

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

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 001-37905



Delaware

(State or other jurisdiction of incorporation or organization)

81-3846992

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

11225 North Community House Road, Charlotte, North Carolina

(Address of principal executive offices)

28277

(Zip Code)

(980) 365-7100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	BHF	The Nasdaq Stock Market LLC
Depository Shares, each representing a 1/1,000th interest in a share of 6.600% Non-Cumulative Preferred Stock, Series A	BHFAP	The Nasdaq Stock Market LLC
6.250% Junior Subordinated Debentures due 2058	BHFAL	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$4.1 billion.

As of February 21, 2020, 105,096,065 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed with the U.S. Securities and Exchange Commission in connection with the registrant's 2020 annual meeting of stockholders (the "2020 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K. Such 2020 Proxy Statement will be filed within 120 days of the registrant's fiscal year ended December 31, 2019.

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As used in this Annual Report on Form 10-K, unless otherwise mentioned or unless the context indicates otherwise, “Brighthouse,” “Brighthouse Financial,” the “Company,” “we,” “our” and “us” refer to Brighthouse Financial, Inc. a corporation incorporated in Delaware in 2016, and its subsidiaries. We use the term “BHF” to refer solely to Brighthouse Financial, Inc., and not to any of its subsidiaries. Until August 4, 2017, BHF was a wholly-owned subsidiary of MetLife, Inc. (MetLife, Inc., together with its subsidiaries and affiliates, “MetLife”). The term “Separation” refers to the separation of MetLife, Inc.’s former Brighthouse Financial segment from MetLife’s other businesses and the creation of a separate, publicly-traded company, BHF, as well as the distribution on August 4, 2017 of 96,776,670 shares, or 80.8%, of the 119,773,106 shares of BHF common stock outstanding immediately prior to the distribution date by MetLife, Inc. to holders of MetLife, Inc. common stock as of the record date for the distribution. The term “MetLife Divestiture” refers to the disposition by MetLife, Inc. on June 14, 2018 of all its remaining shares of BHF common stock. Effective with the MetLife Divestiture, MetLife, Inc. and its subsidiaries and affiliates were no longer considered related parties to BHF and its subsidiaries and affiliates. For definitions of selected financial and product terms used herein, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Glossary.”

Note Regarding Forward-Looking Statements

This report and other oral or written statements that we make from time to time may contain information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve substantial risks and uncertainties. We have tried, wherever possible, to identify such statements using words such as “anticipate,” “estimate,” “expect,” “project,” “may,” “will,” “could,” “intend,” “goal,” “target,” “guidance,” “forecast,” “preliminary,” “objective,” “continue,” “aim,” “plan,” “believe” and other words and terms of similar meaning, or that are tied to future periods, in connection with a discussion of future operating or financial performance. In particular, these include, without limitation, statements relating to future actions, prospective services or products, financial projections, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, as well as trends in operating 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. These statements are based on current expectations and the current economic environment and involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements due to a variety of known and unknown risks, uncertainties and other factors. Although it is not possible to identify all of these risks and factors, they include, among others:

- differences between actual experience and actuarial assumptions and the effectiveness of our actuarial models;
- higher risk management costs and exposure to increased market risk due to guarantees within certain of our products;
- the effectiveness of our variable annuity exposure risk management strategy and the impact of such strategy on volatility in our profitability measures and negative effects on our statutory capital;
- the reserves we are required to hold against our variable annuities as a result of actuarial guidelines;
- the potential material adverse effect of changes in accounting standards, practices and/or policies applicable to us, including changes in the accounting for long-duration contracts;
- our degree of leverage due to indebtedness;
- the impact of adverse capital and credit market conditions, including with respect to our ability to meet liquidity needs and access capital;
- the impact of changes in regulation and in supervisory and enforcement policies on our insurance business or other operations;
- the availability of reinsurance and the ability of the counterparties to our reinsurance or indemnification arrangements to perform their obligations thereunder;
- the adverse impact to liabilities for policyholder claims as a result of extreme mortality events;
- 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;
- any failure of third parties to provide services we need, any failure of the practices and procedures of such third parties and any inability to obtain information or assistance we need from third parties;

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- the ability of our insurance subsidiaries to pay dividends to us, and our ability to pay dividends to our shareholders and repurchase our common stock;
- the effectiveness of our policies and procedures in managing risk;
- our ability to market and distribute our products through distribution channels;
- whether all or any portion of the tax consequences of the Separation are not as expected, leading to material additional taxes or material adverse consequences to tax attributes that impact us;
- the uncertainty of the outcome of any disputes with MetLife over tax-related or other matters and agreements or disagreements regarding MetLife's or our obligations under our other agreements;
- the potential material negative tax impact of potential future tax legislation that could make some of our products less attractive to consumers; and
- other factors described in this report and from time to time in documents that we file with the U.S. Securities and Exchange Commission ("SEC").

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

Corporate Information

We routinely use our Investor Relations website to provide presentations, press releases and other information that may be deemed material to investors. Accordingly, we encourage investors and others interested in the Company to review the information that we share at <http://investor.brighthousefinancial.com>. In addition, our Investor Relations website allows interested persons to sign up to automatically receive e-mail alerts when we post financial information. Information contained on or connected to any website referenced in this Annual Report on Form 10-K is not incorporated by reference in this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any website references are intended to be inactive textual references only unless expressly noted.

Note Regarding Reliance on Statements in Our Contracts

See "Exhibit Index — Note Regarding Reliance on Statements in Our Contracts" for information regarding agreements included as exhibits to this Annual Report on Form 10-K.

PART I

Item 1. Business

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Overview

Our Company

We are one of the largest providers of annuity and life insurance products in the United States through multiple independent distribution channels and marketing arrangements with a diverse network of distribution partners. Our in-force book of products consists of approximately 2.8 million insurance policies and annuity contracts at December 31, 2019, which are organized into three reporting segments:

- (i) Annuities, which includes variable, fixed, index-linked and income annuities;
- (ii) Life, which includes term, universal, whole and variable life policies; and
- (iii) Run-off, which consists of operations related to products which we are not actively selling, and which are separately managed.

In addition, the Company reports certain of its results of operations in Corporate & Other.

We issue products through our wholly-owned insurance company subsidiaries, Brighthouse Life Insurance Company, New England Life Insurance Company (“NELICO”) and Brighthouse Life Insurance Company of NY (“BHNY”). At December 31, 2019, we had \$227.3 billion of total assets with total stockholders’ equity of \$16.2 billion, including accumulated other comprehensive income; \$150.2 billion of annuity assets under management (“AUM”), which we define as our general account investments and our separate account assets, and approximately \$568.1 billion of life insurance face amount in-force, (\$400.0 billion, net of reinsurance). Additionally, our insurance subsidiaries had combined statutory total adjusted capital (“TAC”) of \$9.7 billion, resulting in a combined action level risk-based capital (“RBC”) ratio of approximately 550% at December 31, 2019. For the year ended December 31, 2019, normalized statutory earnings were approximately \$1.9 billion. Normalized statutory earnings is used by management to measure our insurance companies’ generation of statutory distributable cash flows (sometimes referred to as distributable earnings) and is reflective of whether our hedging program functions as intended. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Parent Company — Normalized Statutory Earnings” for further discussion of normalized statutory earnings and its components.

We seek to be a financially disciplined and, over time, cost-competitive product manufacturer with an emphasis on independent distribution. We aim to leverage our large block of annuity contracts and in-force life insurance policies to operate efficiently. We believe that our strategy of offering a targeted set of products to serve our customers and distribution partners, each of which is intended to produce positive statutory distributable cash flows on an accelerated basis compared to our legacy products, will enhance our ability to invest in our business and distribute cash to our shareholders over time. We also believe that our product strategy of offering a more tailored set of new products and our decision to outsource a significant portion of our client administration and service processes, is consistent with our focus on reducing our expense structure over time. A key part of our operating strategy is to leverage third parties to deliver certain services important to our business and reduce expenses over time.

Risk management of both our in-force book and our new business to enhance sustained, long-term shareholder value is fundamental to our strategy. Consequently, in writing new business we prioritize the value of such business over sales volumes. We assess the value of new products by taking into account the amount and timing of cash flows, the use and cost of capital required to support our financial strength ratings and the cost of risk mitigation. We remain focused on maintaining our strong capital base and we have established a risk management approach that seeks to mitigate the effects of severe market disruptions and other economic events on our business. In the fourth quarter of 2019, we made a significant change to our variable annuity exposure risk management strategy to better protect statutory capital from smaller market moves. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management Strategies,” “Risk Factors — Risks Related to Our Business — Our variable annuity exposure risk management strategy may not be effective, may result in significant volatility in our profitability measures and may negatively affect our statutory capital” and “— Segments and Corporate & Other — Annuities.”

We believe that general demographic trends in the U.S. population, the increase in under-insured individuals, the potential risk to governmental social safety net programs and the shifting of responsibility for retirement planning and financial security from employers and other institutions to individuals will create opportunities to generate significant demand for our products. We also believe our transition to an independent distribution system enhances our ability to operate most effectively within the emerging requirements of new and proposed regulations establishing standards of conduct for the sale of insurance and annuity products. See “— Regulation — Standard of Conduct Regulation” for a discussion of these final and proposed regulations.

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Segments and Corporate & Other

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.

The following table presents the relevant contributions of each of our segments and Corporate & Other to our net income (loss) available to shareholders and adjusted earnings, for our ongoing business and for the total Company:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Annuities	\$ 1,028	\$ 1,023	\$ 1,017
Life	231	228	16
Total ongoing business	1,259	1,251	1,033
Run-off	(454)	(43)	104
Corporate & Other	(180)	(311)	(217)
Less: Net income (loss) attributable to noncontrolling interests	5	5	—
Less: Preferred stock dividends	21	—	—
Total adjusted earnings	599	892	920
Adjustments:			
Net investment gains (losses)	112	(207)	(28)
Net derivative gains (losses)	(1,988)	702	(1,620)
Other adjustments	154	(536)	(564)
Provision for income tax (expense) benefit	362	14	914
Net income (loss) available to Brighthouse Financial, Inc.'s common shareholders	<u>\$ (761)</u>	<u>\$ 865</u>	<u>\$ (378)</u>

Revenues derived from any individual customer did not exceed 10% of premiums, universal life and investment-type product policy fees and other revenues for the years ended December 31, 2019, 2018 and 2017. Substantially all of our premiums, universal life and investment-type product policy fees and other revenues originated in the U.S. Financial information, including revenues, expenses, adjusted earnings, and total assets by segment, as well as premiums, universal life and investment-type product policy fees and other revenues by major product groups, is provided in Note 2 of the Notes to the Consolidated Financial Statements. Adjusted earnings is a performance measure that is not based on accounting principles generally accepted in the United States of America (“GAAP”). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP and Other Financial Disclosures” for a definition of such measure.

The following table presents the total assets for each of our segments and Corporate & Other:

	December 31, 2019		December 31, 2018	
	(In millions)			
Annuities	\$	156,965	\$	141,489
Life	\$	21,876	\$	20,449
Run-off	\$	35,112	\$	32,393
Corporate & Other	\$	13,306	\$	11,963

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The following table presents our AUM by segment and Corporate & Other, which we define as our general account investments and our separate account assets.

	December 31, 2019			December 31, 2018		
	Investments	Separate Accounts	Total	Investments	Separate Accounts	Total
(In millions)						
Annuities	\$ 50,721	\$ 99,498	\$ 150,219	\$ 42,574	\$ 91,922	\$ 134,496
Life	11,188	5,493	16,681	10,344	4,679	15,023
Run-off	31,997	2,116	34,113	30,112	1,655	31,767
Corporate & Other	1,876	—	1,876	151	—	151
Total	\$ 95,782	\$ 107,107	\$ 202,889	\$ 83,181	\$ 98,256	\$ 181,437

Annuities

Overview

Annuities are used by consumers for pre-retirement wealth accumulation and post-retirement income management. The “fixed” and “variable” classifications describe generally whether we or the contract holders bear the investment risk of the assets supporting the contract and determine the manner in which we earn profits from these products, as investment spreads for fixed products or as asset-based fees charged to variable products. Index-linked annuities allow the contract holder to participate in returns from equity indices and, in the case of Shield Level Annuities (“Shield” and “Shield Annuities”), provide a specified level of market downside protection. See “— Current Products — Structured Annuities” for more information on Shield Annuities. Income annuities provide a guaranteed monthly income for a specified period of years and/or for the life of the annuitant.

The following table presents the insurance liabilities of our annuity products.

	December 31, 2019			December 31, 2018		
	General Account (1)	Separate Account	Total	General Account (1)	Separate Account	Total
(In millions)						
Variable	\$ 4,669	\$ 99,386	\$ 104,055	\$ 4,799	\$ 91,837	\$ 96,636
Fixed Deferred	13,460	—	13,460	12,872	—	12,872
Shield Annuities	12,372	—	12,372	8,453	—	8,453
Income	4,480	112	4,592	4,442	85	4,527
Total	\$ 34,981	\$ 99,498	\$ 134,479	\$ 30,566	\$ 91,922	\$ 122,488

(1) Excludes reserve liabilities for guaranteed minimum benefits (“GMxBs”) and Shield Annuity embedded derivatives.

We seek to meet our risk-adjusted return objectives in our Annuities segment through a disciplined risk-selection approach and innovative product design, balancing bottom line profitability with top line growth, while remaining focused on margin preservation. Our underwriting approach and product design take into account numerous criteria, including evolving consumer demographics and macroeconomic market conditions, offering a suite of products tailored to respond to external factors without compromising internal constraints. We believe we have the product design capabilities and distribution relationships to permit us to design and offer new products meeting our risk-adjusted return requirements. We believe these capabilities will enhance our ability to maintain market presence and relevance over the long-term. We intend to meet our risk management objectives by continuing to hedge significant market risks associated with our existing annuity products, as well as new business. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management Strategies — Variable Annuity Exposure Risk Management.”

Current Products

Our Annuities segment product offerings include fixed, structured, income and variable annuities (each as described below). Our Annuities are designed to address customer needs for tax-deferred asset accumulation and retirement income and their wealth-protection concerns. In 2013, we began a shift in our business towards products with lower guaranteed minimum crediting rates, variable annuity products with less risky living benefits and increased emphasis on index-linked annuity

products. Since 2014, our new sales have primarily focused on variable annuities with simplified living benefits, and Shield Annuities. We believe we can continue to innovate in response to customer and distributor needs and market conditions.

Fixed Deferred Annuities

Fixed deferred annuities address asset accumulation needs. Purchase payments under fixed deferred annuity contracts are allocated to our general account and are credited with interest at rates we determine, subject to specified guaranteed minimums. Credited interest rates are guaranteed for at least one year. To protect from premature withdrawals, we impose surrender charges. Surrender charges are typically applicable during the early years of the annuity contract, with a declining level of surrender charges over time. We expect to earn a spread between what we earn on the underlying general account investments and what we credit to our fixed annuity contract holders' accounts. Surrender charges allow us to recoup amounts we expended to initially market and sell such annuities. Approximately 84% of our fixed annuities have a remaining surrender charge of 2% or less.

We launched a fixed index annuity ("FIA") with Massachusetts Mutual Life Insurance Company ("MassMutual") in July 2017. The FIA is a single premium fixed index annuity designed for growth that credits interest based on the annual performance of an index. Additionally, an optional living benefit rider is available for an additional charge, designed to provide guaranteed lifetime withdrawals.

Structured Annuities

This family of structured annuities combines certain features similar to variable and fixed annuities. Shield Annuities are a suite of single premium deferred annuity contracts that provides for accumulation of retirement savings or other long-term investment purposes. Shield Annuities provide the ability for the contract holder to participate in the appreciation of certain financial markets up to a stated level while offering protection from a portion of declines. Rather than allocating purchase payments directly into the equity market, the customer has an opportunity to participate in the returns of a particular market index. The reserve assets are held in a book value non-unitized separate account, but the issuing insurance company is obligated to pay distributions and benefits irrespective of the value of the separate account assets. Shield Annuities offer account value and return of premium death benefits. Shield Annuities are included with variable annuities in our statutory reserve requirements and conditional tail expectations ("CTE") estimates.

Income Annuities

Income annuities are annuity contracts under which the contract holder contributes a portion of their retirement assets in exchange for a steady stream of retirement income, lasting either for a specified period of time or as long as the life of the annuitant.

We offer two types of income annuities: immediate income annuities, referred to as "single premium immediate annuities" ("SPIAs") and deferred income annuities ("DIAs"). Both products provide guaranteed lifetime income that can be used to supplement other retirement income sources. SPIAs are single premium annuity products that provide a guaranteed level of income, beginning no more than 13 months after purchase, to the contract holder for a specified number of years or the duration of the life of the annuitant(s). DIAs differ from SPIAs in that they require the contract holder to wait at least 15 months before income payments commence. SPIAs and DIAs are priced based on considerations consistent with the annuitant's age, gender and, in the case of DIAs, the deferral period. DIAs provide a pension-like stream of income payments after a specified deferral period.

Variable Annuities

We issue variable annuity contracts that offer contract holders a tax-deferred basis for wealth accumulation and rights to receive a future stream of payments. The contract holder can choose to invest purchase payments in the separate account or, if available, the general account investment options under the contract. For the separate account options, the contract holder can elect among several subaccounts that invest in internally and externally managed investment portfolios. Unless the contract holder has elected to pay for guaranteed minimum living or death benefits, as discussed below, the contract holder bears the entire risk and receives all of the net returns resulting from the investment option(s) chosen. For the general account options, Brighthouse credits the contract's account value with the net purchase payment and credits interest to the contract holder at rates declared periodically, subject to a guaranteed minimum crediting rate. The account value of most types of general account options is guaranteed and is not exposed to market risk, because the insurance company rather than the contract holder directly bears the risk that the value of the underlying general account investments of the insurance companies may decline. At December 31, 2019, our variable annuity total account value was \$104.1 billion, consisting of \$99.4 billion of contract holder separate account assets and \$4.7 billion of contract holder general account assets.

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The majority of the variable annuities we have issued have GMxBs, which we believe make these products attractive to our customers in periods of economic uncertainty. These GMxBs must be elected by the contract holder no later than at the issuance of the contract. The primary types of GMxBs are those that guarantee death benefits payable upon the death of a contract holder (guaranteed minimum death benefits, “GMDBs”) and those that guarantee benefits payable while the contract holder or annuitant is alive (guaranteed minimum living benefits, “GMLBs”). There are three primary types of GMLBs: guaranteed minimum income benefits (“GMIBs”), guaranteed minimum withdrawal benefits (“GMWBs”) and guaranteed minimum accumulation benefits (“GMABs”). We ceased issuing GMIBs for new purchase in February 2016.

The guaranteed benefit received by a contract holder pursuant to the GMxBs is calculated based on the benefit base (“Benefit Base”). The calculation of the Benefit Base varies by benefit type and may differ in value from the contract holder’s account value for the following reasons:

- The Benefit Base is defined to exclude the effect of a decline in the market value of the contract holder’s account value. By excluding market declines, actual claim payments to be made in the future to the contract holder will be determined without giving effect to equity market declines.
- The terms of the Benefit Base may allow it to increase at a guaranteed rate irrespective of the rate of return on the contract holder’s account value.
- The Benefit Base may also increase with subsequent purchase payments, after the initial purchase payment made by the contract holder at the issuance of the contract, or at the contract holder’s election with an increase in the account value due to market performance.

GMxBs provide the contract holder with protection against the possibility that a downturn in the markets will reduce the certain specified benefits that can be claimed under the contract. The principal features of our in-force block of variable annuity contracts with GMxBs are as follows:

- GMDBs, a contract holder’s beneficiaries are entitled to the greater of (a) the account value or (b) the Benefit Base upon the death of the annuitant;
- GMIBs, a contract holder is entitled to annuitize the policy after a specified period of time and receive a minimum amount of lifetime income based on predetermined payout factors and the Benefit Base, which could be greater than the account value;
- GMWBs, a contract holder is entitled to withdraw each year a maximum amount of their Benefit Base, which could be greater than the underlying account value; and
- GMABs, a contract holder is entitled to a percentage of the Benefit Base, which could be greater than the account value, after the specified accumulation period, regardless of actual investment performance.

Variable annuities may have more than one GMxB. Variable annuities with a GMLB may also have a GMDB. Additional detail concerning our GMxBs is provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management Strategies — Variable Annuity Exposure Risk Management.”

Variable Annuity Fees

The following table presents the fees and charges we earn on our variable annuity contracts invested in separate accounts, by type of fee:

	Years Ended December 31,	
	2019	2018
	(In millions)	
Mortality & Expense Fees and Administrative Fees	\$ 1,388	\$ 1,494
Surrender Charges	21	24
Investment Management Fees (1)	225	239
12b-1 Fees and Other Revenue (1)	246	263
Death Benefit Rider Fees	207	211
Living Benefit Riders Fees	903	929
Total	<u>\$ 2,990</u>	<u>\$ 3,160</u>

(1) These fees are net of pass-through amounts.

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For the account value on contracts that invest through a separate account, we earn various types of fee revenue based on account value, fund assets and Benefit Base. In general, GMxB fees calculated based on the Benefit Base are more stable in market downturns compared to fees based on the account value.

Mortality & Expense Fees and Administrative Fees. We earn mortality and expense fees (“M&E Fees”), as well as administrative fees on variable annuity contracts. The M&E Fees are calculated based on the portion of the contract holder’s account value allocated to the separate accounts and are expressed as an annual percentage deducted daily. These fees are used to offset the insurance and operational expenses relating to our variable annuity contracts. Additionally, the administrative fees are charged either based on the daily average of the net asset values in the subaccounts or when contracts fall below minimum values based on a flat annual fee per contract.

Surrender Charges. Most, but not all, variable annuity contracts depending on their share class may also impose surrender charges on withdrawals for a period of time after the purchase and in certain products for a period of time after each subsequent deposit, also known as the surrender charge period. A surrender charge is a deduction of a percentage of the contract holder’s account value prior to distribution to him or her. Surrender charges generally decline gradually over the surrender charge period, which can range from zero to 10 years. Our variable annuity contracts typically permit contract holders to withdraw up to 10% of their account value each year without any surrender charge, although their guarantees may be significantly impacted by such withdrawals. Contracts may also specify circumstances when no surrender charges apply, for example, upon payment of a death benefit.

The following table presents account value by remaining surrender charge:

	Variable Annuities (1)	
	December 31, 2019	December 31, 2018
	(In millions)	
0%	\$ 79,054	\$ 64,770
>0 to 2%	16,235	20,300
>2% to 4%	5,045	6,422
>4% to 6%	6,427	5,021
>6%	11,551	8,635
Total	<u>\$ 118,312</u>	<u>\$ 105,148</u>

(1) Shield Annuities are included with variable annuities.

Investment Management Fees. We charge investment management fees for managing the proprietary mutual funds managed by our subsidiary Brighthouse Investment Advisers, LLC (“Brighthouse Advisers”) that are offered as investments under the variable annuities. Investment management fees are also paid on the non-proprietary funds managed by investment advisors unaffiliated with us, to the unaffiliated investment advisors. Investment management fees differ by fund. A portion of the investment management fees charged on proprietary funds managed by subadvisors unaffiliated with us are paid by us to the subadvisors. Investment management fees reduce the net returns on the variable annuity investments.

12b-1 Fees and Other Revenue. 12b-1 fees are paid by the mutual funds which our contract holders chose to invest in and are calculated based on the net assets of the funds allocated to our subaccounts. These fees reduce the returns contract holders earn from these funds. Additionally, mutual fund companies with funds which are available to contract holders through the variable annuity subaccounts pay us fees consistent with the terms of administrative service agreements. These fees are funded from the fund companies’ net revenues.

Death Benefit Rider Fees. We may earn fees in addition to the base M&E fees for promising to pay GMDBs. The fees earned vary by generation and rider type. For some death benefits, the fees are calculated based on account value, but for enhanced death benefits (“EDBs”), the fees are normally calculated based on the Benefit Base. In general, these fees were set at a level intended to be sufficient to cover the anticipated expenses of covering claim payments and hedge costs associated with these benefits. These fees are deducted from the account value.

Living Benefit Riders Fees. We earn these fees for promising to pay guaranteed benefits while the contract holder is alive, such as for any type of GMLB (including GMIBs, GMWBs and GMABs). The fees earned vary by generation and rider type and are typically calculated based on the Benefit Base and deducted from account value. These fees are set at a level intended to be sufficient to cover the anticipated expenses of covering claim payments and hedge costs associated with these benefits.

In addition to fees, we also earn a spread on the portion of the account value allocated to the general account.

Pricing and Risk Selection

Product pricing reflects our pricing standards and guidelines. Annuities are priced based on various factors, which may include investment returns, expenses, persistency, longevity, policyholder behavior, equity market returns, and interest rate scenarios.

Rates for annuity products are highly regulated and generally the forms of which must be approved by the regulators of the jurisdictions in which the product is sold. The offer and sale of variable annuity products are regulated by the SEC. Generally, these products include pricing terms that are guaranteed for a certain period of time. Such products generally include surrender charges for early withdrawals and fees for guaranteed benefits. We periodically reevaluate the costs associated with such guarantees and may adjust pricing levels accordingly. Further, from time to time, we may also reevaluate the type and level of guarantee features being offered. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates.”

We continually review our pricing guidelines in light of applicable regulations and to ensure that our policies remain competitive and supportive of our marketing strategies and profitability goals.

Evolution of our Variable Annuity Business

Our in-force variable annuity block reflects a wide variety of product offerings within each type of guarantee, reflecting the changing nature of these products over the past two decades. The changes in product features and terms over time are driven partially by customer demand but also reflect our continually refined evaluation of the guarantees, their expected long-term claims costs and the most effective market risk management strategies in the prevailing market conditions.

We introduced our variable annuity product over 50 years ago and began offering GMIBs, which were our first living benefit riders, in 2001. The design of our more recent generations of GMIBs have been modified to reduce payouts in certain circumstances. Beginning in 2009, we reduced the minimum payments we guaranteed if the contract holder were to annuitize; in 2012 we began to reduce the guaranteed portion of account value up to a percentage of the Benefit Base (“roll-up rates”); and, after first reducing the maximum equity allocation in separate accounts, in 2011 we introduced managed volatility funds for all our GMIBs. We ceased offering GMIBs for new purchase in February 2016 and to the extent permitted, we suspended subsequent premium payments on all but our final generation of GMIBs.

While we added GMWBs to our variable annuity product suite in 2003, we shifted our marketing focus from GMIBs to GMWBs in 2015 with the release of FlexChoiceSM, a GMWB with lifetime payments (“GMWB4L”). In the first quarter of 2018, we launched an updated version of FlexChoiceSM, “Flex Choice Access” to provide financial advisors and their clients more investment flexibility.

In 2013, we introduced Shield Annuities, which generated approximately \$4.5 billion, \$3.2 billion and \$2.5 billion of new deposits for the years ended December 31, 2019, 2018 and 2017, respectively, representing 77%, 71% and 64% of our variable annuity deposits for the years ended December 31, 2019, 2018 and 2017, respectively. We intend to increase sales of Shield Annuities due to growing consumer demand for the products. In addition, we believe that Shield Annuities provide us with risk offset to the GMxBs offered in our traditional variable annuity products. As of December 31, 2019, there was \$14.6 billion of policyholder account balances for Shield Annuities.

With the goal of continuing to diversify and better manage our in-force block, in the future we intend to focus on selling the following products:

- variable annuities with GMWBs;
- variable annuities without GMLBs; and
- Shield Annuities.

The table below presents our variable and Shield Annuity deposits:

	Deposits		
	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
GMI B	\$ 84	\$ 107	\$ 155
GMWB	912	858	812
GMDB only	310	353	408
Shield Annuities	4,459	3,243	2,475
Total	\$ 5,765	\$ 4,561	\$ 3,850

We describe below in more detail the product features and relative account values, Benefit Base and net amount at risk (“NAR”) for our death benefit and living benefit guarantees.

Guaranteed Death Benefits

Since 2001, we have offered a variety of GMDBs to our contract holders, which include the following (with no additional charge unless noted):

- *Account Value Death Benefit.* The Account Value Death Benefit returns the account value at the time of the claim with no imposition of surrender charges at the time of the claim.
- *Return of Premium Death Benefit.* The Return of Premium Death Benefit, also referred to as Principal Protection, comes standard with many of our base contracts and pays the greater of the contract holder’s account value at the time of the claim or their total purchase payments, adjusted proportionately for any withdrawals.
- *Interval Reset.* The Reset Death Benefit enables the contract holder to lock in their guaranteed death benefit on the interval anniversary date with this level of death benefit being reset (either up or down) on the next interval anniversary date. This may only be available through a maximum age. This death benefit pays the greater of the contract holder’s account value at the time of the claim, their total purchase payments, adjusted proportionately for any withdrawals, or the interval reset value, adjusted proportionally for any withdrawals. We no longer offer this guarantee.
- *Annual Step-Up Death Benefit.* Contract holders may elect, for an additional fee, the option to step-up their guaranteed death benefit on any contract anniversary through age 80. The Annual Step-Up Death Benefit allows for the contract holder to lock in the high-water mark on their death benefit adjusted proportionally for any withdrawals. This death benefit may only be elected at issue through age 79. Fees charged for this benefit are usually based on account value. This death benefit pays the greater of the contract holder’s account value at the time of the claim, their total purchase payments, adjusted proportionately for any withdrawals, or the highest anniversary value, adjusted proportionally for any withdrawals.
- *Combination Death Benefit.* Contract holders may elect, for an additional fee, a combination death benefit that, in addition to the Annual Step-Up Death Benefit as described above, includes a roll-up feature which accumulates aggregate purchase payments at a predetermined roll-up rate, as adjusted for withdrawals. Descriptions of the two principal versions of this guaranteed death benefit are as follows:
 - *Compounded-Plus Death Benefit.* The death benefit is the greater of (i) the account value at time of the claim, (ii) the highest anniversary value (highest anniversary value/high-water mark through age 80, adjusted proportionately for any withdrawals) or (iii) a roll-up Benefit Base, which rolls up through age 80, and is adjusted proportionally for withdrawals. Fees for this benefit are calculated and charged against the account value. We stopped offering this rider in 2013.
 - *Enhanced Death Benefit.* The death benefit is equal to the Benefit Base which is defined as the greater of (i) the highest anniversary value Benefit Base (highest anniversary value/high-water mark through age 80, adjusted proportionately for any withdrawals) or (ii) a roll-up benefit, which may apply to the step-up (rollup applies through age 90), which allows for dollar-for-dollar withdrawals up to the permitted amount for that contract year and proportional adjustments for withdrawals in excess of the permitted amount. The fee may be increased upon step-up of the roll-up Benefit Base. Fees charged for this benefit are calculated based on

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the Benefit Base and charged annually against the account value. We stopped offering this rider on a stand-alone basis in 2011.

In addition, we currently also offer an optional death benefit for an additional fee with our FlexChoiceSM GMWB4L riders, available at issue through age 65, which has a similar level of death benefit protection as the Benefit Base for the living benefit rider. However, the Benefit Base for this death benefit is adjusted for all withdrawals.

The table below presents the breakdown of variable annuity guarantee account value and Benefit Base for the above described GMDBs at:

	December 31, 2019 (1)		December 31, 2018 (1)	
	Account Value	Benefit Base	Account Value	Benefit Base
(In millions)				
Account value / other	\$ 3,186	\$ 3,218	\$ 2,916	\$ 2,964
Return of premium	45,845	46,243	42,691	43,242
Interval reset	5,621	5,828	5,136	5,352
Annual step-up	21,369	21,711	19,926	21,965
Combination Death Benefit (2)	28,249	33,941	26,193	34,413
Total	<u>\$ 104,270</u>	<u>\$ 110,941</u>	<u>\$ 96,862</u>	<u>\$ 107,936</u>

(1) Many of our annuity contracts offer more than one type of guarantee such that death benefit guarantee amounts listed above are not mutually exclusive to the amounts in the GMLBs table below.

(2) Combination Death Benefit includes Compounded-Plus Death Benefit, EDBs, and FlexChoiceSM death benefit.

Guaranteed Living Benefits

Our in-force block of variable annuities consists of three varieties of GMLBs, including variable annuities with GMIBs, GMWBs and GMABs. We offer a variety of guaranteed living benefit riders to our contract holders. Based on total account value, approximately 79% of our variable annuity block included living benefit guarantees at both December 31, 2019 and 2018.

GMIBs. GMIBs are our largest block of living benefit guarantees based on in-force account value. Contract holders must wait for a defined period, usually 10 years, before they can elect to receive income through guaranteed annuity payments. This initial period when the contract holder invests their account value in the separate and/or general account to grow on a tax-deferred basis is often referred to as the accumulation phase. The contract holder may elect to continue the accumulation phase beyond the waiting period in order to maintain access to their account value or continue to participate in the potential growth of both the account value and Benefit Base pursuant to the contract terms. During the accumulation phase, the contract holder still has access to his or her account value through the following choices, although their Benefit Base may be adjusted downward consistent with these choices:

- Partial surrender or withdrawal to a maximum specified amount each year (typically 10% of account value). This action does not trigger surrender charges, but the Benefit Base is adjusted downward depending on the contract terms;
- Full surrender or lapse of the contract, with the net proceeds paid to the contract holder being the then prevailing account value less surrender charges defined in the contract; or
- Limited “Dollar-for-Dollar Withdrawal” from the account value as described in the paragraph below.

The second phase of the contract starts upon annuitization. The occurrence and timing of annuitization depends on how contract holders choose to utilize the multiple benefit options available to them in their annuity contract. Below are examples of contract holder benefit utilization choices that can affect benefit payment patterns and reserves:

- *Lapse.* The contract holder may lapse or exit the contract at which time all GMxB guarantees are canceled. If he or she partially exits, the GMxB Benefit Base may be reduced in accordance with the contract terms.
- *Use of Guaranteed Principal Option after waiting period.* For certain GMIB contracts issued since 2005, the contract holder has the option to receive a lump sum return of initial premium less withdrawals (the Benefit Base does not apply) in exchange for cancellation of the GMIB optional benefit.

- *Dollar-for-Dollar Withdrawal.* The contract holder may, in any year, withdraw, without penalty and regardless of the underlying account value, a portion of his or her account value up to the roll-up rate. The withdrawal reduces the contract holder's Benefit Base "dollar-for-dollar." If making such withdrawals in combination with market movements reduces the account value to zero, the contract may have an automatic annuitization feature, which entitles the contract holder to receive a stream of lifetime (with period certain) annuity payments based on a variety of factors, including the Benefit Base, the age and gender of the annuitant, and predetermined annuity interest rates and mortality rates. The Benefit Base depends on the contract terms, but the majority of our in-force has a greater of roll-up or step-up combination Benefit Base similar to the roll-up and step-up Benefit Base described above in "— Guaranteed Death Benefits." Any withdrawal greater than the roll-up rate would result in a penalty which may be a proportional reduction in the Benefit Base.
- *Elective Annuitization.* The contract holder may elect to annuitize the account value or exercise the guaranteed annuitization under the GMIB. The guaranteed annuitization entitles the contract holder to receive a stream of lifetime (with period certain) annuity payments based on the same factors that would be used as if the contract holder elected to annuitize.
- *Do nothing.* If the contract holder elects to continue to remain in the accumulation phase past the maximum age for electing annuitization under the GMIB and the account value has not depleted to zero, then the contract will continue as a variable annuity with a death benefit. The Benefit Base for the death benefit may be the same as the Benefit Base for the GMIB.

Contract holder behaviors around choosing a particular option cannot be predicted with certainty at the time of contract issuance or thereafter. The incidents and timing of benefit elections and the resulting benefit payments may materially differ from those we anticipate at the time we issue a variable annuity contract. As we observe actual contract holder behavior, we periodically update our assumptions with respect to contract holder behavior and take appropriate action with respect to the amount of the reserves we establish for the future payment of such benefits. See "Risk Factors — Risks Related to Our Business — Guarantees within certain of our annuity products may decrease our earnings, decrease our capitalization, increase the volatility of our results, result in higher risk management costs and expose us to increased market risk" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates."

We have employed several risk exposure reduction strategies at the product level. These include reducing the interest rates used to determine annuity payout rates on GMIBs from 2.5% to 0.5% over time, partially in response to sustained low interest rates. In addition, we increased the setback period used to determine the annuity payout rates for contract holders from seven years to 10 years. For example, a 10 year age setback would determine actual annuitization monthly payout rates for a contract holder assuming they were 10 years younger than their actual age at the time of annuitization, thereby reducing the monthly guaranteed annuity claim payments. We have also reduced the guarantee roll-up rates from 6% to 4%.

Additionally, we introduced limitations on fund selections inside variable annuity contracts. In 2005, we reduced the maximum equity allocation in the separate accounts. Further, in 2011 we introduced managed volatility funds to our fund offerings in conjunction with the introduction of our last generation GMIB product "Max." Approximately 34% and 32% of the \$59.9 billion and \$56.0 billion of GMIB total account value as of both December 31, 2019 and 2018, was invested in managed volatility funds. The managers of these funds seek to reduce the risk of large, sudden declines in account value during market downturns by managing the volatility or draw-down risk of the underlying fund holdings by re-balancing the fund holdings within certain guidelines or overlaying hedging strategies at the fund level. We believe that these risk mitigation actions at the fund level reduce the amount of hedging or reinsurance we require to manage our risks arising from guarantees we provide on the underlying variable annuity separate accounts.

GMWBs. GMWBs have a Benefit Base that contract holders may roll up for up to 10 years. If contract holders take withdrawals early, the roll-up may be less than 10 years. This is in contrast to GMIBs, in which roll ups may continue beyond 10 years. Therefore, the roll-up period for the Benefit Base on GMWBs is typically less uncertain and is shorter than those on GMIBs. Additionally, the contract holder may receive income only through withdrawal of his or her Benefit Base. These withdrawal percentages are defined in the contract and differ by the age when contract holders start to take withdrawals. Withdrawal rates may differ if they are offered on a single contract holder or a couple (joint life). GMWBs primarily come in two versions depending on if they are period certain or if they are lifetime payments, GMWB4L.

GMABs. GMABs guarantee a minimum amount of account value to the contract holder after a set period of time, which can also include locking in capital market gains. This protects the value of the annuity from market fluctuations.

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The table below presents the breakdown of our variable annuity account value and Benefit Base by type of GMLBs as of December 31, 2019 and 2018.

	December 31, 2019 (1)(2)		December 31, 2018 (1)(2)	
	Account Value	Benefit Base	Account Value	Benefit Base
(In millions)				
GMIB	\$ 59,856	\$ 73,195	\$ 55,968	\$ 75,325
GMWB	2,784	2,037	2,672	2,300
GMWB4L	19,035	18,723	17,415	19,542
GMAB	672	563	600	585
Total	<u>\$ 82,347</u>	<u>\$ 94,518</u>	<u>\$ 76,655</u>	<u>\$ 97,752</u>

(1) Many of our annuity contracts offer more than one type of guarantee such that living benefit guarantee amounts listed above are not mutually exclusive to the amounts in the GMDBs table above.

(2) As of December 31, 2019 and 2018, the total account value includes investments in the general account totaling \$4.7 billion and \$4.8 billion, respectively.

Net Amount at Risk

The NAR for the GMDB is the amount of death benefit in excess of the account value (if any) as of the balance sheet date. It represents the amount of the claim we would incur if death claims were made 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.

The NAR for the GMWB and GMAB is the amount of guaranteed benefit in excess of the account values (if any) as of the balance sheet date. The NAR assumes utilization of benefits by all contract holders as of the balance sheet date. For the GMWB benefits, only a small portion of the Benefit Base is available for withdrawal on an annual basis. For the GMAB, the NAR would not be available until the GMAB maturity date.

The NAR for the GMWB4L is 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 lifetime amount provided under the guaranteed benefit. For contracts where the GMWB4L provides for a guaranteed cumulative dollar amount of payments, the NAR is based on the purchase of a lifetime with period certain income stream where the period certain ensures payment of this cumulative dollar amount. The NAR represents our potential economic exposure to such guarantees in the event all contract holders were to begin lifetime withdrawals on the balance sheet date regardless of age. Only a small portion of the Benefit Base is available for withdrawal on an annual basis.

The NAR for the GMIB is 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 our potential economic exposure to such guarantees in the event all contract holders were to annuitize on the balance sheet date, even though the guaranteed amount under the contracts may not be annuitized until after the waiting period of the contract.

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The account values and NAR of contract holders by type of guaranteed minimum benefit for variable annuity contracts are summarized below.

	December 31, 2019				December 31, 2018			
	Account Value	Death Benefit NAR (1)	Living Benefit NAR (1)	% of Account Value In-the-Money (2)	Account Value	Death Benefit NAR (1)	Living Benefit NAR (1)	% of Account Value In-the-Money (2)
(Dollars in millions)								
GMIB	\$ 41,302	\$ 2,302	\$ 4,722	42.0%	\$ 38,682	\$ 4,064	\$ 4,115	42.6%
GMIB Max w/ Enhanced DB	11,807	2,673	23	2.3%	10,961	3,775	11	1.3%
GMIB Max w/o Enhanced DB	6,750	2	5	0.8%	6,324	87	2	0.42%
GMWB4L (FlexChoice SM)	4,130	3	25	13.4%	2,819	100	15	12.5%
GMAB	672	1	1	0.6%	600	17	16	27.3%
GMWB	2,783	39	8	1.4%	2,672	143	85	31.3%
GMWB4L	14,904	71	509	23.7%	14,596	558	505	27.8%
EDB Only	3,740	609	—	N/A	3,434	955	—	N/A
GMDB Only (Other than EDB)	18,183	971	—	N/A	16,777	1,374	—	N/A
Total	<u>\$ 104,271</u>	<u>\$ 6,671</u>	<u>\$ 5,293</u>		<u>\$ 96,865</u>	<u>\$ 11,073</u>	<u>\$ 4,749</u>	

(1) The “Death Benefit NAR” and “Living Benefit NAR” are not additive at the contract level.

(2) In-the-money is defined as any contract with a living benefit NAR in excess of zero.

The in-the-money and out-of-the-money account values for GMIB’s and GMWB’s at December 31, 2019 are summarized below.

	Account Value				
	GMIB I & II	GMIB Plus	GMIB Max	GMWB	Total
(Dollars in millions)					
30% +	\$ 1,738	\$ 3,268	\$ 13	\$ 414	\$ 5,433
20% to 30%	1,039	1,488	21	392	2,940
10% to 20%	1,587	2,195	63	967	4,812
0% to 10%	2,126	3,918	228	2,353	8,625
-10% to 0%	2,237	4,736	1,164	5,067	13,204
-20% to -10%	2,198	6,324	5,397	6,480	20,399
-20%+	331	8,117	11,671	6,144	26,263
Total	<u>\$ 11,256</u>	<u>\$ 30,046</u>	<u>\$ 18,557</u>	<u>\$ 21,817</u>	<u>\$ 81,676</u>

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The in-the-money NAR amounts for death benefits at December 31, 2019 are summarized below.

	NAR					Total
	Account Value/Other	Annual Step-Up	Combination Death Benefit	Interval Reset	Return of Premium	
	(Dollars in millions)					
30% +	\$ 32	\$ 123	\$ 2,500	\$ 206	\$ 354	\$ 3,215
20% to 30%	—	109	1,604	—	14	1,727
10% to 20%	—	83	1,290	—	22	1,395
0% to 10%	—	28	297	1	8	334
Total	\$ 32	\$ 343	\$ 5,691	\$ 207	\$ 398	\$ 6,671

Reserves

Under GAAP, certain of our variable annuity guarantee features are accounted for as insurance liabilities and recorded on the balance sheet in Future Policy Benefits with changes reported in policyholder benefits and claims. These liabilities are accounted for using long-term assumptions of equity and bond market returns and the level of interest rates. Therefore, these liabilities, valued at \$4.9 billion as of December 31, 2019, are less sensitive than derivative instruments to periodic changes to equity and fixed income market returns and the level of interest rates. Guarantees accounted for in this manner include GMDBs, as well as the life contingent portion of GMIBs and certain GMWBs. All other variable annuity guarantee features are accounted for as embedded derivatives and recorded on the balance sheet in Policyholder Account Balances with changes reported in net derivative gains (losses). These liabilities, valued at \$1.7 billion as of December 31, 2019, are accounted for at fair value. Guarantees accounted for in this manner include GMABs, GMWBs and the non-life contingent portions of GMIBs. In some cases, a guarantee will have multiple features or options that require separate accounting such that the guarantee is not fully accounted for under only one of the accounting models (known as “split accounting”). Additionally, the index protection and accumulation features of Shield Annuities are accounted for as embedded derivatives, recorded on the balance sheet in policyholder account balances with changes reported in net derivative gains (losses) and valued at \$2.3 billion as of December 31, 2019. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates.”

The table below presents the GAAP variable annuity reserve balances by guarantee type and accounting model.

	December 31, 2019			December 31, 2018		
	Future Policy Benefits	Policyholder Account Balances	Total Reserves	Future Policy Benefits	Policyholder Account Balances	Total Reserves
	(In millions)					
GMDB	\$ 1,362	\$ —	\$ 1,362	\$ 1,305	\$ —	\$ 1,305
GMIB	2,677	1,844	4,521	2,565	1,603	4,168
GMIB Max	560	(84)	476	507	14	521
GMAB	—	(17)	(17)	—	(8)	(8)
GMWB	—	6	6	—	16	16
GMWB4L	258	(93)	165	261	17	278
Total	\$ 4,857	\$ 1,656	\$ 6,513	\$ 4,638	\$ 1,642	\$ 6,280

The carrying values of these guarantees can change significantly during periods of sizable and sustained shifts in equity market performance, equity market volatility, or interest rates. Carrying values are also affected by our assumptions around mortality, separate account returns and policyholder behavior, including lapse, annuitization and withdrawal rates. See “Risk Factors — Risks Related to Our Business — Guarantees within certain of our annuity products may decrease our earnings, decrease our capitalization, increase the volatility of our results, result in higher risk management costs and expose us to increased market risk.” Furthermore, changes in policyholder behavior assumptions can result in additional changes in accounting estimates.

Life

Overview

Our Life segment manufactures products to serve our target segments through a broad independent distribution network. While our in-force book reflects a broad range of life products, we have focused on term life and universal life, consistent with our financial objectives, with a concentration on design and profitability over volume. By managing our in-force book of business, we expect to generate future revenue and profits for the Company. The Life segment generates profits from premiums, investment margins, expense margins, mortality margins, morbidity margins and surrender fees. We aim to maximize our profits by focusing on operational excellence and cost optimization in order to continue to reduce the cost basis and underwriting expenses. Our life insurance in-force book provides natural diversification to our Annuity segment and a source of future profits.

The following table presents the insurance liabilities of our life insurance products.

	December 31, 2019			December 31, 2018		
	General Account	Separate Account	Total	General Account	Separate Account	Total
	(In millions)					
Term	\$ 2,576	\$ —	\$ 2,576	\$ 2,544	\$ —	\$ 2,544
Whole	2,607	—	2,607	2,400	—	2,400
Universal	2,028	—	2,028	2,111	—	2,111
Variable	1,145	5,493	6,638	1,075	4,679	5,754
Total	\$ 8,356	\$ 5,493	\$ 13,849	\$ 8,130	\$ 4,679	\$ 12,809

The following table presents our in-force face amount and direct premiums received, respectively, for the life insurance products that we offer:

	In-Force Face Amount		Premiums	
	December 31,		December 31,	
	2019	2018	2019	2018
	(In millions)			
Term	\$ 409,427	\$ 433,058	\$ 668	\$ 698
Whole	\$ 20,602	\$ 21,804	\$ 456	\$ 477
Universal	\$ 14,008	\$ 14,827	\$ 189	\$ 207
Variable	\$ 40,261	\$ 42,055	\$ 240	\$ 253

Products

We currently offer a term life product and an indexed universal life product with long-term care riders.

Term Life

Term life products are designed to provide a fixed death benefit in exchange for a guaranteed level premium to be paid over a specified period of time, usually 10 to 30 years. We have suspended sales of 10 to 30 year term products during the third quarter of 2019. We continue to offer our one-year term option. Our term life product does not include any cash value, accumulation or investment components. As a result, it is our most basic life insurance product offering and generally has lower premiums than other forms of life insurance. Term life products may allow the policyholder to continue coverage beyond the guaranteed level premium period, generally at an elevated cost. Some of our term life policies allow the policyholder to convert the policy during the conversion period to a permanent policy. Such conversion does not require additional medical or financial underwriting. Term life products allow us to spread expenses over a large number of policies while gaining mortality insights that come from high policy volumes.

Universal Life

Although we have a significant in-force book of universal life policies, we suspended new sales of universal life during the third quarter of 2019. In 2019 we launched an indexed universal life product. Universal life products provide a death benefit in return for payment of specified annual policy charges that are generally related to specific costs, which may change over time. To the extent that the policyholder chooses to pay more than the charges required in any given year to keep the policy in-force, the excess premium will be added to the cash value of the policy and credited with a stated interest

rate. This structure gives policyholders flexibility in the amount and timing of premium payments, subject to tax guidelines. Consequently, universal life policies can be used in a variety of different ways. Our universal life policies may feature limited surrender charges and low initial compensation related to policy expenses, compared to our competitors. We market our current indexed universal life product as hybrid indexed universal life with long-term care. Our product includes long-term care riders intended to provide protection should a policyholder have a long-term care event. The product allows policyholders to pay for qualified long-term care expenses by accelerating a significant portion of the face amount of the policy over a period of time. After that period of time, the policyholder may continue to receive benefits up to their maximum monthly amount for up to four additional years.

Whole Life

Although we have a significant in-force book of whole life policies, we suspended new sales of participating whole life and conversions into participating whole life beginning with the first quarter of 2017. Whole life products provide a guaranteed death benefit in exchange for a guaranteed level premium for a specified period of time in order to maintain coverage for the life of the insured. Whole life products also have guaranteed minimum cash surrender values. Our in-force whole life products provide for participation in the returns generated by the business, delivered to the policyholder in the form of non-guaranteed dividend payments. The policyholder can elect to receive the dividends in cash or to use them to increase the paid-up policy death benefit or pay the required premium. They can also be used for other purposes, including payment of loans and loan interest. The versatility of whole life allows it to be used for a variety of purposes beyond just the primary purpose of death benefit protection. With our in-force policies, the policyholder can withdraw or borrow against the policy (sometimes on a tax favored basis). In November 2017, we launched a non-participating conversion whole life product that is available for term and group conversions and to satisfy other contractual obligations.

Variable Life

Although we have a significant in-force book of variable life policies, we suspended new sales of certain variable life policies and conversions into certain variable life policies beginning with the first quarter of 2017. We may choose to issue additional variable life products in the future. Variable life products operate similarly to universal life products, with the additional feature that the excess amount paid over policy charges can be directed by the policyholder into a variety of separate account investment options. In the separate account investment options, the policyholder bears the entire risk of the investment results. We collect specified fees for the management of the investment options in addition to the base policy charges. In some instances, third-party asset management firms manage these investment options. The policyholder's cash value reflects the investment return of the selected investment options, net of management fees and insurance-related charges. With some products, by maintaining a certain premium level, policyholders may also have the advantage of various guarantees designed to protect the death benefit from adverse investment experience.

Pricing and Underwriting

Pricing

Life insurance pricing at issuance is based on the expected payout of benefits calculated using our assumptions for mortality, morbidity, premium payment patterns, sales mix, expenses, persistency and investment returns, as well as certain macroeconomic factors, such as inflation. Our product pricing models consider additional factors, such as hedging costs, reinsurance programs, and capital requirements. Our product pricing reflects our pricing standards and guidelines. We continually review our pricing guidelines in light of applicable regulations and to ensure that our policies remain competitive and supportive of our marketing strategies and profitability goals.

We have established important controls around management of underwriting and pricing processes, including regular experience studies to monitor assumptions against expectations, formal new product approval processes, periodic updates to product profitability studies and the use of reinsurance to manage our exposures, as appropriate.

Underwriting

Underwriting generally involves an evaluation of applications by a professional staff of underwriters and actuaries, who determine the type and the amount of insurance risk that we are willing to accept. We employ detailed underwriting policies, guidelines and procedures designed to assist the underwriters to properly assess and quantify such risks before issuing policies to qualified applicants or groups.

Insurance underwriting may consider not only an insured's medical history, but also other factors such as the insured's foreign travel, vocations, alcohol, drug and tobacco use, and the policyholder's financial profile. We generally perform our own underwriting; however, certain policies are reviewed by intermediaries under guidelines established by us. Requests

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for coverage are reviewed on their merits and a policy is not issued unless the particular risk has been examined and approved in accordance with our underwriting guidelines.

The underwriting conducted by our corporate underwriting office and intermediaries is subject to periodic quality assurance reviews to maintain high standards of underwriting and consistency. The office is also subject to periodic external audits by reinsurers with whom we do business.

We have established oversight of the underwriting process that facilitates quality sales and serves the needs of our customers, while supporting our financial strength and business objectives. Our goal is to achieve the underwriting, mortality and morbidity levels reflected in the assumptions in our product pricing. This is accomplished by determining and establishing underwriting policies, guidelines, philosophies and strategies that are competitive and suitable for the customer, the agent and us.

We continually review our underwriting guidelines (i) in light of applicable regulations and (ii) to ensure that our practices remain competitive and supportive of our marketing strategies, emerging industry trends and profitability goals.

Run-off

This segment consists of products which are no longer actively sold and which are separately managed, including structured settlements, pension risk transfer contracts, certain company-owned life insurance policies, funding agreements and universal life with secondary guarantees (“ULSG”).

The following table presents the insurance liabilities of our annuity contracts and life insurance policies which are reported in our Run-off segment:

	December 31, 2019			December 31, 2018		
	General Account	Separate Account	Total	General Account	Separate Account	Total
(In millions)						
Annuities (1)	\$ 11,280	\$ 19	\$ 11,299	\$ 10,575	\$ 16	\$ 10,591
Life (2)	16,783	2,097	18,880	14,745	1,639	16,384
Total	\$ 28,063	\$ 2,116	\$ 30,179	\$ 25,320	\$ 1,655	\$ 26,975

(1) Includes \$3.8 billion and \$3.7 billion of pension risk transfer general account liabilities at December 31, 2019 and 2018, respectively.

(2) Includes \$16.1 billion and \$13.9 billion of general account liabilities associated with the ULSG business at December 31, 2019 and 2018, respectively.

Corporate & Other

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

Reinsurance Activity

In connection with our risk management efforts and in order to provide opportunities for growth and capital management, we enter into reinsurance arrangements pursuant to which we cede certain insurance risks to unaffiliated reinsurers (“Unaffiliated Third-Party Reinsurance”). We discuss below our use of Unaffiliated Third-Party Reinsurance, as well as the cession of a block of legacy insurance liabilities to a third-party and related indemnification and assignment arrangements.

Unaffiliated Third-Party Reinsurance

We cede risks to third parties in order to limit losses, minimize exposure to significant risks and provide capacity for future growth. We enter into various agreements with reinsurers that cover groups of risks, as well as individual risks. Our ceded reinsurance to third parties is primarily structured on a treaty basis as coinsurance, yearly renewable term, excess or catastrophe excess of retention insurance. These reinsurance arrangements are an important part of our risk management strategy because they permit us to spread risk and minimize the effect of losses. The extent of each risk retained by us depends on our evaluation of the specific risk, subject, in certain circumstances, to maximum retention limits based on the characteristics and relative cost of reinsurance. We also cede first dollar mortality risk under certain contracts. In addition to reinsuring mortality risk, we cede other risks, as well as specific coverages.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the ceded amount in the event that we pay a claim. Cessions under reinsurance agreements do not discharge our obligations as the primary insurer. In the event the reinsurers do not meet their obligations under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible.

We have historically reinsured the mortality risk on our life insurance policies primarily on an excess of retention basis or on a quota share basis. When we cede risks to a reinsurer on an excess of retention basis we retain the liability up to a contractually specified amount and the reinsurer is responsible for indemnifying us for amounts in excess of the liability we retain, subject sometimes to a cap. When we cede risks on a quota share basis we share a portion of the risk within a contractually specified layer of reinsurance coverage. We reinsure on a facultative basis for risks with specified characteristics. On a case-by-case basis, we may retain up to \$20 million per life and reinsure 100% of the risk in excess of \$20 million. We also reinsure portions of the risk associated with certain whole life policies to a former affiliate and we assume certain term life policies and universal life policies with secondary death benefit guarantees issued by a former affiliate. We routinely evaluate our reinsurance program and may increase or decrease our retention at any time.

Our reinsurance is diversified with a group of primarily highly rated reinsurers. We analyze recent trends in arbitration and litigation outcomes in disputes, if any, with our reinsurers. We monitor ratings and evaluate the financial strength of our reinsurers by analyzing their financial statements. In addition, the reinsurance recoverable balance due from each reinsurer is evaluated as part of the overall monitoring process. Recoverability of reinsurance recoverable balances is evaluated based on these analyses. We generally secure large reinsurance recoverable balances with various forms of collateral, including secured trusts, funds withheld accounts and irrevocable letters of credit.

We reinsure, through 100% quota share reinsurance agreements, certain run-off long-term care and workers' compensation business that we have originally written. For products in our Run-off segment other than ULSG, we have periodically engaged in reinsurance activities on an opportunistic basis.

The following table presents our ordinary course net reinsurance recoverables from unaffiliated third-party reinsurers as of December 31, 2019.

	Reinsurance Recoverables	A.M. Best Financial Strength Rating (1)
	(In millions)	
MetLife, Inc.	\$ 2,499	A+
The Travelers Co (2)	601	A++
Munich Re	360	A+
RGA	357	A+
Swiss Re	289	A+
SCOR	281	A+
AXA	227	B+
Voya Financial, Inc.	129	A
Other	512	
Total	\$ 5,255	

(1) These financial strength ratings are the most currently available for our reinsurance counterparties, while the companies listed are the parent companies to such counterparties, as there may be numerous subsidiary counterparties to each listed parent.

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- (2) Relates to a block of workers compensation insurance policies reinsured in connection with MetLife’s acquisition of The Travelers Insurance Company (“Travelers”) from Citigroup, Inc. (“Citigroup”).

In addition, a block of long-term care insurance business with reserves of \$6.7 billion at December 31, 2019 is reinsured to Genworth Life Insurance Company and Genworth Life Insurance Company of New York (“Genworth reinsurers”) who further retroceded this business to Union Fidelity Life Insurance Company (“UFLIC”), an indirect subsidiary of General Electric Company (“GE”). We acquired this block of long-term care insurance business in 2005 when our former parent acquired Travelers from Citigroup. Prior to the acquisition, Travelers agreed to reinsure a 90% quota share of its long-term care business to certain affiliates of GE, which following a spin-off became part of Genworth, and subsequently agreed to reinsure the remaining 10% quota share of such long-term care insurance business. The Genworth reinsurers established trust accounts for our benefit to secure their obligations under such arrangements requiring that they maintain qualifying collateral with an aggregate fair market value equal to at least 102% of the statutory reserves attributable to the long-term care business. Additionally, Citigroup agreed to indemnify us for losses and certain other payment obligations we might incur with respect to this block of reinsured long-term care insurance business. The most currently available financial strength rating is C++ for both of these Genworth reinsurers.

See “Risk Factors — Risks Related to Our Business — If the counterparties to our reinsurance or indemnification arrangements or to the derivatives we use to hedge our business risks default or fail to perform, we may be exposed to risks we had sought to mitigate, which could materially adversely affect our financial condition and results of operations.” Further, as disclosed in Genworth’s filings with the SEC, UFLIC has established trust accounts for the Genworth reinsurers’ benefit to secure UFLIC’s obligations under its arrangements with them concerning this block of long-term care insurance business, and GE has also agreed, under a capital maintenance agreement, to maintain sufficient capital in UFLIC to maintain UFLIC’s RBC above a specified minimum level.

Affiliated Reinsurance

Affiliated reinsurance companies are affiliated insurance companies licensed under specific provisions of insurance law of their respective jurisdictions, such as the Special Purpose Financial Captive law adopted by several states including Delaware.

Brighthouse Reinsurance Company of Delaware (“BRCD”), our reinsurance subsidiary, was formed to manage our capital and risk exposures and to support our various operations, through the use of affiliated reinsurance arrangements and related reserve financing. BRCD provides certain benefits to Brighthouse, including (i) enhancing the ability to hedge the interest rate risk of the reinsurance liabilities, (ii) allowing increased allocation flexibility in managing an investment portfolio, and (iii) improving operating flexibility and administrative cost efficiency, but there can be no assurance that such benefits will continue to materialize. See “Risk Factors — Risks Related to Our Business — We may not be able to take credit for reinsurance, our statutory life insurance reserve financings may be subject to cost increases and new financings may be subject to limited market capacity” and “Regulation — Insurance Regulation.”

Catastrophe Coverage

We have exposure to catastrophes which could contribute to significant fluctuations in our results of operations. We use excess of retention and quota share reinsurance agreements to provide greater diversification of risk and minimize exposure to larger risks.

Sales Distribution

We distribute our annuity and life insurance products through a diverse network of independent distribution partners. Our partners include over 400 national and regional brokerage firms, banks, independent financial planners, independent marketing organizations and other financial institutions and financial planners, in connection with the sale of our annuity products, and general agencies, financial advisors, brokerage general agencies and financial intermediaries, in connection with the distribution of our life insurance products. We believe this strategy permits us to maximize penetration of our target markets and distribution partners without incurring the fixed costs of maintaining a proprietary distribution channel and will facilitate our ability to quickly comply with evolving regulatory requirements applicable to the sale of our products. We discuss below the execution of our strategy, certain key strategic distribution relationships and data with respect to the relative importance of our distribution channels.

Execution of our Strategy - Increasing Penetration

It is fundamental to our distribution strategy that we be among the most important manufacturers to each of our most productive distribution partners. Our objective is to be one of the top annuity and life insurance product manufacturers for our strategic and focus distribution partners. In furtherance of our strategy, we seek to differentiate ourselves from our competitors by providing our most productive distributors with focused product, sales and technology support through our approximately 20 strategic relationship managers (“SRMs”) and in excess of 220 internal and external wholesalers.

Strategic Relationship Managers

Our SRMs serve as the principal contact for our largest annuity and life insurance distributors and coordinate the relationship between Brighthouse and the distributor. SRMs provide an enhanced level of service to partners that require more resources to support their larger distribution network. SRMs are responsible for tracking and providing our key distributors with sales and activity data. They participate in business planning sessions with our distributors and are critical in providing us with insights into the product design, education and other support requirements of our principal distributors. They are also responsible for proactively addressing relationship issues with our distributors.

Wholesalers

Our wholesalers are licensed sales representatives who are responsible for providing our distributors with product support and facilitating the ease with which our distributors and customers do business with us. Our wholesalers are organized into internal wholesalers and external wholesalers. Approximately 100 of our wholesalers, which we refer to as internal wholesalers, support our distributors from our Charlotte, North Carolina corporate center and Phoenix, Arizona distribution hub, where they are responsible for providing telephonic and online sales support functions. Our approximately 120 field sales representatives, which we refer to as external wholesalers, are responsible for providing on site face-to-face product and sales support to our distributors. The external wholesalers generally have responsibility for a specific geographic region. In addition, we also have wholesalers dedicated to Primerica and MassMutual.

Strategic Distribution Relationships

We distribute our annuity products through a broad geographic network of over 400 independent distribution partners including wire houses, which we group into distribution channels including national brokerage firms, regional brokerage firms, banks, independent financial planners, independent marketing organizations and other financial institutions and independent financial planners. Our annuity distribution relationships have an average tenure in excess of 10 years.

Relative Channel Importance and Related Data

Our annuity and life insurance products are distributed through a diverse network of distribution relationships. In the tables below, we show the relative percentage of new premium production by our principal distribution channels for our annuity and life insurance products.

The table below presents the percentage of deposits of our annuity products by distribution channel.

Channel	Year Ended December 31, 2019				
	Percentage of Deposits				
	Variable	Fixed	Shield Annuities	Fixed Index Annuity	Total
Banks/financial institutions	2%	2%	19%	—%	23%
National brokerage firms	1%	—%	2%	—%	3%
Regional brokerage firms	1%	1%	4%	—%	6%
Independent financial planners	13%	2%	35%	16%	66%
Other	1%	—%	1%	—%	2%

Our top five distributors of annuity products produced 32%, 8%, 7%, 6% and 6% of our deposits of annuity products for the year ended December 31, 2019.

The table below presents the percentage of our life insurance sales by distribution channel.

Channel	Year Ended December 31, 2019
	Percentage of Life Insurance Sales
Brokerage general agencies	25%
Financial intermediaries	75%
General agencies	—%

Our top five distributors of life insurance policies produced 27%, 22%, 13%, 7% and 6% of our life insurance sales for the year ended December 31, 2019.

Regulation

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Overview

Our life insurance companies are regulated primarily at the state level, with some products and services also subject to federal regulation. In addition, BHF and its insurance subsidiaries are subject to regulation under the insurance holding company laws of various U.S. jurisdictions. Furthermore, some of our operations, products and services are subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), consumer protection laws, securities, broker-dealer and investment advisor regulations, and environmental and unclaimed property laws and regulations. See “Risk Factors — Regulatory and Legal Risks.”

Insurance Regulation

State insurance regulation generally aims at supervising and regulating insurers, with the goal of protecting policyholders and ensuring that insurance companies remain solvent. Insurance regulators have increasingly sought information about the potential impact of activities in holding company systems as a whole and have adopted laws and regulations enhancing “group-wide” supervision. See “— Holding Company Regulation” for information regarding an enterprise risk report.

Each of our insurance subsidiaries is licensed and regulated in each U.S. jurisdiction where it conducts insurance business. Brighthouse Life Insurance Company is licensed to issue insurance products in all U.S. states (except New York), the District of Columbia, the Bahamas, Guam, Puerto Rico, the British Virgin Islands and the U.S. Virgin Islands. BHNY is only licensed to issue insurance products in New York, and NELICO is licensed in all U.S. states and the District of Columbia. The primary regulator of an insurance company, however, is the insurance regulator in its state of domicile. Our insurance subsidiaries, Brighthouse Life Insurance Company, BHNY and NELICO, are domiciled in Delaware, New York and Massachusetts, respectively, and regulated by the Delaware Department of Insurance, the New York State Department of Financial Services (“NYDFS”) and the Massachusetts Division of Insurance, respectively. In addition, BRCD, which provides reinsurance to our insurance subsidiaries, is domiciled in Delaware and regulated by the Delaware Department of Insurance.

The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects and business conduct of insurers. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving certain policy forms and rates;
- regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements, and identifying and paying to the states benefits and other property that are not claimed by the owners;
- regulating advertising and marketing of insurance products;
- protecting privacy;
- establishing statutory capital (including RBC) reserve requirements and solvency standards;
- specifying the conditions under which a ceding company can take credit for reinsurance in its statutory financial statements (i.e., reduce its reserves by the amount of reserves ceded to a reinsurer);
- fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;
- adopting and enforcing suitability standards with respect to the sale of annuities and other insurance products;
- approving changes in control of insurance companies;
- restricting the payment of dividends and other transactions between affiliates; and
- regulating the types, amounts and valuation of investments.

Each insurance subsidiary is required to file reports, generally including detailed annual financial statements, with insurance regulatory authorities in each of the jurisdictions in which it does business, and its operations and accounts are subject to periodic

examination by such authorities. These subsidiaries must also file, and in many jurisdictions and for some lines of insurance obtain regulatory approval for, rules, rates and forms relating to the insurance written in the jurisdictions in which they operate.

State and federal insurance and securities regulatory authorities and other state law enforcement agencies and attorneys general from time to time may make inquiries regarding our compliance with insurance, securities and other laws and regulations regarding the conduct of our insurance and securities businesses. We cooperate with such inquiries and take corrective action when warranted. See Note 15 of the Notes to the Consolidated Financial Statements.

Surplus and Capital; Risk-Based Capital

The National Association of Insurance Commissioners (“NAIC”) is an organization whose mission is to assist state insurance regulatory authorities in serving the public interest and achieving the insurance regulatory goals of its members, the state insurance regulatory officials. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight. The NAIC provides standardized insurance industry accounting and reporting guidance through its Accounting Practices and Procedures Manual (the “Manual”), which states have largely adopted by regulation. However, statutory accounting principles continue to be established by individual state laws, regulations and permitted practices, which may differ from the Manual. Changes to the Manual or modifications by the various states may impact our statutory capital and surplus.

The NAIC has established regulations that provide minimum capitalization requirements based on RBC formulas for insurance companies. Insurers are required to maintain their capital and surplus at or above minimum levels. Regulators have discretionary authority, in connection with the continued licensing of an insurer, to limit or prohibit the insurer’s sales to policyholders if, in their judgment, the regulators determine that such insurer has not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders. Each of our insurance subsidiaries is subject to RBC requirements and other minimum statutory capital and surplus requirements imposed under the laws of its respective jurisdiction of domicile. RBC is based on a formula calculated by applying factors to various asset, premium, claim, expense and statutory reserve items. The formula takes into account the risk characteristics of the insurer and is calculated on an annual basis. The major categories of risk involved are asset risk, insurance risk, interest rate risk, market risk and business risk, including equity, interest rate and expense recovery risks associated with variable annuities that contain guaranteed minimum death and living benefits. The RBC framework is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. State insurance laws provide insurance regulators the authority to require various actions by, or take various actions against, insurers whose TAC does not meet or exceed certain RBC levels. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” and “Risk Factors — Regulatory and Legal Risks — A decrease in the RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) of our insurance subsidiaries could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our results of operations and financial condition.”

In August 2018, the NAIC adopted the framework for variable annuity reserve and capital reform (“VA Reform”). The revisions are designed to mitigate the incentive for insurers to engage in captive reinsurance transactions by making improvements to Actuarial Guideline 43 (“AG 43”) and the Life Risk Based Capital C3 Phase II (“RBC C3 Phase II”) capital requirements. VA Reform is intended to (i) mitigate the asset-liability accounting mismatch between hedge instruments and statutory instruments and statutory liabilities, (ii) remove the non-economic volatility in statutory capital charges and the resulting solvency ratios and (iii) facilitate greater harmonization across insurers and their products for greater comparability. VA Reform became effective as of January 1, 2020, with early adoption permitted as of December 31, 2019. Brighthouse elected to early adopt the changes effective December 31, 2019.

In addition, following the reduction in the statutory tax rate pursuant to the Tax Cuts and Jobs Act (the “Tax Act”), the NAIC reviewed the methodology by which taxes are incorporated into the RBC calculation. On August 7, 2018 the NAIC adopted changes to the RBC calculation effective December 31, 2018 to reflect the lower statutory tax rate, which resulted in a reduction to our insurance subsidiaries’ RBC ratios. As of the date of the most recent annual statutory financial statements filed with insurance regulators, TAC of each of our insurance subsidiaries was in excess of RBC levels required by regulators.

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

See “Risk Factors — Regulatory and Legal Risks — Our insurance 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.”

Holding Company Regulation

Insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require a controlled insurance company (i.e., insurers that are subsidiaries of insurance holding companies) to register with state regulatory authorities and to file with those authorities certain reports, including information concerning its capital structure, ownership, financial condition, certain intercompany transactions and general business operations. In 2010 and 2014, the NAIC adopted revisions to the NAIC Insurance Holding Company System Model Act (“Model Holding Company Act”) and the Insurance Holding Company System Model Regulation (“Model Holding Company Regulation”). Certain of the states, including Delaware, have adopted insurance holding company laws and regulations that are substantially similar to the Model Holding Company Act and the Model Holding Company Regulation. Other states, including New York and Massachusetts, have adopted modified versions, although their supporting regulation is substantially similar to the model regulation.

Insurance holding company regulations generally provide that no person, corporation or other entity may acquire control of an insurance company, or a controlling interest in any parent company of an insurance company, without the prior approval of such insurance company’s domiciliary state insurance regulator. Under the laws of each of the domiciliary states of our insurance subsidiaries, any person acquiring, directly or indirectly, 10% or more of the voting securities of an insurance company (or any holding company of the insurance company) is presumed to have acquired “control” of the company. This statutory presumption of control may be rebutted by a showing that control does not exist, in fact. The state insurance regulators, however, may find that “control” exists in circumstances in which a person owns or controls less than 10% of an insurance company’s voting securities. The laws and regulations regarding acquisition of control transactions may discourage potential acquisition proposals and may delay, deter or prevent a change of control involving us, including through unsolicited transactions that some of our shareholders might consider desirable.

The insurance holding company laws and regulations include a requirement that the ultimate controlling person of a U.S. insurer file an annual enterprise risk report with the lead state of the insurance holding company system identifying risks likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. To date, all of the states where Brighthouse has domestic insurers have enacted this enterprise risk reporting requirement.

State insurance statutes also typically place restrictions and limitations on the amount of dividends or other distributions payable by insurance subsidiaries to their parent companies, as well as on transactions between an insurer and its affiliates. Dividends in excess of prescribed limits and transactions above a specified size between an insurer and its affiliates require the prior approval of the insurance regulator in the insurer’s state of domicile.

The Delaware and Massachusetts Commissioners and the New York Superintendent have broad discretion in determining whether the financial condition of a stock life insurance company would support the payment of such dividends to its stockholders.

For a discussion of dividend restrictions pursuant to the Delaware Insurance Code and the insurance provisions of the Massachusetts General Law, see Note 10 of the Notes to the Consolidated Financial Statements.

Under the New York insurance law, BHNY is permitted, without prior insurance regulatory clearance, to pay stockholder dividends to its parent in any calendar year based on one of two standards. Under one standard, BHNY is permitted, without prior insurance regulatory clearance, to pay dividends out of earned surplus (defined as positive “unassigned funds (surplus)”), excluding 85% of the change in net unrealized capital gains or losses (less capital gains tax), for the immediately preceding calendar year, in an amount up to the greater of: (i) 10% of its surplus to policyholders as of the end of the immediately preceding calendar year, or (ii) its statutory net gain from operations for the immediately preceding calendar year (excluding realized capital gains), not to exceed 30% of surplus to policyholders as of the end of the immediately preceding calendar year. In addition, under this standard, BHNY may not, without prior insurance regulatory clearance, pay any dividends in any calendar year immediately following a calendar year for which its net gain from operations, excluding realized capital gains, was negative. Under the second standard, if dividends are paid out of other than earned surplus, BHNY may, without prior insurance regulatory clearance, pay an amount up to the lesser of: (i) 10% of its surplus to policyholders as of the end of the immediately preceding calendar year, or (ii) its statutory net gain from operations for the immediately preceding calendar year (excluding realized capital gains). In addition, BHNY will be permitted to pay a dividend to its parent in excess of the amounts allowed under both standards only if it files notice of its intention to declare such a dividend and the amount thereof with the New York Superintendent of Financial Services (the “Superintendent”) and the Superintendent either approves the distribution of the dividend or does not disapprove the dividend within 30 days of its filing. To the extent BHNY pays a stockholder dividend, such dividend will be paid to Brighthouse Life Insurance Company, its direct parent and sole stockholder.

Under BRCD’s plan of operations, no dividend or distribution may be made by BRCD without the prior approval of the Delaware Commissioner.

See “Risk Factors — Capital-Related Risks — As a holding company, BHF depends on the ability of its subsidiaries to pay dividends.” See also “Dividend Restrictions” in Note 10 of the Notes to the Consolidated Financial Statements for further information regarding such limitations and dividends paid.

Own Risk and Solvency Assessment Model Act

In September 2012, the NAIC adopted the Risk Management and Own Risk and Solvency Assessment Model Act (“ORSA”), which has been enacted by our insurance subsidiaries’ domiciliary states. ORSA requires that insurers maintain a risk management framework and conduct an internal own risk and solvency assessment of the insurer’s material risks in normal and stressed environments. The assessment must be documented in a confidential annual summary report, a copy of which must be made available to regulators as required or upon request.

Captive Reinsurer Regulation

During 2014, the NAIC approved a new regulatory framework applicable to the use of captive insurers in connection with the NAIC Valuation of Life Insurance Policies Model Regulation (“Regulation XXX”) and NAIC Actuarial Guideline 38 (“Guideline AXXX”) transactions. Among other things, the framework called for more disclosure of an insurer’s use of captives in its statutory financial statements and narrows the types of assets permitted to back statutory reserves that are required to support the insurer’s future obligations. In 2014, the NAIC implemented the framework through an actuarial guideline (“AG 48”), which requires the ceding insurer’s actuary to opine on the insurer’s reserves to issue a qualified opinion if the framework is not followed. The requirements of AG 48 became effective as of January 1, 2015 in all U.S. states, and apply to policies issued and new reinsurance transactions entered into on or after January 1, 2015. In 2016, the NAIC adopted a new model regulation containing similar substantive requirements to AG 48.

Federal Initiatives

Although the insurance business in the United States is primarily regulated by the states, federal initiatives often have an impact on our business in a variety of ways. Federal financial services regulation, securities regulation, derivatives regulation, pension regulation, privacy, tort reform legislation and taxation may significantly and adversely affect the insurance business. In addition, various forms of direct and indirect federal regulation of insurance have been proposed from time to time, including proposals for the establishment of an optional federal charter for insurance companies.

Guaranty Associations and Similar Arrangements

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

In December 2017, the NAIC approved revisions to its Life and Health Insurance Guaranty Association Model Act governing assessments for long-term care insurance. The revisions broaden the assessment base for long-term care insurance insolvencies to include both life and health insurers, provide for the inclusion of HMOs in the assessment base, and include no change to the premium tax offset. Many states have adopted legislation to codify these changes into law, and more states are expected to consider legislation in their 2020 legislative sessions.

In the past five years, the aggregate assessments levied against us have not been material. We have established liabilities for guaranty fund assessments that we consider adequate. See Note 15 of the Notes to the Consolidated Financial Statements for additional information on the guaranty association assessments.

Insurance Regulatory Examinations and Other Activities

As part of their regulatory oversight process, state insurance departments conduct periodic detailed examinations of the books, records, accounts, and business practices of insurers domiciled in their states. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states, and such states routinely conduct examinations of our insurance companies. The Delaware Department of Insurance is the lead state currently conducting a routine multi-state examination of Brighthouse and its subsidiaries for the years 2015 to 2018. The NYDFS is currently conducting a routine examination of BHFNY for the years 2014 to 2018. In 2019, the Massachusetts Division of Insurance completed its quinquennial regulatory financial examination of NELICO for the years 2013 to 2017 with no adverse findings. Later in 2019, the Massachusetts Division of Insurance commenced a targeted examination for the years 2013 to 2017 to address follow-up questions raised during the prior examination.

Regulatory authorities in a small number of states, the Financial Industry Regulatory Authority, Inc. (“FINRA”) and, occasionally, the SEC, have conducted investigations or inquiries relating to sales and/or administration of individual life insurance policies, annuities or other products by Brighthouse Life Insurance Company, BHNY and NELICO. These investigations have focused on the conduct of particular financial services representatives, the sale of unregistered or unsuitable products, the misuse of client assets, and sales and replacements of annuities and certain riders on such annuities. Over the past several years, these and a number of investigations of our insurance companies by other regulatory authorities were resolved for monetary payments and certain other relief, including restitution payments. We may continue to receive, and may resolve, further investigations and actions on these matters in a similar manner. In addition, claims payment practices by insurance companies have received increased scrutiny from regulators.

Policy and Contract Reserve Adequacy Analysis

Annually, our insurance subsidiaries, including BRCD, are required to conduct an analysis of the adequacy of all statutory reserves. In each case, a qualified actuary must submit an opinion which states that the statutory reserves make adequate provision, according to accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the insurance subsidiary. The adequacy of the statutory reserves is considered in light of the assets held by the insurer with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on such assets, and the consideration anticipated to be received and retained under the related policies and contracts. An insurance company may increase reserves in order to submit an opinion without qualification. Since the inception of this requirement, our insurance subsidiaries, which are required by their states of domicile to provide these opinions, have provided such opinions without qualifications.

Regulation of Investments

Each of our insurance subsidiaries is subject to state laws and regulations that require diversification of investment portfolios and limit the amount of investments that an insurer may have in certain asset categories, such as below investment grade fixed income securities, real estate equity, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments. We believe that the investments made by each of our insurance subsidiaries complied, in all material respects, with such regulations at December 31, 2019.

NYDFS Insurance Regulation 210

On March 19, 2018, NYDFS Insurance Regulation 210: Life Insurance and Annuity Non-Guaranteed Elements took effect. The regulation establishes standards for the determination and readjustment of non-guaranteed elements (“NGEs”) that may vary at the insurer’s discretion for life insurance policies and annuity contracts delivered or issued for delivery in New York. In addition, the regulation establishes guidelines for related disclosure to NYDFS and policy owners prior to any adverse change in NGEs. The regulation applies to all individual life insurance policies, individual annuity contracts and certain group life insurance and group annuity certificates that contain NGEs. NGEs include premiums, expense charges, cost of insurance rates and interest credits.

Cybersecurity Regulation

In the course of our business, we and our distributors collect and maintain customer data, including personally identifiable non-public financial and health information. We also collect and handle the personal information of our employees and certain third parties who distribute our products. As a result, we and the third parties who distribute our products are subject to U.S. federal and state privacy laws and regulations, including the Health Insurance Portability and Accountability Act as well as additional regulation, including the state laws described below. These laws require that we institute and maintain certain policies and procedures to safeguard this information from improper use or disclosure and that we provide notice of our practices related to the collection and disclosure of such information. Other laws and regulations require us to notify affected individuals and regulators of security breaches.

For example, in 2017, the NYDFS adopted a broad cybersecurity regulation that requires financial services institutions to, among other things, implement and maintain a cybersecurity program and a cybersecurity policy that will be monitored and tested periodically, develop controls and technology standards for data protection, meet minimum standards in response to any cybersecurity breach and annually certify their compliance with the regulation. In addition, in 2017 the NAIC adopted the Insurance Data Security Model Law, which established standards for data security and for the investigation and notification of insurance commissioners of cybersecurity events involving unauthorized access to, or the misuse of, certain nonpublic information. A number of states have enacted the Insurance Data Security Model Law or similar laws, and we expect more states to follow.

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In 2018, California enacted the California Consumer Privacy Act of 2018 (the “CCPA”), which went into effect on January 1, 2020. The CCPA contains a number of new requirements regarding the personal information of California consumers, including new individual rights and mandatory disclosures regarding consumers’ personal information. The statute also establishes a private right of action in some cases if consumers’ personal information is subject to a data breach as a result of a business’ failure to implement and maintain reasonable security practices. Additional states are considering consumer information privacy legislation, including during the 2020 legislative session.

Securities, Broker-Dealer and Investment Advisor Regulation

Some of our activities in offering and selling variable insurance products, as well as certain fixed interest rate or index-linked contracts, are subject to extensive regulation under the federal securities laws administered by the SEC and/or state securities law. Federal and state securities laws and regulations treat variable insurance products and certain fixed interest rate or index-linked contracts as securities that must be registered with the SEC under the Securities Act of 1933, as amended (the “Securities Act”), and distributed through broker-dealers registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These registered broker-dealers are also FINRA members; therefore, sales of these registered products also are subject to the requirements of FINRA rules.

Brighthouse Securities, LLC (“Brighthouse Securities”) is registered with the SEC as a broker-dealer and is approved as a member of, and subject to regulation by, FINRA. Brighthouse Securities is also registered as a broker-dealer in all applicable U.S. states. Its business is to serve as the principal underwriter and exclusive distributor of the registered products issued by its affiliates, and as the principal underwriter for the registered mutual funds advised by its affiliated investment advisor, Brighthouse Investment Advisers, LLC (“Brighthouse Advisers”), and used to fund variable insurance products.

We issue variable insurance products through separate accounts that are registered with the SEC as investment companies under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Each registered separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund which is itself a registered investment company under the Investment Company Act. Our subsidiary, Brighthouse Advisers is registered as an investment advisor with the SEC under the Investment Advisers Act of 1940, and its primary business is to serve as investment advisor to the registered mutual funds that underlie our variable annuity contracts and variable life insurance policies. Certain variable contract separate accounts sponsored by our subsidiaries are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other provisions of the federal securities laws.

Federal, state and other securities regulatory authorities, including the SEC and FINRA, may from time to time make inquiries and conduct examinations regarding our compliance with securities and other laws and regulations. We will cooperate with such inquiries and examinations and take corrective action when warranted. See “— Insurance Regulation — Insurance Regulatory Examinations and Other Activities.”

Federal and state securities laws and regulations are primarily intended to ensure the integrity of the financial markets, to protect investors in the securities markets, and to protect investment advisory or brokerage clients, and generally grant regulatory agencies broad rulemaking and enforcement powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations.

Department of Labor and ERISA Considerations

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

In addition, the prohibited transaction rules of ERISA and the Tax Code generally restrict the provision of investment advice to ERISA qualified plans, plan participants and IRA owners 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. DOL regulations expanding the definition of “investment advice” were introduced in 2016 but were subsequently vacated in 2018. See “Department of Labor Fiduciary Advice Rule” below.

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The DOL has issued a number of regulations that increase the level of disclosure that must be provided to plan sponsors and participants. The participant disclosure regulations and the regulations which require service providers to disclose fee and other information to plan sponsors took effect in 2012.

In *John Hancock Mutual Life Insurance Company v. Harris Trust and Savings Bank* (1993), the U.S. Supreme Court held that certain assets in excess of amounts necessary to satisfy guaranteed obligations under a participating group annuity general account contract are “plan assets.” Therefore, these assets are subject to certain fiduciary obligations under ERISA, which requires fiduciaries to perform their duties solely in the interest of ERISA plan participants and beneficiaries. DOL regulations issued thereafter provide that, if an insurer satisfies certain requirements, assets supporting a policy backed by the insurer’s general account and issued before 1999 will not constitute “plan assets” We have taken and continue to take steps designed to ensure compliance with these regulations. An insurer issuing a new policy that is backed by its general account and is issued to or for an employee benefit plan after December 31, 1998 is generally subject to fiduciary obligations under ERISA, unless the policy is a guaranteed benefit policy.

Standard of Conduct Regulation

As a result of overlapping efforts by the DOL, the NAIC, individual states and the SEC to impose fiduciary-like requirements in connection with the sale of annuities, life insurance policies and securities, which are each discussed in more detail below, there have been a number of proposed or adopted changes to the laws and regulations that govern the conduct of our business and the firms that distribute our products. As a manufacturer of annuity and life insurance products, we do not directly distribute our products to consumers. However, regulations establishing standards of conduct in connection with the distribution and sale of these products could affect our business by imposing greater compliance, oversight, disclosure and notification requirements on our distributors and/or us, which may in either case increase our costs or limit distribution of our products. We cannot predict what other proposals may be made, what legislation or regulations may be introduced or enacted, or what impact any future legislation or regulations may have on our business, results of operations and financial condition.

Department of Labor Fiduciary Advice Rule

The DOL issued regulations in 2016 (the “Fiduciary Rule”) that were subsequently vacated by the Fifth Circuit Court of Appeals in 2018. While the Fiduciary Rule was in effect, it substantially expanded the definition of “investment advice,” thereby broadening the circumstances under which distributors and manufacturers of insurance and annuity products could be considered fiduciaries under ERISA or the Tax Code, and subject to an impartial conduct or “best interests” standard in providing such advice. Under the rule, certain communications with plans, plan participants and IRA owners, including the marketing of products, and marketing of investment management or advisory services, were deemed fiduciary investment advice, thus causing increased exposure to fiduciary liability if the distributor did not recommend what was in the client’s best interests. In 2019, the DOL indicated that it intends to issue a new proposed rule on fiduciary investment advice under ERISA. At this time, we cannot predict the timing, content or form of any such rule or its impact on our business, results of operations and financial condition.

