HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
July 26, 2018

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

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FORM 10-Q

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(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ______________
Commission file number 001-13958

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 13-3317783 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

One Hartford Plaza, Hartford, Connecticut 06155
(Address of principal executive offices) (Zip Code)
(860) 547-5000
(Registrant’s telephone number, including area code)

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

• 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 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 x | 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. ¨

- whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) ¨ ý

As of July 24, 2018, there were outstanding 358,419,118 shares of Common Stock, $0.01 par value per share, of the registrant.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018
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[a]The information required by this item is set forth in the Enterprise Risk Management section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “projects,” and similar references to future per Forward-looking statements are based on management's current expectations and assumptions regarding future economic, competitive, legislative and other developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the "Company" or "The Hartford"). Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual results could differ materially from expectations, depending on the evolution of various factors, including the risks and uncertainties identified below, as well as factors described in such forward-looking statements or in Part I, Item 1A, Risk Factors in The Hartford’s 2017 Form 10-K Annual Report, and those identified from time to time in our other filings with the Securities and Exchange Commission ("SEC").

- Risks Related to Economic, Political and Global Market Conditions:

challenges related to the Company’s current operating environment, including global political, economic and market conditions, and the effect of financial market disruptions, economic downturns, changes in trade regulation including tariffs and other barriers or other potentially adverse macroeconomic developments on the demand for our products and returns in our investment portfolios;

financial risk related to the continued reinvestment of our investment portfolios;

market risks associated with our business, including changes in credit spreads, equity prices, interest rates, inflation rate, market volatility and foreign exchange rates;

the impact on our investment portfolio if our investment portfolio is concentrated in any particular segment of the economy;

- Insurance Industry and Product-Related Risks:

the possibility of unfavorable loss development, including with respect to long-tailed exposures;

the possibility of a pandemic, earthquake, or other natural or man-made disaster that may adversely affect our businesses;

weather and other natural physical events, including the severity and frequency of storms, hail, winter storms, hurricanes and tropical storms, as well as climate change and its potential impact on weather patterns;

the possible occurrence of terrorist attacks and the Company’s inability to contain its exposure as a result of, among other factors, the inability to exclude coverage for terrorist attacks from workers' compensation policies and limitations on reinsurance coverage from the federal government under applicable laws;

the Company’s ability to effectively price its property and casualty policies, including its ability to obtain regulatory consents to pricing actions or to non-renewal or withdrawal of certain product lines;

actions by competitors that may be larger or have greater financial resources than we do;

technology changes, such as usage-based methods of determining premiums, advancement in automotive safety features, the development of autonomous vehicles, and platforms that facilitate ride sharing, which may alter demand for the Company's products, impact the frequency or severity of losses, and/or impact the way the Company markets, distributes and underwrites its products;

the Company’s ability to market, distribute and provide insurance products and investment advisory services through current and future distribution channels and advisory firms;

the uncertain effects of emerging claim and coverage issues;

- Financial Strength, Credit and Counterparty Risks:

risks to our business, financial position, prospects and results associated with negative rating actions or downgrades in the Company’s financial strength and credit ratings or negative rating actions or downgrades relating to our investments;

the impact on our statutory capital of various factors, including many that are outside the Company's control, which can in turn affect our credit and financial strength ratings, cost of capital, regulatory compliance and other aspects of our business and results;

losses due to nonperformance or defaults by others including credit risk with counterparties associated with investments, derivatives, premiums receivable, reinsurance recoverables and indemnifications provided by third parties in connection with previous dispositions;

the potential for losses due to our reinsurers' unwillingness or inability to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses;

regulatory limitations on the ability of the Company and certain of its subsidiaries to declare and pay dividends;

- Risks Relating to Estimates, Assumptions and Valuations;
risk associated with the use of analytical models in making decisions in key areas such as underwriting, capital management, hedging, reserving, and catastrophe risk management;
the potential for differing interpretations of the methodologies, estimations and assumptions that underlie Company's fair value estimates for its investments and the evaluation of other-than-temporary impairments on available-for-sale securities;
the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets
the significant uncertainties that limit our ability to estimate the ultimate reserves necessary for asbestos and environmental claims;
- Strategic and Operational Risks:
the Company's ability to maintain the availability of its systems and safeguard the security of its data in the event of a disaster, cyber or other information security incident or other unanticipated event;
the risks, challenges and uncertainties associated with our capital management plan, expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings;
the potential for difficulties arising from outsourcing and similar third-party relationships;
the Company's ability to protect its intellectual property and defend against claims of infringement;
- Regulatory and Legal Risks:
the cost and other potential effects of increased regulatory and legislative developments, including those that could adversely impact the demand for the Company's products, operating costs and required capital levels;
unfavorable judicial or legislative developments;
the impact of changes in federal or state tax laws;
regulatory requirements that could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests;
the impact of potential changes in accounting principles and related financial reporting requirements

