equal amount.

The same market factors that resulted in a favorable impact to the GMLB Riders liabilities had an inverse unfavorable effect on the hedges and reinsurance, decreasing income (loss) before provision for income tax by \$3.4 billion (\$2.2 billion, net of income tax). Included in this change is a net charge of \$155 million (\$101 million, net of income tax) related to the recapture and novation, in the current period, of several ceded and assumed reinsurance agreements for certain variable annuity business.

#### GMLB Riders Fees

We earn fees on our GMLB Riders liabilities, which are calculated based on the notional amount used to calculate the owner's guaranteed benefits ("Benefit base"). In market downturns, fees calculated based on the Benefit base are more stable, as compared to fees based on the account value, because the Benefit base excludes the impact of a decline in the market value of the policyholder's account value. We use the fees directly earned from GMLB Riders to fund the reserves, future claims and costs associated with the hedges of market risks inherent in GMLB Riders liabilities. For GMLB Riders liabilities accounted for as embedded derivatives, the future fees are included in the fair value of the embedded derivative liabilities, with changes recorded in net derivative gains (losses). For GMLB Riders liabilities accounted for as insurance, while the related fees do affect the valuations of these liabilities, they are not included in the resulting liability values, but are recorded separately in universal life and investment-type product policy fees.

Lower GMLB Riders fees decreased income (loss) before provision for income tax by \$32 million (\$21 million, net of income tax), primarily due to the impact from the recapture and novation, in the current period, of assumed and ceded agreements covering certain of our variable annuity business.

#### DAC Offsets

DAC offsets related to the impact of changes in each of the individual components of the GMLB Riders discussed above decreased income (loss) before provision for income tax by \$386 million (\$251 million, net of income tax). The DAC offset related to each component of the directly written GMLB Riders is determined by the same factors that impact the respective component, but generally in the opposite direction. There is no DAC related to assumed reinsurance and, accordingly, no DAC offset.

Excluding the impact of the annual actuarial assumption review, DAC offsets increased income (loss) before provision for income tax by \$310 million (\$202 million, net of income tax).

#### GMLB Riders Actuarial Assumption Review

The impact from the charge related to the annual actuarial assumption review recognized in the prior period, which is included in the amounts discussed above, resulted in an increase in income (loss) before provision for income tax of \$2.3 billion (\$1.5 billion, net of income tax) in the current period when compared to the prior period, primarily due to:

- an increase of \$3.0 billion (\$1.9 billion, net of income tax), recognized in net derivative gains (losses), mainly related to changes in rider utilization assumptions in the prior period; partially offset by
- a decrease of \$696 million (\$452 million, net of income tax) from the favorable impact to DAC amortization in the prior period, which is inversely related to the assumption changes above.

### **Adoption of New Accounting Pronouncements**

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

### **Future Adoption of New Accounting Pronouncements**

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

### **Non-GAAP and Other Financial Disclosures**

In this report, we present a measure of our performance that is not calculated in accordance with GAAP. We believe that this non-GAAP financial measure enhances the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of our business.

The following non-GAAP financial measure should not be viewed as a substitute for the most directly comparable financial measure calculated in accordance with GAAP:

<b>Non-GAAP financial measure:</b>	<b>Comparable GAAP financial measure:</b>
— operating earnings	— net income (loss)

See “— Results of Operations” for a reconciliation of this measure to the most directly comparable historical GAAP measure. A reconciliation of this non-GAAP measure to the most directly comparable GAAP measure is not accessible on a forward-looking basis because we believe it is not possible without unreasonable efforts to provide other than a range of net investment gains and losses and net derivative gains and losses, which can fluctuate significantly within or outside the range and from period to period and may have a material impact on net income (loss).

Our definitions of the non-GAAP and other financial measures discussed in this report may differ from those used by other companies. For example, as indicated below, we exclude GMIB revenues and related embedded derivatives gains (losses) as well as GMIB benefits and associated DAC and VOBA offsets from operating earnings, thereby excluding substantially all GMLB activity from operating earnings.

### ***Operating Earnings***

Operating earnings 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, and revenues and costs related to non-core products and businesses. Non-core businesses include discontinued operations and other businesses that have been or will be sold or exited by us, referred to as divested businesses, and certain entities required to be consolidated under GAAP.

The following are excluded from total revenues, net of income tax, in calculating operating earnings:

- Net investment gains (losses);
- Net derivative gains (losses) except: (i) 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 (ii) earned income on derivatives that are hedges of policyholder account balances but do not qualify for hedge accounting treatment (“PAB Adjustments”);
- Amortization of unearned revenue related to net investment gains (losses) and net derivative gains (losses) and certain variable annuity GMIB fees (“GMIB Fees”);
- Certain amounts related to securitization entities that are variable interest entities (“VIEs”) consolidated under GAAP; and
- Revenues from divested businesses.