State Law Standard of Conduct Rules and Regulations

The NAIC, as well as certain state insurance regulators, are also considering implementing rules that would apply a best interest conduct standard to recommendations made in connection with certain annuities and, in the case of New York, life insurance policies. In particular, on July 18, 2018, the NYDFS issued Regulation 187 (“Regulation 187”), which adopted a best interest standard for the sale of annuities and life insurance products in New York. The regulation generally requires a consumer’s best interest, and not the financial interests of a producer or insurer, in making a producer’s recommendation as to which life insurance or annuity product a consumer should purchase. In addition, Regulation 187 imposes a best interest standard on consumer in-force transactions. We have assessed the impact to our annuity and life insurance businesses and have adopted certain changes to promote compliance with the provisions by their respective effective dates.

The NAIC adopted a new Suitability in Annuity Transactions Regulation (the “NAIC SAT”) that includes a best interest standard on February 13, 2020 in an effort to promote harmonization across various regulators, including the recently adopted SEC Regulation Best Interest. The NAIC SAT model standard requires producers to act in the best interest of the consumer when recommending annuities. We expect that several states will consider adopting the new NAIC SAT model.

Additionally, regulators in Nevada, New Jersey, and Massachusetts have issued proposals to impose a fiduciary duty on some investment professionals, and other states may be considering similar regulations. We continue to assess the impact of these new and proposed standards on our business, and we expect that we and our third-party distributors will need to implement additional compliance measures that could ultimately impact sales of our products.

SEC Rules Addressing Standards of Conduct for Broker-Dealers

On June 5, 2019, the SEC adopted a comprehensive set of rules and interpretations for broker-dealers and investment advisers, including new Regulation Best Interest. Among other things, this regulatory package (i) requires broker-dealers and their financial professionals to act in the best interest of retail customers when making recommendations to such customers without placing their own interests ahead of the customers' interests, including by satisfying obligations relating to disclosure, care, mitigation of conflicts of interest, and compliance policies and procedures; (ii) clarifies the nature of the fiduciary obligations owed by registered investment advisers to their clients; (iii) imposes new requirements on broker-dealers and investment advisers to deliver Form CRS relationship summaries designed to assist customers in understanding key facts regarding their relationships with their investment professionals and differences between the broker-dealer and investment adviser business models; and (iv) restricts broker-dealers and their financial professionals from using certain compensation practices and the terms "adviser" or "advisor." The intent of Regulation Best Interest is to impose an enhanced standard of care on broker-dealers and their financial professionals which is more similar to that of an investment adviser. Among other things, this would require broker-dealers to mitigate conflicts of interest arising from transaction-based financial arrangements for their employees.

Regulation Best Interest may change the way broker-dealers sell securities such as variable annuities to their retail customers as well as their associated costs. Moreover, it may impact broker-dealer sales of other annuity products that are not securities because it could be difficult for broker-dealers to differentiate their sales practices by product. Per the timeline established by the SEC, broker-dealers will be required to comply with the requirements of Regulation Best Interest beginning June 30, 2020. Given the complexity of this package of regulations and the fact that it was just recently adopted, its likely impact on the distribution of our products is uncertain. In addition, individual states and their securities regulators may adopt their own enhanced conduct standards for broker-dealers that may further impact their practices, and it is uncertain to what extent they would be preempted by Regulation Best Interest.

Regulation of Over-the-Counter Derivatives

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") includes a framework of regulation of the over-the-counter ("OTC") derivatives markets which requires clearing of certain types of derivatives and imposes additional costs, including new reporting and margin requirements. We use derivatives to mitigate a wide range of risks in connection with our businesses, including the impact of increased benefit exposures from certain of our annuity products that offer guaranteed benefits. Our costs of risk mitigation have increased under Dodd-Frank. For example, Dodd-Frank imposes requirements for (i) the mandatory clearing of certain derivatives transactions (derivatives that must be cleared and settled through central clearing counterparties), and (ii) mandatory exchange of margin for "OTC-bilateral" transactions (OTC derivatives that are bilateral contracts between two counterparties) entered into after the applicable phase-in period. The initial margin requirements for OTC-bilateral transactions will be applicable to us in September 2020. The increased margin requirements, combined with increased capital charges for our counterparties and central clearinghouses with respect to non-cash collateral, will likely require increased holdings of cash and highly liquid securities with lower yields causing a reduction in income and less favorable pricing for cleared and OTC-bilateral derivatives transactions. Centralized clearing of certain derivatives exposes us to the risk of a default by a clearing member or clearinghouse with respect to our cleared derivative transactions. We could be subject to higher costs of entering into derivative transactions (including customized derivatives) and the reduced availability of customized derivatives that might result from the implementation of Dodd-Frank and comparable international derivatives regulations.

Federal banking regulators adopted rules that apply to certain qualified financial contracts, including many derivatives contracts, securities lending agreements and repurchase agreements, with certain banking institutions and certain of their affiliates. These rules, which became effective on January 1, 2019, generally require the banking institutions and their applicable affiliates to include contractual provisions in their qualified financial contracts that limit or delay certain rights of their counterparties arising in connection with the banking institution or an applicable affiliate becoming subject to a bankruptcy, insolvency, resolution or similar proceeding. Certain of our derivatives, securities lending agreements and repurchase agreements are subject to these rules, and as a result, we are subject to greater risk and more limited recovery in the event of a default by such banking institutions or their applicable affiliates.

Environmental Considerations

As an owner and operator of real property, we are subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is also the risk that there may be potential environmental liabilities and costs in connection with any investigation or required remediation of such properties. In addition, we hold equity interests in companies that could potentially be subject to environmental liabilities. We routinely have environmental assessments performed with respect to real estate being acquired for investment and real property to be acquired through foreclosure. We cannot provide assurance that unexpected environmental liabilities will not arise. However, based on information currently available to us, we believe that any costs associated with our compliance with environmental laws and regulations or any remediation of our properties will not have a material adverse effect on our results of operations or financial condition.

Unclaimed Property

We are subject to the laws and regulations of states and other jurisdictions concerning identification, reporting and escheatment of unclaimed or abandoned funds, and are subject to audit and examination for compliance with these requirements, which may result in fines or penalties. Litigation may be brought by, or on behalf, of one or more entities, seeking to recover unclaimed or abandoned funds and interest. The claimant or claimants also may allege entitlement to other damages or penalties, including for alleged false claims.

Company Ratings

Financial strength ratings represent the opinion of rating agencies regarding the ability of an insurance company to pay obligations under insurance policies and contracts in accordance with their terms. Credit ratings indicate the rating agency's opinion regarding a debt issuer's ability to meet the terms of debt obligations in a timely manner. They are important factors in our overall funding profile and ability to access certain types of liquidity and capital. The level and composition of regulatory capital at the subsidiary level and our equity capital are among the many factors considered in determining our financial strength ratings and credit ratings. Each agency has its own capital adequacy evaluation methodology, and assessments are generally based on a combination of factors. Rating agencies may increase the frequency and scope of their credit reviews, may request additional information from the companies that they rate and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Rating Agencies" and "Risk Factors — Risks Related to Our Business — A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and materially adversely affect our financial condition and results of operations."

Competition

Both the annuities and the life insurance markets are very competitive, with many participants and no one company dominating the market for all products. According to the American Council of Life Insurers (Life Insurers Fact Book 2019), the U.S. life insurance industry is made up of 773 companies with sales and operations across the country. We compete with major, well-established stock and mutual life insurance companies in all of our product offerings. Our Annuities segment also faces competition from other financial service providers that focus on retirement products and advice. Our competitive positioning overall is focused on access to distribution channels, product features and financial strength.

Principal competitive factors in the annuities business include product features, distribution channel relationships, ease of doing business, annual fees, investment performance, speed to market, brand recognition, technology and the financial strength ratings of the insurance company. In particular for the variable annuity business, our living benefit rider product features and the quality of our relationship management and wholesaling support are key drivers in our competitive position. In the fixed annuity business, the crediting rates and guaranteed payout product features are the primary competitive factors, while for index-linked annuities the competitiveness of the crediting methodology is the primary driver. For income annuities, the competitiveness of the lifetime income payment amount is generally the principal factor.

Principal competitive factors in the life insurance business include customer service and distribution channel relationships, price, the financial strength ratings of our insurance subsidiaries, technology and financial stability. For our hybrid indexed universal life with long-term care product, product features, long term care benefits, and our underwriting process are the primary competitive factors.

Employees

At December 31, 2019, we had approximately 1,330 employees. We believe that our relations with our employees are satisfactory.

Information About Our Executive Officers

The following table presents certain information regarding our executive officers.

Name	Age	Position
Eric T. Steigerwalt	58	President and Chief Executive Officer
Christine M. DeBiase	51	Executive Vice President, Chief Administrative Officer and General Counsel
Myles J. Lambert	45	Executive Vice President and Chief Distribution and Marketing Officer
Conor Murphy	51	Executive Vice President and Chief Operating Officer
John L. Rosenthal	59	Executive Vice President and Chief Investment Officer
Edward A. Spehar	54	Executive Vice President and Chief Financial Officer

Set forth below is the business experience of each of the executive officers named in the table above.

Eric T. Steigerwalt

- Brighthouse Financial, Inc. (August 2017 - present)
 - President and Chief Executive Officer (August 2017 - present)
- MetLife (May 1998 - August 2017)
 - President and Chief Executive Officer, Brighthouse Financial, Inc. (August 2016 - August 2017)
 - Executive Vice President, U.S. Retail (September 2012 - August 2017)
 - Executive Vice President and interim Chief Financial Officer (November 2011 - September 2012)
 - Executive Vice President, Chief Financial Officer of U.S. Business (January 2010 - November 2011)
 - Senior Vice President and Chief Financial Officer of U.S. Business (September 2009 - January 2010)
 - Senior Vice President and Treasurer (May 2007 - September 2009)
 - Senior Vice President and Chief Financial Officer of Individual Business (July 2003 - May 2007)

Christine M. DeBiase

- Brighthouse Financial, Inc. (August 2017 - present)
 - Executive Vice President, Chief Administrative Officer and General Counsel (February 2018 - present)
 - Executive Vice President, General Counsel, Corporate Secretary and Interim Head of Human Resources (May 2017 - November 2017)
 - Executive Vice President, General Counsel and Corporate Secretary (August 2017 - February 2018)
- MetLife (December 1996 - August 2017)
 - Executive Vice President, General Counsel and Corporate Secretary, Brighthouse Financial, Inc. (August 2016 - August 2017)
 - Senior Vice President and Associate General Counsel, U.S. Retail (August 2014 - August 2017)
 - Associate General Counsel, Retail (October 2013 - August 2014)
 - Vice President and Secretary (November 2010 - September 2013)
 - Associate General Counsel, Regulatory Affairs (November 2009 - November 2010)
 - Vice President, Compliance (May 2006 - November 2009)

Myles J. Lambert

- Brighthouse Financial, Inc. (August 2017 - present)
 - Executive Vice President and Chief Marketing and Distribution Officer (August 2017 - present)
- MetLife (July 2012 - August 2017)
 - Executive Vice President and Chief Marketing and Distribution Officer, Brighthouse Financial, Inc. (August 2016 - August 2017)
 - Senior Vice President, U.S. Retail Distribution and Marketing (April 2016 - August 2017)
 - Senior Vice President, Head of MetLife Premier Client Group (“MPCG”) Northeast Region (August 2014 - April 2016)
 - Vice President, MPCG Northeast Region (July 2012 - August 2014)

Conor Murphy

- Brighthouse Financial, Inc. (September 2017 - present)
 - Executive Vice President and Chief Operating Officer (June 2018 - present)
 - Executive Vice President, Interim Chief Financial Officer and Chief Operating Officer (March 2019 - August 2019)
 - Executive Vice President and Head of Client Solutions and Strategy (September 2017 - June 2018)
- MetLife (September 2000 - August 2017)
 - Chief Financial Officer, Latin America region (January 2012 - August 2017)
 - Head of International Strategy and Mergers and Acquisitions (January 2011 - December 2011)
 - Chief Financial Officer, Europe, Middle East and Africa (EMEA) region (January 2011 - June 2011)
 - Head of Investor Relations (January 2008 - December 2010)
 - Chief Financial Officer, MetLife Investments (June 2002 - December 2007)
 - Vice President - Investments Audit (September 2000 - June 2002)

John L. Rosenthal

- Brighthouse Financial, Inc. (August 2017 - present)
 - Executive Vice President and Chief Investment Officer (August 2017 - present)
- MetLife (1984 - August 2017)
 - Executive Vice President and Chief Investment Officer, Brighthouse Financial, Inc. (August 2016 - August 2017)
 - Senior Managing Director, Head of Global Portfolio Management (2011 - August 2017)
 - Senior Managing Director, Head of Core Securities (2004 - 2011)
 - Managing Director, Co-head of Fixed Income and Equity Investments (2000 - 2004)

Edward A. Spehar

- Brighthouse Financial, Inc. (July 2019 - present)
 - Executive Vice President and Chief Financial Officer (August 2019 - present)
- MetLife (November 2012 - July 2019)
 - Executive Vice President and Treasurer (August 2018 - July 2019)
 - Chief Financial Officer of EMEA (July 2016 - February 2019)
 - Senior Vice President, Head of Investor Relations (November 2012 - June 2016)

Intellectual Property

We rely on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. We have established a portfolio of trademarks in the United States that we consider important in the marketing of our products and services, including for our name, "Brighthouse Financial," our logo design and taglines.

Available Information and the Brighthouse Financial Website

Our website is located at www.brighthousefinancial.com. We use our website as a routine channel for distribution of information that may be deemed material for investors, including news releases, presentations, financial information and corporate governance information. We post filings on our website as soon as practicable after they are electronically filed with, or furnished to, the SEC, including our annual and quarterly reports on Forms 10-K and 10-Q and current reports on Form 8-K; our proxy statements; and any amendments to those reports or statements. All such postings and filings are available on the "Investor Relations" portion of our website free of charge. In addition, our Investor Relations website allows interested persons to sign up to automatically receive e-mail alerts when we post financial information. The SEC's website, www.sec.gov, contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

We may use our website as a means of disclosing material information and for complying with our disclosure obligations under Regulation Fair Disclosure promulgated by the SEC. These disclosures are included on our website in the "Investor Relations" or "Newsroom" sections. Accordingly, investors should monitor these portions of our website, in addition to following Brighthouse's news releases, SEC filings, public conference calls and webcasts.

Information contained on or connected to any website referenced in this Annual Report on Form 10-K is not incorporated by reference in this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any website references are intended to be inactive textual references only unless expressly noted.

Item 1A. Risk Factors**Index to Risk Factors**

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Overview

You should carefully consider the factors described below, in addition to the other information set forth in this Annual Report on Form 10-K. These risk factors are important to understanding the contents of this Annual Report on Form 10-K and our other filings with the SEC. If any of the following events occur, our business, financial condition and operating results may be materially adversely affected. In that event, the trading price of our securities could decline, and you could lose all or part of your investment.

The materialization of any risks and uncertainties set forth below or identified in “Note Regarding Forward-Looking Statements” contained in this Annual Report on Form 10-K and our other filings with the SEC or those that are presently unforeseen or that we currently believe to be immaterial could result in significant adverse effects on our financial condition, results of operations and cash flows. See “Note Regarding Forward-Looking Statements.”

Risks Related to Our Business***Differences between actual experience and actuarial assumptions and the effectiveness of our actuarial models may adversely affect our financial results, capitalization and financial condition***

Our earnings significantly depend upon the extent to which our actual claims experience and benefit payments on our products are consistent with the assumptions we use in setting prices for our products and establishing liabilities for future policy benefits and claims. Such amounts are established based on actuarial estimates of how much we will need to pay for future benefits and claims. To the extent that actual claims and benefits experience is less favorable than the underlying assumptions we used in establishing such liabilities, we could be required to increase our liabilities. We make assumptions regarding policyholder behavior at the time of pricing and in selecting and utilizing the guaranteed options inherent within our products based in part upon expected persistency of the products, which change the probability that a policy or contract will remain in-force from one period to the next. Persistency could be adversely affected by a number of factors, including adverse economic conditions as well as by developments affecting policyholder perception of us, including perceptions arising from adverse publicity or any potential negative rating agency actions. The pricing of certain of our variable annuity products that contain certain living benefit guarantees is also based on assumptions about utilization rates, or the percentage of contracts that will utilize the benefit during the contract duration, including the timing of the first withdrawal. Results may vary based on differences between actual and expected benefit utilization. A material increase in the valuation of the liability could result to the extent emerging and actual experience deviates from these policyholder option utilization assumptions, and in certain circumstances this deviation may impair our solvency. We conduct an annual actuarial assumption review (the “AAR”) of the key inputs into our actuarial models that rely on management judgment and update those where we have credible evidence from actual experience, industry data or other relevant sources to ensure our price-setting criteria and reserve valuation practices continue to be appropriate.

We use actuarial models to assist us in establishing reserves for liabilities arising from our insurance policies and annuity contracts. We periodically review the effectiveness of these models, their underlying logic and, from time to time, implement

refinements to our models based on these reviews. We implement refinements after rigorous testing and validation and, even after such validation and testing, our models remain subject to inherent limitations. Accordingly, no assurances can be given as to whether or when we will implement refinements to our actuarial models, and, if implemented, the extent of such refinements. Furthermore, if implemented, any such refinements could cause us to increase the reserves we hold for our insurance policy and annuity contract liabilities. Such refinement would also cause us to accelerate the amortization of deferred policy acquisition costs (“DAC”) associated with the affected reserves.

Due to the nature of the underlying risks and the uncertainty associated with the determination of liabilities for future policy benefits and claims, we cannot determine precisely the amounts which we will ultimately pay to settle our liabilities. Such amounts may vary materially from the estimated amounts, particularly when those payments may not occur until well into the future. We evaluate our liabilities periodically based on accounting requirements (which change from time to time), the assumptions and models used to establish the liabilities, as well as our actual experience. If the liabilities originally established for future benefit payments and claims prove inadequate, we will be required to increase them.

An increase in our reserves or acceleration of DAC amortization for any of the above reasons, individually or in the aggregate, could have a material adverse effect on our financial condition and results of operations, profitability measures as well as materially impact our capitalization, our distributable earnings and our ability to receive dividends from our operating companies. These impacts could then in turn impact our RBC ratios and our financial strength ratings, which are necessary to support our product sales, and in certain circumstances ultimately impact our solvency.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Policyholder Liabilities” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates — Deferred Policy Acquisition Costs.”

Guarantees within certain of our annuity products may decrease our earnings, decrease our capitalization, increase the volatility of our results, result in higher risk management costs and expose us to increased market risk

Certain of the variable annuity products we offer include guaranteed benefits designed to protect contract holders against significant changes in equity markets and interest rates, including GMDBs, GMWBs and GMABs. While we continue to have GMIBs in-force with respect to which we are obligated to perform, we no longer offer GMIBs. We hold liabilities based on the value of the benefits we expect to be payable under such guarantees in excess of the contract holders’ projected account balances. As a result, any periods of significant and sustained negative or low separate account returns, increased equity volatility, or reduced interest rates could result in an increase in the valuation of our liabilities associated with variable annuity guarantees.

Additionally, we make assumptions regarding policyholder behavior at the time of pricing and in selecting and utilizing the guaranteed options inherent within our products (e.g., utilization of option to annuitize within a GMIB product). An increase in the valuation of the liability could result to the extent emerging and actual experience deviates from these policyholder persistency and option utilization assumptions. We review key actuarial assumptions used to record our variable annuity liabilities on an annual basis, including the assumptions regarding policyholder behavior. Changes to assumptions based on our AAR in future years could result in an increase in the liabilities we record for these guarantees.

Furthermore, our Shield Annuities are index-linked annuities with guarantees for a defined amount of equity loss protection and upside participation. If the separate account assets consisting of fixed income securities, which support the guaranteed index-linked return feature of Shield Annuities, are insufficient to reflect a period of sustained growth in the equity index on which the product is based, we may be required to support such separate accounts with assets from our general account. To the extent policyholder persistency is different than we anticipate in a sustained period of equity index growth, it could have an impact on our liquidity.

An increase in our variable annuity guarantee liabilities for any of the above reasons, individually or in the aggregate, could have a material adverse effect on our financial condition and results of operations, profitability measures as well as impact our capitalization, our distributable earnings and our ability to receive statutory dividends from our operating companies. These impacts could then in turn impact our RBC ratios and our financial strength ratings, which are necessary to support our product sales, and in certain circumstances ultimately impact our solvency.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management Strategies,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Annual Actuarial Review” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends and Uncertainties — Financial and Economic Environment.”

Our variable annuity exposure risk management strategy may not be effective, may result in significant volatility in our profitability measures and may negatively affect our statutory capital

The principal focus of our exposure risk management program is to maintain assets supporting our variable annuity contract guarantees at the amount of variable annuity assets we hold in excess of our variable annuity target funding level (the “Variable Annuity Target Funding Level”).

Our exposure risk management strategy seeks to mitigate the potential adverse effects of changes in capital markets, specifically equity markets and interest rates, on our Variable Annuity Target Funding Level. The strategy primarily relies on a hedging strategy using derivatives instruments and to a lesser extent reinsurance. We utilize a combination of short-term and longer-term derivative instruments to have a laddered maturity of protection and reduce roll over risk during periods of market disruption or higher volatility.

However, our hedging strategy may not be fully effective. In connection with our exposure risk management program we may determine to seek the approval of applicable regulatory authorities to permit us to increase our hedge limits consistent with those contemplated by the program. No assurance can be given that any of our requested approvals will be obtained and whether, if obtained, any such approvals will not be subject to qualifications, limitations or conditions. If our capital is depleted in the event of persistent market downturns, we may need to replenish it by holding additional capital, which we may have allocated for other uses, or purchase additional hedging protection through the use of more expensive derivatives with strike levels at the current market level. Under our hedging strategy, period to period changes in the valuation of our hedges relative to the guarantee liabilities may result in significant volatility to certain of our profitability measures, which in certain circumstances could be more significant than has been the case historically.

In addition, hedging instruments we enter into may not effectively offset the costs of the guarantees within certain of our annuity products or may otherwise be insufficient in relation to our obligations. For example, in the event that derivative counterparties or central clearinghouses are unable or unwilling to pay, we remain liable for the guaranteed benefits. Furthermore, we are subject to the risk that changes in policyholder behavior or mortality, combined with adverse market events, could produce economic losses not addressed by the risk management techniques employed.

Finally, the cost of our hedging program may be greater than anticipated because adverse market conditions can limit the availability and increase the costs of the derivatives we intend to employ, and such costs may not be recovered in the pricing of the underlying products we offer. The above factors, individually or collectively, may have a material adverse effect on our results of operations, financial condition, capitalization and liquidity.

The above factors, individually or in the aggregate, may have a material adverse effect on our financial condition and results of operations, our profitability measures as well as impact our capitalization, our distributable earnings, our ability to receive dividends from our operating companies and our liquidity. These impacts could then in turn impact our RBC ratios and our financial strength ratings, which are necessary to support our product sales, and in certain circumstances ultimately impact our solvency. See “Business — Segments and Corporate & Other — Annuities — Current Products — Variable Annuities” for further consideration of the risks associated with guaranteed benefits and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management Strategies — Variable Annuity Exposure Risk Management.”

We may not have sufficient assets to meet our future ULSG policyholder obligations and changes in interest rates may result in net income volatility

The primary market risk associated with our ULSG block is the uncertainty around the future levels of U.S. interest rates. To help ensure we have sufficient assets to meet future ULSG policyholder obligations, we have employed an actuarial approach based upon NY Regulation 126 Cash Flow Testing (“ULSG CFT”) as the basis for setting our ULSG asset requirement target for BRCD, which reinsures the majority of the ULSG business written by our operating insurance companies. For the business that remains in the operating insurance companies, we set our ULSG asset requirement target to equal the actuarially determined statutory reserves, which, taken together with our ULSG asset requirement target of BRCD, comprises our total ULSG asset requirement target (“ULSG Target”). Under the ULSG CFT approach, we assume that interest rates remain flat or lower than current levels and our actuarial assumptions include a provision for adverse deviation. These underlying assumptions used in ULSG CFT are more conservative than those required under GAAP, which assumes a long-term upward mean reversion of interest rates and best estimate actuarial assumptions without additional provisions for adverse deviation.

We seek to mitigate exposure to interest rate risk associated with these liabilities by holding invested assets and interest rate derivatives to closely match our ULSG Target in different interest rate environments.

Our ULSG Target is sensitive to the actual and future expected level of long-term U.S. interest rates. If interest rates fall, our ULSG Target increases, and if interest rates rise, our ULSG Target declines. As part of our macro interest rate hedging program, we primarily use interest rate swaps, swaptions and interest rate forwards to better protect statutory capitalization from

potential losses due to an increase in reserves to achieve our ULSG Target in lower interest rate environments. This risk mitigation strategy may negatively impact our GAAP equity and net income in circumstances in which interest rates are rising. Under rising interest rates, our ULSG Target will likely decline, whereas our reported ULSG GAAP liabilities are predominately insensitive to market conditions.

Our interest rate derivative instruments may not effectively offset the costs of our ULSG policyholder obligations or may otherwise be insufficient in relation to our objectives. In addition, the assumptions we make in connection with our risk mitigation strategy may fail to reflect or correspond to actual long-term exposure to our ULSG policyholder obligations. If our liquid investments are depleted, we will need to replenish our liquid portfolio by selling higher-yielding less liquid assets, which we may have allocated for other uses. The above factors, individually or in the aggregate, could have a material adverse effect on our financial condition and results of operations, our profitability measures as well as impact our capitalization, our distributable earnings, our ability to receive dividends from our operating companies and our liquidity. These impacts could then in turn impact our RBC ratios and our financial strength ratings, which are necessary to support our product sales, and in certain circumstances ultimately impact our solvency. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management Strategies — ULSG Market Risk Exposure Management.”

Our analyses of scenarios and sensitivities that we may utilize in connection with our variable annuity risk management strategies may involve significant estimates based on assumptions and may therefore result in material differences from actual outcomes compared to the sensitivities calculated under such scenarios

As part of our variable annuity exposure risk management program, we may, from time to time, estimate the impact of various market factors under certain scenarios on our variable annuity distributable earnings and/or our reserves (collectively, the “market sensitivities”).

Any such market sensitivities may use inputs which are difficult to approximate and could include estimates that may differ materially from actual results. Any such estimates, or the absence thereof, may, among other things, be associated with: (i) basis returns related to equity or fixed income indices; (ii) actuarial assumptions related to policyholder behavior and life expectancy; and (iii) management actions that may occur in response to developing facts, circumstances and experience for which no estimates are made in any market sensitivities. Any such estimates, or the absence thereof, may produce sensitivities that could differ materially from actual outcomes and may therefore affect our actions in connection with our exposure risk management program.

In addition, any market sensitivities may not factor in the possibility of simultaneous shocks to equity markets, interest rates and market volatility. The actual effect of changes in equity markets and interest rates on the assets supporting our variable annuity contracts may vary depending on a number of factors which may include, but are not limited to: (i) the validity of any market sensitivities only as of a particular measurement date; and (ii) any changes in our hedging program, policyholder behavior and underlying fund performance, which could materially affect the liabilities our assets support. Furthermore, any market sensitivities could illustrate the estimated impact of the indicated shocks occurring instantaneously, and therefore may not give effect to rebalancing over the course of the shock event. The estimates of equity market shocks may reflect a shock of the same magnitude to both domestic and global equity markets, while the estimates of interest rate shocks may reflect a shock to rates at all durations (a parallel shift in the yield curve). Any such instantaneous and/or equilateral impact assumptions may result in estimated sensitivities that could differ materially from the actual impacts.

Finally, no assurances can be given that the assumptions underlying any market sensitivities can or will be realized. Our liquidity, statutory capitalization, results of operations and financial condition may be affected by a broad range of capital market scenarios, which, depending on whether they positively or adversely affect account values, could materially positively or adversely affect our reserving requirements, and by extension, could materially affect the accuracy of estimates used in any market sensitivities.

Changes in accounting standards issued by the Financial Accounting Standards Board may adversely affect our financial statements

Our financial statements are subject to the application of GAAP, which is periodically revised by the Financial Accounting Standards Board (“FASB”). Accordingly, from time to time we are required to adopt new or revised accounting standards or interpretations issued by the FASB. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our reports filed with the SEC. See Note 1 of the Notes to the Consolidated Financial Statements.

The FASB issued an accounting standards update (“ASU”) on August 15, 2018 that will result in significant changes to the accounting for long-duration insurance contracts, including that all of our variable annuity guarantees will be considered market risk benefits and measured at fair value, whereas today a significant amount of our variable annuity guarantees are carried as insurance. The ASU will be effective as of January 1, 2022. The Company is evaluating the new guidance and is currently not able to estimate the impact to its financial statements. At current market interest rate levels, the ASU could ultimately result in

a material decrease in our stockholders' equity, which may have a material adverse effect on our leverage ratios and other rating agency metrics and could consequently adversely impact our financial strength ratings and our ability to incur new indebtedness or refinance our existing indebtedness. In addition, the ASU could also result in increased market sensitivity of our financial statements and results of operations. See “— A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and materially adversely affect our financial condition and results of operations.”

A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and materially adversely affect our financial condition and results of operations

Financial strength ratings are published by various nationally recognized statistical rating organizations (“NRSROs”) and similar entities not formally recognized as NRSROs. They indicate the NRSROs' opinions regarding an insurance company's ability to meet contract holder and policyholder obligations and are important to maintaining public confidence in our products and our competitive position. See “Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Rating Agencies” for additional information regarding our financial strength ratings, including current rating agency ratings and outlooks.

Downgrades in our financial strength ratings or changes to our ratings outlooks could have a material adverse effect on our financial condition and results of operations in many ways, including:

- reducing new sales of insurance products and annuity products;
- adversely affecting our relationships with independent sales intermediaries;
- increasing the number or amount of policy surrenders and withdrawals by contract holders and policyholders;
- requiring us to reduce prices for many of our products and services to remain competitive;
- providing termination rights for the benefit of our derivative instrument counterparties;
- providing termination rights to cedents under assumed reinsurance contracts;
- adversely affecting our ability to obtain reinsurance at reasonable prices, if at all; and
- subjecting us to potentially increased regulatory scrutiny.

Credit ratings are opinions of each agency with respect to specific securities and contractual financial obligations and the issuer's ability and willingness to meet those obligations when due, and are important factors in our overall financial profile, including funding profiles, and our ability to access certain types of liquidity. Downgrades in our credit or financial strength ratings or changes to our rating outlook could have a material adverse effect on our financial condition and results of operations in many ways, including limiting our access to distributors, restricting our ability to generate new sales because our products depend on strong financial strength ratings to compete effectively, limiting our access to capital markets, and potentially increasing the cost of debt, which could adversely affect our liquidity.

We have significant indebtedness, the terms of which could restrict our operations and use of funds, resulting in a material adverse effect on our results of operations and financial condition

We have significant indebtedness in the form of debt securities issued to investors and bank debt from third-party lenders, which we are required to service with cash at BHF as well as dividends from our insurance subsidiaries and other operating subsidiaries. The funds needed to service our indebtedness as well as to make required dividend payments on our outstanding preferred stock will not be available to meet any short-term liquidity needs we may have, invest in our business, pay any potential dividends on our common stock or carry out any share or debt repurchases that we may undertake.

As of December 31, 2019, we had approximately \$4.4 billion of total long-term consolidated indebtedness outstanding. We may not generate sufficient funds to service our indebtedness and meet our business needs, such as funding working capital or the expansion of our operations. In addition, our significant leverage could put us at a competitive disadvantage compared to our competitors that are less leveraged. Our significant leverage could also impede our ability to withstand downturns in our industry or the economy in general. See “Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Primary Sources of Liquidity and Capital” for more details about our indebtedness. In addition, the Tax Act limits the deductibility of interest expense, and we may therefore not be able to fully deduct the interest payments on a substantial portion of our indebtedness. Limitations on our operations and use of funds resulting from our indebtedness could have a material adverse effect on our results of operations and financial condition.

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our business, financial condition, results of operations or cash flows.

If there were an event of default under any of the agreements relating to our outstanding indebtedness, we may not be able to incur additional indebtedness and the holders of the defaulted indebtedness could cause all amounts outstanding with respect to that indebtedness to be due and payable immediately.

Our credit facilities and our reinsurance financing arrangement contain certain administrative, reporting, legal and financial covenants, including in certain cases requirements to maintain a specified minimum consolidated net worth and 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 our subsidiaries, which could restrict our operations and use of funds. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company.” 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 the Revolving Credit Facility when needed and, consequently, could have a material adverse effect on our liquidity, results of operations and financial condition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Primary Sources of Liquidity and Capital — Credit Facilities” for a discussion of our credit facilities, including the Revolving Credit Facility.

Our ability to make payments on and to refinance our existing indebtedness, as well as any future indebtedness that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash to meet our debt obligations in the future is sensitive to capital market returns, primarily due to our variable annuity business. Overall, our ability to generate cash is subject to general economic, financial market, competitive, legislative, regulatory, client behavioral, and other factors that are beyond our control.

The lenders who hold our indebtedness could also accelerate amounts due in the event that we default, which could potentially trigger a default or acceleration of the maturity of our other indebtedness. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default, which could have a material adverse effect on our ability to continue to operate as a going concern. If we are not able to repay or refinance our indebtedness as it becomes due, we may be forced to take disadvantageous actions, including significant business and legal entity restructuring, limited new business investment, selling assets or dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in the insurance industry could be impaired. Further, if we are unable to repay, refinance or restructure our secured indebtedness, the holders of such indebtedness could proceed against any collateral securing that indebtedness.

Reinsurance may not be available, affordable or adequate to protect us against losses

As part of our overall risk management strategy, our insurance subsidiaries purchase reinsurance from third-party reinsurers for certain risks we underwrite. While reinsurance agreements generally bind the reinsurer for the life of the business reinsured at generally fixed pricing, market conditions beyond our control determine the availability and cost of the reinsurance protection for new business. The premium rates and other fees that we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Some of our reinsurance contracts contain provisions that limit the reinsurer’s ability to increase rates on in-force business; however, some do not. We have faced a number of rate increase actions on in-force business in recent years and may face additional increases in the future. There can be no assurance that the outcome of any future rate increase actions would not have a material effect on our financial condition and results of operations. If a reinsurer raises the rates that it charges on a block of in-force business, in some instances, we will not be able to pass the increased costs onto our customers and our profitability will be negatively impacted. Additionally, such a rate increase could result in our recapturing of the business, which may result in a need to maintain additional reserves, reduce reinsurance receivables and expose us to greater risks. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business or result in the assumption of more risk with respect to those policies we issue. See “Business — Reinsurance Activity.”

If the counterparties to our reinsurance or indemnification arrangements or to the derivatives we use to hedge our business risks default or fail to perform, we may be exposed to risks we had sought to mitigate, which could materially adversely affect our financial condition and results of operations

We use reinsurance, indemnification and derivatives to mitigate our risks in various circumstances. In general, reinsurance, indemnification and derivatives do not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to

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us. Accordingly, we bear credit risk with respect to our reinsurers, indemnitors, counterparties and central clearinghouses. A reinsurer's, indemnitor's, counterparty's or central clearinghouse's insolvency, inability or unwillingness to make payments under the terms of reinsurance agreements, indemnity agreements or derivatives agreements with us or inability or unwillingness to return collateral could have a material adverse effect on our financial condition and results of operations.

We cede a large block of long-term care insurance business to certain affiliates of Genworth, which results in a significant concentration of reinsurance risk. The Genworth reinsurers' obligations to us are secured by trust accounts and Citigroup agreed to indemnify us for losses and certain other payment obligations we might incur with respect to this business. See "Business — Reinsurance Activity — Unaffiliated Third-Party Reinsurance." Notwithstanding these arrangements, if the Genworth reinsurers become insolvent and the amounts in the trust accounts are insufficient to pay their obligations to us, it could have a material adverse effect on our financial condition.

In addition, we use derivatives to hedge various business risks. We enter into a variety of derivatives, including options, forwards, interest rate, credit default and currency swaps with a number of counterparties on a bilateral basis for uncleared OTC derivatives and with clearing brokers and central clearinghouses for OTC-cleared derivatives (OTC derivatives that are cleared and settled through central clearing counterparties). See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Derivatives." If our counterparties, clearing brokers or central clearinghouses fail or refuse to honor their obligations under these derivatives, our hedges of the related risk will be ineffective. Such failure could have a material adverse effect on our financial condition and results of operations.

We may not be able to take credit for reinsurance, our statutory life insurance reserve financings may be subject to cost increases and new financings may be subject to limited market capacity

We currently utilize reinsurance and capital markets solutions to mitigate the capital impact of the statutory reserve requirements for several of our products, including, but not limited to, our level premium term life products subject to Regulation XXX, and ULSG subject to Guideline AXXX. Our primary solution involves BRCD, our affiliated reinsurance subsidiary. See "Business — Reinsurance Activity — Affiliated Reinsurance." BRCD obtained statutory reserve financing through a funding structure involving a single financing arrangement supported by a pool of highly rated third-party reinsurers. The financing facility matures in 2037, and therefore, we may need to refinance this facility in the future.

The NAIC adopted AG 48, which regulates the terms of captive insurer arrangements that are entered into or amended in certain ways after December 31, 2014. See "Business — Regulation — Insurance Regulation — Captive Reinsurer Regulation." There can be no assurance that in light of AG 48, future rules and regulations, or changes in interpretations by state insurance departments that we will be able to continue to efficiently implement these arrangements, nor can we assure you that future capacity for these arrangements will be available in the marketplace. To the extent we cannot continue to efficiently implement these arrangements, our statutory capitalization, results of operations and financial condition, as well as our competitiveness, could be adversely affected.

Extreme mortality events may adversely impact liabilities for policyholder claims

Our life insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic or other event that causes a large number of deaths. For example, significant influenza pandemics have occurred several times in the last century. The likelihood, timing, and severity of a future pandemic that may impact our policyholders cannot be predicted. A significant pandemic could have a major impact on the global economy or the economies of particular countries or regions, including travel, trade, tourism, the health system, food supply, consumption, overall economic output, as well as on the financial markets. In addition, a pandemic that affected our employees or the employees of our distributors or of other companies with which we do business could disrupt our business operations. The effectiveness of external parties, including governmental and non-governmental organizations, in combating the spread and severity of such a pandemic could have a material impact on the losses we experience. These events could cause a material adverse effect on our results of operations in any period and, depending on their severity, could also materially and adversely affect our financial condition.

Consistent with industry practice and accounting standards, we establish liabilities for claims arising from a catastrophe only after assessing the probable losses arising from the event. We cannot be certain that the liabilities we have established will be adequate to cover actual claim liabilities. A catastrophic event or multiple catastrophic events could have a material adverse effect on our results of operations and financial condition. Conversely, improvements in medical care and other developments which positively affect life expectancy can cause our assumptions with respect to longevity, which we use when we price our products, to become incorrect and, accordingly, can adversely affect our results of operations and financial condition.

Factors affecting our competitiveness may adversely affect our market share and profitability

We believe competition among insurance companies is based on a number of factors, including service, product features, scale, price, actual or perceived financial strength, claims-paying ratings, credit ratings, e-business capabilities and name

recognition. We face intense competition from a large number of other insurance companies, as well as non-insurance financial services companies, such as banks, broker-dealers and asset managers. Some of these companies offer a broader array of products, have more competitive pricing or, with respect to other insurance companies, have higher claims-paying ability and financial strength ratings. Some may also have greater financial resources with which to compete. In some circumstances, national banks that sell annuity products of life insurers may also have a pre-existing customer base for financial services products. These competitive pressures may adversely affect the persistency of our products, as well as our ability to sell our products in the future. In addition, new and disruptive technologies may present competitive risks. If, as a result of competitive factors or otherwise, we are unable to generate a sufficient return on insurance policies and annuity products we sell in the future, we may stop selling such policies and products, which could have a material adverse effect on our financial condition and results of operations. See “Business — Competition.”

We have limited control over many of our costs. For example, we have limited control over the cost of Unaffiliated Third-Party Reinsurance, the cost of meeting changing regulatory requirements, and our cost to access capital or financing. There can be no assurance that we will be able to achieve or maintain a cost advantage over our competitors. If our cost structure increases and we are not able to achieve or maintain a cost advantage over our competitors, it could have a material adverse effect on our ability to execute our strategy, as well as on our results of operations and financial condition. If we hold substantially more capital than is needed to support credit ratings that are commensurate with our business strategy, over time, our competitive position could be adversely affected.

In addition, since numerous aspects of our business are subject to regulation, legislative and other changes affecting the regulatory environment for our business may have, over time, the effect of supporting or burdening some aspects of the financial services industry. This can affect our competitive position within the annuities and life insurance industry, and within the broader financial services industry. See “— Regulatory and Legal Risks” and “Business — Regulation.”

The failure of third parties to provide various services, or any failure of the practices and procedures that these third parties use to provide services to us, could have a material adverse effect on our business

A key part of our operating strategy is to leverage third parties to deliver certain services important to our business. For example, we have arrangements with DXC Technology Company, formerly Computer Sciences Corporation (“DXC”) for the administration of both in-force policies and new life and annuities business and we have also engaged a select group of experienced external asset management firms to manage the investment of the assets comprising our general account portfolio and certain other assets. We intend to focus on further sourcing opportunities with third-party vendors, including after we migrate off of certain services, such as certain finance, treasury, compliance, administrative, call center and technology support services MetLife currently provides us with for a transition period pursuant to a transition services agreement we entered into in connection with the Separation (the “Transition Services Agreement”).

It may be difficult, disruptive and more expensive for us to replace some of our third-party providers in a timely manner if in the future they were unwilling or unable to provide us with the services we require (as a result of their financial or business conditions or otherwise), and our business and operations could be materially adversely affected. There can also be no assurance that the services provided to us by third parties (or their suppliers, vendors or subcontractors) will be sufficient to meet our operational and business needs, that such third parties will continue to be able to perform their functions in a manner satisfactory to us, that the practices and procedures of such third parties will continue to enable them to adequately administer any policies they handle on our behalf, or that any remedies available under these third-party arrangements will be sufficient to us in the event of a dispute or nonperformance. In addition, if a third-party provider raises the rates that it charges us for its services, in some instances, we will not be able to pass the increased costs onto our customers and our profitability will be negatively impacted.

Furthermore, if a third-party provider (or such third-party’s supplier, vendor or subcontractor) fails to provide the administrative, operational, financial, actuarial or other services we require, fails to meet contractual requirements, such as compliance with applicable laws and regulations, suffers a cyberattack or other security breach or fails to provide material information on a timely basis, our business could suffer economic and reputational harm that could have a material adverse effect on our business and results of operations. See “— Operational Risks — Any failure in cyber- or other information security systems, as well as the occurrence of events unanticipated in Brighthouse’s or our third-party service providers’ disaster recovery systems and business continuity planning could result in a loss or disclosure of confidential information, damage to our reputation and impairment of our ability to conduct business effectively.”

Similarly, if any third-party provider, including MetLife, DXC or an investment manager (or such third-party’s supplier, vendor or subcontractor) experiences any deficiency in internal controls, determines that its practices and procedures used in administering any of our policies or managing any of our investments require review or otherwise fails to administer any policies or manage any investments it handles for us in accordance with appropriate standards, we could incur expenses and experience

other adverse effects as a result. In these situations, we may be unable to resolve any issues on our own without assistance from the third-party provider, and we may have limited ability to influence the speed and effectiveness of that resolution.

Some of our products, including certain group annuity contracts, are administered by MetLife under the Transition Services Agreement, and we depend on MetLife for performing and reviewing administrative practices and procedures and reserves. We also depend on MetLife to maintain systems on our behalf, and the information and data within those platforms. From time to time, MetLife has brought to our attention practices, procedures and reserves with respect to certain products that require further review. While we do not believe, based on the information made available to us to date by MetLife, that any of the matters MetLife has brought to our attention will require material modifications to reserves or have a material effect on our financial condition or results of operations, we are reliant upon MetLife to provide further information and assistance with respect to those products. There can also be no assurance that such matters will not require material modifications to reserves or have a material effect on our financial condition or results of operations in the future, or that MetLife will provide further information and assistance.

If material issues were to arise with respect to any of our products administered by third parties, whether involving MetLife, DXC or another third-party provider (or such third party's supplier, vendor or subcontractor), any resulting expenses or other economic or reputational harm could have a material adverse effect on our business and results of operations, particularly if they involved our core annuity and life insurance businesses. In addition, we could be subject to litigation or regulatory investigations and actions resulting from any such issues, which could have a material adverse effect on our financial condition and results of operations.

Changes in our deferred income tax assets or liabilities, including changes in our ability to realize our deferred income tax assets, could adversely affect our results of operations or financial condition

Deferred income tax represents the tax effect of the differences between the book and tax bases of assets and liabilities. Deferred income tax assets are assessed periodically by management to determine whether they are realizable. Factors in management's determination include the performance of the business including the ability to generate future taxable income. If, based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to our profitability measures. Such charges could have a material adverse effect on our results of operations or financial position. Changes in the statutory tax rate could also affect the value of our deferred income tax assets and may require a write-off of some of those assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates."

Economic Environment and Capital Markets-Related Risks

If difficult conditions in the capital markets and the U.S. economy generally persist or are perceived to persist, they may materially adversely affect our business and results of operations

Our business and results of operations are materially affected by conditions in the capital markets and the U.S. economy generally, as well as by the global economy to the extent it affects the U.S. economy. In addition, while our operations are entirely in the U.S., we have foreign investments in our general and separate accounts and, accordingly, conditions in the global capital markets can affect the value of our general account and separate account assets, as well as our financial results. Actual or perceived stressed conditions, volatility and disruptions in financial asset classes or various capital markets can have an adverse effect on us, both because we have a large investment portfolio and our benefit and claim liabilities are sensitive to changing market factors, including interest rates, credit spreads, equity and commodity prices, derivative prices and availability, real estate markets, foreign currency exchange rates and the volatility and the returns of capital markets. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our products could be adversely affected as customers are unwilling or unable to purchase them. In addition, we may experience an elevated incidence of claims, adverse utilization of benefits relative to our best estimate expectations and lapses or surrenders of policies. Furthermore, our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Such adverse changes in the economy could negatively affect our earnings and capitalization and have a material adverse effect on our results of operations and financial condition. Accordingly, both market and economic factors may affect our business results as well as our ability to receive dividends from our insurance subsidiaries and meet our obligations at our holding company.

Significant market volatility in reaction to geopolitical risks, changing monetary policy, trade disputes and uncertain fiscal policy may exacerbate some of the risks we face. Increased market volatility may affect the performance of the various asset classes in which we invest, as well as separate account values. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Investments — Current Environment" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends and Uncertainties — Financial and Economic Environment."

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Extreme declines or shocks in equity markets, such as sustained stagnation in equity markets and low interest rates, could cause us to incur significant capital and/or operating losses due to, among other reasons, the impact on us of guarantees related to our annuity products, including increases in liabilities, increased capital requirements, and/or collateral requirements. Furthermore, periods of sustained stagnation in equity and bond markets, which are characterized by multiple years of low annualized total returns impacting the growth in separate accounts and/or low level of U.S. interest rates, may materially increase our liabilities for claims and future benefits due to inherent market return guarantees in these liabilities. Similarly, sustained periods of low interest rates and risk asset returns could reduce income from our investment portfolio, increase our liabilities for claims and future benefits, and increase the cost of risk transfer measures such as hedging, causing our profit margins to erode as a result of reduced income from our investment portfolio and increase in insurance liabilities. See also “Risks Related to Our Business — Guarantees within certain of our annuity products may decrease our earnings, decrease our capitalization, increase the volatility of our results, result in higher risk management costs and expose us to increased market risk.”

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs and our access to capital

The capital and credit markets may be subject to periods of extreme volatility. Disruptions in capital markets could adversely affect our liquidity and credit capacity or limit our access to capital which may in the future be needed to operate our business and meet policyholder obligations.

We need liquidity at our holding company to pay our operating expenses, pay interest on our indebtedness, carry out any share or debt repurchases that we may undertake, pay any potential dividends on our stock, provide our subsidiaries with cash or collateral, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we could be forced to curtail our operations and limit the investments necessary to grow our business.

For our insurance subsidiaries, the principal sources of liquidity are insurance premiums and fees paid in connection with annuity products, and cash flow from our investment portfolio to the extent consisting of cash and readily marketable securities.

In the event capital market or other conditions have an adverse impact on our capital and liquidity, or our stress-testing indicates that such conditions could have an adverse impact beyond expectations and our current resources do not satisfy our needs or regulatory requirements, we may have to seek additional financing to enhance our capital and liquidity position. The availability of additional financing will depend on a variety of factors such as the then current market conditions, regulatory capital requirements, availability of credit to us and the financial services industry generally, our credit ratings and financial leverage, and the perception of our customers and lenders regarding our long- or short-term financial prospects if we incur large operating or investment losses or if the level of our business activity decreases due to a market downturn. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. Our internal sources of liquidity may prove to be insufficient and, in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all.

In addition, our liquidity requirements may change if, among other things, we are required to return significant amounts of cash collateral on short notice under securities lending agreements or other collateral requirements. See “Investments-Related Risks — Should the need arise, we may have difficulty selling certain holdings in our investment portfolio or in our securities lending program in a timely manner and realizing full value given that not all assets are liquid,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Off-Balance Sheet Arrangements — Collateral for Securities Lending and Derivatives” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Liquidity.”

Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets, as such disruptions may limit our ability to replace, in a timely manner, maturing liabilities, satisfy regulatory capital requirements, and access the capital that may be necessary to grow our business. See “— Regulatory and Legal Risks — Our insurance 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.” As a result, we may be forced to delay raising capital, issue different types of securities than we would have otherwise, less effectively deploy such capital, issue shorter tenor securities than we prefer, or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility.

We are exposed to significant financial and capital markets risks which may adversely affect our results of operations, financial condition and liquidity, and may cause our net investment income and profitability measures to vary from period to period

We are exposed to significant financial risks both in the U.S. and global capital and credit markets, including changes and volatility in interest rates, credit spreads, equity prices, real estate, foreign currency, commodity prices, performance of the

obligors included in our investment portfolio (including governments), derivatives (including performance of our derivatives counterparties) and other factors outside our control. We may be exposed to substantial risk of loss due to market downturn or market volatility.

Credit spread risk

Our exposure to credit spreads primarily relates to market price volatility and investment risk associated with the fluctuation in credit spreads. Widening credit spreads may cause unrealized losses in our investment portfolio and increase losses associated with written credit protection derivatives used in replication transactions. Increases in credit spreads of issuers due to credit deterioration may result in higher level of impairments. Tightening credit spreads may reduce our investment income and cause an increase in the reported value of certain liabilities that are valued using a discount rate that reflects our own credit spread. An increase in credit spreads relative to U.S. Treasury benchmarks can also adversely affect the cost of our borrowing if we need to access credit markets.

Interest rate risk

Some of our current or anticipated future products, principally traditional life, universal life and fixed, index-linked and income annuities, as well as funding agreements and structured settlements, expose us to the risk that changes in interest rates will reduce our investment margin or “net investment spread,” or the difference between the amounts that we are required to pay under the contracts in our general account and the rate of return we earn on general account investments intended to support the obligations under such contracts. Our net investment spread is a key component of our profitability measures.

In a low interest rate environment, we may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, which will reduce our net investment spread. Moreover, borrowers may prepay or redeem the fixed income securities and commercial, agricultural or residential mortgage loans in our investment portfolio with greater frequency in order to borrow at lower market rates, thereby exacerbating this risk. Although reducing interest crediting rates can help offset decreases in net investment spreads on some products, our ability to reduce these rates is limited to the portion of our in-force product portfolio that has adjustable interest crediting rates and could be limited by the actions of our competitors or contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our net investment spread would decrease or potentially become negative, which could have a material adverse effect on our results of operations and financial condition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Policyholder Liabilities.”

Our estimation of future net investment spreads is an important component in the amortization of DAC. Significantly lower than anticipated net investment spreads can reduce our profitability measures and may cause us to accelerate amortization, which would result in a reduction of net income in the affected reporting period and potentially negatively affect our credit instrument covenants or the rating agencies’ assessment of our financial condition.

During periods of declining interest rates, our return on investments that do not support particular policy obligations may decrease. During periods of sustained lower interest rates, our reserves for policy liabilities may not be sufficient to meet future policy obligations and may need to be strengthened. Accordingly, declining and sustained lower interest rates may materially adversely affect our results of operations and financial condition, our ability to take dividends from our insurance subsidiaries and significantly reduce our profitability.

Increases in interest rates could also negatively affect our profitability. In periods of rapidly increasing interest rates, we may not be able to replace, in a timely manner, the investments in our general account with higher-yielding investments needed to fund the higher crediting rates necessary to keep interest rate sensitive products competitive. Therefore, we may have to accept a lower credit spread and lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In addition, as interest rates rise, policy loans, surrenders and withdrawals may increase as policyholders seek investments with higher perceived returns. This process may result in cash outflows requiring that we sell investments at a time when the prices of those investments are adversely affected by the increase in interest rates, which may result in realized investment losses. Unanticipated withdrawals, terminations and substantial policy amendments may cause us to accelerate the amortization of DAC; such events may reduce our profitability measures and potentially negatively affect our credit instrument covenants and the rating agencies’ assessments of our financial condition. An increase in interest rates could also have a material adverse effect on the value of our investments, for example, by decreasing the estimated fair values of the fixed income securities and mortgage loans that comprise a significant portion of our investment portfolio. See “— Investments-Related Risks — Gross unrealized losses on fixed maturity securities and defaults, downgrades or other events may result in future impairments to the carrying value of such securities, resulting in a reduction in our profitability measures.” Finally, an increase in interest rates could result in decreased fee revenue associated with a decline in the value of variable annuity account balances invested in fixed income funds.

In addition, because the macro interest rate hedging program is primarily a risk mitigation strategy intended to reduce our risk to statutory capitalization and long-term economic exposures from sustained low levels of interest rates, this strategy will likely result in higher net income volatility due to the insensitivity of related GAAP liabilities to the change in interest rate levels. This strategy may adversely affect our results of operations and financial condition. See “— Risks Related to Our Business — We may not have sufficient assets to meet our future ULSG policyholder obligations and changes in interest rates may result in net income volatility” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management Strategies — ULSG Market Risk Exposure Management.”

Changes to LIBOR

There is currently uncertainty regarding the continued use and reliability of the London Inter-Bank Offered Rate (“LIBOR”), and any financial instruments or agreements currently using LIBOR as a benchmark interest rate may be adversely affected. As a result of concerns about the accuracy of the calculation of LIBOR, actions by regulators, law enforcement agencies or the ICE Benchmark Administration, the current administrator of LIBOR may result in changes to the manner in which LIBOR is determined. Additionally, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021, which is expected to result in these widely used reference rates no longer being available. The Federal Reserve began publishing a secured overnight funding rate (“SOFR”), which is intended to replace U.S. dollar LIBOR. Plans for alternative reference rates for other currencies have also been announced. At this time, it is not possible to predict how such changes or other reforms may adversely affect the trading market for LIBOR-based securities and derivatives, including those held in our investment portfolio. Such changes or reforms may result in adjustments or replacements to LIBOR, which could have an adverse impact on the market for LIBOR-based securities and the value of our investment portfolio. Furthermore, we previously entered into agreements that currently reference LIBOR and may be adversely affected by any changes or reforms to LIBOR or discontinuation of LIBOR, including if such agreements are not amended prior to any such changes, reform or discontinuation.

Equity risk

Our primary exposure to equity relates to the potential for lower earnings associated with certain of our businesses where fee income is earned based upon the estimated market value of the separate account assets and other assets related to our variable annuity business. Because fees generated by such products are primarily related to the value of the separate account assets and other AUM, a decline in the equity markets could reduce our revenues as a result of the reduction in the value of the investment assets supporting those products and services. We seek to mitigate the impact of such exposure to weak or stagnant equity markets through the use of derivatives, reinsurance and capital management. However, such derivatives and reinsurance may become less available and, if they remain available, their price could materially increase in a period characterized by volatile equity markets. The risk of stagnation in equity market returns cannot be addressed by hedging. See “Business — Segments and Corporate & Other — Annuities — Current Products — Variable Annuities” for details regarding sensitivity of our variable annuity business to capital markets.

In addition, a portion of our investments are in leveraged buy-out funds and other private equity funds. The amount and timing of net investment income from such funds tends to be uneven as a result of the performance of the underlying investments. As a result, the amount of net investment income from these investments can vary substantially from period to period. Significant volatility could adversely impact returns and net investment income on these alternative investments. In addition, the estimated fair value of such investments may be affected by downturns or volatility in equity or other markets.

See “— Risks Related to Our Business — Guarantees within certain of our annuity products may decrease our earnings, decrease our capitalization, increase the volatility of our results, result in higher risk management costs and expose us to increased market risk” and “— Investments-Related Risks — Our valuation of securities and investments and the determination of the amount of allowances and impairments taken on our investments are subjective and, if changed, could materially adversely affect our results of operations or financial condition.”

Real estate risk

A portion of our investment portfolio consists of mortgage loans on commercial, agricultural and residential real estate. Our exposure to this risk stems from various factors, including the supply and demand of leasable commercial space, creditworthiness of tenants and partners, capital markets volatility, interest rate fluctuations, agricultural prices and farm incomes. Although we manage credit risk and market valuation risk for our commercial, agricultural and residential real estate assets through geographic, property type and product type diversification and asset allocation, general economic conditions in the commercial, agricultural and residential real estate sectors will continue to influence the performance of these investments. These factors, which are beyond our control, could have a material adverse effect on our results of operations, financial condition, liquidity or cash flows.

Obligor-related risk

Fixed income securities and mortgage loans represent a significant portion of our investment portfolio. We are subject to the risk that the issuers, or guarantors, of the fixed income securities and mortgage loans in our investment portfolio may default on principal and interest payments they owe us. We are also subject to the risk that the underlying collateral within asset-backed securities (“ABS”), including mortgage-backed securities, may default on principal and interest payments causing an adverse change in cash flows. The occurrence of a major economic downturn, acts of corporate malfeasance, widening mortgage or credit spreads, or other events that adversely affect the issuers, guarantors or underlying collateral of these securities and mortgage loans could cause the estimated fair value of our portfolio of fixed income securities and mortgage loans and our earnings to decline and the default rate of the fixed income securities and mortgage loans in our investment portfolio to increase.

Derivatives risk

Our derivatives counterparties’ defaults could have a material adverse effect on our financial condition and results of operations. Substantially all of our derivatives (whether entered into bilaterally with specific counterparties or cleared through a clearinghouse) require us to pledge and/or receive collateral or make payments related to any decline in the net estimated fair value of such derivatives. In addition, ratings downgrades or financial difficulties of derivative counterparties may require us to utilize additional capital with respect to the affected businesses. Furthermore, the valuation of our derivatives could change based on changes to our valuation methodology or the discovery of errors.

Summary

Economic or counterparty risks and other factors described above, and significant volatility in the markets, individually or collectively, could have a material adverse effect on our results of operations, financial condition, liquidity or cash flows through realized investment losses, derivative losses, change in insurance liabilities, impairments, increased valuation allowances, increases in reserves for future policyholder benefits, reduced net investment income and changes in unrealized gain or loss positions.

Market price volatility can also make it difficult to value certain assets in our investment portfolio if trading in such assets becomes less frequent, for example, as was the case during the 2008 financial crisis. In such case, valuations may include assumptions or estimates that may have significant period to period changes, which could have a material adverse effect on our results of operations or financial condition and may require additional reserves. Significant volatility in the markets could cause changes in the credit spreads and defaults and a lack of pricing transparency which, individually or collectively, could have a material adverse effect on our results of operations, financial condition or liquidity. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Investment Risks.”

Investments-Related Risks

Should the need arise, we may have difficulty selling certain holdings in our investment portfolio or in our securities lending program in a timely manner and realizing full value given that not all assets are liquid

There may be a limited market for certain investments we hold in our investment portfolio, making them relatively illiquid. These include privately-placed fixed maturity securities, derivative instruments such as options, mortgage loans, policy loans, leveraged leases, other limited partnership interests, and real estate equity, such as real estate limited partnerships, limited liability companies and funds. In the past, even some of our very high-quality investments experienced reduced liquidity during periods of market volatility or disruption. If we were forced to sell certain of our investments during periods of market volatility or disruption, market prices may be lower than our carrying value in such investments. This could result in realized losses which could have a material adverse effect on our results of operations and financial condition, as well as our financial ratios, which could affect compliance with our credit instruments and rating agency capital adequacy measures. Moreover, our ability to sell assets may be limited if other market participants are seeking to sell fungible or similar assets at the same time.

Similarly, we loan blocks of our securities to third parties (primarily brokerage firms and commercial banks) through our securities lending program, including fixed maturity securities and short-term investments.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Securities Lending” for a discussion of our obligations under our securities lending program. If we are required to return significant amounts of cash collateral in connection with our securities lending or otherwise need significant amounts of cash on short notice and we are forced to sell securities, we 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 we otherwise would have been able to realize under normal market conditions, or both. In the event of a forced sale, accounting guidance requires the recognition of a loss for securities in an unrealized loss position and may require the impairment of other securities based on our ability to hold those securities, which

would negatively impact our financial condition, as well as our financial ratios, which could affect compliance with our credit instruments and rating agency capital adequacy measures. In addition, under stressful capital market and economic conditions, liquidity broadly deteriorates, which may further restrict our ability to sell securities. Furthermore, if we decrease the amount of our securities lending activities over time, the amount of net investment income generated by these activities will also likely decline.

Our requirements to pledge collateral or make payments related to declines in estimated fair value of derivatives transactions or specified assets in connection with OTC-cleared, OTC-bilateral transactions and exchange traded derivatives may adversely affect our liquidity, expose us to central clearinghouse and counterparty credit risk, and increase our costs of hedging

Many of our derivatives transactions require us to pledge collateral related to any decline in the net estimated fair value of such derivatives transactions executed through a specific broker at a clearinghouse or entered into with a specific counterparty on a bilateral basis. The amount of collateral we may be required to pledge and the payments we may be required to make under our derivatives transactions may increase under certain circumstances as a result of the requirement to pledge initial margin for OTC-bilateral transactions entered into after the phase-in period, which we expect to be applicable to us in September 2020 as a result of the adoption by the Office of the Comptroller of the Currency, the Federal Reserve Board, Federal Deposit Insurance Corporation, Farm Credit Administration and Federal Housing Finance Agency and the U.S. Commodity Futures Trading Commission of final margin requirements for non-centrally cleared derivatives. See “Business — Regulation — Regulation of Over-the-Counter Derivatives.”

Gross unrealized losses on fixed maturity securities and defaults, downgrades or other events may result in future impairments to the carrying value of such securities, resulting in a reduction in our profitability measures

Fixed maturity securities classified as available-for-sale (“AFS”) securities are reported at their estimated fair value. Unrealized gains or losses on AFS securities are recognized as a component of other comprehensive income (loss) (“OCI”) and are, therefore, excluded from our profitability measures. In recent periods, as a result of low interest rates, the unrealized gains on our fixed maturity securities have exceeded the unrealized losses. However, if interest rates rise, our unrealized gains would decrease, and our unrealized losses would increase, perhaps substantially. The accumulated change in estimated fair value of these AFS securities is recognized in our profitability measures when the gain or loss is realized upon the sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary and impairment charges to earnings are taken. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Fixed Maturity Securities AFS.”

The occurrence of a major economic downturn, acts of corporate malfeasance, widening credit risk spreads, or other events that adversely affect the issuers or guarantors of securities or the underlying collateral of residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”) and ABS (collectively, “Structured Securities”) could cause the estimated fair value of our fixed maturity securities portfolio and corresponding earnings to decline and cause the default rate of the fixed maturity securities in our investment portfolio to increase. A ratings downgrade affecting issuers or guarantors of particular securities, or similar trends that could worsen the credit quality of issuers, such as the corporate issuers of securities in our investment portfolio, could also have a similar effect. Economic uncertainty can adversely affect credit quality of issuers or guarantors. Similarly, a ratings downgrade affecting a security we hold could indicate the credit quality of that security has deteriorated and could increase the capital we must hold to support that security to maintain our RBC levels. Levels of write-downs or impairments are impacted by intent to sell, or our assessment of the likelihood that we will be required to sell, fixed maturity securities, which have declined in value. Realized losses or impairments on these securities may have a material adverse effect on our results of operations and financial condition in, or at the end of, any quarterly or annual period.

Our valuation of securities and investments and the determination of the amount of allowances and impairments taken on our investments are subjective and, if changed, could materially adversely affect our results of operations or financial condition

Fixed maturity and equity securities, as well as short-term investments that are reported at estimated fair value, represent the majority of our total cash and investments. See Note 1 to the Notes to the Consolidated Financial Statements for more information on how we calculate fair value. During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities if trading becomes less frequent and/or market data becomes less observable. In addition, in times of financial market disruption, certain asset classes that were in active markets with significant observable data may become illiquid. In those cases, the valuation process includes inputs that are less observable and require more subjectivity and management judgment. Valuations may result in estimated fair values which vary significantly from the amount at which the investments may ultimately be sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period to period changes in estimated fair value could vary

significantly. Decreases in the estimated fair value of securities we hold may have a material adverse effect on our financial condition.

The determination of the amount of allowances and impairments varies by investment-type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. However, historical trends may not be indicative of future impairments or allowances and any such future impairments or allowances could have a materially adverse effect on our earnings and financial position. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Critical Accounting Estimates — Investment Impairments.”

Defaults on our mortgage loans and volatility in performance may adversely affect our profitability

Our mortgage loans face default risk and are principally collateralized by commercial, agricultural and residential properties. An increase in the default rate of our mortgage loan investments or fluctuations in their performance could have a material adverse effect on our results of operations and financial condition.

Further, any geographic or property type concentration of our mortgage loans may have adverse effects on our investment portfolio and consequently on our results of operations or financial condition. Events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on our investment portfolio to the extent that the portfolio is concentrated. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Investments — Mortgage Loans” and Notes 6 and 8 of the Notes to the Consolidated Financial Statements.

The defaults or deteriorating credit of other financial institutions could adversely affect us

We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, central clearinghouses, commercial banks, investment banks, hedge funds and investment funds and other financial institutions. Many of these transactions expose us to credit risk in the event of the default of our counterparty. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. We also have exposure to these financial institutions in the form of unsecured debt instruments, non-redeemable and redeemable preferred securities, derivatives, joint ventures, and equity investments. Any losses or impairments to the carrying value of these investments or other changes may materially and adversely affect our results of operations and financial condition.

The continued threat of terrorism, ongoing military actions as well as other catastrophic events may adversely affect the value of our investment portfolio and the level of claim losses we incur

The continued threat of terrorism, both within the United States and abroad, ongoing military and other actions and heightened security measures in response to these types of threats, as well as other natural or man-made catastrophic events, may cause significant volatility in global financial markets and result in loss of life, property damage, additional disruptions to commerce and reduced economic activity. The value of assets in our investment portfolio may be adversely affected by declines in the credit and equity markets and reduced economic activity caused by the continued threat of catastrophic events. Companies in which we maintain investments may suffer losses as a result of financial, commercial or economic disruptions and such disruptions might affect the ability of those companies to pay interest or principal on their securities or mortgage loans. Catastrophic events could also disrupt our operations centers in the U.S. and result in higher than anticipated claims under insurance policies that we have issued. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Policyholder Liabilities.”

Regulatory and Legal Risks

Our insurance 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

Our operations are subject to a wide variety of insurance and other laws and regulations. Our insurance company operating subsidiaries are subject to regulation by their primary Delaware, Massachusetts and New York state regulators as well as other regulation in states in which they operate. See “Business — Regulation,” as supplemented by discussions of regulatory developments in our subsequently filed Quarterly Reports on Form 10-Q under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Regulatory Developments.”

We cannot predict what proposals may be made, what legislation or regulations may be introduced or enacted, or what impact any future legislation or regulations may have on our business, results of operations and financial condition. Furthermore, regulatory uncertainty could create confusion among our distribution partners and customers, which could negatively impact product sales. See “Business — Regulation — Standard of Conduct Regulation” for a more detailed discussion of particular regulatory efforts by various regulators.

Changes to the laws and regulations that govern the conduct of our variable and registered fixed insurance products business and the firms that distribute these products could adversely affect our operations and profitability. Such changes could increase our regulatory and compliance burden, resulting in increased costs, or limit the type, amount or structure of compensation arrangements into which we may enter with certain of our associates, which could negatively impact our ability to compete with other companies in recruiting and retaining key personnel. Additionally, our ability to react to rapidly changing economic conditions and the dynamic, competitive market for variable and registered fixed products will depend on the continued efficacy of provisions we have incorporated into our product design allowing frequent and contemporaneous revisions of key pricing elements, as well as our ability to work collaboratively with securities regulators. Changes in regulatory approval processes, rules and other dynamics in the regulatory process could adversely impact our ability to react to such changing conditions.

Revisions to the NAIC's RBC calculation could result in a reduction in the RBC ratio for one or more of our insurance subsidiaries below certain prescribed levels, and in case of such a reduction we may be required to hold additional capital in such subsidiary or subsidiaries. See also "— A decrease in the RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) of our insurance subsidiaries could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our results of operations and financial condition."

We also cannot predict with certainty the impact of rules, should they take effect, substantially expanding the definition of "investment advice" and imposing an impartial or "best interests" standard in providing such advice, thereby broadening the circumstances under which Brighthouse or its representatives could be deemed a fiduciary under ERISA or the Tax Code, or amendments to certain prohibited transaction exemptions, will have on our products and services to certain employee benefit plans that are subject to ERISA or the Tax Code. Furthermore, we cannot predict the impact that "best interest" standards recently adopted or proposed by various regulators may have on our business, results of operations, or financial condition. Compliance with new or changed rules or legislation in this area may increase our regulatory burden and that of our distribution partners, require changes to our compensation practices and product offerings, and increase litigation risk, which could adversely affect our results of operations and financial condition.

Changes in laws and regulations that affect our customers and distribution partners or their operations also may affect our business relationships with them and their ability to purchase or distribute our products. Such actions may negatively affect our business and results of operations.

If our associates fail to adhere to regulatory requirements or our policies and procedures, we may be subject to penalties, restrictions or other sanctions by applicable regulators, and we may suffer reputational harm.

See "Business — Regulation," as supplemented by discussions of regulatory developments in our subsequently filed Quarterly Reports on Form 10-Q under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations — Industry Trends — Regulatory Developments."

A decrease in the RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) of our insurance subsidiaries could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our results of operations and financial condition

The NAIC has established model regulations that provide minimum capitalization requirements based on RBC formulas for insurance companies. Each of our insurance subsidiaries is subject to RBC standards and/or other minimum statutory capital and surplus requirements imposed under the laws of its respective jurisdiction of domicile. See "Business — Regulation — Insurance Regulation — Surplus and Capital; Risk-Based Capital."

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by the insurance subsidiary (which itself is sensitive to equity market and credit market conditions), the amount of additional capital such insurer must hold to support business growth, changes in equity market levels, the value and credit ratings of certain fixed income and equity securities in its investment portfolio, the value of certain derivative instruments that do not receive hedge accounting and changes in interest rates, as well as changes to the RBC formulas and the interpretation of the NAIC's instructions with respect to RBC calculation methodologies. Our financial strength and credit ratings are significantly influenced by statutory surplus amounts and RBC ratios. In addition, rating agencies may implement changes to their own internal models, which differ from the RBC capital model, that have the effect of increasing or decreasing the amount of statutory capital our insurance subsidiaries should hold relative to the rating agencies' expectations. Under stressed or stagnant capital market conditions and with the aging of existing insurance liabilities, without offsets from new business, the amount of additional statutory reserves that an insurance subsidiary is required to hold may materially increase. This increase in reserves would decrease the statutory surplus available for use in calculating the subsidiary's RBC ratio. To the extent that an insurance subsidiary's RBC ratio is deemed to be insufficient, we may seek to take actions either to increase the capitalization of the insurer or to reduce the capitalization requirements. If we were unable to accomplish such actions, the rating agencies may view this as a reason for a ratings downgrade.

The failure of any of our insurance subsidiaries to meet their applicable RBC requirements or minimum capital and surplus requirements could subject them to further examination or corrective action imposed by insurance regulators, including limitations on their ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in RBC ratios, whether or not it results in a failure to meet applicable RBC requirements, may limit the ability of an insurance subsidiary to make dividends or distributions to us, could result in a loss of customers or new business, or could be a factor in causing ratings agencies to downgrade financial strength ratings, each of which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to federal and state securities laws and regulations and rules of self-regulatory organizations which, among other things, require that we distribute certain of our products through a registered broker-dealer; failure to comply with these laws or changes to these laws may have a material adverse effect on our operations and our profitability

Federal and state securities laws and regulations apply to insurance products that are also “securities,” including variable annuity contracts and variable life insurance policies, to the separate accounts that issue them, and to certain fixed interest rate or index-linked contracts. Such laws and regulations require these products to be distributed through a broker-dealer that is registered with the SEC and certain state securities regulators and is also a member of FINRA. Accordingly, by offering and selling these registered products, and in managing certain proprietary mutual funds associated with those products, we are subject to, and bear the costs of compliance with, extensive regulation under federal and state securities laws, as well as FINRA rules.

Federal and state securities laws and regulations are primarily intended to protect investors in the securities markets, protect investment advisory and brokerage clients, and ensure the integrity of the financial markets. These laws and regulations generally grant regulatory and self-regulatory agencies broad rulemaking and enforcement powers impacting new and existing products. These powers include the power to adopt new rules to regulate the issuance, sale and distribution of our products and powers to limit or restrict the conduct of business for failure to comply with securities laws and regulations. See “Business — Regulation — Securities, Broker-Dealer and Investment Advisor Regulation.”

The global financial crisis of 2008 led to significant changes in economic and financial markets that have, in turn, led to a dynamic competitive landscape for issuers of variable and registered insurance products. Our ability to react to rapidly changing market and economic conditions will depend on the continued efficacy of provisions we have incorporated into our product design allowing frequent and contemporaneous revisions of key pricing elements and our ability to work collaboratively with federal securities regulators. Changes in regulatory approval processes, rules and other dynamics in the regulatory process could adversely impact our ability to react to such changing conditions.

Changes in tax laws or interpretations of such laws could reduce our earnings and materially impact our operations by increasing our corporate taxes and making some of our products less attractive to consumers

Changes in tax laws could have a material adverse effect on our profitability and financial condition and could result in our incurring materially higher statutory taxes. Higher tax rates may adversely affect our business, financial condition, results of operations and liquidity. Conversely, if tax rates decline it could adversely affect the desirability of our products.

In 2017, President Trump signed the Tax Act into law, resulting in sweeping changes to the Tax Code. The Tax Act reduced the corporate tax rate to 21%, limited deductibility of interest expense, increased capitalization amounts for DAC, eliminated the corporate alternative minimum tax, provided for determining reserve deductions as 92.81% of statutory reserves, and reduced the dividend received deduction. Most of the changes in the Tax Act were effective as of January 1, 2018.

Our actual results may differ from our current estimate due to, among other things, further guidance that may be issued by U.S. tax authorities or regulatory bodies and/or changes in interpretations and assumptions we have preliminarily made.

Litigation and regulatory investigations are common in our businesses and may result in significant financial losses and/or harm to our reputation

We face a significant risk of litigation actions and regulatory investigations in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal actions and regulatory investigations include proceedings specific to us, as well as other proceedings that raise issues that are generally applicable to business practices in the industries in which we operate. In addition, the Master Separation Agreement that sets forth our agreements with MetLife relating to the ownership of certain assets and the allocation of certain liabilities in connection with the Separation (the “Master Separation Agreement”) allocated responsibility among MetLife and Brighthouse with respect to certain claims (including litigation or regulatory actions or investigations where Brighthouse is not a party). As a result, we may face indemnification obligations or be required to share in certain of MetLife’s liabilities with respect to such claims.

In connection with our insurance operations, plaintiffs' lawyers may bring or are bringing class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, investments, denial or delay of benefits and breaches of fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against us may seek very large and/or indeterminate amounts, including punitive and treble damages. 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 be difficult to ascertain. Material pending litigation and regulatory matters affecting us and risks to our business presented by these proceedings, if any, are discussed in Note 15 of the Notes to the Consolidated Financial Statements.

A substantial legal liability or a significant federal, state or other regulatory action against us, as well as regulatory inquiries or investigations, could harm our reputation, result in material fines or penalties, result in significant legal costs and otherwise have a material adverse effect on our business, financial condition and results of operations. Even if we ultimately prevail in the litigation, regulatory action or investigation, our ability to attract new customers and distributors, retain our current customers and distributors, and recruit and retain personnel could be materially and adversely impacted. Regulatory inquiries and litigation may also cause volatility in the price of BHF securities and the securities of companies in our industry.

Current claims, litigation, unasserted claims probable of assertion, investigations and other proceedings against us could have a material adverse effect on our business, financial condition or results of operations. It is also possible that related or unrelated claims, litigation, unasserted claims probable of assertion, investigations and proceedings may be commenced in the future, and we could become subject to further investigations and have lawsuits filed or enforcement actions initiated against us. Increased regulatory scrutiny and any resulting investigations or proceedings in any of the jurisdictions where we operate could result in new legal actions and precedents or changes in laws, rules or regulations that could adversely affect our business, financial condition and results of operations.

Capital-Related Risks

As a holding company, BHF depends on the ability of its subsidiaries to pay dividends

BHF is a holding company for its insurance subsidiaries and does not have any significant operations of its own. We depend on the cash at the holding company as well as dividends from our subsidiaries to meet our obligations and to pay dividends on our common and preferred stock, if any. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Parent Company — Liquidity and Capital — Statutory Capital and Dividends."

If the cash BHF receives from its subsidiaries is insufficient for it to fund its debt-service and other holding company obligations, BHF may be required to raise capital through the incurrence of indebtedness, the issuance of additional equity or the sale of assets. Our ability to access funds through such methods is subject to prevailing market conditions and there can be no assurance that we will be able to do so. See "— Economic Environment and Capital Markets-Related Risks — Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs and our access to capital."

The payment of dividends and other distributions to BHF by its insurance subsidiaries is regulated by insurance laws and regulations. In general, dividends in excess of prescribed limits require insurance regulatory approval. In addition, insurance regulators may prohibit the payment of dividends or other payments to BHF by its insurance subsidiaries if they determine that the payment could be adverse to the interests of our policyholders or contract holders. Any requested payment of dividends by Brighthouse Life Insurance Company and NELICO to BHF, or by BHNY to Brighthouse Life Insurance Company, in excess of their respective ordinary dividend capacity would be considered an extraordinary dividend subject to prior approval by the Delaware Department of Insurance and the Massachusetts Division of Insurance, and the NYDFS, respectively. Furthermore, any dividends by BRCD are subject to the approval of the Delaware Department of Insurance. The payment of dividends and other distributions by insurance companies is also influenced by business conditions including those described in the Risk Factors above and rating agency considerations. See "— Regulatory and Legal Risks — A decrease in the RBC ratio (as a result of a reduction in statutory surplus and/or increase in RBC requirements) of our insurance subsidiaries could result in increased scrutiny by insurance regulators and rating agencies and have a material adverse effect on our results of operations and financial condition." See also "Business — Regulation — Insurance Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Parent Company — Liquidity and Capital — Statutory Capital and Dividends."

Operational Risks

Any gaps in our policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our business

We have developed policies and procedures to reflect the ongoing review of our risks and expect to continue to do so in the future. Nonetheless, our policies and procedures may not be fully effective, leaving us exposed to unidentified or unanticipated risks. In addition, we rely on third-party providers to administer and service many of our products, and our policies and procedures may not enable us to identify and assess every risk with respect to those products, especially to the extent we rely on those providers for detailed information regarding the holders of our products and other relevant information.

Many of our methods for managing risk and exposures rely on assumptions that are based on observed historical financial and non-financial trends or projections of potential future exposure, and our assumptions and projections may be inaccurate. Business decisions based on incorrect or misused model output and reports could have a material adverse impact on our results of operations. If models are misused or fail to serve their intended purposes, they could produce incorrect or inappropriate results. Furthermore, models used by our business may not operate properly and could contain errors related to model inputs, data, assumptions, calculations, or output which could give rise to adjustments to models that may adversely impact our results of operations. As a result, these methods may not fully predict future exposures, which can be significantly greater than our historical measures indicate.

Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that are publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated. Furthermore, there can be no assurance that we can effectively review and monitor all risks or that all of our employees will follow our policies and procedures, nor can there be any assurance that our policies and procedures, or the policies and procedures of third parties that administer or service our products, will enable us to accurately identify all risks and limit our exposures based on our assessments. In addition, we may have to implement more extensive and perhaps different policies and procedures under pending regulations. See “— Risks Related to Our Business — Our variable annuity exposure risk management strategy may not be effective, may result in significant volatility in our profitability measures and may negatively affect our statutory capital.”

Any failure in cyber- or other information security systems, as well as the occurrence of events unanticipated in Brighthouse’s or our third-party service providers’ disaster recovery systems and business continuity planning could result in a loss or disclosure of confidential information, damage to our reputation and impairment of our ability to conduct business effectively

Our business is highly dependent upon the effective operation of computer systems. For some of these systems, we rely on third parties, such as our outside vendors and distributors, including MetLife. We rely on these systems throughout our business for a variety of functions, including processing new business, claims, and post-issue transactions, providing information to customers and distributors, performing actuarial analyses, managing our investments and maintaining financial records. Such computer systems have been, and will likely continue to be, subject to a variety of forms of cyberattacks with the objective of gaining unauthorized access to Brighthouse systems and data or disrupting Brighthouse operations. These include, but are not limited to, phishing attacks, account takeover attempts, malware, ransomware, denial of service attacks, and other computer-related penetrations. Administrative and technical controls and other preventive actions taken to reduce the risk of cyber-incidents and protect our information technology may be insufficient to prevent physical and electronic break-ins, cyberattacks or other security breaches to such computer systems. In some cases, such physical and electronic break-ins, cyberattacks or other security breaches may not be immediately detected. This may impede or interrupt our business operations and could adversely affect our business, financial condition and results of operations.

A disaster such as a natural catastrophe, epidemic, industrial accident, blackout, computer virus, terrorist attack, cyberattack or war, unanticipated problems with our or our vendors’ disaster recovery systems (and the disaster recovery systems of such vendors’ suppliers, vendors or subcontractors), could cause our computer systems to be inaccessible to our employees, distributors, vendors or customers or may destroy valuable data. In addition, in the event that a significant number of our or our vendors’ managers were unavailable following a disaster, our ability to effectively conduct business could be severely compromised. These interruptions also may interfere with our suppliers’ ability to provide goods and services and our employees’ ability to perform their job responsibilities.

A failure of our or relevant third-party (or such third-party’s supplier’s, vendor’s or subcontractor’s computer systems) computer systems could cause significant interruptions in our operations, result in a failure to maintain the security, confidentiality or privacy of sensitive data, harm our reputation, subject us to regulatory sanctions and legal claims, lead to a loss of customers and revenues, and otherwise adversely affect our business and financial results. Our cyber liability insurance may not be sufficient to protect us against all losses. See also “— General Risks — Any failure to protect the confidentiality of client and employee

information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations.”

Our associates and those of our third-party service providers may take excessive risks which could negatively affect our financial condition and business

As an insurance enterprise, we are in the business of accepting certain risks. The associates who conduct our business include executive officers and other members of management, sales intermediaries, investment professionals, product managers, and other associates, as well as associates of our third-party service providers, including certain associates of MetLife who provide services to us in connection with the Transition Services Agreement or other agreements, including agreements to provide certain third-party administration services. Each of these associates makes decisions and choices that may expose us to risk. These include decisions such as setting underwriting guidelines and standards, product design and pricing, determining what assets to purchase for investment and when to sell them, which business opportunities to pursue, and other decisions. Associates may take excessive risks regardless of the structure of our compensation programs and practices. Similarly, our controls and procedures designed to monitor associates’ business decisions and prevent them from taking excessive risks, and to prevent employee misconduct, may not be effective. If our associates and those of our third-party service providers take excessive risks, the impact of those risks could harm our reputation and have a material adverse effect on our financial condition and business operations.

General Risks

We may experience difficulty in marketing and distributing products through our distribution channels

We distribute our products exclusively through a variety of third-party distribution channels. Our agreements with the third-party distributors may be terminated by either party with or without cause. We may periodically renegotiate the terms of these agreements, and there can be no assurance that such terms will remain acceptable to us or such third parties. If we are unable to maintain our relationships our sales of individual insurance, annuities and investment products could decline, and our results of operations and financial condition could be materially adversely affected. Our distributors may elect to suspend, alter, reduce or terminate their distribution relationships with us for various reasons, including changes in our distribution strategy, adverse developments in our business, adverse rating agency actions, or concerns about market-related risks. We are also at risk that key distribution partners may merge, consolidate, change their business models in ways that affect how our products are sold, or terminate their distribution contracts with us, or that new distribution channels could emerge and adversely impact the effectiveness of our distribution efforts. Also, if we are unsuccessful in attracting and retaining key internal associates who conduct our business, including wholesalers, our sales could decline.

An interruption or significant change in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our results of operations and financial condition. In addition, we rely on a core number of our distributors to produce the majority of our sales. If any one such distributor were to terminate its relationship with us or reduce the amount of sales which it produces for us our results of operations could be adversely affected. An increase in bank and broker-dealer consolidation activity could increase competition for access to distributors, result in greater distribution expenses and impair our ability to market products through these channels. Consolidation of distributors and/or other industry changes may also increase the likelihood that distributors will try to renegotiate the terms of any existing selling agreements to terms less favorable to us.

Because our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution despite our training and compliance programs. If our products are distributed by such firms in an inappropriate manner, or to customers for whom they are unsuitable, we may suffer reputational and other harm to our business.

In addition, our distributors may also sell our competitors’ products. If our competitors offer products that are more attractive than ours or pay higher commission rates to the sales representatives than we do, these representatives may concentrate their efforts in selling our competitors’ products instead of ours. In connection with the sale of MetLife Premier Client Group (“MPCG”) to MassMutual, we entered into an agreement in 2016 that permits us to serve as the exclusive manufacturer for certain proprietary products which are offered through MassMutual’s career agent channel. We partnered with MassMutual to develop the initial product distributed under this arrangement, the Index Horizons fixed index annuity, and agreed on the terms of the related reinsurance. While the agreement has a term of 10 years, it is possible that MassMutual may terminate our exclusivity or the agreement itself in specified circumstances, such as our inability or failure to provide product designs that reasonably meet MassMutual requirements.

Any failure to protect the confidentiality of client and employee information could adversely affect our reputation and have a material adverse effect on our business, financial condition and results of operations

Federal and state legislatures and various government agencies have established laws and regulations protecting the privacy and security of personal information. See “Business — Regulation — Cybersecurity Regulation.” Our third-party service-

providers and our employees have access to, and routinely process, personal information through a variety of media, including information technology systems. It is possible that an employee or third-party service provider (or their suppliers, vendors or subcontractors) could, intentionally or unintentionally, disclose or misappropriate confidential personal information, and there can be no assurance that our information security policies and systems in place can prevent unauthorized use or disclosure of confidential information, including nonpublic personal information. Additionally, our data has been the subject of cyberattacks and could be subject to additional attacks. If we or any of our third-party service providers (or their suppliers, vendors or subcontractors) fail to maintain adequate internal controls or if our associates fail to comply with our policies and procedures, misappropriation or intentional or unintentional inappropriate disclosure or misuse of employee or client information could occur. Any data breach or unlawful disclosure of confidential personal information could materially damage our reputation or lead to civil or criminal penalties, which, in turn, could have a material adverse effect on our business, financial condition and results of operations. See “— Operational Risks — Any failure in cyber- or other information security systems, as well as the occurrence of events unanticipated in Brighthouse’s or our third-party service providers’ disaster recovery systems and business continuity planning could result in a loss or disclosure of confidential information, damage to our reputation and impairment of our ability to conduct business effectively.”