Any forward-looking statement made by the Company in this document speaks only as of the date of the filing of this Form 10-Q. Factors or events that could cause the Company's actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

Part I - Item 1. Financial Statements

## Item 1. Financial Statements

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Hartford Financial Services Group, Inc.
Hartford, Connecticut

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the "Company ") as of June 30, 2018, the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2018 and 2017, and the condensed consolidated statements of changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 23, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. 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 reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ DELOITTE & TOUCHE LLP
Hartford, Connecticut
July 26, 2018

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Operations

| (In millions, except for per share data) | Three Months Ended June 30, 2018 | 2017 | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|---|---|
| | (Unaudited) | | | |
| Revenues | | | | |
| Earned premiums | $3,958 | $3,455 | $7,885 | $6,893 |
| Fee income | 327 | 286 | 650 | 564 |
| Net investment income | 428 | 395 | 879 | 805 |
| Net realized capital gains (losses): | | | | |
| Total other-than-temporary impairment ("OTTI") losses | — | (4) | (2) | (7) |
| OTTI losses recognized in other comprehensive income (“OCI”) | — | 2 | 2 | 4 |
| Net OTTI losses recognized in earnings | — | (2) | — | (3) |
| Other net realized capital gains | 52 | 57 | 22 | 82 |
| Total net realized capital gains | 52 | 55 | 22 | 79 |
| Other revenues | 24 | 23 | 44 | 42 |
| Total revenues | 4,789 | 4,214 | 9,480 | 8,383 |
| Benefits, losses and expenses | | | | |
| Benefits, losses and loss adjustment expenses | 2,738 | 2,420 | 5,433 | 4,844 |
| Amortization of deferred policy acquisition costs ("DAC") | 344 | 345 | 686 | 689 |
| Insurance operating costs and other expenses | 1,067 | 1,650 | 2,104 | 2,569 |
| Loss on extinguishment of debt | 6 | — | 6 | — |
| Interest expense | 79 | 79 | 159 | 159 |
| Amortization of other intangible assets | 18 | 1 | 36 | 2 |
| Total benefits, losses and expenses | 4,252 | 4,495 | 8,424 | 8,263 |
| Income (loss) from continuing operations before income taxes | 537 | (281) | 1,056 | 120 |
| Income tax expense (benefit) | 103 | (129) | 194 | (31) |
| Income (loss) from continuing operations, net of tax | 434 | (152) | 862 | 151 |
| Income from discontinued operations, net of tax | 148 | 112 | 317 | 187 |
| Net income (loss) | $582 | $(40) | $1,179 | $338 |
| Income (loss) from continuing operations, net of tax, per common share | | | | |
| Basic | $1.21 | $(0.42) | $2.41 | $0.41 |
| Diluted | $1.19 | $(0.42) | $2.37 | $0.40 |
| Net income (loss) per common share | | | | |
| Basic | $1.62 | $(0.11) | $3.29 | $0.92 |
| Diluted | $1.60 | $(0.11) | $3.24 | $0.90 |
| Cash dividends declared per common share | $0.25 | $0.23 | $0.50 | $0.46 |

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In millions) | 2018 | 2017 | 2018 | 2017 |
| | (Unaudited) | | | |
| Net income (loss) | $582 | $(40) | $1,179 | $338 |
| Other comprehensive income (loss): | | | | |
| Changes in net unrealized gain on securities | (1,138) | 342 | (1,993) | 479 |
| Changes in OTTI losses recognized in other comprehensive income | 2 | 1 | — | — |
| Changes in net gain on cash flow hedging instruments | 12 | (1) | (32) | (19) |
| Changes in foreign currency translation adjustments | 1 | 5 | (5) | 7 |
| Changes in pension and other postretirement plan adjustments | 9 | 354 | 19 | 364 |
| OCI, net of tax | (1,114) | 701 | (2,011) | 831 |
| Comprehensive income (loss) | $(532) | $661 | $(832) | $1,169 |