The following are excluded from total expenses, net of income tax, in calculating operating 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”);
- 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;
- Recognition of certain contingent assets and liabilities that could not be recognized at acquisition or adjusted for during the measurement period under GAAP business combination accounting guidance;
- Expenses of divested businesses;
- Amounts related to securitization entities that are VIEs consolidated under GAAP;
- Goodwill impairment; and
- Costs related to: (i) implementation of new insurance regulatory requirements and (ii) acquisition and integration costs.

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

Component of Operating Earnings	How Derived from GAAP (1)(2)
(i) Fee income	(i) <i>Universal life and investment-type policy fees</i> (excluding (a) unearned revenue adjustments related to net investment gains (losses) and net derivative gains (losses) and (b) GMIB Fees) plus <i>Other revenues</i> (excluding other revenues related to affiliated reinsurance) and amortization of deferred gain on reinsurance.
(ii) Net investment spread	(ii) <i>Net investment income</i> (excluding VIE income) plus Investment Hedge Adjustments, PAB Adjustments and interest received on ceded fixed annuity reinsurance deposit funds reduced by <i>Interest credited to policyholder account balances</i> and interest on future policy benefits.
(iii) Insurance-related activities	(iii) <i>Premiums less Policyholder benefits and claims</i> (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) <i>Other expenses</i> reduced by capitalization of DAC and VIE expense.
(vi) Provision for income tax expense (benefit)	(vi) Tax impact of the above items.

(1) Amounts related to divested businesses are excluded from all components of operating earnings.

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

Consistent with GAAP guidance for segment reporting, operating earnings is also our GAAP measure of segment performance.

#### 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 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 allocates to each of its segments and sub-segments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward Looking Statements and Other Financial Information — Operating Earnings" included in the 2016 Annual Report and Note 2 of the Notes to the Interim Condensed Consolidated Financial Statements for further details regarding allocated equity and the use of an internal capital models.

## Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, may contain information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and other words and terms of similar meaning, or are tied to future periods, in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, statements regarding the Separation from MetLife, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

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

- 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;
- whether the operational, strategic and other benefits of the Separation can be achieved, and our ability to implement our business strategy;
- differences between actual experience and actuarial assumptions;
- 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 regulatory, legislative or tax changes on our insurance business or other operations;
- the effectiveness of our risk management policies and procedures;
- 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;
- our ability to market and distribute our products through distribution channels; and
- our ability to attract and retain key personnel.

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 elsewhere in this Quarterly Report on Form 10-Q, including in the section entitled "Risk Factors." 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 Brighthouse Life Insurance Company makes on related subjects in reports to the SEC.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We regularly analyze our exposure to interest rate, equity market price 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 materially exposed to changes in interest rates, foreign currency exchange rates and changes in the equity markets. We have exposure to market risk through our insurance operations and investment activities. We use a variety of strategies to manage interest rate, foreign currency exchange rate and equity market risk, including the use of derivatives. A description of our market risk exposures may be found under “Quantitative and Qualitative Disclosures About Market Risk” in Part I, Item 3, of the Q1 2017 Form 10-Q. There have been no material changes to our market risk exposures from the market risk exposures previously disclosed in the Q1 2017 Form 10-Q.

### **Item 4. Controls and Procedures**

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as defined in Rule 15d-15(e) under the Securities Exchange Act of 1934, 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 are effective.

There were no changes to the Company’s internal control over financial reporting as defined in Exchange Act Rule 15d-15 (f) during the quarter ended June 30, 2017 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 2016 Annual Report; (ii) Part II Item 1, of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the “First Quarter 2017 Report”); and (iii) Note 11 of the Notes to the Interim Condensed Consolidated Financial Statements in Part I of this report.

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

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

## Item 1A. Risk Factors

The following should be read in conjunction with, and supplements and amends, the factors that may affect the Company's business or operations described under "Risk Factors" in Part I, Item 1A, of the 2016 Annual Report, as amended or supplemented by the information under "Risk Factors" in Part II, Item 1A, of the First Quarter 2017 Report. Other than as described in this Item 1A, there have been no other material changes to our risk factors from the risk factors previously disclosed in the 2016 Annual Report as amended or supplemented by such information in the First Quarter 2017 Report.