In addition, there has been increased scrutiny as well as enacted and proposed additional regulation, including from state regulators, regarding the use of customer data. We may analyze customer data or input such data into third-party analytics in order to better manage our business. Any inquiry in connection with our analytics business practices, as well as any misuse or alleged misuse of those analytics insights, could cause reputational harm or result in regulatory enforcement actions or litigation, and any related limitations imposed on us could have a material impact on our business, financial condition and results of operations.

We could face difficulties, unforeseen liabilities, asset impairments or rating actions arising from business acquisitions or dispositions

We may engage in dispositions and acquisitions of businesses. Such activity exposes us to a number of risks arising from (i) potential difficulties achieving projected financial results including the costs and benefits of integration or deconsolidation; (ii) unforeseen liabilities or asset impairments; (iii) the scope and duration of rights to indemnification for losses; (iv) the use of capital which could be used for other purposes; (v) rating agency reactions; (vi) regulatory requirements that could impact our operations or capital requirements; (vii) changes in statutory accounting principles or GAAP, practices or policies; and (viii) certain other risks specifically arising from activities relating to a legal entity reorganization.

Our ability to achieve certain financial benefits we anticipate from any acquisitions of businesses will depend in part upon our ability to successfully integrate such businesses in an efficient and effective manner. There may be liabilities or asset impairments that we fail, or are unable, to discover in the course of performing acquisition-related due diligence investigations. Furthermore, even for obligations and liabilities that we do discover during the due diligence process, neither the valuation adjustment nor the contractual protections we negotiate may be sufficient to fully protect us from losses.

We may from time to time dispose of business or blocks of in-force business through outright sales, reinsurance transactions or by alternate means. After a disposition, we may remain liable to the acquirer or to third parties for certain losses or costs arising from the divested business or on other bases. We may also not realize the anticipated profit on a disposition or incur a loss on the disposition. In anticipation of any disposition, we may need to restructure our operations, which could disrupt such operations and affect our ability to recruit key personnel needed to operate and grow such business pending the completion of such transaction. In addition, the actions of key employees of the business to be divested could adversely affect the success of such disposition as they may be more focused on obtaining employment, or the terms of their employment, than on maximizing the value of the business to be divested. Furthermore, transition services or tax arrangements related to any such separation could further disrupt our operations and may impose restrictions, liabilities, losses or indemnification obligations on us. Depending on its particulars, a separation could increase our exposure to certain risks, such as by decreasing the diversification of our sources of revenue. Moreover, we may be unable to timely dissolve all contractual relationships with the divested business in the course of the proposed transaction, which may materially adversely affect our ability to realize value from the disposition. Such restructuring could also adversely affect our internal controls and procedures and impair our relationships with key customers, distributors and suppliers. An interruption or significant change in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition.

Risks Related to Our Separation from, and Continuing Relationship with, MetLife

If the Separation were to fail to qualify for non-recognition treatment for federal income tax purposes, then we could be subject to significant tax liabilities

The Separation was conditioned on the continued validity as of the Separation date of the private letter ruling that MetLife has received from the IRS regarding certain significant issues under the Tax Code, and the receipt and continued validity as of the Separation date of an opinion from MetLife's tax advisor that the Separation qualifies for non-recognition of gain or loss to MetLife and MetLife's shareholders pursuant to Sections 355 and 361 of the Tax Code, except to the extent of cash received in lieu of fractional shares, each subject to the accuracy of and compliance with certain representations, assumptions and covenants therein.

Notwithstanding the receipt of the private letter ruling and the tax opinion, the IRS could determine that the Separation should be treated as a taxable transaction if it determines that any of the representations, assumptions or covenants on which the private letter ruling is based are untrue or have been violated. Furthermore, as part of the IRS's policy, the IRS did not determine whether the Separation satisfies certain conditions that are necessary to qualify for non-recognition treatment. Rather, the private letter ruling is based on representations by MetLife and us that these conditions have been satisfied.

The tax opinion is not binding on the IRS or the courts, and there can be no assurance that the IRS or a court will not take a contrary position. In addition, the tax opinion and the private letter ruling do not address all of the tax consequences of the Separation to us.

If the IRS ultimately determines that the Separation is taxable, we could incur significant federal income tax liabilities, and we could have an indemnification obligation to MetLife. For a more detailed discussion, see "[— Potential indemnification obligations if the Separation does not qualify for non-recognition treatment or if certain other steps that are part of the Separation do not qualify for their intended tax treatment could materially adversely affect our financial condition.](#)"

The Separation was a complex transaction subject to numerous tax rules, including rules that could require us to reduce our tax attributes (such as the basis in our assets) in certain circumstances, and the application of these various rules to the Separation is not entirely clear. The ultimate tax consequences to us of the Separation may not be finally determined for many years and may differ from the tax consequences that we and MetLife expected at the time of the Separation. As a result, we could be required to pay material additional taxes and to materially reduce the tax assets (or materially increase the tax liabilities) on our consolidated balance sheet. These changes could impact our available capital, ratings or cost of capital. There can be no assurance that the Tax Separation Agreement will protect us from any such consequences, or that any issue that may arise will be subject to indemnification by MetLife under the Tax Separation Agreement. As a result, our financial condition and results of operations could be materially and adversely affected.

Potential indemnification obligations if the Separation does not qualify for non-recognition treatment or if certain other steps that are part of the Separation do not qualify for their intended tax treatment could materially adversely affect our financial condition

Generally, taxes resulting from the failure of the Separation to qualify for non-recognition treatment for federal income tax purposes would be imposed on MetLife or MetLife's shareholders and, under the Tax Separation Agreement, MetLife is generally obligated to indemnify us against such taxes if the failure to qualify for tax-free treatment results from any action or inaction that is within MetLife's control or if the failure results from any direct or indirect transfer of MetLife's stock. MetLife may have an adverse interpretation of or object to its indemnification obligations to us under the Tax Separation Agreement, and there can be no assurance that MetLife will be able to satisfy its indemnification obligation to us or that such indemnification will be sufficient to us in the event of a dispute or nonperformance by MetLife. The failure of MetLife to fully indemnify us could have a material adverse effect on our financial condition and results of operations.

In addition, MetLife will generally bear tax-related losses due to the failure of certain steps that were part of the Separation to qualify for their intended tax treatment. However, the IRS could seek to hold us responsible for such liabilities, and under the Tax Separation Agreement, we could be required, under certain circumstances, to indemnify MetLife and its affiliates against certain tax-related liabilities caused by those failures, to the extent those liabilities result from an action we or our affiliates take or from any breach of our or our affiliates' representations, covenants or obligations under the Tax Separation Agreement. If the Separation does not qualify for non-recognition treatment or if certain other steps that are part of the Separation do not qualify for their intended tax treatment, we could be required to pay material additional taxes or an indemnification obligation to MetLife, which could materially and adversely affect our financial condition.

Disputes or disagreements with MetLife may affect our financial statements and business operations, and our contractual remedies may not be sufficient

In connection with the Separation, we entered into certain agreements that provide a framework for our ongoing relationship, including the Transition Services Agreement, the Tax Separation Agreement and a tax receivables agreement that provides MetLife with the right to receive future payments from us as partial consideration for its contribution of assets to us (the “Tax Receivables Agreement”). Our agreements with MetLife may not reflect terms that would have resulted from negotiation between unaffiliated parties. Such provisions may include, among other things, indemnification rights and obligations, the allocation of tax liabilities, and other payment obligations between us and MetLife, including the payment by us to MetLife pursuant to the Tax Receivables Agreement of a portion of cash savings, if any, in federal income tax that Brighthouse Life Insurance Company and its subsidiaries actually realize as a result of certain transactions involved in the Separation. Disagreements regarding the obligations of MetLife or us under these agreements or any renegotiation of their terms could create disputes that may be resolved in a manner unfavorable to us and our shareholders. In addition, there can be no assurance that any remedies available under these agreements will be sufficient to us in the event of a dispute or nonperformance by MetLife or that any such remedies will be sufficiently broad to cover any issues that arise under our arrangements with MetLife. The failure of MetLife to perform its obligations under these agreements (or claims by MetLife that we have failed to perform our obligations under the agreements) may have a material adverse effect on our financial statements and could consume substantial resources and attention thus creating a material adverse impact on our business performance.

We have agreed under the Master Separation Agreement with MetLife to indemnify MetLife, its directors, officers and employees and certain of its agents for liabilities relating to, arising out of or resulting from certain events relating to our business

The Master Separation Agreement provides that, subject to certain exceptions, we will indemnify, hold harmless and defend MetLife and certain related individuals (generally including MetLife’s directors, officers and employees and certain agents), from and against all liabilities relating to, arising out of or resulting from certain events relating to our business. We cannot predict whether any event triggering this indemnity will occur or the extent to which we may be obligated to indemnify MetLife or such related individuals. In addition, the Master Separation Agreement provides that, subject to certain exceptions, MetLife will indemnify, hold harmless and defend us and certain related individuals (generally including our directors, officers and employees and certain agents), from and against all liabilities relating to, arising out of or resulting from certain events relating to its business. There can be no assurance that MetLife will be able to satisfy its indemnification obligation to us or that such indemnification will be sufficient to us in the event of a dispute or nonperformance by MetLife.

Risks Relating to Our Securities

The price of our securities, including our common stock, may fluctuate significantly

We cannot predict the prices at which our securities, including our common stock, may trade. The market price of our securities, including our common stock, may fluctuate widely, depending on many factors, some of which may be beyond our control, including factors which are described elsewhere in these Risk Factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could also adversely affect the trading price of our securities, including our common stock.

We currently have no plans to declare or pay dividends on our common stock, and legal restrictions could limit our ability to pay dividends on our capital stock and our ability to repurchase our common stock at the level we wish

We currently have no plans to declare or pay cash dividends on our common stock. We currently intend to use our future distributable earnings, if any, to pay debt obligations, to fund our growth, to develop our business, for working capital needs, to carry out any share or debt repurchases that we may undertake, as well as for general corporate purposes. Therefore, you are not likely to receive any dividends on your common stock in the near-term, and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which the shares currently trade. Any future declaration and payment of dividends or other distributions or returns of capital will be at the discretion of our Board of Directors and will depend on many factors, including our financial condition, earnings, cash needs, regulatory constraints, capital requirements (including capital requirements of our subsidiaries), and any other factors that our Board of Directors deems relevant in making such a determination. Therefore, there can be no assurance that we will pay any dividends or make other distributions or returns on our common stock, or as to the amount of any such dividends, distributions or returns of capital.

In addition, the terms of the agreements governing our outstanding indebtedness and preferred stock, as well as debt and other financial instruments that we may issue in the future, may limit or prohibit the payment of dividends on our common stock

or preferred stock, or the payment of interest on our junior subordinated debentures. For example, terms applicable to our junior subordinated debentures may restrict our ability to pay interest on those debentures in certain circumstances. Suspension of payments of interest on our junior subordinated debentures, whether required under the relevant indenture or optional, could cause “dividend stopper” provisions applicable under those and other instruments to restrict our ability to pay dividends on our common stock and repurchase our common stock in various situations, including situations where we may be experiencing financial stress, and may restrict our ability to pay dividends or interest on our preferred stock and junior subordinated debentures as well. Similarly, the terms of our outstanding preferred stock and any preferred securities we may issue in the future may contain restrictions on our ability to repurchase our common stock or pay dividends thereon if we have not fulfilled our dividend obligations under such preferred stock or other preferred securities.

State insurance laws and Delaware corporate law, as well as certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws, may prevent or delay an acquisition of us, which could decrease the trading price of our common stock

State laws may delay, deter, prevent or render more difficult a takeover attempt that our stockholders might consider in their best interests. For example, such laws may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Delaware law also imposes some restrictions on mergers and other business combinations between the Company and “interested stockholders.” An “interested stockholder” is defined to include persons who, together with affiliates, own, or did own within three years prior to the determination of interested stockholder status, 15% or more of the outstanding voting stock of a corporation.

The insurance laws and regulations of the various states in which our insurance subsidiaries are organized may delay or impede a business combination involving the Company. State insurance laws prohibit an entity from acquiring control of an insurance company without the prior approval of the domestic insurance regulator. Under most states’ statutes, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company or its parent company. See “Business — Regulation — Insurance Regulation — Holding Company Regulation.” These regulatory restrictions may delay, deter or prevent a potential merger or sale of our company, even if our Board of Directors decides that it is in the best interests of stockholders for us to merge or be sold. These restrictions also may delay sales by us or acquisitions by third parties of our insurance subsidiaries. In addition, the Investment Company Act may require approval by the contract owners of our variable contracts in order to effectuate a change of control of any affiliated investment advisor to a mutual fund underlying our variable contracts, including Brighthouse Advisers. Further, FINRA approval would be necessary for a change of control of any broker-dealer that is a direct or indirect subsidiary of BHF.

In addition, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may deter coercive takeover practices and inadequate takeover bids and may encourage prospective acquirers to negotiate with our Board of Directors rather than attempt a hostile takeover, including provisions relating to: (i) the nomination, election and removal of directors (including, for example, the ability of our remaining directors to fill vacancies and newly created directorships on our Board of Directors); (ii) the supra-majority vote of at least two-thirds in voting power of the issued and outstanding voting stock entitled to vote thereon, voting together as a single class, to amend our amended and restated bylaws and certain provisions of our amended and restated certificate of incorporation; and (iii) the right of our Board of Directors to issue preferred stock without stockholder approval. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board of Directors determines is not in the best interests of Brighthouse and our stockholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

Item 1B. Unresolved Staff Comments

None.

Item 3. Legal Proceedings

See [Note 15](#) of the Notes to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Issuer Common Equity

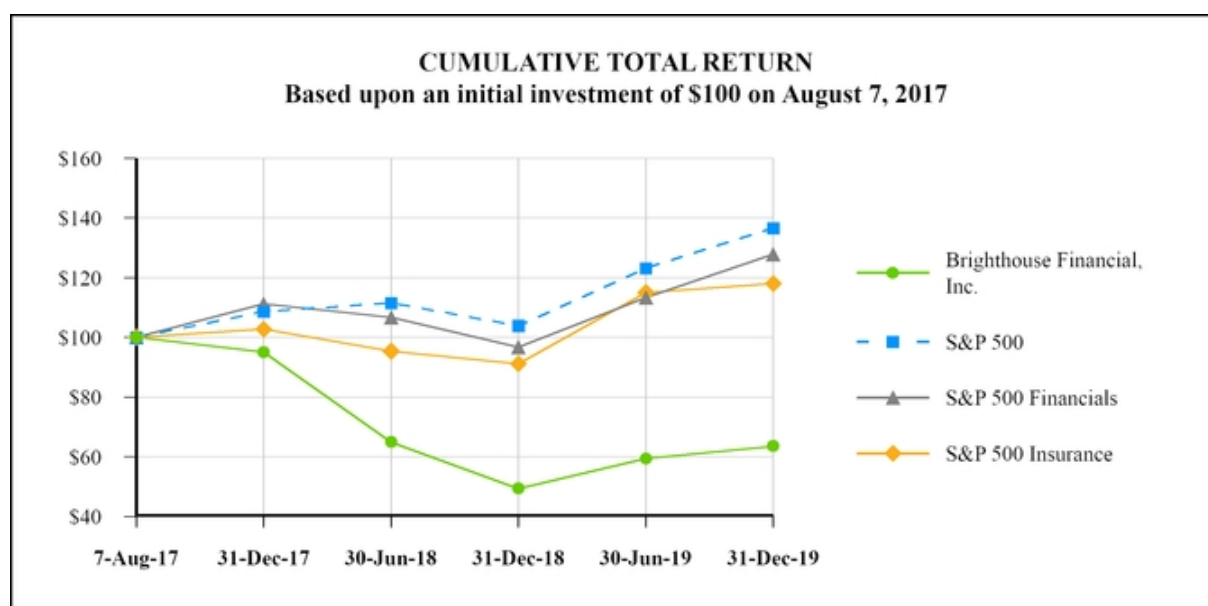
BHF’s common stock, par value \$0.01 per share, trades on the Nasdaq under the symbol “BHF.”

As of February 21, 2020, there were approximately 1.8 million registered holders of record of our common stock. The actual number of holders of our common stock is substantially greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in “street name” by banks, brokers, and other financial institutions.

We currently have no plans to declare and pay dividends on our common stock. See “Risk Factors — Risks Relating to Our Securities — We currently have no plans to declare or pay dividends on our common stock, and legal restrictions could limit our ability to pay dividends on our capital stock and our ability to repurchase our common stock at the level we wish” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Capital.”

Stock Performance Graph

The graph and table below present BHF’s cumulative total shareholder return relative to the performance of (1) the S&P 500 Index, (2) the S&P 500 Financials Index and (3) the S&P 500 Insurance Index, respectively, for the three-year period ended December 31, 2019, commencing August 7, 2017 (our initial day of “regular-way” trading on the Nasdaq). All values assume a \$100 initial investment at the opening price of BHF’s common stock on the Nasdaq and data for each of the S&P 500 Index, the S&P 500 Financials Index and the S&P 500 Insurance Index assume all dividends were reinvested on the date paid. The points on the graph and the values in the table represent month-end values based on the last trading day of each month. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our common stock.



	2017		2018		2019	
	Aug 7	Dec 31	Jun 30	Dec 31	Jun 30	Dec 31
BHF common stock	\$ 100.00	\$ 95.01	\$ 64.92	\$ 49.38	\$ 59.45	\$ 63.56
S&P 500	\$ 100.00	\$ 108.66	\$ 111.54	\$ 103.90	\$ 123.16	\$ 136.61
S&P 500 Financials	\$ 100.00	\$ 111.19	\$ 106.65	\$ 96.70	\$ 113.38	\$ 127.77
S&P 500 Insurance	\$ 100.00	\$ 102.71	\$ 95.35	\$ 91.20	\$ 114.97	\$ 117.99

Issuer Purchases of Equity Securities

Purchases of BHF common stock made by or on behalf of BHF or its affiliates during the three months ended December 31, 2019 are set forth below:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(In millions)
October 1 — October 31, 2019	1,309,283	\$ 37.74	1,302,060	\$ 132
November 1 — November 30, 2019	997,022	\$ 40.28	997,022	\$ 92
December 1 — December 31, 2019	963,755	\$ 40.67	963,755	\$ 53
Total	3,270,060		3,262,837	

- (1) Where applicable, total number of shares purchased includes shares of common stock withheld with respect to option exercise costs and tax withholding obligations associated with the exercise or vesting of share-based compensation awards under our publicly announced benefit plans or programs.
- (2) On August 5, 2018, we authorized the repurchase of up to \$200 million of our common stock, on May 3, 2019, we authorized the repurchase of up to an additional \$400 million of our common stock and, on February 6, 2020, we authorized the repurchase of up to an additional \$500 million of our common stock. For more information on common stock repurchases, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — The Company — Primary Uses of Liquidity and Capital — Common Stock Repurchases” and Note 10 of the Notes to the Consolidated Financial Statements.

Item 6. Selected Financial Data

The following tables set forth selected historical financial data for Brighthouse Financial, Inc. and its subsidiaries. The statement of operations data for the years ended December 31, 2019, 2018 and 2017, and the balance sheet data at December 31, 2019 and 2018, have been derived from the audited consolidated financial statements of Brighthouse Financial, Inc. included elsewhere herein. The statement of operations data for the years ended December 31, 2016 and 2015, and the balance sheet data at December 31, 2017, 2016 and 2015, have been derived from the audited consolidated and combined financial statements not included herein.

The selected historical financial data should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and the related notes included elsewhere herein. The following statement of operations and balance sheet data have been prepared in conformity with GAAP. The historical results presented below are not necessarily indicative of the financial results to be achieved in future periods, or what the financial results would have been had Brighthouse Financial, Inc. been a separate publicly-traded company during the periods presented.

	Years Ended December 31,				
	2019	2018	2017	2016	2015
	(In millions, except per share data)				
Statement of Operations Data					
Total revenues	\$ 6,554	\$ 8,965	\$ 6,842	\$ 3,018	\$ 8,891
Premiums	\$ 882	\$ 900	\$ 863	\$ 1,222	\$ 1,679
Universal life and investment-type product policy fees	\$ 3,580	\$ 3,835	\$ 3,898	\$ 3,782	\$ 4,010
Net investment income	\$ 3,579	\$ 3,338	\$ 3,078	\$ 3,207	\$ 3,099
Other revenue	\$ 389	\$ 397	\$ 651	\$ 736	\$ 422
Net investment gains (losses)	\$ 112	\$ (207)	\$ (28)	\$ (78)	\$ 7
Net derivative gains (losses)	\$ (1,988)	\$ 702	\$ (1,620)	\$ (5,851)	\$ (326)
Total expenses	\$ 7,606	\$ 7,976	\$ 7,457	\$ 7,723	\$ 7,429
Policyholder benefits and claims	\$ 3,670	\$ 3,272	\$ 3,636	\$ 3,903	\$ 3,269
Interest credited to policyholder account balances	\$ 1,063	\$ 1,079	\$ 1,111	\$ 1,165	\$ 1,259
Amortization of DAC and VOBA	\$ 382	\$ 1,050	\$ 227	\$ 371	\$ 781
Other expenses	\$ 2,491	\$ 2,575	\$ 2,483	\$ 2,284	\$ 2,120
Income (loss) before provision for income tax	\$ (1,052)	\$ 989	\$ (615)	\$ (4,705)	\$ 1,462
Net income (loss)	\$ (735)	\$ 870	\$ (378)	\$ (2,939)	\$ 1,119
Less: Net income (loss) attributed to noncontrolling interests	\$ 5	\$ 5	\$ —	\$ —	\$ —
Net income (loss) attributable to Brighthouse Financial, Inc.’s	\$ (740)	\$ 865	\$ (378)	\$ (2,939)	\$ 1,119
Less: Preferred stock dividends	\$ 21	\$ —	\$ —	\$ —	\$ —
Net income (loss) available to Brighthouse Financial, Inc.’s common shareholders	\$ (761)	\$ 865	\$ (378)	\$ (2,939)	\$ 1,119
Earnings per common share:					
Basic	\$ (6.76)	\$ 7.24	\$ (3.16)	\$ (24.54)	\$ 9.34
Diluted	\$ (6.76)	\$ 7.21	\$ (3.16)	\$ (24.54)	\$ 9.34

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	December 31,				
	2019	2018	2017	2016	2015
(In millions)					
Balance Sheet Data					
Total assets	\$ 227,259	\$ 206,294	\$ 224,192	\$ 221,930	\$ 226,725
Total investments and cash and cash equivalents	\$ 98,659	\$ 87,326	\$ 84,195	\$ 85,860	\$ 85,199
Separate account assets	\$ 107,107	\$ 98,256	\$ 118,257	\$ 113,043	\$ 114,447
Long-term financing obligations:					
Debt (1)	\$ 4,365	\$ 3,963	\$ 3,612	\$ 810	\$ 836
Reserve financing debt (2)	\$ —	\$ —	\$ —	\$ 1,100	\$ 1,100
Collateral financing arrangement (3)	\$ —	\$ —	\$ —	\$ 2,797	\$ 2,797
Policyholder liabilities (4)	\$ 88,568	\$ 79,263	\$ 77,384	\$ 73,943	\$ 71,881
Variable annuities liabilities:					
Future policy benefits	\$ 4,857	\$ 4,640	\$ 4,148	\$ 3,562	\$ 2,937
Policyholder account balances	\$ 20,950	\$ 15,382	\$ 12,479	\$ 11,517	\$ 7,379
Other policy-related balances	\$ 88	\$ 91	\$ 96	\$ 89	\$ 99
Non-variable annuities liabilities:					
Future policy benefits	\$ 34,829	\$ 31,569	\$ 32,468	\$ 29,810	\$ 28,266
Policyholder account balances	\$ 24,821	\$ 24,672	\$ 25,304	\$ 26,009	\$ 30,142
Other policy-related balances	\$ 3,023	\$ 2,909	\$ 2,889	\$ 2,956	\$ 3,058
Total Brighthouse Financial, Inc. stockholders' equity (5)	\$ 16,172	\$ 14,418	\$ 14,515	\$ 14,862	\$ 16,839
Noncontrolling interests	\$ 65	\$ 65	\$ 65	\$ —	\$ —
Accumulated other comprehensive income (loss)	\$ 3,240	\$ 716	\$ 1,676	\$ 1,265	\$ 1,523

- (1) At December 31, 2016 and prior periods, this balance includes surplus notes in aggregate principal amount of \$750 million issued by Brighthouse Life Insurance Company to a financing trust. In February 2017, MetLife, Inc. became the sole beneficial owner of the financing trust. In connection with MetLife, Inc.'s plans to undertake several actions, including an internal reorganization involving its U.S. retail business (the "Restructuring"), (i) the financing trust was terminated in accordance with its terms in March 2017, (ii) MetLife, Inc. became the owner of the surplus notes, and (iii) prior to the Separation, MetLife, Inc. forgave the obligation of Brighthouse Life Insurance Company to pay the principal under the surplus notes.
- (2) Includes long-term financing of statutory reserves supporting level premium term and ULSG policies provided by surplus notes issued to MetLife. These surplus notes were eliminated in April 2017 in connection with the Restructuring of existing reserve financing arrangements.
- (3) Supports statutory reserves relating to level premium term and ULSG policies pursuant to credit facilities entered into by MetLife, Inc. and an unaffiliated financial institution. These facilities were replaced in April 2017 in connection with the Restructuring of existing reserve financing arrangements.
- (4) Includes future policy benefits, policyholder account balances and other policy-related balances.
- (5) For periods ending prior to the Separation, stockholders' equity was previously reported as shareholder's net investment.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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Introduction

For purposes of this discussion, unless otherwise mentioned or unless the context indicates otherwise, “Brighthouse,” “Brighthouse Financial,” the “Company,” “we,” “our” and “us” refer to Brighthouse Financial, Inc. a corporation incorporated in Delaware in 2016, and its subsidiaries. We use the term “BHF” to refer solely to Brighthouse Financial, Inc., and not to any of its subsidiaries. Until August 4, 2017, BHF was a wholly-owned subsidiary of MetLife, Inc. (together with its subsidiaries and affiliates, “MetLife”). Following this summary is a discussion addressing the consolidated results of operations and financial condition of the Company for the periods indicated. This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with “Note Regarding Forward-Looking Statements,” “Risk Factors,” “Selected Financial Data,” “Quantitative and Qualitative Disclosures About Market Risk” and the Company’s consolidated financial statements included elsewhere herein.

The term “Separation” refers to the separation of MetLife’s former Brighthouse Financial segment from MetLife’s other businesses and the creation of a separate, publicly-traded company, BHF, as well as the distribution on August 4, 2017 of 96,776,670, or 80.8%, of the 119,773,106 shares of BHF common stock outstanding immediately prior to the distribution date by MetLife, Inc. to holders of MetLife, Inc. common stock as of the record date for the distribution. The term “MetLife Divestiture” refers to the disposition by MetLife, Inc. on June 14, 2018 of all its remaining shares of BHF common stock. Effective with the MetLife Divestiture, MetLife, Inc. and its subsidiaries and affiliates are no longer considered related parties to BHF and its subsidiaries and affiliates. See Note 1 of the Notes to the Consolidated Financial Statements.

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 “Risk Factors.”

Presentation

Prior to discussing our Results of Operations, we present background information and definitions that we believe are useful to understanding the discussion of our financial results. This information precedes the Results of Operations and is most beneficial when read in the sequence presented. A summary of key informational sections is as follows:

- “Executive Summary” contains the following sub-sections:
 - “Overview” provides information regarding our business, segments and results as discussed in the Results of Operations.
 - “Background” presents details of the Company’s legal entity structure.
- “Risk Management Strategies” describes the Company’s risk management strategy to protect against capital market risks specific to our variable annuity and ULSSG businesses.
- “Industry Trends and Uncertainties” discusses updates and changes to a number of trends and uncertainties that we believe may materially affect our future financial condition, results of operations or cash flows.
- “Summary of Critical Accounting Estimates” explains the most critical estimates and judgments applied in determining our GAAP results.
- “Non-GAAP and Other Financial Disclosures” defines key financial measures presented in the Results of Operations that are not calculated in accordance with GAAP but are used by management in evaluating company and segment performance. As described in this section, adjusted earnings is presented by key business activities which are derived from, but different than, the line items presented in the GAAP statement of operations. This section also refers to certain other terms used to describe our insurance business and financial and operating metrics but is not intended to be exhaustive.
- The Results of Operations section begins with a discussion of our “Annual Actuarial Review.” Annual actuarial review (the “AAR”) describes the changes in key assumptions applied in 2019 and 2018, respectively, resulting in an unfavorable impact to net income (loss) available to shareholders in each period.

Our Results of Operations discussion and analysis presents a review for the years ended December 31, 2019 and 2018 and year-to-year comparisons between these years. Our results of operations discussion and analysis for the year ended December 31, 2017, including a review of the 2017 AAR and year-to-year comparisons between the years ended December 31, 2018 and 2017 can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of

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Operations” in our Annual Report on Form 10-K for the year ended December 31, 2018 (our “2018 Annual Report”), which was filed with the SEC on February 26, 2019, and such discussions are incorporated herein by reference.

Executive Summary

Overview

We are one of the largest providers of annuity and life insurance products in the United States through multiple independent distribution channels and marketing arrangements with a diverse network of distribution partners.

For operating purposes, we have established three segments: (i) Annuities, (ii) Life and (iii) Run-off, which consists of operations relating to products we are not actively selling, and which are separately managed. In addition, we report certain of our results of operations in Corporate & Other.

See “Business — Segments and Corporate & Other” and Note 2 of the Notes to the Consolidated Financial Statements for further information on our segments and Corporate & Other.

The table below presents a summary of our net income (loss) available to shareholders and adjusted earnings a non-GAAP financial measure. See “— Non-GAAP and Other Financial Disclosures.” For a detailed discussion of our results see “— Results of Operations.”

	Years Ended December 31,		
	2019	2018	Change
	(In millions)		
Net income (loss) available to shareholders before provision for income tax	\$ (1,078)	\$ 984	\$ (2,062)
Less: Provision for income tax expense (benefit)	(317)	119	(436)
Net income (loss) available to shareholders	\$ (761)	\$ 865	\$ (1,626)
Pre-tax adjusted earnings, less net income (loss) attributable to noncontrolling interests and preferred stock dividends	\$ 644	\$ 1,025	\$ (381)
Less: Provision for income tax expense (benefit)	45	133	(88)
Adjusted earnings	\$ 599	\$ 892	\$ (293)

For the year ended December 31, 2019, we had a net loss of \$761 million and adjusted earnings of \$599 million, as compared to net income of \$865 million and adjusted earnings of \$892 million for the year ended December 31, 2018. The net loss for the year ended December 31, 2019 reflected impacts from higher equity markets which resulted in unfavorable net changes in derivative instruments in our variable annuity business, partially offset by the impact of lower interest rates on interest rate hedges in both our variable annuity and ULSG businesses.

Background

This Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand the results of operations, financial condition and cash flows of Brighthouse for the periods indicated. In addition to Brighthouse Financial, Inc., the companies and businesses included in the results of operations, financial condition and cash flows are:

- Brighthouse Life Insurance Company (together with its subsidiaries and affiliates, “BLIC”), our largest insurance operating entity, domiciled in Delaware and licensed to write business in 49 states;
- New England Life Insurance Company (“NELICO”), domiciled in Massachusetts and licensed to write business in all 50 states;
- Brighthouse Life Insurance Company of NY (“BHNY”), domiciled in New York and licensed to write business in New York, which is a subsidiary of Brighthouse Life Insurance Company;
- Brighthouse Reinsurance Company of Delaware (“BRCD”), our single reinsurance company licensed in Delaware, which is a subsidiary of Brighthouse Life Insurance Company;
- Brighthouse Investment Advisers, LLC (“Brighthouse Advisers”), serving as investment advisor to certain proprietary mutual funds that are underlying investments under our and MetLife’s variable insurance products;
- Brighthouse Services, LLC (“Brighthouse Services”), an internal services and payroll company;

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- Brighthouse Securities, LLC (“Brighthouse Securities”), registered as a broker-dealer with the SEC, approved as a member of FINRA and registered as a broker-dealer and licensed as an insurance agency in all required states; and
- Brighthouse Holdings, LLC (“BH Holdings”), a wholly-owned holding company subsidiary of Brighthouse Financial, Inc. domiciled in Delaware.

Risk Management Strategies

The Company employs risk management strategies to protect against capital market risks. These strategies are specific to our variable annuity and ULSG businesses, and also include a macro hedge strategy to manage the Company’s exposure to interest rate risk. CTE95 and CTE98 referred to below are defined in “— Glossary.”

Interest Rate Hedging

The Company is exposed to interest rate risk in most of its products with the more significant longer dated exposure residing in our in-force variable annuity guarantees and ULSG. Historically, we individually managed the interest rate risk in these two blocks with hedge targets based on statutory metrics designed principally to protect the capital of our largest operating insurance company, BLIC.

With the adoption of VA Reform, the capital metric of combined RBC ratio now aligns with our management metrics and more holistically captures interest rate risk. We began to more actively manage the interest rate risk in our variable annuity and ULSG businesses together, although individual hedge targets still exist for variable annuities and ULSG. Accordingly, the related portfolio of interest rate derivatives will be managed in the aggregate with rebalancing and trade executions determined by the net exposure. By managing the interest rate exposure on a net basis, we expect to more efficiently manage the derivative portfolio, better protect capital and reduce costs. We refer to this aggregated approach to managing interest rate risk as our macro interest rate hedging program.

The table below presents the gross notional amount and estimated fair value of the derivatives held in our macro interest rate hedging program.

Primary Underlying Risk Exposure	Instrument Type	Gross Notional Amount	December 31, 2019	
			Estimated Fair Value	
			Assets	Liabilities
			(In millions)	
Interest rate	Interest rate swaps	\$ 7,344	\$ 798	\$ 29
	Interest rate options	29,750	782	187
	Interest rate forwards	5,418	94	114
	Total	\$ 42,512	\$ 1,674	\$ 330

The aggregate interest rate derivatives are then allocated to the variable annuity guarantee and ULSG businesses based on the hedge targets of the respective programs as of the balance sheet date. Allocations are primarily for purposes of calculating certain product specific metrics needed to run the business which in some cases are still individually measured and to facilitate the quarterly settlement of reinsurance activity associated with BRCD.

Variable Annuity Exposure Risk Management

With our early adoption of VA Reform, our management of and hedging strategy associated with our variable annuity business aligns with the new regulatory framework. Given this alignment and the fact that we have a large non-variable annuity business, we have shifted our focus on capital metrics from a CTE target to a combined RBC ratio target. In support of our target combined RBC ratio between 400% and 450%, we expect to continue to maintain a capital and exposure risk management program that targets total assets supporting our variable annuity contracts at or above the CTE98 level in normal market conditions. We refer to our target level of assets as our “Variable Annuity Target Funding Level.” While total assets supporting our variable annuity capital may exceed the CTE98 level, under stressed conditions we intend to allow such assets supporting our variable annuities to range between a target floor level of CTE95 and CTE98. At December 31, 2019, we held approximately \$11.1 billion of total assets supporting our variable annuity contracts, which equals approximately \$1.7 billion above CTE98 and \$3.3 billion above CTE95.

Our exposure risk management program seeks to mitigate the potential adverse effects of changes in capital markets, specifically equity markets and interest rates, on our Variable Annuity Target Funding Level, as well as on our statutory distributable earnings. We utilize a combination of short-term and longer-term derivative instruments to establish a layered maturity of protection, which we believe will reduce rollover risk during periods of market disruption or higher volatility. When

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setting our hedge target, we consider the fact that our obligations under Shield Annuity contracts decrease in falling equity markets when variable annuity guarantee obligations increase, and increase in rising equity markets when variable annuity guarantee obligations decrease.

We continually review our hedging strategy in the context of our overall capitalization targets as well as monitor the capital markets for opportunities to adjust our derivative positions to manage our variable annuity exposure, as appropriate. Our hedging strategy since the Separation focused on option-based derivatives protecting against larger market movements and reducing hedge losses in rising market scenarios. As a part of this strategy, we historically guided toward a first loss of up to \$2.0 billion. The first loss position is relative to our Variable Annuity Target Funding Level such that the impact to reserves and thus total adjusted capital could be greater than the first loss position, however under such a scenario there would be a substantial offset in required statutory capital.

Given recent robust equity market returns and the related increase in our statutory capital, we re-assessed our hedging strategy in late 2019. As a result of this review, we revised our hedging strategy to reduce the use of options and move to more swap-based instruments to better protect statutory capital against smaller market moves. With this revised strategy, we plan to operate with a first loss position of no more than \$500 million. This revised strategy preserves distributable earnings across more market scenarios and protects the capital generated from the market upside experienced since Separation. We expect to have significantly lower time decay expense as a result of this revised strategy. However, we also expect to incur larger hedge mark-to-market losses in rising equity markets as compared to our previous strategy. We expect this strategy shift will be substantially complete by the end of the first quarter of 2020.

We believe the increased capital protection in down markets increases our financial flexibility and supports deploying capital for growing long-term, sustainable shareholder value. However, because our hedging strategy places a low priority on offsetting changes to GAAP liabilities, GAAP net income volatility will likely result when markets are volatile and over time potentially impact stockholders' equity. See "Risk Factors — Risks Related to Our Business — Our variable annuity exposure risk management strategy may not be effective, may result in significant volatility in our profitability measures and may negatively affect our statutory capital" and "— Summary of Critical Accounting Estimates."

The table below presents the gross notional amount and estimated fair value of the derivatives held in our variable annuity hedging program as well as the interest rate hedges allocated from our macro interest rate hedging program.

Primary Underlying Risk Exposure	Instrument Type	December 31, 2019 (1)			December 31, 2018		
		Gross Notional Amount	Estimated Fair Value		Gross Notional Amount	Estimated Fair Value	
			Assets	Liabilities		Assets	Liabilities
(In millions)							
Equity market	Equity index options	\$ 46,968	\$ 814	\$ 1,713	\$ 43,985	\$ 1,365	\$ 1,202
	Equity total return swaps	7,723	2	367	3,920	280	3
	Equity variance swaps	2,136	69	69	5,574	80	232
Interest rate	Interest rate swaps	7,344	798	29	7,928	470	29
	Interest rate options	27,950	712	176	10,500	94	—
	Total	<u>\$ 92,121</u>	<u>\$ 2,395</u>	<u>\$ 2,354</u>	<u>\$ 71,907</u>	<u>\$ 2,289</u>	<u>\$ 1,466</u>

(1) Subsequent to December 31, 2019, the instrument types presented in this table are expected to be significantly different as part of our strategy shift described above. The absolute notional amounts presented do not necessarily represent the relative economic coverage provided by option instruments because certain positions were closed out by entering into offsetting positions that are not netted in the above table.

ULSG Market Risk Exposure Management

The ULSG block includes the business that resides in our operating insurance companies and the portion of it that is ceded to BRCD for providing redundant, non-economic reserve financing support. The primary market risk associated with our ULSG block is the uncertainty around the future levels of U.S. interest rates and bond yields. To help ensure we have sufficient assets to meet future ULSG policyholder obligations, we have employed an actuarial approach based upon NY Regulation 126 Cash Flow Testing ("ULSG CFT") as the basis for setting our ULSG asset requirement target for BRCD, which reinsures the majority

of the ULSG business written by our operating insurance companies. For the business that remains in the operating insurance companies, we set our ULSG asset requirement target to equal the actuarially determined statutory reserves, which, taken together with our ULSG asset requirement target of BRCD, comprises our total ULSG asset requirement target (“ULSG Target”). Under the ULSG CFT approach, we assume that interest rates remain flat or lower than current levels and our actuarial assumptions include a provision for adverse deviation. These underlying assumptions used in ULSG CFT are more conservative than those required under GAAP, which assumes a long-term upward mean reversion of interest rates and best estimate actuarial assumptions without additional provisions for adverse deviation.

We seek to mitigate interest rate exposures associated with these liabilities by holding ULSG Assets to closely match our ULSG Target under different interest rate environments. “ULSG Assets” are defined as (i) total general account assets supporting statutory reserves and capital in the ULSG portfolios of the operating insurance companies and BRCD and (ii) interest rate derivative instruments allocated from the macro interest rate hedging program to mitigate ULSG interest rate exposures.

The net statutory reserves for the ULSG business in our operating insurance companies and BRCD (which is in part supported by reserve financings) were \$21.2 billion and \$20.3 billion for the years ended December 31, 2019 and 2018, respectively. The net GAAP reserves were \$11.3 billion and \$10.1 billion for the years ended December 31, 2019 and 2018, respectively.

Our ULSG Target is sensitive to the actual and future expected level of long-term U.S. interest rates. If interest rates fall, our ULSG Target increases. Likewise, if interest rates rise, our ULSG Target declines. The interest rate derivatives allocated to ULSG Assets prioritizes the ULSG Target (comprised of ULSG CFT and statutory considerations), with less emphasis on mitigating GAAP net income volatility. This could increase the period-to-period volatility of net income and equity due to differences in the sensitivity of the ULSG Target and GAAP liabilities to the changes in interest rates. This mitigation strategy enables us to better protect BRCD’s statutory capitalization from potential losses due to an increase in our ULSG Target under lower interest rate conditions. Conversely, in order to limit the cost of this risk mitigation strategy, we may allow for lower realization of gains as the ULSG Target declines in moderately rising interest rate environments. We intend to maintain an adequate amount of liquid investments in our investment portfolio supporting our ULSG book to support any contingent collateral posting requirements from our macro interest rate hedging program.

We closely monitor the sensitivity of our ULSG Assets and ULSG Target to changes in interest rates. We seek to maintain ULSG Assets above the ULSG Target across a wide range of interest rate scenarios. At December 31, 2019, BRCD assets exceeded the ULSG CFT requirement. In addition, our macro interest rate hedging program is designed to help us maintain ULSG Assets above the ULSG Target when interest rates decline. Maintaining ULSG Assets that closely match our ULSG Target supports our target combined RBC ratio of between 400% and 450% for the Company.

Industry Trends and Uncertainties

Throughout this Management’s Discussion and Analysis of Financial Condition and Results of Operations, we discuss a number of trends and uncertainties that we believe may materially affect our future financial condition, results of operations or cash flows. Where these trends or uncertainties are specific to a particular aspect of our business, we often include such a discussion under the relevant caption of this Management’s Discussion and Analysis of Financial Condition and Results of Operations, as part of our broader analysis of that area of our business. In addition, the following factors represent some of the key general trends and uncertainties that have influenced the development of our business and our historical financial performance and that we believe will continue to influence our business and results of operations in the future.

Changes in Accounting Standards

Our financial statements are subject to the application of GAAP, which is periodically revised by the FASB.

The FASB issued an accounting standards update (“ASU”) on August 15, 2018 that will result in significant changes to the accounting for long-duration insurance contracts, including a requirement for all guarantees associated with our variable annuity business to be measured at fair value. The Company is evaluating the new guidance and therefore is unable to estimate the impact to its financial statements. The ASU will have a significant impact on our results of operations, including our net income, and at current market interest rate levels could ultimately result in a material decrease in our stockholders’ equity.

Financial and Economic Environment

Our business and results of operations are materially affected by conditions in the capital markets and the economy generally. Stressed conditions, volatility and disruptions in the capital markets, particular markets, or financial asset classes can have an adverse effect on us. The impact on capital markets and the economy generally of the priorities and policies of the Trump administration is uncertain. See “Risk Factors — Economic Environment and Capital Markets-Related Risks — If difficult conditions in the capital markets and the U.S. economy generally persist or are perceived to persist, they may materially adversely affect our business and results of operations.” Equity market performance can affect our profitability for variable annuities and

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other separate account products as a result of the effects it has on product demand, revenues, expenses, reserves and our risk management effectiveness. The level of long-term interest rates and the shape of the yield curve can have a negative effect on the demand for, and the profitability of, spread-based products such as fixed annuities, index-linked annuities and universal life insurance. Low interest rates and risk premium, including credit spread, affect new money rates on invested assets and the cost of product guarantees. Insurance premium growth and demand for our products is impacted by the general health of U.S. economic activity.

The above factors affect our expectations regarding future margins, which in turn, affect the amortization of certain of our intangible assets such as DAC. Significantly lower expected margins may cause us to accelerate the amortization of DAC, thereby reducing net income in the affected reporting period. We review our long-term assumptions about capital market returns and interest rates, along with other assumptions such as contract holder behavior, as part of our annual actuarial review. As additional company specific and/or industry information on contract holder behavior becomes available, related assumptions may change and may potentially have a material impact on liability valuations and net income.

Demographics

We believe that demographic trends in the U.S. population, the increase in under-insured individuals, the potential risk to governmental social safety net programs and the shifting of responsibility for retirement planning and financial security from employers and other institutions to individuals, highlight the need of individuals to plan for their long-term financial security and will create opportunities to generate significant demand for our products.

By focusing our product development and marketing efforts to meeting the needs of certain targeted customer segments identified as part of our strategy, we will be able to focus on offering a smaller number of products that we believe are appropriately priced given current economic conditions, which we believe will benefit our expense ratio thereby increasing our profitability.

Competitive Environment

The life insurance industry remains highly fragmented and competitive. See “Business — Segments and Corporate & Other” for each of our segments. In particular, we believe that financial strength and financial flexibility are highly relevant differentiators from the perspective of customers and distributors. We believe we are adequately positioned to compete in this environment.

Regulatory Developments

Our life insurance companies are regulated primarily at the state level, with some products and services also subject to federal regulation. In addition, BHF and its insurance subsidiaries are subject to regulation under the insurance holding company laws of various U.S. jurisdictions. Furthermore, some of our operations, products and services are subject to ERISA, consumer protection laws, securities, broker-dealer and investment advisor regulations, as well as environmental and unclaimed property laws and regulations. See “Business — Regulation” and “Risk Factors — Regulatory and Legal Risks.” In addition, Regulation 187 adopted a “best interest” standard for the sale of life insurance and annuity products in New York, which may have adverse effects on our business by imposing greater compliance, oversight, disclosure and notification requirements on us. The NAIC and the SEC have adopted similar regulations, and other states are also considering standard of conduct regulation.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported on the Consolidated Financial Statements.

The most critical estimates include those used in determining:

- (i) liabilities for future policy benefits;
- (ii) amortization of DAC;
- (iii) investment impairments;
- (iv) estimated fair values of freestanding derivatives and the recognition and estimated fair value of embedded derivatives requiring bifurcation; and
- (v) measurement of income taxes and the valuation of deferred tax assets.

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

The above critical accounting estimates are described below and in Note 1 of the Notes to the Consolidated Financial Statements.

Liability for Future Policy Benefits

Future policy benefits for traditional long-duration insurance contracts (term, whole life insurance and income annuities) are payable over an extended period of time and the related liabilities are equal to the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Assumptions used to measure the liability are based on the Company's experience and include a margin for adverse deviation. The principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, benefit utilization and withdrawals, policy lapse, retirement, disability incidence, disability terminations, investment returns and expenses. These assumptions, intended to estimate the experience for the period the policy benefits are payable, are established at the time the policy is issued and are not updated unless a premium deficiency exists. Utilizing these assumptions, liabilities are established for each line of business. If experience is less favorable than assumed and a premium deficiency exists, DAC may be reduced, and/or additional insurance liabilities established, resulting in a reduction in earnings.

Future policy benefit liabilities for GMDBs and certain GMIBs relating to variable annuity contracts are based on estimates of the expected value of benefits in excess of the projected account balance, recognizing the excess ratably over the accumulation period based on total expected assessments. Liabilities for universal and variable life insurance secondary guarantees are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero using a range of scenarios and recognizing those benefits ratably over the contract period based on total expected assessments. The Company also maintains a profit followed by losses reserve on universal life insurance with secondary guarantees. The assumptions of investment performance and volatility for variable products are consistent with historical experience of the underlying separate account funds.

We regularly review our assumptions supporting our estimates of actuarial liabilities for future policy benefits. For universal life and annuity product guarantees, assumptions are updated periodically, whereas for traditional long-duration insurance contracts, assumptions are established at inception and not updated unless a premium deficiency exists. We also review our liability projections to determine if profits are projected in earlier years followed by losses projected in later years, which could require us to establish an additional liability. We aggregate insurance contracts by product and segment in assessing whether a premium deficiency or profits followed by losses exists. Differences between actual experience and the assumptions used in pricing our policies and guarantees, as well as adjustments to the related liabilities, result in changes to earnings.

See Note 1 of the Notes to the Consolidated Financial Statements for additional information on our accounting policy relating to variable annuity guarantees and liability for future policy benefits.

Deferred Policy Acquisition Costs

DAC represents deferred costs that relate directly to the successful acquisition or renewal of insurance contracts. The recovery of DAC is dependent upon the future profitability of the related business.

DAC related to deferred annuities, universal and variable life insurance contracts is amortized based on expected future gross profits. DAC balances and amortization for variable contracts can be significantly impacted by changes in expected future gross profits related to projected separate account rates of return. Our practice of determining changes in projected separate account returns assumes that long-term appreciation in equity markets is not changed by short-term market fluctuations but is only changed when sustained interim deviations are expected. We monitor these events and only change the assumption when our long-term expectation changes. The effect of an increase (decrease) by 100 basis points in the assumed future rate of return is reasonably likely to result in a decrease (increase) in the DAC amortization with an offset to our unearned revenue liability which nets to approximately \$215 million. We use a mean reversion approach to separate account returns where the mean reversion period is five years with a long-term separate account return after the five-year reversion period is over. The current long-term rate of return assumption for variable annuity and variable universal life insurance contracts is in the 6-7% range.

We also generally review other long-term assumptions underlying the projections of expected future gross profits on an annual basis. These assumptions primarily relate to general account investment returns, interest crediting rates, mortality, in-force or persistency, benefit elections and withdrawals, and expenses to administer business. Assumptions used in the calculation of expected future gross profits which have significantly changed are updated annually. If the update of assumptions causes expected future gross profits to increase, DAC amortization will generally decrease, resulting in a current period increase to earnings. The opposite result occurs when the assumption update causes expected future gross profits to decrease.

Our DAC balances are also impacted by replacing expected future gross profits with actual gross profits in each reporting period, including changes in annuity embedded derivatives and the related nonperformance risk. When the change in expected future gross profits principally relates to the difference between actual and estimates in the current period, an increase in profits will generally result in an increase in amortization and a decrease in profits will generally result in a decrease in amortization.

See Notes 1 and 4 of the Notes to the Consolidated Financial Statements for additional information relating to DAC accounting policy and amortization.

Investment Impairments

One of the significant estimates related to AFS securities is our impairment evaluation. The assessment of whether an other-than-temporary impairment (“OTTI”) occurred is based on our case-by-case evaluation of the underlying reasons for the decline in estimated fair value on a security-by-security basis. Our review of each fixed maturity security for OTTI includes an analysis of gross unrealized losses by three categories of severity and/or age of gross unrealized loss. An extended and severe unrealized loss position may not have any impact on the ability of the issuer to service all scheduled interest and principal payments. Accordingly, such an unrealized loss position may not impact our evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to its amortized cost based on the present value of the expected future cash flows to be collected.

Additionally, we consider a wide range of factors about the security issuer and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Factors we consider in the OTTI evaluation process are described in Note 6 of the Notes to the Consolidated Financial Statements.

The determination of the amount of allowances and impairments on the remaining invested asset classes is highly subjective and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

See Notes 1 and 6 of the Notes to the Consolidated Financial Statements for additional information relating to our determination of the amount of allowances and impairments.

Derivatives

We use freestanding derivative instruments to hedge various capital market risks in our products, including: (i) certain guarantees, some of which are reported as embedded derivatives; (ii) current or future changes in the fair value of our assets and liabilities; and (iii) current or future changes in cash flows. All derivatives, whether freestanding or embedded, are required to be carried on the balance sheet at fair value with changes reflected in either net income (loss) available to shareholders or in other comprehensive income (“OCI”), depending on the type of hedge. Below is a summary of critical accounting estimates by type of derivative.

Freestanding Derivatives

The determination of the estimated fair value of freestanding derivatives, 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. See Note 7 of the Notes to the Consolidated Financial Statements for additional information on significant inputs into the OTC derivative pricing models and credit risk adjustment.

Embedded Derivatives in Variable Annuity Guarantees

We issue variable annuity products with guaranteed minimum benefits, some of which are embedded derivatives measured at estimated fair value separately from the host variable annuity product, with changes in estimated fair value reported in net derivative gains (losses). The estimated fair values of these embedded derivatives are determined based on the present value of projected future benefits minus the present value of projected future fees attributable to the guarantee. The projections of future benefits and future fees require capital markets and actuarial assumptions, including expectations concerning policyholder behavior. A risk neutral valuation methodology is used under which the cash flows from the guarantees are projected under multiple capital market scenarios using observable risk-free rates and implied equity volatilities.

Market conditions, including, but not limited to, changes in interest rates, equity indices, market volatility and variations in actuarial assumptions, including policyholder behavior, mortality and risk margins related to non-capital market inputs, as well as changes in our nonperformance risk may result in significant fluctuations in the estimated fair value of the guarantees that could have a material impact on net income. Changes to actuarial assumptions, principally related to contract holder behavior such as annuitization utilization and withdrawals associated with GMIB riders, can result in a change of expected future cash outflows of a guarantee between the accrual-based model for insurance liabilities and the fair value based model for embedded derivatives. See Note 1 of the Notes to the Consolidated Financial Statements for additional information relating to the determination of the accounting model.

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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 in certain actuarial assumptions. 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.

Assumptions for embedded derivatives are reviewed at least annually, and if they change significantly, the estimated fair value is adjusted by a cumulative charge or credit to net income.

See Notes 7 and 8 of the Notes to the Consolidated Financial Statements for additional information on our embedded derivatives and the determination of their fair values.

Embedded Derivatives in Index-Linked Annuities

The Company issues and assumes through reinsurance index-linked annuities that contain equity crediting rates accounted for as an embedded derivative. The crediting rates are measured at estimated fair value which is determined using a combination of an option pricing methodology and an option-budget approach. The estimated fair value includes capital market and actuarial policyholder behavior and biometric assumptions, including expectations for renewals at the end of the term period. Market conditions, including interest rates and implied volatilities, and variations in actuarial assumptions and risk margins as well as changes in our nonperformance risk adjustment may result in significant fluctuations in the estimated fair value that could have a material impact on net income.

Nonperformance Risk Adjustment

The valuation of our embedded derivatives includes an adjustment for the risk that we fail to satisfy our obligations, which we refer to as our nonperformance risk. The nonperformance risk adjustment is captured as a spread over the risk-free rate in determining the discount rate to discount the cash flows of the liability.

The spread over the risk-free rate is based on our creditworthiness taking into consideration publicly available information relating to spreads in the secondary market for BHF's debt. These observable spreads are then adjusted, as necessary, to reflect the financial strength ratings of the issuing insurance subsidiaries as compared to the credit rating of BHF.

The following table illustrates the impact that a range of reasonably likely variances in BHF's credit spread would have on our consolidated balance sheet, excluding the effect of income tax, related to the embedded derivative valuation on certain variable annuity products measured at estimated fair value. Even when credit spreads do not change, the impact of the nonperformance risk adjustment on fair value will change when the cash flows within the fair value measurement change. The table only reflects the impact of changes in credit spreads on the balance sheet and not these other potential changes. In determining the ranges, we have considered current market conditions, as well as the market level of spreads that can reasonably be anticipated over the near-term.

	Balance Sheet Carrying Value at December 31, 2019			
	Policyholder Account Balances		DAC and VOBA	
	(In millions)			
100% increase in our credit spread	\$	1,101	\$	15
As reported	\$	1,656	\$	259
50% decrease in our credit spread	\$	2,026	\$	423

Income Taxes

We provide for federal and state income taxes currently payable, as well as those deferred due to temporary differences between the financial reporting and tax bases of assets and liabilities. Our accounting for income taxes represents our best estimate of various events and transactions. Tax laws are often complex and may be subject to differing interpretations by the taxpayer and the relevant governmental taxing authorities. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various taxing jurisdictions.

In establishing a liability for unrecognized tax benefits, assumptions may be made in determining whether, and to what extent, a tax position may be sustained. Once established, unrecognized tax benefits are adjusted when there is more information available or when events occur requiring a change.

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Valuation allowances are established against deferred tax assets, particularly those arising from carryforwards, when management determines, based on available information, that it is more likely than not that deferred income tax assets will not be realized. The realization of deferred tax assets related to carryforwards depends upon the existence of sufficient taxable income within the carryforward periods under the tax law in the applicable tax jurisdiction. Significant judgment is required in projecting future taxable income to determine whether valuation allowances should be established, as well as the amount of such allowances. See Note 1 of the Notes to the Consolidated Financial Statements for additional information relating to our determination of such valuation allowances.

We may be required to change our provision for income taxes when estimates used in determining valuation allowances on deferred tax assets significantly change, or when new information indicates the need for adjustment in valuation allowances. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income tax and the effective tax rate. Any such changes could significantly affect the amounts reported in the financial statements in the year these changes occur.

See Notes 1 and 13 of the Notes to the Consolidated Financial Statements for additional information on our income taxes.

Non-GAAP and Other Financial Disclosures

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

Non-GAAP Financial Disclosures

Adjusted Earnings

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

Adjusted earnings, which may be positive or negative, is used by management to evaluate performance, allocate resources and facilitate comparisons to industry results. This financial measure focuses on our primary businesses principally by excluding the impact of market volatility, which could distort trends.

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

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

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

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

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

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

Component of Adjusted Earnings	How Derived from GAAP (1)
(i) Fee income	(i) <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 associated with related party reinsurance) and amortization of deferred gain on reinsurance.
(ii) Net investment spread	(ii) <i>Net investment income</i> plus Investment Hedge 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.
(vi) Provision for income tax expense (benefit)	(vi) Tax impact of the above items.

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

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

Adjusted Net Investment Income

We present adjusted net investment income, which is not calculated in accordance with GAAP. We present adjusted net investment income to measure our performance for management purposes, and we believe it enhances the understanding of our investment portfolio results. Adjusted net investment income represents net investment income including Investment Hedge Adjustments. For a reconciliation of adjusted net investment income to net investment income, the most directly comparable GAAP measure, see footnote 4 to the summary yield table located in “— Investments — Current Environment — Investment Portfolio Results.”

Other Financial Disclosures

Similar to adjusted net investment income, we present net investment income yields as a performance measure we believe enhances the understanding of our investment portfolio results. Net investment income yields are calculated on adjusted net investment income as a percent of average quarterly asset carrying values. Asset carrying values exclude unrealized gains (losses), collateral received in connection with our securities lending program, freestanding derivative assets and collateral received from derivative counterparties.

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Results of Operations

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Annual Actuarial Review

Generally, in the third quarter of each year we conduct an AAR. The most significant impact from the 2019 AAR reflected the change in the long-term general account earned rate for GAAP, which lowered the base 10-year U.S. Treasury rate from 4.25% to 3.75%, which had the largest impact to our ULSG business in the Run-off segment. For our variable annuity business, in addition to the update in the long-term general account earned rate, we updated assumptions regarding separate account fund allocations and volatility, as well as maintenance expenses. In our life business, we updated assumptions related to mortality and expenses.

As a result of the 2018 AAR, our variable annuity business reflected the alignment to the statutory variable annuity capital reform framework. These changes included lower lapse and utilization assumptions (consistent with updated Brighthouse policyholder experience and industry participants), as well as updates to the equity market scenario generator, as reflected in the framework. We also updated the tax rate to reflect the statutory tax rate change due to the Tax Act. In our life business, we updated assumptions related to market returns, policyholder behavior and expenses.

The following table presents the impact on pre-tax adjusted earnings and net income (loss) before provision for income tax from the AAR for the years ended December 31, 2019 and 2018. The impact related to GMLBs is included in net income (loss) but is not included in pre-tax adjusted earnings. See “— Non-GAAP and Other Financial Disclosures.”

	Years Ended December 31,	
	2019	2018
	(In millions)	
GMLBs	\$ 22	\$ (226)
Included in pre-tax adjusted earnings:		
Other annuity business	17	195
Life business	24	15
Run-off	(545)	(24)
Total included in pre-tax adjusted earnings	(504)	186
Total impact on net income (loss) available to shareholders before provision for income tax	\$ (482)	\$ (40)

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Consolidated Results for the Years Ended December 31, 2019 and 2018

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

	Years Ended December 31,	
	2019	2018
(In millions)		
Revenues		
Premiums	\$ 882	\$ 900
Universal life and investment-type product policy fees	3,580	3,835
Net investment income	3,579	3,338
Other revenues	389	397
Net investment gains (losses)	112	(207)
Net derivative gains (losses)	(1,988)	702
Total revenues	<u>6,554</u>	<u>8,965</u>
Expenses		
Policyholder benefits and claims	3,670	3,272
Interest credited to policyholder account balances	1,063	1,079
Capitalization of DAC	(369)	(322)
Amortization of DAC and VOBA	382	1,050
Interest expense on debt	191	158
Other expenses	2,669	2,739
Total expenses	<u>7,606</u>	<u>7,976</u>
Income (loss) before provision for income tax	(1,052)	989
Provision for income tax expense (benefit)	(317)	119
Net income (loss)	<u>(735)</u>	<u>870</u>
Less: Net income (loss) attributable to noncontrolling interests	5	5
Net income (loss) attributable to Brighthouse Financial, Inc.	<u>(740)</u>	<u>865</u>
Less: Preferred stock dividends	21	—
Net income (loss) available to Brighthouse Financial, Inc.'s common shareholders	<u>\$ (761)</u>	<u>\$ 865</u>

The following table presents the components of net income (loss) available to shareholders.

	Years Ended December 31,	
	2019	2018
(In millions)		
GMLB Riders	\$ (2,482)	\$ 324
Other derivative instruments	639	(199)
Net investment gains (losses)	112	(207)
Other adjustments	9	41
Pre-tax adjusted earnings, less net income (loss) attributable to noncontrolling interests and preferred stock dividends	644	1,025
Income (loss) available to shareholders before provision for income tax	(1,078)	984
Provision for income tax expense (benefit)	(317)	119
Net income (loss) available to shareholders	<u>\$ (761)</u>	<u>\$ 865</u>

GMLB Riders. The GMLB Riders reflect (i) changes in the carrying value of GMLB liabilities, including GMIBs, GMWBs and GMABs, and Shield Annuities; (ii) changes in the estimated fair value of the related hedges as well as any ceded reinsurance of the liabilities; (iii) the fees earned from the GMLB liabilities; and (iv) the effects of DAC amortization related to the preceding components.

Other Derivative Instruments. We have other derivative instruments, in addition to the hedges and embedded derivatives included in the GMLB Riders, for which changes in estimated fair value are recognized in net derivative gains (losses).

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

- as part of the Company’s macro interest rate hedging program, the use of interest rate swaps, swaptions, and interest rate forwards in connection with ULSG;
- use of interest rate swaps 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 use of interest rate forwards hedging reinvestment risk from maturing assets with higher yields than currently available in the market that support long-dated liabilities;
- 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; and
- use of equity index options to hedge index-linked annuity products against adverse changes in equity markets.

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 OCI in equity.

Embedded Derivatives. Certain ceded reinsurance agreements in our Life and Run-off segments are written on a coinsurance with funds withheld basis. The funds withheld component is accounted for as an embedded derivative with changes in the estimated fair value recognized in net income (loss) in the period in which they occur. In addition, the changes in liability values of our fixed index-linked annuity products that result from changes in the underlying equity index are accounted for as embedded derivatives.

Pre-tax Adjusted Earnings. As more fully described in “— Non-GAAP and Other Financial Disclosures,” we use adjusted earnings, which does not equate to net income (loss) available to shareholders, as determined in accordance with GAAP. We believe that the presentation of adjusted 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. Adjusted earnings and other financial measures based on adjusted earnings allow analysis of our performance relative to our business plan and facilitate comparisons to industry results. Adjusted earnings should not be viewed as a substitute for net income (loss).

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Net loss available to shareholders before provision for income tax was \$1.1 billion (\$761 million, net of income tax), a decrease of \$2.1 billion (\$1.6 billion, net of income tax) from net income before provision for income tax of \$984 million (\$865 million, net of income tax) in the prior period.

The decrease in income before provision for income tax was driven by the following key unfavorable items:

- losses from GMLB Riders in the current period, compared to gains in the prior period, see “— GMLB Riders for the Years Ended December 31, 2019 and 2018;”
- lower pre-tax adjusted earnings, discussed in greater detail below; and
- higher policyholder benefits and claims, included in other adjustments, resulting from the adjustment for market performance related to participating products in the Run-off segment,

The decrease in income before provision for income tax was partially offset by the following key favorable items:

- current period gains on interest rate derivatives used to manage interest rate exposure in our ULSG business due to declining long-term interest rates; and
- the change in net investment gains (losses) reflecting:
 - current period net gains on sales of fixed maturity securities compared to prior period losses; and
 - current period net mark-to-market gains on equity securities compared to prior period net losses,partially offset by
 - prior period net gains on limited partnership interests.

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The provision for income tax in the current period led to an effective tax rate of 29%, compared to 12% in the prior period. Our effective tax rate primarily differs from the statutory tax rate due to the impacts of the dividends received deductions and tax credits.

Reconciliation of Net Income (Loss) Available to Shareholders to Adjusted Earnings

The following tables reconcile net income (loss) available to shareholders to adjusted earnings:

	Year Ended December 31, 2019				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Net income (loss) available to shareholders	\$ (1,486)	\$ 300	\$ 640	\$ (215)	\$ (761)
Add: Provision for income tax expense (benefit)	224	57	(449)	(149)	(317)
Net income (loss) available to shareholders before provision for income tax	(1,262)	357	191	(364)	(1,078)
Less: GMLB Riders	(2,482)	—	—	—	(2,482)
Less: Other derivative instruments	(113)	54	711	(13)	639
Less: Net investment gains (losses)	26	15	106	(35)	112
Less: Other adjustments	44	—	(46)	11	9
Pre-tax adjusted earnings, less net income (loss) attributable to noncontrolling interests and preferred stock dividends	1,263	288	(580)	(327)	644
Less: Provision for income tax expense (benefit)	235	57	(126)	(121)	45
Adjusted earnings	<u>\$ 1,028</u>	<u>\$ 231</u>	<u>\$ (454)</u>	<u>\$ (206)</u>	<u>\$ 599</u>

	Year Ended December 31, 2018				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Net income (loss) available to shareholders	\$ 1,297	\$ 166	\$ (198)	\$ (400)	\$ 865
Add: Provision for income tax expense (benefit)	186	75	(60)	(82)	119
Net income (loss) available to shareholders before provision for income tax	1,483	241	(258)	(482)	984
Less: GMLB Riders	324	—	—	—	324
Less: Other derivative instruments	88	(18)	(268)	(1)	(199)
Less: Net investment gains (losses)	(159)	(25)	22	(45)	(207)
Less: Other adjustments	(3)	(1)	45	—	41
Pre-tax adjusted earnings, less net income (loss) attributable to noncontrolling interests and preferred stock dividends	1,233	285	(57)	(436)	1,025
Less: Provision for income tax expense (benefit)	210	57	(14)	(120)	133
Adjusted earnings	<u>\$ 1,023</u>	<u>\$ 228</u>	<u>\$ (43)</u>	<u>\$ (316)</u>	<u>\$ 892</u>

Consolidated Results for the Years Ended December 31, 2019 and 2018 - Adjusted Earnings

The following table presents the components of adjusted earnings:

	Years Ended December 31,	
	2019	2018
	(In millions)	
Fee income	\$ 3,694	\$ 3,959
Net investment spread	1,650	1,423
Insurance-related activities	(1,648)	(1,161)
Amortization of DAC and VOBA	(535)	(616)
Other expenses, net of DAC capitalization	(2,491)	(2,575)
Less: Net income (loss) attributable to noncontrolling interests and preferred stock dividends	26	5
Pre-tax adjusted earnings, less net income (loss) attributable to noncontrolling interests and preferred stock dividends	644	1,025
Provision for income tax expense (benefit)	45	133
Adjusted earnings	<u>\$ 599</u>	<u>\$ 892</u>

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Adjusted earnings were \$599 million, a decrease of \$293 million.

Key net unfavorable impacts were:

- higher costs associated with insurance-related activities due to an increase in liability balances resulting from changes in connection with the AAR in our Run-off segment, net of the impact of recapture transactions in both the current and prior period, and
- lower fee income due to lower asset-based fees resulting from lower average separate account balances, a portion of which are offset in other expenses.

Key favorable impacts were:

- higher net investment spread reflecting:
 - higher average invested assets resulting from positive net flows in the general account; and
 - higher investment income due to the repositioning of the investment portfolio out of U.S. Treasuries into higher-yielding assets in the prior period,
 partially offset by
 - lower net investment income from other limited partnerships for the comparative measurement period;
- lower other expenses due to:
 - lower establishment costs in the current period related to planned technology expenses, and
 - lower asset-based variable annuity expenses resulting from lower average separate account balances, a portion of which are offset in fee income, and
- lower amortization of DAC and VOBA, primarily in our Life segment, due to the impact on gross profits in the current period from higher separate account growth and lower policyholder benefits and claims, partially offset by an unfavorable impact in the current period in connection with the AAR.

Certain one-time tax adjustments recognized in the current period, primarily due to a revaluation of certain Separation-related liabilities, resulted in an unusually low effective tax rate of 7%, compared to 13% in the prior period. In addition to such one-time tax adjustments, our effective tax rate differs from the statutory tax rate due to the impacts of the dividends received deductions and tax credits.

Segments and Corporate & Other - Adjusted Earnings for the Years Ended December 31, 2019 and 2018

Annuities

The following table presents the components of adjusted earnings for our Annuities segment:

	Years Ended December 31,	
	2019	2018
	(In millions)	
Fee income	\$ 2,641	\$ 2,836
Net investment spread	1,052	773
Insurance-related activities	(238)	(242)
Amortization of DAC and VOBA	(516)	(505)
Other expenses, net of DAC capitalization	(1,676)	(1,629)
Pre-tax adjusted earnings	1,263	1,233
Provision for income tax expense (benefit)	235	210
Adjusted earnings	<u>\$ 1,028</u>	<u>\$ 1,023</u>

A significant portion of our adjusted earnings is driven by separate account balances related to our variable annuity business. Most directly, these balances determine asset-based fee income, but they also impact DAC amortization and asset-based commissions. Below is a rollforward of our variable annuities separate account balances. Variable annuities separate account balances increased for the year ended December 31, 2019. The increase was driven by positive equity market performance, partially offset by negative net flows and policy charges.

	Years Ended December 31,	
	2019	2018
	(In millions)	
Balance, beginning of period	\$ 91,922	\$ 109,889
Deposits	1,334	1,320
Withdrawals, surrenders and benefits	(9,811)	(10,390)
Net flows	(8,477)	(9,070)
Investment performance	18,783	(6,058)
Policy charges	(2,469)	(2,605)
Net transfers from (to) general account	(261)	(234)
Balance, end of period	<u>\$ 99,498</u>	<u>\$ 91,922</u>
Average balance	<u>\$ 97,520</u>	<u>\$ 104,433</u>

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Adjusted earnings were \$1.0 billion for the current period, an increase of \$5 million.

Key favorable impacts were:

- higher net investment spread driven by:
 - higher average invested assets resulting from positive net flows in the general account;
 - higher investment income due to the repositioning of the investment portfolio out of U.S. Treasuries into higher yielding assets in the prior period; and
 - higher net investment income from other limited partnerships for the comparative measurement period.

Key net unfavorable impacts were:

- lower fee income due to lower asset-based fees from lower average separate account balances, a portion of which is offset in other expenses;

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- higher other expenses driven by:
 - an increase in the allocation of corporate expenses in the current period, partially offset by
 - lower asset-based variable annuity expenses resulting from lower average separate account balances, a portion of which are offset in fee income; and
- higher amortization of DAC and VOBA resulting primarily from changes in the long-term general account earned rate assumptions made in connection with the AAR.

The provision for income tax in the current period led to an effective tax rate of 19%, compared to 17% in the prior period. Our effective tax rate primarily differs from the statutory tax rate due to the impacts of the dividends received deductions and tax credits.

Life

The following table presents the components of adjusted earnings for our Life segment:

	Years Ended December 31,	
	2019	2018
	(In millions)	
Fee income	\$ 300	\$ 324
Net investment spread	211	223
Insurance-related activities	(7)	74
Amortization of DAC and VOBA	(5)	(95)
Other expenses, net of DAC capitalization	(211)	(241)
Pre-tax adjusted earnings	288	285
Provision for income tax expense (benefit)	57	57
Adjusted earnings	\$ 231	\$ 228

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Adjusted earnings were \$231 million for the current period, an increase of \$3 million.

Key net favorable impacts were:

- lower amortization of DAC and VOBA reflecting:
 - the impact on gross profits in the current period from lower policyholder benefits and claims and higher separate account growth, and
 - changes in expense and mortality assumptions made in connection with the AAR; and
- a decrease in the allocation of corporate expenses in the current period.

Key net unfavorable impacts were:

- higher costs associated with insurance-related activities due to higher paid claims, net of reinsurance;
- lower fee income due to:
 - lower unearned revenue amortization from changes in expense and mortality assumptions made in connection with the AAR; and
 - lower policyholder fees consistent with lower average account balances.

The provision for income tax led to an effective tax rate of 20% in both the current and prior period. Our effective tax rate primarily differs from the statutory tax rate due to the impacts of the dividends received deductions and tax credits.

Run-off

The following table presents the components of adjusted earnings for our Run-off segment:

	Years Ended December 31,	
	2019	2018
	(In millions)	
Fee income	\$ 742	\$ 802
Net investment spread	312	370
Insurance-related activities	(1,434)	(1,027)
Amortization of DAC and VOBA	—	—
Other expenses, net of DAC capitalization	(200)	(202)
Pre-tax adjusted earnings	(580)	(57)
Provision for income tax expense (benefit)	(126)	(14)
Adjusted earnings	\$ (454)	\$ (43)

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Adjusted earnings were a loss of \$454 million for the current period, a higher loss of \$411 million.

Key net unfavorable impacts were:

- higher costs associated with insurance-related activities, primarily in our ULSG business due to:
 - an increase in liability balances resulting from changes in the long-term general account earned rate assumptions made in connection with the AAR; and
 - higher paid claims, net of reinsurance in the current period;
 partially offset by
 - a decrease in liability balances from the net impact of recapture transactions in the prior period;
- lower fee income in our ULSG business due to:
 - a decline in net cost of insurance fees driven by the aging in-force business;
 - lower unearned revenue amortization resulting from recapture transactions in the prior year;
 - a decrease in policyholder fees consistent with lower average account balances; and
- lower net investment spread due to:
 - lower net investment income from other limited partnerships for the comparative measurement period; and
 - lower income on interest rate derivatives.

The provision for income tax in the current period led to an effective tax rate of 22%, compared to 24% in the prior period. Our effective tax rate primarily differs from the statutory tax rate due to the impacts of the dividends received deductions and tax credits.

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Corporate & Other

The following table presents the components of adjusted earnings for Corporate & Other:

	Years Ended December 31,	
	2019	2018
	(In millions)	
Fee income	\$ 11	\$ (3)
Net investment spread	75	57
Insurance-related activities	31	34
Amortization of DAC and VOBA	(14)	(16)
Other expenses, net of DAC capitalization	(404)	(503)
Less: Net income (loss) attributable to noncontrolling interests and preferred stock dividends	26	5
Pre-tax adjusted earnings, less net income (loss) attributable to noncontrolling interests and preferred stock dividends	(327)	(436)
Provision for income tax expense (benefit)	(121)	(120)
Adjusted earnings	\$ (206)	\$ (316)

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Adjusted earnings were a loss of \$206 million, an improvement of \$110 million from the prior period.

Key net favorable impacts were:

- lower other expenses due to:
 - lower establishment costs in the current period related to planned technology expenses, and
 - lower branding expenses associated with the Separation,partially offset by
 - higher interest on debt that was issued in both the first quarter of 2019 and the third quarter of 2018;
- higher net investment spread reflecting positive returns on short-term investments.

Certain one-time tax adjustments recognized in the current period, primarily due to a revaluation of certain Separation-related liabilities, resulted in an unusually high effective tax rate of 37%, compared to 28% in the prior period, for which both rates represent a tax benefit. In addition to such one-time tax adjustments, our effective tax rate primarily differs from the statutory tax rate due to the impacts of the dividends received deductions and tax credits. We believe the effective tax rate for Corporate & Other is not generally meaningful, neither on a stand-alone basis nor for comparison to prior periods, since taxes for Corporate & Other are derived from the difference between the overall consolidated effective tax rate and total taxes for the combined operating segments.

GMLB Riders for the Years Ended December 31, 2019 and 2018

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

	Years Ended December 31,	
	2019	2018
	(In millions)	
Liabilities (1)	\$ (1,826)	\$ (467)
Hedges	(1,592)	371
Ceded reinsurance	(12)	(2)
Fees (2)	839	859
GMLB DAC	109	(437)
Total GMLB Riders	<u>\$ (2,482)</u>	<u>\$ 324</u>

(1) Includes cumulative changes in estimated fair value of the Shield Annuities embedded derivatives of (\$1.6) billion and \$358 million for the years ended December 31, 2019 and 2018, respectively.

(2) Excludes living benefit fees, included as a component of adjusted earnings, of \$64 million and \$69 million for the years ended December 31, 2019 and 2018, respectively.

GMLB Liabilities. Liabilities reported as part of GMLB Riders (“GMLB Liabilities”) include (i) guarantee rider benefits accounted for as embedded derivatives, (ii) guarantee rider benefits accounted for as insurance and (iii) Shield Annuities embedded derivatives. Liabilities related to guarantee rider benefits 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 these liabilities. An increase in these liabilities would result in a decrease to our net income (loss) available to shareholders, which could be significant. Shield Annuities currently offered provide the ability for the contract holder to participate in the appreciation of certain financial markets up to a stated level, while offering protection from a portion of declines in the applicable indices or benchmark. We believe that Shield Annuities provide us with risk offset to liabilities related to guarantee rider benefits.

GMLB Hedges and Reinsurance. We enter into freestanding derivatives to hedge the market risks inherent in the GMLB Liabilities. Generally, the same market factors that impact the estimated fair value of the guarantee rider embedded derivatives impact the value of the hedges, though in the opposite direction. However, the changes in value of the GMLB Liabilities and related hedges may not be symmetrical and the divergence could be significant due to certain factors, such as the guarantee riders accounted for as insurance are not recognized at estimated fair value and there are unhedged risks within the GMLB Liabilities. We may also use reinsurance to manage our exposure related to the GMLB Liabilities.

GMLB Fees. We earn fees from the guarantee rider benefits, which are calculated based on the policyholder’s Benefit Base. Fees calculated based on the Benefit Base are more stable in market downturns, 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 the guarantee riders to fund the reserves, future claims and costs associated with the hedges of market risks inherent in these liabilities. For guarantee rider embedded derivatives, the future fees are included in the estimated fair value of the embedded derivative liabilities, with changes recorded in net derivative gains (losses). For guarantee rider benefits accounted for as insurance, while the related fees do affect the valuation of these liabilities, they are not included in the resulting liability values, but are recorded separately in universal life and investment-type policy fees.

GMLB DAC. Changes in the estimated fair value of GMLB Liabilities that are accounted for as embedded derivatives result in a corresponding recognition of DAC amortization that generally has an inverse effect on net income (loss), which we refer to as the DAC offset. While the DAC offset is generally the most significant driver of GMLB DAC, it can be impacted by other adjustments including amortization related to guarantee benefit riders accounted for as insurance.

Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018

Comparative results from GMLB Riders were unfavorable by \$2.8 billion, primarily driven by:

- a net unfavorable change in the GMLB hedges; and

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- unfavorable changes in Shield liability reserves,

partially offset by:

- favorable changes in GMLB DAC.

Higher relative equity markets in the current period significantly impacted the following:

- unfavorable changes to the estimated fair value of our GMLB hedges;
- unfavorable changes to the estimated fair value of the Shield liability reserves, net of favorable changes to the estimated fair value of the related hedges; and
- unfavorable changes in GMLB DAC;

partially offset by

- favorable changes to the estimated fair value of the variable annuity liability reserve.

Lower interest rates in the current period significantly impacted the following:

- favorable changes to the estimated fair value of our GMLB hedges; and
- favorable changes to GMLB DAC;

partially offset by

- unfavorable changes to the estimated fair value of variable annuity liability reserves.

The tightening of our credit default swap spreads combined with the decrease in the underlying base liabilities resulted in an unfavorable change in non-performance risk net of a favorable change in the GMLB DAC offset.

The AAR resulted in favorable changes in the current period primarily due to higher reserves recognized in the prior period, net of a corresponding decrease in GMLB DAC relative to the prior period.

Effects of Inflation

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

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

Investments

Investment Risks

Our primary investment objective is to optimize risk-adjusted net investment income and risk-adjusted total return while appropriately matching assets and liabilities. In addition, the investment process is designed to ensure that the portfolio has an appropriate level of liquidity, quality and diversification.

We are exposed to the following primary sources of investment risks:

- credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest;
- interest rate risk, relating to the market price and cash flow variability associated with changes in market interest rates. Changes in market interest rates will impact the net unrealized gain or loss position of our fixed income investment portfolio and the rates of return we receive on both new funds invested and reinvestment of existing funds;
- market valuation risk, relating to the variability in the estimated fair value of investments associated with changes in market factors such as credit spreads and equity market levels. A widening of credit spreads will adversely impact the net unrealized gain (loss) position of the fixed income investment portfolio, will increase losses associated with credit-based non-qualifying derivatives where we assume credit exposure, and, if credit spreads widen significantly or for an extended period of time, will likely result in higher OTTI. Credit spread tightening will reduce net investment income

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associated with new purchases of fixed maturity securities and will favorably impact the net unrealized gain (loss) position of the fixed income investment portfolio;

- liquidity risk, relating to the diminished ability to sell certain investments, in times of strained market conditions;
- real estate risk, relating to commercial, agricultural and residential real estate, and stemming from factors, which include, but are not limited to, market conditions, including the demand and supply of leasable commercial space, creditworthiness of borrowers and their tenants and joint venture partners, capital markets volatility and inherent interest rate movements;
- currency risk, relating to the variability in currency exchange rates for non-U.S. dollar denominated investments; and
- financial and operational risks related to using external investment managers.

We manage these risks through asset-type allocation and industry and issuer diversification. Risk limits are also used to promote diversification by asset sector, avoid concentrations in any single issuer and limit overall aggregate credit and equity risk exposure. Real estate risk is managed through geographic and property type and product type diversification. We manage interest rate risk as part of our Asset Liability Management (“ALM”) strategies. Product design, such as the use of market value adjustment features and surrender charges, is also utilized to manage interest rate risk. These strategies include maintaining an investment portfolio that targets a weighted average duration that reflects the duration of our estimated liability cash flow profile. For certain of our liability portfolios, it is not possible to invest assets to the full liability duration, thereby creating some asset/liability mismatch. We also use certain derivatives in the management of currency, credit, interest rate, and equity market risks.

Investment Management Agreements

Other than our derivatives trading, which we manage in-house, we have engaged a select group of experienced external asset management firms pursuant to several investment management agreements, to manage the investment of the assets comprising our general account portfolio and certain separate account assets of our insurance subsidiaries, as well as assets of BHF and our reinsurance subsidiary, BRCD.

Current Environment

Our business and results of operations are materially affected by conditions in capital markets and the economy, generally. As a U.S. insurance company, we are affected by the monetary policy of the Federal Reserve Board in the United States. The Federal Reserve may increase or decrease the federal funds rate in the future, which may have an impact on the pricing levels of risk-bearing investments and may adversely impact the level of product sales. We are also affected by the monetary policy of central banks around the world due to the diversification of our investment portfolio. See “— Industry Trends and Uncertainties — Financial and Economic Environment.”

Investment Portfolio Results

The following summary yield table presents the yield and adjusted net investment income for our investment portfolio for the periods indicated. As described below, this table reflects certain differences from the presentation of net investment income presented in the GAAP statement of operations. This summary yield table presentation is consistent with how we measure our investment performance for management purposes, and we believe it enhances understanding of our investment portfolio results.

	Years Ended December 31,					
	2019		2018		2017	
	Yield%	Amount	Yield%	Amount	Yield%	Amount
	(Dollars in millions)					
Investment income (1)	4.52 %	\$ 3,686	4.62 %	\$ 3,465	4.59 %	\$ 3,319
Investment fees and expenses (2)	(0.12)	(101)	(0.15)	(113)	(0.15)	(109)
Adjusted net investment income (3), (4)	4.40 %	\$ 3,585	4.47 %	\$ 3,352	4.44 %	\$ 3,210

- (1) Investment income yields are calculated as investment income as a percent of average quarterly asset carrying values. Investment income excludes recognized gains and losses and reflects the adjustments presented in Note 3 below to arrive at adjusted net investment income. Asset carrying values exclude unrealized gains (losses), collateral received in connection with our securities lending program, freestanding derivative assets and collateral received from derivative counterparties.

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- (2) Investment fee and expense yields are calculated as investment fees and expenses as a percent of average quarterly asset estimated fair values. Asset estimated fair values exclude collateral received in connection with our securities lending program, freestanding derivative assets and collateral received from derivative counterparties.
- (3) Adjusted net investment income included in yield calculations includes Investment Hedge Adjustments.
- (4) Adjusted net investment income presented in the yield table varies from the most directly comparable GAAP measure due to certain reclassifications, as presented below.

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Net investment income	\$ 3,579	\$ 3,338	\$ 3,078
Less: Investment hedge adjustments	(6)	(14)	(131)
Less: Other incremental net investment income	—	—	(1)
Adjusted net investment income — in the above yield table	<u>\$ 3,585</u>	<u>\$ 3,352</u>	<u>\$ 3,210</u>

See “— Results of Operations — Consolidated Results — Year Ended December 31, 2019 Compared with the Year Ended December 31, 2018” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Consolidated Results — Year Ended December 31, 2018 Compared with the Year Ended December 31, 2017” in our 2018 Annual Report for an analysis of the year over year changes in net investment income.

Fixed Maturity Securities AFS

The following table presents fixed maturity securities AFS by type (public or private) held at:

	December 31, 2019		December 31, 2018	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
	(Dollars in millions)			
Fixed maturity securities				
Publicly-traded	\$ 58,099	81.8%	\$ 51,939	83.0%
Privately-placed	12,937	18.2	10,669	17.0
Total fixed maturity securities	<u>\$ 71,036</u>	<u>100.0%</u>	<u>\$ 62,608</u>	<u>100.0%</u>
Percentage of cash and invested assets	72.0%		71.7%	

Valuation of Securities. See Note 8 of the Notes to the Consolidated Financial Statements for further information on our valuation controls and procedures including our formal process to challenge any prices received from independent pricing services that are not considered representative of estimated fair value.

Fixed Maturity Securities AFS

See Notes 1 and 6 of the Notes to the Consolidated Financial Statements for information about fixed maturity securities AFS by sector, contractual maturities and continuous gross unrealized losses.