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Balance Sheets

| (In millions, except for share and per share data) | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturities, available-for-sale, at fair value (amortized cost of $35,913 and $35,612) | $36,194 | $ 36,964 |
| Fixed maturities, at fair value using the fair value option | 36 | 41 |
| Equity securities, at fair value | 1,003 | — |
| Equity securities, available-for-sale, at fair value (cost of $0 and $907) | — | 1,012 |
| Mortgage loans (net of allowances for loan losses of $1 and $1) | 3,355 | 3,175 |
| Limited partnerships and other alternative investments | 1,670 | 1,588 |
| Other investments | 94 | 96 |
| Short-term investments | 3,296 | 2,270 |
| Total investments | 45,648 | 45,146 |
| Cash | 147 | 180 |
| Premiums receivable and agents' balances, net | 4,001 | 3,910 |
| Reinsurance recoverables, net | 3,912 | 4,061 |
| Deferred policy acquisition costs | 662 | 650 |
| Deferred income taxes, net | 1,282 | 1,164 |
| Goodwill | 1,290 | 1,290 |
| Property and equipment, net | 1,013 | 1,034 |
| Other intangible assets | 669 | 659 |
| Other assets | 2,151 | 2,230 |
| Assets held for sale | — | 164,936 |
| Total assets | $60,775 | $ 225,260 |
| Liabilities | | |
| Unpaid losses and loss adjustment expenses | $32,080 | $ 32,287 |
| Reserve for future policy benefits | 668 | 713 |
| Other policyholder funds and benefits payable | 784 | 816 |
| Unearned premiums | 5,446 | 5,322 |
| Short-term debt | 413 | 320 |
| Long-term debt | 4,262 | 4,678 |
| Other liabilities | 4,576 | 5,188 |
| Liabilities held for sale | — | 162,442 |
| Total liabilities | $48,229 | $ 211,766 |
| Commitments and Contingencies (Note 13) | | |
| Stockholders' Equity | | |
| Common stock, $0.01 par value — 1,500,000,000 shares authorized, 384,923,222 and 384,923,222 shares issued | $4 | $ 4 |
| Additional paid-in capital | 4,374 | 4,379 |
| Retained earnings | 10,649 | 9,642 |
| Treasury stock, at cost — 26,563,921 and 28,088,186 shares | (1,128 ) | (1,194 ) |
| Accumulated other comprehensive income (loss), net of tax | (1,353 ) | 663 |
| Total stockholders' equity | $12,546 | $ 13,494 |
| Total liabilities and stockholders' equity | $60,775 | $ 225,260 |

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity

| | Six Months Ended June 30, | |
|---|---|---|
| (In millions, except for share data) | 2018 | 2017 |
| | (Unaudited) | |
| Common Stock | $4 | $4 |
| Additional Paid-in Capital | | |
| Additional Paid-in Capital, beginning of period | 4,379 | 5,247 |
| Issuance of shares under incentive and stock compensation plans | (83) | (65) |
| Stock-based compensation plans expense | 83 | 56 |
| Issuance of shares for warrant exercise | (5) | (43) |
| Additional Paid-in Capital, end of period | 4,374 | 5,195 |
| Retained Earnings | | |
| Retained Earnings, beginning of period | 9,642 | 13,114 |
| Cumulative effect of accounting changes, net of tax | 5 | — |
| Adjusted balance, beginning of period | 9,647 | 13,114 |
| Net income | 1,179 | 338 |
| Dividends declared on common stock | (177) | (170) |
| Retained Earnings, end of period | 10,649 | 13,282 |
| Treasury Stock, at cost | | |
| Treasury Stock, at cost, beginning of period | (1,194) | (1,125) |
| Treasury stock acquired | — | (650) |
| Issuance of shares under incentive and stock compensation plans | 95 | 79 |
| Net shares acquired related to employee incentive and stock compensation plans | (34) | (34) |
| Issuance of shares for warrant exercise | 5 | 43 |
| Treasury Stock, at cost, end of period | (1,128) | (1,687) |
| Accumulated Other Comprehensive Income (Loss), net of tax | | |
| Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period | 663 | (337) |
| Cumulative effect of accounting changes, net of tax | (5) | — |
| Adjusted balance, beginning of period | 658 | (337) |
| Total other comprehensive income (loss) | (2,011) | 831 |
| Accumulated Other Comprehensive Income (Loss), net of tax, end of period | (1,353) | 494 |
| Total Stockholders’ Equity | $12,546 | $17,288 |
| | | |
| Common Shares Outstanding | | |
| Common Shares Outstanding, beginning of period (in thousands) | 356,835 | 373,949 |
| Treasury stock acquired | — | (13,299) |
| Issuance of shares under incentive and stock compensation plans | 2,042 | 1,850 |
| Return of shares under incentive and stock compensation plans to treasury stock | (637) | (686) |
| Issuance of shares for warrant exercise | 119 | 1,006 |
| Common Shares Outstanding, at end of period | 358,359 | 362,820 |