### ***Risks Related to Our Business***

The following updates and replaces in its entirety the risk factor entitled "An inability to access credit facilities could result in a reduction in our liquidity and lead to downgrades in MetLife, Inc.'s or Brighthouse Financial's credit ratings and our financial strength ratings" included in the 2016 Annual Report.

### ***An inability to access credit facilities could result in a reduction in our liquidity and lead to downgrades in Brighthouse's credit ratings and our financial strength ratings.***

Brighthouse entered into a \$2.0 billion five-year senior unsecured revolving credit facility, dated as of December 2, 2016 (the "revolving credit facility"), and a \$600 million senior unsecured term loan facility, dated as of July 21, 2017 that matures on December 2, 2019 (the "term loan facility" and together with the revolving credit facility, the "Brighthouse Credit Facilities"), and issued \$1.5 billion aggregate principal amount of 3.700% Senior Notes due 2027 and \$1.5 billion aggregate principal amount of 4.700% Senior Notes due 2047 (collectively, the "2027 Senior Notes and 2047 Senior Notes") on June 22, 2017 to third-party investors. The proceeds of the 2027 Senior Notes and 2047 Senior Notes reduced the commitments under our \$3.0 billion three-year senior unsecured delayed draw term loan, dated as of December 2, 2016, by approximately \$2.5 billion and the remaining commitments were refinanced by the term loan facility. The revolving credit facility is intended to provide significant support to Brighthouse's liquidity position when alternative sources of credit are limited. The availability of these credit facilities could be critical to Brighthouse's credit ratings, as well as our financial strength ratings and our ability to meet our obligations as they come due in a market when alternative sources of credit are limited. The Brighthouse Credit Facilities contain certain administrative, reporting, legal and financial covenants, including requirements to maintain a specified minimum consolidated net worth. The Brighthouse Credit Facilities also contain requirements to maintain a ratio of indebtedness to total capitalization not in excess of a specified percentage, and limitations on the dollar amount of indebtedness that may be incurred by subsidiaries of Brighthouse following the distribution. Such requirements could restrict our operations and use of funds. Borrowings under the term loan facility may be accessed through August 15, 2017.

The right to borrow funds under the revolving credit facility is subject to the fulfillment of certain conditions, including compliance with all covenants. Failure to comply with the covenants in the revolving credit facility or fulfill the conditions to borrowings, or the failure of lenders to fund their lending commitments (whether due to insolvency, illiquidity or other reasons) in the amounts provided for under the terms of the revolving credit facility, would restrict the ability to access such credit facility when needed and, consequently, could have a material adverse effect on our liquidity, results of operations and financial condition.

### ***Regulatory and Legal Risks***

The following updates and replaces the "Department of Labor and ERISA considerations" section of the risk factor entitled "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 2016 Annual Report. There have been no material changes to other sections of such risk factor, which include: "NAIC — Existing and proposed insurance regulation," "State insurance guaranty associations," "Federal — Insurance regulation" and "Other."

### ***Department of Labor and ERISA considerations***

We manufacture life insurance products for third parties to sell to tax-qualified pension and retirement plans and IRAs to individuals that are subject to ERISA or the Code. 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 must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and those fiduciaries may not cause a covered plan to engage in certain prohibited transactions. The prohibited transaction rules of ERISA and the Code generally restrict the provision of investment advice to ERISA plans and 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 new regulations on April 6, 2016 with an original applicable date for most provisions of April 10, 2017, although on April 4, 2017, the DOL released its final rule delaying the original applicable date for 60 days from April 10, 2017 until June 9, 2017. Further, on June 29, 2017, the DOL issued a request for information regarding its final rule defining who is a “fiduciary” for purposes of ERISA and the Code, and also the DOL’s new and amended exemptions (as described further below) that were published in conjunction with the final rule. The request for information seeks public input that could lead to new exemptions or changes and revisions to the final rule. On April 4, 2017, the DOL issued a news release regarding the delay stating that, as of June 9, 2017, the definition of fiduciary under the final regulations and the impartial conduct or “best interest” standard must be met for all retail sales of life and annuity products. The DOL also indicated that the BIC contract and the point of sale disclosures required under prohibited transaction exemption 84-24 would be delayed until January 1, 2018. Application of these standards on June 9, 2017 is likely to create further confusion among our distribution partners that could negatively impact product sales. The change of administration and the DOL’s June 29, 2017 request for information related to the fiduciary rule and related exemptions, leaves uncertainty over whether the regulations will be substantially modified or repealed. Application of the rules on June 9, 2017, in light of the DOL’s request for information and the overall reconsideration of the rules requested by President Trump, could create confusion among our distribution partners which could negatively impact product sales. We cannot predict what other proposals may be made, what legislation may be introduced or enacted, or what impact any such legislation may have on our business, results of operations and financial condition.