Fixed Maturity Securities Credit Quality — Ratings

Rating agency ratings are based on availability of applicable ratings from rating agencies on the NAIC credit rating provider list, including Moody’s, S&P, Fitch, Dominion Bond Rating Service and Kroll Bond Rating Agency. If no rating is available from a rating agency, then an internally developed rating is used.

The NAIC has methodologies to assess credit quality for certain Structured Securities comprised of non-agency RMBS, CMBS and ABS. The NAIC’s objective with these methodologies is to increase the accuracy in assessing expected losses, and to use the improved assessment to determine a more appropriate capital requirement for such Structured Securities. The methodologies reduce regulatory reliance on rating agencies and allow for greater regulatory input into the assumptions used to estimate expected losses from Structured Securities. We apply the NAIC methodologies to Structured Securities held by our insurance subsidiaries. The NAIC’s present methodology is to evaluate Structured Securities held by insurers on an annual basis. If our insurance subsidiaries acquire Structured Securities that have not been previously evaluated by the NAIC but are expected to be evaluated by the NAIC in the upcoming annual review, an internally developed designation is used until a final designation becomes available.

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The following table presents total fixed maturity securities by NRSRO rating and the applicable NAIC designation from the NAIC published comparison of NRSRO ratings to NAIC designations, except for certain Structured Securities, which are presented using the revised NAIC methodologies, as well as the percentage, based on estimated fair value that each NAIC designation is comprised of at:

NAIC Designation	NRSRO Rating	December 31, 2019				December 31, 2018			
		Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value	% of Total	Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value	% of Total
(Dollars in millions)									
1	Aaa/Aa/A	\$ 41,463	\$ 5,252	\$ 46,715	65.8%	\$ 40,218	\$ 1,954	\$ 42,172	67.4%
2	Baa	19,838	1,610	21,448	30.2	17,656	(122)	17,534	28.0
Subtotal investment grade		61,301	6,862	68,163	96.0	57,874	1,832	59,706	95.4
3	Ba	2,015	72	2,087	2.9	2,160	(87)	2,073	3.3
4	B	673	23	696	1.0	787	(48)	739	1.2
5	Caa and lower	90	—	90	0.1	99	(9)	90	0.1
6	In or near default	—	—	—	—	—	—	—	—
Subtotal below investment grade		2,778	95	2,873	4.0	3,046	(144)	2,902	4.6
Total fixed maturity securities		\$ 64,079	\$ 6,957	\$ 71,036	100.0%	\$ 60,920	\$ 1,688	\$ 62,608	100.0%

The following tables present total fixed maturity securities, based on estimated fair value, by sector classification and by NRSRO rating and the applicable NAIC designations from the NAIC published comparison of NRSRO ratings to NAIC designations, except for certain Structured Securities, which are presented using the NAIC methodologies as described above:

Fixed Maturity Securities — by Sector & Credit Quality Rating									
NAIC Designation:	1	2	3	4	5	6	Total		
NRSRO Rating:	Aaa/Aa/A	Baa	Ba	B	Caa and Lower	In or Near Default	Estimated Fair Value		
(In millions)									
December 31, 2019									
U.S. corporate	\$ 15,313	\$ 13,770	\$ 1,479	\$ 556	\$ 42	\$ —	\$ 31,160		
Foreign corporate	3,162	6,113	466	90	13	—	9,844		
RMBS	9,020	59	15	3	21	—	9,118		
U.S. government and agency	7,303	93	—	—	—	—	7,396		
CMBS	5,612	126	6	11	—	—	5,755		
State and political subdivision	3,863	185	—	—	9	—	4,057		
ABS	1,696	240	19	—	—	—	1,955		
Foreign government	746	862	102	36	5	—	1,751		
Total fixed maturity securities	\$ 46,715	\$ 21,448	\$ 2,087	\$ 696	\$ 90	\$ —	\$ 71,036		
December 31, 2018									
U.S. corporate	\$ 11,277	\$ 11,118	\$ 1,417	\$ 635	\$ 26	\$ —	\$ 24,473		
Foreign corporate	2,427	5,089	427	70	13	—	8,026		
RMBS	8,395	40	58	6	48	—	8,547		
U.S. government and agency	8,921	174	—	—	—	—	9,095		
CMBS	5,183	57	6	2	—	—	5,248		
State and political subdivision	3,437	156	1	—	3	—	3,597		
ABS	1,851	244	30	1	—	—	2,126		
Foreign government	681	656	134	25	—	—	1,496		
Total fixed maturity securities	\$ 42,172	\$ 17,534	\$ 2,073	\$ 739	\$ 90	\$ —	\$ 62,608		

U.S. and Foreign Corporate Fixed Maturity Securities

We maintain a diversified portfolio of corporate fixed maturity securities across industries and issuers. This portfolio does not have any exposure to any single issuer in excess of 1% of total investments and the top ten holdings in aggregate comprise 2% of total investments at both December 31, 2019 and 2018. The tables below present our U.S. and foreign corporate securities holdings by industry at:

	December 31, 2019		December 31, 2018	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
(Dollars in millions)				
Industrial	\$ 12,633	30.9%	\$ 9,896	30.4%
Consumer	9,719	23.7	8,290	25.5
Finance	9,448	23.0	7,209	22.2
Utility	6,247	15.2	4,770	14.7
Communications	2,957	7.2	2,334	7.2
Total	\$ 41,004	100.0%	\$ 32,499	100.0%

Structured Securities

We held \$16.8 billion and \$15.9 billion of Structured Securities, at estimated fair value, at December 31, 2019 and 2018, respectively, as presented in the RMBS, CMBS and ABS sections below.

RMBS

The following table presents our RMBS holdings at:

	December 31, 2019			December 31, 2018		
	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)
(Dollars in millions)						
By security type:						
Collateralized mortgage obligations	\$ 4,857	53.3%	\$ 360	\$ 4,885	57.2%	\$ 174
Pass-through securities	4,261	46.7	66	3,662	42.8	(55)
Total RMBS	\$ 9,118	100.0%	\$ 426	\$ 8,547	100.0%	\$ 119
By risk profile:						
Agency	\$ 7,216	79.2%	\$ 256	\$ 6,396	74.8%	\$ (23)
Prime	141	1.5	9	296	3.5	10
Alt-A	883	9.7	96	938	11.0	79
Sub-prime	878	9.6	65	917	10.7	53
Total RMBS	\$ 9,118	100.0%	\$ 426	\$ 8,547	100.0%	\$ 119
Ratings profile:						
Rated Aaa	\$ 7,329	80.4%		\$ 6,529	76.4%	
Designated NAIC 1	\$ 9,020	98.9%		\$ 8,395	98.2%	

Historically, our exposure to sub-prime RMBS holdings has been managed by focusing primarily on senior tranche securities, stress-testing the portfolio with severe loss assumptions and closely monitoring the performance of the portfolio. Our sub-prime RMBS portfolio consists predominantly of securities that were purchased after 2012 at significant discounts to par value and discounts to the expected principal recovery value of these securities. The vast majority of these securities are investment grade under the NAIC designations (e.g., NAIC 1 and NAIC 2). The estimated fair value of our sub-prime RMBS holdings purchased since 2012 was \$851 million and \$883 million at December 31, 2019 and 2018, respectively, with unrealized gains (losses) of \$61 million and \$50 million at December 31, 2019 and 2018, respectively.

CMBS

Our CMBS holdings are diversified by vintage year. The following tables present our CMBS holdings by vintage year at:

	December 31, 2019		December 31, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In millions)			
2003 - 2010	\$ 109	\$ 123	\$ 177	\$ 177
2011	223	223	297	293
2012	138	141	263	262
2013	199	205	290	290
2014	332	346	526	519
2015	938	977	1,076	1,059
2016	480	497	582	568
2017	683	717	696	686
2018	1,580	1,700	1,385	1,394
2019	818	826	—	—
Total	\$ 5,500	\$ 5,755	\$ 5,292	\$ 5,248

The estimated fair value of CMBS rated Aaa using rating agency ratings was \$4.3 billion, or 74.9% of total CMBS, and designated NAIC 1 was \$5.6 billion, or 97.5% of total CMBS, at December 31, 2019. The estimated fair value of CMBS Aaa rating agency ratings was \$3.5 billion, or 66.9% of total CMBS, and designated NAIC 1 was \$5.2 billion, or 98.8% of total CMBS, at December 31, 2018.

ABS

Our ABS are diversified both by collateral type and by issuer. The following table presents our ABS holdings at:

	December 31, 2019			December 31, 2018		
	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)	Estimated Fair Value	% of Total	Net Unrealized Gains (Losses)
	(Dollars in millions)					
By collateral type:						
Collateralized obligations	\$ 1,058	54.2%	\$ (8)	\$ 1,010	47.5%	\$ (18)
Student loans	196	10.0	2	186	8.7	3
Consumer loans	171	8.7	2	193	9.1	1
Automobile loans	114	5.8	2	199	9.4	—
Credit card loans	60	3.1	3	136	6.4	2
Other loans	356	18.2	9	402	18.9	3
Total	\$ 1,955	100.0%	\$ 10	\$ 2,126	100.0%	\$ (9)
Ratings profile:						
Rated Aaa	\$ 879	45.0%		\$ 956	45.0%	
Designated NAIC 1	\$ 1,696	86.8%		\$ 1,851	87.1%	

Evaluation of AFS Securities for OTTI and Temporary Impairment

See Note 6 of the Notes to the Consolidated Financial Statements for information about the evaluation of fixed maturity securities AFS for OTTI and temporary impairment.

Securities Lending

We participate in a securities lending program whereby securities are loaned to third parties, primarily brokerage firms and commercial banks. We obtain collateral, usually cash, in an amount generally equal to 102% of the estimated fair value of the securities loaned, which is obtained at the inception of a loan and maintained at a level greater than or equal to 100% for the

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duration of the loan. We monitor the estimated fair value of the securities loaned on a daily basis with additional collateral obtained as necessary throughout the duration of the loan. Securities loaned under such transactions may be sold or re-pledged by the transferee. We are liable to return to our counterparties the cash collateral under our control. Security collateral received from counterparties may not be sold or re-pledged, unless the counterparty is in default, and is not reflected in the financial statements. These transactions are treated as financing arrangements and the associated cash collateral liability is recorded at the amount of the cash received.

See “— Liquidity and Capital Resources — The Company — Liquidity and Capital Uses — Securities Lending” and Note 6 of the Notes to the Consolidated Financial Statements for information regarding our securities lending program.

Mortgage Loans

Our mortgage loans are principally collateralized by commercial, agricultural and residential properties. Mortgage loans and the related valuation allowances are summarized as follows at:

	December 31, 2019				December 31, 2018			
	Recorded Investment	% of Total	Valuation Allowance	% of Recorded Investment	Recorded Investment	% of Total	Valuation Allowance	% of Recorded Investment
(Dollars in millions)								
Commercial	\$ 9,721	61.5%	\$ 47	0.5%	\$ 8,529	62.0%	\$ 42	0.5%
Agricultural	3,388	21.4	10	0.3%	2,946	21.4	9	0.3%
Residential	2,708	17.1	7	0.3%	2,276	16.6	6	0.3%
Total	<u>\$ 15,817</u>	<u>100.0%</u>	<u>\$ 64</u>	0.4%	<u>\$ 13,751</u>	<u>100.0%</u>	<u>\$ 57</u>	0.4%

We diversify our mortgage loan portfolio by both geographic region and property type to reduce the risk of concentration. For our commercial and agricultural mortgage loan portfolios, the percentage collateralized by properties located in the U.S. were 97% at both December 31, 2019 and 2018. The remainder was collateralized by properties located outside of the U.S. The carrying value as a percentage of total commercial and agricultural mortgage loans for the top three states in the U.S. is as follows at:

State	December 31, 2019
California	24%
New York	12%
Florida	8%

Additionally, we manage risk when originating commercial and agricultural mortgage loans by generally lending up to 75% of the estimated fair value of the underlying real estate collateral.

We manage our residential mortgage loan portfolio in a similar manner to reduce risk of concentration. All residential mortgage loans were collateralized by properties located in the U.S. at both December 31, 2019 and 2018. The carrying value as a percentage of total residential mortgage loans for the top three states in the U.S. is as follows at:

State	December 31, 2019
California	37%
Florida	9%
New York	6%

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Commercial Mortgage Loans by Geographic Region and Property Type. Commercial mortgage loans are the largest component of the mortgage loan invested asset class. The tables below present the diversification across geographic regions and property types of commercial mortgage loans at:

	December 31, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
(Dollars in millions)				
Region				
Pacific	\$ 2,666	27.4%	\$ 2,550	29.9%
South Atlantic	1,887	19.4	1,316	15.5
Middle Atlantic	1,875	19.3	1,867	21.9
West South Central	809	8.3	801	9.4
Mountain	668	6.9	404	4.7
East North Central	555	5.7	473	5.5
International	494	5.1	389	4.5
New England	412	4.2	397	4.7
West North Central	125	1.3	127	1.5
East South Central	85	0.9	59	0.7
Multi-region and Other	145	1.5	146	1.7
Total recorded investment	9,721	100.0%	8,529	100.0%
Less: valuation allowances	47		42	
Carrying value, net of valuation allowances	\$ 9,674		\$ 8,487	
Property Type				
Office	\$ 3,839	39.5%	\$ 3,810	44.6%
Apartment	2,181	22.4	1,480	17.4
Retail	2,115	21.8	2,064	24.2
Hotel	930	9.6	744	8.7
Industrial	626	6.4	400	4.7
Other	30	0.3	31	0.4
Total recorded investment	9,721	100.0%	8,529	100.0%
Less: valuation allowances	47		42	
Carrying value, net of valuation allowances	\$ 9,674		\$ 8,487	

Mortgage Loan Credit Quality — Monitoring Process. Our investment managers monitor our mortgage loan investments on an ongoing basis, including a review of loans that are current, past due, restructured and under foreclosure. Quarterly, we conduct a formal review of the portfolio with our investment managers. See Note 6 of the Notes to the Consolidated Financial Statements for information on mortgage loans by credit quality indicator, past due and nonaccrual mortgage loans, as well as impaired mortgage loans.

Our investment managers review our commercial mortgage loans on an ongoing basis. These reviews may include an analysis of the property financial statements and rent roll, lease rollover analysis, property inspections, market analysis, estimated valuations of the underlying collateral, loan-to-value ratios, debt-service coverage ratios and tenant creditworthiness. The monitoring process focuses on higher risk loans, which include those that are classified as restructured, delinquent or in foreclosure, as well as loans with higher loan-to-value ratios and lower debt-service coverage ratios. The monitoring process for agricultural mortgage loans is generally similar, with a focus on higher risk loans, such as loans with higher loan-to-value ratios, including reviews on a geographic and sector basis. We review our residential mortgage loans on an ongoing basis. See Note 6 of the Notes to the Consolidated Financial Statements for information on our evaluation of residential mortgage loans and related valuation allowance methodology.

Loan-to-value ratios and debt-service coverage ratios are common measures in the assessment of the quality of commercial mortgage loans. Loan-to-value ratios are a common measure in the assessment of the quality of agricultural mortgage loans. Loan-to-value ratios compare the amount of the loan to the estimated fair value of the underlying collateral. A loan-to-value

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ratio greater than 100% indicates that the loan amount is greater than the collateral value. A loan-to-value ratio of less than 100% indicates an excess of collateral value over the loan amount. Generally, the higher the loan-to-value ratio, the higher the risk of experiencing a credit loss. The debt-service coverage ratio compares a property's net operating income to amounts needed to service the principal and interest due under the loan. Generally, the lower the debt-service coverage ratio, the higher the risk of experiencing a credit loss. For our commercial mortgage loans, our average loan-to-value ratio was 53% and 52% at December 31, 2019 and 2018, respectively, and our average debt-service coverage ratio was 2.2x at both December 31, 2019 and 2018. The debt-service coverage ratio, as well as the values utilized in calculating the ratio, is updated annually on a rolling basis, with a portion of the portfolio updated each quarter. In addition, the loan-to-value ratio is routinely updated for all but the lowest risk loans as part of our ongoing review of our commercial mortgage loan portfolio. For our agricultural mortgage loans, our average loan-to-value ratio was 47% and 46% at December 31, 2019 and 2018, respectively. The values utilized in calculating the agricultural mortgage loan loan-to-value ratio are developed in connection with the ongoing review of the agricultural loan portfolio and are routinely updated.

Mortgage Loan Valuation Allowances. See Notes 6 and 8 of the Notes to the Consolidated Financial Statements for information about how valuation allowances are established and monitored, activity in and balances of the valuation allowance, and the estimated fair value of impaired mortgage loans and related impairments included within net investment gains (losses) at and for the years ended December 31, 2019 and 2018.

Limited Partnerships and Limited Liability Companies

The following table presents the carrying value of our limited partnerships and limited liability companies ("LLCs") at:

	December 31, 2019	December 31, 2018
	(In millions)	
Other limited partnerships interests	\$ 1,941	\$ 1,840
Real estate limited partnerships and limited liability companies (1)	439	451
Total	\$ 2,380	\$ 2,291

(1) The estimated fair value of real estate limited partnerships and LLCs was \$529 million and \$572 million at December 31, 2019 and 2018, respectively.

Cash distributions on these investments are generated from investment gains, operating income from the underlying investments of the funds and liquidation of the underlying investments of the funds. We estimate that the underlying investment of the private equity funds will typically be liquidated over the next 10 to 20 years.

Other Invested Assets

The following table presents the carrying value of our other invested assets by type at:

	December 31, 2019		December 31, 2018	
	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in millions)			
Freestanding derivatives with positive estimated fair values	\$ 3,021	93.9%	\$ 2,778	91.8%
Tax credit and renewable energy partnerships	82	2.6	95	3.1
Leveraged leases, net of non-recourse debt	64	2.0	65	2.1
FHLB stock	39	1.2	64	2.1
Other	10	0.3	25	0.9
Total	\$ 3,216	100.0%	\$ 3,027	100.0%

Derivatives

Derivative Risks

We are exposed to various risks relating to our ongoing business operations, including interest rate, foreign currency exchange rate, credit and equity market. We use a variety of strategies to manage these risks, including the use of derivatives. See Note 7 of the Notes to the Consolidated Financial Statements:

- A comprehensive description of the nature of our derivatives, including the strategies for which derivatives are used in managing various risks.
- Information about the gross notional amount, estimated fair value, and primary underlying risk exposure of our derivatives by type of hedge designation, excluding embedded derivatives held at December 31, 2019 and 2018.
- The statement of operations effects of derivatives in cash flow, fair value, or non-qualifying hedge relationships for the years ended December 31, 2019, 2018 and 2017.

See “— Risk Management Strategies” and “Business — Segments and Corporate & Other — Annuities” for more information about our use of derivatives by major hedging programs, as well as “— Results of Operations — Annual Actuarial Review.”

Fair Value Hierarchy

See Note 8 of the Notes to the Consolidated Financial Statements for derivatives measured at estimated fair value on a recurring basis and their corresponding fair value hierarchy.

The valuation of Level 3 derivatives involves the use of significant unobservable inputs and generally requires a higher degree of management judgment or estimation than the valuations of Level 1 and Level 2 derivatives. Although Level 3 inputs are unobservable, management believes they are consistent with what other market participants would use when pricing such instruments and are considered appropriate given the circumstances. The use of different inputs or methodologies could have a material effect on the estimated fair value of Level 3 derivatives and could materially affect net income.

Derivatives categorized as Level 3 at December 31, 2019 include: credit default swaps priced using unobservable credit spreads, or that are priced through independent broker quotations; equity variance swaps with unobservable volatility inputs; foreign currency swaps with certain unobservable inputs and equity index options with unobservable correlation inputs.

See Note 8 of the Notes to Consolidated Financial Statements for a rollforward of the fair value measurements for derivatives measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs.

Credit Risk

See Note 7 of the Notes to the Consolidated Financial Statements for information about how we manage credit risk related to derivatives and for the estimated fair value of our net derivative assets and net derivative liabilities after the application of master netting agreements and collateral.

Our policy is not to offset the fair value amounts recognized for derivatives executed with the same counterparty under the same master netting agreement. This policy applies to the recognition of derivatives in the balance sheets and does not affect our legal right of offset.

Credit Derivatives

The following table presents the gross notional amount and estimated fair value of credit default swaps at:

	December 31, 2019		December 31, 2018	
	Gross Notional Amount	Estimated Fair Value	Gross Notional Amount	Estimated Fair Value
(In millions)				
Purchased	\$ 18	\$ —	\$ 98	\$ 3
Written	1,635	36	1,820	11
Total	\$ 1,653	\$ 36	\$ 1,918	\$ 14

The maximum amount at risk related to our written credit default swaps is equal to the corresponding gross notional amount. In a replication transaction, we pair an asset on our balance sheet with a written credit default swap to synthetically replicate a corporate bond, a core asset holding of life insurance companies. Replications are entered into in accordance with the guidelines approved by state insurance regulators and the NAIC and are an important tool in managing the overall corporate credit risk

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within the Company. In order to match our long-dated insurance liabilities, we seek to buy long-dated corporate bonds. In some instances, these may not be readily available in the market, or they may be issued by corporations to which we already have significant corporate credit exposure. For example, by purchasing Treasury bonds (or other high-quality assets) and associating them with written credit default swaps on the desired corporate credit name, we can replicate the desired bond exposures and meet our ALM needs. This can expose the Company to changes in credit spreads as the written credit default swap tenor is shorter than the maturity of Treasury bonds.

Embedded Derivatives

See Note 8 of the Notes to the Consolidated Financial Statements for information about embedded derivatives measured at estimated fair value on a recurring basis and their corresponding fair value hierarchy.

See Note 8 of the Notes to the Consolidated Financial Statements for a rollforward of the fair value measurements for net embedded derivatives measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs.

See Note 7 of the Notes to the Consolidated Financial Statements for information about the nonperformance risk adjustment included in the valuation of guaranteed minimum benefits accounted for as embedded derivatives.

See “— Summary of Critical Accounting Estimates — Derivatives” for further information on the estimates and assumptions that affect embedded derivatives.

Off-Balance Sheet Arrangements

Collateral for Securities Lending and Derivatives

We have a securities lending program for the purpose of enhancing the total return on our investment portfolio. Periodically we receive non-cash collateral for securities lending from counterparties, which cannot be sold or re-pledged, and which is not recorded on our consolidated balance sheets. The Company did not hold non-cash collateral at December 31, 2019. The amount of this collateral was \$55 million at estimated fair value at December 31, 2018. See Note 6 of the Notes to the Consolidated Financial Statements, as well as “— Investments — Securities Lending” for discussion of our securities lending program, the classification of revenues and expenses, and the nature of the secured financing arrangement and associated liability.

We enter into derivatives to manage various risks relating to our ongoing business operations. We have non-cash collateral from counterparties for derivatives, which can be sold or re-pledged subject to certain constraints, and which has not been recorded on our consolidated balance sheets. The amount of this non-cash collateral was \$593 million and \$145 million at December 31, 2019 and 2018, respectively. See Note 7 of the Notes to the Consolidated Financial Statements for information regarding the earned income on and the gross notional amount, estimated fair value of assets and liabilities and primary underlying risk exposure of our derivatives.

Guarantees

See “Guarantees” in Note 15 of the Notes to the Consolidated Financial Statements.

Other

Additionally, we enter into commitments for the purpose of enhancing the total return on our investment portfolio: mortgage loan commitments and commitments to fund partnership investments, bank credit facilities and private corporate bond investments. See Note 6 of the Notes to the Consolidated Financial Statements for information on the investment income, investment expense, gains and losses from such investments. See also “— Investments — Fixed Maturity and Equity Securities AFS” and “— Investments — Mortgage Loans” for information on our investments in fixed maturity securities and mortgage loans. See “— Investments — Real Estate Limited Partnerships and Limited Liability Companies” and “— Investments — Other Limited Partnership Interests” for information on our partnership investments.

Other than the commitments disclosed in Note 15 of the Notes to the Consolidated Financial Statements, there are no other material obligations or liabilities arising from the commitments to fund mortgage loans, partnership investments, bank credit facilities and private corporate bond investments. For further information on commitments to fund partnership investments, mortgage loans, bank credit facilities and private corporate bond investments. See “— Liquidity and Capital Resources — The Company — Contractual Obligations.”

Policyholder Liabilities

We establish, and carry as liabilities, actuarially determined amounts that are calculated to meet policy obligations or to provide for future annuity payments. Amounts for actuarial liabilities are computed and reported in the financial statements in conformity with GAAP. For more details on policyholder liabilities, see “— Summary of Critical Accounting Estimates.”

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Due to the nature of the underlying risks and the uncertainty associated with the determination of actuarial liabilities, we cannot precisely determine the amounts that will ultimately be paid with respect to these actuarial liabilities, and the ultimate amounts may vary from the estimated amounts, particularly when payments may not occur until well into the future.

We periodically review the assumptions supporting our estimates of actuarial liabilities for future policy benefits. We revise estimates, to the extent permitted or required under GAAP, if we determine that future expected experience differs from assumptions used in the development of actuarial liabilities. We charge or credit changes in our liabilities to expenses in the period the liabilities are established or re-estimated. If the liabilities originally established for future benefit payments prove inadequate, we must increase them. Such an increase could adversely affect our earnings and have a material adverse effect on our business, results of operations and financial condition.

We have experienced, and will likely in the future experience, catastrophe losses and possibly acts of terrorism, as well as turbulent financial markets that may have an adverse impact on our business, results of operations, and financial condition. Due to their nature, we cannot predict the incidence, timing, severity or amount of losses from catastrophes and acts of terrorism, but we make broad use of catastrophic and non-catastrophic reinsurance to manage risk from these perils.

Future Policy Benefits

We establish liabilities for amounts payable under insurance policies. See “— Summary of Critical Accounting Estimates — Liability for Future Policy Benefits” and Notes 1 and 3 of the Notes to the Consolidated Financial Statements. A discussion of future policy benefits by segment, as well as Corporate & Other follows.

Annuities

Future policy benefits for the annuities business are comprised mainly of liabilities for life contingent income annuities, and liabilities for the variable annuity guaranteed minimum benefits accounted for as insurance.

Life

Future policy benefits for the life business are comprised mainly of liabilities for traditional life and for universal and variable life insurance contracts. In order to manage risk, we have often reinsured a portion of the mortality risk on life insurance policies. The reinsurance programs are routinely evaluated, and this may result in increases or decreases to existing coverage. We have entered into various derivative positions, primarily interest rate swaps, to mitigate the risk that investment of premiums received and reinvestment of maturing assets over the life of the policy will be at rates below those assumed in the original pricing of these contracts.

Run-off

Future policy benefits primarily include liabilities for structured settlement annuities and pension risk transfers. There is no interest rate crediting flexibility on the liabilities for payout annuities. As a result, a sustained low interest rate environment could negatively impact earnings; however, we mitigate our risks by applying various ALM strategies, including the use of derivative positions, primarily interest rate swaps, to mitigate the risks associated with such a scenario.

Corporate & Other

Future policy benefits primarily include liabilities for long-term care and workers' compensation business reinsured through 100% quota share reinsurance agreements.

Policyholder Account Balances

Policyholder account balances are generally equal to the account value, which includes accrued interest credited, but excludes the impact of any applicable charge that may be incurred upon surrender. See “— Variable Annuity Guarantees” and “Quantitative and Qualitative Disclosures About Market Risk — Market Risk - Fair Value Exposures — Interest Rates.” See Notes 1 and 3 of the Notes to the Consolidated Financial Statements for additional information. A discussion of policyholder account balances by segment, as well as Corporate & Other, follows.

Annuities

Policyholder account balances for annuities are held for fixed deferred annuities, the fixed account portion of variable annuities, and non-life contingent income annuities. Interest is credited to the policyholder's account at interest rates we determine which are influenced by current market rates, subject to specified minimums. A sustained low interest rate environment could negatively impact earnings as a result of the minimum credited rate guarantees present in most of these policyholder account balances. We have various interest rate derivative positions, as part of the Company's macro interest rate hedging program, to partially mitigate the risks associated with such a scenario. Additionally, policyholder account balances are held for variable annuity guaranteed minimum living benefits that are accounted for as embedded derivatives.

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The following table presents the breakdown of account value subject to minimum guaranteed crediting rates for Annuities at:

	December 31, 2019		December 31, 2018	
	Account Value (1)	Account Value at Guarantee (1)	Account Value (1)	Account Value at Guarantee (1)
	(In millions)			
Greater than 0% but less than 2%	\$ 1,287	\$ 770	\$ 1,334	\$ 818
Equal to 2% but less than 4%	\$ 13,495	\$ 12,808	\$ 14,001	\$ 13,221
Equal to or greater than 4%	\$ 489	\$ 489	\$ 509	\$ 509

(1) These amounts are not adjusted for policy loans.

As a result of acquisitions, we establish additional liabilities known as excess interest reserves for policies with credited rates in excess of market rates as of the applicable acquisition dates. Excess interest reserves for Annuities were \$262 million and \$285 million at December 31, 2019 and 2018, respectively.

Life

Life policyholder account balances are held for retained asset accounts, universal life policies and the fixed account of universal variable life insurance policies. Interest is credited to the policyholder's account at interest rates we determine which are influenced by current market rates, subject to specified minimums. A sustained low interest rate environment could negatively impact earnings as a result of the minimum credited rate guarantees present in most of these policyholder account balances. We have various derivative positions to partially mitigate the risks associated with such a scenario.

The following table presents the breakdown of account value subject to minimum guaranteed crediting rates for Life at:

	December 31, 2019		December 31, 2018	
	Account Value (1)	Account Value at Guarantee (1)	Account Value (1)	Account Value at Guarantee (1)
	(In millions)			
Greater than 0% but less than 2%	\$ 88	\$ 74	\$ 93	\$ 93
Equal to 2% but less than 4%	\$ 1,111	\$ 509	\$ 1,145	\$ 524
Equal to or greater than 4%	\$ 1,851	\$ 1,851	\$ 1,914	\$ 1,914

(1) These amounts are not adjusted for policy loans.

As a result of acquisitions, we establish additional liabilities known as excess interest reserves for policies with credited rates in excess of market rates as of the applicable acquisition dates. Excess interest reserves for Life were \$33 million and \$22 million at December 31, 2019 and 2018, respectively.

Run-off

Policyholder account balances in Run-off are comprised of ULSG funding agreements and COLI. Interest crediting rates vary by type of contract and can be fixed or variable. Variable interest crediting rates are generally tied to an external index, most commonly (one-month or three-month) LIBOR. We are exposed to interest rate risks, when guaranteeing payment of interest and return on principal at the contractual maturity date. We mitigate our risks by applying various ALM strategies.

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The following table presents the breakdown of account value subject to minimum guaranteed crediting rates for Run-off as of:

	December 31, 2019		December 31, 2018	
	Account Value (1)	Account Value at Guarantee (1)	Account Value (1)	Account Value at Guarantee (1)
(In millions)				
Universal Life Secondary Guarantee				
Greater than 0% but less than 2%	\$ —	\$ —	\$ —	\$ —
Equal to 2% but less than 4%	\$ 5,440	\$ 1,802	\$ 5,570	\$ 802
Equal to or greater than 4%	\$ 578	\$ 578	\$ 584	\$ 584

(1) These amounts are not adjusted for policy loans.

As a result of acquisitions, we establish additional liabilities known as excess interest reserves for policies with credited rates in excess of market rates as of the applicable acquisition dates. Excess interest reserves for Run-off were \$95 million and \$62 million at December 31, 2019 and 2018, respectively.

Variable Annuity Guarantees

We issue certain variable annuity products with guaranteed minimum benefits that provide the policyholder a minimum return based on their initial deposit (i.e., the Benefit Base) less withdrawals. In some cases, the Benefit Base may be increased by additional deposits, bonus amounts, accruals or optional market value step-ups.

Certain of our variable annuity guarantee features are accounted for as insurance liabilities and recorded in future policy benefits while others are accounted for at fair value as embedded derivatives and recorded in policyholder account balances. Generally speaking, a guarantee is accounted for as an insurance liability if the guarantee is paid only upon either (i) the occurrence of a specific insurable event, or (ii) annuitization. Alternatively, a guarantee is accounted for as an embedded derivative if a guarantee is paid without requiring (i) the occurrence of specific insurable event, or (ii) the policyholder to annuitize, that is, the policyholder can receive the guarantee on a net basis. In certain cases, a guarantee may have elements of both an insurance liability and an embedded derivative and in such cases the guarantee is split and accounted for under both models. Further, changes in assumptions, principally involving behavior, can result in a change of expected future cash outflows of a guarantee between portions accounted for as insurance liabilities and portions accounted for as embedded derivatives.

Guarantees accounted for as insurance liabilities in future policy benefits include GMDBs, the life contingent portion of the GMWBs and the portion of the GMIBs that require annuitization, as well as the life contingent portion of the expected annuitization when the policyholder is forced into an annuitization upon depletion of their account value.

These insurance liabilities are accrued over the accumulation phase of the contract in proportion to actual and future expected policy assessments based on the level of guaranteed minimum benefits generated using multiple scenarios of separate account returns. The scenarios are based on best estimate assumptions consistent with those used to amortize DAC. When current estimates of future benefits exceed those previously projected or when current estimates of future assessments are lower than those previously projected, liabilities will increase, resulting in a current period charge to net income. The opposite result occurs when the current estimates of future benefits are lower than those previously projected or when current estimates of future assessments exceed those previously projected. At each reporting period, we update the actual amount of business remaining in-force, which impacts expected future assessments and the projection of estimated future benefits resulting in a current period charge or increase to earnings. See Note 3 of the Notes to the Consolidated Financial Statements for additional details of guarantees accounted for as insurance liabilities.

Guarantees accounted for as embedded derivatives in policyholder account balances include the non-life contingent portion of GMWBs, GMABs, and for GMIBs the non-life contingent portion of the expected annuitization when the policyholder is forced into an annuitization upon depletion of their account value, as well as the Guaranteed Principal Option.

The estimated fair values of guarantees accounted for as embedded derivatives are determined based on the present value of projected future benefits minus the present value of projected future fees. At policy inception, we attribute to the embedded derivative a portion of the projected future guarantee fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits. Any additional fees represent "excess" fees and are reported in universal life and investment-type product policy fees. In valuing the embedded derivative, the percentage of fees included in the fair value measurement is locked-in at inception.

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The projections of future benefits and future fees require capital market and actuarial assumptions including expectations concerning policyholder behavior. A risk neutral valuation methodology is used to project the cash flows from the guarantees under multiple capital market scenarios to determine an economic liability. The reported estimated fair value is then determined by taking the present value of these risk-free generated cash flows using a discount rate that incorporates a spread over the risk-free rate to reflect our nonperformance risk and adding a risk margin. For more information on the determination of estimated fair value. See Note 8 of the Notes to the Consolidated Financial Statements.

Liquidity and Capital Resources

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility or disruptions in global capital markets, particular markets or financial asset classes can impact us adversely, in part because we have a large investment portfolio and our insurance liabilities and derivatives are sensitive to changing market factors. Changing conditions in the global capital markets and the economy may affect our financing costs and market interest rates for our debt or equity securities. For further information regarding market factors that could affect our ability to meet liquidity and capital needs, see “— Industry Trends and Uncertainties” and “— Investments — Current Environment.”

Liquidity and Capital Management

Based upon our capitalization, expectations regarding maintaining our business mix, ratings and funding sources available to us, we believe we have sufficient liquidity to meet business requirements under current market conditions and certain stress scenarios. Our Board of Directors and senior management are directly involved in the governance of the capital management process, including proposed changes to the annual capital plan and capital targets. We are targeting a debt-to-capital ratio commensurate with our parent company credit ratings and our insurance subsidiaries’ financial strength ratings. We continuously monitor and adjust our liquidity and capital plans in light of market conditions, as well as changing needs and opportunities.

We maintain a substantial short-term liquidity position, which was \$2.8 billion and \$2.2 billion at December 31, 2019 and 2018, respectively. Short-term liquidity is comprised of cash and cash equivalents and short-term investments, excluding assets that are pledged or otherwise committed. Assets pledged or otherwise committed include amounts received in connection with securities lending, derivatives and assets held on deposit or in trust.

An integral part of our liquidity management includes managing our level of liquid assets, which was \$42.6 billion and \$36.5 billion at December 31, 2019 and 2018, respectively. Liquid assets are comprised of cash and cash equivalents, short-term investments and publicly-traded securities, excluding assets that are pledged or otherwise committed. Assets pledged or otherwise committed include amounts received in connection with securities lending, derivatives and assets held on deposit or in trust.

The Company

Liquidity

Liquidity refers to our ability to generate adequate cash flows from our normal operations to meet the cash requirements of our operating, investing and financing activities. We determine our liquidity needs based on a rolling 12-month forecast by portfolio of invested assets which we monitor daily. We adjust the general account asset and derivatives mix and general account asset maturities based on this rolling 12-month forecast. To support this forecast, we conduct cash flow and stress-testing, which reflect the impact of various scenarios, including (i) the potential increase in our requirement to pledge additional collateral or return collateral to our counterparties, (ii) a reduction in new business sales, and (iii) the risk of early contract holder and policyholder withdrawals, as well as lapses and surrenders of existing policies and contracts. We include provisions limiting withdrawal rights in many of our products, which deter the customer from making withdrawals prior to the maturity date of the product. If significant cash is required beyond our anticipated liquidity needs, we have various alternatives available depending on market conditions and the amount and timing of the liquidity need. These available alternative sources of liquidity include cash flows from operations, sales of liquid assets and funding sources including secured funding agreements, unsecured credit facilities and secured committed facilities.

Under certain adverse market and economic conditions, our access to liquidity may deteriorate, or the cost to access liquidity may increase. See “Risk Factors — Economic Environment and Capital Markets-Related Risks — Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs and our access to capital.”

Capital

We manage our capital position to maintain our financial strength and credit ratings. Our capital position is supported by our ability to generate cash flows within our insurance companies, our ability to effectively manage the risks of our businesses and our expected ability to borrow funds and raise additional capital to meet operating and growth needs in the event of adverse market and economic conditions.

We target to maintain a debt-to-capital ratio of approximately 25%, which we monitor using an average of our key leverage ratios as calculated by A.M. Best, Fitch, Moody's and S&P. As such, we may opportunistically look to pursue additional financing over time, which may include the incurrence of additional term loans, borrowings under credit facilities, the issuance of debt, equity or hybrid securities or the refinancing of existing indebtedness. There can be no assurance that we will be able to complete any such financing transactions on terms and conditions favorable to us or at all.

Additionally, with our early adoption of VA Reform, our management of and hedging strategy associated with our variable annuity business aligns with the new regulatory framework. Given this alignment and the fact that we have a large non-variable annuity business, we have shifted our focus on capital metrics from a CTE target to a combined RBC ratio target. In support of our target combined RBC ratio between 400% and 450%, we expect to continue to maintain a capital and exposure risk management program that targets total assets supporting our variable annuity contracts at or above the CTE98 level in normal market conditions. We refer to our target level of assets as our "Variable Annuity Target Funding Level." While total assets supporting our variable annuity capital may exceed the CTE98 level, under stressed conditions we intend to allow such assets supporting our variable annuities to range between a target floor level of CTE95 and CTE98. At December 31, 2019, we held approximately \$11.1 billion of total assets supporting our variable annuity contracts, which equals approximately \$1.7 billion above CTE98 and \$3.3 billion above CTE95.

In August 2018, we authorized the repurchase of up to \$200 million of our common stock, on May 3, 2019, we authorized the repurchase of up to an additional \$400 million of our common stock, and on February 6, 2020, we authorized the repurchase of up to an additional \$500 million of our common stock. No common stock repurchases have been made under the February 6, 2020 authorization as of February 26, 2020. Future repurchases may be made through open market purchases, including pursuant to 10b5-1 plans or pursuant to accelerated stock repurchase plans, or through privately negotiated transactions, from time to time at management's discretion in accordance with applicable legal requirements. Common stock repurchases are dependent upon several factors, including our capital position, liquidity, financial strength and credit ratings, general market conditions, the market price of our common stock compared to management's assessment of the stock's underlying value and applicable regulatory approvals, as well as other legal and accounting factors.

We currently have no plans to declare and pay dividends on our common stock. Any future declaration and payment of dividends or other distributions or returns of capital will be at the discretion of our Board of Directors and will depend on and be subject to our financial condition, results of operations, cash needs, regulatory and other constraints, capital requirements (including capital requirements of our subsidiaries), contractual restrictions and any other factors that our Board of Directors deems relevant in making such a determination. Therefore, there can be no assurance that we will pay any dividends or make other distributions or returns of capital on our common stock, or as to the amount of any such dividends, distributions or returns of capital.

Rating Agencies

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

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Our financial strength ratings as of the date of this filing are indicated in the following table. All financial strength ratings have a stable outlook.

	A.M. Best	Fitch	Moody's	S&P
	<i>"A++ (superior)" to "S (suspended)"</i>	<i>"AAA (exceptionally strong)" to "C (distressed)"</i>	<i>"Aaa (highest quality)" to "C (lowest rated)"</i>	<i>"AAA (extremely strong)" to "SD (Selective Default)" or "D (Default)"</i>
Brighthouse Life Insurance Company	A 3rd of 16	A 6th of 19	A3 7th of 21	A+ 5th of 22
New England Life Insurance Company	A 3rd of 16	A 6th of 19	A3 7th of 21	A+ 5th of 22
Brighthouse Life Insurance Company of NY	A 3rd of 16	NR	NR	A+ 5th of 22

NR = Not rated

Our long-term issuer credit ratings as of the date of this filing are indicated in the following table. All long-term issuer credit ratings have a stable outlook.

	A.M. Best	Fitch	Moody's	S&P
	<i>"aaa (Exceptional)" to "S (suspended)"</i>	<i>"AAA (highest credit quality)" to "D (default)"</i>	<i>"Aaa (highest quality)" to "C (lowest rated)"</i>	<i>"AAA (extremely strong)" to "SD (Selective Default)" or "D (Default)"</i>
Brighthouse Financial, Inc. (1)	bbb+	BBB+	Baa3	BBB+
Brighthouse Holdings, LLC (1)	bbb+	BBB+	Baa3	BBB+

(1) Long-term Issuer Credit Rating refers to issuer credit rating, issuer default rating, long-term issuer rating and long-term counterparty credit rating for A.M. Best, Fitch, Moody's and S&P, respectively.

Additional information about financial strength ratings and credit ratings can be found on the respective websites of the rating agencies.

Rating agencies may continue to review and adjust our ratings. See "Risk Factors — Risks Related to Our Business — A downgrade or a potential downgrade in our financial strength or credit ratings could result in a loss of business and materially adversely affect our financial condition and results of operations" for an in-depth description of the impact of a ratings downgrade.

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Sources and Uses of Liquidity and Capital

Our primary sources and uses of liquidity and capital are summarized as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Sources:			
Operating activities, net	\$ 1,828	\$ 3,062	\$ 3,396
Changes in policyholder account balances, net	4,823	2,986	1,887
Changes in payables for collateral under securities loaned and other transactions, net	—	888	—
Long-term debt issued	1,000	375	3,588
Preferred stock issued, net of issuance costs	412	—	—
Cash received from MetLife, Inc. in connection with shareholder's net investment	—	—	293
Total sources	<u>8,063</u>	<u>7,311</u>	<u>9,164</u>
Uses:			
Investing activities, net	7,341	4,538	3,915
Changes in payables for collateral under securities loaned and other transactions, net	666	—	3,147
Long-term debt repaid	602	9	13
Dividends on preferred stock	21	—	—
Collateral financing arrangements repaid	—	—	2,797
Treasury stock acquired in connection with share repurchases	442	105	—
Distribution to MetLife, Inc.	—	—	1,798
Cash paid to MetLife, Inc. in connection with shareholder's net investment	—	—	668
Financing element on certain derivative instruments and other derivative related transactions, net	203	303	149
Other, net	56	68	48
Total uses	<u>9,331</u>	<u>5,023</u>	<u>12,535</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (1,268)</u>	<u>\$ 2,288</u>	<u>\$ (3,371)</u>

Cash Flows from Operating Activities

The principal cash inflows from our insurance activities come from insurance premiums, annuity considerations and net investment income. The principal cash outflows are the result of various annuity and life insurance products, operating expenses and income tax, as well as interest expense. The primary liquidity concern with respect to these cash flows is the risk of early contract holder and policyholder withdrawal.

Cash Flows from Investing Activities

The principal cash inflows from our investment activities come from repayments of principal, proceeds from maturities and sales of investments, as well as settlements of freestanding derivatives. The principal cash outflows relate to purchases of investments and settlements of freestanding derivatives. We typically can have a net cash outflow from investing activities because cash inflows from insurance operations are reinvested in accordance with our ALM discipline to fund insurance liabilities. We closely monitor and manage these risks through our comprehensive investment risk management process. The primary liquidity concerns with respect to these cash flows are the risk of default by debtors and market disruption.

Cash Flows from Financing Activities

The principal cash inflows from our financing activities come from issuances of debt and equity securities, deposits of funds associated with policyholder account balances and lending of securities. The principal cash outflows come from repayments of debt, common stock repurchases, preferred stock dividends, withdrawals associated with policyholder account balances and the return of securities on loan. The primary liquidity concerns with respect to these cash flows are market disruption and the risk of early policyholder withdrawal.

Primary Sources of Liquidity and Capital

In addition to the summary description of liquidity and capital sources discussed in “— Sources and Uses of Liquidity and Capital,” the following additional information is provided regarding our primary sources of liquidity and capital:

Funding Sources

Liquidity is provided by a variety of funding sources, including secured funding agreements, unsecured credit facilities and secured committed facilities. Capital is provided by a variety of funding sources, including issuances of debt and equity securities, as well as borrowings under our credit facilities. We maintain a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a “Well-Known Seasoned Issuer” under SEC rules, our shelf registration statement provides for automatic effectiveness upon filing and has no stated issuance capacity. The diversity of our funding sources enhances our funding flexibility, limits dependence on any one market or source of funds and generally lowers the cost of funds. Our primary funding sources include:

Preferred Stock

On March 25, 2019, BHF issued depositary shares, each representing a 1/1,000th ownership interest in a share of BHF’s perpetual 6.600% Series A non-cumulative preferred stock (the “Series A Preferred Stock”) and in the aggregate representing 17,000 shares of Series A Preferred Stock, with a stated amount of \$25,000 per share, for aggregate net cash proceeds of \$412 million. See Note 10 of the Notes to the Consolidated Financial Statements.

Federal Home Loan Bank Funding Agreements, Reported in Policyholder Account Balances

Brighthouse Life Insurance Company is a member of the Federal Home Loan Bank (“FHLB”) of Atlanta and maintains a funding agreement program with certain FHLBs. At both December 31, 2019 and 2018, Brighthouse Life Insurance Company had obligations outstanding under funding agreements with certain FHLBs of \$595 million. During the years ended December 31, 2019, 2018 and 2017, Brighthouse Life Insurance Company issued \$0, \$0 and \$25 million, respectively, and repaid \$0, \$0 and \$75 million, respectively, under such funding agreements. Activity related to these funding agreements is reported in the Run-off segment.

Farmer Mac Funding Agreements, Reported in Policyholder Account Balances

On February 1, 2019, Brighthouse Life Insurance Company entered into a funding agreement program with the Federal Agricultural Mortgage Corporation and its affiliate Farmer Mac Mortgage Securities Corporation (“Farmer Mac”), pursuant to which the parties may enter into funding agreements in an aggregate amount of up to \$500 million. At December 31, 2019, there were no borrowings under this funding agreement program. Activity related to these funding agreements is reported in the Run-off segment.

Long-term Debt Issued

In September 2018, BHF issued \$375 million of 6.25% unsecured junior subordinated debentures due 2058.

In June 2017, BHF issued \$3.0 billion of unsecured senior notes consisting of (i) \$1.5 billion of 3.70% senior notes due 2027 and (ii) \$1.5 billion of 4.70% senior notes due 2047.

Credit Facilities

On February 1, 2019, BHF entered into a term loan agreement with respect to a \$1.0 billion unsecured term loan facility (as amended, the “2019 Term Loan Facility”) scheduled to mature in February 2024. On February 1, 2019, BHF borrowed \$1.0 billion under the 2019 Term Loan Facility, terminated its former term loan facility due December 2, 2019 (the “2017 Term Loan Facility”) without penalty and repaid \$600 million of borrowings outstanding under the 2017 Term Loan Facility, with the remainder of the proceeds used for general corporate purposes.

On May 7, 2019, BHF entered into an amended and restated revolving credit agreement with respect to a \$1.0 billion senior unsecured revolving credit facility (the “2019 Revolving Credit Facility”) scheduled to mature in May 2024, all of which may be used for revolving loans and/or letters of credit. The 2019 Revolving Credit Facility replaced BHF’s former \$2.0 billion senior unsecured revolving credit facility, which was scheduled to mature in December 2021. At December 31, 2019, there were no borrowings under the 2019 Revolving Credit Facility.

Committed Facilities

Repurchase Facility

In April 2018, Brighthouse Life Insurance Company entered into a secured committed repurchase facility (the “Repurchase Facility”) with a financial institution, pursuant to which Brighthouse Life Insurance Company may enter into repurchase transactions in an aggregate amount of up to \$2.0 billion. The Repurchase Facility has a term ending on July 31, 2021. Under the Repurchase Facility, Brighthouse Life Insurance Company may sell certain eligible securities at a purchase price based on the market value of the securities less an applicable margin based on the types of securities sold, with a concurrent agreement to repurchase such securities at a predetermined future date (ranging from two weeks to three months) and at a price which represents the original purchase price plus interest. At December 31, 2019, there were no borrowings under the Repurchase Facility.

Reinsurance Financing Arrangement

Our reinsurance subsidiary, BRCD, was formed to manage our capital and risk exposures and to support our term and UL/SG businesses through the use of affiliated reinsurance arrangements and related reserve financing. At December 31, 2019, BRCD had a \$10.0 billion financing arrangement with a pool of highly rated third-party reinsurers. This financing arrangement consists of credit-linked notes that each mature in 2037. At December 31, 2019, there were no borrowings under this facility, and there was \$10.0 billion of funding available under this financing arrangement.

BRCD is capitalized with cash and invested assets, including funds withheld (“Minimum Initial Target Assets”) at a level we believe to be sufficient to satisfy its future cash obligations assuming a permanent level yield curve, consistent with NAIC cash flow testing scenarios. BRCD utilizes the above referenced financing arrangement to cover the difference between full required statutory assets (i.e., XXX/AXXX reserves plus target risk margin appropriate to meet capital needs) and Minimum Initial Target Assets. An admitted deferred tax asset, could also serve to reduce the amount of funding required under the above referenced financing arrangement.

Outstanding Long-term Debt

The following table summarizes our outstanding long-term debt at:

	December 31, 2019	December 31, 2018
	(In millions)	
Senior notes (1)	\$ 2,970	\$ 2,968
Term loan	1,000	600
Junior subordinated debentures (1)	363	361
Other long-term debt (2)	32	34
Total long-term debt	\$ 4,365	\$ 3,963

(1) Includes unamortized debt issuance costs and debt discount totaling \$42 million and \$46 million at December 31, 2019 and 2018, respectively, for senior notes and junior subordinated debentures on a combined basis.

(2) Represents non-recourse debt for which creditors have no access, subject to customary exceptions, to the general assets of the Company other than recourse to certain investment companies.

Debt and Facility Covenants

The Company’s debt instruments and credit and committed facilities contain certain administrative, reporting and legal covenants. Additionally, the Company’s credit facilities contain financial covenants, including requirements to maintain a specified minimum adjusted consolidated net worth, to maintain a ratio of total indebtedness to total capitalization not in excess of a specified percentage and that place limitations on the dollar amount of indebtedness that may be incurred by the Company, which could restrict our operations and use of funds. At December 31, 2019, the Company was in compliance with these financial covenants.

Primary Uses of Liquidity and Capital

In addition to the summarized description of liquidity and capital uses discussed in “— Sources and Uses of Liquidity and Capital,” and “— Contractual Obligations,” the following additional information is provided regarding our primary uses of liquidity and capital:

Common Stock Repurchases

During the years ended December 31, 2019 and 2018, we repurchased 11,658,208 shares and 2,628,167 shares, respectively, of our common stock through open market purchases, pursuant to 10b5-1 plans, for \$442 million and \$105 million, respectively. In 2020, through February 21, 2020, BHF repurchased an additional 947,605 shares of its common stock through open market purchases, pursuant to 10b5-1 plans, for \$39 million.

Preferred Stock Dividends

During the year ended December 31, 2019, we paid dividends totaling \$21 million on our preferred stock. See Note 10 of the Notes to the Consolidated Financial Statements for information regarding the calculation and timing of these dividend payments.

Debt Repurchases

We may from time to time seek to retire or purchase our outstanding indebtedness through cash purchases and/or exchanges for other securities, purchases in the open market, privately negotiated transactions or otherwise. Any such repurchases or exchanges will be dependent upon several factors, including our liquidity requirements, contractual restrictions, general market conditions, and applicable regulatory, legal and accounting factors. Whether or not we repurchase any debt and the size and timing of any such repurchases will be determined at our discretion.

Collateral Financing Arrangement Repaid

In April 2017, MetLife, Inc. and MetLife Reinsurance Company of South Carolina (which was subsequently merged into BRCD) terminated a collateral financing arrangement and, as a result, the \$2.8 billion obligation outstanding under this arrangement was extinguished.

Insurance Liabilities

Liabilities arising from our insurance activities primarily relate to benefit payments under various annuity and life insurance products, as well as payments for policy surrenders, withdrawals and loans. Surrender or lapse behavior differs somewhat by product but tends to occur in the ordinary course of business. During the years ended December 31, 2019 and 2018, general account surrenders and withdrawals totaled \$2.3 billion and \$3.0 billion, respectively, of which \$2.1 billion and \$2.4 billion, respectively, was attributable to products within the Annuities segment.

Pledged Collateral

We pledge collateral to, and have collateral pledged to us by, counterparties in connection with our derivatives. At December 31, 2019 and 2018, counterparties were obligated to return cash collateral pledged by us of \$0 and \$64 million, respectively. At December 31, 2019 and 2018, we were obligated to return cash collateral pledged to us by counterparties of \$1.3 billion and \$1.4 billion, respectively. See Note 7 of the Notes to the Consolidated Financial Statements for additional information about pledged collateral. We also pledge collateral from time to time in connection with funding agreements.

Securities Lending

We have a securities lending program whereby securities are loaned to third parties, primarily brokerage firms and commercial banks. We obtain collateral, usually cash, from the borrower, which must be returned to the borrower when the loaned securities are returned to us. Under our securities lending program, we were liable for cash collateral under our control of \$3.1 billion and \$3.6 billion at December 31, 2019 and 2018, respectively. Of these amounts, \$1.3 billion and \$1.5 billion at December 31, 2019 and 2018, respectively, were on open, meaning that the related loaned security could be returned to us on the next business day requiring the immediate return of cash collateral we hold. The estimated fair value of the securities on loan related to the cash collateral on open at December 31, 2019 was \$1.2 billion, all of which were U.S. government and agency securities which, if put back to us, could be immediately sold to satisfy the cash requirement. See Note 6 of the Notes to the Consolidated Financial Statements.

Litigation

Putative or certified class action litigation and other litigation, and claims and assessments against us, in addition to those discussed elsewhere herein and those otherwise provided for in the financial statements, have arisen in the course of our business, including, but not limited to, in connection with our activities as an insurer, employer, investor, investment advisor, and taxpayer. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning our compliance with applicable insurance and other laws and regulations. See Note 15 of the Notes to the Consolidated Financial Statements.

Contractual Obligations

The following table summarizes our major contractual obligations at December 31, 2019:

	Total	One Year or Less	More than One Year to Three Years	More than Three Years to Five Years	More than Five Years
	(In millions)				
Insurance liabilities	\$ 54,534	\$ 3,413	\$ 2,847	\$ 2,845	\$ 45,429
Policyholder account balances	50,676	3,432	7,410	6,472	33,362
Payables for collateral under securities loaned and other transactions	4,391	4,391	—	—	—
Long-term debt	7,855	193	387	1,352	5,923
Investment commitments	2,017	2,017	—	—	—
Other	4,974	4,899	—	—	75
Total	\$ 124,447	\$ 18,345	\$ 10,644	\$ 10,669	\$ 84,789

Insurance Liabilities and Policyholder Account Balances

Insurance liabilities reflect future estimated cash flows and (i) are based on mortality, morbidity, lapse and other assumptions comparable with our experience and expectations of future payment patterns; and (ii) consider future premium receipts on current policies in-force. Additionally, the more than five years category includes estimated payments due for periods extending for more than 100 years.

The total amount presented for insurance liabilities of \$54.5 billion exceeds the liability amounts of \$42.8 billion presented on the consolidated balance sheet principally due to (i) the time value of money, which accounts for a substantial portion of the difference; and (ii) differences in assumptions, most significantly mortality, between the date the liabilities were initially established and the current date; and are partially offset by liabilities related to accounting conventions (such as interest reserves and unearned revenue), or which are not contractually due, which are excluded.

Policyholder account balances generally represent the estimated cash payments on customer deposits and are based on assumptions related to withdrawals, including unscheduled or partial withdrawals; policy lapses; surrender charges; annuitization; mortality; future interest credited; policy loans and other contingent events as appropriate for the respective product type.

The total amount presented for policyholder account balances of \$50.7 billion exceeds the liability amount of \$45.8 billion presented on the consolidated balance sheet principally due to (i) the time value of money, which accounts for a substantial portion of the difference; (ii) differences in assumptions between the date the liabilities were initially established and the current date; and (iii) liabilities related to accounting conventions (such as interest reserves and embedded derivatives), or which are not contractually due, which are excluded.

Actual cash payments on insurance liabilities and policyholder account balances may differ significantly from the liabilities as presented on the consolidated balance sheet and the estimated cash payments as presented due to differences between actual experience and the assumptions used in the establishment of these liabilities and the estimation of these cash payments. All estimated cash payments are presented gross of any reinsurance recoverable.

Payables for Collateral Under Securities Loaned and Other Transactions

We have accepted cash collateral in connection with securities lending and derivatives. As the securities lending transactions expire within the next year and the timing of the return of the derivatives collateral is uncertain, the return of the collateral has been included in the one year or less category in the table. We also held non-cash collateral, which is not reflected as a liability on the consolidated balance sheet of \$488 million at December 31, 2019.

Long-term Debt

The total amount presented for long-term debt differs from the total amount presented on the consolidated balance sheet as the amounts presented herein do not include unamortized premiums or discounts and debt issuance costs incurred upon issuance and include future interest on such obligations for the period from January 1, 2020 through maturity. Future interest on variable rate debt was computed using prevailing rates at December 31, 2019 and, as such, does not consider the impact of future rate movements. Future interest on fixed rate debt was computed using the stated rate on the obligations.

Investment Commitments

Investment commitments primarily include commitments to lend funds under partnership investments, which we anticipate could be invested any time over the next five years; however, as the timing of the fulfillment of the obligation cannot be predicted, such obligations are presented in the one year or less category. See Note 15 of the Notes to the Consolidated Financial Statements and “— Off-Balance Sheet Arrangements.”

Other

Other obligations are principally comprised of (i) the estimated fair value of derivative obligations, (ii) amounts due under reinsurance agreements, (iii) obligations under deferred compensation arrangements, (iv) payables related to securities purchased but not yet settled and (v) other accruals and accounts payable for which the Company is contractually liable, which are reported in other liabilities on the consolidated balance sheet. If the timing of any of these other obligations is sufficiently uncertain, the amounts are included within the one year or less category.

Separate account liabilities are excluded as they are fully funded by cash flows from the corresponding separate account assets and are set equal to the estimated fair value of separate account assets.

The Parent Company

Liquidity and Capital

In evaluating liquidity, it is important to distinguish the cash flow needs of the parent company from the cash flow needs of the combined group of companies. BHF is largely dependent on cash flows from its insurance subsidiaries to meet its obligations. Constraints on BHF’s liquidity may occur as a result of operational demands and/or as a result of compliance with regulatory requirements. See “Risk Factors — Economic Environment and Capital Markets-Related Risks — Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs and our access to capital,” “Risk Factors — Regulatory and Legal Risks — Our insurance 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” and “Risk Factors — Capital-Related Risks — As a holding company, BHF depends on the ability of its subsidiaries to pay dividends.”

Short-term Liquidity and Liquid Assets

At December 31, 2019 and 2018, BHF and certain of its non-insurance subsidiaries had short-term liquidity of \$723 million and \$520 million, respectively. Short-term liquidity is comprised of cash and cash equivalents and short-term investments.

At December 31, 2019 and 2018, BHF and certain of its non-insurance subsidiaries had liquid assets of \$767 million and \$752 million, respectively, of which \$715 million and \$693 million, respectively, was held by BHF. Liquid assets are comprised of cash and cash equivalents, short-term investments and publicly-traded securities.

Statutory Capital and Dividends

The NAIC and state insurance departments have established regulations that provide minimum capitalization requirements based on RBC formulas for insurance companies. RBC is based on a formula calculated by applying factors to various asset, premium, claim, expense and statutory reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk, market risk and business risk and is calculated on an annual basis. The formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. State insurance laws provide insurance regulators the authority to require various actions by, or take various actions against, insurers whose TAC does not meet or exceed certain RBC levels. As of the date of the most recent annual statutory financial statements filed with insurance regulators, the TAC of each of our insurance subsidiaries subject to these requirements was in excess of each of those RBC levels.

The amount of dividends that our insurance subsidiaries can ultimately pay to BHF through their various parent entities provides an additional margin for risk protection and investment in our businesses. Such dividends are constrained by the amount of surplus our insurance subsidiaries hold to maintain their ratings, which is generally higher than minimum RBC requirements. We proactively take actions to maintain capital consistent with these ratings objectives, which may include adjusting dividend amounts and deploying financial resources from internal or external sources of capital. Certain of these activities may require regulatory approval. Furthermore, the payment of dividends and other distributions by our insurance subsidiaries is governed by insurance laws and regulations. See Notes 10 and 18 of the Notes to the Consolidated Financial Statements.

Normalized Statutory Earnings

Normalized statutory earnings is used by management to measure our insurance companies’ ability to pay future distributions and is reflective of whether our hedging program functions as intended. Normalized statutory earnings is calculated as statutory pre-tax net gain from operations adjusted for the favorable or unfavorable impacts of (i) net realized capital gains (losses), (ii) the change in both the reserve-based and capital methodology-based CTE95 calculation, net of the change in our variable annuity reserves, and (iii) unrealized gains (losses) associated with our variable annuities risk management strategy. Normalized statutory earnings may be further adjusted for certain unanticipated items that impacted our results in order to help management and investors better understand, evaluate and forecast those results.

Our variable annuity block is managed by funding the balance sheet with assets equal to or greater than a CTE95 level. We also manage market-related risks of increases in these asset requirements by hedging the market sensitivity of the CTE95 level to changes in the capital markets. By including hedge gains and losses related to our variable annuity risk management strategy in our calculation of normalized statutory earnings, we are able to fully reflect the change in value of the hedges, as well as the change in the value of the underlying CTE95 total asset requirement level. We believe this allows us to determine whether our hedging program is providing the desired level of protection.

The following table presents the components of normalized statutory earnings:

	Years Ended December 31,	
	2019	2018
	(In billions)	
Statutory net gain from operations, pre-tax	\$ 2.2	\$ 0.8
Add: net realized capital gains (losses)	(0.9)	(1.9)
Add: change in CTE95 capital requirements, net of the change in VA reserves	1.2	(1.4)
Add: unrealized gains (losses) on VA hedging program	(0.8)	1.5
Add: impact of NAIC VA capital reform and actuarial assumption update	0.1	1.3
Add: other adjustments, net	0.1	—
Normalized statutory earnings	<u>\$ 1.9</u>	<u>\$ 0.3</u>

Primary Sources and Uses of Liquidity and Capital

The principal sources of funds available to BHF include distributions from BH Holdings, dividends and returns of capital from its insurance subsidiaries, capital markets issuances, as well as its own cash and cash equivalents and short-term investments. These sources of funds may also be supplemented by alternate sources of liquidity either directly or indirectly through our insurance subsidiaries. For example, we have established internal liquidity facilities to provide liquidity within and across our regulated and non-regulated entities to support our businesses.

The primary uses of liquidity of BHF include debt service obligations (including interest expense and debt repayments), preferred stock dividends, capital contributions to subsidiaries, common stock repurchases and payment of general operating expenses. Based on our analysis and comparison of our current and future cash inflows from the dividends we receive from subsidiaries that are permitted to be paid without prior insurance regulatory approval, our investment portfolio and other cash flows and anticipated access to the capital markets, we believe there will be sufficient liquidity and capital to enable BHF to make payments on debt, pay preferred stock dividends, contribute capital to its subsidiaries, repurchase its common stock, pay all general operating expenses and meet its cash needs.

In addition to the liquidity and capital sources discussed in “— The Company — Primary Sources of Liquidity and Capital” and “— The Company — Primary Uses of Liquidity and Capital,” the following additional information is provided regarding BHF’s primary sources and uses of liquidity and capital:

Distributions from and Capital Contributions to BH Holdings

During the years ended December 31, 2019, 2018 and 2017, BHF received cash distributions of \$195 million, \$52 million and \$50 million, respectively, from BH Holdings and made cash capital contributions of \$412 million, \$208 million and \$1.3 billion, respectively, to BH Holdings.

Short-term Intercompany Loans

As of December 31, 2019, BHF, as borrower, had a short-term intercompany loan agreement with certain of its non-insurance subsidiaries, as lenders, for the purposes of facilitating the management of the available cash of the borrower and the lenders on a short-term and consolidated basis. Such intercompany loan agreement allows management to optimize the efficient use of and maximize the yield on cash between BHF and its subsidiary lenders. Each loan entered into under this intercompany loan agreement has a term not more than 364 days and bears interest on the unpaid principal amount at a variable rate, payable monthly. During the years ended December 31, 2019, 2018 and 2017, BHF borrowed \$1.2 billion, \$478 million and \$136 million, respectively, from certain of its non-insurance subsidiaries under short-term intercompany loan agreements and repaid \$1.1 billion, \$311 million and \$0, respectively, to certain of its non-insurance company subsidiaries under short-term intercompany loan agreements. At December 31, 2019 and 2018, BHF had total obligations outstanding of \$343 million and \$303 million, respectively, under such agreements. See Note 3 of the Schedule II — Condensed Financial Information (Parent Company Only).

Intercompany Liquidity Facilities

As of December 31, 2019, we maintained intercompany liquidity facilities with certain of our insurance and non-insurance company subsidiaries to provide short-term liquidity within and across the combined group of companies. Under these facilities, which are comprised of a series of revolving loan agreements among BHF and its participating subsidiaries, each company may lend to or borrow from each other, subject to certain maximum limits for a term not more than 364 days. In the second quarter of 2018, BHF borrowed \$40 million from NELICO under this liquidity facility and repaid such borrowing in the third quarter of 2018. At December 31, 2019 and 2018, BHF had no obligations outstanding under such facilities. See Note 3 of the Schedule II — Condensed Financial Information (Parent Company Only).

GLOSSARY

Glossary of Selected Financial Terms

Account value	The amount of money in a policyholder's account. The value increases with additional premiums and investment gains, and it decreases with withdrawals, investment losses and fees.
Actuarial Guideline 43 ("AG 43")	See "Business — Regulation — Insurance Regulation — Surplus and Capital; Risk-Based Capital."
Adjusted earnings	See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP and Other Financial Disclosures."
Alternative investments	General account invested assets in other limited partnership interests.
Assets under management ("AUM")	General account investments and separate account assets.
Conditional tail expectation ("CTE")	A statistical tail risk measure used to assess the adequacy of assets supporting variable annuity contract liabilities, which is calculated as the average amount of total assets required to satisfy obligations over the life of the contract or policy in the worst "x%" of scenarios. Represented as CTE (100 less x). Example: CTE95 represents the five worst percent of scenarios.
Credit loss	The difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings.
Deferred acquisition cost ("DAC")	Represents the incremental costs related directly to the successful acquisition of new and renewal insurance and annuity contracts and which have been deferred on the balance sheet as an asset.
Deferred sales inducements ("DSI")	Represent amounts that are credited to a policyholder's account balance that are higher than the expected crediting rates on similar contracts without such an inducement and that are an incentive to purchase a contract and also meet the accounting criteria to be deferred as an asset that is amortized over the life of the contract.
Deferred tax asset or deferred tax liability	Assets or liabilities that are recorded for the difference between book basis and tax basis of an asset or a liability.
General account assets	All insurance company assets not allocated to separate accounts.
Invested assets	General account investments. Includes fixed maturity securities, equity securities, mortgage loans, policy loans, alternative investments, real estate limited partnerships and limited liability companies, other invested assets and short-term investments.
Investment Hedge Adjustments	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.
Life Insurance Sales	Life insurance sales consist of 100 percent of annualized new premium for term life, first-year paid premium for whole life, universal life, and variable universal life, and total paid premium for indexed universal life. We exclude company-sponsored internal exchanges, corporate-owned life insurance, bank-owned life insurance, and private placement variable universal life.
Market Value Adjustments	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.
Minimum Initial Target Assets	Cash and invested assets, including funds withheld.
Net amount at risk ("NAR")	Represents the difference between a claim amount payable if a specific event occurs and the amount set aside to support the claim. The calculation of NAR can differ by policy type and/or guarantee.
Net investment spread	See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP and Other Financial Disclosures."

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Normalized statutory earnings	Normalized statutory earnings is used by management to measure our insurance companies' ability to pay future distributions and is reflective of whether our hedging program functions as intended. Normalized statutory earnings is calculated as statutory pre-tax net gain from operations adjusted for the favorable or unfavorable impacts of (i) net unrealized capital gains (losses), (ii) the change in both the reserve-based and capital methodology-based CTE95 calculation, net of the change in our variable annuity reserves and (iii) unrealized gains (losses) associated with our variable annuities risk management strategy. Normalized statutory earnings may be further adjusted for certain unanticipated items that impacted our results in order to help management and investors better understand, evaluate and forecast those results.
Reinsurance	Insurance that an insurance company buys for its own protection. Reinsurance enables an insurance company to expand its capacity, stabilize its underwriting results, or finance its expanding volume.
Risk-based capital (“RBC”) ratio	The risk-based capital ratio is a method of measuring an insurance company’s capital, taking into consideration its relative size and risk profile, in order to ensure compliance with minimum regulatory capital requirements set by the National Association of Insurance Commissioners. When referred to as “combined,” represents that of our insurance subsidiaries as a whole.
Total adjusted capital (“TAC”)	Total adjusted capital primarily consists of statutory capital and surplus, as well as the statutory asset valuation reserve. When referred to as “combined,” represents that of our insurance subsidiaries as a whole.
Tax-deferral	An investment with earnings such as interest, dividends or capital gains that accumulate tax-free until the investor withdraws and takes possession of them. The most common types of tax-deferred investments include those in individual retirement accounts and individual retirement annuities (collectively, “IRAs”) and deferred annuities.
Value of business acquired (“VOBA”)	Present value of projected future gross profits from in-force policies of acquired businesses.

Glossary of Product Terms

Accumulation phase	The phase of a variable annuity contract during which assets accumulate based on the policyholder’s lump sum or periodic deposits and reinvested interest, capital gains and dividends that are generally tax-deferred.
Annuitant	The person who receives annuity payments or the person whose life expectancy determines the amount of variable annuity payments upon annuitization of a life contingent annuity.
Annuities	Long-term, tax-deferred investments designed to help investors save for retirement.
Annuitization	The process of converting an annuity investment into a series of periodic income payments, generally for life.
Benefit Base	A notional amount (not actual cash value) used to calculate the owner’s guaranteed benefits within an annuity contract. The death benefit and living benefit within the same contract may not have the same Benefit Base.
Cash surrender value	The amount an insurance company pays (minus any surrender charge) to the variable annuity owner when the contract is voluntarily terminated prematurely.
Deferred annuity	An annuity purchased with premiums paid either over a period of years or as a lump sum, for which savings accumulate prior to annuitization or surrender, and upon annuitization, such savings are exchanged for either a future lump sum or periodic payments for a specific length of time or for a lifetime.
Dollar-for-dollar withdrawal	A method of calculating the reduction of a variable annuity Benefit Base after a withdrawal in which the benefit is reduced by one dollar for every dollar withdrawn.
Enhanced death benefit	An optional benefit that locks in investment gains annually, or every few years, or pays a minimum stated interest rate on purchase payments to the beneficiary.
Fixed annuity	An annuity that guarantees a set annual rate of return with interest at rates we determine, subject to specified minimums. Credited interest rates are guaranteed not to change for certain limited periods of time.

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Future policy benefits	Future policy benefits for the annuities business are comprised mainly of liabilities for life contingent income annuities, and liabilities for the variable annuity guaranteed minimum benefits accounted for as insurance.
Guaranteed minimum accumulation benefits (“GMAB”)	An optional benefit (available for an additional cost) which entitles an annuitant to a minimum payment, typically in lump sum, after a set period of time, typically referred to as the accumulation period. The minimum payment is based on the Benefit Base, which could be greater than the underlying account value.
Guaranteed minimum death benefits (“GMDB”)	An optional benefit (available for an additional cost) that guarantees an annuitant’s beneficiaries are entitled to a minimum payment based on the Benefit Base, which could be greater than the underlying account value, upon the death of the annuitant.
Guaranteed minimum income benefits (“GMIB”)	An optional benefit (available for an additional cost) where an annuitant is entitled to annuitize the policy and receive a minimum payment stream based on the Benefit Base, which could be greater than the underlying account value.
Guaranteed minimum living benefits (“GMLB”)	A reference to all forms of guaranteed minimum living benefits, including GMIBs, GMWBs and GMABs (does not include GMDBs).
Guaranteed minimum withdrawal benefit for life (“GMWBL”)	An optional benefit (available for an additional cost) where an annuitant is entitled to withdraw a maximum amount of their Benefit Base each year, for the duration of the contract holder’s life, regardless of account performance.
Guaranteed minimum withdrawal benefit riders (“GMLB Riders”)	Changes in the carrying value of GMLB liabilities, related hedges and reinsurance; the fees earned directly from the GMLB liabilities; and related DAC offsets.
Guaranteed minimum withdrawal benefits (“GMWB”)	An optional benefit (available for an additional cost) where an annuitant is entitled to withdraw a maximum amount of their Benefit Base each year, for which cumulative payments to the annuitant could be greater than the underlying account value.
Guaranteed minimum benefits (“GMxB”)	A general reference to all forms of guaranteed minimum benefits, inclusive of living benefits and death benefits.
Immediate income annuity	<p>A type of annuity for which the owner pays a lump sum and receives periodic payments immediately or soon after purchase.</p> <p>Single premium immediate annuities (“SPIAs”) are single premium annuity products that provide a guaranteed level of income to the owner generally for a specified number of years and/or for the life of the annuitant.</p> <p>Deferred income annuities (“DIAs”) provide a pension-like stream of income payments after a specified deferral period.</p>
Index-linked annuities	An annuity that provides for asset accumulation and asset distribution needs with an ability to share in the upside from certain financial markets such as equity indices, or an interest rate benchmark. With an index-linked annuity, the customer’s account value can grow or decline due to various external financial market indices performance.
Living benefits	Optional benefits (available at an additional cost) that guarantee that the owner will get back at least his original investment when the money is withdrawn.
Mortality and expense risk fee (“M&E fee”)	A fee charged by insurance companies to compensate for the risk they take by issuing variable annuity contracts.
Net flows	Net change in customer account balances in a period including, but not limited to, new sales, full or partial exits and the net impact of clients utilizing or withdrawing their funds. It excludes the impact of markets on account balances.
Period certain annuity	Type of annuity that guarantees payment to the annuitant for a specified time period and to the beneficiary if the annuitant dies before the period ends.

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Policyholder account balances	<p>Annuities: Policyholder account balances are held for fixed deferred annuities, the fixed account portion of variable annuities, and non-life contingent income annuities. Interest is credited to the policyholder's account at interest rates we determine which are influenced by current market rates, subject to specified minimums.</p> <p>Life Insurance Policies: Policyholder account balances are held for retained asset accounts, universal life policies and the fixed account of universal variable life insurance policies. Interest is credited to the policyholder's account at interest rates we determine which are influenced by current market rates, subject to specified minimums.</p>
Rider	An optional feature or benefit that a variable annuity contract holder can purchase at an additional cost.
Roll-up rate	The guaranteed percentage that the Benefit Base increases by each year.
Separate account	An insurance company account, legally segregated from the general account, that holds the contract assets or subaccount investments that can be actively or passively managed and invest in stock, bonds or money market portfolios.
Step-up	An optional variable annuity feature (available at an additional cost) that can increase the Benefit Base amount if the variable annuity account value is higher than the Benefit Base on specified dates.
Surrender charge	A fee paid by a contract owner for the early withdrawal of an amount that exceeds a specific percentage or for cancellation of the contract within a specified amount of time after purchase.
Term life products	Term life products provide a fixed death benefit in exchange for a guaranteed level premium over a specified period of time, usually ten to thirty years. Generally, term life does not include any cash value, savings or investment components.
Universal life products	Life insurance products that provide a death benefit in return for payment of specified annual policy charges that are generally related to specific costs, which may change over time. To the extent that the policyholder chooses to pay more than the charges required in any given year to keep the policy in-force, the excess premium will be placed into the account value of the policy and credited with a stated interest rate on a monthly basis.
Variable annuity	A type of annuity that offers guaranteed periodic payments for a defined period of time or for life and gives purchasers the ability to invest in various markets through the underlying investment options, which may result in potentially higher, but variable, returns.
Variable universal life	Universal life products where the excess amount paid over policy charges can be directed by the policyholder into a variety of separate account investment options. In the separate account investment options, the policyholder bears the entire risk and returns of the investment results.
Whole life products	Life insurance products that provide a guaranteed death benefit in exchange for a guaranteed level premium for a specified period of time in order to maintain coverage for the life of the insured. Whole life products also have guaranteed minimum cash surrender values. Although the primary purpose is protection, the policyholder can withdraw or borrow against the policy (sometimes on a tax favored basis).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Risk Management

We have an integrated process for managing risk exposures, which is coordinated among our Risk Management, Finance and Investment Departments. The process is designed to assess and manage exposures on a consolidated, company-wide basis. Brighthouse Financial, Inc. has established a Balance Sheet Committee (“BSC”). The BSC is responsible for periodically reviewing all material financial risks to us and, in the event risks exceed desired tolerances, informs the Finance and Risk Committee of the Board of Directors, considers possible courses of action and determines how best to resolve or mitigate such risks. In taking such actions, the BSC considers industry best practices and the current economic environment. The BSC also reviews and approves target investment portfolios in order to align them with our liability profile and establishes guidelines and limits for various risk-taking departments, such as the Investment Department. Our Finance Department and our Investment Department, together with Risk Management, are responsible for coordinating our ALM strategies throughout the enterprise. The membership of the BSC is comprised of the following members of senior management: Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer and Chief Investment Officer.

Our significant market risk management practices include, but are not limited to, the following:

Managing Interest Rate Risk

We manage interest rate risk as part of our asset and liability management strategies, which include (i) maintaining an investment portfolio that has a weighted average duration approximately equal to the duration of our estimated liability cash flow profile, and (ii) maintaining hedging programs, including a macro interest rate hedging program. For certain of our liability portfolios, it is not possible to invest assets to the full liability duration, thereby creating some asset/liability mismatch. Where a liability cash flow may exceed the maturity of available assets, as is the case with certain retirement products, we may support such liabilities with equity investments, derivatives or other mismatch mitigation strategies. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate completely the interest rate or other mismatch risk of our fixed income investments relative to our interest rate sensitive liabilities. The level of interest rates also affects our liabilities for benefits under our annuity contracts. As interest rates decline, we may need to increase our reserves for future benefits under our annuity contracts, which would adversely affect our results of operations and financial condition.

We also employ product design and pricing strategies to mitigate the potential effects of interest rate movements. These strategies include the use of surrender charges or restrictions on withdrawals in some products and the ability to reset crediting rates for certain products.

We analyze interest rate risk using various models, including multi-scenario cash flow projection models that forecast cash flows of the liabilities and their supporting investments, including derivatives. These projections involve evaluating the potential gain or loss on most of our in-force business under various increasing and decreasing interest rate environments. State insurance department regulations require that we perform some of these analyses annually as part of our review of the sufficiency of our regulatory reserves. We measure relative sensitivities of the value of our assets and liabilities to changes in key assumptions using internal models. These models reflect specific product characteristics and include assumptions based on current and anticipated experience regarding lapse, mortality and interest crediting rates. In addition, these models include asset cash flow projections reflecting interest payments, sinking fund payments, principal payments, bond calls, prepayments and defaults.

We also use common industry metrics, such as duration and convexity, to measure the relative sensitivity of asset and liability values to changes in interest rates. In computing the duration of liabilities, we consider all policyholder guarantees and how indeterminate policy elements such as interest credits or dividends are set. Each asset portfolio has a duration target based on the liability duration and the investment objectives of that portfolio.

Managing Equity Market and Foreign Currency Risks

We manage equity market risk in a coordinated process across our Investment and Finance Departments primarily by holding sufficient capital to permit us to absorb modest losses, which may be temporary, from changes in equity markets and interest rates without adversely affecting our financial strength ratings and through the use of derivatives, such as equity futures, equity index options contracts, equity variance swaps and equity total return swaps. We may also employ reinsurance strategies to manage these exposures. Key management objectives include limiting losses, minimizing exposures to significant risks and providing additional capital capacity for future growth. The Investment and Finance Departments are also responsible for managing the exposure to foreign currency denominated investments. We use foreign currency swaps and forwards to mitigate the exposure, risk of loss and financial statement volatility associated with foreign currency denominated fixed income investments.

Market Risk - Fair Value Exposures

We regularly analyze our market risk exposure to interest rate, equity market price, credit spreads and foreign currency exchange rate risks. As a result of that analysis, we have determined that the estimated fair values of certain assets and liabilities are significantly exposed to changes in interest rates, and to a lesser extent, to changes in equity market prices and foreign currency exchange rates. We have exposure to market risk through our insurance and annuity operations and general account investment activities. For purposes of this discussion, “market risk” is defined as changes in estimated fair value resulting from changes in interest rates, equity market prices, credit spreads and foreign currency exchange rates. We may have additional financial impacts, other than changes in estimated fair value, which are beyond the scope of this discussion. See “Risk Factors” for additional disclosure regarding our market risk and related sensitivities.

Interest Rates

Our fair value exposure to changes in interest rates arises most significantly from our interest rate sensitive liabilities and our holdings of fixed maturity securities, mortgage loans and derivatives that are used to support our policyholder liabilities. Our interest rate sensitive liabilities include long-term debt, policyholder account balances related to certain investment-type contracts, and embedded derivatives in variable annuity contracts with guaranteed minimum benefits. Our fixed maturity securities including U.S. and foreign government bonds, securities issued by government agencies, corporate bonds, mortgage-backed and other ABS, and our commercial, agricultural and residential mortgage loans, are exposed to changes in interest rates. We also use derivatives including swaps, caps, floors, forwards and options to mitigate the exposure related to interest rate risks from our product liabilities.

Equity Market

Along with investments in equity securities, we have fair value exposure to equity market risk through certain liabilities that involve long-term guarantees on equity performance such as embedded derivatives in variable annuity contracts with guaranteed minimum benefits, as well as certain policyholder account balances. In addition, we have exposure to equity markets through derivatives including options and swaps that we enter into to mitigate potential equity market exposure from our product liabilities.

Foreign Currency Exchange Rates

Our fair value exposure to fluctuations in foreign currency exchange rates against the U.S. dollar results from our holdings in non-U.S. dollar denominated fixed maturity securities, mortgage loans and certain liabilities. The principal currencies that create foreign currency exchange rate risk in our investment portfolios and liabilities are the Euro and the British pound. We economically hedge substantially all of our foreign currency exposure.

Risk Measurement: Sensitivity Analysis

In the following discussion and analysis, we measure market risk related to our market sensitive assets and liabilities based on changes in interest rates, equity market prices and foreign currency exchange rates using a sensitivity analysis. This analysis estimates the potential changes in estimated fair value based on a hypothetical 100 basis point change (increase or decrease) in interest rates, or a 10% change in equity market prices or foreign currency exchange rates. We believe that these changes in market rates and prices are reasonably possible in the near-term. In performing the analysis summarized below, we used market rates as of December 31, 2019. We modeled the impact of changes in market rates and prices on the estimated fair values of our market sensitive assets and liabilities as follows:

- the estimated fair value of our interest rate sensitive exposures resulting from a 100 basis point change (increase or decrease) in interest rates;
- the estimated fair value of our equity positions due to a 10% change (increase or decrease) in equity market prices; and
- the U.S. dollar equivalent of estimated fair values of our foreign currency exposures due to a 10% change (increase in the value of the U.S. dollar compared to the foreign currencies or decrease in the value of the U.S. dollar compared to the foreign currencies) in foreign currency exchange rates.

The sensitivity analysis is an estimate and should not be viewed as predictive of our future financial performance. Our actual losses in any particular period may vary from the amounts indicated in the table below. Limitations related to this sensitivity analysis include:

- interest sensitive liabilities do not include \$42.8 billion of insurance contracts, which are accounted for on a book value basis. Management believes that the changes in the economic value of those contracts under changing interest rates would offset a significant portion of the fair value changes of interest sensitive assets;

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- the market risk information is limited by the assumptions and parameters established in creating the related sensitivity analysis, including the impact of prepayment rates on mortgage loans;
- foreign currency exchange rate risk is not isolated for certain embedded derivatives within host asset and liability contracts, as the risk on these instruments is reflected as equity;
- for derivatives that qualify for hedge accounting, the impact on reported earnings may be materially different from the change in market values;
- the analysis excludes limited partnership interests; and
- the model assumes that the composition of assets and liabilities remains unchanged throughout the period.

Accordingly, we use such models as tools and not as substitutes for the experience and judgment of our management.

The table below illustrates the potential loss in estimated fair value of our interest sensitive financial instruments due to a 100 basis point increase in the yield curve by type of asset and liability as of:

	December 31, 2019		
	Notional Amount	Estimated Fair Value (1)	100 Basis Point Increase in the Yield Curve
	(In millions)		
Financial assets with interest rate risk			
Fixed maturity securities		\$ 71,036	\$ (6,271)
Mortgage loans		\$ 16,383	(881)
Policy loans		\$ 1,578	(96)
Premiums, reinsurance and other receivables		\$ 2,634	(193)
Embedded derivatives within asset host contracts (2)		\$ 217	(68)
Increase (decrease) in estimated fair value of assets			(7,509)
Financial liabilities with interest rate risk (3)			
Policyholder account balances		\$ 15,710	878
Long-term debt		\$ 4,334	315
Other liabilities		\$ 846	(7)
Embedded derivatives within liability host contracts (2)		\$ 4,248	945
(Increase) decrease in estimated fair value of liabilities			2,131
Derivative instruments with interest rate risk			
Interest rate contracts	\$ 46,497	\$ 1,448	(2,308)
Foreign currency contracts	\$ 3,954	\$ 243	(12)
Equity contracts	\$ 61,368	\$ (1,243)	(4)
Increase (decrease) in estimated fair value of derivative instruments			(2,324)
Net change			\$ (7,702)

- (1) Separate account assets and liabilities, which are interest rate sensitive, are not included herein as any interest rate risk is borne by the contract holder.
- (2) Embedded derivatives are recognized in the consolidated balance sheet in the same caption as the host contract.
- (3) Excludes \$42.8 billion of liabilities, at carrying value, pursuant to insurance contracts reported within future policy benefits and other policy-related balances. Management believes that the changes in the economic value of those contracts under changing interest rates would offset a significant portion of the fair value changes of interest sensitive assets.

Sensitivity Summary

Sensitivity to rising interest rates increased by \$1.9 billion, or 34%, to \$7.7 billion as of December 31, 2019 from \$5.8 billion as of December 31, 2018, primarily as a result of lower interest rates increasing the estimated fair value of both interest rate derivative contracts and fixed maturity securities, in line with management expectations.

Sensitivity to a 10% rise in equity prices increased by \$155 million, or 22%, to \$864 million as of December 31, 2019 from \$709 million at December 31, 2018. Beginning in 2019, we included our embedded derivatives in index-linked annuity liabilities in the sensitivity analysis, and revised the 2018 sensitivity to include such liabilities.

As previously mentioned, we economically hedge substantially all of our foreign currency exposure such that the Company's sensitivity to changes in foreign currencies is minimal.

Item 8. Financial Statements and Supplementary Data**Index to Consolidated Financial Statements, Notes and Schedules**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Brighthouse Financial, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Brighthouse Financial, Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and the schedules listed in the Index to Consolidated Financial Statements, Notes and Schedules (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Liability for Future Policy Benefits - Refer to Notes 1 and 3 to the consolidated financial statements

Critical Audit Matter Description

As of December 31, 2019, the liability for future policy benefits was \$39.7 billion. Future policy benefit liabilities are generally equal to the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Assumptions used to measure the liability are based on the Company's experience and include a margin for adverse deviation. Management regularly reviews its assumptions supporting the estimates of actuarial liabilities and differences between actual experience and the assumptions used in pricing the policies and guarantees may require a change to the assumptions recorded at inception as well as an adjustment to the related liabilities. Updating such assumptions can result in variability of profits or the recognition of losses.

Given the future policy benefit obligation for these contracts is sensitive to changes in the assumptions related to mortality, morbidity, benefit utilization and withdrawals, policy lapse, inflation, and investment returns, auditing management's selection of these assumptions involves an especially high degree of estimation.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the updating of assumptions by management included the following, among others:

- We tested the effectiveness of management's controls over the assumption review process, including those over the selection of the assumptions used.
- With the assistance of actuarial specialists, we evaluated the appropriateness of the assumptions used, developed an independent estimate of the future policy benefit liability, and compared our estimates to management's estimates.
- We tested the completeness and accuracy of the underlying data that served as the basis for the actuarial analysis, including experience studies, to test that the inputs to the actuarial estimate were reasonable.
- We evaluated the methods and assumptions used by management to identify potential bias.
- We evaluated whether the assumptions used were consistent with evidence obtained in other areas of the audit.

Deferred Acquisition Cost (DAC) - Refer to Notes 1 and 4 to the consolidated financial statements

Critical Audit Matter Description

The Company incurs and defers certain costs in connection with acquiring new and renewal insurance business. These deferred costs, amounting to \$4.9 billion as of December 31, 2019, are amortized over the expected life of the policy contract in proportion to actual and expected future gross profits, premiums or margins. For universal and variable life insurance policies and deferred annuity contracts, expected future gross profits utilized in the amortization calculation are derived using assumptions such as investment returns in excess of the amounts credited to policyholders, mortality, persistency, benefit elections and withdrawals, interest crediting rates, and expenses. The assumptions used in the calculation of expected future gross profits are reviewed at least annually.

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Given the significance of the estimates and uncertainty associated with the long-term assumptions utilized in the determination of expected future gross profits, premiums, or margins, auditing management's determination of the appropriateness of the assumptions used in the calculation of DAC amortization involves an especially high degree of estimation.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's determination of DAC amortization included the following, among others:

- We tested the effectiveness of management's controls related to the determination of expected future gross profits, premiums, and margins, including those over management's review that the assumptions utilized represented a reasonable estimate.
- With assistance from our actuarial specialists, we evaluated the data included in the estimate provided by the Company's actuaries and the methodology utilized, and evaluated the process used by the Company to determine whether the assumptions used were reasonable estimates based on the Company's own experience and industry studies.
- We inquired of the Company's actuarial specialists whether there were any changes in the methodology utilized during the year in the determination of expected future gross profits.
- We inspected supporting documentation underlying the Company's experience studies and, utilizing our actuarial specialists, independently recalculated the amortization for a sample of policies, and compared our estimates to management's estimates.
- We evaluated whether the assumptions used by the Company were consistent with evidence obtained in other areas of the audit.
- We evaluated the sufficiency of the Company's disclosures related to DAC amortization.

Embedded Derivative Liabilities Related to Variable Annuity Guarantees - Refer to Notes 1, 7, and 8 to the consolidated financial statements.

Critical Audit Matter Description

The Company sells index-linked annuities and variable annuity products with guaranteed minimum benefits, some of which are embedded derivatives that are required to be bifurcated from the host contract, separately accounted for, and measured at fair value. As of December 31, 2019, the fair value of the embedded derivative liability associated with certain of the Company's annuity contracts was \$4.2 billion. Management utilizes various assumptions in order to measure the embedded liability including expectations concerning policyholder behavior, mortality and risk margins, as well as changes in the Company's own nonperformance risk. These assumptions are reviewed at least annually by management, and if they change significantly, the estimated fair value is adjusted by a cumulative charge or credit to net income.

Given the embedded derivative liability is sensitive to changes in these assumptions, auditing management's selection of these assumptions involves an especially high degree of estimation.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the assumptions selected by management for the embedded derivative liability included the following, among others:

- We tested the effectiveness of management's controls over the embedded derivative liability, including those over the selection of the assumptions related to policyholder behavior, mortality, risk margins and the Company's nonperformance risk.
- With the assistance of our actuarial specialists, we evaluated the appropriateness of the assumptions, tested the completeness and accuracy of the underlying data and the mathematical accuracy of the Company's valuation model.
- We evaluated the reasonableness of the Company's assumptions by comparing those selected by management to those independently derived by our actuarial specialists, drawing upon standard actuarial and industry practice.

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- We evaluated the methods and assumptions used by management to identify potential bias in the determination of the embedded liability.
- We evaluated whether the assumptions used were consistent with evidence obtained in other areas of the audit.

/s/ DELOITTE & TOUCHE LLP
Charlotte, North Carolina
February 26, 2020

We have served as the Company's auditor since 2016.

Brighthouse Financial, Inc.

**Consolidated Balance Sheets
December 31, 2019 and 2018**

(In millions, except share and per share data)

	2019	2018
Assets		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: \$64,079 and \$60,920, respectively)	\$ 71,036	\$ 62,608
Equity securities, at estimated fair value	147	140
Mortgage loans (net of valuation allowances of \$64 and \$57, respectively)	15,753	13,694
Policy loans	1,292	1,421
Limited partnerships and limited liability companies	2,380	2,291
Short-term investments, principally at estimated fair value	1,958	—
Other invested assets, principally at estimated fair value	3,216	3,027
Total investments	95,782	83,181
Cash and cash equivalents	2,877	4,145
Accrued investment income	684	724
Premiums, reinsurance and other receivables	14,760	13,697
Deferred policy acquisition costs and value of business acquired	5,448	5,717
Current income tax recoverable	17	1
Other assets	584	573
Separate account assets	107,107	98,256
Total assets	\$ 227,259	\$ 206,294
Liabilities and Equity		
Liabilities		
Future policy benefits	\$ 39,686	\$ 36,209
Policyholder account balances	45,771	40,054
Other policy-related balances	3,111	3,000
Payables for collateral under securities loaned and other transactions	4,391	5,057
Long-term debt	4,365	3,963
Current income tax payable	—	15
Deferred income tax liability	1,355	972
Other liabilities	5,236	4,285
Separate account liabilities	107,107	98,256
Total liabilities	211,022	191,811
Contingencies, Commitments and Guarantees (Note 15)		
Equity		
Brighthouse Financial, Inc.'s stockholders' equity:		
Preferred stock, par value \$0.01 per share; \$425 aggregate liquidation preference at December 31, 2019	—	—
Common stock, par value \$0.01 per share; 1,000,000,000 shares authorized; 120,647,871 and 120,448,018 shares issued, respectively; 106,027,301 and 117,532,336 shares outstanding, respectively	1	1
Additional paid-in capital	12,908	12,473
Retained earnings (deficit)	585	1,346
Treasury stock, at cost; 14,620,570 and 2,915,682 shares, respectively	(562)	(118)
Accumulated other comprehensive income (loss)	3,240	716
Total Brighthouse Financial, Inc.'s stockholders' equity	16,172	14,418
Noncontrolling interests	65	65
Total equity	16,237	14,483
Total liabilities and equity	\$ 227,259	\$ 206,294

See accompanying notes to the consolidated financial statements.

Brighthouse Financial, Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2019, 2018 and 2017

(In millions, except per share data)

	2019	2018	2017
Revenues			
Premiums	\$ 882	\$ 900	\$ 863
Universal life and investment-type product policy fees	3,580	3,835	3,898
Net investment income	3,579	3,338	3,078
Other revenues	389	397	651
Net investment gains (losses)	112	(207)	(28)
Net derivative gains (losses)	(1,988)	702	(1,620)
Total revenues	<u>6,554</u>	<u>8,965</u>	<u>6,842</u>
Expenses			
Policyholder benefits and claims	3,670	3,272	3,636
Interest credited to policyholder account balances	1,063	1,079	1,111
Amortization of deferred policy acquisition costs and value of business acquired	382	1,050	227
Other expenses	2,491	2,575	2,483
Total expenses	<u>7,606</u>	<u>7,976</u>	<u>7,457</u>
Income (loss) before provision for income tax	(1,052)	989	(615)
Provision for income tax expense (benefit)	(317)	119	(237)
Net income (loss)	<u>(735)</u>	<u>870</u>	<u>(378)</u>
Less: Net income (loss) attributable to noncontrolling interests	5	5	—
Net income (loss) attributable to Brighthouse Financial, Inc.	<u>(740)</u>	<u>865</u>	<u>(378)</u>
Less: Preferred stock dividends	21	—	—
Net income (loss) available to Brighthouse Financial, Inc.'s common shareholders	<u>\$ (761)</u>	<u>\$ 865</u>	<u>\$ (378)</u>
Earnings per common share			
Basic	<u>\$ (6.76)</u>	<u>\$ 7.24</u>	<u>\$ (3.16)</u>
Diluted	<u>\$ (6.76)</u>	<u>\$ 7.21</u>	<u>\$ (3.16)</u>

See accompanying notes to the consolidated financial statements.

Brighthouse Financial, Inc.
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2019, 2018 and 2017

(In millions)

	2019	2018	2017
Net income (loss)	\$ (735)	\$ 870	\$ (378)
Other comprehensive income (loss):			
Unrealized investment gains (losses), net of related offsets	3,209	(1,165)	336
Unrealized gains (losses) on derivatives	(19)	25	(175)
Foreign currency translation adjustments	12	(4)	10
Defined benefit plans adjustment	(10)	7	(19)
Other comprehensive income (loss), before income tax	3,192	(1,137)	152
Income tax (expense) benefit related to items of other comprehensive income (loss)	(668)	256	259
Other comprehensive income (loss), net of income tax	2,524	(881)	411
Comprehensive income (loss)	1,789	(11)	33
Less: Comprehensive income (loss) attributable to noncontrolling interests, net of income tax	5	5	—
Comprehensive income (loss) attributable to Brighthouse Financial, Inc.	\$ 1,784	\$ (16)	\$ 33

See accompanying notes to the consolidated financial statements.

Brighthouse Financial, Inc.
Consolidated Statements of Equity
For the Years Ended December 31, 2019, 2018 and 2017

(In millions)

	Shareholder's Net Investment	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock at Cost	Accumulated Other Comprehensive Income (Loss)	Brighthouse Financial, Inc.'s Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	\$ 13,597	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,265	\$ 14,862	\$ —	\$ 14,862
Issuance of common stock to MetLife, Inc.	1							1		1
Distribution to MetLife, Inc.	(1,798)							(1,798)		(1,798)
Other Separation related transactions	1,718							1,718		1,718
Net income (loss)	(1,085)				707			(378)		(378)
Separation from MetLife, Inc.	(12,433)		1	12,432				—		—
Effect of change in accounting principle					(301)		301	—		—
Change in noncontrolling interests								—	65	65
Other comprehensive income (loss), net of income tax							110	110		110
Balance at December 31, 2017	—	—	1	12,432	406	—	1,676	14,515	65	14,580
Cumulative effect of change in accounting principle and other, net of income tax					75		(79)	(4)		(4)
Balance at January 1, 2018	—	—	1	12,432	481	—	1,597	14,511	65	14,576
Treasury stock acquired in connection with share repurchases						(105)		(105)		(105)
Share-based compensation				41		(13)		28		28
Change in noncontrolling interests								—	(5)	(5)
Net income (loss)					865			865	5	870
Other comprehensive income (loss), net of income tax							(881)	(881)		(881)
Balance at December 31, 2018	—	—	1	12,473	1,346	(118)	716	14,418	65	14,483
Preferred stock issuance		—		412				412		412
Treasury stock acquired in connection with share repurchases						(442)		(442)		(442)
Share-based compensation				23		(2)		21		21
Dividends on preferred stock					(21)			(21)		(21)
Change in noncontrolling interests								—	(5)	(5)
Net income (loss)					(740)			(740)	5	(735)
Other comprehensive income (loss), net of income tax							2,524	2,524		2,524
Balance at December 31, 2019	\$ —	\$ —	\$ 1	\$ 12,908	\$ 585	\$ (562)	\$ 3,240	\$ 16,172	\$ 65	\$ 16,237

See accompanying notes to the consolidated financial statements.

Brighthouse Financial, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019, 2018 and 2017
(In millions)

	2019	2018	2017
Cash flows from operating activities			
Net income (loss)	\$ (735)	\$ 870	\$ (378)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization of premiums and accretion of discounts associated with investments, net	(283)	(264)	(276)
(Gains) losses on investments, net	(112)	207	28
(Gains) losses on derivatives, net	2,547	(45)	3,000
(Income) loss from equity method investments, net of dividends and distributions	70	(66)	(46)
Interest credited to policyholder account balances	1,063	1,079	1,111
Universal life and investment-type product policy fees	(3,580)	(3,835)	(3,898)
Change in accrued investment income	84	(171)	(80)
Change in premiums, reinsurance and other receivables	(629)	(207)	197
Change in deferred policy acquisition costs and value of business acquired, net	8	725	(33)
Change in income tax	(316)	1,082	(117)
Change in other assets	1,974	2,143	2,271
Change in future policy benefits and other policy-related balances	1,688	1,358	1,418
Change in other liabilities	(26)	72	70
Other, net	75	114	129
Net cash provided by (used in) operating activities	<u>1,828</u>	<u>3,062</u>	<u>3,396</u>
Cash flows from investing activities			
Sales, maturities and repayments of:			
Fixed maturity securities	14,146	15,819	17,214
Equity securities	57	22	97
Mortgage loans	1,538	797	742
Limited partnerships and limited liability companies	302	275	341
Purchases of:			
Fixed maturity securities	(16,915)	(16,460)	(18,782)
Equity securities	(22)	(2)	(2)
Mortgage loans	(3,610)	(3,890)	(2,041)
Limited partnerships and limited liability companies	(463)	(358)	(531)
Cash received in connection with freestanding derivatives	2,041	1,803	1,865
Cash paid in connection with freestanding derivatives	(2,639)	(2,940)	(3,831)
Net change in policy loans	129	103	(6)
Net change in short-term investments	(1,942)	312	1,030
Net change in other invested assets	37	(19)	(13)
Other, net	—	—	2
Net cash provided by (used in) investing activities	<u>\$ (7,341)</u>	<u>\$ (4,538)</u>	<u>\$ (3,915)</u>

See accompanying notes to the consolidated financial statements.

Brighthouse Financial, Inc.
Consolidated Statements of Cash Flows (continued)
For the Years Ended December 31, 2019, 2018 and 2017
(In millions)

	2019	2018	2017
Cash flows from financing activities			
Policyholder account balances:			
Deposits	\$ 7,672	\$ 6,480	\$ 4,990
Withdrawals	(2,849)	(3,494)	(3,103)
Net change in payables for collateral under securities loaned and other transactions	(666)	888	(3,147)
Long-term debt issued	1,000	375	3,588
Long-term debt repaid	(602)	(9)	(13)
Collateral financing arrangement repaid	—	—	(2,797)
Treasury stock acquired in connection with share repurchases	(442)	(105)	—
Preferred stock issued, net of issuance costs	412	—	—
Dividends on preferred stock	(21)	—	—
Distribution to MetLife, Inc.	—	—	(1,798)
Cash received from MetLife, Inc. in connection with shareholder's net investment	—	—	293
Cash paid to MetLife, Inc. in connection with shareholder's net investment	—	—	(668)
Financing element on certain derivative instruments and other derivative related transactions, net	(203)	(303)	(149)
Other, net	(56)	(68)	(48)
Net cash provided by (used in) financing activities	4,245	3,764	(2,852)
Change in cash, cash equivalents and restricted cash	(1,268)	2,288	(3,371)
Cash, cash equivalents and restricted cash, beginning of year	4,145	1,857	5,228
Cash, cash equivalents and restricted cash, end of year	\$ 2,877	\$ 4,145	\$ 1,857
Supplemental disclosures of cash flow information			
Net cash paid (received) for:			
Interest	\$ 187	\$ 159	\$ 155
Income tax	\$ 16	\$ (895)	\$ (637)
Non-cash transactions:			
Transfer of fixed maturity securities to former affiliate	\$ —	\$ —	\$ 293
Reduction of policyholder account balances in connection with reinsurance transactions	\$ —	\$ —	\$ 293

See accompanying notes to the consolidated financial statements.

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements

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

Business

“Brighthouse Financial” and the “Company” refer to Brighthouse Financial, Inc. and its subsidiaries (formerly, MetLife U.S. Retail Separation Business). Brighthouse Financial, Inc. (“BHF”) is a holding company formed to own the legal entities that historically operated a substantial portion of MetLife, Inc.’s (together with its subsidiaries and affiliates, “MetLife”) former Retail segment. BHF was incorporated in Delaware on August 1, 2016 in preparation for MetLife, Inc.’s separation of a substantial portion of its former Retail segment, as well as certain portions of its former Corporate Benefit Funding segment (the “Separation”), which was completed on August 4, 2017.

In connection with the Separation, 80.8% of MetLife, Inc.’s interest in BHF was distributed to holders of MetLife, Inc.’s common stock and MetLife, Inc. retained the remaining 19.2%. On June 14, 2018, MetLife, Inc. divested its remaining shares of BHF common stock (the “MetLife Divestiture”). As a result, MetLife, Inc. and its subsidiaries and affiliates are no longer considered related parties subsequent to the MetLife Divestiture. See Notes 10 and 14 for additional information related to the Separation.

Brighthouse Financial is one of the largest providers of annuity and life insurance products in the United States through multiple independent distribution channels and marketing arrangements with a diverse network of distribution partners. 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.

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 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 consolidated financial statements include the accounts of Brighthouse Financial, as well as partnerships and limited liability companies (“LLCs”) in which the Company has control. Intercompany accounts and transactions have been eliminated.

The Company uses the equity method of accounting for investments in limited partnerships and LLCs when it has more than a minor ownership interest or more than a minor influence over the investee’s operations. The Company generally recognizes its share of the investee’s earnings on a three-month lag in instances where the investee’s financial information is not sufficiently timely or when the investee’s reporting period differs from the Company’s reporting period. When the Company has virtually no influence over the investee’s operations, the investment is carried at fair value.

Reclassifications

Certain amounts in the prior years’ consolidated financial statements and related footnotes thereto have been reclassified to conform with the current year presentation as may be discussed when applicable in the Notes to the Consolidated Financial Statements.

Summary of Significant Accounting Policies

Insurance

Future Policy Benefit Liabilities and Policyholder Account Balances

The Company establishes liabilities for future amounts payable under insurance policies. Insurance liabilities are generally equal to the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Assumptions used to measure the liability are based on the Company’s experience and include a margin for adverse deviation. The principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, benefit utilization and withdrawals, policy lapse, retirement, disability incidence, disability terminations, investment returns, and expenses as appropriate to the respective product type.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)**

For traditional long-duration insurance contracts (term, whole life insurance and income annuities), assumptions are determined at issuance of the policy and are not updated unless a premium deficiency exists. A premium deficiency exists when the liability for future policy benefits plus the present value of expected future gross premiums are less than expected future benefits and expenses (based on current assumptions). When a premium deficiency exists, the Company will reduce any deferred acquisition costs and may also establish an additional liability to eliminate the deficiency. To assess whether a premium deficiency exists, the Company groups insurance contracts based on the manner acquired, serviced and measured for profitability. In applying the profitability criteria, groupings are limited by segment.

In certain cases, the liability for an insurance product may be sufficient in the aggregate, but the pattern of future earnings may result in profits followed by losses. In these situations, the Company may establish an additional liability to offset the losses that are expected to be recognized in later years.

Policyholder account balances relate to customer deposits on universal life insurance and deferred annuity contracts and are equal to the sum of deposits, plus interest credited, less charges and withdrawals.

Liabilities for secondary guarantees on universal and variable life insurance contracts are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero and recognizing those benefits ratably over the contract period based on total expected assessments. The Company also maintains a liability for profits followed by losses on universal life insurance with secondary guarantees. The assumptions used in estimating the secondary guarantee liabilities are consistent with those used for amortizing deferred policy acquisition costs ("DAC") and are reviewed and updated at least annually. The assumptions of investment performance and volatility for variable products are consistent with historical experience of the appropriate underlying separate account funds. The benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios.

Recognition of Insurance Revenues and Deposits

Premiums related to traditional life insurance and annuity contracts are recognized as revenues when due from policyholders. When premiums for income annuities are due over a significantly shorter period than the period over which policyholder benefits are incurred, any excess profit is deferred and recognized into earnings in proportion to the amount of expected future benefit payments.

Deposits related to universal life insurance, deferred annuity contracts and investment contracts are credited to policyholder account balances. Revenues from such contracts consist of asset-based investment management fees, cost of insurance charges, risk charges, policy administration fees and surrender charges. These fees, which are included in universal life and investment-type product policy fees, are recognized when assessed to the contract holder, except for non-level insurance charges which are deferred and amortized over the life of the contracts.

Premiums, policy fees, policyholder benefits and expenses are presented net of reinsurance.

Deferred Policy Acquisition Costs, Value of Business Acquired and Other Intangibles

The Company incurs significant costs in connection with acquiring new and renewal insurance business. Costs that are related directly to the successful acquisition or renewal of insurance contracts are capitalized as DAC. These costs mainly consist of commissions and include the portion of employees' compensation and benefits related to time spent selling, underwriting or processing the issuance of new insurance contracts. All other acquisition-related costs are expensed as incurred.

Value of business acquired ("VOBA") is an intangible asset resulting from a business combination that represents the excess of book value over the estimated fair value of acquired insurance, annuity and investment-type contracts in-force as of the acquisition date. The estimated fair value of the acquired contracts is based on projections, by each block of business, of future policy and contract charges, premiums, mortality and morbidity, separate account performance, surrenders, operating expenses, investment returns, nonperformance risk adjustment and other factors.

The Company amortizes DAC and VOBA related to term life insurance, non-participating whole life and immediate annuities over the appropriate premium paying period in proportion to the actual and expected future gross premiums that were set at contract issue. The expected premiums are based upon the premium requirement of each policy and assumptions for mortality, persistency and investment returns at policy issuance, or policy acquisition (as it relates to VOBA), include provisions for adverse deviation, and are consistent with the assumptions used to calculate future policy benefit liabilities. These assumptions are not revised after policy issuance or acquisition unless the DAC or VOBA balance is deemed to be unrecoverable from future expected profits.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)**

The Company amortizes DAC and VOBA on deferred annuities, universal life and variable life insurance contracts over the estimated lives of the contracts in proportion to actual and expected future gross profits. The amortization includes interest based on rates in effect at inception or acquisition of the contracts. The amount of future gross profits is dependent principally upon investment returns in excess of the amounts credited to policyholders, mortality, persistency, benefit elections and withdrawals, interest crediting rates, and expenses to administer the business. When significant negative gross profits are expected in future periods, the Company substitutes the amount of insurance in-force for expected future gross profits as the amortization basis for DAC.

Assumptions for DAC and VOBA are reviewed at least annually, and if they change significantly, the cumulative DAC and VOBA amortization is re-estimated and adjusted by a cumulative charge or credit to net income. When expected future gross profits are below those previously estimated, the DAC and VOBA amortization will increase, resulting in a current period charge to net income. The opposite result occurs when the expected future gross profits are above the previously estimated expected future gross profits.

The Company updates expected future gross profits to reflect the actual gross profits for each period, including changes to its nonperformance risk related to embedded derivatives and the actual amount of business remaining in-force. When actual gross profits exceed those previously estimated, the DAC and VOBA amortization will increase, resulting in a current period charge to net income. The opposite result occurs when the actual gross profits are below the previously expected future gross profits.

DAC and VOBA balances on deferred annuities, universal and variable life insurance contracts are also adjusted to reflect the effect of investment gains and losses and certain embedded derivatives (including changes in nonperformance risk). These adjustments can create fluctuations in net income from period to period. Changes in DAC and VOBA balances related to unrealized gains and losses are recorded to other comprehensive income (loss) ("OCI").

DAC and VOBA balances and amortization for variable contracts can be significantly impacted by changes in expected future gross profits related to projected separate account rates of return. The Company's practice of determining changes in separate account returns assumes that long-term appreciation in equity markets is only changed when sustained interim deviations are expected. The Company monitors these events and only changes the assumption when its long-term expectation changes.

Periodically, the Company modifies product benefits, features, rights or coverages that occur by the exchange of an existing contract for a new contract, or by amendment, endorsement, or rider to a contract, or by election or coverage within a contract. If a modification is considered to have substantially changed the contract, the associated DAC or VOBA is written off immediately as net income and any new acquisition costs associated with the replacement contract are deferred. If the modification does not substantially change the contract, the DAC or VOBA amortization on the original contract will continue and any acquisition costs associated with the related modification are expensed.

The Company also has intangible assets representing deferred sales inducements ("DSI") and the value of distribution agreements ("VODA") which are included in other assets. The Company defers sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. The amortization of DSI is included in policyholder benefits and claims. VODA represents the present value of expected future profits associated with the expected future business derived from the distribution agreements acquired as part of a business combination. The VODA associated with past business combinations is amortized over useful lives ranging from 10 to 40 years and such amortization is included in other expenses. Each year, or more frequently if circumstances indicate a possible impairment exists, the Company reviews DSI and VODA to determine whether the assets are impaired.

Reinsurance

The Company enters into reinsurance arrangements pursuant to which it cedes certain insurance risks to unaffiliated reinsurers. Cessions under reinsurance agreements do not discharge the Company's obligations as the primary insurer. The accounting for reinsurance arrangements depends on whether the arrangement provides indemnification against loss or liability relating to insurance risk in accordance with GAAP.

For ceded reinsurance of existing in-force blocks of insurance contracts that transfer significant insurance risk, premiums, benefits and the amortization of DAC are reported net of reinsurance ceded. Amounts recoverable from reinsurers related to incurred claims and ceded reserves are included in premiums, reinsurance and other receivables and amounts payable to reinsurers included in other liabilities.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)**

If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting. Deposits received are included in other liabilities and deposits made are included within premiums, reinsurance and other receivables. As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted. Interest on such deposits is recorded as other revenues or other expenses, as appropriate.

The funds withheld liability represents amounts withheld by the Company in accordance with the terms of the reinsurance agreements. Under certain reinsurance agreements, the Company withholds the funds rather than transferring the underlying investments and, as a result, records a funds withheld liability within other liabilities. The Company recognizes interest on funds withheld, included in other expenses, at rates defined by the terms of the agreement which may be contractually specified or directly related to the investment portfolio. Certain funds withheld arrangements may also contain embedded derivatives measured at fair value that are related to the investment return on the assets withheld.

The Company accounts for assumed reinsurance similar to directly written business, except for guaranteed minimum income benefits (“GMIBs”), where a portion of the directly written GMIBs are accounted for as insurance liabilities, but the associated reinsurance agreements contain embedded derivatives.

Variable Annuity Guarantees

The Company issues certain variable annuity products with guaranteed minimum benefits that provide the policyholder a minimum return based on their initial deposit (the “Benefit Base”) less withdrawals. In some cases, the Benefit Base may be increased by additional deposits, bonus amounts, accruals or optional market value step-ups.

Certain of the Company’s variable annuity guarantee features are accounted for as insurance liabilities and recorded in future policy benefits while others are accounted for at fair value as embedded derivatives and recorded in policyholder account balances. Generally, a guarantee is accounted for as an insurance liability if the guarantee is paid only upon either the occurrence of a specific insurable event, or annuitization. Alternatively, a guarantee is accounted for as an embedded derivative if a guarantee is paid without requiring the occurrence of specific insurable event, or the policyholder to annuitize, that is, the policyholder can receive the guarantee on a net basis. In certain cases, a guarantee may have elements of both an insurance liability and an embedded derivative and in such cases the guarantee is split and accounted for under both models. Further, changes in assumptions, principally involving policyholder behavior, can result in a change of expected future cash outflows of a guarantee between portions accounted for as insurance liabilities and portions accounted for as embedded derivatives.

Guarantees accounted for as insurance liabilities in future policy benefits include guaranteed minimum death benefits (“GMDBs”), the life contingent portion of the guaranteed minimum withdrawal benefits (“GMWBs”) and the portion of the GMIBs that require annuitization, as well as the life contingent portion of the expected annuitization when the policyholder is forced into an annuitization upon depletion of their account value.

These insurance liabilities are accrued over the accumulation phase of the contract in proportion to actual and future expected policy assessments based on the level of guaranteed minimum benefits generated using multiple scenarios of separate account returns. The scenarios are based on best estimate assumptions consistent with those used to amortize DAC. When current estimates of future benefits exceed those previously projected or when current estimates of future assessments are lower than those previously projected, liabilities will increase, resulting in a current period charge to net income. The opposite result occurs when the current estimates of future benefits are lower than those previously projected or when current estimates of future assessments exceed those previously projected. At each reporting period, the actual amount of business remaining in-force is updated, which impacts expected future assessments and the projection of estimated future benefits resulting in a current period charge or increase to earnings. Guarantees accounted for as embedded derivatives in policyholder account balances include the non-life contingent portion of GMWBs, guaranteed minimum accumulation benefits (“GMABs”), and for GMIBs the non-life contingent portion of the expected annuitization when the policyholder is forced into an annuitization upon depletion of their account value, as well as the guaranteed principal option.

The estimated fair values of guarantees accounted for as embedded derivatives are determined based on the present value of projected future benefits minus the present value of projected future fees. At policy inception, the Company attributes to the embedded derivative a portion of the projected future guarantee fees to be collected from the policyholder equal to the present value of projected future guaranteed benefits. Any additional fees are considered revenue and are reported in universal life and investment-type product policy fees. The percentage of fees included in the initial fair value measurement is not updated in subsequent periods.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)**

The Company updates the estimated fair value of guarantees in subsequent periods by projecting future benefits using capital market and actuarial assumptions including expectations of policyholder behavior. A risk neutral valuation methodology is used to project the cash flows from the guarantees under multiple capital market scenarios to determine an economic liability. The reported estimated fair value is then determined by taking the present value of these risk-free generated cash flows using a discount rate that incorporates a spread over the risk-free rate to reflect the Company's nonperformance risk and adding a risk margin. For more information on the determination of estimated fair value of embedded derivatives, see Note 8.

Assumptions for all variable guarantees are reviewed at least annually, and if they change significantly, the estimated fair value is adjusted by a cumulative charge or credit to net income.

Index-linked Annuities

The Company issues and assumes through reinsurance index-linked annuities. The crediting rate associated with index-linked annuities is accounted for at fair value as an embedded derivative. The estimated fair value is determined using a combination of an option pricing model and an option-budget approach. Under this approach, the company estimates the cost of funding the crediting rate using option pricing and establishes that cost on the balance sheet as a reduction to the initial deposit amount. In subsequent periods, the embedded derivative is remeasured at fair value while the reduction in initial deposit is accreted back up to the initial deposit over the estimated life of the contract.

Investments**Net Investment Income and Net Investment Gains (Losses)**

Income from investments is reported within net investment income, unless otherwise stated herein. Gains and losses on sales of investments, impairment losses and changes in valuation allowances are reported within net investment gains (losses), unless otherwise stated herein.

Fixed Maturity Securities Available-For-Sale

The Company's fixed maturity securities are classified as available-for-sale ("AFS") and are reported at their estimated fair value. Unrealized investment gains and losses on these securities are recorded as a separate component of OCI, net of policy-related amounts and deferred income taxes. Publicly-traded security transactions are recorded on a trade date basis, while privately-placed and bank loan security transactions are recorded on a settlement date basis. Investment gains and losses on sales are determined on a specific identification basis.

Interest income and prepayment fees are recognized when earned. Interest income is recognized using an effective yield method giving effect to amortization of premiums and accretion of discounts and is based on the estimated economic life of the securities, which for residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and asset-backed securities ("ABS") (collectively, "Structured Securities") considers the estimated timing and amount of prepayments of the underlying loans. The amortization of premium and accretion of discount of fixed maturity securities also takes into consideration call and maturity dates.

Amortization of premium and accretion of discount on Structured Securities considers the estimated timing and amount of prepayments of the underlying loans. Actual prepayment experience is periodically reviewed, and effective yields are recalculated when differences arise between the originally anticipated and the actual prepayments received and currently anticipated. Prepayment assumptions for Structured Securities are estimated using inputs obtained from third-party specialists and based on management's knowledge of the current market. For credit-sensitive Structured Securities and certain prepayment-sensitive securities, the effective yield is recalculated on a prospective basis. For all other Structured Securities, the effective yield is recalculated on a retrospective basis.

The Company periodically evaluates fixed maturity securities for impairment. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in estimated fair value, as well as an analysis of the gross unrealized losses by severity and/or age.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)**

For fixed maturity securities in an unrealized loss position, an other-than-temporary impairment (“OTTI”) is recognized in earnings when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security; or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the OTTI recognized in earnings is the entire difference between the security’s amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings (“credit loss”). If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors (“noncredit loss”) is recorded in OCI.

Mortgage Loans

Mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and any deferred fees or expenses, and are net of valuation allowances. Interest income and prepayment fees are recognized when earned. Interest income is recognized using an effective yield method giving effect to amortization of premiums and accretion of discounts.

Policy Loans

Policy loans are stated at unpaid principal balances. Interest income is recorded as earned using the contractual interest rate. Generally, accrued interest is capitalized on the policy’s anniversary date. Any unpaid principal and accrued interest is deducted from the cash surrender value or the death benefit prior to settlement of the insurance policy.

Limited Partnerships and LLCs

The Company uses the equity method of accounting for investments when it has more than a minor ownership interest or more than a minor influence over the investee’s operations; when the Company has virtually no influence over the investee’s operations the investment is carried at estimated fair value. The Company generally recognizes its share of the equity method 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; while distributions on investments carried at estimated fair value are recognized as earned or received.

Short-term Investments

Short-term investments include securities and other investments with remaining maturities of one year or less, but greater than three months, at the time of purchase and are stated at estimated fair value or amortized cost, which approximates estimated fair value.

Other Invested Assets

Other invested assets consist principally of freestanding derivatives with positive estimated fair values which are described in “—Derivatives” below.

Securities Lending Program

Securities lending transactions whereby blocks of securities are loaned to third parties, primarily brokerage firms and commercial banks, are treated as financing arrangements and the associated liability is recorded at the amount of cash received. Income and expenses associated with securities lending transactions are reported as investment income and investment expense, respectively, within net investment income.

The Company obtains collateral at the inception of the loan, usually cash, in an amount generally equal to 102% of the estimated fair value of the securities loaned and maintains it at a level greater than or equal to 100% for the duration of the loan. The Company monitors the estimated fair value of the securities loaned on a daily basis and additional collateral is obtained as necessary throughout the duration of the loan. Securities loaned under such transactions may be sold or re-pledged by the transferee. The Company is liable to return to the counterparties the cash collateral received.

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.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)**

If a derivative is not designated or did not qualify as an accounting hedge, changes in the estimated fair value of the derivative are reported in net derivative gains (losses).

The Company generally reports cash received or paid for a derivative in the investing activity section of the statement of cash flows except for cash flows of certain derivative options with deferred premiums, which are reported in the financing activity section of the statement of cash flows.

Hedge Accounting

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

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

The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivative is no longer highly effective in offsetting changes in the estimated fair value or cash flows of a hedged item; (ii) the derivative or hedged item 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 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). The changes in estimated fair value of derivatives previously 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 the hedged item matures or is sold, or the forecasted transaction is not probable of occurring, the Company immediately reclassifies any remaining balances in OCI to net derivative gains (losses).

Embedded Derivatives

The Company has certain insurance and reinsurance contracts that contain embedded derivatives which are required to be separated from their host contracts and reported as derivatives. These host contracts include: variable annuities with guaranteed minimum benefits, including GMWBs, GMABs and certain GMIBs; index-linked annuities that are directly written or assumed through reinsurance; and ceded reinsurance of variable annuity GMIBs. Embedded derivatives within asset host contracts are presented within premiums, reinsurance and other receivables on the consolidated balance sheets. Embedded derivatives within liability host contracts are presented within policyholder account balances on the consolidated balance sheets. Changes in the estimated fair value of the embedded derivative are reported in net derivative gains (losses).

See "— Variable Annuity Guarantees," "— Index-Linked Annuities" and "— Reinsurance" for additional information on the accounting policies for embedded derivatives bifurcated from variable annuity and reinsurance host contracts.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In most cases, the exit price and the transaction (or entry) price will be the same at initial recognition.

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

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)****Separate Accounts**

Separate accounts underlying the Company's variable life and annuity contracts are reported at fair value. Assets in separate accounts supporting the contract liabilities are legally insulated from the Company's general account liabilities. Investments in these separate accounts are directed by the contract holder and all investment performance, net of contract fees and assessments, is passed through to the contract holder. Investment performance and the corresponding amounts credited to contract holders of such separate accounts are offset within the same line on the statements of operations.

Separate accounts that do not pass all investment performance to the contract holder, including those underlying certain index-linked annuities, are combined on a line-by-line basis with the Company's general account assets, liabilities, revenues and expenses. The accounting for investments in these separate accounts is consistent with the methodologies described herein for similar financial instruments held within the general account.

The Company receives asset-based distribution and service fees from mutual funds available to the variable life and annuity contract holders as investment options in its separate accounts. These fees are recognized in the period in which the related services are performed and are included in other revenues in the statement of operations.

Income Tax

Income taxes as presented herein attribute current and deferred income taxes of MetLife, Inc., for periods up until the Separation, to Brighthouse Financial in a manner that is systematic, rational and consistent with the asset and liability method prescribed by the Financial Accounting Standards Board ("FASB") guidance Accounting Standards Codification 740 — Income Taxes ("ASC 740"). The Company's income tax provision was prepared following the modified separate return method. The modified separate return method applies ASC 740 to the stand-alone financial statements of each member of the consolidated group as if the group member were a separate taxpayer and a stand-alone enterprise, after providing benefits for losses. The Company's accounting for income taxes represents management's best estimate of various events and transactions.

Deferred tax assets and liabilities resulting from temporary differences between the financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse.

The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction. Valuation allowances are established when management determines, based on available information, that it is more likely than not that deferred income tax assets will not be realized. Significant judgment is required in determining whether valuation allowances should be established, as well as the amount of such allowances. When making such determination, the Company considers many factors, including the jurisdiction in which the deferred tax asset was generated, the length of time that carryforward can be utilized in the various taxing jurisdictions, future taxable income exclusive of reversing temporary differences and carryforwards, future reversals of existing taxable temporary differences, taxable income in prior carryback years, tax planning strategies and the nature, frequency, and amount of cumulative financial reporting income and losses in recent years.

The Company may be required to change its provision for income taxes when estimates used in determining valuation allowances on deferred tax assets significantly change or when receipt of new information indicates the need for adjustment in valuation allowances. Additionally, the effect of changes in tax laws, tax regulations, or interpretations of such laws or regulations, is recognized in net income tax expense (benefit) in the period of change.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded on the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. Unrecognized tax benefits due to tax uncertainties that do not meet the threshold are included within other liabilities and are charged to earnings in the period that such determination is made.

The Company classifies interest recognized as interest expense and penalties recognized as a component of income tax expense.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)****Litigation Contingencies**

The Company is a party to a number of legal actions and may be involved in a number of regulatory investigations. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on the Company's financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Legal costs are recognized as incurred. On a quarterly and annual basis, the Company reviews relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected on the Company's financial statements.

Other Accounting Policies**Cash and Cash Equivalents**

The Company considers all highly liquid securities and other investments purchased with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are stated at estimated fair value or amortized cost, which approximates estimated fair value.

Employee Benefit Plans

Brighthouse Services, LLC ("Brighthouse Services"), sponsors qualified and non-qualified defined contribution plans, and New England Life Insurance Company ("NELICO") sponsors certain frozen defined benefit pension and postretirement plans. NELICO recognizes the funded status of each of its pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, which is the projected benefit obligation ("PBO") for pension benefits in other assets or other liabilities. Brighthouse Services and NELICO are both indirect wholly-owned subsidiaries.

Actuarial gains and losses result from differences between the actual experience and the assumed experience on plan assets or PBO during a particular period and are recorded in accumulated other comprehensive income (loss) ("AOCI"). To the extent such gains and losses exceed 10% of the greater of the PBO or the estimated fair value of plan assets, the excess is amortized into net periodic benefit costs over the average projected future lifetime of all plan participants or projected future working lifetime, as appropriate. Prior service costs (credit) are recognized in AOCI at the time of the amendment and then amortized into net periodic benefit costs over the average projected future lifetime of all plan participants or projected future working lifetime, as appropriate.

Net periodic benefit costs are determined using management estimates and actuarial assumptions; and are comprised of service cost, interest cost, expected return on plan assets, amortization of net actuarial (gains) losses, settlement and curtailment costs, and amortization of prior service costs (credit).

Adoption of New Accounting Pronouncements

Changes to GAAP are established by the FASB in the form of accounting standards updates ("ASUs") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on the Company's consolidated financial statements. There were no ASUs adopted during 2019 that had a material impact on the Company's financial statements.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

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

ASUs issued but not yet adopted as of December 31, 2019 are summarized in the table below.

Standard	Description	Effective Date	Impact on Financial Statements
ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	The amendments to Topic 350 require the capitalization of certain implementation costs incurred in a cloud computing arrangement that is a service contract. The requirements align with the existing requirements to capitalize implementation costs incurred to develop or obtain internal-use software.	January 1, 2020 using the prospective method or retrospective method (with early adoption permitted)	The adoption of this new guidance will not have a material impact on the Company’s financial statements.
ASU 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts	The amendments to Topic 944 will result in significant changes to the accounting for long-duration insurance contracts. These changes (1) require all guarantees that qualify as market risk benefits to be measured at fair value, (2) require more frequent updating of assumptions and modify existing discount rate requirements for certain insurance liabilities, (3) modify the methods of amortization for DAC, and (4) require new qualitative and quantitative disclosures around insurance contract asset and liability balances and the judgments, assumptions and methods used to measure those balances. The market risk benefit guidance is required to be applied on a retrospective basis, while the changes to guidance for insurance liabilities and DAC may be applied to existing carrying amounts on the effective date or on a retrospective basis.	January 1, 2022	The Company is in the early stages of evaluating the new guidance and therefore is unable to estimate the impact to its financial statements. The most significant impact is expected to be the measurement of liabilities for variable annuity guarantees.
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The amendments to Topic 326 replace the incurred loss impairment methodology for certain financial instruments with one that reflects expected credit losses based on historical loss information, current conditions, and reasonable and supportable forecasts. The new guidance also requires that an OTTI on a debt security will be recognized as an allowance going forward, such that improvements in expected future cash flows after an impairment will no longer be reflected as a prospective yield adjustment through net investment income, but rather a reversal of the previous impairment and recognized through realized investment gains and losses.	January 1, 2020 using the modified retrospective method (with early adoption permitted beginning January 1, 2019)	The adoption of this new guidance will not have a material impact on the Company’s financial statements.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information

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

Annuities

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

Life

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

Run-off

The Run-off segment consists of products no longer actively sold and which are separately managed, including structured settlements, pension risk transfer contracts, certain company-owned life insurance policies, funding agreements and universal life with secondary guarantees ("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 long-term care and workers' compensation business reinsured through 100% quota share reinsurance agreements and term life insurance sold direct to consumers, which is no longer being offered for new sales.

Financial Measures and Segment Accounting Policies

Adjusted earnings is a financial measure used by management to evaluate performance, allocate resources and facilitate comparisons to industry results. Consistent with GAAP guidance for segment reporting, adjusted earnings is also used to measure segment performance. The Company believes the presentation of adjusted earnings, as the Company measures it for management purposes, enhances the understanding of its performance by the investor community. Adjusted earnings should not be viewed as a substitute for net income (loss) available to BHF's common shareholders and excludes net income (loss) attributable to noncontrolling interests and preferred stock dividends.

Adjusted earnings, which may be positive or negative, focuses on the Company's primary businesses principally by excluding the impact of market volatility, which could distort trends.

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

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

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

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

The tax impact of the adjustments mentioned above is calculated net of the statutory tax rate, which could differ from the Company's effective tax rate.

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
2. Segment Information (continued)

The segment accounting policies are the same as those used to prepare the Company's consolidated financial statements, except for the adjustments to calculate adjusted earnings described above. In addition, segment accounting policies include the methods of capital allocation described below.

Segment investment and capitalization targets are based on statutory oriented risk principles and metrics. Segment invested assets backing liabilities are based on net statutory liabilities plus excess capital. For the variable annuity business, the excess capital held is based on the target statutory total asset requirement consistent with the Company's variable annuity risk management strategy. For insurance businesses other than variable annuities, excess capital held is based on a percentage of required statutory risk-based capital ("RBC"). Assets in excess of those allocated to the segments, if any, are held in Corporate & Other. Segment net investment income reflects the performance of each segment's respective invested assets.

Set forth in the tables below are the operating results with respect to the Company's segments, as well as Corporate & Other, for the years ended December 31, 2019, 2018 and 2017 and at December 31, 2019 and 2018.

Year Ended December 31, 2019	Operating Results				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Pre-tax adjusted earnings	\$ 1,263	\$ 288	\$ (580)	\$ (301)	\$ 670
Provision for income tax expense (benefit)	235	57	(126)	(121)	45
Post-tax adjusted earnings	1,028	231	(454)	(180)	625
Less: Net income (loss) attributable to noncontrolling interests	—	—	—	5	5
Less: Preferred stock dividends	—	—	—	21	21
Adjusted earnings	\$ 1,028	\$ 231	\$ (454)	\$ (206)	599
Adjustments for:					
Net investment gains (losses)					112
Net derivative gains (losses)					(1,988)
Other adjustments to net income (loss)					154
Provision for income tax (expense) benefit					362
Net income (loss) available to Brighthouse Financial, Inc.'s common shareholders					\$ (761)
Interest revenue	\$ 1,809	\$ 436	\$ 1,265	\$ 75	
Interest expense	\$ —	\$ —	\$ —	\$ 191	
Balance at December 31, 2019	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Total assets	\$ 156,965	\$ 21,876	\$ 35,112	\$ 13,306	\$ 227,259
Separate account assets	\$ 99,498	\$ 5,493	\$ 2,116	\$ —	\$ 107,107
Separate account liabilities	\$ 99,498	\$ 5,493	\$ 2,116	\$ —	\$ 107,107

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
2. Segment Information (continued)

Year Ended December 31, 2018	Operating Results				
	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Pre-tax adjusted earnings	\$ 1,233	\$ 285	\$ (57)	\$ (431)	\$ 1,030
Provision for income tax expense (benefit)	210	57	(14)	(120)	133
Post-tax adjusted earnings	1,023	228	(43)	(311)	897
Less: Net income (loss) attributable to noncontrolling interests	—	—	—	5	5
Less: Preferred stock dividends	—	—	—	—	—
Adjusted earnings	<u>\$ 1,023</u>	<u>\$ 228</u>	<u>\$ (43)</u>	<u>\$ (316)</u>	<u>892</u>
Adjustments for:					
Net investment gains (losses)					(207)
Net derivative gains (losses)					702
Other adjustments to net income (loss)					(536)
Provision for income tax (expense) benefit					14
Net income (loss) available to Brighthouse Financial, Inc.'s common shareholders					<u>\$ 865</u>
Interest revenue	\$ 1,536	\$ 449	\$ 1,310	\$ 57	
Interest expense	\$ —	\$ —	\$ —	\$ 158	
Balance at December 31, 2018	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Total assets	\$ 141,489	\$ 20,449	\$ 32,393	\$ 11,963	\$ 206,294
Separate account assets	\$ 91,922	\$ 4,679	\$ 1,655	\$ —	\$ 98,256
Separate account liabilities	\$ 91,922	\$ 4,679	\$ 1,655	\$ —	\$ 98,256
	Operating Results				
Year Ended December 31, 2017	Annuities	Life	Run-off	Corporate & Other	Total
	(In millions)				
Pre-tax adjusted earnings	\$ 1,386	\$ 7	\$ 147	\$ 57	\$ 1,597
Provision for income tax expense (benefit)	369	(9)	43	274	677
Post-tax adjusted earnings	1,017	16	104	(217)	920
Less: Net income (loss) attributable to noncontrolling interests	—	—	—	—	—
Less: Preferred stock dividends	—	—	—	—	—
Adjusted earnings	<u>\$ 1,017</u>	<u>\$ 16</u>	<u>\$ 104</u>	<u>\$ (217)</u>	<u>920</u>
Adjustments for:					
Net investment gains (losses)					(28)
Net derivative gains (losses)					(1,620)
Other adjustments to net income (loss)					(564)
Provision for income tax (expense) benefit					914
Net income (loss) available to Brighthouse Financial, Inc.'s common shareholders					<u>\$ (378)</u>
Interest revenue	\$ 1,277	\$ 342	\$ 1,399	\$ 192	
Interest expense	\$ —	\$ —	\$ 23	\$ 132	

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)

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

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Annuities	\$ 4,648	\$ 4,567	\$ 4,370
Life	1,328	1,389	1,315
Run-off	2,009	2,112	2,147
Corporate & Other	176	152	510
Adjustments	(1,607)	745	(1,500)
Total	\$ 6,554	\$ 8,965	\$ 6,842

The following table presents total premiums, universal life and investment-type product policy fees and other revenues by major product group:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Annuity products	\$ 3,106	\$ 3,304	\$ 3,363
Life insurance products	1,709	1,827	1,822
Other products	36	1	227
Total	\$ 4,851	\$ 5,132	\$ 5,412

Substantially all of the Company's premiums, universal life and investment-type product policy fees and other revenues originated in the U.S.

Revenues derived from any individual customer did not exceed 10% of premiums, universal life and investment-type product policy fees and other revenues for the years ended December 31, 2019, 2018 and 2017.

3. Insurance

Insurance Liabilities

Insurance liabilities are comprised of future policy benefits, policyholder account balances and other policy-related balances. Information regarding insurance liabilities by segment, as well as Corporate & Other, was as follows at:

	December 31,	
	2019	2018
	(In millions)	
Annuities	\$ 43,843	\$ 37,433
Life	8,960	8,785
Run-off	28,064	25,448
Corporate & Other	7,701	7,597
Total	\$ 88,568	\$ 79,263

Assumptions for Future Policyholder Benefits and Policyholder Account Balances

For non-participating term and whole life insurance, assumptions for mortality and persistency are based upon the Company's experience. Interest rate assumptions for the aggregate future policy benefit liabilities range from 3% to 9%. The liability for single premium immediate annuities is based on the present value of expected future payments using the Company's experience for mortality assumptions, with interest rate assumptions used in establishing such liabilities ranging from 2% to 8%.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****3. Insurance (continued)**

Participating whole life insurance uses an interest assumption based upon non-forfeiture interest rate, ranging from 4% to 5%, and mortality rates guaranteed in calculating the cash surrender values described in such contracts, and also includes a liability for terminal dividends. Participating whole life insurance represented 3% of the Company's life insurance in-force at both December 31, 2019 and 2018, and 38% of gross traditional life insurance premiums for each of the years ended December 31, 2019, 2018 and 2017.

The liability for future policyholder benefits for long-term disability (included in the Life segment) and long-term care insurance (included in the Run-off segment) includes assumptions based on the Company's experience for future morbidity, withdrawals and interest. Interest rate assumptions used for long-term disability in establishing such liabilities range from 4% to 7%. Claim reserves for these products include best estimate assumptions for claim terminations, expenses and interest. Interest rate assumptions used for establishing long-term care claim liabilities range from 3% to 7%.

Policyholder account balances liabilities for deferred annuities and universal life insurance have interest credited rates ranging from 1% to 7%.

Guarantees

The Company issues variable annuity contracts with guaranteed minimum benefits. GMABs, the non-life contingent portion of 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 7.

The assumptions for GMDBs and GMIBs included in future policyholder benefits include projected separate account rates of return, general account investment returns, interest crediting rates, mortality, in-force or persistency, benefit elections and withdrawals, and expenses to administer business. GMIBs also include an assumption for the percentage of the potential annuitizations that may be elected by the contract holder, while GMWBs include assumptions for withdrawals.

The Company also has universal and variable life insurance contracts with secondary guarantees.

See Note 1 for more information on GMDBs and GMIBs accounted for as insurance liabilities.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

3. Insurance (continued)

Information regarding the liabilities for guarantees (excluding policyholder account balances and embedded derivatives) relating to variable annuity contracts and universal and variable life insurance contracts was as follows:

	Variable Annuity Contracts		Universal and Variable Life Contracts		Total
	GMDBs	GMIBs	Secondary Guarantees		
(In millions)					
Direct					
Balance at January 1, 2017	\$ 1,124	\$ 2,335	\$ 3,540	\$ 6,999	
Incurring guaranteed benefits	373	374	692	1,439	
Paid guaranteed benefits	(58)	—	—	(58)	
Balance at December 31, 2017	1,439	2,709	4,232	8,380	
Incurring guaranteed benefits	186	365	484	1,035	
Paid guaranteed benefits	(58)	—	—	(58)	
Balance at December 31, 2018	1,567	3,074	4,716	9,357	
Incurring guaranteed benefits	143	163	874	1,180	
Paid guaranteed benefits	(90)	—	—	(90)	
Balance at December 31, 2019	\$ 1,620	\$ 3,237	\$ 5,590	\$ 10,447	
Net Ceded/(Assumed)					
Balance at January 1, 2017	\$ (27)	\$ 20	\$ 1,105	\$ 1,098	
Incurring guaranteed benefits	101	(20)	(160)	(79)	
Paid guaranteed benefits	(56)	—	—	(56)	
Balance at December 31, 2017	18	—	945	963	
Incurring guaranteed benefits	49	—	18	67	
Paid guaranteed benefits	(56)	—	—	(56)	
Balance at December 31, 2018	11	—	963	974	
Incurring guaranteed benefits	86	—	120	206	
Paid guaranteed benefits	(88)	—	—	(88)	
Balance at December 31, 2019	\$ 9	\$ —	\$ 1,083	\$ 1,092	
Net					
Balance at January 1, 2017	\$ 1,151	\$ 2,315	\$ 2,435	\$ 5,901	
Incurring guaranteed benefits	272	394	852	1,518	
Paid guaranteed benefits	(2)	—	—	(2)	
Balance at December 31, 2017	1,421	2,709	3,287	7,417	
Incurring guaranteed benefits	137	365	466	968	
Paid guaranteed benefits	(2)	—	—	(2)	
Balance at December 31, 2018	1,556	3,074	3,753	8,383	
Incurring guaranteed benefits	57	163	754	974	
Paid guaranteed benefits	(2)	—	—	(2)	
Balance at December 31, 2019	\$ 1,611	\$ 3,237	\$ 4,507	\$ 9,355	

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

3. Insurance (continued)

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

	December 31,			
	2019		2018	
	In the Event of Death	At Annuitization	In the Event of Death	At Annuitization
(Dollars in millions)				
Annuity Contracts (1), (2)				
Variable Annuity Guarantees				
Total account value (3)	\$ 104,271	\$ 59,859	\$ 96,865	\$ 55,967
Separate account value	\$ 99,385	\$ 58,694	\$ 91,837	\$ 54,731
Net amount at risk	\$ 6,671 (4)	\$ 4,750 (5)	\$ 11,073 (4)	\$ 4,128 (5)
Average attained age of contract holders	68 years	68 years	68 years	68 years

	December 31,			
	2019		2018	
	Secondary Guarantees			
(Dollars in millions)				
Universal Life Contracts				
Total account value (3)	\$ 5,957		\$ 6,099	
Net amount at risk (6)	\$ 71,124		\$ 73,131	
Average attained age of policyholders	66 years		65 years	
Variable Life Contracts				
Total account value (3)	\$ 3,526		\$ 3,230	
Net amount at risk (6)	\$ 21,325		\$ 23,004	
Average attained age of policyholders	50 years		50 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 5 for a discussion of guaranteed minimum benefits which have been reinsured.
- (3) Includes the contract holder's investments in the general account and separate account, if applicable.
- (4) Defined as the death benefit less the total account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date and includes any additional contractual claims associated with riders purchased to assist with covering income taxes payable upon death.
- (5) Defined as the amount (if any) that would be required to be added to the total account value to purchase a lifetime income stream, based on current annuity rates, equal to the minimum amount provided under the guaranteed benefit. This amount represents the Company's potential economic exposure to such guarantees in the event all contract holders were to annuitize on the balance sheet date, even though the contracts contain terms that allow annuitization of the guaranteed amount only after the 10th anniversary of the contract, which not all contract holders have achieved.
- (6) Defined as the guarantee amount less the account value, as of the balance sheet date. It represents the amount of the claim that the Company would incur if death claims were filed on all contracts on the balance sheet date.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

3. Insurance (continued)

Account balances of contracts with guarantees were invested in separate account asset classes as follows at:

	December 31,	
	2019	2018
(In millions)		
Fund Groupings:		
Balanced	\$ 64,134	\$ 60,040
Equity	29,036	25,344
Bond	8,467	8,339
Money Market	16	18
Total	<u>\$ 101,653</u>	<u>\$ 93,741</u>

Obligations Under Funding Agreements

The Company has issued fixed and floating rate funding agreements, which are denominated in either U.S. dollars or foreign currencies, to certain special purpose entities that have issued either debt securities or commercial paper for which payment of interest and principal is secured by such funding agreements. During each of the years ended December 31, 2019, 2018 and 2017, the Company issued no funding agreements and repaid \$6 million. At December 31, 2019 and 2018, liabilities for funding agreements outstanding, which are included in policyholder account balances, were \$134 million and \$136 million, respectively.

Brighthouse Life Insurance Company is a member of the Federal Home Loan Bank (“FHLB”) of Atlanta and holds common stock in certain regional banks in the FHLB system. Holdings of FHLB common stock carried at cost at December 31, 2019 and 2018 were \$39 million and \$64 million, respectively.

Brighthouse Life Insurance Company has also entered into funding agreements with FHLBs. The liabilities for these funding agreements are included in policyholder account balances. Liabilities for FHLB funding agreements at both December 31, 2019 and 2018 were \$595 million.

Funding agreements are issued to FHLBs in exchange for cash. The FHLBs have been granted liens on certain assets, some of which are in their custody, including RMBS, to collateralize the Company’s obligations under the funding agreements. The Company is permitted to withdraw any portion of the collateral in the custody of the FHLBs as long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level. Upon any event of default by the Company, the FHLBs recovery on the collateral is limited to the amount of the Company’s liabilities to the FHLBs.

In February 2019, Brighthouse Life Insurance Company entered into a funding agreement program with the Federal Agricultural Mortgage Corporation and its affiliate Farmer Mac Mortgage Securities Corporation (“Farmer Mac”), pursuant to which the parties may agree to enter into funding agreements in an aggregate amount of up to \$500 million. The funding agreement program has a term ending on December 1, 2023. Funding agreements are issued to Farmer Mac in exchange for cash. In connection with each funding agreement, Farmer Mac will be granted liens on certain assets, including agricultural loans, to collateralize Brighthouse Life Insurance Company’s obligations under the funding agreements. Upon any event of default by Brighthouse Life Insurance Company, Farmer Mac’s recovery on the collateral is limited to the amount of Brighthouse Life Insurance Company’s liabilities to Farmer Mac. At December 31, 2019, there were no borrowings under this funding agreement program.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

4. Deferred Policy Acquisition Costs, Value of Business Acquired and Other Intangibles

See Note 1 for a description of capitalized acquisition costs.

Information regarding DAC and VOBA was as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
DAC:			
Balance at January 1,	\$ 5,149	\$ 5,678	\$ 5,652
Capitalizations	369	322	260
Amortization related to net investment gains (losses) and net derivative gains (losses)	204	(384)	258
All other amortization	(577)	(560)	(445)
Total amortization	(373)	(944)	(187)
Unrealized investment gains (losses)	(199)	93	(47)
Balance at December 31,	4,946	5,149	5,678
VOBA:			
Balance at January 1,	568	608	641
Amortization related to net investment gains (losses) and net derivative gains (losses)	(1)	(1)	(9)
All other amortization	(8)	(105)	(31)
Total amortization	(9)	(106)	(40)
Unrealized investment gains (losses)	(57)	66	7
Balance at December 31,	502	568	608
Total DAC and VOBA:			
Balance at December 31,	\$ 5,448	\$ 5,717	\$ 6,286

Information regarding total DAC and VOBA by segment, as well as Corporate & Other, was as follows at:

	December 31,	
	2019	2018
	(In millions)	
Annuities	\$ 4,327	\$ 4,550
Life	1,019	1,051
Run-off	5	5
Corporate & Other	97	111
Total	\$ 5,448	\$ 5,717

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

4. Deferred Policy Acquisition Costs, Value of Business Acquired and Other Intangibles (continued)

Information regarding other intangibles was as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
DSI:			
Balance at January 1,	\$ 410	\$ 431	\$ 445
Capitalization	2	2	2
Amortization	(38)	(41)	(5)
Unrealized investment gains (losses)	5	18	(11)
Balance at December 31,	<u>\$ 379</u>	<u>\$ 410</u>	<u>\$ 431</u>
VODA:			
Balance at January 1,	\$ 91	\$ 105	\$ 120
Amortization	(13)	(14)	(15)
Balance at December 31,	<u>\$ 78</u>	<u>\$ 91</u>	<u>\$ 105</u>
Accumulated amortization	<u>\$ 182</u>	<u>\$ 169</u>	<u>\$ 155</u>

The estimated future amortization expense to be reported in other expenses for the next five years is as follows:

	VOBA		VODA	
	(In millions)			
2020	\$	69	\$	12
2021	\$	61	\$	10
2022	\$	53	\$	9
2023	\$	46	\$	8
2024	\$	41	\$	7

5. Reinsurance

The Company enters into reinsurance agreements primarily as a purchaser of reinsurance for its various insurance products and also as a provider of reinsurance for some insurance products issued by former affiliated and unaffiliated companies. The Company participates in reinsurance activities in order to limit losses, minimize exposure to significant risks and provide additional capacity for future growth.

Accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. The Company periodically reviews actual and anticipated experience compared to the aforementioned assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluates the financial strength of counterparties to its reinsurance agreements using criteria similar to that evaluated in the security impairment process discussed in Note 6.

Annuities and Life

For annuities, the Company reinsures portions of the living and death benefit guarantees issued in connection with certain variable annuities to unaffiliated reinsurers. Under these reinsurance agreements, the Company pays a reinsurance premium generally based on fees associated with the guarantees collected from policyholders and receives reimbursement for benefits paid or accrued in excess of account values, subject to certain limitations. The value of embedded derivatives on the ceded risk is determined using a methodology consistent with the guarantees directly written by the Company with the exception of the input for nonperformance risk that reflects the credit of the reinsurer. The Company cedes certain fixed rate annuities to unaffiliated third-party reinsurers and assumes certain index-linked annuities from an unaffiliated third-party insurer. These reinsurance arrangements are structured on a coinsurance basis and are reported as deposit accounting.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****5. Reinsurance (continued)**

For its life products, the Company has historically reinsured the mortality risk primarily on an excess of retention basis or on a quota share basis. The Company currently reinsures 90% of the mortality risk in excess of \$2 million for most products. In addition to reinsuring mortality risk as described above, the Company reinsures other risks, as well as specific coverages. Placement of reinsurance is done primarily on an automatic basis and also on a facultative basis for risks with specified characteristics. On a case-by-case basis, the Company may retain up to \$20 million per life and reinsure 100% of amounts in excess of the amount the Company retains. The Company also reinsures 90% of the risk associated with participating whole life policies to a former affiliate and assumes certain term life policies and universal life policies with secondary death benefit guarantees issued by a former affiliate. The Company evaluates its reinsurance programs routinely and may increase or decrease its retention at any time.

Corporate & Other

The Company reinsures, through 100% quota share reinsurance agreements certain run-off long-term care and workers' compensation business written by the Company. At December 31, 2019, the Company had \$6.7 billion of reinsurance recoverables associated with its reinsured long-term care business. The reinsurer has established trust accounts for the Company's benefit to secure their obligations under the reinsurance agreements. Additionally, the Company is indemnified for losses and certain other payment obligations it might incur with respect to such reinsured long-term care insurance business.

Catastrophe Coverage

The Company has exposure to catastrophes which could contribute to significant fluctuations in the Company's results of operations. The Company uses excess of retention and quota share reinsurance agreements to provide greater diversification of risk and minimize exposure to larger risks.

Reinsurance Recoverables

The Company reinsures its business through a diversified group of reinsurers. The Company analyzes recent trends in arbitration and litigation outcomes in disputes, if any, with its reinsurers. The Company monitors ratings and evaluates the financial strength of its reinsurers by analyzing their financial statements. In addition, the reinsurance recoverable balance due from each reinsurer is evaluated as part of the overall monitoring process. Recoverability of reinsurance recoverable balances is evaluated based on these analyses. The Company generally secures large reinsurance recoverable balances with various forms of collateral, including secured trusts, funds withheld accounts and irrevocable letters of credit. These reinsurance recoverable balances are stated net of allowances for uncollectible reinsurance, which at both December 31, 2019 and 2018, were not significant.

The Company has secured certain reinsurance recoverable balances with various forms of collateral, including secured trusts, funds withheld accounts and irrevocable letters of credit. The Company had \$5.7 billion and \$5.3 billion of unsecured reinsurance recoverable balances with third-party reinsurers at December 31, 2019 and 2018, respectively.

At December 31, 2019, the Company had \$13.8 billion of net ceded reinsurance recoverables with third-parties. Of this total, \$11.9 billion, or 86%, were with the Company's five largest ceded reinsurers, including \$4.2 billion of net ceded reinsurance recoverables which were unsecured. At December 31, 2018, the Company had \$12.7 billion of net ceded reinsurance recoverables with third-parties. Of this total, \$11.1 billion, or 87%, were with the Company's five largest ceded reinsurers, including \$4.0 billion of net ceded reinsurance recoverables which were unsecured.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

5. Reinsurance (continued)

The amounts on the consolidated statements of operations include the impact of reinsurance. Information regarding the significant effects of reinsurance was as follows:

	Years Ended December 31,		
	2019	2018	2017
(In millions)			
Premiums			
Direct premiums	\$ 1,651	\$ 1,699	\$ 1,795
Reinsurance assumed	10	11	11
Reinsurance ceded	(779)	(810)	(943)
Net premiums	<u>\$ 882</u>	<u>\$ 900</u>	<u>\$ 863</u>
Universal life and investment-type product policy fees			
Direct universal life and investment-type product policy fees	\$ 4,048	\$ 4,296	\$ 4,430
Reinsurance assumed	72	95	96
Reinsurance ceded	(540)	(556)	(628)
Net universal life and investment-type product policy fees	<u>\$ 3,580</u>	<u>\$ 3,835</u>	<u>\$ 3,898</u>
Other revenues			
Direct other revenues	\$ 366	\$ 373	\$ 576
Reinsurance assumed	1	—	28
Reinsurance ceded	22	24	47
Net other revenues	<u>\$ 389</u>	<u>\$ 397</u>	<u>\$ 651</u>
Policyholder benefits and claims			
Direct policyholder benefits and claims	\$ 5,441	\$ 4,891	\$ 5,228
Reinsurance assumed	36	32	31
Reinsurance ceded	(1,807)	(1,651)	(1,623)
Net policyholder benefits and claims	<u>\$ 3,670</u>	<u>\$ 3,272</u>	<u>\$ 3,636</u>

The amounts on the consolidated balance sheets include the impact of reinsurance. Information regarding the significant effects of reinsurance was as follows at:

	December 31,							
	2019				2018			
	Direct	Assumed	Ceded	Total Balance Sheet	Direct	Assumed	Ceded	Total Balance Sheet
(In millions)								
Assets								
Premiums, reinsurance and other receivables	\$ 631	\$ 14	\$ 14,115	\$ 14,760	\$ 649	\$ 39	\$ 13,009	\$ 13,697
Liabilities								
Policyholder account balances	\$ 43,154	\$ 2,617	\$ —	\$ 45,771	\$ 38,696	\$ 1,358	\$ —	\$ 40,054
Other policy-related balances	\$ 1,447	\$ 1,664	\$ —	\$ 3,111	\$ 1,337	\$ 1,663	\$ —	\$ 3,000
Other liabilities	\$ 4,106	\$ 32	\$ 1,098	\$ 5,236	\$ 3,545	\$ 33	\$ 707	\$ 4,285

Reinsurance agreements that do not expose the Company to a reasonable possibility of a significant loss from insurance risk are recorded using the deposit method of accounting. The deposit assets on reinsurance were \$2.2 billion and \$1.6 billion at December 31, 2019 and 2018, respectively. The deposit liabilities on reinsurance were \$2.3 billion and \$1.3 billion at December 31, 2019 and 2018, respectively.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

5. Reinsurance (continued)

Related Party Reinsurance Transactions

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

Information regarding the significant effects of reinsurance with former MetLife affiliates included on the consolidated statements of operations was as follows:

	Years Ended December 31,	
	2018	2017
(In millions)		
Premiums		
Reinsurance assumed	\$ 6	\$ 11
Reinsurance ceded	(201)	(537)
Net premiums	<u>\$ (195)</u>	<u>\$ (526)</u>
Universal life and investment-type product policy fees		
Reinsurance assumed	\$ 45	\$ 96
Reinsurance ceded	1	(14)
Net universal life and investment-type product policy fees	<u>\$ 46</u>	<u>\$ 82</u>
Other revenues		
Reinsurance assumed	\$ —	\$ 27
Reinsurance ceded	18	44
Net other revenues	<u>\$ 18</u>	<u>\$ 71</u>
Policyholder benefits and claims		
Reinsurance assumed	\$ 9	\$ 30
Reinsurance ceded	(178)	(420)
Net policyholder benefits and claims	<u>\$ (169)</u>	<u>\$ (390)</u>

The Company cedes risks to MLIC related to guaranteed minimum benefits written directly by the Company. The ceded reinsurance agreement contains embedded derivatives and changes in the estimated fair value are also included within net derivative gains (losses). Net derivative gains (losses) associated with the embedded derivatives were less than (\$1) million and (\$263) million for the years ended December 31, 2018 and 2017, respectively.

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

In January 2017, the Company executed a novation and assignment of reinsurance agreements under which MLIC reinsured certain variable annuities, including guaranteed minimum benefits, issued by Brighthouse Life Insurance Company of NY (“BHNY”) and NELICO. As a result of the novation and assignment, the reinsurance agreements are now between Brighthouse Life Insurance Company and BHNY and NELICO. The transaction was treated as a termination of the existing reinsurance agreements with recognition of a loss and new reinsurance agreements with no recognition of a gain or loss. The transaction resulted in an increase in other liabilities of \$274 million. The Company recognized a loss of \$178 million, net of income tax, as a result of this transaction.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

5. Reinsurance (continued)

The Company previously assumed risks from MLIC related to guaranteed minimum benefits written directly by MLIC. The assumed reinsurance agreement contained embedded derivatives and changes in their estimated fair value are included within net derivative gains (losses). Net derivative gains (losses) associated with the embedded derivatives were \$110 million for the year ended December 31, 2017. In January 2017, MLIC recaptured these risks which 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 \$89 million, net of income tax, as a result of this transaction.

6. Investments

See Note 8 for information about the fair value hierarchy for investments and the related valuation methodologies.

Fixed Maturity Securities AFS

Fixed Maturity Securities AFS by Sector

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

	December 31, 2019					December 31, 2018				
	Amortized Cost	Gross Unrealized			Estimated Fair Value	Amortized Cost	Gross Unrealized			Estimated Fair Value
		Gains	Temporary Losses	OTTI Losses (1)			Gains	Temporary Losses	OTTI Losses (1)	
(In millions)										
Fixed maturity securities:										
U.S. corporate	\$ 28,375	\$ 2,852	\$ 67	\$ —	\$ 31,160	\$ 24,312	\$ 830	\$ 669	\$ —	\$ 24,473
Foreign corporate	9,177	741	74	—	9,844	8,183	159	316	—	8,026
RMBS	8,692	438	16	(4)	9,118	8,428	246	129	(2)	8,547
U.S. government and agency	5,529	1,869	2	—	7,396	7,944	1,263	112	—	9,095
CMBS	5,500	264	9	—	5,755	5,292	43	88	(1)	5,248
State and political subdivision	3,358	701	2	—	4,057	3,200	412	15	—	3,597
ABS	1,945	21	11	—	1,955	2,135	13	22	—	2,126
Foreign government	1,503	250	2	—	1,751	1,426	102	32	—	1,496
Total fixed maturity securities	\$ 64,079	\$ 7,136	\$ 183	\$ (4)	\$ 71,036	\$ 60,920	\$ 3,068	\$ 1,383	\$ (3)	\$ 62,608

(1) Noncredit OTTI losses included AOCI in an unrealized gain position are due to increases in estimated fair value subsequent to initial recognition of noncredit losses on such securities.

The Company held no non-income producing fixed maturity securities at December 31, 2019. The Company held non-income producing fixed maturity securities with an estimated fair value of less than \$1 million at December 31, 2018.

Maturities of Fixed Maturity Securities

The amortized cost and estimated fair value of fixed maturity securities, by contractual maturity date, were as follows at December 31, 2019:

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years	Structured Securities	Total Fixed Maturity Securities
	(In millions)					
Amortized cost	\$ 1,747	\$ 6,943	\$ 12,694	\$ 26,558	\$ 16,137	\$ 64,079
Estimated fair value	\$ 1,757	\$ 7,169	\$ 13,564	\$ 31,718	\$ 16,828	\$ 71,036

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

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

Continuous Gross Unrealized Losses for Fixed Maturity Securities AFS by Sector

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

	December 31, 2019				December 31, 2018			
	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	\$ 2,017	\$ 44	\$ 326	\$ 23	\$ 10,584	\$ 470	\$ 2,328	\$ 199
Foreign corporate	576	12	561	62	3,982	203	774	113
RMBS	857	8	386	4	1,627	26	2,611	101
U.S. government and agency	40	2	—	—	412	8	1,543	104
CMBS	559	7	171	2	2,317	53	803	34
State and political subdivision	143	2	8	—	346	7	158	8
ABS	362	2	676	9	1,422	21	70	1
Foreign government	65	2	—	—	521	26	132	6
Total fixed maturity securities	\$ 4,619	\$ 79	\$ 2,128	\$ 100	\$ 21,211	\$ 814	\$ 8,419	\$ 566
Total number of securities in an unrealized loss position	720		302		3,027		1,028	

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

Evaluation and Measurement Methodologies

Management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the estimated fair value has been below amortized cost; (ii) the potential for impairments when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments where the issuer, series of issuers or industry has suffered a catastrophic loss or has exhausted natural resources; (vi) whether the Company has the intent to sell or will more likely than not be required to sell a particular security before the decline in estimated fair value below amortized cost recovers; (vii) with respect to Structured Securities, changes in forecasted cash flows after considering the quality of underlying collateral, expected prepayment speeds, current and forecasted loss severity, consideration of the payment terms of the underlying assets backing a particular security, and the payment priority within the tranche structure of the security; (viii) the potential for impairments due to weakening of foreign currencies on non-functional currency denominated fixed maturity securities that are near maturity; and (ix) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

For securities in an unrealized loss position, an OTTI is recognized in earnings when it is anticipated that the amortized cost will not be recovered. When either: (i) the Company has the intent to sell the security; or (ii) it is more likely than not that the Company will be required to sell the security before recovery, the OTTI recognized in earnings is the entire difference between the security's amortized cost and estimated fair value. If neither of these conditions exists, the difference between the amortized cost of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings ("credit loss"). If the estimated fair value is less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors ("noncredit loss") is recorded in OCI.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

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 December 31, 2019.

Gross unrealized losses on fixed maturity securities decreased \$1.2 billion during the year ended December 31, 2019 to \$179 million. The decrease in gross unrealized losses for the year ended December 31, 2019, was primarily attributable to decreasing longer-term interest rates and narrowing credit spreads.

At December 31, 2019, \$10 million of the total \$179 million of gross unrealized losses were from 12 fixed maturity securities with an unrealized loss position of 20% or more of amortized cost for six months or greater.

Mortgage Loans

Mortgage Loans by Portfolio Segment

Mortgage loans are summarized as follows at:

	December 31,			
	2019		2018	
	Carrying Value	% of Total	Carrying Value	% of Total
(Dollars in millions)				
Mortgage loans:				
Commercial	\$ 9,721	61.7 %	\$ 8,529	62.3 %
Agricultural	3,388	21.5	2,946	21.5
Residential	2,708	17.2	2,276	16.6
Subtotal (1)	15,817	100.4	13,751	100.4
Valuation allowances (2)	(64)	(0.4)	(57)	(0.4)
Total mortgage loans, net	\$ 15,753	100.0 %	\$ 13,694	100.0 %

- (1) Purchases of mortgage loans from third parties were \$962 million and \$1.9 billion for the years ended December 31, 2019 and 2018, respectively, and were primarily comprised of residential mortgage loans.
- (2) The valuation allowances were primarily from collective evaluation (non-specific loan related).

Information on commercial, agricultural and residential mortgage loans is presented in the tables below.

Valuation Allowance Methodology

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

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

Credit Quality of Commercial Mortgage Loans

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

	Recorded Investment			Total	% of Total	Estimated Fair Value	% of Total
	Debt-Service Coverage Ratios						
	> 1.20x	1.00x - 1.20x	< 1.00x				
(Dollars in millions)							
December 31, 2019							
Loan-to-value ratios:							
Less than 65%	\$ 8,326	\$ 272	\$ 158	\$ 8,756	90.1%	\$ 9,170	90.3%
65% to 75%	746	26	8	780	8.0	805	7.9
76% to 80%	185	—	—	185	1.9	184	1.8
Total	\$ 9,257	\$ 298	\$ 166	\$ 9,721	100.0%	\$ 10,159	100.0%
December 31, 2018							
Loan-to-value ratios:							
Less than 65%	\$ 7,470	\$ 89	\$ 34	\$ 7,593	89.0%	\$ 7,668	89.0%
65% to 75%	762	—	24	786	9.2	798	9.3
76% to 80%	141	—	9	150	1.8	145	1.7
Total	\$ 8,373	\$ 89	\$ 67	\$ 8,529	100.0%	\$ 8,611	100.0%

Credit Quality of Agricultural Mortgage Loans

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

	December 31,			
	2019		2018	
	Recorded Investment	% of Total	Recorded Investment	% of Total
(Dollars in millions)				
Loan-to-value ratios:				
Less than 65%	\$ 3,192	94.2%	\$ 2,623	89.0%
65% to 75%	195	5.7	322	10.9
76% to 80%	1	0.1	1	0.1
Total	\$ 3,388	100.0%	\$ 2,946	100.0%

The estimated fair value of agricultural mortgage loans was \$3.5 billion and \$2.9 billion at December 31, 2019 and 2018, respectively.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

Credit Quality of Residential Mortgage Loans

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

	December 31,			
	2019		2018	
	Recorded Investment	% of Total	Recorded Investment	% of Total
(Dollars in millions)				
Performance indicators:				
Performing	\$ 2,671	98.6%	\$ 2,240	98.4%
Nonperforming	37	1.4	36	1.6
Total	\$ 2,708	100.0%	\$ 2,276	100.0%

The estimated fair value of residential mortgage loans was \$2.8 billion and \$2.3 billion at December 31, 2019 and 2018, respectively.

Past Due, Nonaccrual and Modified Mortgage Loans

The Company has a high-quality, well performing mortgage loan portfolio, with over 99% of all mortgage loans classified as performing at both December 31, 2019 and 2018. The Company defines delinquency consistent with industry practice, when mortgage loans are past due as follows: commercial and residential mortgage loans — 60 days and agricultural mortgage loans — 90 days. The Company had no commercial mortgage loans past due or in nonaccrual status at either December 31, 2019 or 2018. Agricultural mortgage loans past due and in nonaccrual status totaled \$21 million at December 31, 2019. The Company had less than \$1 million past due and no agricultural mortgage loans in nonaccrual status at December 31, 2018. Residential mortgage loans past due and in nonaccrual status totaled \$37 million and \$36 million at December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, the Company did not have a significant amount of mortgage loans modified in a troubled debt restructuring.

Other Invested Assets

Freestanding derivatives with positive estimated fair values comprise over 90% of other invested assets. See Note 7 for information about freestanding derivatives with positive estimated fair values. Other invested assets also includes tax credit and renewable energy partnerships, leveraged leases and FHLB stock.

Net Unrealized Investment Gains (Losses)

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

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

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

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Fixed maturity securities	\$ 6,957	\$ 1,691	\$ 4,808
Equity securities	—	—	39
Derivatives	245	264	239
Other	(13)	(13)	(8)
Subtotal	<u>7,189</u>	<u>1,942</u>	<u>5,078</u>
Amounts allocated from:			
Future policy benefits	(2,692)	(886)	(2,626)
DAC, VOBA and DSI	(341)	(90)	(267)
Subtotal	<u>(3,033)</u>	<u>(976)</u>	<u>(2,893)</u>
Deferred income tax benefit (expense)	(873)	(203)	(459)
Net unrealized investment gains (losses)	<u>\$ 3,283</u>	<u>\$ 763</u>	<u>\$ 1,726</u>

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

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Balance, December 31,	\$ 763	\$ 1,726	\$ 1,312
Unrealized investment gains (losses) change due to cumulative effect, net of income tax	—	(79)	—
Balance at January 1,	763	1,647	1,312
Unrealized investment gains (losses) during the year	5,247	(3,057)	2,036
Unrealized investment gains (losses) relating to:			
Future policy benefits	(1,806)	1,740	(1,824)
DAC, VOBA and DSI	(251)	177	(51)
Deferred income tax benefit (expense)	(670)	256	253
Balance at December 31,	<u>\$ 3,283</u>	<u>\$ 763</u>	<u>\$ 1,726</u>
Change in net unrealized investment gains (losses)	<u>\$ 2,520</u>	<u>\$ (884)</u>	<u>\$ 414</u>

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 December 31, 2019 and 2018.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

Securities Lending

Elements of the securities lending program are presented below at:

	December 31,	
	2019	2018
(In millions)		
Securities on loan: (1)		
Amortized cost	\$ 2,031	\$ 3,056
Estimated fair value	\$ 2,996	\$ 3,628
Cash collateral received from counterparties (2)	\$ 3,074	\$ 3,646
Security collateral received from counterparties (3)	\$ —	\$ 55
Reinvestment portfolio — estimated fair value	\$ 3,174	\$ 3,658

(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:

	December 31, 2019				December 31, 2018			
	Remaining Tenor of Securities Lending Agreements				Remaining Tenor of Securities Lending Agreements			
	Open (1)	1 Month or Less	1 to 6 Months	Total	Open (1)	1 Month or Less	1 to 6 Months	Total
(In millions)								
U.S. government and agency	\$ 1,279	\$ 1,094	\$ 701	\$ 3,074	\$ 1,474	\$ 1,823	\$ 349	\$ 3,646

(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 December 31, 2019 was \$1.2 billion, all of which were U.S. government and agency securities which, if put back to the Company, could be immediately sold to satisfy the cash requirement.

The reinvestment portfolio acquired with the cash collateral consisted principally of fixed maturity securities (including agency RMBS, U.S. and foreign corporate securities, ABS, non-agency RMBS and U.S. government and agency securities) with 54% invested in agency RMBS, cash and cash equivalents and U.S. government and agency securities at December 31, 2019. 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 Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
6. Investments (continued)
Invested Assets on Deposit, Held in Trust and Pledged as Collateral

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

	December 31,	
	2019	2018
	(In millions)	
Invested assets on deposit (regulatory deposits) (1)	\$ 9,349	\$ 8,176
Invested assets held in trust (reinsurance agreements) (2)	4,561	3,455
Invested assets pledged as collateral (3)	3,641	3,341
Total invested assets on deposit, held in trust and pledged as collateral	<u>\$ 17,551</u>	<u>\$ 14,972</u>

- (1) The Company has assets, primarily fixed maturity securities, on deposit with governmental authorities relating to certain policyholder liabilities, of which \$69 million and \$55 million of the assets on deposit balance represents restricted cash at December 31, 2019 and 2018, respectively.
- (2) The Company has assets, primarily fixed maturity securities, held in trust relating to certain reinsurance transactions. \$124 million and \$87 million of the assets held in trust balance represents restricted cash at December 31, 2019 and 2018, respectively.
- (3) The Company has pledged invested assets in connection with various agreements and transactions, including funding agreements (see Note 3) and derivative transactions (see Note 7).

See “— Securities Lending” for information regarding securities on loan.

Purchased Credit Impaired Investments

Investments acquired with evidence of credit quality deterioration since origination and for which it is probable at the acquisition date that the Company will be unable to collect all contractually required payments are classified as purchased credit impaired (“PCI”) investments. For each investment, the excess of the cash flows expected to be collected as of the acquisition date over its acquisition date fair value is referred to as the accretable yield and is recognized as net investment income on an effective yield basis. If, subsequently, based on current information and events, it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected to be collected, the accretable yield is adjusted prospectively. The excess of the contractually required payments (including interest) as of the acquisition date over the cash flows expected to be collected as of the acquisition date is referred to as the nonaccretable difference, and this amount is not expected to be realized as net investment income. Decreases in cash flows expected to be collected can result in OTTI.

The Company’s PCI investments had an outstanding principal and interest balance of \$952 million and \$1.1 billion at December 31, 2019 and 2018, respectively, which represents the contractually required principal and accrued interest, whether or not currently due; and a carrying value (estimated fair value of the investments plus accrued interest) of \$779 million and \$881 million at December 31, 2019 and 2018, respectively. Accretion of accretable yield on PCI investments recognized in earnings were \$46 million and \$65 million for the years ended December 31, 2019 and 2018, respectively. Purchases of PCI investments were insignificant in both of the years ended December 31, 2019 and 2018.

Collectively Significant Equity Method Investments

The Company holds investments in limited partnerships and LLCs consisting of leveraged buy-out funds, hedge funds, private equity funds, joint ventures and other funds. The portion of these investments accounted for under the equity method had a carrying value of \$2.4 billion at December 31, 2019. The Company’s maximum exposure to loss related to these equity method investments is limited to the carrying value of these investments plus unfunded commitments of \$1.5 billion at December 31, 2019. The Company’s investments in limited partnerships and LLCs are generally of a passive nature in that the Company does not participate in the management of the entities.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****6. Investments (continued)**

As described in Note 1, the Company generally records its share of earnings in its equity method investments using a three-month lag methodology and within net investment income. Aggregate net investment income from these equity method investments exceeded 10% of the Company's consolidated pre-tax income (loss) for each of the years ended 2019, 2018, and 2017. This aggregated summarized financial data does not represent the Company's proportionate share of the assets, liabilities, or earnings of such entities.