These rules substantially expand the definition of “investment advice” and thereby broaden the circumstances under which we or our representatives, in providing investment advice with respect to ERISA plans, plan participants or IRAs, could be deemed a fiduciary under ERISA or the Code. Pursuant to the final rule, certain communications with plans, plan participants and IRA holders, including the marketing of products, and marketing of investment management or advisory services, could be deemed fiduciary investment advice, thus causing increased exposure to fiduciary liability if the distributor does not recommend what is in the client’s best interests. While the final rule also provides that, to a limited extent, contracts sold and advice provided prior to the applicable date would not have to be modified to comply with the new investment advice regulations, there is lack of clarity surrounding some of the conditions for qualifying for this limited exception. There can be no assurance that the DOL will agree with our interpretation of these provisions, in which case the DOL and IRS could assess significant penalties against a portion of products sold prior to the applicable date of the new regulations. The assessment of such penalties could also trigger substantial litigation risk. Any such penalties and related litigation could adversely affect our results of operations and financial condition.

The DOL also issued amendments to certain of its prohibited transaction exemptions, and issued a new exemption, that applies more onerous disclosure and contact requirements to, and increases fiduciary requirements and fiduciary liability exposure in respect of, transactions involving ERISA plans, plan participants and IRAs. In general, the changes the rule made to existing prohibited transaction exemptions and contract and disclosure requirements of the new exemption (other than the impartial interest standard) were delayed until January 1, 2018. On August 9, 2017, the DOL filed a public notice in the case of Thrivent Financial v. the DOL alerting the court that the DOL has submitted to the Office of Management and Budget proposed amendments to several prohibited transaction exemptions (including BIC and 84-24) further delaying application of these exemptions as re-written by the DOL, from January 1, 2018 to July 1, 2019.

While we continue to analyze the impact of the final regulation on our business, we believe it could have an adverse effect on sales of annuity products to ERISA qualified plans such as IRAs through our independent distribution partners. A significant portion of our annuity sales are to IRAs. The new regulation deems advisors, including independent distributors, who sell fixed index-linked annuities to IRAs, IRA rollovers or 401(k) plans, fiduciaries and prohibits them from receiving compensation unless they comply with a prohibited transaction exemption. The exemption requires advisors to comply with impartial conduct standards and may require us to exercise additional oversight of the sales process. Compliance with the prohibited transaction exemptions will likely result in increased regulatory burdens on us and our independent distribution partners, changes to our compensation practices and product offerings and increased litigation risk, which could adversely affect our results of operations and financial condition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Business — Regulatory Developments — Department of Labor and ERISA Considerations.”

#### **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 to this Quarterly Report on Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about 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 in this Quarterly Report on Form 10-Q 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](http://www.sec.gov).)*

<b>Exhibit No.</b>	<b>Description</b>
10.1	Investment Management Agreement, dated as of January 1, 2017, between MetLife Investment Advisors, LLC and Brighthouse Life Insurance Company (formerly known as MetLife Insurance Company USA) is incorporated by reference to our Current Report on Form 8-K filed on August 10, 2017 (File No. 033-03094).
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 11, 2017

## Exhibit Index

*(Note Regarding Reliance on Statements in Our Contracts: In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about 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 in this Quarterly Report on Form 10-Q 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](http://www.sec.gov).)*

<b>Exhibit No.</b>	<b>Description</b>
10.1	Investment Management Agreement, dated as of January 1, 2017, between MetLife Investment Advisors, LLC and Brighthouse Life Insurance Company (formerly known as MetLife Insurance Company USA) is incorporated by reference to our Current Report on Form 8-K filed on August 10, 2017 (File No. 033-03094).
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.

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 11, 2017

/s/ Eric T. Steigerwalt

---

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

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 11, 2017

/s/ Anant Bhalla

---

Anant Bhalla  
Vice President and  
Chief Financial Officer

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 (i) Brighthouse Life Insurance Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (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 11, 2017

/s/ Eric T. Steigerwalt

---

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

A signed original of this written statement required by Section 906 has been provided to Brighthouse Life Insurance Company and will be retained by Brighthouse Life Insurance Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

I, Anant Bhalla, certify that (i) Brighthouse Life Insurance Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (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 11, 2017

/s/ Anant Bhalla

---

Anant Bhalla  
Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Brighthouse Life Insurance Company and will be retained by Brighthouse Life Insurance Company and furnished to the Securities and Exchange Commission or its staff upon request.