The aggregated summarized financial data presented below reflects the latest available financial information and is as of and for the years ended December 31, 2019, 2018 and 2017. Aggregate total assets of these entities totaled \$404.0 billion and \$344.9 billion at December 31, 2019 and 2018, respectively. Aggregate total liabilities of these entities totaled \$52.8 billion and \$30.2 billion at December 31, 2019 and 2018, respectively. Aggregate net income (loss) of these entities totaled \$33.3 billion, \$33.3 billion and \$36.4 billion for the years ended December 31, 2019, 2018 and 2017, respectively. Aggregate net income (loss) from the underlying entities in which the Company invests is primarily comprised of investment income, including recurring investment income and realized and unrealized investment gains (losses).

Variable Interest Entities

The Company has invested in legal entities that are variable interest entities ("VIEs"). VIEs are consolidated when the investor is the primary beneficiary. A primary beneficiary is the variable interest holder in a VIE with both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits that could potentially be significant to the VIE.

There were no material VIEs for which the Company has concluded that it is the primary beneficiary at December 31, 2019 or 2018.

The Company's investments in unconsolidated VIEs are described below.

Fixed Maturity Securities

The Company invests in U.S. corporate bonds, foreign corporate bonds, and Structured Securities, issued by VIEs. The Company is not obligated to provide any financial or other support to these VIEs, other than the original investment. The Company's involvement with these entities is limited to that of a passive investor. The Company has no unilateral right to appoint or remove the servicer, special servicer, or investment manager, which are generally viewed as having the power to direct the activities that most significantly impact the economic performance of the VIE, nor does the Company function in any of these roles. The Company does not have the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity; as a result, the Company has determined it is not the primary beneficiary, or consolidator, of the VIE. The Company's maximum exposure to loss on these fixed maturity securities is limited to the amortized cost of these investments. See "— Fixed Maturity Securities AFS" for information on these securities.

Limited Partnerships and LLCs

The Company holds investments in certain limited partnerships and LLCs which are VIEs. These ventures include limited partnerships, LLCs, private equity funds, hedge funds, and to a lesser extent tax credit and renewable energy partnerships. The Company is not considered the primary beneficiary, or consolidator, when its involvement takes the form of a limited partner interest and is restricted to a role of a passive investor, as a limited partner's interest does not provide the Company with any substantive kick-out or participating rights, nor does it provide the Company with the power to direct the activities of the fund. The Company's maximum exposure to loss on these investments is limited to: (i) the amount invested in debt or equity of the VIE and (ii) commitments to the VIE, as described in Note 15.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

The carrying amount and maximum exposure to loss related to the VIEs in which the Company concluded that it holds a variable interest, but is not the primary beneficiary, were as follows at:

	December 31,			
	2019		2018	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
	(In millions)			
Fixed maturity securities	\$ 13,094	\$ 12,454	\$ 13,099	\$ 13,099
Limited partnerships and LLCs	1,907	3,080	1,756	3,145
Total	\$ 15,001	\$ 15,534	\$ 14,855	\$ 16,244

Net Investment Income

The components of net investment income were as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Investment income:			
Fixed maturity securities	\$ 2,673	\$ 2,565	\$ 2,420
Equity securities	8	7	9
Mortgage loans	680	543	454
Policy loans	67	85	73
Limited partnerships and LLCs (1)	220	258	237
Cash, cash equivalents and short-term investments	93	35	35
Other	41	41	28
Subtotal	3,782	3,534	3,256
Less: Investment expenses	203	196	178
Net investment income	\$ 3,579	\$ 3,338	\$ 3,078

(1) Includes net investment income pertaining to other limited partnership interests of \$181 million, \$211 million and \$184 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

6. Investments (continued)

Net Investment Gains (Losses)

Components of Net Investment Gains (Losses)

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

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Fixed maturity securities	\$ 106	\$ (180)	\$ (26)
Equity securities	17	(16)	22
Mortgage loans	(10)	(13)	(9)
Limited partnerships and LLCs	7	40	(7)
Other	(8)	(38)	(8)
Total net investment gains (losses)	<u>\$ 112</u>	<u>\$ (207)</u>	<u>\$ (28)</u>

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

Sales or Disposals of Fixed Maturity Securities

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

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Proceeds	\$ 9,259	\$ 11,251	\$ 12,665
Gross investment gains	\$ 257	\$ 102	\$ 59
Gross investment losses	(151)	(282)	(85)
Net investment gains (losses)	<u>\$ 106</u>	<u>\$ (180)</u>	<u>\$ (26)</u>

Related Party Investment Transactions

All of the transactions reported as related party activity occurred prior to the MetLife Divestiture. See Note 1 regarding the MetLife Divestiture.

The Company previously transferred invested assets, primarily consisting of fixed maturity securities, to former affiliates. The estimated fair value and amortized cost of invested assets transferred to former affiliates was \$292 million and \$294 million, respectively, for the year ended December 31, 2017. The net investment gains (losses) recognized on transfers of invested assets to former affiliates was (\$2) million for the year ended December 31, 2017.

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

The Company receives investment administrative services from MetLife Investment Management, LLC (formerly known as MetLife Investment Advisors, LLC), which was considered a related party investment manager until the completion of the MetLife Divestiture. The related investment administrative service charges were \$50 million and \$95 million for the years ended December 31, 2018 and 2017, respectively.

7. Derivatives

Accounting for Derivatives

See Note 1 for a description of the Company’s accounting policies for derivatives and Note 8 for information about the fair value hierarchy for derivatives.

Notes to the Consolidated Financial Statements (continued)

7. Derivatives (continued)

Derivative Strategies

The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to minimize its exposure to various market risks, including interest rate, foreign currency exchange rate, credit and equity market.

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”).

Interest Rate Derivatives

Interest rate swaps: The Company uses interest rate swaps to manage the collective interest rate risks primarily in variable annuity products and universal life with secondary guarantees. Interest rate swaps are used in non-qualifying hedging relationships.

Interest rate caps: The Company uses interest rate caps 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. Interest rate caps are used in non-qualifying hedging relationships.

Swaptions: The Company uses swaptions to manage the collective interest rate risks primarily in variable annuity products and universal life with secondary guarantees. Swaptions are used in non-qualifying hedging relationships. Swaptions are included in interest rate options.

Interest rate forwards: The Company uses interest rate forwards to manage the collective interest rate risks primarily in variable annuity products and universal life with secondary guarantees. Interest rate forwards are used in cash flow and non-qualifying hedging relationships.

Foreign Currency Exchange Rate Derivatives

Foreign currency swaps: The Company uses foreign currency swaps to convert foreign currency denominated cash flows to U.S. dollars to reduce cash flow fluctuations due to changes in currency exchange rates. Foreign currency swaps are used in cash flow and non-qualifying hedging relationships.

Foreign currency forwards: The Company uses foreign currency forwards to hedge currency exposure on its invested assets. Foreign currency forwards are used in non-qualifying hedging relationships.

Credit Derivatives

Credit default swaps: The Company uses credit default swaps to create synthetic credit investments to replicate credit exposure that is more economically attractive than what is available in the market or otherwise unavailable (written credit protection), or to reduce credit loss exposure on certain assets that the Company owns (purchased credit protection). Credit default swaps are used in non-qualifying hedging relationships.

Equity Derivatives

Equity index options: The Company uses equity index options primarily to hedge minimum guarantees embedded in certain variable annuity products against adverse changes in equity markets. Additionally, the Company uses equity index options to hedge index-linked annuity products against adverse changes in equity markets. Equity index options are used in non-qualifying hedging relationships.

Equity total return swaps: The Company uses equity total return swaps to hedge minimum guarantees embedded in certain variable annuity products against adverse changes equity markets. Equity total return swaps are used in non-qualifying hedging relationships.

Equity variance swaps: The Company uses equity variance swaps to hedge minimum guarantees embedded in certain variable annuity products offered by the Company. Equity variance swaps are used in non-qualifying hedging relationships.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

7. 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 held at:

Primary Underlying Risk Exposure		December 31,					
		2019			2018		
		Gross Notional Amount	Estimated Fair Value		Gross Notional Amount	Estimated Fair Value	
		Assets	Liabilities		Assets	Liabilities	
(In millions)							
Derivatives Designated as Hedging Instruments:							
Cash flow hedges:							
Interest rate forwards	Interest rate	\$ 420	\$ 22	\$ —	\$ —	\$ —	\$ —
Foreign currency swaps	Foreign currency exchange rate	2,765	190	27	2,524	211	30
Total qualifying hedges		3,185	212	27	2,524	211	30
Derivatives Not Designated or Not Qualifying as Hedging Instruments:							
Interest rate swaps	Interest rate	7,559	878	29	10,747	528	558
Interest rate caps	Interest rate	3,350	2	—	3,350	21	—
Interest rate futures	Interest rate	—	—	—	54	—	—
Interest rate options	Interest rate	29,750	782	187	17,168	168	61
Interest rate forwards	Interest rate	5,418	94	114	—	—	—
Foreign currency swaps	Foreign currency exchange rate	1,051	96	15	1,409	101	18
Foreign currency forwards	Foreign currency exchange rate	138	—	1	125	—	—
Credit default swaps — purchased	Credit	18	—	—	98	3	—
Credit default swaps — written	Credit	1,635	36	—	1,820	14	3
Equity futures	Equity market	—	—	—	169	—	—
Equity index options	Equity market	51,509	850	1,728	45,815	1,372	1,207
Equity variance swaps	Equity market	2,136	69	69	5,574	80	232
Equity total return swaps	Equity market	7,723	2	367	3,920	280	3
Total non-designated or non-qualifying derivatives		110,287	2,809	2,510	90,249	2,567	2,082
Embedded derivatives:							
Ceded guaranteed minimum income benefits	Other	N/A	217	—	N/A	228	—
Direct index-linked annuities	Other	N/A	—	2,253	N/A	—	488
Direct guaranteed minimum benefits	Other	N/A	—	1,656	N/A	—	1,642
Assumed index-linked annuities	Other	N/A	—	339	N/A	—	96
Total embedded derivatives		N/A	217	4,248	N/A	228	2,226
Total		\$ 113,472	\$ 3,238	\$ 6,785	\$ 92,773	\$ 3,006	\$ 4,338

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 December 31, 2019 and 2018. The Company's use of derivatives includes (i) derivatives that serve as macro hedges of the Company's exposure to various risks and generally do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedging rules; (ii) derivatives that economically hedge insurance liabilities and generally do not qualify for hedge accounting because they do not meet the criteria of being "highly effective" as outlined in ASC 815; (iii) derivatives that economically hedge embedded derivatives that do not qualify for hedge accounting because the changes in estimated fair value of the embedded derivatives are already recorded in net income; and (iv) written credit default swaps that are used to create synthetic credit investments and that do not qualify for hedge accounting because they do not involve a hedging relationship.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

7. Derivatives (continued)

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

Year Ended December 31, 2019

	Net Derivative Gains (Losses) Recognized for Derivatives	Net Derivative Gains (Losses) Recognized for Hedged Items	Net Investment Income	Policyholder Benefits and Claims	Amount of Gains (Losses) deferred in AOCI
(In millions)					
Derivatives Designated as Hedging Instruments:					
Cash flow hedges:					
Interest rate derivatives	\$ 32	\$ —	\$ 2	\$ —	\$ 25
Foreign currency exchange rate derivatives	25	(29)	34	—	15
Total cash flow hedges	57	(29)	36	—	40
Derivatives Not Designated or Not Qualifying as Hedging Instruments:					
Interest rate derivatives	1,589	—	—	—	—
Foreign currency exchange rate derivatives	22	(3)	—	—	—
Credit derivatives	44	—	—	—	—
Equity derivatives	(2,476)	—	—	—	—
Embedded derivatives	(1,192)	—	—	—	—
Total non-qualifying hedges	(2,013)	(3)	—	—	—
Total	\$ (1,956)	\$ (32)	\$ 36	\$ —	\$ 40

Year Ended December 31, 2018

	Net Derivative Gains (Losses) Recognized for Derivatives	Net Derivative Gains (Losses) Recognized for Hedged Items	Net Investment Income	Policyholder Benefits and Claims	Amount of Gains (Losses) deferred in AOCI
(In millions)					
Derivatives Designated as Hedging Instruments:					
Fair value hedges:					
Interest rate derivatives	\$ (12)	\$ 12	\$ 1	\$ —	\$ —
Total fair value hedges	(12)	12	1	—	—
Cash flow hedges:					
Interest rate derivatives	129	(1)	5	—	(5)
Foreign currency exchange rate derivatives	—	(1)	27	—	164
Total cash flow hedges	129	(2)	32	—	159
Derivatives Not Designated or Not Qualifying as Hedging Instruments:					
Interest rate derivatives	(658)	—	—	—	—
Foreign currency exchange rate derivatives	82	(8)	—	—	—
Credit derivatives	(7)	—	—	—	—
Equity derivatives	632	—	—	—	—
Embedded derivatives	534	—	—	(8)	—
Total non-qualifying hedges	583	(8)	—	(8)	—
Total	\$ 700	\$ 2	\$ 33	\$ (8)	\$ 159

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
7. Derivatives (continued)

Year Ended December 31, 2017

	Net Derivative Gains (Losses) Recognized for Derivatives	Net Derivative Gains (Losses) Recognized for Hedged Items	Net Investment Income	Policyholder Benefits and Claims	Amount of Gains (Losses) deferred in AOCI
(In millions)					
Derivatives Designated as Hedging Instruments:					
Fair value hedges:					
Interest rate derivatives	\$ 2	\$ (2)	\$ 2	\$ —	\$ —
Total fair value hedges	2	(2)	2	—	—
Cash flow hedges:					
Interest rate derivatives	2	—	6	—	3
Foreign currency exchange rate derivatives	10	(9)	21	—	(160)
Total cash flow hedges	12	(9)	27	—	(157)
Derivatives Not Designated or Not Qualifying as Hedging Instruments:					
Interest rate derivatives	(57)	—	—	10	—
Foreign currency exchange rate derivatives	(84)	(33)	—	—	—
Credit derivatives	34	—	—	—	—
Equity derivatives	(2,565)	—	(1)	(335)	—
Embedded derivatives	1,082	—	—	(16)	—
Total non-qualifying hedges	(1,590)	(33)	(1)	(341)	—
Total	\$ (1,576)	\$ (44)	\$ 28	\$ (341)	\$ (157)

At December 31, 2019 and 2018, the balance in AOCI associated with cash flow hedges was \$245 million and \$264 million, respectively.

Credit Derivatives

In connection with synthetically created credit investment transactions, the Company writes credit default swaps for which it receives a premium to insure credit risk. 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.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

7. 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)	December 31,					
	2019			2018		
	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	\$ 11	\$ 615	2.5	\$ 8	\$ 689	2.0
Baa	25	1,020	5.1	3	1,131	5.0
Total	\$ 36	\$ 1,635	4.1	\$ 11	\$ 1,820	3.9

(1) The Company has written credit protection on both single name and index references. The rating agency designations are based on availability and the midpoint of the applicable ratings among Moody's, S&P and Fitch. 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.

Counterparty Credit Risk

The Company may be exposed to credit-related losses in the event of counterparty nonperformance on derivative instruments. Generally, the credit exposure is the fair value at the reporting date less any collateral received from the counterparty.

The Company manages its credit risk by: (i) entering into derivative transactions with creditworthy counterparties governed by master netting agreements; (ii) trading through regulated exchanges and central clearing counterparties; (iii) obtaining collateral, such as cash and securities, when appropriate; and (iv) setting limits on single party credit exposures which are subject to periodic management review.

See Note 8 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:

	Gross Amount Recognized	Gross Amounts Not Offset on the Consolidated Balance Sheets		Net Amount	Securities Collateral Received/Pledged (3)	Net Amount After Securities Collateral
		Financial Instruments (1)	Collateral Received/Pledged (2)			
	(In millions)					
December 31, 2019						
Derivative assets	\$ 3,062	\$ (1,458)	\$ (1,115)	\$ 489	\$ (488)	\$ 1
Derivative liabilities	\$ 2,522	\$ (1,458)	\$ —	\$ 1,064	\$ (1,061)	\$ 3
December 31, 2018						
Derivative assets	\$ 2,833	\$ (1,671)	\$ (1,062)	\$ 100	\$ (86)	\$ 14
Derivative liabilities	\$ 2,104	\$ (1,671)	\$ —	\$ 433	\$ (433)	\$ —

(1) Represents amounts subject to an enforceable master netting agreement or similar agreement.

(2) The amount of cash collateral offset in the table above is limited to the net estimated fair value of derivatives after application of netting agreement.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

7. Derivatives (continued)

(3) Securities collateral received by the Company is not recorded on the balance sheet. Amounts do not include excess of collateral pledged or received.

The Company's collateral arrangements 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. Certain of these arrangements also include credit-contingent provisions which permit the party with positive fair value to terminate the derivative at the current fair value or demand immediate full collateralization from the party in a net liability position, in the event that the financial strength or credit rating of the party in a net liability position falls below a certain level.

The following table presents the aggregate estimated fair value of derivatives in a net liability position containing such credit-contingent provisions and the aggregate estimated fair value of assets posted as collateral for such instruments.

	December 31,	
	2019	2018
	(In millions)	
Estimated fair value of derivatives in a net liability position (1)	\$ 1,064	\$ 433
Estimated Fair Value of Collateral Provided (2):		
Fixed maturity securities	\$ 1,473	\$ 797

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

(2) Substantially all of the Company's collateral arrangements provide for daily posting of collateral for the full value of the derivative contract. As a result, if the credit-contingent provisions of derivative contracts in a net liability position were triggered minimal additional assets would be required to be posted as collateral or needed to settle the instruments immediately.

8. Fair Value

When developing estimated fair values, the Company considers three broad valuation techniques: (i) the market approach, (ii) the income approach, and (iii) the cost approach. The Company determines the most appropriate valuation technique to use, given what is being measured and the availability of sufficient inputs, giving priority to observable inputs. The Company categorizes its assets and liabilities measured at estimated fair value into a three-level hierarchy, based on the significant input with the lowest level in its valuation. The input levels are as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. The Company defines active markets based on average trading volume for equity securities. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities.
- Level 2 Quoted prices in markets that are not active or inputs that are observable either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities other than quoted prices in Level 1, quoted prices in markets that are not active, or other significant inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the determination of estimated fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
8. Fair Value (continued)
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, are presented below. Investments that do not have a readily determinable fair value and are measured at net asset value (or equivalent) as a practical expedient to estimated fair value are excluded from the fair value hierarchy.

	December 31, 2019			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
(In millions)				
Assets				
Fixed maturity securities:				
U.S. corporate	\$ —	\$ 30,831	\$ 329	\$ 31,160
Foreign corporate	—	9,712	132	9,844
RMBS	—	9,074	44	9,118
U.S. government and agency	1,636	5,760	—	7,396
CMBS	—	5,755	—	5,755
State and political subdivision	—	3,984	73	4,057
ABS	—	1,882	73	1,955
Foreign government	—	1,751	—	1,751
Total fixed maturity securities	1,636	68,749	651	71,036
Equity securities	14	125	8	147
Short-term investments	1,271	682	5	1,958
Derivative assets: (1)				
Interest rate	—	1,778	—	1,778
Foreign currency exchange rate	—	281	5	286
Credit	—	25	11	36
Equity market	—	850	71	921
Total derivative assets	—	2,934	87	3,021
Embedded derivatives within asset host contracts (2)	—	—	217	217
Separate account assets	180	106,924	3	107,107
Total assets	\$ 3,101	\$ 179,414	\$ 971	\$ 183,486
Liabilities				
Derivative liabilities: (1)				
Interest rate	\$ —	\$ 330	\$ —	\$ 330
Foreign currency exchange rate	—	43	—	43
Equity market	—	2,093	71	2,164
Total derivative liabilities	—	2,466	71	2,537
Embedded derivatives within liability host contracts (2)	—	—	4,248	4,248
Total liabilities	\$ —	\$ 2,466	\$ 4,319	\$ 6,785

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

8. Fair Value (continued)

	December 31, 2018			
	Fair Value Hierarchy			Total Estimated Fair Value
	Level 1	Level 2	Level 3	
(In millions)				
Assets				
Fixed maturity securities:				
U.S. corporate	\$ —	\$ 24,150	\$ 323	\$ 24,473
Foreign corporate	—	7,617	409	8,026
RMBS	—	8,541	6	8,547
U.S. government and agency	2,722	6,373	—	9,095
CMBS	—	5,120	128	5,248
State and political subdivision	—	3,523	74	3,597
ABS	—	2,087	39	2,126
Foreign government	—	1,496	—	1,496
Total fixed maturity securities	2,722	58,907	979	62,608
Equity securities	13	124	3	140
Derivative assets: (1)				
Interest rate	—	717	—	717
Foreign currency exchange rate	—	301	11	312
Credit	—	10	7	17
Equity market	—	1,634	98	1,732
Total derivative assets	—	2,662	116	2,778
Embedded derivatives within asset host contracts (2)	—	—	228	228
Separate account assets	217	98,038	1	98,256
Total assets	\$ 2,952	\$ 159,731	\$ 1,327	\$ 164,010
Liabilities				
Derivative liabilities: (1)				
Interest rate	\$ —	\$ 619	\$ —	\$ 619
Foreign currency exchange rate	—	48	—	48
Credit	—	2	1	3
Equity market	—	1,205	237	1,442
Total derivative liabilities	—	1,874	238	2,112
Embedded derivatives within liability host contracts (2)	—	—	2,226	2,226
Total liabilities	\$ —	\$ 1,874	\$ 2,464	\$ 4,338

- (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.
- (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.

Valuation Controls and Procedures

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

Notes to the Consolidated Financial Statements (continued)

8. Fair Value (continued)

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

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

The Company reviews outputs of the valuation service providers’ controls and performs additional controls, including certain monthly controls, which include but are not limited to, performing balance sheet analytics to assess reasonableness of period to period pricing changes, including any price adjustments. Price adjustments are applied if prices or quotes received from independent pricing services or brokers are not considered reflective of market activity or representative of estimated fair value. The Company did not have significant price adjustments during the year ended December 31, 2019.

Determination of Fair Value**Fixed Maturity Securities**

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

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

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

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

Equity Securities and Short-term Investments

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

Notes to the Consolidated Financial Statements (continued)

8. Fair Value (continued)

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

Derivatives

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

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

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

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

Embedded Derivatives

Embedded derivatives principally include certain direct and ceded variable annuity guarantees and equity crediting rates within index-linked annuity contracts. 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 determines the fair value of these embedded derivatives by estimating the present value of projected future benefits minus the present value of projected future fees using actuarial and capital market assumptions including expectations of 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. The percentage of fees included in the initial fair value measurement is not updated in subsequent periods.

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.

Notes to the Consolidated Financial Statements (continued)

8. Fair Value (continued)

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 BHF’s debt. These observable spreads are then adjusted to reflect the priority of these liabilities and claims-paying ability of the issuing insurance subsidiaries as compared to BHF’s overall financial strength.

Risk margins are established to capture the non-capital market risks of the instrument which represent the additional compensation a market participant would require to assume the risks related to the uncertainties of such actuarial assumptions as annuitization, premium persistency, partial withdrawal and surrenders. The establishment of risk margins requires the use of significant management judgment, including assumptions of the amount and cost of capital needed to cover the guarantees.

The Company issues and assumes through reinsurance index-linked annuities which allow the policyholder to participate in returns from equity indices. The crediting rates associated with these 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 crediting rates associated with index-linked annuities is determined using a combination of an option pricing model and an option-budget approach. The valuation of these embedded derivatives also includes the establishment of a risk margin, as well as changes in nonperformance risk.

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	December 31, 2019			December 31, 2018			Impact of Increase in Input on Estimated Fair Value	
		Range			Range				
Embedded derivatives									
Direct, assumed and ceded guaranteed minimum benefits	• Option pricing techniques	• Mortality rates	0.02%	-	11.31%	0.02%	-	11.31%	Decrease (1)
		• Lapse rates	0.25%	-	16.00%	0.25%	-	16.00%	Decrease (2)
		• Utilization rates	0.00%	-	25.00%	0.00%	-	25.00%	Increase (3)
		• Withdrawal rates	0.25%	-	10.00%	0.25%	-	10.00%	(4)
		• Long-term equity volatilities	16.24%	-	21.65%	16.50%	-	22.00%	Increase (5)
		• Nonperformance risk spread	0.54%	-	1.99%	1.91%	-	2.66%	Decrease (6)

(1) Mortality rates vary by age and by demographic characteristics such as gender. The range shown reflects the mortality rate for policyholders between 35 and 90 years old, which represents the majority of the business with living benefits. Mortality rate assumptions are set based on company experience and include an assumption for mortality improvement.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****8. Fair Value (continued)**

- (2) The range shown reflects base lapse rates for major product categories for duration 1-20, which represents majority of business with living benefit riders. 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.
- (3) The utilization rate assumption estimates the percentage of contract holders with a GMIB or lifetime withdrawal benefit who will elect to utilize the benefit upon becoming eligible in a given year. The range shown represents the floor and cap of the GMIB dynamic election rates across varying levels of in-the-money. For lifetime withdrawal guarantee riders, the assumption is that everyone will begin withdrawals once account value reaches zero which is equivalent to a 100% utilization rate. Utilization 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.
- (4) 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.
- (5) 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.
- (6) Nonperformance risk spread varies by duration. For any given contract, multiple nonperformance risk spreads will apply, depending on the duration of the cash flow being discounted for purposes of valuing the embedded derivative.

The Company does not develop unobservable inputs used in measuring fair value for all other assets and liabilities classified within Level 3; therefore, these are not included in the table above. The other Level 3 assets and liabilities primarily included fixed maturity securities and derivatives. For fixed maturity securities valued based on non-binding broker quotes, an increase (decrease) in credit spreads would result in a higher (lower) fair value. For derivatives valued based on third-party pricing models, an increase (decrease) in credit spreads would generally result in a higher (lower) fair value.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

8. 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					Short-term Investments	Net Derivatives (2)	Net Embedded Derivatives (3)	Separate Account Assets (4)	
	Corporate (1)	Structured Securities	State and Political Subdivision	Foreign Government	Equity Securities					
(In millions)										
Balance, January 1, 2018	\$ 1,997	\$ 1,230	\$ —	\$ 5	\$ 124	\$ 14	\$ (279)	\$ (1,660)	\$ 5	
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	1	2	1	—	—	—	152	526	—	
Total realized/unrealized gains (losses) included in AOCI	(33)	(6)	(1)	—	—	—	9	—	—	
Purchases (7)	71	42	—	—	1	—	3	—	1	
Sales (7)	(197)	(91)	(1)	(5)	(3)	(14)	(7)	—	(1)	
Issuances (7)	—	—	—	—	—	—	—	—	—	
Settlements (7)	—	—	—	—	—	—	—	(864)	(1)	
Transfers into Level 3 (8)	418	8	75	—	—	—	—	—	—	
Transfers out of Level 3 (8)	(1,525)	(1,012)	—	—	(119)	—	—	—	(3)	
Balance, December 31, 2018	732	173	74	—	3	—	(122)	(1,998)	1	
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	—	1	1	—	—	—	(12)	(1,192)	—	
Total realized/unrealized gains (losses) included in AOCI	15	2	(1)	—	—	—	(1)	—	—	
Purchases (7)	342	69	—	—	5	5	—	—	3	
Sales (7)	(150)	(25)	(1)	—	—	—	—	—	—	
Issuances (7)	—	—	—	—	—	—	—	—	—	
Settlements (7)	—	—	—	—	—	—	155	(841)	—	
Transfers into Level 3 (8)	24	42	—	—	—	—	—	—	—	
Transfers out of Level 3 (8)	(502)	(145)	—	—	—	—	(4)	—	(1)	
Balance, December 31, 2019	\$ 461	\$ 117	\$ 73	\$ —	\$ 8	\$ 5	\$ 16	\$ (4,031)	\$ 3	
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at December 31, 2017: (9)	\$ 1	\$ 23	\$ —	\$ —	\$ —	\$ —	\$ (52)	\$ 966	\$ —	
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at December 31, 2018: (9)	\$ (2)	\$ —	\$ 1	\$ —	\$ 1	\$ —	\$ 148	\$ 395	\$ —	
Changes in unrealized gains (losses) included in net income (loss) for the instruments still held at December 31, 2019: (9)	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ (10)	\$ (1,450)	\$ —	
Gains (Losses) Data for the year ended December 31, 2017:										
Total realized/unrealized gains (losses) included in net income (loss) (5) (6)	\$ (3)	\$ 28	\$ —	\$ —	\$ (3)	\$ —	\$ 92	\$ 1,078	\$ —	
Total realized/unrealized gains (losses) included in AOCI	\$ 131	\$ 52	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	

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

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

8. Fair Value (continued)

- (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 contract holders within separate account liabilities. Therefore, such changes in estimated fair value are not recorded in net income (loss). For the purpose of this disclosure, these changes are presented within net investment gains (losses).
- (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 net embedded derivatives are included in net derivative gains (losses). Substantially all realized/unrealized gains (losses) included in net income (loss) for net derivatives and net embedded derivatives are reported in net derivative gains (losses).
- (6) Interest and dividend accruals, as well as cash interest coupons and dividends received, are excluded from the rollforward.
- (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 net embedded derivatives are reported in net derivative gains (losses).

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 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.

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:

	December 31, 2019				
	Carrying Value	Fair Value Hierarchy			Total Estimated Fair Value
		Level 1	Level 2	Level 3	
(In millions)					
Assets					
Mortgage loans	\$ 15,753	\$ —	\$ —	\$ 16,383	\$ 16,383
Policy loans	\$ 1,292	\$ —	\$ 516	\$ 1,062	\$ 1,578
Other invested assets	\$ 51	\$ —	\$ 39	\$ 12	\$ 51
Premiums, reinsurance and other receivables	\$ 2,224	\$ —	\$ 41	\$ 2,593	\$ 2,634
Liabilities					
Policyholder account balances	\$ 15,614	\$ —	\$ —	\$ 15,710	\$ 15,710
Long-term debt	\$ 4,365	\$ —	\$ 3,334	\$ 1,000	\$ 4,334
Other liabilities	\$ 846	\$ —	\$ 191	\$ 655	\$ 846
Separate account liabilities	\$ 1,189	\$ —	\$ 1,189	\$ —	\$ 1,189

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
8. Fair Value (continued)

	December 31, 2018				
	Carrying Value	Fair Value Hierarchy			Total Estimated Fair Value
		Level 1	Level 2	Level 3	
(In millions)					
Assets					
Mortgage loans	\$ 13,694	\$ —	\$ —	\$ 13,860	\$ 13,860
Policy loans	\$ 1,421	\$ —	\$ 656	\$ 959	\$ 1,615
Other invested assets	\$ 77	\$ —	\$ 64	\$ 13	\$ 77
Premiums, reinsurance and other receivables	\$ 1,609	\$ —	\$ 32	\$ 1,664	\$ 1,696
Liabilities					
Policyholder account balances	\$ 15,332	\$ —	\$ —	\$ 13,861	\$ 13,861
Long-term debt	\$ 3,963	\$ —	\$ 2,758	\$ 600	\$ 3,358
Other liabilities	\$ 330	\$ —	\$ 118	\$ 212	\$ 330
Separate account liabilities	\$ 1,029	\$ —	\$ 1,029	\$ —	\$ 1,029

9. Long-term Debt

Long-term debt outstanding was as follows:

	Interest Rate	Maturity	December 31,	
			2019	2018
(In millions)				
Senior notes (1)	3.700%	2027	\$ 1,492	\$ 1,490
Senior notes (1)	4.700%	2047	1,478	1,478
Term loans	LIBOR plus 1.5%	2024	1,000	600
Junior subordinated debentures (1)	6.250%	2058	363	361
Other long-term debt (2)	7.028%	2030	32	34
Total long-term debt			\$ 4,365	\$ 3,963

(1) Includes unamortized debt issuance costs and debt discount totaling \$42 million and \$46 million for the senior notes due 2027 and 2047 and junior subordinated debentures due 2058 on a combined basis at December 31, 2019 and 2018, respectively.

(2) Represents non-recourse debt for which creditors have no access, subject to customary exceptions, to the general assets of the Company other than recourse to certain investment companies.

The aggregate maturities of long-term debt at December 31, 2019 were \$2 million in each of 2020, 2021, 2022 and 2023, \$1.0 billion in 2024 and \$3.4 billion thereafter.

Unsecured senior notes and borrowings outstanding under term loan facilities rank highest in priority, followed by subordinated debt consisting of junior subordinated debentures.

Interest expense related to long-term debt of \$191 million, \$158 million and \$135 million for the years ended December 31, 2019, 2018 and 2017, respectively, is included in other expenses.

Certain of the Company's debt instruments and credit and committed facilities contain certain administrative, reporting and legal covenants. Additionally, the Company's credit facilities contain financial covenants, including requirements to maintain a specified minimum adjusted consolidated net worth, to maintain a ratio of total indebtedness to total capitalization not in excess of a specified percentage and that place limitations on the dollar amount of indebtedness that may be incurred by the Company. At December 31, 2019, the Company was in compliance with these financial covenants.

Notes to the Consolidated Financial Statements (continued)

9. Long-term Debt (continued)

Senior Notes

On June 22, 2017, BHF issued \$1.5 billion of senior notes due June 2027, which bear interest at a fixed rate of 3.70%, payable semi-annually, and \$1.5 billion of senior notes due June 2047, which bear interest at a fixed rate of 4.70%, payable semi-annually (collectively, the “Senior Notes”). In connection with the issuance of the Senior Notes, debt issuance costs of \$23 million and debt discounts of \$12 million were capitalized, which are amortized over the term of the related debt instrument as a component of interest expense.

Junior Subordinated Debentures

On September 12, 2018, BHF issued \$375 million of junior subordinated debentures (the “Junior Debentures”) due September 2058, which bear interest at a fixed rate of 6.25%, payable quarterly, subject to BHF’s right to defer interest payments in accordance with the terms of the debentures. In connection with the issuance of the Junior Debentures, debt issuance costs of \$14 million were capitalized, which are amortized over the term of the related debt instrument as a component of interest expense.

Surplus Notes

On June 16, 2017, MetLife, Inc. forgave Brighthouse Life Insurance Company’s obligation to pay the principal amount of \$750 million, 8.595% surplus notes held by MetLife, Inc., which were originally issued in 2008. The forgiveness of the surplus notes was treated as a capital transaction and recorded as an increase to additional paid-in capital.

On April 28, 2017, two surplus note obligations due to MetLife, Inc. totaling \$1.1 billion, which were originally issued in 2012 and 2013, were due on September 30, 2032 and December 31, 2033 and bore interest at 5.13% and 6.00%, respectively, were satisfied in a non-cash exchange for \$1.1 billion of loans due from MetLife, Inc.

Credit Facilities

On December 2, 2016, BHF entered into a \$2.0 billion senior unsecured revolving credit facility maturing December 2, 2021 (the “2016 Revolving Credit Facility”) and a \$3.0 billion term loan facility maturing December 2, 2019 (the “2016 Term Loan Facility”) with a syndicate of banks. In connection with entering into these credit facilities, MetLife, Inc. paid \$16 million of debt issuance costs on the Company’s behalf. The Company capitalized these costs, which were included in other assets, and reimbursed MetLife, Inc. in 2017. Such debt issuance costs are amortized over the terms of the facilities, which is included in other expenses.

On July 21, 2017, BHF entered into a term loan agreement (the “2017 Term Loan Agreement”) with respect to a new \$600 million unsecured delayed draw term loan facility maturing December 2, 2019 (the “2017 Term Loan Facility”) and borrowed \$600 million under the 2017 Term Loan Facility in August 2017. Debt issuance costs incurred related to the 2017 Term Loan Facility were not significant. Concurrently with entering into the 2017 Term Loan Agreement, the 2016 Term Loan Facility was terminated without penalty. As a result of this termination, unamortized debt issuance costs of \$7 million were written off and included in other expenses.

On February 1, 2019, BHF entered into a term loan agreement with respect to a new \$1.0 billion unsecured term loan facility maturing February 1, 2024 (the “2019 Term Loan Facility”). On February 1, 2019, BHF borrowed \$1.0 billion under the 2019 Term Loan Facility, terminated the 2017 Term Loan Facility without penalty and repaid \$600 million of borrowings outstanding under the 2017 Term Loan Facility. Debt issuance costs incurred related to the 2019 Term Loan Facility were not significant.

On May 7, 2019, BHF entered into an amended and restated revolving credit agreement with respect to a new \$1.0 billion senior unsecured revolving credit facility maturing May 7, 2024 (the “2019 Revolving Credit Facility”), all of which may be used for revolving loans and/or letters of credit. The 2019 Revolving Credit Facility replaced the 2016 Revolving Credit Facility.

For the years ended December 31, 2019, 2018 and 2017, fees associated with these credit facilities were not significant.

At December 31, 2019, there were no borrowings or letters of credit outstanding under the Revolving Credit Facility and there was \$1.0 billion outstanding under the 2019 Term Loan Facility, resulting in unused commitments totaling \$1.0 billion in comparison to the maximum capacity of \$2.0 billion under these credit facilities.

Notes to the Consolidated Financial Statements (continued)

9. Long-term Debt (continued)**Committed Facilities****Collateral Financing Arrangement**

In 2007, MetLife, Inc. and MetLife Reinsurance Company of South Carolina (“MRSC”), a former affiliate, entered into a collateral financing arrangement with an unaffiliated financial institution that provided up to \$3.5 billion of statutory reserve support for MRSC associated with reinsurance obligations under affiliated reinsurance agreements. Proceeds from this collateral financing arrangement, which resulted in a drawdown of \$2.8 billion on the aforementioned \$3.5 billion committed facility, were placed in trusts to support MRSC’s statutory obligations associated with the reinsurance of secondary guarantees. On April 28, 2017, MetLife, Inc. and MRSC terminated this collateral financing arrangement and, as a result, the \$2.8 billion obligation outstanding was extinguished utilizing \$2.8 billion of assets held in trust, which had been repositioned into short-term investments and cash equivalents. The remaining assets held in trust of \$590 million were returned to MetLife, Inc., resulting in a decrease in shareholder’s net investment. For the year ended December 31, 2017, the Company recognized interest expense of \$19 million related to this collateral financing arrangement, which is included in other expenses.

Reinsurance Financing Arrangement

On April 28, 2017, Brighthouse Reinsurance Company of Delaware (“BRCD”) entered into a \$10.0 billion financing arrangement with a pool of highly rated third-party reinsurers. This financing arrangement consists of credit-linked notes that each mature in 2037. At December 31, 2019, there were no borrowings under this facility and there was \$10.0 billion of funding available under this arrangement. For the years ended December 31, 2019, 2018 and 2017, the Company recognized commitment fees of \$41 million, \$44 million and \$27 million, respectively, in other expenses associated with this committed facility.

Repurchase Facility

On April 16, 2018, Brighthouse Life Insurance Company entered into a secured committed repurchase facility (the “Repurchase Facility”) with a financial institution, pursuant to which Brighthouse Life Insurance Company may enter into repurchase transactions in an aggregate amount up to \$2.0 billion. The Repurchase Facility has a term beginning on July 31, 2018 and maturing on July 31, 2021. Under the Repurchase Facility, Brighthouse Life Insurance Company may sell certain eligible securities at a purchase price based on the market value of the securities less an applicable margin based on the types of securities sold, with a concurrent agreement to repurchase such securities at a predetermined future date (ranging from two weeks to three months) and at a price which represents the original purchase price plus interest. At December 31, 2019, there were no borrowings under the Repurchase Facility. For the years ended December 31, 2019 and 2018, fees associated with this committed facility were not significant.

10. Equity**Preferred Stock**

At December 31, 2019 and 2018, BHF was authorized to issue up to 100,000,000 shares of preferred stock, par value \$0.01 per share and had 17,000 shares and no shares issued and outstanding at December 31, 2019 and 2018, respectively.

On March 25, 2019, BHF issued depositary shares, each representing a 1/1,000th ownership interest in a share of BHF’s perpetual 6.600% Series A non-cumulative preferred stock (the “Series A Preferred Stock”) and in the aggregate representing 17,000 shares of Series A Preferred Stock, with a stated amount of \$25,000 per share, for aggregate net cash proceeds of \$412 million. Dividends, if declared, will accrue and be payable quarterly, in arrears, at an annual rate of 6.600% on the stated amount per share. In connection with the issuance of the depositary shares and the underlying Series A Preferred Stock, BHF incurred \$13 million of issuance costs, which have been recorded as a reduction of additional paid-in capital. See Note 18.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

10. Equity (continued)

The declaration, record and payment dates, as well as per share and aggregate dividend amounts for the Series A Preferred Stock for the year ended December 31, 2019 were as follows:

Declaration Date	Record Date	Payment Date	Per Share	Aggregate
(In millions, except per share data)				
November 15, 2019	December 10, 2019	December 26, 2019	\$ 412.50	\$ 7
August 15, 2019	September 10, 2019	September 25, 2019	412.50	7
May 15, 2019	June 10, 2019	June 25, 2019	412.50	7
			\$ 1,237.50	\$ 21

Common Stock

The following table presents the rollforward of common shares outstanding:

	2019	2018	2017
Shares outstanding at beginning of year	117,532,336	119,773,106	100,000
Shares issued (1)	199,853	674,912	119,673,106
Shares repurchased (2)	(11,704,888)	(2,915,682)	—
Shares outstanding at end of year	106,027,301	117,532,336	119,773,106

(1) On August 4, 2017, BHF issued 119,673,106 shares of common stock to MetLife, Inc.

(2) Includes shares of common stock withheld with respect to tax withholding obligations associated with the vesting of share-based compensation awards under the Company’s publicly announced benefit plans or programs.

On August 5, 2018, BHF authorized the repurchase of up to \$200 million of common stock. On May 3, 2019, BHF authorized the repurchase of up to an additional \$400 million of common stock. Future repurchases may be made through open market purchases, including pursuant to 10b5-1 plans or pursuant to accelerated stock repurchase plans, or through privately negotiated transactions, from time to time at management’s discretion in accordance with applicable legal requirements. See Note 18.

During the years ended December 31, 2019 and 2018, BHF repurchased 11,658,208 shares and 2,628,167 shares, respectively, of its common stock through open market purchases, pursuant to 10b5-1 plans, for \$442 million and \$105 million, respectively. At December 31, 2019, BHF had \$53 million remaining under its common stock repurchase program.

Shareholder’s Net Investment

The following sections summarize certain transactions that occurred prior to and including the Separation and affected shareholder’s net investment. In connection with the Separation, on August 4, 2017, the Company reclassified \$12.4 billion from shareholder’s net investment to common stock and additional paid-in capital.

Capital Contributions

During the third quarter of 2017, the Company recognized a \$1.1 billion non-cash tax charge and corresponding capital contribution from MetLife, Inc. This tax obligation was in connection with the Separation and MetLife, Inc. is responsible for this obligation through a tax separation agreement with MetLife, Inc. (the “Tax Separation Agreement”). See Note 13.

During the second quarter of 2017, MetLife, Inc. forgave Brighthouse Life Insurance Company’s obligation to pay the principal amount of \$750 million of surplus notes held by MetLife, Inc. The forgiveness of these notes was a non-cash capital contribution. See Note 9.

During the first quarter of 2017, the Company sold an operating joint venture to a former affiliate and the resulting \$202 million gain was treated as a cash capital contribution. See Note 6.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****10. Equity (continued)**

MetLife, Inc. has made payments and received collections on behalf of the Company. Such net amounts, as well as amortization of deferred credit and committed facility structuring costs and debt issuance costs incurred by MetLife, Inc. on behalf of the Company, are recorded as non-cash net contributions of capital. During the year ended December 31, 2017, MetLife, Inc. made non-cash net capital contributions of \$60 million in the forms of payment of letters of credit fees and amortization of deferred credit and committed facility structuring costs and debt issuance costs incurred on the Company's behalf, partially offset by investment income, net of interest expense, related to the MRSC collateral financing arrangement collected on the Company's behalf. See Note 9.

Prior to the Separation, certain transactions related to expense allocations were settled through shareholder's net investment.

Cash Distributions

On August 3, 2017, BHF made a cash distribution in an aggregate amount of \$1.8 billion to MetLife, Inc., the sole holder of BHF common stock as of the record date for the distribution.

In April 2017, MetLife, Inc. and MRSC terminated a collateral financing arrangement and the obligation outstanding was extinguished utilizing assets held in trust. The remaining assets held in trust of \$590 million were returned to MetLife, Inc., resulting in a decrease in shareholder's net investment. See Note 9.

During the year ended December 31, 2017, the Company paid cash distributions of \$40 million to certain MetLife affiliates related to a profit sharing agreement with Brighthouse Advisers.

Noncontrolling Interests

On June 20, 2017, Brighthouse Holdings, LLC ("BH Holdings") issued \$50 million aggregate liquidation preference of fixed rate cumulative preferred units to MetLife, Inc., which MetLife, Inc. subsequently resold to unaffiliated third parties. These preferred units are reported as noncontrolling interests on the consolidated balance sheets.

On April 28, 2017, BRCD issued \$15 million of fixed to floating rate cumulative preferred stock, Series A preferred stock, to an affiliate of MetLife, Inc., which MetLife, Inc. subsequently resold to unaffiliated third parties. These Series A preferred stock are reported as noncontrolling interests on the consolidated balance sheets.

Share-Based Compensation Plans

The Company's share-based compensation plans provide awards to employees and non-employee directors and may be in the form of non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, or other share-based awards. Additionally, employees may purchase shares at a discount under an employee stock purchase plan (the "ESPP"). The Company also granted restricted stock units to certain employees and non-employee directors on September 8, 2017, shortly following the Separation (the "Founders' Grant"). The employee stock incentive plan and the non-employee director stock compensation plan were each approved at the BHF annual meeting of stockholders held on May 23, 2018. The aggregate number of authorized shares available for issuance at December 31, 2019 under the Company's various share-based compensation plans was 7,107,419.

All share-based compensation is measured at fair value as of the grant date. The Company recognizes compensation expense related to share-based awards based on the number of awards expected to vest, which for some award types represent the awards granted less expected forfeitures over the life of the award, as estimated at the date of grant and actual forfeitures for other award types. Unless a material deviation from the assumed forfeiture rate is observed during the term in which the awards are expensed, the Company recognizes any adjustment necessary to reflect differences in actual experience in the period the award becomes payable or exercisable. Compensation expense related to share-based awards, which is included in other expenses, is principally related to the issuance of restricted stock units and performance units with other costs incurred relating to stock options. The Company grants the majority of each year's awards in the first quarter of the year.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

10. Equity (continued)

Compensation Expense Related to Share-Based Compensation

The following table presents total share-based compensation expense:

	Years Ended December 31,	
	2019	2018
	(In millions)	
Restricted stock units, Founders' Grant	\$ —	\$ 31
Restricted stock units	\$ 15	\$ 7
Stock options	\$ 1	\$ 1
Performance share units	\$ 4	\$ —
Employee stock purchase plan	\$ 1	\$ 1

The share-based compensation cost for the Founders' Grant was fully recognized by September 30, 2018. Unrecognized share-based compensation for other grants related to restricted stock units, stock options and performance share units was \$24 million and \$13 million at December 31, 2019 and 2018, respectively, with a weighted average remaining recognition period of five quarters.

Equity Awards

Restricted Stock Units ("RSUs")

RSUs are units that, if vested, are payable in shares of BHF common stock. The Company does not credit RSUs with dividend-equivalents as RSUs do not accrue dividends. Accordingly, the estimated fair value of RSUs is based upon the closing price of shares on the date of grant, less a forfeiture rate. With the exception of the Founders' Grant, most RSUs use graded vesting and vest in thirds on, or shortly after, the first three anniversaries of their grant date, while other RSUs vest in their entirety on the specified anniversary of their grant date. Vesting is subject to continued service, except for employees who meet specified age and service criteria, and in certain other limited circumstances.

Performance Share Units ("PSUs")

PSUs are units that, if vested, are multiplied by a performance factor to produce a final number of BHF common stock shares. PSUs cliff vest at the end of a three-year performance period. Vesting is subject to continued service, except for employees who meet specified age and service criteria, and in certain other limited circumstances. The performance factors are based on the achievement of corporate expense reductions, capital return targets and statutory expense ratio over the respective performance period depending on year of issue.

For awards granted for performance periods in progress through December 31, 2019, the vested PSUs will be multiplied by a performance factor up to a maximum payout of 150%. Assuming the Company has met certain threshold performance goals, the Compensation Committee of BHF's Board of Directors will determine the performance factor in its discretion. The Company estimates the fair value of performance shares semi-annually until they become payable.

The following table presents a summary of PSU and RSU activity:

	RSUs		PSUs	
	Units	Weighted Average Grant-Date Fair Value	Units	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2019	313,685	\$ 47.90	66,369	\$ 48.10
Granted	453,152	\$ 38.81	190,993	\$ 38.97
Forfeited	(47,667)	\$ 44.09	(4,182)	\$ 48.10
Paid	(130,441)	\$ 47.63	—	\$ —
Outstanding at December 31, 2019	588,729	\$ 41.27	253,180	\$ 41.21
Vested at December 31, 2019	—	\$ —	—	\$ —

Notes to the Consolidated Financial Statements (continued)

10. Equity (continued)

Stock Options

Stock options represent the contingent right of award holders to purchase shares of BHF common stock at a stated price for a limited time. All stock options have an exercise price equal to the closing price of a share on the date of grant and have a maximum term of ten years. Stock options granted are exercisable at a rate of one-third of each award on each of the first three anniversaries of the grant date. Vesting is subject to continued service, except for employees who meet specified age and service criteria, and in certain other limited circumstances. In May 2018, the Company granted 242,560 options at a weighted average exercise price of \$53.47 for aggregate intrinsic value of \$0. During the year ended December 31, 2019, no stock options were granted, exercised or expired, and 21,498 options were forfeited.

The Company estimates the fair value of stock options on the date of grant using the Black-Scholes model. The significant assumptions the Company uses in its model include: expected volatility of the price of shares; risk-free rate of return; graded three-year vesting; and expected option life.

The following table presents the weighted average assumptions used to determine the grant-date fair value of stock options that BHF has granted:

	Year Ended December 31, 2018 (1)
Risk-free rate of return	2.93%
Expected volatility	25.00%
Expected option life, years	5.8
Weighted average exercise price of stock options granted	\$53.47
Weighted average fair value of stock options granted	\$12.54

(1) There were no stock options granted during the year ended December 31, 2019.

Employee Stock Purchase Plan Shares

Under the ESPP, eligible employees of the Company purchase common stock at a discount rate of 15% of the market price per share on the lesser of the first or last trading day of the offering period. Employees purchase a variable number of shares of stock through payroll deductions elected just prior to the beginning of the offering period. During the years ended December 31, 2019 and 2018, 68,897 shares and 38,898 shares, respectively, were purchased. The weighted average per share fair value of the discount under the ESPP was \$6.99 and \$6.40 during the years ended December 31, 2019 and 2018, respectively, which was recorded in other expenses.

Statutory Equity and Income

The states of domicile of the Company’s insurance subsidiaries impose RBC requirements that were developed by the National Association of Insurance Commissioners (“NAIC”). Regulatory compliance is determined by a ratio of a company’s total adjusted capital (“TAC”), calculated in the manner prescribed by the NAIC to its authorized control level RBC (“ACL RBC”), calculated in the manner prescribed by the NAIC, based on the statutory-based filed financial statements. Companies below specific trigger levels or ratios are classified by their respective levels, each of which requires specified corrective action. The minimum level of TAC before corrective action commences is twice ACL RBC. The RBC ratios for the Company’s insurance subsidiaries were each in excess of 400% for all periods presented.

The Company’s insurance subsidiaries prepare statutory-basis financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile.

Statutory accounting principles differ from GAAP primarily by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions, reporting of reinsurance agreements and valuing investments and deferred tax assets on a different basis.

The tables below present amounts from certain of the Company’s insurance subsidiaries, which are derived from the statutory-basis financial statements as filed with the insurance regulators.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

10. Equity (continued)

Statutory net income (loss) was as follows:

Company	State of Domicile	Years Ended December 31,		
		2019	2018	2017
(In millions)				
Brighthouse Life Insurance Company	Delaware	\$ 1,074	\$ (1,104)	\$ (425)
New England Life Insurance Company	Massachusetts	\$ 61	\$ 130	\$ 68

Statutory capital and surplus was as follows at:

Company	December 31,	
	2019	2018
(In millions)		
Brighthouse Life Insurance Company	\$ 8,746	\$ 6,731
New England Life Insurance Company	\$ 116	\$ 213

The Company has a reinsurance subsidiary, BRCD which reinsures risks including level premium term life and ULSG assumed from other Brighthouse Financial life insurance subsidiaries. BRCD, with the explicit permission of the Delaware Commissioner, has included, as admitted assets, the value of credit-linked notes, serving as collateral, which resulted in higher statutory capital and surplus of \$9.0 billion and \$8.7 billion for the years ended December 31, 2019 and 2018, respectively.

The statutory net income (loss) of BRCD was (\$316) million, (\$1.1) billion and (\$1.6) billion for the years ended December 31, 2019, 2018 and 2017, respectively, and the combined statutory capital and surplus, including the aforementioned prescribed practices, were \$572 million and \$557 million at December 31, 2019 and 2018, respectively.

Dividend Restrictions

The table below sets forth the dividends permitted to be paid by certain of the Company's insurance companies without insurance regulatory approval and dividends paid:

Company	2020	2019	2018	2017
	Permitted Without Approval (1)	Paid (2)	Paid (2)	Paid (2)
(In millions)				
Brighthouse Life Insurance Company	\$ 2,066	\$ —	\$ —	\$ —
New England Life Insurance Company (3)	\$ 61	\$ 131	\$ 400	\$ 106

(1) Reflects dividend amounts that may be paid during 2020 without prior regulatory approval. However, because dividend tests may be based on dividends previously paid over rolling 12-month periods, if paid before a specified date during 2020, some or all of such dividends may require regulatory approval. See Note 18.

(2) Reflects all amounts paid, including those requiring regulatory approval.

(3) Dividends paid by NELICO in 2018, including a \$65 million ordinary cash dividend and a \$335 million extraordinary dividend comprised of \$135 million of cash and a \$200 million surplus note, were paid to its parent, BH Holdings, LLC.

Brighthouse Financial, Inc.**Notes to the Consolidated Financial Statements (continued)****10. Equity (continued)**

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

Under the Massachusetts State Insurance Law, NELICO is permitted, without prior insurance regulatory clearance, to pay a stockholder dividend as long as the aggregate amount of the dividend, when aggregated with all other dividends paid in the preceding 12 months, does not exceed the greater of: (i) 10% of its surplus to policyholders as of the end of the immediately preceding calendar year; or (ii) its net gain from operations for the immediately preceding calendar year, not including pro rata distributions of NELICO's own securities. NELICO will be permitted to pay a dividend in excess of the greater of such two amounts only if it files notice of the declaration of such a dividend and the amount thereof with the Massachusetts Commissioner of Insurance (the "Massachusetts Commissioner") and the Massachusetts Commissioner either approves the distribution of the dividend or does not disapprove the distribution within 30 days of its filing. In addition, any dividend that exceeds earned surplus (defined as "unassigned funds (surplus)") as of the last filed annual statutory statement requires insurance regulatory approval. Under the Massachusetts State Insurance Law, the Massachusetts Commissioner has broad discretion in determining whether the financial condition of a stock life insurance company would support the payment of such dividends to its stockholders.

Under BRCD's plan of operations, no dividend or distribution may be made by BRCD without the prior approval of the Delaware Commissioner. On December 30, 2019, the Delaware Commissioner approved an extraordinary dividend of \$600 million payable to Brighthouse Life Insurance Company (see Note 18). During the years ended December 31, 2018 and 2017, BRCD paid extraordinary cash dividends of \$0 and \$535 million, respectively. During the years ended December 31, 2019, 2018, and 2017, BRCD paid cash dividends of \$1 million, \$2 million and \$0, respectively, to its preferred shareholders.

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
10. Equity (continued)
Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Investment Gains (Losses), Net of Related Offsets (1)	Unrealized Gains (Losses) on Derivatives	Foreign Currency Translation Adjustments	Defined Benefit Plans Adjustment	Total
(In millions)					
Balance at December 31, 2016	\$ 1,044	\$ 268	\$ (31)	\$ (16)	\$ 1,265
OCI before reclassifications	276	(157)	10	(19)	110
Deferred income tax benefit (expense)	(94)	55	(3)	14	(28)
AOCI before reclassifications, net of income tax	1,226	166	(24)	(21)	1,347
Amounts reclassified from AOCI	60	(18)	—	—	42
Deferred income tax benefit (expense) (2)	286	6	—	(5)	287
Amounts reclassified from AOCI, net of income tax	346	(12)	—	(5)	329
Balance at December 31, 2017	1,572	154	(24)	(26)	1,676
Cumulative effect of change in accounting principle and other, net of income tax	(79)	—	—	—	(79)
Balance, January 1, 2018	1,493	154	(24)	(26)	1,597
OCI before reclassifications	(1,346)	159	(4)	6	(1,185)
Deferred income tax benefit (expense)	287	48	1	(1)	335
AOCI before reclassifications, net of income tax	434	361	(27)	(21)	747
Amounts reclassified from AOCI	181	(134)	—	1	48
Deferred income tax benefit (expense)	(39)	(40)	—	—	(79)
Amounts reclassified from AOCI, net of income tax	142	(174)	—	1	(31)
Balance at December 31, 2018	576	187	(27)	(20)	716
OCI before reclassifications	3,285	40	12	(10)	3,327
Deferred income tax benefit (expense)	(690)	(8)	—	2	(696)
AOCI before reclassifications, net of income tax	3,171	219	(15)	(28)	3,347
Amounts reclassified from AOCI	(76)	(59)	—	—	(135)
Deferred income tax benefit (expense)	16	12	—	—	28
Amounts reclassified from AOCI, net of income tax	(60)	(47)	—	—	(107)
Balance at December 31, 2019	\$ 3,111	\$ 172	\$ (15)	\$ (28)	\$ 3,240

(1) See Note 6 for information on offsets to investments related to future policy benefits, DAC, VOBA and DSI.

(2) Includes the \$306 million and (\$5) million impacts of the Tax Cuts and Job Act (the "Tax Act") related to unrealized investments gains (losses), net of related offsets and defined benefit plans adjustment, respectively.

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
10. Equity (continued)

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

AOCI Components	Amounts Reclassified from AOCI			Consolidated Statements of Operations Locations
	Years Ended December 31,			
	2019	2018	2017	
	(In millions)			
Net unrealized investment gains (losses):				
Net unrealized investment gains (losses)	\$ 113	\$ (180)	\$ (15)	Net investment gains (losses)
Net unrealized investment gains (losses)	—	1	3	Net investment income
Net unrealized investment gains (losses)	(37)	(2)	(48)	Net derivative gains (losses)
Net unrealized investment gains (losses), before income tax	76	(181)	(60)	
Income tax (expense) benefit	(16)	39	(286)	
Net unrealized investment gains (losses), net of income tax	60	(142)	(346)	
Unrealized gains (losses) on derivatives - cash flow hedges:				
Interest rate swaps	32	98	—	Net derivative gains (losses)
Interest rate swaps	2	3	3	Net investment income
Interest rate forwards	—	31	2	Net derivative gains (losses)
Interest rate forwards	—	2	3	Net investment income
Foreign currency swaps	25	—	10	Net derivative gains (losses)
Gains (losses) on cash flow hedges, before income tax	59	134	18	
Income tax (expense) benefit	(12)	40	(6)	
Gains (losses) on cash flow hedges, net of income tax	47	174	12	
Defined benefit plans adjustment:				
Amortization of net actuarial gains (losses)	—	(1)	—	
Amortization of defined benefit plan items, before income tax	—	(1)	—	
Income tax (expense) benefit	—	—	5	
Amortization of defined benefit plan items, net of income tax	—	(1)	5	
Total reclassifications, net of income tax	\$ 107	\$ 31	\$ (329)	

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

11. Other Revenues and Other Expenses

Other Revenues

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

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

Other revenues consisted primarily of 12b-1 fees of \$336 million, \$360 million and \$359 million for the years ended December 31, 2019, 2018 and 2017, respectively, of which substantially all were reported in the Annuities segment.

Other Expenses

Information on other expenses was as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Compensation	\$ 333	\$ 289	\$ 287
Contracted services and other labor costs	287	245	176
Transition services agreements	245	279	306
Establishment costs	118	239	162
Premium and other taxes, licenses and fees	48	68	64
Separate account fees	488	524	466
Volume related costs, excluding compensation, net of DAC capitalization	636	628	711
Interest expense on debt	191	158	153
Other	145	145	158
Total other expenses	<u>\$ 2,491</u>	<u>\$ 2,575</u>	<u>\$ 2,483</u>

Capitalization of DAC

See Note 4 for additional information on the capitalization of DAC.

Interest Expense on Debt

See Note 9 for attribution of interest expense by debt issuance.

Related Party Expenses

See Note 16 for a discussion of related party expenses included in the table above.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

12. Employee Benefit Plans

BHF Active Defined Contribution Plans

Brighthouse Services sponsors qualified and non-qualified defined contribution plans. For the years ended December 31, 2019, 2018 and 2017, the total employer contributions for the qualified defined contribution plan were \$15 million, \$14 million and \$8 million, respectively, and the total expense recognition for the non-qualified defined contribution plans were \$6 million, \$3 million and \$2 million, respectively, all of which are reported in other expenses.

NELICO Legacy Pension and Other Unfunded Benefit Plans

NELICO sponsors both a qualified and a non-qualified defined benefit pension plan, a postretirement plan and other unfunded benefit plans. These pension and other unfunded benefit plans were amended to cease benefit accruals and are closed to new entrants. The qualified defined benefit pension plan had an accumulated benefit obligation of \$164 million and \$147 million at December 31, 2019 and 2018, respectively. This plan was fully funded at December 31, 2019 and 2018 with assets in excess of the accumulated benefit obligation of \$7 million and \$4 million, respectively. The Company did not make any employer contributions to this qualified plan during 2019 or 2018.

The non-qualified defined benefit pension plan and the postretirement plan had a combined accumulated benefit obligation totaling \$106 million and \$99 million at December 31, 2019 and 2018, respectively. These amounts are unfunded.

The other unfunded benefit plans consist primarily of deferred compensation due to former agents which represent general unsecured liabilities of NELICO. The amounts due under these other unfunded benefit plans were \$72 million and \$70 million at December 31, 2019 and 2018, respectively.

Although NELICO remains the legal obligor for these plans, an employee matters agreement (“EMA”) exists between BHF and MetLife whereby MetLife has agreed to reimburse BHF for the obligations under the non-qualified and other unfunded plans as payments are made. At the time of Separation, BHF established a receivable from MetLife in the amount of the unfunded obligations due under these plans. MetLife is required to annually reimburse BHF for each prior year’s benefit payments, claims and premiums under the NELICO plans that are listed in the EMA. The Company’s receivable from MetLife under the EMA for future total estimated benefit payments, claims and premiums was \$193 million and \$186 million at December 31, 2019 and 2018, respectively. The receivable is reported in premiums, reinsurance and other receivables. Increases and decreases to the EMA receivable are reported in other revenues.

13. Income Tax

The provision for income tax was as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Current:			
Federal	\$ (36)	\$ (166)	\$ 406
State and local	4	—	6
Foreign	—	—	18
Subtotal	<u>(32)</u>	<u>(166)</u>	<u>430</u>
Deferred:			
Federal	(285)	285	(667)
State and local	—	—	—
Foreign	—	—	—
Subtotal	<u>(285)</u>	<u>285</u>	<u>(667)</u>
Provision for income tax expense (benefit)	<u>\$ (317)</u>	<u>\$ 119</u>	<u>\$ (237)</u>

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

13. Income Tax (continued)

The reconciliation of the income tax provision at the statutory tax rate to the provision for income tax as reported was as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Tax provision at statutory rate	\$ (221)	\$ 207	\$ (215)
Tax effect of:			
Excess loss account - Separation from MetLife (1)	—	(2)	1,088
Rate revaluation due to tax reform (2)	—	—	(803)
Sale of subsidiaries	—	—	(138)
Dividend received deduction (3)	(42)	(44)	(130)
Other tax credits	(31)	(25)	(30)
Release of valuation allowance	—	(11)	—
Other, net	(23)	(6)	(9)
Provision for income tax expense (benefit)	\$ (317)	\$ 119	\$ (237)
Effective tax rate	30%	12%	39%

(1) For the year ended December 31, 2017, the Company recognized a non-cash charge to provision for income tax expense and corresponding capital contribution from MetLife. This tax obligation was in connection with the Separation. MetLife, Inc. is responsible for this obligation through the Tax Separation Agreement.

(2) For the year ended December 31, 2017, the Company recognized a \$725 million benefit in net income from remeasurement of net deferred tax liabilities in connection with the Tax Act. Additionally, as a result of the reduction in the statutory tax rate under the Tax Act, the liability to MetLife under the Tax Receivables Agreement (as defined below) was reduced by \$222 million, which is included in other revenues and is non-taxable.

(3) For the year ended December 31, 2018, the Tax Act changed the dividend received deduction amount applicable to insurance companies to a 70% company share and a 50% dividend received deduction for eligible dividends. The dividend received deduction reduces the amount of dividend income subject to tax and is a significant component of the difference between the actual tax expense and expected amount determined using the statutory tax rate.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

13. Income Tax (continued)

Deferred income tax represents the tax effect of the differences between the book and tax bases of assets and liabilities. Net deferred income tax assets and liabilities consisted of the following at:

	December 31,	
	2019	2018
(In millions)		
Deferred income tax assets:		
Tax credit carryforwards	\$ 106	\$ 58
Net operating loss carryforwards	1,087	1,052
Employee benefits	17	7
Intangibles	93	159
Investments, including derivatives (1)	260	120
Other	15	—
Total net deferred income tax assets	1,578	1,396
Deferred income tax liabilities:		
Policyholder liabilities and receivables (1)	1,277	1,379
Net unrealized investment gains	871	202
DAC	785	761
Other	—	26
Total deferred income tax liabilities	2,933	2,368
Net deferred income tax asset (liability)	\$ (1,355)	\$ (972)

(1) The Company reclassified certain components of the 2018 net deferred income tax asset (liability) upon completion of a Separation related deferred tax basis study in 2019. Total deferred income tax assets and total deferred income tax liabilities increased by \$120 million at December 31, 2018 as compared to the amounts previously presented. There was no change in total net deferred income tax asset (liability) resulting from these reclassifications at December 31, 2018.

The following table sets forth the net operating loss carryforwards for tax purposes at December 31, 2019.

Expiration	Net Operating Loss Carryforwards	
	(In millions)	
2034-2038	\$	3,059
Indefinite		2,119
	\$	5,178

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

13. Income Tax (continued)

The following table sets forth the general business credits and foreign tax credits available for carryforward for tax purposes at December 31, 2019.

Expiration	Tax Credit Carryforwards	
	General Business Credits	Foreign Tax Credits
	(In millions)	
2020-2024	\$ —	\$ 18
2025-2029	—	71
2030-2034	—	—
2035-2039	17	—
Indefinite	—	—
	<u>\$ 17</u>	<u>\$ 89</u>

The Company's liability for unrecognized tax benefits may increase or decrease in the next 12 months. A reasonable estimate of the increase or decrease cannot be made at this time. However, the Company continues to believe that the ultimate resolution of the pending issues will not result in a material change to its consolidated financial statements, although the resolution of income tax matters could impact the Company's effective tax rate in the future.

A reconciliation of the beginning and ending amount of unrecognized tax benefits was as follows:

	Years Ended December 31,		
	2019	2018	2017
	(In millions)		
Balance at January 1,	\$ 35	\$ 23	\$ 58
Additions for tax positions of prior years	—	12	—
Reductions for tax positions of prior years	—	—	(4)
Additions for tax positions of current year	—	—	3
Reductions for tax positions of current year	—	—	(2)
Settlements with tax authorities	—	—	(32)
Balance at December 31,	<u>\$ 35</u>	<u>\$ 35</u>	<u>\$ 23</u>
Unrecognized tax benefits that, if recognized would impact the effective rate	<u>\$ 35</u>	<u>\$ 35</u>	<u>\$ 23</u>

The Company classifies interest accrued related to unrecognized tax benefits in interest expense, included within other expenses, while penalties are included in income tax expense. Interest related to unrecognized tax benefits was not significant. The Company had no penalties for each of the years ended December 31, 2019, 2018 and 2017.

The Company is under continuous examination by the Internal Revenue Service and other tax authorities in jurisdictions in which the Company has significant business operations. The income tax years under examination vary by jurisdiction and subsidiary. The Company is no longer subject to federal, state or local income tax examinations for years prior to 2007. Management believes it has established adequate tax liabilities, and final resolution of the audit for the years 2007 and forward is not expected to have a material impact on the Company's consolidated financial statements.

Tax Sharing Agreements

For the periods prior to the Separation, Brighthouse Financial filed a consolidated federal life and non-life income tax return in accordance with the provisions of the Tax Code. Current taxes (and the benefits of tax attributes such as losses) are allocated to Brighthouse Financial, Inc., and its includable subsidiaries, under the consolidated tax return regulations and a tax sharing agreement with MetLife. This tax sharing agreement states that federal taxes will be computed on a modified separate return basis with benefits for losses.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

13. Income Tax (continued)

For periods after the Separation, Brighthouse Financial entered into two separate tax sharing agreements. Brighthouse Life Insurance Company and any directly owned life insurance and reinsurance subsidiaries (including BHNY and BRCD) entered in a tax sharing agreement to join a life consolidated federal income tax return. Brighthouse Financial, Inc. and its includable subsidiaries entered into a tax sharing agreement to join a non-life consolidated federal income tax return. NELICO and the non-life subsidiaries of Brighthouse Life Insurance Company will file their own federal income tax returns. The tax sharing agreements state that federal taxes are computed on a modified separate return basis with benefit for losses.

Income Tax Transactions with Former Parent

In connection with the Separation, the Company entered into a tax receivables agreement (the “Tax Receivables Agreement”) with MetLife that provides MetLife with the right to receive as partial consideration for its contribution of assets to BHF future payments from BHF, equal to 86% of the amount of cash savings, if any, in federal income tax that Brighthouse Financial actually, or are deemed to, realize as a result of the utilization of Brighthouse Financial, Inc. and its subsidiaries’ net operating losses, capital losses, tax basis and amortization or depreciation deductions in respect of certain tax benefits it may realize as a result of certain transactions involved in the Separation. In connection with the Tax Receivables Agreement, the Company has a payable to MetLife of \$328 million at both December 31, 2019 and 2018, included in other liabilities.

The Company also entered into the Tax Separation Agreement. Among other things, the Tax Separation Agreement governs the allocation between MetLife and the Company of the responsibility for the taxes of the MetLife group. The Tax Separation Agreement also allocates rights, obligations and responsibilities in connection with certain administrative matters relating to the preparation of tax returns and control of tax audits and other proceedings relating to taxes. In October 2017, MetLife paid \$729 million to Brighthouse Financial under the Tax Separation Agreement. At December 31, 2017, the current income tax recoverable included \$873 million related to this agreement. In November 2018, MetLife paid \$909 million to Brighthouse Financial under the Tax Separation Agreement. In November 2019, Brighthouse Financial paid MetLife \$3 million under the Tax Separation Agreement. At December 31, 2019, the current income tax recoverable included \$130 million payable to MetLife related to this agreement.

14. Earnings Per Common Share

The following table sets forth the calculation of earnings per common share:

	Years Ended December 31,		
	2019	2018	2017
	(In millions, except share and per share data)		
Net income (loss) available to Brighthouse Financial, Inc.’s common shareholders	\$ (761)	\$ 865	\$ (378)
Weighted average common shares outstanding — basic	112,508,650	119,386,280	119,773,106
Dilutive effect of share-based awards	—	441,198	—
Weighted average common shares outstanding — diluted	112,508,650	119,827,478	119,773,106
Earnings per common share:			
Basic	\$ (6.76)	\$ 7.24	\$ (3.16)
Diluted	\$ (6.76)	\$ 7.21	\$ (3.16)

For the year ended December 31, 2018, weighted average shares used for calculating diluted earnings per common share excludes 217,990 out-of-the-money stock options as the inclusion of these shares would be antidilutive to the earnings per common share calculation due to the average share price for the periods presented. See Note 10 for further information on share-based compensation plans.

15. Contingencies, Commitments and Guarantees**Contingencies****Litigation**

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

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

The Company establishes liabilities for litigation and regulatory loss contingencies when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require the Company to pay damages or make other expenditures or establish accruals in amounts that could not be estimated at December 31, 2019.

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 December 31, 2019, the Company estimates the aggregate range of reasonably possible losses in excess of amounts accrued for these matters to be \$0 to \$10 million.

Matters as to Which an Estimate Cannot Be Made

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

Sales Practices Claims

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

Notes to the Consolidated Financial Statements (continued)

15. Contingencies, Commitments and Guarantees (continued)

Group Annuity Class Action

Leroy and Geraldine Atkins v. Brighthouse Life Insurance Company, Brighthouse Financial, Inc., et al. (U.S. District Court, District of Nevada, filed November 18, 2019). Plaintiffs have filed a purported class action lawsuit against Brighthouse Life Insurance Company, Brighthouse Financial, Inc., MetLife, Inc. and Metropolitan Life Insurance Company relating to the pension closeout business. Plaintiffs allege that annuity benefits were due but have not been paid. Plaintiffs also allege they were not able to obtain information as to the group annuity contract and the benefit other than what was on a benefit election form. Plaintiffs seek to represent a class of all annuitants and their designated beneficiaries who were due annuity payments pursuant to group annuity contracts purchased from defendants by sponsors of employer provided defined benefit plans. Plaintiffs allege the defendants failed to timely contact, notify and pay overdue annuity benefits and interest to retirees. The complaint alleges breach of contract, breach of the implied covenant of good faith and fair dealing (contract and tort), unjust enrichment, conversion and breach of fiduciary duty. The Company intends to vigorously defend the matter.

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.

CommitmentsMortgage Loan Commitments

The Company commits to lend funds under mortgage loan commitments. The amounts of these mortgage loan commitments were \$206 million and \$492 million at December 31, 2019 and 2018, respectively.

Commitments to Fund Partnership Investments, Bank Credit Facilities and Private Corporate Bond Investments

The Company commits to fund partnership investments and to lend funds under bank credit facilities and private corporate bond investments. The amounts of these unfunded commitments were \$1.8 billion and \$1.9 billion at December 31, 2019 and 2018, respectively.

Guarantees

In the normal course of its business, the Company has provided certain indemnities, guarantees and commitments to third parties such that it may be required to make payments now or in the future. In the context of acquisition, disposition, investment and other transactions, the Company has provided indemnities and guarantees, including those related to tax, environmental and other specific liabilities and other indemnities and guarantees that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. In addition, in the normal course of business, the Company provides indemnifications to counterparties in contracts with triggers similar to the foregoing, as well as for certain other liabilities, such as third-party lawsuits. These obligations are often subject to time limitations that vary in duration, including contractual limitations and those that arise by operation of law, such as applicable statutes of limitation. In some cases, the maximum potential obligation under the indemnities and guarantees is subject to a contractual limitation ranging from less than \$1 million to \$122 million, with a cumulative maximum of \$128 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.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

15. Contingencies, Commitments and Guarantees (continued)

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 \$1 million and \$2 million at December 31, 2019 and 2018, respectively, for indemnities, guarantees and commitments.

16. Related Party Transactions

The Company had not historically operated as a stand-alone business prior to the Separation, and as a result had various existing arrangements with MetLife for services necessary to conduct its activities. Certain of such services continued, as provided for under a master service agreement and various transition services agreements entered into in connection with the Separation. MetLife was no longer considered a related party upon the completion of the MetLife Divestiture on June 14, 2018. All of the MetLife transactions reported as related party activity occurred prior to the MetLife Divestiture. See Note 1 for information regarding the MetLife Divestiture and Note 11 for amounts related to transition services from MetLife.

Non-Broker-Dealer Transactions

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

	Years Ended December 31,	
	2018	2017
	(In millions)	
Income	\$ (182)	\$ (606)
Expense	\$ 133	\$ 378

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

Reinsurance Agreements

The Company has reinsurance agreements with certain of MetLife subsidiaries. See Note 5 for further discussion of the related party reinsurance agreements.

Financing Arrangements

Prior to the Separation, the Company had collateral financing arrangements with MetLife that were used to support reinsurance obligations arising under previously affiliated reinsurance agreements. See Note 9 for more information.

Investment Transactions

In the ordinary course of business, the Company had previously transferred invested assets, primarily consisting of fixed maturity securities, to and from former affiliates. See Note 6 for further discussion of the related party investment transactions.

Shared Services and Overhead Allocations

MetLife provides the Company certain services, which include, but are not limited to, treasury, financial planning and analysis, legal, human resources, tax planning, internal audit, financial reporting and information technology. The Company is charged for these services through a transition services agreement and the costs are allocated to the legal entities and products within the Company. When specific identification to a particular legal entity and/or product is not practicable, an allocation methodology based on various performance measures or activity-based costing, such as sales, new policies/contracts issued, reserves, and in-force policy counts is used. The bases for such charges are modified and adjusted by management when necessary or appropriate to reflect fairly and equitably the actual incidence of cost incurred by the Company and/or affiliate. Management believes that the methods used to allocate expenses under these arrangements are reasonable. Costs incurred with MetLife prior to the MetLife Divestiture under these arrangements, that were considered related party expenses, were \$186 million and \$390 million for the years ended December 31, 2018 and 2017, respectively, and were recorded in other expenses.

Brighthouse Financial, Inc.
Notes to the Consolidated Financial Statements (continued)
16. Related Party Transactions (continued)
Broker-Dealer Transactions

Beginning in March 2017, Brighthouse Securities, LLC, a registered broker-dealer affiliate, began distributing the Company's existing and future registered annuity and life products, and the MetLife broker-dealers discontinued such distributions. Prior to March 2017, the Company recognized related party revenues and expenses arising from transactions with MetLife broker-dealers that previously sold the Company's registered annuity and life products. The related party expense for the Company was commissions collected on the sale of variable products by the Company and passed through to the broker-dealer. The related party revenue for the Company was fee income from trusts and mutual funds whose shares serve as investment options of policyholders of the Company. Fee income received related to these transactions and recorded in other revenues was \$43 million for the year ended December 31, 2017. Commission expenses incurred related to these transactions and recorded in other expenses was \$129 million for the year ended December 31, 2017.

17. Quarterly Results of Operations (Unaudited)

The unaudited quarterly results of operations for 2019 and 2018 are summarized in the table below:

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
(In millions, except per share data)				
2019				
Total revenues	\$ 691	\$ 2,370	\$ 3,187	\$ 306
Total expenses	\$ 1,644	\$ 1,901	\$ 2,383	\$ 1,678
Net income (loss)	\$ (735)	\$ 384	\$ 685	\$ (1,069)
Less: Net Income (loss) attributable to noncontrolling interests	\$ 2	\$ —	\$ 2	\$ 1
Net income (loss) attributable to Brighthouse Financial, Inc.	\$ (737)	\$ 384	\$ 683	\$ (1,070)
Less: Preferred stock dividends	\$ —	\$ 7	\$ 7	\$ 7
Net Income (loss) available to Brighthouse Financial, Inc.'s common shareholders	\$ (737)	\$ 377	\$ 676	\$ (1,077)
Basic earnings per common share (1)	\$ (6.31)	\$ 3.28	\$ 6.09	\$ (10.02)
Diluted earnings per common share (1)	\$ (6.31)	\$ 3.27	\$ 6.06	\$ (10.02)
2018				
Total revenues	\$ 1,815	\$ 1,702	\$ 1,422	\$ 4,026
Total expenses	\$ 1,928	\$ 2,019	\$ 1,790	\$ 2,239
Net income (loss)	\$ (65)	\$ (238)	\$ (269)	\$ 1,442
Less: Net Income (loss) attributable to noncontrolling interests	\$ 2	\$ 1	\$ 2	\$ —
Net income (loss) attributable to Brighthouse Financial, Inc.	\$ (67)	\$ (239)	\$ (271)	\$ 1,442
Less: Preferred stock dividends	\$ —	\$ —	\$ —	\$ —
Net Income (loss) available to Brighthouse Financial, Inc.'s common shareholders	\$ (67)	\$ (239)	\$ (271)	\$ 1,442
Basic earnings per common share (1)	\$ (0.56)	\$ (2.01)	\$ (2.26)	\$ 12.18
Diluted earnings per common share (1)	\$ (0.56)	\$ (2.01)	\$ (2.26)	\$ 12.14

(1) See Note 14 for additional information on the calculation of EPS.

Brighthouse Financial, Inc.

Notes to the Consolidated Financial Statements (continued)

18. Subsequent Events

Dividend Transactions

On February 20, 2020, BRCD, with the explicit permission of the Delaware Commissioner received on December 30, 2019, paid a \$600 million extraordinary dividend to Brighthouse Life Insurance Company.

On February 19, 2020, Brighthouse Life Insurance Company declared a \$300 million ordinary cash dividend payable to BH Holdings. Such dividend has not been paid as of February 26, 2020.

On February 14, 2020, BHF declared a dividend of \$412.50 per share, for a total of \$7 million, on the Series A Preferred Stock, which will be paid on March 25, 2020 to stockholders of record as of March 10, 2020.

Common Stock Repurchase Authorization

On February 6, 2020, BHF authorized the repurchase of up to an additional \$500 million of common stock. No common stock repurchases have been made under the February 6, 2020 authorization as of February 26, 2020. Future repurchases may be made through open market purchases, including pursuant to 10b5-1 plans or pursuant to accelerated stock repurchase plans, or through privately negotiated transactions, from time to time at management's discretion in accordance with applicable legal requirements.

Brighthouse Financial, Inc.
Schedule I
Consolidated Summary of Investments —
Other Than Investments in Related Parties
December 31, 2019
(In millions)

Types of Investments	Cost or Amortized Cost (1)	Estimated Fair Value	Amount at Which Shown on Balance Sheet
Fixed maturity securities:			
Bonds:			
U.S. government and agency	\$ 5,529	\$ 7,396	\$ 7,396
State and political subdivision	3,358	4,057	4,057
Public utilities	3,328	3,766	3,766
Foreign government	1,503	1,751	1,751
All other corporate bonds	33,879	36,879	36,879
Total bonds	47,597	53,849	53,849
Mortgage-backed and asset-backed securities	16,137	16,828	16,828
Redeemable preferred stock	345	359	359
Total fixed maturity securities	64,079	71,036	71,036
Equity securities:			
Non-redeemable preferred stock			
	127	129	129
Common stock:			
Industrial, miscellaneous and all other	10	15	15
Public utilities	—	3	3
Total equity securities	137	147	147
Mortgage loans	15,753		15,753
Policy loans	1,292		1,292
Limited partnerships and LLCs	2,380		2,380
Short-term investments	1,958		1,958
Other invested assets	3,216		3,216
Total investments	\$ 88,815		\$ 95,782

(1) Cost or amortized cost for fixed maturity securities represents original cost reduced by impairments from other-than-temporary declines in estimated fair value that are charged to earnings and adjusted for amortization of premiums or accretion of discounts; for mortgage loans, cost represents original cost reduced by repayments and valuation allowances and adjusted for amortization of premiums or accretion of discounts; for equity securities, cost represents original cost; for limited partnerships and LLCs, cost represents original cost adjusted for equity in earnings and distributions.

Brighthouse Financial, Inc.
Schedule II
Condensed Financial Information
(Parent Company Only)
December 31, 2019 and 2018
(In millions, except share and per share data)

	2019	2018
Condensed Balance Sheets		
Assets		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value (amortized cost: \$44 and \$235, respectively)	\$ 44	\$ 232
Short-term investments, principally at estimated fair value	459	—
Investment in subsidiary	20,222	18,086
Total investments	20,725	18,318
Cash and cash equivalents	212	461
Premiums and other receivables	199	190
Current income tax recoverable	36	7
Deferred income tax receivable	8	5
Other assets	7	7
Total assets	\$ 21,187	\$ 18,988
Liabilities and Stockholders' Equity		
Liabilities		
Long-term and short-term debt	\$ 4,676	\$ 4,232
Other liabilities	339	338
Total liabilities	5,015	4,570
Stockholders' Equity		
Preferred stock, par value \$0.01 per share; \$425 aggregate liquidation preference at December 31, 2019	—	—
Common stock, par value \$0.01 per share; 1,000,000,000 shares authorized; 120,647,871 and 120,448,018 shares issued, respectively; 106,027,301 and 117,532,336 shares outstanding, respectively	1	1
Additional paid-in capital	12,908	12,473
Retained earnings (deficit)	585	1,346
Treasury stock, at cost; 14,620,570 and 2,915,682 shares, respectively	(562)	(118)
Accumulated other comprehensive income (loss)	3,240	716
Total stockholders' equity	16,172	14,418
Total liabilities and stockholders' equity	\$ 21,187	\$ 18,988

See accompanying notes to the condensed financial information.

Brighthouse Financial, Inc.**Schedule II****Condensed Financial Information (continued)**
(Parent Company Only)
For the Years Ended December 31, 2019, 2018 and 2017
(In millions)

	2019	2018	2017
Condensed Statements of Operations			
Revenues			
Equity in earnings (losses) of subsidiaries	\$ (602)	\$ 1,003	\$ (566)
Net investment income	20	10	6
Other revenues	24	5	221
Net derivative gains (losses)	—	—	2
Total revenues	<u>(558)</u>	<u>1,018</u>	<u>(337)</u>
Expenses			
Credit facility fees	10	7	16
Other expenses	209	176	76
Total expenses	<u>219</u>	<u>183</u>	<u>92</u>
Income (loss) before provision for income tax	(777)	835	(429)
Provision for income tax expense (benefit)	(37)	(30)	(51)
Net income (loss)	(740)	865	(378)
Less: Preferred stock dividends	21	—	—
Net income (loss) available to common shareholders	<u>\$ (761)</u>	<u>\$ 865</u>	<u>\$ (378)</u>
Comprehensive income (loss)	<u>\$ 1,784</u>	<u>\$ (16)</u>	<u>\$ 33</u>

See accompanying notes to the condensed financial information.

Brighthouse Financial, Inc.
Schedule II
Condensed Financial Information (continued)
(Parent Company Only)
For the Years Ended December 31, 2019, 2018 and 2017
(In millions)

	2019	2018	2017
Condensed Statements of Cash Flows			
Cash flows from operating activities			
Net income (loss)	\$ (740)	\$ 865	\$ (378)
Equity in (earnings) losses of subsidiaries	602	(1,003)	566
Distribution from subsidiary	195	52	50
Other, net	(16)	7	(252)
Net cash provided by (used in) operating activities	<u>41</u>	<u>(79)</u>	<u>(14)</u>
Cash flows from investing activities			
Sales, maturities and repayments of fixed maturity securities	194	3	510
Purchases of fixed maturity securities	(4)	—	(749)
Capital contributions to subsidiary	(412)	(208)	(1,300)
Net change in short-term investments	(455)	—	—
Net cash provided by (used in) investing activities	<u>(677)</u>	<u>(205)</u>	<u>(1,539)</u>
Cash flows from financing activities			
Long-term and short-term debt issued	2,156	893	3,724
Long-term and short-term debt repaid	(1,716)	(351)	—
Debt issuance costs	—	(12)	(39)
Treasury stock acquired in connection with share repurchases	(442)	(105)	—
Preferred stock issued, net of issuance costs	412	—	—
Dividends on preferred stock	(21)	—	—
Distribution to MetLife, Inc.	—	—	(1,798)
Credit facility fees	(2)	(6)	(8)
Net cash provided by (used in) financing activities	<u>387</u>	<u>419</u>	<u>1,879</u>
Change in cash and cash equivalents	(249)	135	326
Cash and cash equivalents, beginning of year	461	326	—
Cash and cash equivalents, end of year	<u>\$ 212</u>	<u>\$ 461</u>	<u>\$ 326</u>
Supplemental disclosures of cash flow information			
Net cash paid (received) for:			
Interest	\$ 187	\$ 158	\$ 67
Income tax:			
Cash received from MetLife, Inc. for income tax	\$ —	\$ (7)	\$ —
Income tax paid (received) by Brighthouse Financial, Inc.	(4)	1	1
Net cash paid (received) for income tax	<u>\$ (4)</u>	<u>\$ (6)</u>	<u>\$ 1</u>

See accompanying notes to the condensed financial information.

Brighthouse Financial, Inc.
Schedule II
Notes to the Condensed Financial Information
(Parent Company Only)

1. Basis of Presentation

The condensed financial information of Brighthouse Financial, Inc. (the “Parent Company”) should be read in conjunction with the consolidated financial statements of Brighthouse Financial, Inc. and its subsidiaries and the notes thereto (the “Consolidated Financial Statements”). These condensed unconsolidated financial statements reflect the results of operations, financial position and cash flows for Brighthouse Financial, Inc. Investments in subsidiaries are accounted for using the equity method of accounting.

The preparation of these condensed unconsolidated financial statements in conformity with GAAP requires management to adopt accounting policies and make certain estimates and assumptions. The most important of these estimates and assumptions relate to the fair value measurements, identifiable intangible assets and the provision for potential losses that may arise from litigation and regulatory proceedings and tax audits, which may affect the amounts reported in the condensed unconsolidated financial statements and accompanying notes. Actual results could differ from these estimates.

2. Investment in Subsidiary

Contribution of Brighthouse Holdings, LLC

On July 28, 2017, MetLife, Inc. contributed to BHF all of the common interests in BH Holdings in exchange for (i) the assumption by BHF of certain liabilities of MetLife, Inc. including, among other things, liabilities relating to the operation of BHF’s business (including from periods prior to the separation) and certain liabilities related to BHF’s employees, liabilities relating to BHF’s assets and outstanding contractual and non-contractual relationships with customers, vendors and others (including obligations under leases for BHF’s corporate headquarters in Charlotte, North Carolina, as well as certain other locations), and liabilities relating to certain historical operations of MetLife, Inc.; (ii) a cash distribution; (iii) the issuance of additional shares of BHF common stock; and (iv) the entry into certain other agreements between MetLife, Inc. and BHF.

During the years ended December 31, 2019, 2018 and 2017, BHF made cash capital contributions of \$412 million, \$208 million and \$1.3 billion, respectively, to BH Holdings and received cash distributions of \$195 million, \$52 million and \$50 million, respectively, from BH Holdings.

3. Long-term and Short-term Debt

Long-term and short-term debt outstanding was as follows:

	Interest Rate	Maturity	December 31,	
			2019	2018
(In millions)				
Senior notes — unaffiliated (1)	3.70%	2027	\$ 1,492	\$ 1,490
Senior notes — unaffiliated (1)	4.70%	2047	1,478	1,478
Term loans — unaffiliated	LIBOR plus 1.5%	2024	1,000	600
Junior subordinated debentures — unaffiliated (1)	6.25%	2058	363	361
Total long-term debt			4,333	3,929
Short-term intercompany loans			343	303
Total long-term and short-term debt			\$ 4,676	\$ 4,232

(1) Includes unamortized debt issuance costs and debt discount totaling \$42 million and \$46 million at December 31, 2019 and 2018, respectively, for the senior notes due 2027 and 2047 and junior subordinated debentures due 2058 on a combined basis.

The aggregate maturities of long-term and short-term debt at December 31, 2019 were \$343 million in 2020, \$0 in each of 2021, 2022 and 2023, \$1.0 billion in 2024 and \$3.4 billion thereafter.

Interest expense related to long-term and short-term debt of \$191 million, \$157 million and \$75 million for the years ended December 31, 2019, 2018 and 2017, respectively, is included in other expenses.

Brighthouse Financial, Inc.

Schedule II

**Notes to the Condensed Financial Information (continued)
(Parent Company Only)**

Senior Notes and Junior Subordinated Debentures

See Note 9 of the Notes to the Consolidated Financial Statements for information regarding the unaffiliated senior notes and junior subordinated debentures.

Credit Facilities

See Note 9 of the Notes to the Consolidated Financial Statements for information regarding BHF's credit facilities, including the unaffiliated term loans.

Short-term Intercompany Loans

On October 23, 2017, BHF, as borrower, entered into a short-term intercompany loan agreement with certain of its non-insurance subsidiaries, as lenders, for the purposes of facilitating the management of the available cash of the borrower and the lenders on a consolidated basis. Each loan entered into under this intercompany loan agreement has a term not more than 364 days and bears interest on the unpaid principal amount at a variable rate, payable monthly.

During the years ended December 31, 2019, 2018 and 2017, BHF borrowed \$1.2 billion, \$478 million and \$136 million, respectively, from certain of its non-insurance subsidiaries and repaid \$1.1 billion, \$311 million and \$0 of such borrowings during the years ended December 31, 2019, 2018 and 2017. The weighted average interest rate on short-term intercompany loans outstanding at December 31, 2019, 2018 and 2017 was 0.95%, 1.80% and 0.73%, respectively.

Intercompany Liquidity Facilities

BHF has established an intercompany liquidity facility with certain of its insurance and non-insurance subsidiaries to provide short-term liquidity within and across the combined group of companies. Under the facility, which is comprised of a series of revolving loan agreements among BHF and its participating subsidiaries, each company may lend to or borrow from each other, subject to certain maximum limits for a term not more than 364 days. For each insurance subsidiary, the borrowing and lending limit is 3% of the respective insurance subsidiary's statutory admitted assets as of the previous year end. For BHF and each non-insurance subsidiary, the borrowing and lending limit is based on a formula tied to the statutory admitted assets of the respective insurance subsidiaries. During the years ended December 31, 2019 and 2017, there were no borrowings or repayments under this facility. In the second quarter of 2018, BHF borrowed \$40 million from NELICO under this liquidity facility and repaid such borrowing in the third quarter of 2018.

Brighthouse Financial, Inc.
Schedule III
Consolidated Supplementary Insurance Information
December 31, 2019 and 2018

(In millions)

Segment	DAC and VOBA	Future Policy Benefits and Other Policy-Related Balances	Policyholder Account Balances	Unearned Premiums (1)(2)	Unearned Revenue (1)
2019					
Annuities	\$ 4,327	\$ 9,073	\$ 34,770	\$ —	\$ 88
Life	1,019	5,832	3,128	13	335
Run-off	5	20,192	7,872	—	151
Corporate & Other	97	7,700	1	6	—
Total	<u>\$ 5,448</u>	<u>\$ 42,797</u>	<u>\$ 45,771</u>	<u>\$ 19</u>	<u>\$ 574</u>
2018					
Annuities	\$ 4,550	\$ 8,814	\$ 28,619	\$ —	\$ 91
Life	1,051	5,546	3,239	14	277
Run-off	5	17,253	8,195	—	107
Corporate & Other	111	7,596	1	6	—
Total	<u>\$ 5,717</u>	<u>\$ 39,209</u>	<u>\$ 40,054</u>	<u>\$ 20</u>	<u>\$ 475</u>

(1) Amounts are included within the future policy benefits and other policy-related balances column.

(2) Includes premiums received in advance.

Brighthouse Financial, Inc.

Schedule III

**Consolidated Supplementary Insurance Information (continued)
December 31, 2019, 2018 and 2017**

(In millions)

Segment	Premiums and Universal Life and Investment-Type Product Policy Fees	Net Investment Income (1)	Policyholder Benefits and Claims and Interest Credited to Policyholder Account Balances	Amortization of DAC and VOBA	Other Expenses
2019					
Annuities	\$ 2,788	\$ 1,797	\$ 1,414	\$ 363	\$ 1,676
Life	871	434	824	5	211
Run-off	718	1,273	2,436	—	200
Corporate & Other	85	75	59	14	404
Total	<u>\$ 4,462</u>	<u>\$ 3,579</u>	<u>\$ 4,733</u>	<u>\$ 382</u>	<u>\$ 2,491</u>
2018					
Annuities	\$ 2,947	\$ 1,522	\$ 1,597	\$ 944	\$ 1,629
Life	927	447	768	90	241
Run-off	776	1,312	1,922	—	202
Corporate & Other	85	57	64	16	503
Total	<u>\$ 4,735</u>	<u>\$ 3,338</u>	<u>\$ 4,351</u>	<u>\$ 1,050</u>	<u>\$ 2,575</u>
2017					
Annuities	\$ 3,000	\$ 1,252	\$ 2,130	\$ (23)	\$ 1,565
Life	951	327	820	223	265
Run-off	714	1,358	1,735	7	279
Corporate & Other	96	141	62	20	374
Total	<u>\$ 4,761</u>	<u>\$ 3,078</u>	<u>\$ 4,747</u>	<u>\$ 227</u>	<u>\$ 2,483</u>

(1) See Note 2 of the Notes to the Consolidated Financial Statements for the basis of allocation of net investment income.

Brighthouse Financial, Inc.
Schedule IV
Consolidated Reinsurance
December 31, 2019, 2018 and 2017
(Dollars in millions)

	Gross Amount	Ceded	Assumed	Net Amount	% Amount Assumed to Net
2019					
Life insurance in-force	\$ 568,120	\$ 175,728	\$ 7,153	\$ 399,545	1.8%
Insurance premium					
Life insurance (1)	\$ 1,424	\$ 556	\$ 10	\$ 878	1.1%
Accident & health insurance	227	223	—	4	—%
Total insurance premium	\$ 1,651	\$ 779	\$ 10	\$ 882	1.1%
2018					
Life insurance in-force	\$ 597,694	\$ 191,083	\$ 7,458	\$ 414,069	1.8%
Insurance premium					
Life insurance (1)	\$ 1,468	\$ 580	\$ 11	\$ 899	1.2%
Accident & health insurance	231	230	—	1	—%
Total insurance premium	\$ 1,699	\$ 810	\$ 11	\$ 900	1.2%
2017					
Life insurance in-force	\$ 629,367	\$ 206,304	\$ 6,879	\$ 429,942	1.6%
Insurance premium					
Life insurance (1)	\$ 1,557	\$ 711	\$ 11	\$ 857	1.3%
Accident & health insurance	238	232	—	6	—%
Total insurance premium	\$ 1,795	\$ 943	\$ 11	\$ 863	1.3%

(1) Includes annuities with life contingencies.

All of the transactions reported as related party activity occurred prior to the MetLife Divestiture. See Note 1 regarding the MetLife Divestiture. For the year ended December 31, 2018, reinsurance ceded and assumed included related party transactions for life insurance premiums of \$201 million and \$6 million, respectively. For the year ended December 31, 2017, reinsurance ceded and assumed included related party transactions for life insurance in-force of \$17.1 billion and \$6.9 billion, respectively, and life insurance premiums of \$537 million and \$11 million, respectively.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 31, 2019.

Changes in Internal Control Over Financial Reporting

MetLife provides certain services to the Company on a transitional basis through services agreements. The Company continues to change business processes, implement systems and establish new third-party arrangements. We consider these in aggregate to be material changes in our internal control over financial reporting.

Other than as noted above, there were no changes to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management of Brighthouse Financial, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with GAAP.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management has completed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making the assessment, management used the criteria set forth in "Internal Control - Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission.

Based upon the assessment performed under that framework, management has maintained and concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

Attestation Report of the Company's Registered Public Accounting Firm

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued their attestation report on management's internal control over financial reporting which is set forth below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Brighthouse Financial, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Brighthouse Financial, Inc. and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Consolidated Financial Statements, Notes and Schedules as of and for the year ended December 31, 2019, of the Company and our report dated February 26, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Charlotte, North Carolina
February 26, 2020

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Certain of the information required by this Item pertaining to Executive Officers appears in “Business — Information About Our Executive Officers” in this Annual Report on Form 10-K. The other information required by this Item will be set forth in the 2020 Proxy Statement, which information is hereby incorporated by reference.

Item 11. Executive Compensation

The information required by this Item will be set forth in the 2020 Proxy Statement, which information is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be set forth in the 2020 Proxy Statement, which information is hereby incorporated by reference.

Item 13. Certain Relationships, Related Person Transactions and Director Independence

The information required by this Item will be set forth in the 2020 Proxy Statement, which information is hereby incorporated by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will be set forth in the 2020 Proxy Statement, which information is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements: See “Index to Consolidated Financial Statements, Notes and Schedules.”
2. Financial Statement Schedules: See “Index to Consolidated Financial Statements, Notes and Schedules.”
3. Exhibits: The exhibits are listed in the “Exhibit Index” below. Entries marked by the symbol # next to the exhibit’s number identify management contracts or compensation plans or arrangements.

Exhibit Index

(Note Regarding Reliance on Statements in Our Contracts: In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, 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 Financial, Inc. and 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 Financial, Inc. and its subsidiaries and affiliates may be found elsewhere in this Annual Report on Form 10-K and Brighthouse Financial, Inc.'s other public filings, which are available without charge through the U.S. Securities and Exchange Commission website at www.sec.gov.)

Exhibit No.	Description
2.1	Master Separation Agreement, dated as of August 4, 2017, by and between MetLife, Inc. and Brighthouse Financial, Inc., is incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K, filed on August 9, 2017 (our "August 9, 2017 8-K").
3.1	Amended and Restated Certificate of Incorporation of Brighthouse Financial, Inc., is incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q, filed on August 15, 2017.
3.2	Certificate of Designations of Brighthouse Financial, Inc., with respect to the 6.600% Non-Cumulative Preferred Stock, Series A, dated March 20, 2019, filed with the Secretary of State of the State of Delaware and effective March 20, 2019 (the "Certificate of Designations") is incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, filed March 25, 2019 (our "March 25, 2019 8-K").
3.3	Amended and Restated Bylaws of Brighthouse Financial, Inc., is incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q, filed on August 15, 2017.
4.1	Indenture, dated as of June 22, 2017, among Brighthouse Financial, Inc., MetLife, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, is incorporated by reference to Exhibit 4.1 to Amendment No. 4 to our Registration Statement on Form 10, filed on June 23, 2017.
4.2	Form of 3.700% Senior Note due 2027 and 4.700% Senior Note due 2047 (included in Exhibit B to Exhibit 4.1).
4.3	Junior Subordinated Indenture, dated as of September 12, 2018, between Brighthouse Financial, Inc. and U.S. Bank National Association, as Trustee, is incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, filed on September 12, 2018 (our "September 12, 2018 8-K").
4.3.1	First Supplemental Indenture, dated as of September 12, 2018, between Brighthouse Financial, Inc. and U.S. Bank National Association, as Trustee, is incorporated by reference to Exhibit 4.2 to our September 12, 2018 8-K.
4.4	Form of Junior Subordinated Debenture (included in Exhibit A to Exhibit 4.3.1).
4.5	Certificate of Designations is incorporated by reference to Exhibit 4.1 to our March 25, 2019 8-K.
4.6	Deposit Agreement, dated as of March 25, 2019, among Brighthouse Financial, Inc., Computershare Inc. and Computershare Trust Company, N.A., collectively as depository, and the holders from time to time of the depository receipts described therein is incorporated by reference to Exhibit 4.2 to our March 25, 2019 8-K.
4.7	Form of depository receipt evidencing the depository shares (included as Exhibit A to Exhibit 4.6).
4.8*	Description of Securities.
10.1	Transition Services Agreement, dated as of January 1, 2017, between MetLife Services and Solutions, LLC and Brighthouse Services, LLC and for purposes of Article VIII only, MetLife, Inc. and Brighthouse Financial, Inc., is incorporated by reference to Exhibit 10.1 to our August 9, 2017 8-K.
10.2	First Amended and Restated Investment Management Agreement, dated as of July 17, 2019, between Brighthouse Services, LLC and MetLife Investment Management, LLC is incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q, filed August 6, 2019.
10.3	Tax Receivables Agreement, dated as of July 27, 2017, between MetLife, Inc. and Brighthouse Financial, Inc., is incorporated by reference to Exhibit 10.5 to our August 9, 2017 8-K.
10.4	Tax Separation Agreement, dated as of July 27, 2017, by and among MetLife, Inc. and its Affiliates and Brighthouse Financial, Inc. and its Affiliates, is incorporated by reference to Exhibit 10.6 to our August 9, 2017 8-K.

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- 10.5 [Amended and Restated Revolving Credit Agreement, dated as of May 7, 2019, among Brighthouse Financial, Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto is incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q, filed on May 7, 2019.](#)
- 10.6 [Term Loan Agreement, dated as of February 1, 2019, among Brighthouse Financial, Inc., JP Morgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on February 5, 2019.](#)
- 10.6.1 [First Amendment to Term Loan Agreement, dated as of May 31, 2019, by and among Brighthouse Financial, Inc., the banks party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent is incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed on August 6, 2019.](#)
- 10.7# [Brighthouse Services, LLC Auxiliary Savings Plan, is incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q, filed on August 15, 2017.](#)
- 10.7.1# [Amendment Number One to the Brighthouse Services, LLC Auxiliary Savings Plan, is incorporated by reference to Exhibit 10.9 to our Quarterly Report on Form 10-Q, filed on August 15, 2017.](#)
- 10.7.2# [Amendment Number Two to the Brighthouse Services, LLC Auxiliary Savings Plan, is incorporated by reference to Exhibit 10.9.2 to our Annual Report on Form 10-K, filed on March 16, 2018 \(our “2017 Annual Report”\).](#)
- 10.8#* [Amended and Restated Brighthouse Services, LLC Short-Term Incentive Plan, as amended February 21, 2019.](#)
- 10.9# [Brighthouse Services, LLC Voluntary Deferred Compensation Plan, effective January 1, 2018, is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on December 28, 2017.](#)
- 10.9.1# [Amendment Number One to the Brighthouse Services, LLC Voluntary Deferred Compensation Plan is incorporated by reference to Exhibit 10.11.1 to our 2017 Annual Report.](#)
- 10.9.2# [Amendment Number Two to the Brighthouse Services, LLC Voluntary Deferred Compensation Plan is incorporated by reference to Exhibit 10.10.2 to our 2018 Annual Report.](#)
- 10.10#* [Brighthouse Financial, Inc. 2017 Stock and Incentive Compensation Plan, as amended November 14, 2019 \(the “Employee Plan”\).](#)
- 10.11# [Brighthouse Financial, Inc. 2017 Non-Management Director Stock Compensation Plan, as amended November 16, 2018 \(the “Director Plan”\) is incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K, filed February 26, 2019 \(our “2018 Annual Report”\).](#)
- 10.12# [Brighthouse Financial, Inc. Employee Stock Purchase Plan is incorporated by reference to Exhibit 4.5 to our Registration Statement on Form S-8, filed on May 25, 2018 \(our “Form S-8”\).](#)
- 10.12.1# [Amendment Number One to the Brighthouse Financial, Inc. Employee Stock Purchase Plan is incorporated by reference to Exhibit 4.6 to our Form S-8.](#)
- 10.12.2#* [Amendment Number Two to the Brighthouse Financial, Inc. Employee Stock Purchase Plan.](#)
- 10.13# [Brighthouse Services, LLC Temporary Incentive Deferred Compensation Plan, as restated, is incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, filed on May 24, 2018 \(the “May 24, 2018 8-K”\).](#)
- 10.14# [Form of Performance Share Unit Agreement \(Employee Plan\), for awards granted before February 13, 2019, is incorporated by reference to Exhibit 10.4 to the May 24, 2018 8-K.](#)
- 10.15# [Form of Performance Share Unit Agreement \(Employee Plan\) for awards granted on or after February 13, 2019 is incorporated by reference to Exhibit 10.15 to our 2018 Annual Report.](#)
- 10.16# [Form of Restricted Stock Unit Agreement \(Employee Plan\) for awards with ratable vesting granted before February 13, 2019 is incorporated by reference to Exhibit 10.5 to the May 24, 2018 8-K.](#)
- 10.17# [Form of Restricted Stock Unit Agreement \(Employee Plan\) for awards with ratable vesting granted on or after February 13, 2019 is incorporated by reference to Exhibit 10.17 to our 2018 Annual Report.](#)
- 10.18# [Form of Restricted Stock Unit Agreement \(Employee Plan\) for awards with cliff vesting is incorporated by reference to Exhibit 10.18 to our 2018 Annual Report.](#)
- 10.19# [Form of Non-Qualified Stock Option Agreement \(Employee Plan\) for awards granted before February 13, 2019 is incorporated by reference to Exhibit 10.6 to the May 24, 2018 8-K.](#)
- 10.20# [Form of Non-Qualified Stock Option Agreement \(Employee Plan\) for awards with ratable vesting granted on or after February 13, 2019 is incorporated by reference to Exhibit 10.20 to our 2018 Annual Report.](#)
- 10.21# [Award Agreement Supplement \(Employee Plan\), as amended, for awards with ratable vesting granted before February 13, 2019 is incorporated by reference to Exhibit 10.21 to our 2018 Annual Report.](#)
- 10.22# [Award Agreement Supplement \(Employee Plan\) for awards with ratable vesting granted on or after February 13, 2019 is incorporated by reference to Exhibit 10.22 to our 2018 Annual Report.](#)
- 10.23# [Award Agreement Supplement \(Employee Plan\) for awards with cliff vesting is incorporated by reference to Exhibit 10.23 to our 2018 Annual Report.](#)

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10.24#	Form of Non-Management Director Restricted Stock Unit Agreement (Director Plan) for awards granted prior to November 14, 2019 is incorporated by reference to Exhibit 10.10 to the May 24, 2018 8-K.
10.25#	Non-Management Director Award Agreement Supplement (Director Plan) for awards granted prior to November 14, 2019 is incorporated by reference to Exhibit 10.11 to the May 24, 2018 8-K.
10.26#*	Form of Non-Management Director Restricted Stock Unit Agreement (Director Plan), as amended November 14, 2019.
10.27#*	Form of Non-Management Director Award Agreement Supplement (Director Plan), as amended November 14, 2019.
10.28#	Brighthouse Financial Blue Relocation Policy, as amended July 1, 2019, is incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed on August 6, 2019.
10.29#	Brighthouse Services, LLC Amended and Restated Executive Severance Pay Plan is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on November 19, 2019.
10.30#	Brighthouse Services, LLC Change of Control Severance Pay Plan is incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on November 16, 2018.
10.31#	Brighthouse Services, LLC Limited Death Benefit Plan is incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on December 23, 2019.
10.32#*	Brighthouse Services, LLC Deferred Compensation Plan for Non-Management Directors.
10.33#	Letter Agreement, entered into June 8, 2018, by and between Peter Carlson and Brighthouse Services, LLC is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed on June 8, 2018.
10.34#	Separation Agreement, Waiver and General Release, dated March 15, 2019, between Brighthouse Services, LLC and Anant Bhalla is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed March 18, 2019.
10.35#	Offer Letter, dated as of July 24, 2019, between Brighthouse Services, LLC and Edward Spehar is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed July 24, 2019.
21.1*	List of Subsidiaries as of December 31, 2019.
23.1*	Consent of Deloitte & Touche LLP.
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104*	The cover page of Brighthouse Financial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL (included within the Exhibit 101 attachments).

* Filed herewith.

** Furnished herewith.

Denotes management contracts or compensation plans or arrangements.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED
PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

Brighthouse Financial, Inc. (the "Company," "Brighthouse," "we," "our" or "us") has three outstanding classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (i) common stock, par value \$0.01 per share (the "Common Stock"), (ii) Depositary Shares of Brighthouse Financial, Inc. (the "Depositary Shares"), each representing a 1/1,000th interest in a share of 6.600% Non-Cumulative Preferred Stock, Series A of Brighthouse Financial, Inc. (the "Series A Preferred Stock") and (iii) 6.250% Junior Subordinated Debentures due 2058 (the "2058 Debentures").

DESCRIPTION OF COMMON STOCK

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to, and qualified in its entirety by reference to, our Amended and Restated Certificate of Incorporation ("Certificate of Incorporation"), our Amended and Restated Bylaws ("Bylaws") and the General Corporation Law of the State of Delaware (the "DGCL"), which define the rights of holders of our Common Stock. You should read our Certificate of Incorporation and Bylaws and the provisions of the DGCL for a full description of the terms of our Common Stock. Our Certificate of Incorporation and Bylaws are filed as exhibits to the Annual Report on Form 10-K of which this exhibit is a part and incorporated by reference herein.

Authorized Common Stock

Our authorized Common Stock consists of 1,000,000,000 shares, par value \$0.01 per share. As of February 21, 2020, we had 105,096,065 shares of Common Stock outstanding.

Dividend Rights

Subject to the rights, if any, of the holders of any outstanding series of our preferred stock, holders of our Common Stock are entitled to receive dividends out of any of our funds legally available therefor when, as and if declared by the board of directors of the Company (the "Board") at its discretion.

Voting Rights

Each holder of our Common Stock is entitled to one vote per share on all matters submitted to a vote of the stockholders, including the election of directors, and, subject to preferences that may be applicable to any outstanding series of preferred stock as provided in any preferred stock certificate of designation approved by the Board, the holders of our Common Stock possess all voting power. Except as required by applicable law or the rules and regulations of any stock exchange applicable to the Company and except with respect to the election of directors, the amendment of certain provisions of our Certificate of Incorporation and the amendment of our Bylaws, all matters to be voted on by stockholders at a meeting at which a quorum is present must be approved by the affirmative vote of a majority of the voting power of

the shares of stock present in person or represented by proxy at the meeting and entitled to vote thereon. The election of directors at a meeting at which a quorum is present is determined by a plurality of the votes cast in respect of the shares present in person or represented by proxy at the meeting and entitled to vote, meaning that the nominees with the greatest number of votes received, even if less than a majority, will be elected. Our Bylaws provide that in an uncontested election any director who receives a greater number of votes “withheld” than votes cast in favor of his or her election shall tender his or her resignation from the Board to the Nominating and Corporate Governance Committee of the Board. The Nominating and Corporate Governance Committee of the Board would then recommend to the Board whether to accept or reject such resignation and the Board would publicly disclose its decision in regard to such resignation.

Liquidation

If we liquidate, dissolve or wind up our affairs, holders of our Common Stock are entitled to share proportionately in the assets available for distribution to stockholders after the payment of all of our debt and other liabilities, subject to the rights, if any, of the holders of any outstanding series of our preferred stock.

Other Rights

Holders of our Common Stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of our Common Stock are fully paid and non-assessable. The rights, preferences and privileges of the holders of our Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that our Board may designate and issue.

Listing

Our Common Stock is listed on The Nasdaq Stock Market LLC (“Nasdaq”) under the symbol “BHF”.

Transfer Agent and Registrar

The transfer agent and registrar for our Common Stock is Computershare Trust Company, N.A.

Certain Anti-Takeover Provisions of Our Certificate of Incorporation, Our Bylaws and Applicable Law

Certain provisions of our Certificate of Incorporation and Bylaws may discourage or make more difficult a takeover attempt that a stockholder might consider in his or her best interest. These provisions may also adversely affect prevailing market prices for our Common Stock.

Removal. Our Certificate of Incorporation provides that stockholders may remove our directors with or without cause by the holders of at least two-thirds of the outstanding stock entitled to vote generally in the election of directors.

Size of Board and Vacancies. Our Certificate of Incorporation and Bylaws provide that the number of directors will be fixed exclusively by the Board; *provided, however*, that in no event shall such number of directors be less than three nor more than fifteen. Subject to any rights granted to the holders of shares of any series of preferred stock then outstanding, and except as otherwise expressly required by applicable law, any newly created directorships created on our Board resulting from any increase in the authorized number of directors or any vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause will be filled by a majority of the directors then in office, even if less than a quorum, or by the sole remaining director. Any director appointed to fill a vacancy on our Board shall hold office for the remainder of the term of the class, if any, that such director has been appointed to and until his or her successor has been elected and qualified or until such director's earlier death, resignation, retirement, disqualification or removal.

Stockholder Action by Written Consent. Our Certificate of Incorporation prohibits our stockholders from acting by written consent. Stockholder action may only take place at a duly called annual or special meeting of our stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our Bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors.

No Cumulative Voting. Our Certificate of Incorporation does not provide for cumulative voting.

Undesignated Preferred Stock. The authority that our Board possesses to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of us through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult. Our Board can issue preferred stock with voting rights or conversion rights that, if exercised, could dilute the voting power of the holders of Common Stock.

Amendments to Bylaws. Our Certificate of Incorporation and Bylaws provide that in addition to any other vote of the holders of any particular class or series of the capital stock of the Company that may be required, our Bylaws may only be amended by our Board or by the affirmative vote of holders of at least two-thirds in voting power of the issued and outstanding voting stock entitled to vote thereon, voting together as a single class.

Amendments to Charter. Our Certificate of Incorporation provides that in addition to any other vote of the holders of any particular class or series of the capital stock of the Company that may be required, certain charter provisions may only be amended by the affirmative vote of holders of at least two-thirds in voting power of the issued and outstanding voting stock entitled to vote thereon, voting together as a single class.

Section 203 of the Delaware General Corporation Law. As a Delaware corporation, we are subject to Section 203 of the DGCL. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a three-year period following the time that such stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation’s voting stock. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless one of the following conditions is satisfied:

- before the stockholder became an interested stockholder, the Board approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding, for purposes of determining the voting stock outstanding, shares owned by persons who are directors and officers; or
- at or after the time the stockholder became interested, the business combination was approved by the Board and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

This provision is expected to have an anti-takeover effect with respect to transactions not approved in advance by our Board, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

Insurance Regulations. The insurance laws and regulations of the various states in which our insurance subsidiaries are organized may delay or impede a business combination involving us. State insurance laws prohibit an entity from acquiring control of an insurance company without the prior approval of the domestic insurance regulator. Under most states’ statutes, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company or its parent company. These regulatory restrictions may delay, deter or prevent a potential merger or sale of our company, even if the Board decides that it is in the best interests of stockholders for us to merge or be sold. These restrictions also may delay sales by us or acquisitions by third parties of our subsidiaries.

Choice of Forum

Our Certificate of Incorporation provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any (i) derivative action or proceeding brought on our behalf, (ii) action asserting a claim of breach of a fiduciary duty owed to us or our

stockholders by any of our current or former directors, officers or stockholders, (iii) action asserting a claim arising out of or pursuant to the DGCL or our Certificate of Incorporation or our Bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware, or (iv) action asserting a claim governed by the internal affairs doctrine. By becoming a stockholder in our company, you will be deemed to have notice of and have consented to the provisions of our Certificate of Incorporation related to choice of forum.

Limitation of Liability and Indemnification of Directors and Officers

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors and our Certificate of Incorporation includes such an exculpation provision. Our Certificate of Incorporation provides that, to the fullest extent permitted by the DGCL as it now exists or may hereafter be amended, none of our directors will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director. Under the DGCL as it now reads, such limitation of liability is not permitted:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- for payments of unlawful dividends or unlawful stock purchases or redemptions under Section 174 of the DGCL; or
- for any transaction from which the director derived an improper personal benefit.

These provisions have no effect on the availability of equitable remedies such as an injunction or rescission based on a director's breach of his or her duty of care.

Our Certificate of Incorporation and our Bylaws include provisions that require us to indemnify and advance expenses, to the fullest extent allowable under the DGCL as it now exists or may hereafter be amended, to our directors or officers for actions taken as a director or officer of us, or for serving at our request as a director or officer at another corporation or enterprise, as the case may be.

Section 145 of the DGCL provides that a corporation may indemnify directors and officers, as well as other employees and individuals, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement, that are incurred in connection with various actions, suits or proceedings, whether civil, criminal, administrative or investigative, other than an action by or in the right of the corporation, known as a derivative action, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses, including attorneys' fees, incurred in connection with the defense or settlement of such actions, and the statute

requires court approval before there can be any indemnification if the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's bylaws, disinterested director vote, stockholder vote, agreement or otherwise.

Our Bylaws require us to indemnify any person who was or is a party or is threatened to be made a party to, or was otherwise involved in, a legal proceeding by reason of the fact that he or she is or was a director or officer of Brighthouse or is or was serving at our request as a director or officer of another corporation or enterprise, as the case may be, to the fullest extent authorized by the DGCL as it now exists or may hereafter be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, Employee Retirement Income Security Act excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such director or officer in connection with such service. The right to indemnification in our Bylaws includes the right to be paid by Brighthouse the expenses incurred in defending any proceeding for which indemnification may be sought in advance of the final disposition of such proceeding, subject to certain limitations. We carry directors' and officers' insurance protecting us, any director, officer, employee or agent of ours or who was serving at our request as a director, officer, employee or agent of another corporation or enterprise, as the case may be, against any expense, liability or loss, whether or not we would have the power to indemnify the person under the DGCL.

The limitation of liability and indemnification and advancement provisions in our Certificate of Incorporation and our Bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of fiduciary duty. These provisions also may reduce the likelihood of derivative litigation against our directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders.

DESCRIPTION OF DEPOSITARY SHARES

The following description of the Depositary Shares, each representing a 1/1,000th interest in a share of 6.600% Non-Cumulative Preferred Stock, Series A and the Series A Preferred Stock underlying the Depositary Shares does not purport to be complete. It is subject to, and qualified in its entirety by reference to, our Certificate of Incorporation, the Certificate of Designations creating the Series A Preferred Stock (the “Certificate of Designations”), the Deposit Agreement, dated as of March 25, 2019 (the “Deposit Agreement”), among the Company, Computershare Inc. and Computershare Trust Company, N.A., collectively as depositary (the “Depositary”) and the holders from time to time of the depositary receipts described therein, and by the relevant sections of the DGCL. You should read our Certificate of Incorporation, the Certificate of Designations and the Deposit Agreement for a full description of the terms of the Depositary Shares and the underlying Series A Preferred Stock. The Certificate of Incorporation, the Certificate of Designations and the Deposit Agreement are filed as exhibits to the Annual Report on Form 10-K of which this exhibit is a part and incorporated by reference herein.

General

As of February 21, 2020, we had 17,000,000 Depositary Shares outstanding. The Depositary is the sole holder of the Series A Preferred Stock, and all references to the holders of the Series A Preferred Stock shall mean the Depositary. However, holders of the Depositary Shares are entitled through the Depositary to exercise the rights and preferences of the Series A Preferred Stock.

References to the holders of the Depositary Shares mean those who own the Depositary Shares registered in their own names, on the books that we or the Depositary maintain for this purpose, and not indirect holders who own beneficial interests in the Depositary Shares registered in street name or issued in book-entry form through The Depositary Trust Company (“DTC”). Subject to the terms of the Deposit Agreement, each holder of Depositary Shares is entitled, through the Depositary, in proportion to the applicable fraction of a share of the Series A Preferred Stock represented by such Depositary Shares, to all the rights and preferences of the Series A Preferred Stock represented thereby (including dividend, voting, redemption and liquidation rights).

Series A Preferred Stock

Authorized Preferred Stock

Our authorized preferred stock consists of 100,000,000 shares, par value \$0.01 per share. As of February 21, 2020, we had 17,000 shares of preferred stock outstanding, which consists entirely of Series A Preferred Stock. The “stated amount” per share of Series A Preferred Stock is \$25,000.

Fungibility

We may from time to time, without notice to or the consent of holders of the Depositary Shares and the underlying Series A Preferred Stock, issue additional Series A Preferred Stock and the related Depositary Shares; *provided* that we will only issue additional Series A Preferred Stock and Depositary Shares if they are fungible for tax purposes with the originally issued Series A Preferred Stock and Depositary Shares. The additional shares of Series A Preferred Stock and the related Depositary Shares would be deemed to form a single series with the originally issued Series A Preferred Stock and the related Depositary Shares, respectively. Each share of Series A Preferred Stock shall be identical in all respects to every other share of Series A Preferred Stock, except that shares of Series A Preferred Stock issued after March 25, 2019 shall accrue dividends from the date determined by our Board (or a duly authorized committee thereof).

General

The Series A Preferred Stock is not be convertible into, or exchangeable for, shares of any other class or series of stock or other securities of Brighthouse or our subsidiaries. The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund, retirement fund or purchase fund or other obligation of ours to redeem, repurchase or retire the Series A Preferred Stock. The Series A Preferred Stock will be issued in uncertificated form.

Transfer Agent and Registrar

Computershare Trust Company, N.A. is the transfer agent, registrar and dividend disbursing agent for the Series A Preferred Stock.

Dividends

Each dividend on a Depositary Share is in an amount equal to 1/1,000th of the dividend declared on each share of the Series A Preferred Stock, except that the amounts distributed to holders of the Depositary Shares will be reduced by any amounts required to be withheld by the Depositary or by us on account of taxes or other governmental charges.

We pay dividends on the Series A Preferred Stock only when, as and if declared by the Board (or a duly authorized committee thereof), out of funds legally available for the payment of dividends. Any such dividends are payable, at a rate of 6.600% per annum, on a non-cumulative basis from the date of original issue, quarterly in arrears on the 25th day of March, June, September and December of each year (each, a "Dividend Payment Date"), commencing on June 25, 2019. Dividend Payment Dates are subject to adjustment for business days.

Dividends are payable to holders of record of the Series A Preferred Stock as they appear on our books on the applicable record date, which shall be the 15th calendar day before that Dividend Payment Date or such other record date fixed by our Board (or a duly authorized committee thereof) that is not more than 60 nor less than 10 days prior to such Dividend

Payment Date (each, a “Dividend Record Date”). Dividend record dates will apply regardless of whether a particular Dividend Record Date is a business day.

A “Dividend Period” is the period from, and including, a Dividend Payment Date to, but excluding, the next Dividend Payment Date. Dividends on the Series A Preferred Stock are not cumulative and are not mandatory. Accordingly, if the Board (or a duly authorized committee thereof) has not declared a dividend in respect of any Dividend Period, we have no obligation to pay dividends accrued for such Dividend Period on or after the Dividend Payment Date for that Dividend Period, whether or not dividends on the Series A Preferred Stock are declared for any future Dividend Period.

During any Dividend Period, so long as any Series A Preferred Stock remains outstanding, unless the full dividends for the latest completed Dividend Period on all outstanding Series A Preferred Stock have been declared and paid, or declared and a sum sufficient for the payment thereof has been set aside:

- no dividend shall be paid or declared on our Common Stock or other junior stock (as defined below) (other than a dividend payable solely in stock that ranks junior to the Series A Preferred Stock as to the payment of dividends and as to the distribution of assets on any liquidation, dissolution or winding-up of Brighthouse); and
- no monies may be paid or made available for a sinking fund for the redemption or retirement of junior stock, nor shall any Common Stock or other junior stock be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than as a result of the reclassification of such junior stock, or the exchange or conversion of one share of such junior stock, in each case, for or into another share of stock that ranks junior to the Series A Preferred Stock as to the payment of dividends and as to the distribution of assets on any liquidation, dissolution or winding-up of Brighthouse).

For any Dividend Period in which dividends are not paid in full upon the Series A Preferred Stock or any parity stock (as defined in below), all dividends declared for such Dividend Period with respect to the Series A Preferred Stock and such parity stock shall be declared on a pro rata basis.

As used herein, “junior stock” means our Common Stock, and any other class or series of our capital stock that ranks junior to the Series A Preferred Stock either as to the payment of dividends (whether such dividends are cumulative or non-cumulative) or as to the distribution of assets upon any liquidation, dissolution or winding-up of Brighthouse.

As used herein, “parity stock” means any class or series of our stock that ranks equally with the Series A Preferred Stock in the payment of dividends (whether such dividends are cumulative or non-cumulative) and in the distribution of assets on any liquidation, dissolution or winding-up of Brighthouse.

Liquidation Rights

Upon any voluntary or involuntary liquidation, dissolution or winding-up of Brighthouse, holders of the Series A Preferred Stock and any parity stock are entitled to receive, out of our assets or proceeds thereof (whether capital or surplus) available for distribution to stockholders, after satisfaction of liabilities and obligations to our creditors, if any, before any distribution of such assets or payment out of our assets may be made or set aside for holders of Common Stock and any other junior stock, a liquidating distribution in the amount of \$25,000 per share of Series A Preferred Stock (equivalent to \$25.00 per Depositary Share), plus declared and unpaid dividends, without accumulation of any undeclared dividends. Holders of the Series A Preferred Stock will not be entitled to any other amounts from us after they have received their full liquidation preference (as defined herein).

In any such distribution, if our assets are not sufficient to pay the liquidation preferences in full to all holders of the Series A Preferred Stock and all holders of any parity stock, the amounts paid to the holders of Series A Preferred Stock and to the holders of any parity stock will be paid pro rata in accordance with the respective aggregate liquidation preferences of those holders. In any such distribution, the “liquidation preference” of any holder of preferred stock means the amount payable to such holder in such distribution (assuming no limitation on our assets available for such distribution), including any declared but unpaid dividends (and any unpaid, accrued cumulative dividends in the case of any holder of stock (other than Series A Preferred Stock) on which dividends accrue on a cumulative basis, whether or not declared, as applicable). If the liquidation preference has been paid in full to all holders of the Series A Preferred Stock and all holders of parity stock, the holders of our junior stock shall be entitled to receive all remaining assets of Brighthouse (or proceeds thereof) according to their respective rights and preferences.

Optional Redemption

If we redeem the Series A Preferred Stock represented by the Depositary Shares, in whole or in part, a corresponding number of Depositary Shares will be redeemed from the proceeds received by the Depositary resulting from the redemption of the Series A Preferred Stock held by the Depositary. The redemption price per Depositary Share will be equal to 1/1,000th of the redemption price per share payable with respect to the Series A Preferred Stock, plus an amount equal to any dividends thereon that, pursuant to the provisions of the certificate of designations, are payable upon redemption. Whenever we redeem shares of the Series A Preferred Stock held by the Depositary, the Depositary will redeem, as of the same date of redemption, the number of the Depositary Shares representing shares of the Series A Preferred Stock so redeemed.

The Series A Preferred Stock is not subject to any mandatory redemption, sinking fund, retirement fund, purchase fund or other similar provisions. We may redeem the shares of Series A Preferred Stock at our option:

- in whole, but not in part, at any time prior to March 25, 2024 (within 90 days after the occurrence of a “Rating Agency Event” (as defined herein)) at a redemption price equal to \$25,500 per share of Series A Preferred Stock (equivalent to \$25.50)

per Depositary Share), plus (except as provided below) an amount equal to any dividends per share that have accrued but not been declared and paid for the then-current Dividend Period to, but excluding, the date of redemption; or

- (i) in whole, but not in part, at any time prior to March 25, 2024 (within 90 days after the occurrence of a “regulatory capital event” (as defined herein)) or (ii) on or after March 25, 2024, in whole at any time or in part from time to time, in each case, at a redemption price equal to \$25,000 per share of Series A Preferred Stock (equivalent to \$25.00 per Depositary Share), plus (except as provided below) an amount equal to any dividends per share that have accrued but not been declared and paid for the then-current Dividend Period to, but excluding, the date of redemption.

Any declared but unpaid dividends payable on a date of redemption that occurs subsequent to the Dividend Record Date for a Dividend Period will not constitute a part of, or be paid to, the holder entitled to receive the redemption price on the date of redemption, but rather will be paid to the holder of record of the redeemed shares on the Dividend Record Date relating to such Dividend Payment Date.

Holders of the shares of Series A Preferred Stock do not have the right to require the redemption or repurchase of the Series A Preferred Stock.

“Rating agency event” means that any nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Exchange Act, that then publishes a rating for us (a “Rating Agency”) amends, clarifies or changes the criteria it uses to assign equity credit to securities such as the Series A Preferred Stock, which amendment, clarification or change results in:

- the shortening of the length of time the Series A Preferred Stock are assigned a particular level of equity credit by that Rating Agency as compared to the length of time they would have been assigned that level of equity credit by that rating agency or its predecessor on the initial issuance of the Series A Preferred Stock; or
- the lowering of the equity credit (including up to a lesser amount) assigned to the Series A Preferred Stock by that Rating Agency as compared to the equity credit assigned by that Rating Agency or its predecessor on the initial issuance of the Series A Preferred Stock.

“Regulatory capital event” means that we become subject to capital adequacy supervision by a capital regulator and the capital adequacy guidelines that apply to us as a result of being so subject set forth criteria pursuant to which the aggregate stated amount of the Series A Preferred Stock would not qualify as capital under such capital adequacy guidelines, as we may determine at any time, in our sole discretion.

The Depositary will mail (or otherwise transmit by an authorized method) notice of redemption to holders of the Depositary Shares not less than 30, nor more than 90 days, prior to the date fixed for redemption of the Series A Preferred Stock and the Depositary Shares.

If the Series A Preferred Stock is to be redeemed, the notice of redemption shall be given by first class mail to the holders of record of the Series A Preferred Stock to be redeemed, mailed not less than 30 days, nor more than 90 days, prior to the date fixed for redemption thereof (*provided* that, if the Series A Preferred Stock is held in book-entry form through DTC we may give such notice at such time in any manner permitted by DTC).

If notice of redemption of any Series A Preferred Stock has been duly given, and if the funds necessary for such redemption have been set aside by us for the benefit of the holders of any Series A Preferred Stock so called for redemption, then, from and after the date of redemption, dividends will cease to accrue on such Series A Preferred Stock, and such Series A Preferred Stock shall no longer be outstanding and all rights of the holders of such Series A Preferred Stock will cease and terminate, except the right to receive the amount payable on such redemption, without interest.

In case of any redemption of less than all of the outstanding Depositary Shares, the Depositary Shares to be redeemed will be selected by the Depositary either pro rata or by lot (or, in the event the Depositary Shares are in the form of global depositary receipts, in accordance with the applicable procedures of DTC in compliance with then-applicable rules of Nasdaq). In any such case, the Depositary will redeem the Depositary Shares only in increments of 1,000 Depositary Shares and any integral multiple thereof.

In case of any redemption of only part of the Series A Preferred Stock at the time outstanding, the Series A Preferred Stock to be redeemed shall be selected either pro rata or by lot (or, in the event the Series A Preferred Stock is in the form of global securities, in accordance with the applicable procedures of DTC in compliance with then-applicable rules of Nasdaq).

Voting Rights

When the Depositary receives notice of any meeting at which the holders of the Series A Preferred Stock are entitled to vote, the Depositary will mail (or otherwise transmit by an authorized method) the information contained in the notice to the record holders of the Depositary Shares. Each record holder of the Depositary Shares on the record date, which will be the same date as the record date for the Series A Preferred Stock, may instruct the Depositary to vote the amount of the Series A Preferred Stock represented by the holder's Depositary Shares. Although each Depositary Share is entitled to 1/1,000th of a vote, the Depositary can only vote whole shares of Series A Preferred Stock. To the extent possible, the Depositary will vote the amount of the Series A Preferred Stock represented by the Depositary Shares in accordance with the instructions it receives. We will agree to take all reasonable actions that the Depositary determines are necessary to enable the Depositary to vote as instructed. If the Depositary does not receive specific instructions from the holders of any Depositary Shares, it will not vote the amount of the Series A Preferred Stock represented by such Depositary Shares.

Except as provided below or as otherwise required by applicable law, the holders of the Series A Preferred Stock will have no voting rights.

Whenever dividends on any Series A Preferred Stock shall have not been declared and paid in an aggregate amount equal to full dividends for at least six quarterly Dividend Periods, whether or not for consecutive Dividend Periods (a “Nonpayment”), the holders of such Series A Preferred Stock, voting together as a single class with holders of any and all other series of voting preferred stock (as defined below) then outstanding, will be entitled to vote (in proportion to their respective stated amounts) for the election of a total of two additional members of our Board (the “Preferred Stock Directors”); *provided* that the election of any such directors shall not cause us to violate the corporate governance requirement of Nasdaq (or any other exchange on which our securities may be listed) that listed companies must have a majority of independent directors. In that event, the number of directors on our Board shall automatically increase by two, and the new directors shall be elected at a special meeting called at the request of the holders of record of at least 20% of the stated amount of the Series A Preferred Stock or of any other series of voting preferred stock (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders), and at each subsequent annual meeting. These voting rights will continue until dividends on the Series A Preferred Stock and any such series of voting preferred stock for at least four consecutive dividend periods following the Nonpayment shall have been fully paid.

As used herein, “voting preferred stock” means any other class or series of our preferred stock ranking equally with the Series A Preferred Stock either as to the payment of dividends or the distribution of assets upon our liquidation, dissolution or winding-up and upon which like voting rights have been conferred and are exercisable.

If and when dividends for at least four consecutive quarterly Dividend Periods following a Nonpayment have been paid in full, the holders of the Series A Preferred Stock shall be divested of the foregoing voting rights (subject to reversion in the event of each subsequent Nonpayment) and, if such voting rights for all other holders of voting preferred stock have terminated, the term of office of each Preferred Stock Director so elected shall terminate and the number of directors on the Board shall automatically decrease by two. In determining whether dividends have been paid for four Dividend Periods following a Nonpayment, we may take account of any dividend we elect to pay for such a Dividend Period after the regular Dividend Payment Date for that period has passed. Any Preferred Stock Director may be removed at any time with or without cause by the holders of record of a majority of the outstanding Series A Preferred Stock and any other shares of voting preferred stock then outstanding, voting together as a single class in proportion to their respective stated amounts, when they have the voting rights described above. So long as a Nonpayment shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election after a Nonpayment) shall be filled by the written consent of the Preferred Stock Director remaining in office, or, solely in the case where no Preferred Stock Director remains in office, by a vote of the holders of record of a majority of the outstanding Series A Preferred Stock and any other shares of voting preferred stock then outstanding, voting together as a single class in proportion to their respective stated

amounts. The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

So long as any Series A Preferred Stock remains outstanding, and subject to certain exceptions, we will not take certain corporate actions, without the affirmative vote or consent of the holders of at least two-thirds of the outstanding Series A Preferred Stock and all other series of voting preferred stock entitled to vote thereon (voting together as a single class in proportion to their respective stated amounts), given in person or by proxy, either in writing or at a meeting.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding Series A Preferred Stock shall have been redeemed or called for redemption upon proper notice, and sufficient funds shall have been set aside by us for the benefit of the holders of Series A Preferred Stock to effect such redemption.

Listing

The Depositary Shares are listed on Nasdaq under the symbol “BHFAP”.

Form of the Depositary Shares

The Depositary Shares are represented by one or more global securities that are deposited with and registered in the name of The Depositary Trust Company (“DTC”) or its nominee.

Depositary

Computershare Inc. and Computershare Trust Company, N.A., collectively is the depositary for our Depositary Shares.

DESCRIPTION OF DEBENTURES

The following description of the 6.250% Junior Subordinated Debentures due 2058 is a summary and does not purport to be complete. It is subject to, and qualified in its entirety by reference to, the Junior Subordinated Indenture, dated as of September 12, 2018 (the “Junior Subordinate Indenture”), between the Company and U.S. Bank National Association, a national banking association, as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture, dated as of September 12, 2018 (the “First Supplemental Indenture” and, together with the Junior Subordinated Indenture, the “Indenture”), between the Company and the Trustee. You should read the Junior Subordinate Indenture and the First Supplemental Indenture for a full description of the terms of the 2058 Debentures. The Junior Subordinate Indenture and the First Supplemental Indenture are filed as exhibits to the Annual Report on Form 10-K of which this exhibit is a part and incorporated by reference herein.

General

The 2058 Debentures are junior subordinated debt securities under the Indenture. We may, without notice to or consent of the holders of the 2058 Debentures, re-open and issue additional 6.250% Junior Subordinated Debentures due 2058 having the same ranking, interest rate, maturity date and other terms as the 2058 Debentures as long as the additional debentures are fungible with the 2058 Debentures for U.S. federal income tax purposes and no event of default with respect to the 2058 Debentures will have occurred and be continuing. Any additional 2058 Debentures, together with the 2058 Debentures, will constitute a single series of junior subordinated debt securities under the Indenture.

Principal and Maturity

We initially issued \$375 million aggregate principal amount of the 2058 Debentures, which remains the aggregate principal amount outstanding. The 2058 Debentures mature on September 15, 2058. If the maturity date is not a business day, payment of principal and interest to be made on the maturity date will be made on the next business day (but no interest will accrue as a result of such postponement). The 2058 Debentures were issued in denominations of \$25 and integral multiples of \$25 in excess thereof.

Subordination

The 2058 Debentures are our direct, unsecured obligations. The 2058 Debentures are subordinate and junior in right of payment to all of our present and future “senior indebtedness” (as defined below). The 2058 Debentures rank equally in right of payment with any of our future junior subordinated obligations, including, unless otherwise specified in the applicable prospectus supplement or other offering document, all other series of junior subordinated debt securities issued under the Junior Subordinated Indenture.

If Brighthouse defaults in the payment of any principal of and premium, if any, or interest or any other payment due on any of our senior indebtedness, or if the maturity of any of our senior indebtedness is declared due and payable prior to the date on which it would otherwise have become due and payable, then, unless and until such default is cured or waived or ceases to exist or any acceleration is rescinded or annulled, we will make no payment or distribution of any kind or character, whether in cash, property or securities, with respect to the principal (including any redemption, retirement, purchase or other acquisition of the 2058 Debentures) of and premium, if any, or interest (including any additional interest) on the 2058 Debentures.

If any of the following events occurs, Brighthouse will pay in full all amounts due on our senior indebtedness before it makes under the 2058 Debentures any payment or distribution of assets of Brighthouse of any kind or character, whether in cash, property or securities, to any holder of debentures:

- any dissolution, winding up, liquidation or reorganization of Brighthouse, whether voluntary or involuntary or in bankruptcy, insolvency or receivership;
- any general assignment by Brighthouse for the benefit of creditors;
- any marshaling of Brighthouse's assets or liabilities for the benefit of creditors; or
- other similar proceedings.

For purposes of our junior subordinated debt securities, including the 2058 Debentures, "senior indebtedness" means all amounts due on obligations in connection with any of the following, whether outstanding at the date of execution of the Junior Subordinated Indenture or thereafter incurred, created or assumed, and any amendments, renewals, extensions or modifications of any such obligations:

- the principal of and premium, if any, and interest due in respect of indebtedness of Brighthouse for borrowed money and indebtedness evidenced by securities, debentures, notes, bonds or other written instruments issued by Brighthouse;
- all obligations of Brighthouse as lessee under leases required to be capitalized on its balance sheet under generally accepted accounting principles and leases of property or assets made as part of any sale and lease-back transaction to which Brighthouse is a party;
- all obligations of Brighthouse issued or assumed as the deferred purchase price of property, assets or businesses, all conditional sale obligations of Brighthouse and all obligations of Brighthouse under any title retention agreement (but excluding trade accounts payable in the ordinary course of business);
- all obligations of Brighthouse for the reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction;

- all obligations of Brighthouse in respect of commodity contracts, interest rate swap, cap, floor, collar or other agreements, interest rate future or options contracts, currency swap agreements, currency future or option contracts and other similar agreements;
- all obligations of the types referred to above of other persons for the payment of which Brighthouse is responsible or liable as obligor, guarantor or otherwise; and
- all obligations of the types referred to above of other persons secured by any lien on any property or asset of Brighthouse (whether or not such obligation is assumed by Brighthouse).

“Senior indebtedness” does not include:

- indebtedness or monetary obligations to trade creditors created or assumed by Brighthouse in the ordinary course of business in connection with the obtaining of materials or services; or
- any obligation or indebtedness that is, by its terms, subordinated in right of payment to, or ranks equally in right of payment with, the junior subordinated debt securities.

Senior indebtedness shall continue to be senior indebtedness and be entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any term of such senior indebtedness.

Interest

The 2058 Debentures bear interest at the annual rate of 6.250% from and including September 12, 2018 to but excluding the maturity date or any earlier redemption date, and we pay accrued interest quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, subject to our right to defer interest payments. We refer to each of these dates as an “interest payment date.”

Interest payments are made to the persons in whose names the 2058 Debentures are registered at the close of business on March 1, June 1, September 1 or December 1 (whether or not a business day), as the case may be, immediately preceding the relevant interest payment date. We refer to each of these dates as a “regular record date.” However, interest payable on the maturity date or on a redemption date that is not an interest payment date is payable to the person to whom the principal is payable. Interest payable on a redemption date that is an interest payment date is payable to the registered holders at the close of business on the relevant regular record date.

Interest payments include accrued interest from, and including, the original issue date, or, if interest has already been paid, from the last date in respect of which interest has been paid or duly provided for to, but excluding, the next succeeding interest payment date, the maturity date

or the redemption date, as the case may be. If any date on which interest is payable on the 2058 Debentures is not a business day, then payment of the interest payable on such date will be made on the next business day (and without any interest or other payment in respect of any such delay).

Any defaulted interest and any interest deferred pursuant to the Indenture (as described below) bears interest, to the extent permitted by applicable law, at an annual rate equal to the rate of interest on the 2058 Debentures from and including the relevant interest payment date compounded on each subsequent interest payment date (such interest referred to herein as “additional interest”). References to “interest” herein include interest currently accruing on the 2058 Debentures, any accrued and unpaid interest (including any deferred interest) and any additional interest.

Interest payable on the 2058 Debentures is computed on the basis of a 360-day year composed of twelve 30-day months.

Option to Defer Interest Payments

So long as no event of default with respect to the 2058 Debentures has occurred and is continuing, we may, at any time and from time to time, elect to defer interest payments on the 2058 Debentures for one or more consecutive interest periods that do not exceed five years for any single extension period (as defined below). A deferral of interest payments cannot extend, however, beyond the maturity, any earlier accelerated maturity date arising from an event of default or any other earlier redemption of the 2058 Debentures. An “extension period” refers to the period beginning on an interest payment date with respect to which we defer interest and ending on the earlier of (i) the fifth anniversary of that interest payment date and (ii) the next interest payment date on which we have paid all deferred and unpaid interest (including additional interest on such deferred interest) and all other accrued and unpaid interest on the 2058 Debentures.

During an extension period, interest continues to accrue on the 2058 Debentures, and deferred interest payments accrue additional interest at the same rate, compounded on each interest payment date to the extent permitted by applicable law. During an extension period, we are prohibited from paying current interest on the 2058 Debentures until we have paid all accrued and unpaid deferred interest, including any additional interest. No interest otherwise due during an extension period will be due and payable on the 2058 Debentures until the end of such extension period except upon an acceleration arising from an event of default (which will occur only upon certain events of bankruptcy, insolvency, reorganization, winding up or liquidation of Brighthouse (see “—Events of Default”)) or redemption of the 2058 Debentures during such extension period.

At the end of five years following the commencement of an extension period, we are required to pay all accrued and unpaid deferred interest, including additional interest, to the persons in whose names the 2058 Debentures are registered at the close of business on the regular record date with respect to the interest payment date at the end of such extension period. If, at the end of any extension period, we have paid all deferred interest due on the 2058

Debentures, including additional interest, we will be entitled again to defer interest payments on the 2058 Debentures as described above.

Payment Restrictions during an Extension Period

After we have given notice of the commencement of an extension period and until we have paid all accrued and unpaid interest on the 2058 Debentures, including additional interest, we will not, and will not permit any of our subsidiaries to:

- declare or pay any dividends or other distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any shares of our capital stock (which includes common stock and preferred stock);
- make any payment of principal of or premium, if any, or interest on or repay, purchase or redeem any of our debt securities ranking equally in right of payment with or junior in right of payment to the 2058 Debentures; or
- make any guarantee payments with respect to any guarantee by us of any securities of any of our subsidiaries if such guarantee ranks equally in right of payment with or junior in right of payment to the 2058 Debentures.

The restrictions listed above will not apply to:

- any dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, our capital stock where the dividend stock or stock issuable upon exercise of such options, warrants or other rights is the same stock as that on which the dividend is being paid or ranks equally with or junior to such stock;
- any declaration of a dividend in connection with the implementation of a stockholder rights plan, or the issuance of rights, capital stock or other property under any such plan, or the redemption or purchase of any such rights pursuant thereto;
- as a result of a reclassification of any series or class of our capital stock or the exchange or conversion of one class or series of our capital stock for or into another class or series of our capital stock;
- any purchase of fractional interests in shares of our capital stock pursuant to an acquisition or the conversion or exchange provisions of such capital stock or the securities being converted or exchanged;
- any purchase, redemption or other acquisition of shares of our capital stock in connection with:

- any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more directors, officers, agents, consultants, employees or independent contractors;
- the satisfaction of our obligations pursuant to any contract outstanding prior to the commencement of the extension period requiring such purchase, redemption or other acquisition;
- a dividend reinvestment or shareholder purchase plan; or
- the issuance of our capital stock, or securities convertible into or exercisable for such capital stock, as consideration in an acquisition transaction, the definitive agreement for which is entered into prior to the extension period;
- any exchange, redemption or conversion of any class or series of our capital stock, or the capital stock of one of our subsidiaries, for any other class or series of our capital stock, or of any class or series of our indebtedness for any class or series of our capital stock; and
- any payment of current or deferred interest on securities that rank equally with the 2058 Debentures in right of payment, which payments are made pro rata to the amounts due on such securities and on the 2058 Debentures, and any payment of principal of or current or deferred interest on securities that rank equally with the 2058 Debentures in right of payment, which, if not made, would cause us to breach the terms of the instrument governing such securities.

Optional Redemption of the 2058 Debentures

We may redeem the 2058 Debentures in increments of \$25 principal amount:

- in whole at any time or in part from time to time on or after September 15, 2023 at a redemption price equal to their principal amount plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the date of redemption; provided that, if the 2058 Debentures are not redeemed in whole, at least \$25 million aggregate principal amount of the 2058 Debentures must remain outstanding after giving effect to such redemption;
- in whole, but not in part, at any time prior to September 15, 2023, within 90 days of the occurrence of a “tax event,” at a redemption price equal to their principal amount plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the date of redemption;
- in whole, but not in part, at any time prior to September 15, 2023, within 90 days of the occurrence of a “regulatory capital event,” at a redemption price equal to their principal amount plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the date of redemption; or

- in whole, but not in part, at any time prior to September 15, 2023, within 90 days of the occurrence of a “rating agency event,” at a redemption price equal to 102% of their principal amount plus any accrued and unpaid interest (including additional interest, if any) to, but excluding, the date of redemption.

In addition, if, as a result of any change in, or amendment to, the laws of any jurisdiction other than the United States in which Brighthouse is incorporated, organized or otherwise tax resident or any political subdivision or any authority thereof or therein having power to tax (each, a “Relevant Taxing Jurisdiction”) or the official interpretation thereof that is announced or becomes effective on or after the date a Relevant Taxing Jurisdiction becomes a Relevant Taxing Jurisdiction (other than any such change or amendment that is announced before such Relevant Taxing Jurisdiction becomes a Relevant Taxing Jurisdiction), we become or, based upon a written opinion of independent counsel selected by us, will become obligated to pay certain additional amounts with respect to the 2058 Debentures, then we may at any time at our option redeem, in whole, but not in part, such debentures on not less than 30 nor more than 60 days’ prior notice, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest (including any additional interest) on such debentures to, but excluding, the date fixed for redemption.

“Tax event” means that we will have received an opinion of counsel, rendered by a law firm of nationally recognized standing that is experienced in such matters, to the effect that, as a result of any:

- amendment to or change in (including any promulgation, enactment, execution or modification of) the laws (or any regulations under those laws) of the United States or any political subdivision thereof or therein affecting taxation;
- official administrative pronouncement (including a private letter ruling, technical advice memorandum or similar pronouncement) or judicial decision or administrative action or other official pronouncement interpreting or applying the laws or regulations enumerated in the preceding bullet point, by any court, governmental agency or regulatory authority; or
- threatened challenge asserted in connection with an audit of us, or a threatened challenge asserted in writing against any taxpayer that has raised capital through the issuance of securities that are substantially similar to the 2058 Debentures,

(each of the above, a “change of tax law”) which amendment or change is enacted or effective or which pronouncement or decision is announced or which challenge is asserted against us or becomes publicly known on or after the original issue date of the 2058 Debentures, there is more than an insubstantial increase in the risk that interest accruable or payable by us on the 2058 Debentures is not, or within 90 days of the date of such opinion will not be, deductible by us in whole or in part, for U.S. federal income tax purposes; *provided* that a change of tax law under section 163(j) of the Internal Revenue Code of 1986, as amended (“section 163(j)”) (including any amendment to section 163(j), and any amendment to or the issuance of regulations or another official administrative pronouncement under section 163(j)), shall not give rise to a “tax

event” unless, in the opinion of independent counsel experienced in such matters, the change of tax law under section 163(j) limits, defers or prohibits the deduction of interest on the 2058 Debentures in a manner or to an extent different from interest on senior debt obligations of ours by reason of the specific characteristics of the 2058 Debentures.

“Regulatory capital event” means that we become subject to capital adequacy supervision by a capital regulator and the capital adequacy guidelines that apply to us as a result of being so subject set forth criteria pursuant to which the full principal amount of the 2058 Debentures would not qualify as capital under such capital adequacy guidelines, as we may determine at any time, in our sole discretion.

“Rating agency event” means that any nationally recognized statistical rating organization within the meaning of Section 3(a)(62) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that then publishes a rating for us (a “Rating Agency”) amends, clarifies or changes the criteria it uses to assign equity credit to securities such as the 2058 Debentures, which amendment, clarification or change results in (a) the shortening of the length of time the 2058 Debentures are assigned a particular level of equity credit by that rating agency as compared to the length of time they would have been assigned that level of equity credit by that rating agency or its predecessor on the initial issuance of the 2058 Debentures; or (b) the lowering of the equity credit (including up to a lesser amount) assigned to the 2058 Debentures by that rating agency compared to the equity credit assigned by that rating agency or its predecessor on the initial issuance of the 2058 Debentures.

If less than all of the 2058 Debentures are to be redeemed, the Trustee will select, pro rata, by lot or in such manner it deems fair and appropriate in its discretion and otherwise in accordance with the customary procedures of the Depositary, the 2058 Debentures, or portions of the 2058 Debentures, to be redeemed. We may redeem the 2058 Debentures and portions of the 2058 Debentures in amounts of \$25 and integral multiples of \$25 in excess thereof.

We may not redeem the 2058 Debentures in part unless all accrued and unpaid interest, including additional interest, has been paid in full on all outstanding 2058 Debentures for all interest periods terminating on or before the redemption date.

On and after the date of redemption, interest will cease to accrue on the 2058 Debentures or any portion of the 2058 Debentures called for redemption, unless we default in the payment of the redemption amount.

The 2058 Debentures are not entitled to any sinking fund or analogous requirement.

Additional Amounts

We will, subject to the exceptions and limitations set forth below, pay as additional interest on the 2058 Debentures such additional amounts as are necessary in order that the net payment by us or any paying agent of the principal of and interest on each of the 2058 Debentures after withholding or deduction solely with respect to any present or future tax, assessment or other governmental charge (collectively, “Taxes”) imposed by or on behalf of any

jurisdiction other than the United States in which Brighthouse is incorporated, organized or otherwise tax resident or any political subdivision or any authority thereof or therein having power to tax (each, a “Relevant Taxing Jurisdiction”), will not be less than the amount provided in the 2058 Debentures to be then due and payable; *provided, however*, that the foregoing obligation to pay additional amounts will not apply to:

- a) any Taxes which would not have been so imposed, withheld or deducted but for:
 - 1) the existence of any present or former connection between such holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member or shareholder or other equity owner of, or a person having a power over, such holder or beneficial owner, if such holder or beneficial owner is an estate, a trust, a limited liability company, a partnership, a corporation or other entity) and the Relevant Taxing Jurisdiction, including, without limitation, such holder or beneficial owner (or such fiduciary, settlor, beneficiary, member, shareholder or other equity owner or person having such a power) being or having been a citizen or resident or treated as a resident of the Relevant Taxing Jurisdiction or being or having been engaged in a trade or business in the Relevant Taxing Jurisdiction or being or having been present in the Relevant Taxing Jurisdiction or having or having had a permanent establishment in the Relevant Taxing Jurisdiction; or
 - 2) the failure of such holder or beneficial owner to comply with any applicable certification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the Relevant Taxing Jurisdiction of such holder or beneficial owner or otherwise to establish entitlement to a partial or complete exemption from such Taxes (including, without limitation, any documentation requirement under an applicable income tax treaty);
- b) any Taxes which would not have been so imposed, withheld or deducted but for the presentation by the holder or beneficial owner of such 2058 Debentures for payment on a date more than 10 days after the date on which such payment became due and payable or the date on which payment of the 2058 Debentures is duly provided for and notice is given to holders, whichever occurs later, except to the extent that the holder or beneficial owner would have been entitled to such additional amounts on presenting such 2058 Debentures on any date during such 10-day period;
- c) any estate, inheritance, gift, sales, transfer, personal property, excise, wealth or similar Taxes;
- d) any Taxes which are payable otherwise than by withholding from any payment of principal of or interest on such 2058 Debentures;
- e) any Taxes which are payable by a holder that is not the beneficial owner of the 2058 Debentures or a portion of the 2058 Debentures, or that is a fiduciary, partnership, limited liability company or other similar entity, but only to the extent that a beneficial owner, a

beneficiary or settlor with respect to such fiduciary or member of such partnership, limited liability company or similar entity would not have been entitled to the payment of an additional amount had such beneficial owner, settlor, beneficiary or member received directly its beneficial or distributive share of the payment;

- f) any Taxes required to be withheld by any paying agent from any payment of principal or interest on the 2058 Debentures, if such payment can be made without such withholding by any other paying agent;
- g) any Taxes that would not have been imposed, withheld or deducted but for a change in any law, treaty, regulation, or administrative or judicial interpretation that becomes effective after the applicable payment becomes due or is duly provided for, whichever occurs later, to the extent such change in law, treaty, regulation or administrative interpretation would apply retroactively to such payment;
- h) any Taxes imposed, withheld or deducted under Sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (or any amended or successor provisions that are substantively comparable), FATCA, any agreement (including any intergovernmental agreement) entered into in connection therewith, or any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or an intergovernmental agreement in respect of FATCA; or
- i) any combination of items (a), (b), (c), (d), (e), (f), (g) and (h).

For purposes of this section, the acquisition, ownership, enforcement or holding of or the receipt of any payment with respect to the 2058 Debentures will not constitute a connection (1) between the holder or beneficial owner and the Relevant Taxing Jurisdiction or (2) between a fiduciary, settlor, beneficiary, member or shareholder or other equity owner of, or a person having a power over, such holder or beneficial owner if such holder or beneficial owner is an estate, a trust, a limited liability company, a partnership, a corporation or other entity and the Relevant Taxing Jurisdiction.

Any reference in the Indenture or in the 2058 Debentures to principal or interest shall be deemed to refer also to additional amounts which may be payable under the provisions of this section.

Except as specifically provided in the 2058 Debentures, we will not be required to make any payment with respect to any tax, duty, assessment or other governmental charge imposed by any government or any political subdivision or taxing authority of or in any government or political subdivision.

Reporting Covenant

Unless we have filed the financial statements referred to in (a) and (b) below with the SEC in accordance with the following paragraph, the Junior Subordinated Indenture requires us to post on our public website (and to make available to the Trustee and holders of the 2058

Debentures, without cost to any holder, within 15 days after we post them on our public website):

- a) within 90 days after the end of each fiscal year, our audited annual financial statements, together with the related report of our independent auditors thereon, prepared in accordance with the requirements that would be applicable to such audited annual financial statements if appearing in an Annual Report on Form 10-K filed by us as a non-accelerated filer (within the meaning of Rule 12b-2 under the Exchange Act) subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act, or any successor or comparable form; and
- b) within 55 days after the end of each of the first three fiscal quarters of each fiscal year, our unaudited interim financial statements, prepared in accordance with the requirements that would be applicable to such unaudited interim financial statements if appearing in a Quarterly Report on Form 10-Q filed by us as a non-accelerated filer (within the meaning of Rule 12b-2 under the Exchange Act) subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act, or any successor or comparable form.

For so long as we are subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act, the Junior Subordinated Indenture requires us to file with the Trustee and make available to holders of the 2058 Debentures (without exhibits), without cost to any holder, all documents we file with, or furnish to, the SEC under the Exchange Act, within 15 days after we file them with, or furnish them to, the SEC. Any such documents that are publicly available through the SEC's EDGAR system (or any successor system) shall be deemed to have been filed with the Trustee and made available to holders in accordance with our obligations under the Junior Subordinated Indenture.

Events of Default

An "event of default" with respect to the 2058 Debentures occurs only upon certain events of bankruptcy, insolvency, reorganization, winding up or liquidation of Brighthouse.

If an event of default were to occur, the principal amount of the 2058 Debentures would automatically become due and payable without any declaration or other action on the part of the trustee or any holder of the 2058 Debentures. However, there will be no right of acceleration of principal and accrued but unpaid interest on the 2058 Debentures in the case of (i) any default in the payment of principal or premium, if any, or interest (including any deferred interest or additional interest) or (ii) any failure by us to comply with any covenant contained in the Indenture.

Notwithstanding the foregoing, the Junior Subordinated Indenture provides that, in the case of a default in the payment of principal or premium, if any, or interest on the 2058 Debentures, including any additional interest, when the same has become due and payable, and in the case of any payment of interest (other than deferred interest), such default has continued for 30 calendar days (and, in the case of payment of deferred interest, such default has continued for 30 calendar days after the conclusion of any extension period), the Trustee or the holder of a

debenture may or, if directed by the holders of a majority in principal amount of the 2058 Debentures, the Trustee shall, subject to the provisions of the Junior Subordinated Indenture, demand payment of the amount then due and payable and may institute legal proceedings for the collection of such amount if we fail to make payment thereof upon demand.

Modification of the 2058 Debentures

Under the Junior Subordinated Indenture, Brighthouse and the Trustee may supplement the Junior Subordinated Indenture for certain purposes without the consent of the holders of the junior subordinated debt securities of any series, including the 2058 Debentures, for, among other purposes, one or more of the following:

- to cure any ambiguity, defect or inconsistency;
- to add to Brighthouse's covenants for the benefit of the holders of junior subordinated debt securities of any series or to surrender any right or power conferred upon Brighthouse under the indentures;
- to add to, delete from, or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication, and delivery of junior subordinated debt securities, as set forth in the indentures;
- to make any change that does not materially adversely affect the rights of any holder of junior subordinated debt securities of any series; provided that any change to the terms of any indenture or supplemental indenture or to any series of junior subordinated debt securities made solely to conform to the description of such series of junior subordinated debt securities in an offering document, prospectus supplement or other similar offering document relating to the initial offering of such series of junior subordinated debt securities shall be deemed to not materially adversely affect the rights of the holders of such series of junior subordinated debt securities;
- to provide for the issuance of and establish the form and terms and conditions of the junior subordinated debt securities of any series, to establish the form of any certifications required to be furnished pursuant to the terms of any indenture or any series of junior subordinated debt securities, or to add to the rights of the holders of any series of junior subordinated debt securities; or
- to add any additional events of default for the benefit of the holders of any series of junior subordinated debt securities.

Brighthouse and the Trustee may modify the Junior Subordinated Indenture or any supplemental indenture, including the First Supplemental Indentures, in a manner that affects the interests or rights of the holders of junior subordinated debt securities, including the 2058 Debentures, with the consent of the holders of at least a majority in aggregate principal amount of the outstanding junior subordinated debt securities of each affected series issued under the Junior Subordinated

Indenture. However, the Junior Subordinated Indenture requires the consent of each holder of junior subordinated debt securities (including the 2058 Debentures) that would be affected by any modification which would:

- except as permitted by the Junior Subordinated Indenture and the terms of such series of junior subordinated debt securities, extend the fixed maturity of any junior subordinated debt securities of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest (including additional interest) thereon, or reduce any premium payable upon the redemption thereof;
- reduce the amount of principal of an original issue discount junior subordinated debt security or any other junior subordinated debt security payable upon acceleration of the maturity thereof;
- change the obligation of Brighthouse to maintain an office or agency and for the purposes specified in the Junior Subordinated Indenture;
- change the currency in which any junior subordinated debt security or any premium or interest is payable;
- impair the right to enforce any payment on or with respect to any junior subordinated debt security;
- adversely change the right to convert or exchange, including decreasing the conversion rate or increasing the conversion price of, any junior subordinated debt security (if applicable);
- reduce the percentage in principal amount of outstanding junior subordinated debt securities of any series, the consent of whose holders is required for modification or amendment of the junior subordinated indenture or for waiver of compliance with certain provisions of the junior subordinated indenture or for waiver of certain defaults; or
- modify any of the above provisions.

In addition, we and the Trustee may execute, without consent, any supplemental indenture for the purpose of creating any new series of junior subordinated debt securities.

Consolidation, Merger, Sale of Assets and Other Transactions

The Indenture provides that so long as the 2058 Debentures are outstanding, (i) we may not merge with or into or consolidate with another entity, (ii) we may not sell, assign, transfer, lease or convey all or substantially all of our properties and assets to, any other entity other than one of our direct or indirect wholly owned subsidiaries, (iii) no entity may merge with or into or consolidate with us or (iv) except for any of our direct or indirect wholly owned subsidiaries, no other entity may sell, assign, transfer, lease or convey all or substantially all of its properties and assets to us, in each case unless:

- we are the surviving corporation; or the entity formed by or surviving such merger or consolidation or to which such sale, assignment, transfer, lease or conveyance has been made, if other than us, is organized and validly existing under the laws of the United States of America, any State thereof, the District of Columbia, Bermuda, the Cayman Islands or any country or state that is a member of the Organization of Economic Cooperation and Development and has expressly assumed by supplemental indenture all of our obligations under the 2058 Debentures and the Indenture;
- immediately after giving effect to such transaction, no default or event of default or event that, after notice or lapse of time or both would become an event of default has occurred and is continuing; and
- we deliver to the Trustee an officers' certificate and an opinion of counsel, each to the effect that the supplemental indenture, if applicable, required in connection with the transaction and such merger, sale, assignment, transfer, lease or other disposition complies with the Junior Subordinated Indenture.

The Successor will be our successor, and will succeed to, and be substituted for, and may exercise every right and power of, Brighthouse under the Indenture and become the obligor on the 2058 Debentures with the same effect as if the Successor had been named as the issuer under the Indenture, and thereafter we shall be relieved of all of our obligations and covenants under the Indenture, but, in the case of a lease of all or substantially all of our properties and assets, we will not be released from our obligations to pay the principal of, premium, if any, and interest on the 2058 Debentures.

Discharge, Defeasance and Covenant Defeasance

Brighthouse may discharge certain obligations to holders of the 2058 Debentures issued under the Indenture which have not already been delivered to the Trustee for cancellation and which have either become due and payable or are by their terms due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the Trustee cash or U.S. governmental obligations (as defined in the Indenture), without reinvestment, as trust funds in an amount certified to be sufficient to pay when due, whether at maturity, upon redemption or otherwise, the principal of (and premium, if any) and interest on the 2058 Debentures.

The Indenture will not be discharged as described above if Brighthouse has defaulted in the payment of principal of, premium, if any, or interest on any senior indebtedness, as defined in the Junior Subordinated Indenture, and that default is continuing or another event of default on the senior indebtedness then exists and has resulted in the senior indebtedness becoming or being declared due and payable prior to the date it otherwise would have become due and payable.

Brighthouse may elect either (i) to defease and be discharged from any and all obligations with respect to the 2058 Debentures ("Defeasance") or (ii) to be released from its obligations with respect to certain covenants applicable to the 2058 Debentures ("Covenant Defeasance") upon the irrevocable deposit with the Trustee, in trust for such purpose, of money or government obligations which, through the payment of principal and interest in accordance with their terms,

will provide money in an amount certified to be sufficient, without reinvestment, to pay the principal of (and premium, if any) or interest on the 2058 Debentures to maturity or redemption, as the case may be, and any mandatory sinking fund or analogous payments thereon. As a condition to Defeasance or Covenant Defeasance, Brighthouse must deliver to the Trustee an opinion of counsel to the effect that the holders of the 2058 Debentures will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Defeasance or Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such Defeasance or Covenant Defeasance had not occurred. Such opinion of counsel, in the case of Defeasance under clause (i) above, must refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable U.S. federal income tax law occurring after the date of the Junior Subordinated Indenture. In addition, in the case of either Defeasance or Covenant Defeasance, Brighthouse shall have delivered to the Trustee (i) an officers' certificate to the effect that Nasdaq has informed it that the 2058 Debentures will not be delisted as a result of such deposit, and (ii) an officers' certificate and an opinion of counsel, each to the effect that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

Brighthouse may exercise its Defeasance option with respect to the 2058 Debentures notwithstanding its prior exercise of its Covenant Defeasance option.

Actions Not Restricted by the Indenture

The Indenture does not limit our ability to incur any type of indebtedness or other obligation; to create liens on our property for any purpose; to pay dividends or make distributions on our capital stock or redeem our capital stock, except during an extension period; or to make payments on any senior indebtedness.

The Indenture does not require the maintenance of any financial ratios or specified levels of net worth or liquidity. In addition, the indenture does not contain any provisions that require us to repurchase or redeem or modify the terms of any of the 2058 Debentures upon a change of control or other event involving us that may adversely affect the creditworthiness of the 2058 Debentures.

Listing

The 2058 Debentures are listed on Nasdaq under the symbol "BHFAL".

**Amended and Restated Brighthouse Services, LLC
Short-Term Incentive Plan**

Originally effective as of March 28, 2017; Amended and Restated as of August 9, 2017; Amended as of February 6, 2018; Amended as of November 14, 2019; Amended as of February 21, 2020

Article 1. Purpose, Effectiveness, and Duration

The Brighthouse Services, LLC Short-Term Incentive Plan (the “STI Plan”) is an annual incentive plan. The purpose of the STI Plan is to align total annual pay with business results, provide competitive levels of pay for performance and make a competitive portion of total compensation variable based on both Company and individual performance. The STI Plan shall become effective with respect to awards made on or after March 28, 2017 and shall constitute a sub-plan of the Brighthouse Financial, Inc. 2017 Stock and Incentive Compensation Plan (the “2017 Plan”) upon adoption of that Plan by the Board on or after August 9, 2017. STI Plan is intended to provide Cash-Based Awards pursuant to Article 10 of the 2017 Plan. Each of the applicable terms of the 2017 Plan shall apply to STI Plan and Awards made under STI Plan. The full powers of the Committee under the 2017 Plan, including those described in Section 3.2 of the Plan, will apply to each STI Plan Award. STI Plan shall remain in effect indefinitely, subject to the right of the Committee or the Board to amend or terminate STI Plan at any time pursuant to Article 6 herein.

Article 2. Definitions

Whenever used but not defined herein, capitalized terms shall have the meaning set forth in the 2017 Plan, as applicable to Cash-Based Awards under that 2017 Plan.

Article 3. Eligibility

3.1 Eligibility. All Employees of the Company are eligible for an STI Plan Award and can receive them at the Company’s discretion (each, a “Participant”). Subject to the provisions of the 2017 Plan and STI Plan, the Committee and or the Head of Compensation and Benefits within the Human Resources Department of the Company may from time to time grant and determine the terms of Awards to any Employee. However, Awards to the Company’s Chief Executive Officer, his/her direct reports and the Company’s Chief Financial Officer (collectively referred to as the “Senior Leadership Team”), as well as the Company’s Chief Risk Officer and Chief Accounting Officer, can only be approved by the Committee.

3.2 No Post-Employment Awards. An individual who is not an Employee on the date the Award is payable shall not receive a payment in respect of an STI Plan Award, except as otherwise may be determined by the Committee.

Article 4. Award Terms and Limitations

4.1 Performance-Based Compensation. Unless determined otherwise by the Committee, STI Plan awards to the Senior Leadership Team are intended to qualify as Performance-Based Compensation. As such, STI Plan awards for the Senior Leadership Team require the attainment of one or more Performance Goals. The Committee shall specify in writing, by resolution or otherwise, the Performance Goal(s) applicable to such Awards. The Committee may establish different Performance Goals and different Performance Periods (including with respect to any supplementary Performance Goals) as to STI Plan Awards for the Senior Leadership Team. No

Award to a member of the Senior Leadership Team shall be payable unless the Committee certifies, by resolution or otherwise, that the Performance Goal(s) applicable to the Award were satisfied.

4.2 Performance Criteria. The Committee may determine and apply performance criteria to Senior Leadership Team Awards or any and all Awards. The Committee may also determine the total amount available for all Awards with respect to a calendar Fiscal Year and performance criteria applicable to particular Awards or a set of Awards. Awards that are subject to performance criteria may be granted: (1) in advance of and contingent upon performance with respect to any performance criteria; or (2) following the performance with respect to any performance criteria. The performance metrics that will be used to establish the Performance Goal(s) shall be based on the performance of Brighthouse Financial, Inc. or any affiliate (or division, business unit or operational unit thereof) and may include one or more of the following:

- (i) Net Earnings, Net Income or Operating Earnings (on a Consolidated basis or by Company);
- (ii) Operating ROE;
- (iii) Cash Flow (including free cash flow, gross cash flow, statutory cash flow and return on capital);
- (iv) Decrease in Fixed Expenses;
- (v) Number of Transition Service Agreements with MetLife exited;
- (vi) Value of New Business;
- (vii) VA Target Funding;
- (viii) Risk Based Capital Ratio(s);
- (ix) Ratings from Rating Agencies (including maintaining a minimum rating or an increase in rating);
- (x) Earnings Per Share; and
- (xi) Share Price (including but not limited to total shareholder return).

All terms not defined in this Plan are as defined in the Form 10 filed by Brighthouse Financial, Inc. or, alternatively, if these definitions are modified, added or updated by later financial statements (including but not limited to the Quarterly Financial Statement or any equivalent), then as defined in the financial statements of the Company (subject to any modifications noted in the Committee's resolution setting the Performance Goals for any Performance Period). Alternative definitions may be agreed upon at the time the performance criteria are set provided that the alternate definition is set forth in the resolution setting such performance criteria.

4.3 Adjustments. The Committee shall adjust or modify the calculation of a Performance Goal for a Performance Period, in such manner as it shall, in its sole discretion, deem necessary or appropriate in connection with any one or more of the following events: (i) asset write-downs; (ii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iii) any reorganization and restructuring programs; (iv) extraordinary, unusual or infrequently occurring items as described in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year; (v) acquisitions or divestitures; (vi) any other specific unusual or nonrecurring events, or objectively determinable category thereof; or (vii) a change in the Company's fiscal year.

4.4 Form of Payment. All Awards granted under STI Plan shall, if payable, be payable in cash unless otherwise determined by the Committee.

4.5 Timing of Payment. It is expected that Awards under the STI Plan, if any, shall be paid in March of each calendar year, provided, that all Awards granted under STI Plan shall, if payable, be paid on or before March 15 of the calendar year following the calendar year in which the Participant's right to payment under an Award ceases to be subject to a "substantial risk of forfeiture" (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended). No Participant or any other person shall have any right to receive any payment under STI Plan or the 2017 Plan or any interest or other remedy due to any payment of an Award on a date other than as provided in the immediately preceding sentence.

4.6 Performance-Based Compensation Recoupment. All Awards are subject to any Company performance-based compensation recoupment policy in effect from time to time.

4.7 Written Communication of Awards. Human Resources for the Company or an Affiliate may determine how the amount and terms of each STI Plan Award may be communicated in writing.

Article 5. Amendment, Termination, and Interpretation

STI Plan awards in any given year are fully discretionary on the part of the Company and each manager of employees. In addition, the Committee or Board may, at any time and from time to time, alter, amend, modify, suspend, or terminate STI Plan in whole or in part. If shareholder approval is required by law, regulation, or stock exchange rule, then no amendment shall be effective without such shareholder approval.

Article 6. Administration

Pursuant and subject to Section 3.3 of the 2017 Plan, the Committee hereby delegates its administrative duties and powers with respect to STI Plan Awards to the Head of Compensation and Benefits within the Human Resources Department of the Company (the "Administrative Delegation"). The Administrative Delegation does not in any way limit any of the duties and powers of the Committee under this plan or the 2017 Plan. The Administrative Delegation may be sub-delegated to any individual or entity, and such sub-delegation can be made either expressly or by implication of the assignment of management or administrative duties or entrance by the Company or any Affiliate through an authorized representative into one or more management, service, or vending agreements.

Brighthouse Financial, Inc.

2017 Stock and Incentive Compensation Plan

(Effective August 9, 2017; as amended November 16, 2018 and November 14, 2019)

Brighthouse Financial, Inc. 2017 Stock and Incentive Compensation Plan

Article 1. Establishment, Purpose, and Duration

1.1 Establishment of the Plan. Brighthouse Financial, Inc., a Delaware corporation (hereinafter referred to as the “Company”), establishes an incentive compensation plan to be known as the Brighthouse Financial, Inc. 2017 Stock and Incentive Compensation Plan (hereinafter referred to as the “Plan”), as set forth in this document.

The Plan permits the grant of Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards, and Stock-Based Awards.

The Plan shall become effective on the date the Plan is approved by the Board of Directors (the “Effective Date”) and shall remain in effect as provided in Section 1.3 hereof.

1.2 Purpose of the Plan. The purpose of the Plan is to promote the success and enhance the value of the Company and Affiliates by linking the personal interests of the Participants to those of the Company’s shareholders, and by providing Participants with an incentive for strong performance.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Participants upon whose judgment, interest, and special effort the successful conduct of its operation largely is dependent.

1.3 Duration of the Plan. The Plan shall commence as of the Effective Date, as described in Section 1.1 herein, and shall remain in effect, subject to the right of the Committee or the Board to amend or terminate the Plan at any time pursuant to Article 16 herein, until the earlier of (i) the tenth anniversary of the Effective Date, or (ii) all Shares subject to the Plan have been distributed, purchased or acquired according to the Plan’s provisions.

Article 2. Definitions

Whenever used in the Plan, the following terms shall have the meaning set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

- 2.1 “Affiliate”** shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations of the Exchange Act, with reference to the Company, and shall also include any corporation, partnership, joint venture, limited liability company, or other entity in which the Company owns, directly or indirectly, at least fifty percent (50%) of the total combined Voting Power of such corporation or of the capital interest or profits interest of such partnership or other entity.
- 2.2 “Award”** means, individually or collectively, a grant under this Plan of NQSOs, SARs, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards, or Stock-Based Awards, in each case subject to the terms of this Plan.

- 2.3 **“Award Agreement”** means either (i) a written agreement entered into by the Company or an Affiliate and a Participant setting forth the terms and provisions applicable to Awards granted under this Plan; or (ii) a written statement issued by the Company or an Affiliate to a Participant describing the terms and provisions of such Award. In either case, the writing may take electronic form.
- 2.4 **“Beneficial Owner” or “Beneficial Ownership”** shall have the meaning ascribed to such term in rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- 2.5 **“Board” or “Board of Directors”** means the Board of Directors of the Company.
- 2.6 **“Cash-Based Award”** means an Award granted under Article 10 herein, the value of which is denominated in cash as determined by the Committee and which is not any other form of Award described in this Plan.
- 2.7 **“Cause”** means: (i) a Participant’s conviction or plea of nolo contendere to a felony; or (ii) an act of dishonesty or misconduct on a Participant’s part that results or is believed likely to result in material damage to the Company’s business or reputation; or (iii) a material violation by a Participant of Company Policy, the Agreement to Protect Corporate Property or any other employment obligation or standard of conduct that has been communicated to the Participant where such violation played a role in the Company’s decision to terminate the Participant.
- 2.8 **“Change of Control”** shall occur if any of the following events occur after the Effective Date:
- (i) Any Person acquires (other than directly from the Company) Beneficial Ownership, directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined Voting Power of the Company’s securities;
 - (ii) Within any twenty-four (24) month period, the individuals who were Directors of the Company at the beginning of such period (the “Incumbent Directors”) shall cease to constitute at least a majority of the Board of Directors or the Board of Directors of any successor to the Company; provided, that any Director elected or nominated for election to the Board by a majority of the Incumbent Directors then still in office shall be deemed to be an Incumbent Director for purposes of this Section 2.8(ii); provided, further, notwithstanding the foregoing, that no individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election or removal of Directors of the Company or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, including by reason of any agreement intended to avoid or settle any such election contest or solicitation of proxies or consents, shall be considered an Incumbent Director for purposes of this Section 2.8(ii); or
 - (iii) The shareholders of the Company approve a merger, consolidation, share exchange, division, sale or other disposition of all or substantially all of the assets

of the Company which is consummated (a “Corporate Event”), and immediately following the consummation of which the shareholders of the Company immediately prior to such Corporate Event do not hold, directly or indirectly, a majority of the Voting Power of (i) in the case of a merger or consolidation, the surviving or resulting corporation, (ii) in the case of a share exchange, the acquiring corporation, or (iii) in the case of a division or a sale or other disposition of assets, each surviving, resulting or acquiring corporation which, immediately following the relevant Corporate Event, holds more than thirty percent (30%) of the consolidated assets of the Company immediately prior to such Corporate Event.

- (iv) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company, or the approval by the Board of a plan of complete or partial liquidation or dissolution of an Affiliate of the Company that is a life insurance operating company, which Affiliate’s assets represent fifty percent (50%) or more of the combined assets of all Affiliates of the Company that are life insurance operating companies measured as of the date immediately preceding the date the liquidation or dissolution is approved.

Notwithstanding the foregoing, a Change of Control shall not be deemed to occur solely because any Person (the “Subject Person”) acquired Beneficial Ownership of more than the permitted amount of the combined Voting Power of the Company’s securities as a result of acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of securities over which such Person has Beneficial Ownership; provided, that if a Change of Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional securities that increase the then outstanding combined Voting Power of the Company’s securities Beneficially Owned by such Subject Person, then a Change of Control shall occur.

- 2.9 **“Change of Control Price”** means the highest price per share of Shares offered and accepted in conjunction with any transaction resulting in a Change of Control (as determined in good faith by the Committee if any part of the offered price is payable other than in cash) or, in the case of a Change of Control occurring solely by reason of a change in the composition of the Board, the highest Fair Market Value of the common stock on any of the thirty (30) trading days immediately preceding the date on which a Change of Control occurs.
- 2.10 **“Code”** means the U.S. Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.
- 2.11 **“Committee”** means the Compensation Committee of the Board of Directors, or any other duly authorized committee of the Board appointed by the Board to administer the Plan, or the Board.

- 2.12 **“Company”** means Brighthouse Financial, Inc., a Delaware corporation, and any successor thereto as provided in Article 17 herein.
- 2.13 **“Constructively Terminated”** means, unless otherwise specified by the Committee in the Award Agreement, a voluntary termination of employment by an Employee within ten (10) business days after any of the following actions by the Company, Affiliate, or person acting on behalf of either:
- (i) Requiring the Employee without his/her consent to be based as his/her regular or customary place of employment at any office or location more than fifty (50) miles from the location at which the Employee performed his/her duties immediately prior to the Change of Control, or in a state other than the one in which the Employee performed his/her duties immediately prior to the Change of Control, in each case except for travel reasonably required in the performance of the Employee’s responsibilities;
 - (ii) In the case of an Employee, a material reduction in the Employee’s target cash compensation opportunity below the opportunity in effect at the time of a Change of Control; or
 - (iii) Other than an unintentional payroll error in the normal course, in the case of an Employee, failing to pay the Employee’s base salary, other wages, or employment-related benefits as required by law.
- 2.14 **“Director”** means any individual who is a member of the Board of Directors of the Company.
- 2.15 **“Effective Date”** means August 9, 2017.
- 2.16 **“Employee”** means any employee of the Company or an Affiliate. Directors who are not otherwise employed by the Company or an Affiliate shall not be considered Employees under this Plan. For greater clarity, and without limiting the generality of the foregoing, individuals described in the first sentence of this definition who are foreign nationals or are employed outside of the United States, or both, are Employees and may be granted Awards on the terms and conditions set forth in the Plan, or on such other terms and conditions as may, in the judgment of the Committee, be necessary or desirable to further the purposes of the Plan.
- 2.17 **“Exchange Act”** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- 2.18 **“Fair Market Value”** or **“FMV”** means a price that is based on the opening, closing, actual, high, low, or average selling prices of a Share on the National Association of Securities Dealers Automated Quotations or other established stock exchange (or exchanges) on the applicable date, the preceding trading day, the next succeeding trading day, or an average of trading days, as determined by the Committee in its discretion. Such

definition(s) of FMV shall be specified in each Award Agreement and may differ depending on whether FMV is in reference to the grant, exercise, vesting, settlement, or payout of an Award. If, however, the accounting standards used to account for equity awards granted to Participants are substantially modified subsequent to the Effective Date of the Plan, the Committee shall have the ability to determine an Award's FMV based on the relevant facts and circumstances. If Shares are not traded on an established stock exchange, FMV shall be determined by the Committee based on objective criteria.

- 2.19 “Fiscal Year”** means the year commencing on January 1 and ending December 31 or other time period as approved by the Committee.
- 2.20 “Grant Price”** means the price against which the amount payable is determined upon exercise of an SAR.
- 2.21 “Insider”** shall mean an individual who is, on the relevant date, an “executive officer,” as defined under the Exchange Act and Rule 3b-7 (17 C.F.R. Section 240.3b-7), or an “officer” as defined under Section 16 of the Exchange Act and Rule 16a-1 (17 C.F.R. Section 240.16a-1), or any successor to such rules under the Exchange Act, as determined by the Company.
- 2.22 “MetLife”** shall mean (i) MetLife, Inc., any of its successors, and its affiliates under the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations of the Exchange Act, (ii) any corporation, partnership, joint venture, limited liability company, or other entity in which MetLife, Inc., any of its successors, or any of its affiliates, owns, directly or indirectly, at least fifty percent (50%) of the total combined Voting Power of such corporation or of the capital interest or profits interest of such partnership or other entity, (iii) the MetLife Policyholder Trust (or any person(s) who would otherwise be described herein solely by reason of having the power to control the voting of the shares held by that trust), or (iv) any employee benefit plan (including an employee stock ownership plan) sponsored by any Person within items (i), (ii), or (iii) of this definition of MetLife.
- 2.23 “Nonqualified Stock Option” or “NQSO”** means an Option to purchase Shares, granted under Article 6 herein, which is not intended to be an incentive stock option within the meaning of Section 422 of the Code or that otherwise does not meet such requirements.
- 2.24 “Option”** means the conditional right to purchase Shares at a stated Option Price for a specified period of time in the form of a Nonqualified Stock Option subject to the terms of this Plan.
- 2.25 “Option Price”** means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.
- 2.26 “Participant”** means an Employee or who has been selected to receive an Award, or who has an outstanding Award granted under the Plan.

- 2.27 **“Performance-Based Compensation”** means compensation under an Award that is granted in order to provide remuneration solely on account of the attainment of one or more Performance Goals.
- 2.28 **“Performance Goal”** means a performance criterion selected by the Committee for a given Award for purposes of Article 11 based on one or more of the Performance Measures.
- 2.29 **“Performance Measures”** means measures as described in Article 11, the attainment of one or more of which shall, as determined by the Committee, determine the vesting, conditions necessary for payment to be due, or value of an Award to an Insider that are designated to qualify as Performance-Based Compensation.
- 2.30 **“Performance Period”** means the period of time during which the assigned performance criteria must be met in order to determine the degree of payout and/or vesting with respect to an Award.
- 2.31 **“Performance Share”** means an Award granted under Article 9 herein and subject to the terms of this Plan, denominated in Shares, the value of which at the time it is payable is determined as a function of the extent to which corresponding performance criteria have been achieved.
- 2.32 **“Performance Unit”** means an Award granted under Article 9 herein and subject to the terms of this Plan, denominated in units, the value of which at the time it is payable is determined as a function of the extent to which corresponding performance criteria have been achieved.
- 2.33 **“Period of Restriction”** means the period when an Award of Restricted Stock or Restricted Stock Unit is subject to forfeiture based on the passage of time, the achievement of performance criteria, and/or upon the occurrence of other events as determined by the Committee, in its discretion.
- 2.34 **“Person”** shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof; provided, however, that “Person” shall not include (i) the Company or any Affiliate or (ii) any employee benefit plan (including an employee stock ownership plan) sponsored by the Company or any Affiliate.
- 2.35 **“Restricted Stock”** means an Award of Shares subject to a Period of Restriction, granted under Article 8 herein and subject to the terms of this Plan.
- 2.36 **“Restricted Stock Unit”** means an Award denominated in units subject to a Period of Restriction, granted under Article 8 herein and subject to the terms of this Plan.
- 2.37 **“Share”** means a share of common stock of the Company, \$.01 par value per Share.

- 2.38 **“Stock Appreciation Right” or “SAR”** means the conditional right to receive the difference between the FMV of a Share on the date of exercise over the Grant Price, pursuant to the terms of Article 7 herein and subject to the terms of this Plan.
- 2.39 **“Stock-Based Award”** means an equity-based or equity-related Award granted under Article 10 herein and subject to the terms of this Plan, and not otherwise described by the terms of this Plan.
- 2.40 **“Voting Power”** shall mean such number of Voting Securities as shall enable the holders thereof to cast all the votes which could be cast in an annual election of directors of a company.
- 2.41 **“Voting Securities”** shall mean all securities entitling the holders thereof to vote in an annual election of directors of a company.

Article 3. Administration

3.1 General. The Committee and its delegates shall be responsible for administering the Plan. The Committee may employ attorneys, consultants, accountants, agents, and other individuals, any of whom may be an Employee, and the Committee, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee and its delegates shall be final, conclusive, and binding upon the Participants, the Company, and all other interested parties.

3.2 Authority of the Committee. The Committee shall have full discretionary power to interpret the terms and the intent of the Plan and any Award Agreement or other agreement ancillary to or in connection with the Plan, to determine eligibility for Awards, and to adopt such rules, regulations, and guidelines for administering the Plan as the Committee may deem necessary or proper. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions and, subject to Article 15, adopting modifications and amendments, or subplans to the Plan or any Award Agreement, including, without limitation, any that are necessary or appropriate to comply with the laws or compensation practices of the countries and other jurisdictions in which the Company and Affiliates operate.

3.3 Delegation. The Committee may delegate to one or more of its members or to one or more Directors or officers of the Company or its Affiliates, any of its duties or powers as it may deem advisable; provided, however, that any such delegate shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated pursuant to this Section 3.3. Subject to the terms of the previous sentence, the Committee may delegate to any individual(s) such administrative duties or powers as it may deem advisable. By approving this Plan as drafted, the Committee hereby delegates each of its administrative powers under this Plan to the officer who is Head of Compensation and Benefits at the Company.

Article 4. Shares Subject to the Plan and Maximum Awards

4.1 Number of Shares Available for Awards. Subject to adjustment as provided in Section 4.2 herein, the number of Shares hereby reserved for issuance to Participants under the Plan

shall be seven million (7,000,000) (such total number of Shares, including those resulting from adjustments authorized under the Plan, the “Total Share Authorization”). Any Shares issued in connection with any Award shall be counted against the limit as one (1) Share for every one (1) Share issued. The maximum aggregate number of Shares that may be granted in the form of Nonqualified Stock Options shall be equal to the Total Share Authorization.

Awards that are not settled in Shares shall not reduce any of the Total Share Authorization. If any Stock Option or Stock Appreciation Right granted under this Plan expires, terminates or is canceled for any reason without having been exercised in full, the number of Shares underlying such unexercised Stock Option or any unexercised Stock Appreciation Right shall again be available for the purposes of Awards under this Plan. If any Shares of Restricted Stock, Performance Shares, Performance Units, Restricted Stock Units or Stock Units awarded under this Plan to a Participant are forfeited or repurchased by the Company for any reason, the number of forfeited or repurchased Shares of Restricted Stock, or Shares underlying any Performance Share, Performance Unit, Restricted Stock Unit, Stock Unit or other Stock-Based Award shall again be available for the purposes of Awards under this Plan.

Notwithstanding anything else herein, (i) the total number of Options, Stock Appreciation Rights or other Stock-Based Award (subject to exercise) that have been exercised, regardless of whether any of the Shares underlying such Awards are not actually issued to the Participant as the result of a net settlement, (ii) any Shares used to pay any exercise price on any Award granted under the Plan that is subject to exercise (including, without limitation, any Options, Stock Appreciation Rights or other Stock-Based Awards (subject to exercise)) and (iii) any Shares used to satisfy tax withholding obligation with respect to any and all Awards granted under the Plan, shall in each case be counted against the Total Share Authorization and shall no longer be available for purposes of granting Awards under this Plan. In addition, Shares repurchased by the Company on the open market using proceeds from the exercise of any Award shall not increase the Total Share Authorization available for future grant of Awards hereunder.

The maximum number of Shares available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional Shares or credited as Restricted Stock or Restricted Stock Units. The Shares available for issuance under the Plan may be authorized and unissued Shares or treasury Shares.

Unless and until the Committee determines that an Award to an Insider shall not be designated as Performance-Based Compensation, the following limits (“Award Limits”) shall apply to grants of Awards to Insiders under the Plan:

- (a) **Options and SARs:** The maximum aggregate number of Shares that may be granted in the form of Options or Stock Appreciation Rights, pursuant to any Award granted in any one Fiscal Year to any one Participant, shall be two million (2,000,000).

- (b) **Restricted Stock/Restricted Stock Units:** The maximum aggregate grant with respect to Awards of Restricted Stock/Restricted Stock Units granted in any one Fiscal Year to any one Participant shall be one million (1,000,000).
- (c) **Performance Shares/Performance Units:** The maximum aggregate Award of Performance Shares or Performance Units that a Participant may receive in any one Fiscal Year shall be one million (1,000,000) Shares, or equal to the value of one million (1,000,000) Shares determined as of the date of vesting or payout, as applicable.
- (d) **Cash-Based Awards:** The maximum aggregate amount awarded or credited with respect to Cash-Based Awards to any one Participant in any one Fiscal Year may not exceed ten million dollars (\$10,000,000) determined as of the date of vesting or payout, as applicable.
- (e) **Stock Awards:** The maximum aggregate grant with respect to Awards of Stock-Based Awards in any one Fiscal Year to any one Participant shall be one million (1,000,000).

4.2 Adjustments in Authorized Shares. In the event of any corporate event or transaction (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, extraordinary dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of securities, exchange of securities, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to shareholders of the Company, or any similar corporate event or transaction, the Committee, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be issued under the Plan, the number and kind of Shares subject to outstanding Awards, the Option Price or Grant Price applicable to outstanding Awards, the Award Limits, the limit on issuing Awards other than Options granted with an Option Price equal to at least the FMV of a Share on the date of grant or Stock Appreciation Rights with a Grant Price equal to at least the FMV of a Share on the date of grant, and any other value determinations applicable to outstanding Awards or to this Plan. The Committee shall also make appropriate adjustments in the terms of any Awards under the Plan to reflect, or related to, such changes or distributions and may modify any other terms of outstanding Awards, including modifications of performance criteria and changes in the length of Performance Periods. The determination of the Committee as to the foregoing adjustments, if any, shall be final, conclusive, and binding on Participants under the Plan.

Subject to the provisions of Article 15 and any applicable law or regulatory requirement, without affecting the number of Shares reserved or available hereunder, the Committee may authorize the issuance, assumption, substitution, or conversion of Awards under this Plan in connection with any such corporate event or transaction upon such terms and conditions as it may deem appropriate. Additionally, the Committee may amend the Plan, or adopt supplements to the Plan, in such manner as it deems appropriate to provide for such issuance, assumption, substitution, or conversion as provided in the previous sentence.

4.3 Minimum Vesting and Period of Restriction. Notwithstanding any other provision of the Plan to the contrary, with respect to any Award of Restricted Stock, Restricted Stock Units Performance Shares, Performance Units, or other Stock-Based Award which by its terms does not require the recipient of the Award to pay a per share exercise price or purchase price equal to the Fair Market Value of the underlying Shares at the grant date (collectively, "Full-Value Awards"), (i) the Period of Restriction with respect to any such Award of Restricted Stock, Restricted Stock Units or other Stock-Based Award, (ii) the Performance Period with respect to any such Award of Performance Shares or Performance Units and (iii) the vesting period with respect to any such Other Stock-Based Award that is payable in Shares shall be no less than (A) one (1) year, if the lapsing of restrictions or vesting of the Full-Value Award is based (in whole or in part) on the attainment of one or more Performance Goals, and (B) three (3) years, if the lapsing of restrictions or vesting of the Full-Value Award is based solely on the continued performance of services by the Participant (with the restrictions thereto lapsing or the Full-Value Award becoming vested as to no more than one-third (1/3rd) of the Shares subject thereto on each of the first and second anniversaries of the date of grant); provided, that, subject to the terms of the Plan, the Committee may (at the time of grant or thereafter) provide for the earlier lapsing of restrictions or the vesting of the Full-Value Award in the event of a Change of Control or a upon certain terminations of a Participant's employment as may be set forth in an Award Agreement; and provided further, that, subject to the limitations set forth in Section 4.1, Full-Value Awards with respect to up to five percent (5%) of the Total Share Authorization may be granted that are not subject to the foregoing limitations.

Article 5. Eligibility and Participation

5.1 Eligibility. Individuals eligible to participate in the Plan include all Employees.

5.2 Actual Participation. Subject to the provisions of the Plan, the Committee or the officer who is the Head of Compensation and Benefits for the Company may, from time to time, select from all eligible Employees, those who will be granted Awards and shall set the nature, terms, and amount of each Award. However, with regard to Employees who are Insiders, only the Committee may determine the individuals eligible for an Award and use its discretion to determine the nature, terms, and amount of each Award.

Article 6. Stock Options

6.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee in its discretion.

6.2 Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and any such other provisions as the Committee shall determine.

6.3 Option Price. The Option Price for each grant of an Option under this Plan shall be determined by the Committee and shall be specified in the Award Agreement. The Option Price may include an Option Price based (i) on one hundred percent (100%) of the FMV of the Shares on the date of grant, (ii) an Option Price that is set at a premium to the FMV of the Shares on the date of

grant, or (iii) an Option Price that is indexed to (but in no event less than 100% of) the FMV of the Shares on the date of grant, with the index determined by the Committee in its discretion.

6.4 Duration of Options. Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth (10th) anniversary date of its grant.

6.5 Exercise of Options. Options granted under this Article 6 shall be exercisable at such times and on the occurrence of such events, and be subject to such restrictions and conditions, as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant.

6.6 Payment. Options granted under this Article 6 shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified or accepted by the Committee, or by complying with any alternative procedures which may be authorized by the Committee, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full in a form and method approved or accepted by the Committee in its sole discretion subject to such rules and regulations as the Committee may establish.

Subject to Section 6.7 and any governing rules or regulations, as soon as practicable after receipt of a notification of exercise and full payment, the Committee shall cause to be delivered to the Participant Share certificates, evidence of book entry Shares, or other evidence of Share ownership determined by the Company, in each case in an appropriate amount based upon the number of Shares purchased under the Option(s). Unless otherwise determined or accepted by the Committee, all payments in cash shall be paid in United States dollars.

6.7 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted pursuant to this Plan as it may deem advisable, including, without limitation, requiring the Participant to hold the Shares acquired pursuant to exercise for a specified period of time, or restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed and/or traded.

6.8 Termination of Employment. Each Participant's Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment with the Company or Affiliates. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Options issued pursuant to this Article 6, and may reflect distinctions based on the reasons for termination.

6.9 Nontransferability of Options. Except for: (1) transfers without consideration for which the Committee may provide in a Participant's Award Agreement at the time of grant or otherwise, or (2) transfers of specific vested or currently exercisable options exclusively to a former spouse under the terms of a final divorce decree issued by a court of competent jurisdiction, each NQSO granted

under this Article 6 may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement at the time of grant or otherwise by the Committee consistent with this Section 6.9, all NQSOs granted to a Participant under this Article 6 shall be exercisable during the Participant's lifetime only by such Participant.

6.10 Substituting SARs. Regardless of the terms of the Award Agreement, the Committee shall have the right to substitute SARs for outstanding Options granted to any Participant, provided that (i) the substituted SARs call for settlement by the issuance of Shares or by the issuance of Shares or cash as determined by the Committee in its discretion, and (ii) the terms of the substituted SARs and economic benefit of such substituted SARs (including the difference between the Grant Price and Fair Market Value of the Shares associated with the SARs compared to the difference between the Option Price and Fair Market Value of the Shares underlying the Options) are equivalent to the terms and economic benefit of the Options being replaced, as determined by the Committee; provided, further, that the substituted SARs shall be consistent with the third paragraph of Section 7.1. The Committee may, based on a determination that this Section 6.10 creates adverse accounting consequences for the Company or otherwise, nullify this Section 6.10.

6.11 Dividends and Other Distributions. Holders of Options granted hereunder shall not be credited with dividends, dividend equivalents, or other additional rights or benefits on account of dividends declared or paid with respect to the underlying Shares, except as provided in Section 4.2.

Article 7. Stock Appreciation Rights

7.1 Grant of SARs. Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time and upon such terms as shall be determined by the Committee in its discretion. .

The SAR Grant Price for each grant of a SAR shall be determined by the Committee and shall be specified in the Award Agreement. The SAR Grant Price may include a Grant Price based on (i) one hundred percent (100%) of the FMV of the Shares on the date of grant, (ii) a Grant Price that is set at a premium to the FMV of the Shares on the date of grant, or (iii) is indexed to (but in no event less than 100% of) the FMV of the Shares on the date of grant, with the index determined by the Committee, in its discretion.

The compensation payable under the SAR shall not exceed the excess of the FMV of the Shares underlying the Options (disregarding any lapse restrictions) on the date the SARs are exercised over the amount specified on the date of grant. The number of Shares subject to the SARs must be fixed on or before the date of grant, the exercise price of the SARs may not be less than the FMV of the Shares underlying the SARs (disregarding any lapse restrictions) on the date of grant. The terms of the SARs may not permit the deferral of compensation from the SARs beyond the date the SARs are exercised.

7.2 SAR Agreement. Each SAR Award shall be evidenced by an Award Agreement that shall specify the Grant Price, the term of the SAR, and any such other provisions as the Committee shall determine.

7.3 Term of SAR. The term of an SAR granted under the Plan shall be determined by the Committee, in its sole discretion, and reflected in the Award agreement. Except as otherwise determined by the Committee and specified in the SAR Award Agreement, no SAR shall be exercisable later than the tenth (10th) anniversary date of its grant.

7.4 Exercise of SARs. SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes.

7.5 Payment of SAR Amount. Upon the exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (a) The difference between the FMV of a Share on the date of exercise over the Grant Price; by
- (b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, Shares of equivalent value (based on the FMV on the date of exercise of the SAR, as defined in the Award Agreement or otherwise defined by the Committee), in some combination thereof, or in any other form approved by the Committee at its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth or reserved for later determination in the Award Agreement pertaining to the grant of the SAR.

7.6 Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment with the Company or Affiliates. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

7.7 Nontransferability of SARs. Except for transfers without consideration for which the Committee may provide in a Participant's Award Agreement or otherwise, each SAR granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement or otherwise by the Committee consistent with this Section 7.7, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

7.8 Other Restrictions. Without limiting the generality of any other provision of this Plan, the Committee may impose such other conditions and/or restrictions on any Shares received upon exercise of an SAR granted pursuant to the Plan as it may deem advisable. This includes, but is not limited to, requiring the Participant to hold the Shares received upon exercise of an SAR for a specified period of time.

7.9 Dividends and Other Distributions. Holders of SARs granted hereunder shall not be credited with dividends, dividend equivalents, or other additional rights or benefits on account of dividends declared or paid with respect to the underlying Shares, except as provided in Section 4.2.

Article 8. Restricted Stock and Restricted Stock Units

8.1 Grant of Restricted Stock or Restricted Stock Units. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock and/or Restricted Stock Units to Participants in such amounts and upon such terms as the Committee shall determine.

8.2 Restricted Stock or Restricted Stock Unit Agreement. Each Restricted Stock and/or Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, and any such other provisions as the Committee shall determine.

8.3 Nontransferability of Restricted Stock and Restricted Stock Units. Except for transfers without consideration for which the Committee may provide in a Participant's Award Agreement or otherwise, each of the Shares of Restricted Stock and/or Restricted Stock Units granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction specified in the Award Agreement (and in the case of Restricted Stock Units until the date of delivery or other payment), or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Award Agreement or otherwise. All rights with respect to the Restricted Stock and/or Restricted Stock Units granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant, except as provided in the Award Agreement or otherwise by the Committee consistent with this Section 8.3.

8.4 Other Restrictions. The Committee shall impose, in the Award Agreement or otherwise, such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to this Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance criteria, time-based restrictions on vesting following the attainment of the performance criteria, time-based restrictions, restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units.

To the extent deemed appropriate by the Committee subject to Section 18.5, the Company may retain any certificates issued to represent Shares of Restricted Stock, or Shares delivered in consideration of Restricted Stock Units, in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied or lapse and appropriate taxes are paid. The Company may make appropriate notations in any book entry register of the restrictions on transferability and potential for forfeiture.

Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and

restrictions applicable to such Shares have been satisfied or lapse, and Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Committee, in its sole discretion shall determine.

8.5 Certificate Legend. In addition to any legends placed on certificates pursuant to Section 8.4 herein, each certificate representing Shares of Restricted Stock granted pursuant to the Plan may bear a legend such as the following (or legend of similar effect determined by the Committee):

The sale or other transfer of the Shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Brighthouse Financial, Inc. 2017 Stock and Incentive Compensation Plan, and in the associated Award Agreement. A copy of the Plan and such Award Agreement may be obtained from Brighthouse Financial, Inc.

8.6 Voting Rights. To the extent required by law, Participants holding Shares of Restricted Stock granted hereunder shall be granted the right to exercise full voting rights with respect to those Shares during the Period of Restriction. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

8.7 Dividends and Other Distributions. During the Period of Restriction, Participants holding Shares of Restricted Stock or Restricted Stock Units granted hereunder may, if the Committee so determines, be credited with dividends paid with respect to the underlying Shares or dividend equivalents while they are so held in a manner determined by the Committee in its sole discretion. The Committee may apply any restrictions to the dividends or dividend equivalents that the Committee deems appropriate. The Committee, in its sole discretion, may determine the form of payment of dividends or dividend equivalents, including cash, Shares, Restricted Stock, or Restricted Stock Units.

8.8 Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following termination of the Participant's employment with the Company or Affiliates. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock or Restricted Stock Units issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

8.9 Payment in Consideration of Restricted Stock Units. When and if Restricted Stock Units become payable, a Participant having received the grant of such units shall be entitled to receive payment from the Company in cash, Shares of equivalent value (based on the FMV, as defined in the Award Agreement at the time of grant or otherwise by the Committee), in some combination thereof, or in any other form determined by the Committee at its sole discretion. The Committee's determination regarding the form of payout shall be set forth or reserved for later determination in the Award Agreement pertaining to the grant of the Restricted Stock Unit.

Article 9. Performance Shares and Performance Units

9.1 Grant of Performance Shares and Performance Units. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Shares and/or Performance Units to Participants in such amounts and upon such terms as the Committee shall determine.

9.2 Value of Performance Shares and Performance Units. Each Performance Share shall have an initial value equal to the FMV of a Share on the date of grant. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant and, to the extent the Committee establishes such initial value with relation to the value of a Share, shall have an initial value equal to the FMV of a Share on the date of grant. The Committee shall set performance criteria for a Performance Period in its discretion which, depending on the extent to which they are met, will determine, in the manner determined by the Committee and documented in the Award Agreement, the value and/or number of each Performance Share or Performance Unit that will be paid to the Participant.

9.3 Earning of Performance Shares and Performance Units. Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Shares/Performance Units shall be entitled to receive payout on the value and number of Performance Shares/Performance Units determined as a function of the extent to which the corresponding performance criteria have been achieved. Notwithstanding the foregoing, the Company has the ability to require the Participant to hold the Shares received pursuant to such Award for a specified period of time.

9.4 Form and Timing of Payment of Performance Shares and Performance Units. Payment of earned Performance Shares/Performance Units shall be as determined by the Committee and as evidenced in the Award Agreement. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Shares/Performance Units in the form of cash or in Shares (or in a combination thereof) equal to the value of the earned Performance Shares/Performance Units at the close of the applicable Performance Period. Any Shares may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award or reserved for later determination.

9.5 Dividends and Other Distributions. Except as provided in Section 4.2, no one holding Performance Shares or Performance Units will receive dividends, dividend equivalents, or other additional rights or benefits on account of dividends declared or paid with respect to the Shares.

9.6 Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Performance Shares/Performance Units following termination of the Participant's employment with the Company or an Affiliate. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Performance Shares/Performance Units issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

9.7 Nontransferability of Performance Shares and Performance Units. Except for transfers without consideration for which the Committee may provide in a Participant's Award Agreement or otherwise, each Performance Share/Performance Unit granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement or otherwise by the Committee consistent with this Section 9.7, a Participant's rights under the Plan shall inure during his or her lifetime only to such Participant.

Article 10. Cash-Based Awards and Stock-Based Awards

10.1 Grant of Cash-Based Awards. Subject to the terms and provisions of this Plan, the Committee, at any time and from time and time, may grant Cash-Based Awards to Participants in such amounts and upon such terms as the Committee may determine.

10.2 Value of Cash-Based Awards. Each Cash-Based Award shall have a value as may be determined by the Committee. For each Cash-Based Award, the Committee may establish performance criteria in its discretion. If the Committee exercises its discretion to establish such performance criteria, the number and/or value of Cash-Based Awards that will be paid out to the Participant will be determined, in the manner determined by the Committee, by the extent to which the performance criteria are met.

10.3 Payment in Consideration of Cash-Based Awards. Subject to the terms of this Plan, the holder of a Cash-Based Award shall be entitled to receive payout on the value of Cash-Based Award determined as a function of the extent to which the corresponding performance criteria, if any, have been achieved.

10.4 Form and Timing of Payment of Cash-Based Awards. Payment of earned Cash-Based Awards shall be as determined by the Committee and evidenced in the Award Agreement. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Cash-Based Awards in the form of cash or in Shares (or in a combination thereof) that have an aggregate FMV equal to the value of the earned Cash-Based Awards (the applicable date regarding which aggregate FMV shall be determined by the Committee). Such Shares may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

10.5 Stock-Based Awards. The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions including, but not limited to being subject to performance criteria, or in satisfaction of such obligations, as the Committee shall determine. Such Awards may entail the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

10.6 Termination of Employment. Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive Cash-Based Awards and Stock-Based Awards following termination of the Participant's employment with the Company or Affiliates. Such provisions shall be

determined in the sole discretion of the Committee, shall be included in the applicable Award Agreement, need not be uniform among all Awards of Cash-Based Awards and Stock-Based Awards issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

10.7 Nontransferability of Cash-Based Awards and Stock-Based Awards. Except for transfers without consideration for which the Committee may provide in a Participant's Award Agreement or otherwise, each Cash-Based Award and Stock-Based Award granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement or otherwise by the Committee consistent with this Section 10.7, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant.

Article 11. Performance-Based Compensation and Performance Measures

The Committee may condition the vesting or payment of an Award on the attainment of one or more Performance Goals, as determined by the Committee in its discretion. Each Performance Measure, subject to any other provisions of this Article 11 and the Plan and to the extent applicable, may be calculated in accordance with generally accepted accounting principles applicable to the Company, statutory accounting principles, or in a manner consistent with the Company's publicly disclosed calculation method for the specified measure. Each Award subject to a Performance Measure will be adjusted to such method of calculation as may be provided by the Committee in any Award Agreement or otherwise connection with the establishment of or any evaluation of attainment of a Performance Goal, including:

- (a) Capital targets (including but not limited to, VA target funding and risk based capital ratios);
- (b) Cash flow (including but not limited to, free cash flow, gross cash flow, statutory cash flow and return on capital measured on a consolidated basis or by Company/Affiliate);
- (c) Customer satisfaction;
- (d) Decrease in fixed expenses;
- (e) Earnings before or after taxes, interest, depreciation, and/or amortization and including/excluding capital gains and losses;
- (f) Earnings per share;
- (g) Gross or operating margins;
- (h) Growth of assets under management;
- (i) Expense targets or ratio or other expense-related target measures;
- (j) Net earnings or net income (before or after taxes);
- (k) Net sales and/or sales growth;
- (l) Net operating earnings;
- (m) Operating earnings (on a consolidated basis or by Company/Affiliate);
- (n) Operating earnings per share;
- (o) Operating efficiency (including but not limited to, decreases in operating expense);
- (p) Operating return on equity;
- (q) Productivity ratios;

- (r) Ratings from rating agencies (including but not limited to, maintaining a minimum rating or an increase in rating)
- (s) Return measures (including, but not limited to, return on assets, capital, equity, or sales);
- (t) Revenue Growth;
- (u) Share price (may include, but is not limited to, growth measures and total shareholder return);
- (v) Value of new business (VNB).

Any Performance Measure(s) may be used to measure the performance of the Company as a whole or any business unit of the Company or any individual Affiliate of the Company or any combination thereof, as the Committee may deem appropriate, or any of the above Performance Measures as compared to the performance of a group of comparator companies, or published or special index that the Committee, in its sole discretion, deems appropriate. In the Award Agreement, the Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of Performance Goal(s).

The Committee may provide in any Award Agreement or otherwise in connection with an Award that any evaluation of attainment of a Performance Goal may include or exclude any of the following events that occurs during the relevant period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (d) any reorganization and restructuring programs; (e) extraordinary nonrecurring items, including but not limited to those described in Accounting Standards Codification 225-20, *Income Statement: Extraordinary and Unusual Items* and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year; (f) acquisitions or divestitures; and (g) defined and publicly disclosed loss mitigation strategies that improve Company solvency but may impact performance.

To the extent that applicable securities laws permit Committee discretion to alter the governing Performance Measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval.

All Performance Measures not defined in this Plan are as defined in the effective Form 10 filed by Brighthouse Financial, Inc. or alternatively, if the definition of a Performance Measure is modified added or updated by later financial statements (including but not limited to the Quarterly Financial Statement or any equivalent), then as defined in the financial statements of the Company (subject to any modifications made by the Committee, in its discretion, in the resolution setting the Performance Goals for any Performance Period or in the Award Agreement).

Article 12. Beneficiary Designation

A Participant's "beneficiary" is the person or persons entitled to receive payments or other benefits or exercise rights that are available under the Plan in the event of the Participant's death. To the extent permitted by the Committee in the Award Agreement or otherwise, a Participant may designate a beneficiary or change a previous beneficiary designation at such times prescribed by the

Committee by using forms and following procedures approved or accepted by the Committee for that purpose. Except to the extent otherwise determined by the Committee in the Award Agreement or otherwise, if no beneficiary designated by the Participant is eligible to receive payments or other benefits or exercise rights that are available under the Plan at the Participant's death then the beneficiary shall be the individual named by the Participant as the beneficiary for their employer-provided life insurance coverage. If there is no beneficiary for employer-provided life insurance coverage for any reason, then the beneficiary shall be the Participant's estate.

Notwithstanding the provisions above, the Committee may in its discretion, after notifying the affected Participants, modify the foregoing requirements, institute additional requirements for beneficiary designations, or suspend the existing beneficiary designations of living Participants or the process of determining beneficiaries under this Article 12, or both, in favor of another method of determining beneficiaries.

Article 13. Rights of Employees

13.1 Employment. Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or an Affiliate to terminate any Participant's employment or other service relationship at any time, nor confer upon any Participant any right to continue in the capacity in which he or she is employed or otherwise serves the Company or an Affiliate.

Neither an Award nor any benefits arising under this Plan shall constitute part of an employment contract with the Company or an Affiliate and, accordingly, subject to the terms of this Plan, this Plan may be terminated or modified at any time in the sole and exclusive discretion of the Committee without giving rise to liability on the part of the Company or an Affiliate for severance payments or otherwise except as provided in this Plan.

For purposes of the Plan, unless otherwise provided by the Committee, transfer of employment of a Participant between the Company and an Affiliate or among Affiliates, shall not be deemed a termination of employment. The Committee may stipulate in a Participant's Award Agreement or otherwise the conditions under which a transfer of employment to an entity that is spun-off from the Company or an Affiliate or a vendor to the Company or an Affiliate, if any, shall not be deemed a termination of employment for purposes of an Award.

13.2 Participation. No Employee shall have the right to be selected to receive an Award. No Employee, having been selected to receive an Award, shall have the right to be selected to receive a future Award or (if selected to receive such a future Award) the right to receive such a future Award on terms and conditions identical or in proportion in any way to any prior Award.

13.3 Rights as a Shareholder. A Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

Article 14. Change of Control

14.1 Alternative Awards. Notwithstanding Section 14.2 below, no cancellation, acceleration of vesting, lapsing of restrictions, payment of Award, cash settlement or other payment

shall occur with respect to any Award if the Committee reasonably determines in good faith prior to the occurrence of a Change of Control that such Award shall be honored or assumed, or new rights substituted therefor (such honored, assumed or substituted Award hereinafter called an "Alternative Award") by any successor as described in Article 17; provided that any such Alternative Award must:

- (a) Be based on stock which is traded on an established U.S. securities market, or that the Committee reasonably believes will be so traded within sixty (60) days after the Change of Control;
- (b) Provide such Participant with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Award, including, but not limited to, an identical or better exercise or vesting schedule and identical or better timing and methods of payment;
- (c) Have substantially equivalent economic value to such Award (determined at the time of the Change of Control); and
- (d) Have terms and conditions which provide that in the event that the Participant's employment is involuntarily terminated or Constructively Terminated, any conditions on a Participant's rights under, or any restrictions on transfer or exercisability applicable to, each such Alternative Award shall be waived or shall lapse, as the case may be.

14.2 Accelerated Vesting and Payment. Subject to the provisions of Section 14.1 or as otherwise provided in the Award Agreement, in the event of a Change of Control, unless otherwise specifically prohibited under law or by the rules and regulations of a national security exchange:

- (a) Any and all Options and SARs granted hereunder shall become immediately exercisable; additionally, if a Participant's employment is involuntarily terminated for any reason except Cause within twelve (12) months following such Change of Control, the Participant shall have until the earlier of (i) twelve (12) months following such termination date, or (ii) the term of the Option or SAR, to exercise such Options or SARs;
- (b) Any Period of Restriction and other restrictions imposed on Restricted Stock or Restricted Stock Units shall lapse, and Restricted Stock Units shall be immediately payable;
- (c) The target payout opportunities attainable under all outstanding Awards of performance-based Restricted Stock, performance-based Restricted Stock Units, Performance Units, and Performance Shares (including but not limited to Awards intended to be Performance-Based Compensation) shall be deemed to have been fully earned based on targeted performance being attained as of the effective date of the Change of Control:

- (i) The vesting of all Awards denominated in Shares shall be accelerated as of the effective date of the Change of Control, and shall be paid out to Participants within thirty (30) days following the effective date of the Change of Control; and
 - (ii) Awards denominated in cash shall be paid to Participants in cash within thirty (30) days following the effective date of the Change of Control;
- (d) Upon a Change of Control, unless otherwise specifically provided in a written agreement entered into between the Participant and the Company or an Affiliate, the Committee shall immediately vest and pay out all Cash-Based Awards and Other Stock-Based Awards as determined by the Committee; and

The Committee shall have the ability to unilaterally determine that all outstanding Awards are cancelled upon a Change of Control, and the value of such Awards, as determined by the Committee in accordance with the terms of the Plan and the Award Agreement, be paid out in cash in an amount based on the Change of Control Price within a reasonable time subsequent to the Change of Control; provided, however, that no such payment shall be made on account of an Option or SAR using a value higher than the FMV on the date of settlement. In the event the Change in Control Price is less than or equal to the Option Price of an Option or the Grant Price of a SAR, such Option or SAR may be canceled without payment.

Article 15. Amendment, Modification, Suspension, and Termination

15.1 Amendment, Modification, Suspension, and Termination. The Committee or Board may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan in whole or in part; provided, however, that:

- (a) Without the prior approval of the Company's shareholders, Options and SARs issued under the Plan will not be repriced, replaced, or regranted through cancellation or by lowering the exercise price of a previously granted Option or SAR or the grant of another Award or payment in cash in substitution of such Options or SARs.
- (b) To the extent necessary under any applicable law, regulation or exchange requirement, no amendment shall be effective unless approved by the shareholders of the Company in accordance with applicable law, regulation, or exchange requirement.

15.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (other than those described in Section 4.2 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The determination of the

Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

15.3 Awards Previously Granted. Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award. Notwithstanding the prior sentence, any discretionary actions reserved to the Committee under the Plan, Award Agreements and any administrative rules documents are deemed not to adversely affect Award holder rights and do not need written consent of the Participant.

Article 16 Withholding

The Company or any Affiliate shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company or any Affiliate, an amount sufficient to satisfy federal, state, and local taxes, domestic or foreign (including the Participant's FICA or other employment tax obligations or tax penalties that can be assessed against the participant including those under Section 409A of the Code), that the Company or any Affiliate determines is required by law or regulation to be withheld with respect to any taxable event arising or as a result of this Plan. The Committee may provide for Participants to satisfy withholding requirements by having the Company withhold Shares, or withholding taxes from other compensation available and payable to the Participant. Alternatively, the Participant may make other arrangements for the payment of taxes, in either case on such conditions as the Committee specifies.

Article 17. Successors

Any obligations of the Company or an Affiliate under the Plan with respect to Awards granted hereunder, shall be binding on any successor to the Company or Affiliate, respectively, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company or Affiliate, as applicable.

Article 18. General Provisions

18.1 Forfeiture Events. Without limiting in any way the generality of the Committee's power to specify any terms and conditions of an Award consistent with law, and for greater clarity, the Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of events in addition to any otherwise applicable vesting or performance conditions of an Award, to the extent consistent with law. Such events shall include, but shall not be limited to, failure to accept the terms of the Award Agreement, termination of employment under certain or all circumstances, violation of material Company and Affiliate policies, breach of noncompetition, confidentiality, nonsolicitation, noninterference, corporate property protection, or other agreement that may apply to the Participant, other conduct by the Participant that is detrimental to the business or reputation of the Company and Affiliates or in conditions under which the Participant is subject to compensation recoupment under any such policy in effect from time to time. If all or any portion of an Award granted under the Plan, or the delivery of Shares pursuant thereto, would fail to comply

with applicable law, listing rule or other regulation, such Award may be settled in cash in the sole discretion of the Committee.

18.2 Legend. The certificates for Shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

18.3 Delivery of Title. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:

- (a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
- (b) Completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

18.4 Investment Representations. The Committee may require each Participant receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the Participant is acquiring the Shares for investment and without any present intention to sell or distribute such Shares or make such other representations, warranties, or covenants that the Committee shall determine to be necessary or appropriate to assure that the grant, terms, and/or payment of any Award complies with applicable law.

18.5 Uncertificated Shares. To the extent that the Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a noncertificated basis to the extent not prohibited by applicable law or the rules of any stock exchange.

18.6 Unfunded Plan. Participants shall have no right, title, or interest whatsoever in or to any investments that the Company or an Affiliate may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company or an Affiliate and any Participant, beneficiary, legal representative, or any other person. Awards shall be general, unsecured obligations of the Company, except that if an Affiliate executes an Award Agreement instead of the Company (including, without limitation, with respect to an Award to an Employee outside the United States or otherwise) the Award shall be a general, unsecured obligation of the Affiliate and not any obligation of the Company. To the extent that any individual acquires a right to receive payments from the Company or an Affiliate, such right shall be no greater than the right of an unsecured general creditor of the Company or Affiliate, as applicable. All payments to be made hereunder shall be paid from the general funds of the Company or Affiliate, as applicable, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan. The Plan is not intended to be subject to ERISA.

18.7 No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award Agreement. In such an instance, unless the Committee determines to round

payments up to the nearest whole Share, determines that payment shall be made in cash, or determines otherwise, fractional Shares and any rights thereto shall be forfeited or otherwise eliminated.

18.8 Other Compensation and Benefit Plans. Nothing in this Plan shall be construed to limit the right of the Company or an Affiliate to establish other compensation or benefit plans, programs, policies, or arrangements. Except as may be otherwise specifically stated in any other benefit plan, policy, program, or arrangement, no Award shall be treated as compensation for purposes of calculating a Participant's rights, accruals or benefits under any such other plan, policy, program, or arrangement.

18.9 No Constraint on Corporate Action. Nothing in this Plan shall be construed (i) to limit, impair or otherwise affect the Company's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets, or (ii) to limit the right or power of the Company or an Affiliate to take any action which such entity deems to be necessary or appropriate.

Article 19. Legal Construction

19.1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

19.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

19.3 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. The Company or an Affiliate shall receive the consideration required by law for the issuance of Awards under the Plan.

The inability of the Company or an Affiliate to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's or the Affiliate's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company or Affiliate of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

To the extent that Code Section 409A applies to an Award under this Plan, this Plan and all of the terms of that Award are intended to comply with Code Section 409A and shall be interpreted accordingly.

19.4 Governing Law. The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

NON-MANAGEMENT DIRECTOR RESTRICTED STOCK UNIT AGREEMENT

Brighthouse Financial, Inc. (the “Company”) confirms that, on **[grant date]** (the “Grant Date”), it granted you, **[name]**, **[number]** Restricted Stock Units.

Your Restricted Stock Units are subject to the terms and conditions of the Brighthouse Financial, Inc. 2017 Non-Management Director Stock Compensation Plan (the “Director Plan”) and this Restricted Stock Unit Agreement (this “Agreement”), which includes the Award Agreement Supplement (the “Supplement”). All capitalized terms used in this document that are not defined herein are defined in the Director Plan. Please note that the Director Plan and the Supplement include terms for forfeiture of your Restricted Stock Units under certain circumstances.

The Period of Restriction for your Restricted Stock Units granted under this Agreement will begin on the Grant Date and will end on the earlier of (i) the first anniversary of the Grant Date and (ii) the date of the Company’s next Annual Meeting of Stockholders following the Grant Date.

Restricted Stock Units will be due and payable in the form of Shares, or in any other form of payment that the Committee determines in accordance with the Director Plan, as soon as administratively practicable after the conclusion of the Period of Restriction.

The timing of payment is specified in the Director Plan and in Supplement Section S-6 (“Timing of Payment”).

IN WITNESS WHEREOF, Brighthouse Financial, Inc. has caused this Agreement to be offered to you, and you have accepted this Agreement by the electronic means made available to you.

NON-MANAGEMENT DIRECTOR AWARD AGREEMENT SUPPLEMENT

This Award Agreement Supplement (this “Supplement”) provides terms that are part of your Award Agreement (the “Agreement”) under the Brighthouse Financial, Inc. 2017 Non-Management Director Stock Compensation Plan (the “Director Plan”). In this Supplement, “Award” refers to the Restricted Stock Units, Stock Options, or Restricted Units that are the subject of the Award Agreement. All capitalized terms used in this document that are not defined herein are defined in the Director Plan document.

S-1. Change of Status. The Director Plan describes how various events affect your Award.

S-2. Change of Control. The Director Plan describes how a Change of Control will affect your Award.

S-3. Nontransferability of Award. Except as provided in Section S-4, the Director Plan or as otherwise permitted by the Committee, you may not sell, transfer, pledge, assign or otherwise alienate or hypothecate any of your Award, and all rights with respect to your Award are exercisable during your lifetime only by you.

S-4. Payment to Estate or Beneficiary Designation. You may name one or more beneficiary or beneficiaries who may then exercise any right under the Agreement in the event of your death. Each beneficiary designation for such purpose will revoke all such prior designations. Beneficiary designations must be properly completed on a form prescribed by the Committee and must be filed with the Company during your lifetime. If you have not designated a beneficiary at the time of your death, then the beneficiary shall be your estate.

S-5. Adjustments. The Committee will make appropriate adjustments in the terms and conditions of your Award as provided in Section 4.2 of the Director Plan and may make adjustments in the terms and conditions of your Award as provided in Section 11.2 of the Director Plan. The Committee’s determinations in this regard will be conclusive.

S-6. Timing of Payment. To the extent applicable, the Agreement is intended to comply with Code Section 409A and shall be interpreted accordingly.

(a) If payment is due and payable for Awards that are Restricted Stock Units, payment will be made no later than March 15 of the calendar year after the expiration of the applicable Period of Restriction. However, if you have elected to defer payment of your Restricted Stock Units under a deferred compensation plan offered by the Company or its affiliate, then payment of the Restricted Stock Units shall be made in accordance with such deferred compensation plan.

(b) If payment is due and payable due to your death, it will be made upon your death.

(c) Subject to Section S-6(d) below, if payment is due and payable due to a Change of Control:

(1) if the Change of Control that causes payment to be due and payable is a “change of control” as defined under Code Section 409A, such sum shall be paid to you within thirty (30) days after the Change of Control; or

(2) if the Change of Control that causes payment to be due and payable is not a “change of control” as defined under Code Section 409A, such sum shall be paid to you at the time determined under Section S-6(a) on the same basis as if the Standard Terms applied.

(d) If prior to the Change of Control the Committee has reasonably determined in good faith that you have been granted an Alternative Award pursuant to Section 15.1 of the Director Plan, the terms of Section S-6(c) will not apply. Any such Alternative Award shall not accelerate the timing of payment or otherwise violate Code Section 409A.

S-7. Closing Price. For purposes of the Agreement, Closing Price will mean the closing price of a Share as reported in the principal consolidated transaction reporting system for the National Association of Securities Dealers Automated Quotations (or on such other recognized quotation system on which the trading prices of the Shares are quoted at the relevant time), or in the event that there are no Share transactions reported on such tape or other system on the applicable date, the closing price on the immediately preceding date on which Share transactions were reported. Closing Price shall constitute “Fair Market Value” under the Director Plan for all purposes related to your Award.

S-8. Governing Law; Choice of Forum. The Agreement will be construed in accordance with and governed by the laws of the State of Delaware, regardless of the law that might be applied under principles of conflict of laws. Except as otherwise provided in the Company’s Amended and Restated Certificate of Incorporation or Amended and Restated Bylaws, any action to enforce the Agreement or any action otherwise regarding the Agreement must be brought in a court in the State of New York to which jurisdiction the Company and you consent.

S-9. Miscellaneous.

(a) For purposes of the Agreement, “Committee” includes any direct or indirect delegate of the Committee as defined in the Director Plan and (unless otherwise indicated) the word “Section” refers to a Section in the Agreement. Any other capitalized word used in the Agreement and not defined in the Agreement, including each form of that word, is defined in the Director Plan.

(b) Any determination or interpretation by the Committee pursuant to the Agreement will be final and conclusive. In the event of a conflict between any term of the Agreement and the terms of the Director Plan, the terms of the Director Plan control. The Agreement and the Director Plan represent the entire agreement between you and the Company, and you and all Affiliates, regarding your Award. No promises, terms, or agreements of any kind regarding your Award that are not set forth, or referred to, in the Agreement or in the Director Plan are part of the Agreement. In the event any provision of the Agreement is held illegal or invalid, the rest of the Agreement will remain enforceable.

(c) Your Award is not Shares and do not give you the rights of a holder of Shares. You will not be credited with anything additional with respect to your Award on account of any dividend paid on Shares.

(d) The Committee may, in its discretion, settle an Award otherwise payable in Shares instead in the form of cash, to the extent settlement in Shares is prohibited by law or would require you or the Company to obtain the approval of any governmental and/or regulatory body. The Committee may, in its discretion, require you at any time to immediately sell Shares you acquire under the Agreement, in which case, the Company shall have the authority to issue sales instructions in relation to such Shares on your behalf. If the Committee determines that applicable law requires that you receive fewer Shares or a lesser amount of cash than that otherwise determined under the terms of the Agreement, you will receive that number of Shares or amount of cash the Committee determines is due under applicable law. No Shares will be issued or no cash will be paid if that issuance or payment would result in a violation of applicable law, including United States securities laws and any other applicable securities laws.

(e) The issuance of Shares or payment of cash pursuant to your Award is subject to all applicable laws, rules and regulations, and to any approvals by any governmental agencies or national securities exchanges as may be required. The Company's grant of the Award to you is not intended to be a public offering of securities outside the United States, and the Company has not submitted any registration statement, prospectus, or other securities filing with authorities outside the United States, except where required by law. Your Award has not been, and will not be, reviewed by or registered with any securities authorities outside the United States

(f) You agree to repatriate all payments under the Agreement or cash attributable to Shares you acquire under the Agreement to the extent required under any applicable legal requirements, such as foreign exchange rules and regulations in your country of residence or country of employment.

(g) Your Award is subject to any Company compensation recoupment policy in effect from time to time.

(h) You acknowledge that the ultimate liability for all such taxes is and remains your responsibility (or that of your beneficiary or estate) and that neither the Company nor any Affiliate makes any representations or undertakings regarding the treatment of any tax withholding in connection with any aspect of any of your Award, including the grant or payment on account of the Award, and that neither the Company nor any Affiliate commits to structure the terms of the grant of or any aspect of any Award to reduce or eliminate your (or you estate's or any heir's) liability for such tax. You agree to take any and all actions as may be required to comply with your personal tax obligations.

(i) You agree that the Agreement and any other documents related to the Director Plan or your Award are to be presented to you in English, except where prohibited by law. If any such document is translated into a language other than English, the English version will control, to the extent permitted by applicable law.

(j) The collection, processing and transfer of your personal data (collectively “Data Handling”) is necessary for the Company’s administration of the Director Plan, the Agreement and your Award, and such Data Handling shall be done consistent with applicable law, the data privacy consents, if any, signed by you, and/or your local company’s governing policies with respect to data privacy.

(k) In accepting the Agreement, you acknowledge, to the extent allowed by law, that:

(1) the future Closing Price of Shares is unknown and cannot be predicted with certainty; and

(2) to the fullest extent permitted by law, no claim or entitlement to compensation or damages arises from termination of the Award or diminution in value of the Award and you irrevocably release the Company and each Affiliate from any such claim that may arise.

(l) The Company may impose other requirements as a condition of your Award, to the extent the Committee determines, in its discretion, that such other requirements are necessary or advisable in order to comply with law or facilitate the operation or administration of the Agreement, your Award, or the Director Plan. To the extent the Company determines in its discretion that you are required to execute any document or undertaking for this purpose, you agree to do so.

S-10. Amendments. The Committee has the exclusive right to amend the Agreement as long as the amendment does not adversely affect any of your previously-granted Awards in any material way (without your written consent) and is otherwise consistent with the Director Plan. The Company will give written notice to you (or, in the event of your death, to your beneficiary or estate) of any amendment as promptly as practicable after its adoption.

S-11. Deadline to Accept. If you wish to accept the terms of the Agreement you must do so by the electronic means made available to you within sixty (60) days after receiving the Agreement. The Committee may, in its sole discretion, extend the time within which you may accept the Agreement.

Brighthouse Services, LLC**Deferred Compensation Plan for Non-Management Directors****Effective as of December 1, 2019**

1. Establishment and Purpose. The Company hereby establishes the Plan, as set forth in this document. The purpose of the Plan is to provide an opportunity for non-employee directors of Brighthouse, the indirect parent of the Company, to delay receipt of certain compensation until a later date, at which time payment of the compensation will be made after adjustment for the simulated investment experience of such compensation from the date of deferral. The Plan is unfunded and will be administered in compliance with Legal Deferral Requirements.
2. Definitions. Capitalized terms in this Plan, and their forms, shall have the following meanings:
 - 2.1 “Affiliate” shall mean any corporation, partnership, limited liability company, trust or other entity which directly, or indirectly through one or more intermediaries, controls, or is controlled by the Company.
 - 2.2 “Board” or “Board of Directors” means the Board of Directors of Brighthouse.
 - 2.3 “Brighthouse” shall mean Brighthouse Financial, Inc.
 - 2.4 “Cash Portion” shall mean the portion of the Deferred Compensation Account that corresponds to a Director’s cash fees that were deferred pursuant to a Deferral Election.
 - 2.5 “Change of Control” shall have the same meaning as in the Stock Compensation Plan.
 - 2.6 “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.
 - 2.7 “Company” shall mean Brighthouse Services, LLC.
 - 2.8 “Compensation” shall mean a Director’s cash fees and Restricted Stock Units, Restricted Stock, or Brighthouse common stock paid for services as a member of the Board.
 - 2.9 “Deferral Election” shall mean a written document executed by the Director specifying the Director’s instructions regarding the matters addressed by Section 4 of this Plan.
 - 2.10 “Deferred Compensation Account” shall mean a record-keeping account established for the benefit of a Participant to which Compensation deferred by a

Participant is credited in accordance with the terms of this Plan. The value of each Deferred Compensation Account shall be adjusted as provided in this Plan.

- 2.11 “Director” shall mean a non-employee member of the Board.
- 2.12 “Investment Tracking” shall mean the adjustment of value to reflect simulated investment performance of an Investment Tracking Fund or Brighthouse common stock.
- 2.13 “Investment Tracking Funds” shall mean those funds and vehicles described in Section 5 of this Plan.
- 2.14 “Legal Deferral Requirements” shall mean requirements under law to achieve deferral of income taxation, including but not limited to Code Section 409A and any regulations promulgated thereunder.
- 2.15 “Participant” shall mean each Director who has at any time deferred Compensation by operation of a Deferral Election under this Plan and has a Deferred Compensation Account in the Plan.
- 2.16 “Plan” shall mean this Brighthouse Services, LLC Deferred Compensation Plan for Non-Management Directors.
- 2.17 “Plan Administrator” shall mean the Plan Administrator of the Brighthouse Services, LLC Savings Plan and Trust, including any person to whom such office has been delegated consistent with such plan.
- 2.18 “Reallocation Election” shall mean a written document executed by the Participant specifying the Participant’s instructions regarding the matters addressed by Section 5 of this Plan.
- 2.19 “Stock Compensation Plan” shall mean the Brighthouse Financial, Inc. 2017 Non-Management Director Stock Compensation Plan, as amended from time to time, and any successor thereto.
- 2.20 “Stock Portion” shall mean the portion of the Deferred Compensation Account that corresponds to a Director’s Restricted Stock Units, Restricted Stock, or Brighthouse common stock that was deferred pursuant to a Deferral Election.
- 2.21 “Total Return” shall mean the change (plus or minus) in price or value, plus dividends (if any) on a reinvested basis, during the applicable period, less any management fees or other expenses applicable to the fund or investment serving as the basis for Investment Tracking Fund, as determined by the Plan Administrator in its discretion.
- 2.22 “Unforeseeable Emergency” shall mean severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the

Participant or a dependent of the Participant, casualty loss of the Participant's property, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, in any case that is not or cannot be relieved by the Participant through reimbursement or compensation by insurance or otherwise, liquidation of the Participant's assets (to the extent such liquidation would not itself cause severe financial hardship), and in any case solely to the extent consistent with the grounds for action by the Plan Administrator under Section 9 of this Plan consistent with Legal Deferral Requirements.

3. Plan Administration.

- 3.1 The Plan Administrator shall administer the Plan.
- 3.2 The Plan Administrator may establish, amend, and rescind administrative rules and regulations relating to the Plan, provide for conditions necessary or advisable to protect the interest of the Company and its Affiliates, construe all communications related to the Plan, and make all other determinations it deems necessary or advisable for the administration and interpretation of the Plan, which determinations need not be uniform for all Participants. The Plan Administrator may conform any provision of this Plan to the extent such provision is inconsistent with Legal Deferral Requirements.
- 3.3 Determinations, interpretations, and other actions made by the Plan Administrator shall be final, binding, and conclusive for all purposes and upon all individuals.
- 3.4 The Plan Administrator may prescribe forms as the sole and exclusive means for Participants to take actions authorized or allowed under the Plan. The Plan Administrator may issue communications to Directors and Participants as it deems necessary or appropriate in connection with the Plan (including but not limited to communications explaining the risks and potential benefits of the Investment Tracking Funds and Brighthouse common stock). Subject to the provisions of Sections 16 and 17 of this Plan, the Plan Administrator may, in its discretion, adjust the value of Deferred Compensation Accounts on a basis other than as prescribed in Deferral Elections or Reallocation Elections, including but not limited to the use of Investment Tracking Funds other than those selected by the Participant.
- 3.5 Except to the extent prohibited by law, communication by the Plan Administrator (or its delegate) of any document or writing, including any document or writing that must be executed by a party, may be in an electronic form of communication.
- 3.6 The Plan Administrator may appoint such agents, who may be officers or employees of the Company, as it deems necessary or appropriate to assist it in administering the Plan and may grant authority to such agents to execute documents and take action on its behalf. The Plan Administrator may consult such

legal counsel, consultants, or other professionals as it deems desirable and may rely on any opinion received from any such professional or from its agent.

4. Deferral Elections.

- 4.1 At such times as are determined by the Plan Administrator, each Director may complete and submit to the Plan Administrator a Deferral Election applicable to the Director's Compensation payable for services performed in the following calendar year. The Plan Administrator shall prescribe the form(s) of Deferral Election. Any such Deferral Election shall remain in effect for Compensation payable for services performed in subsequent calendar years until revoked or modified by the Director. This means that the same deferral election in effect for the first year a Director chooses to participate in the Plan (including the percentage of cash or equity deferred) will be carried forward to each subsequent calendar year unless revoked or modified by the Director within the approved enrollment time frame. Consequently, after the initial election by a Director the specific calendar year elected pursuant to Section 4.4 shall be increased by one each subsequent calendar year following the initial Deferral Election. The first such Deferral Election opportunity shall be offered in 2019 with respect to Compensation payable for services performed in 2020.
- 4.2 Notwithstanding Section 4.1, in the case of an individual who first becomes a Director after this Plan becomes effective, such Director may complete and submit to the Plan Administrator a Deferral Election applicable to the Director's Compensation payable for services performed after the Deferral Election is made. Such a Deferral Election must be made no later than 30 days after the date the individual becomes a Director and shall only apply to compensation earned after the date the Deferral Election is made. Any such Deferral Election shall remain in effect for Compensation payable for services performed in subsequent calendar years until revoked or modified by the Director as described in Section 4.1 above.
- 4.3 The Plan Administrator may offer a Participant the opportunity to indicate each or any of the following, either separately or in combination, in a Deferral Election:
- (a) the percentage, in 10% increments from 10% to 100%, of the Director's Compensation that consists of cash fees that the Director wishes to defer into a Deferred Compensation Account;
 - (b) the percentage, in 10% increments from 10% to 100%, of the Director's Compensation that consists of Restricted Stock Units, Restricted Stock, or Brighthouse common stock that the Director wishes to defer into a Deferred Compensation Account;
 - (c) the Investment Tracking Fund(s) that will be used to adjust the value of the Cash Portion of the Participant's Deferred Compensation Account;

- (d) the year in which the Participant wishes the payment of the Deferred Compensation Account to begin;
- (e) whether the Participant's Deferred Compensation Account is to be paid in a single lump sum or annual installments; and
- (f) if the Participant's Deferred Compensation Account is to be paid in annual installments, the number (not to exceed fifteen (15)) of such installments.

4.4 With respect to Section 4.3(d), each Deferral Election shall indicate the year in which the Director wishes to receive payment from a Deferred Compensation Account by indicating a specific calendar year that is at least three calendar years following the calendar year in which the Compensation subject to the Deferral Election would have otherwise been earned. The Deferral Election made under this Section 4.4 shall be binding and irrevocable and cannot be changed.

4.5 The Plan Administrator may, in its discretion, reject and/or reform any Deferral Election, in whole or in part, due to (a) inconsistency of the Deferral Election with this Plan; (b) inconsistency of the Deferral Election with compliance with legal requirements; (c) inconsistency of the Deferral Election with Legal Deferral Requirements; or (d) any other lawful basis.

4.6 A Deferral Election with respect to a Director's Restricted Stock Units, Restricted Stock, or Brighthouse common stock is an election to defer payment of the equity compensation until the date specified in the Deferral Election. The other terms and conditions of the applicable equity compensation, including vesting and forfeiture provisions if applicable, shall continue to apply until payment under the equity compensation would otherwise have been made under the terms of the equity compensation. Any payment of Brighthouse common stock pursuant to this Plan shall be made under the Stock Compensation Plan, under which such shares are authorized to be paid.

4.7 For purposes of applicable determinations pursuant to Legal Deferral Requirements, to the extent any Deferred Compensation Account is to be paid in annual installments, such payments shall constitute a single payment.

5. Cash Portion - Investment Tracking.

5.1 Except as provided in Section 3.4 of this Plan, the value of the Cash Portion of each Participant's Deferred Compensation Account shall be adjusted to reflect the simulated investment performance on a Total Return basis using the Investment Tracking Funds described in Section 5.2, on the same basis as if the value of such Deferred Compensation Accounts had been invested in such Investment Tracking Funds, for such period(s) of time determined under the Plan until they are paid. To the extent permitted by the Plan Administrator, each Participant may select from

among the Investment Tracking Funds for purposes of such valuation in the Participant's Deferral Election and Reallocation Elections.

5.2 The Plan Administrator shall determine in its discretion any method(s) of Investment Tracking that will be available from time to time. The methods of Investment Tracking described in or determined under this Section 5.2 shall be available for Deferral Elections and Reallocation Elections. To the extent the methods of Investment Tracking are changed, or otherwise as the Plan Administrator determines in its discretion, the Plan Administrator may require the Participant to make an appropriate change in the Participant's Investment Tracking or may unilaterally impose a method of Investment Tracking.

5.3 Reallocation Elections.

5.3.1 The Participant may change the Investment Tracking Funds used to adjust either (a) the value of new contributions to the Cash Portion of his/her Deferred Compensation Account, from the date(s) Compensation is deferred rather than paid; and/or (b) the value of the Participant's existing Cash Portion of the Deferred Compensation Account.

5.3.2 Unless the Plan Administrator determines otherwise, a Reallocation Election shall be effective on the first business day after it is received by the Plan Administrator.

6. Stock Portion – Investment Tracking. The Stock Portion of each Participant's Deferred Compensation Account shall be treated as invested in Brighthouse common stock. The Stock Portion of the Deferred Compensation Account will be credited with dividend equivalents at the same time and in the same amounts as an actual share of Brighthouse common stock is credited with dividends, and such dividend equivalents will be treated as immediately reinvested in additional Brighthouse common stock. A Participant will have no voting rights or other rights of a shareholder with respect to the Stock Portion of the Deferred Compensation Account. The Stock Portion of the Deferred Compensation Account will be subject to adjustment to the same extent that equity compensation is adjusted in accordance with Section 11.2 of the Stock Compensation Plan.

7. Beneficiary Designation. The Plan Administrator shall prescribe the form by which each Director and Participant may designate a beneficiary or beneficiaries (who may be named contingently, and among whom payments received under this Plan may be split as indicated by the individual) for purposes of receiving payment from the Participant's Deferred Compensation Account after the death of such Participant. Each designation will be effective only upon its receipt by the Plan Administrator during the life of the individual making the designation and shall revoke all prior beneficiary designations by that individual related to this Plan. If a Participant dies without a valid beneficiary designation, such Participant's Deferred Compensation Account will be paid as described in Section 8.6.

8. Payment of Deferred Compensation Accounts.

- 8.1 Cash Portion – Amount and Medium. Except as provided in Section 3.4 of this Plan, the amount of payment(s) from the Cash Portion of each Deferred Compensation Account shall reflect the value of such Cash Portion through the last business day of the month preceding the date each payment from the Cash Portion of the Deferred Compensation Account is payable, as adjusted for Investment Tracking. If payment from the Cash Portion of the Deferred Compensation Account is to be made in installments, then the amount of each installment will be determined by dividing the value of the Cash Portion at the time each payment is due by the remaining number of installments until the last such installment payment is made. The form of payment of the Cash Portion of the Deferred Compensation Accounts shall be cash.
- 8.2 Stock Portion – Amount and Medium. Payments from the Stock Portion of each Deferred Compensation Account shall equal the number of shares held as Investment Tracking on the date of payment, rounded down to the nearest whole share. If payment from the Stock Portion of the Deferred Compensation Account is to be made in installments, then the amount of each installment will be determined by dividing the number of shares held as Investment Tracking on the date of each payment by the remaining number of installments until the last such installment payment is made, rounding down to the nearest whole share for each payment. The form of payment of the Stock Portion of the Deferred Compensation Accounts shall be Brighthouse common stock. Notwithstanding the foregoing, the Plan Administrator may, in its sole discretion, determine to pay amounts held in the Stock Portion of the Deferred Compensation Account in the form of cash, in which case the value of the Stock Portion will be determined on the last day of the month preceding the payment date and converted to cash which shall be allocated to the Schwab Government Money Fund Tracking Fund. From that point forward, the amount of payment will be determined in the same manner as the Cash Portion of the Deferred Compensation Account as set forth in Section 8.1.
- 8.3 Timing and Form of Payments.
- 8.3.1 Distribution(s) from a Participant's Deferred Compensation Account shall begin upon the earlier of (a) May of the calendar year set forth in the Participant's Deferral Election or (b) within 60 days after the date on which the Participant incurs a separation from service within the meaning of Section 409A of the Code.
- 8.3.2 Notwithstanding any of the other terms of this Section 8.3, to the extent any of the Participant's Deferred Compensation Account is payable pursuant to Sections 9 or 10, payment shall be made in a single lump sum.

- 8.3.3 Payment(s) of a Participant's Deferred Compensation Account shall be made in accordance with the timing set forth in this Section 8.3, or at such other time after any delays in payment required under Legal Deferral Requirements have passed. In no event shall the Company, any Affiliate, or the Plan have any liability to anyone on account of payment being made later than the date payable due to administrative considerations or otherwise.
- 8.3.4 Notwithstanding any other terms of this Plan, no payment of any Deferred Compensation Account shall be made at a time inconsistent with Legal Deferral Requirements.
- 8.4 No Re-Deferrals. The timing for distribution of a Participant's Deferred Compensation Account set forth in Section 8.3 is not subject to change and no re-deferral of such Deferred Compensation Account will be permitted.
- 8.5 To Whom Paid. Except as otherwise provided in this Plan, all payments of a Participant's Deferred Compensation Account will be made to the Participant.
- 8.6 Payments Upon Death. If a Participant dies on any date prior to the date all required payments under the Plan have been made, all unpaid amounts in the Participant's Deferred Compensation Account shall be paid in a single lump sum in cash or equity or both, based on the amounts in the Cash Portion and Stock Portion of the Deferred Compensation Account and determined in the manner specified in Sections 8.1 and 8.2 for lump sum distributions, to the beneficiary designated by the Participant. Such payment will be made as soon as reasonably practicable following notification to the Plan Administrator of a Participant's death, but in no event later than the end of the calendar year following the calendar year of the Participant's death. If the Participant's designated beneficiary has not survived the Participant, or the Participant has designated no beneficiary for purposes of this Plan, such payment will be made to the Participant's estate.
- 8.7 Effect of Taxes. All tax liabilities arising out of deferrals under this Plan shall be the sole obligation of the Participant or his/her beneficiary, including but not limited to any tax liabilities arising out of Legal Deferral Requirements. Although payments under this Plan will not generally be subject to tax withholding, to the extent any payments are subject to tax or other withholding, the Plan Administrator is authorized to withhold from such payments to the extent required by law. Distributions of both the Cash Portion and Stock Portion will generally be tax reported on IRS Form 1099-MISC as "non-employee compensation" for the year of the distribution.
- 8.8 No Loans and Assignments. The Plan shall make no loan, including any loan on account of any Deferred Compensation Account, to any Participant or any other person nor permit any Deferred Compensation Account to serve as the basis or security for any loan to any Participant or any other person. Except as provided in Section 18, no Participant or any other person may sell, assign, transfer, pledge,

commute, or encumber any Deferred Compensation Account or any other rights under this Plan.

8.9 Recovery of Overpayments. In the event any payments under the Plan are made on account of a mistake of fact or law, the recipient shall return such payment or overpayment to the Company as requested by the Company.

9. Hardship Accommodations.

9.1 Upon the written request of a Director or Participant, the Plan Administrator may, in its discretion and in light of any facts or considerations it deems appropriate, find that the Director or Participant has suffered an Unforeseeable Emergency. In light of such a finding, the Plan Administrator may, to the extent the Plan Administrator determines necessary for the Director or Participant to address the Unforeseeable Emergency, (a) suspend the deferral of receipt of Compensation by the Director or Participant pursuant to a Deferral Election; and/or (b) to the extent the Plan Administrator finds, in its discretion, that such a suspension of deferral is insufficient to address the Participant's Unforeseeable Emergency, make payment of all or a portion of the Participant's Deferred Compensation Account. The Plan Administrator shall provide the Director or Participant with written notice of its determinations in response to the Director's or Participant's request. Notwithstanding any other provision of this Section 9, if other funds are available to the Director or Participant, the request under this Plan will not be considered.

9.2 The total amount of deferrals suspended or payment advanced shall not exceed the amount necessary to satisfy the financial consequences of the Unforeseeable Emergency plus any amounts necessary to pay any of the Participant's federal, state or local income taxes reasonably anticipated to result from such distribution and shall not exceed the total value of the Participant's Deferred Compensation Account under the Plan. In determining the amount to be distributed from the Plan on a finding of an Unforeseeable Emergency, the Plan Administrator shall consider the availability of funds from other sources to satisfy the Unforeseeable Emergency and shall offset those available amounts from the amount distributed from this Plan. No accommodation pursuant to this Section 9 shall be implemented in manner or at a time when prohibited or punishable by any applicable Affiliate policy or law.

9.3 If the Director or Participant participates in any other deferred compensation plan of the Company or an Affiliate, the Plan Administrator may coordinate the operation of this Section 9 with the operation or similar provisions of any such other plan, including but not limited to reducing the value of deferrals in ascending order of the value of deferrals in each plan beginning with the plan in which the individual's deferrals have the lowest value.

9.4 To the extent that the value of the Participant's Deferred Compensation Account is reduced, the value tracked according to each Investment Tracking Fund and

amount treated as invested in Brighthouse common stock shall be reduced proportionate to the total value of the Deferred Compensation Account being tracked in that Investment Tracking Fund and amount treated as invested in Brighthouse common stock.

10. Unilateral Payment Consistent with Law. In those circumstances permitted by law consistent with Legal Deferral Requirements, the Plan Administrator may, in its discretion, and regardless of the Participant's wishes, pay a Participant the value of the Participant's Deferred Compensation Account in whole or in part. No payment pursuant to this Section 10 shall be made in manner or at a time when prohibited or punishable by any applicable law.
11. Nature of Liability. All Deferred Compensation Accounts accrued under this Plan are unsecured obligations of the Company and any successor thereto, and are neither obligations, debts, nor liabilities of any other entity or party. This Plan and the liabilities created hereunder are unfunded. Investment Tracking, any other means for adjusting or communicating the value of Deferred Compensation Accounts, and any communication or documentation regarding this Plan or any Participant's Deferred Compensation Account are for recordkeeping purposes only and do not create any right, property, security, or interest in any assets of the Company or any other party. All Deferred Compensation Accounts accrued under this Plan are subject to the claims of general creditors of the Company or any Affiliate. Although the Plan is intended to be designed and administered in complete accordance with Legal Deferral Requirements, in no event shall the Company, any Affiliate, or the Plan have any liability to anyone for any taxes, penalties, or other losses on account of the Plan or its administration failing to comply with Legal Deferral Requirements.
12. No Guarantee of Directorship; No Limitation on Company Action. Nothing in this Plan shall interfere with or limit in any way the right of Brighthouse to establish the terms and conditions of a Director's services, including but not limited to the Director's compensation, or to terminate the services of a Director, nor confer on any Director the right to continue as a Director. Nothing in this Plan shall limit the right of the Company or Brighthouse to establish any other compensation or benefit plan. No Deferred Compensation Account shall be treated as compensation for purposes of a Participant's right under any other plan, policy, or program, except as stated or provided in such plan, policy, or program. Nothing in this Plan shall be construed to limit, impair, or otherwise affect the right of any entity to make adjustments, reorganizations, or changes to its capital or business structure, or to merge, consolidate, dissolve, liquidate, sell, or transfer all or any part of its business or assets.
13. Term of Plan. This Plan shall be effective with regard to Compensation payable on and after January 1, 2020 and shall continue in effect unless and until it is terminated pursuant to its terms. The Plan Administrator may solicit and receive Deferral Elections prior to the dates this Plan and any amended and restated terms and any amendment to the Plan are effective.

14. Governing Law. The Plan shall be governed by and construed in accordance with North Carolina law, without regard to its conflict of laws principles.
15. Entire Plan; Third Party Beneficiaries. This Plan document is the entire expression of the Plan, and no other oral or written communication, other than documents authorized under this Plan and fulfilling its express terms, shall determine the terms of the Plan or the terms of any agreement between a Director or Participant and an Affiliate with regard to the Plan or Deferred Compensation Accounts. There are no third-party beneficiaries to this Plan, other than Participants' respective beneficiaries designated under the terms of this Plan.
16. Amendment and Termination. To the extent permissible under law, including Legal Deferral Requirements, the Plan Administrator may amend, modify, suspend, or terminate this Plan at any time. Any such amendment or termination will not reduce the amount in Deferred Compensation Accounts accrued under this Plan prior to the execution of such amendment or termination.
17. Limitations on Amendment After a Change of Control. Notwithstanding any other provision of this Plan, no amendments can be made to this Plan after a Change of Control that would, in any way, reduce the amount in Deferred Compensation Accounts accrued under the Plan for any Participant as of the date the Change of Control occurred. Amendments to Investment Tracking Funds under this Plan after a Change of Control cannot eliminate all Investment Tracking Funds that have a fixed rate of return. The adjustment to the value of the Participant's Deferred Compensation Account under any such fixed Investment Tracking Funds may not fall below zero. Further, no amendments or modifications to the timing and form of distributions available under this Plan can be made after a Change of Control has occurred.
18. Domestic Relations Orders. The Plan Administrator shall designate or otherwise recognize the attachment of any portion of a Participant's Deferred Compensation Account in favor of the Participant's spouse or former spouse to the extent such action is mandated by the terms of a domestic relations order as defined in Section 414(p) of the Code, and otherwise as determined by this Plan. The Plan Administrator will distribute the portion so assigned in a lump sum to the spouse or former spouse in the calendar year following the year in which the order clearly specifies the amount to be assigned and any other terms necessary to comply with such order and Legal Deferral Requirements.

AMENDMENT NUMBER TWO
TO THE
BRIGHTHOUSE FINANCIAL, INC.
EMPLOYEE STOCK PURCHASE PLAN

The BRIGHTHOUSE FINANCIAL, INC. EMPLOYEE STOCK PURCHASE PLAN, as amended ("Plan"), is hereby amended as follows, effective as of December 13, 2019:

Background

WHEREAS, Section 9.13 of the Plan provides that the Plan shall terminate on January 1, 2020;

WHEREAS, the Plan Administrator has determined that it is appropriate, advisable and in the best interests of Brighthouse Financial, Inc. (the "Company") to amend the Plan to extend the term of the Plan to July 1, 2029, unless earlier terminated pursuant to the terms of the Plan; and

WHEREAS, the Compensation and Human Capital Committee of the Board of Directors of the Company has approved this amendment, effective as of December 13, 2019, subject to the approval of the Plan, as amended, by the shareholders of the Company.

Amendment

1. Term of the Plan. Section 9.13 of the Plan shall be amended and restated in its entirety to read as follows:

“Term of Plan. The Plan shall be effective upon the Effective Date. The Plan shall terminate on the earlier of (i) July 1, 2029, (ii) the termination of the Plan pursuant to Section 9.5, or (iii) when no more shares are available for issuance of Options under the Plan.”

2. No Other Effect on the Plan. In all other respects, the form, terms and provisions of the Plan remain unchanged and in full force and effect.

IN WITNESS WHEREOF, Brighthouse Financial, Inc. has caused this amendment to be executed in its name and behalf this 13th day of December 2019, by the Plan Administrator of the Plan thereunto duly authorized.

BRIGHTHOUSE FINANCIAL, INC.

By: /s/ Micah Dowling _____
Micah Dowling
Plan Administrator

Witness: /s/ Elyse Milito _____

SUBSIDIARIES OF BRIGHOUSE FINANCIAL, INC.
As of 12/31/2019

Name of Subsidiary	Jurisdiction of Incorporation of Organization
Brighthouse Assignment Company	Connecticut
Brighthouse Connecticut Properties Ventures, LLC	Delaware
Brighthouse Holdings, LLC	Delaware
Brighthouse Investment Advisers, LLC	Delaware
Brighthouse Life Insurance Company	Delaware
Brighthouse Life Insurance Company of NY	New York
Brighthouse Reinsurance Company of Delaware	Delaware
Brighthouse Renewables Holding, LLC	Delaware
Brighthouse Securities, LLC	Delaware
Brighthouse Services, LLC	Delaware
Daniel/Brighthouse Midtown Atlanta Master Limited Liability Company	Delaware
ML 1065 Hotel, LLC	Delaware
Euro TI Investments LLC	Delaware
Euro TL Investments LLC	Delaware
Greater Sandhill I, LLC	Delaware
New England Life Insurance Company	Massachusetts
The Prospect Company, LLC	Delaware
TIC European Real Estate LP, LLC	Delaware
TLA Holdings LLC	Delaware
TLA Holdings II LLC	Delaware
1075 Peachtree, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the below listed Registration Statements, of our reports dated February 26, 2020, relating to the financial statements and financial statement schedules of Brighthouse Financial, Inc., and the effectiveness of Brighthouse Financial, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Brighthouse Financial, Inc. for the year ended December 31, 2019.

Form S-3:

No. 333-227190

Form S-8:

No. 333-225197

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina

February 26, 2020

CERTIFICATIONS

I, Eric T. Steigerwalt, certify that:

1. I have reviewed this Annual Report on Form 10-K of Brighthouse Financial, Inc.;
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: February 26, 2020

/s/ Eric T. Steigerwalt

Eric T. Steigerwalt
President and Chief Executive Officer

CERTIFICATIONS

I, Edward A. Spehar, certify that:

1. I have reviewed this Annual Report on Form 10-K of Brighthouse Financial, Inc.;
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: February 26, 2020

/s/ Edward A. Spehar

Edward A. Spehar
Executive 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, to my knowledge, (i) Brighthouse Financial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of Brighthouse Financial, Inc.

Date: February 26, 2020

/s/ Eric T. Steigerwalt

Eric T. Steigerwalt
President and Chief Executive Officer

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

SECTION 906 CERTIFICATION

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

I, Edward A. Spehar, certify that, to my knowledge, (i) Brighthouse Financial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of Brighthouse Financial, Inc.

Date: February 26, 2020

/s/ Edward A. Spehar

Edward A. Spehar

Executive Vice President and Chief Financial Officer

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