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Cash Flows

| | Six Months Ended June 30, | |
|---|---|---|
| (In millions) | 2018 | 2017 |
| Operating Activities | (Unaudited) | |
| Net income | $1,179 | $ 338 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized capital losses (gains) | 31 | (55) |
| Amortization of deferred policy acquisition costs | 744 | 731 |
| Additions to deferred policy acquisition costs | (701) | (695) |
| Depreciation and amortization | 237 | 191 |
| Loss on extinguishment of debt | 6 | — |
| Gain on sale | (213) | — |
| Pension settlement | — | 747 |
| Other operating activities, net | 291 | 291 |
| Change in assets and liabilities: | | |
| Decrease in reinsurance recoverables | 136 | 25 |
| Decrease (increase) in accrued and deferred income taxes | (112) | 40 |
| Increase (decrease) in unpaid losses and loss adjustment expenses, reserve for future policy benefits, and unearned premiums | (77) | 443 |
| Net change in other assets and other liabilities | (251) | (1,162) |
| Net cash provided by operating activities | 1,270 | 894 |
| Investing Activities | | |
| Proceeds from the sale/maturity/prepayment of: | | |
| Fixed maturities, available-for-sale | 14,712 | 15,847 |
| Fixed maturities, fair value option | 11 | 76 |
| Equity securities, at fair value | 1,027 | — |
| Equity securities, available-for-sale | | 512 |
| Mortgage loans | 234 | 351 |
| Partnerships | 331 | 138 |
| Payments for the purchase of: | | |
| Fixed maturities, available-for-sale | (13,261) | (15,954) |
| Equity securities, at fair value | (953) | — |
| Equity securities, available-for-sale | — | (397) |
| Mortgage loans | (383) | (458) |
| Partnerships | (316) | (222) |
| Net payments for derivatives | (234) | (40) |
| Net additions of property and equipment | (59) | (92) |
| Net payments for short-term investments | (2,427) | (1,453) |
| Other investing activities, net | (4) | (6) |
| Proceeds from business sold, net of cash transferred | 1,115 | 222 |
| Net cash used for investing activities | (207) | (1,476) |
| Financing Activities | | |
| Deposits and other additions to investment and universal life-type contracts | 1,814 | 2,526 |
| Withdrawals and other deductions from investment and universal life-type contracts | (9,206) | (7,076) |
| Net transfers from separate accounts related to investment and universal life-type contracts | 6,949 | 3,976 |
| Repayments at maturity or settlement of consumer notes | (2) | (11) |
| Net increase (decrease) in securities loaned or sold under agreements to repurchase | (671) | 1,346 |

| | | |
|---|---|---|
| Repayment of debt | (826 ) | (416 ) |
| Proceeds from the issuance of debt | 490 | 500 |
| Net return of shares under incentive and stock compensation plans | 5 | (22 ) |
| Treasury stock acquired | — | (650 ) |
| Dividends paid on common stock | (180 ) | (173 ) |
| Net cash provided by (used for) financing activities | (1,627 ) | — |
| Foreign exchange rate effect on cash | (6 ) | 62 |
| Net decrease in cash, including cash classified as assets held for sale | (570 ) | (520 ) |
| Less: Net decrease in cash classified as assets held for sale | (537 ) | (293 ) |
| Net (decrease) in cash | (33 ) | (227 ) |
| Cash – beginning of period | 180 | 328 |
| Cash – end of period | $ 147 | $ 101 |
| Supplemental Disclosure of Cash Flow Information | | |
| Income tax received (paid) | $ (1 ) | $ 2 |
| Interest paid | $ 156 | $ 164 |

See Notes to Condensed Consolidated Financial Statements

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in millions, except for per share data, unless otherwise stated)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The Hartford Financial Services Group, Inc. is a holding company for insurance and financial services subsidiaries that provide property and casualty insurance, group life and disability products and mutual funds and exchange-traded products to individual and business customers in the United States (collectively, “The Hartford”, the “Company”, “we” or “our”).

On May 31, 2018, Hartford Holdings, Inc., a wholly owned subsidiary of the Company, completed the sale of the issued and outstanding equity of Hartford Life, Inc. (“HLI”), a holding company for its life and annuity operating subsidiaries. For further discussion of this transaction, see Note 18 - Business Dispositions and Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

On November 1, 2017, Hartford Life and Accident Insurance Company ("HLA"), a wholly owned subsidiary of the Company, completed the acquisition of Aetna's U.S. group life and disability business through a reinsurance transaction. For further discussion of this transaction, see Note 2 - Business Acquisitions of Notes to Condensed Consolidated Financial Statements.

On May 10, 2017, the Company completed the sale of its United Kingdom ("U.K.") property and casualty run-off subsidiaries.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, which differ materially from the accounting practices prescribed by various insurance regulatory authorities. These Condensed Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2017 Form 10-K Annual Report. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

The accompanying Condensed Consolidated Financial Statements and Notes are unaudited. These financial statements reflect all adjustments (generally consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The Company's significant accounting policies are summarized in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2017 Form 10-K Annual Report.

Consolidation

The Condensed Consolidated Financial Statements include the accounts of The Hartford Financial Services Group, Inc., and entities in which the Company directly or indirectly has a controlling financial interest. Entities in which the Company has significant influence over the operating and financing decisions but does not control are reported using the equity method. All intercompany transactions and balances between The Hartford and its subsidiaries and affiliates that are not held for sale have been eliminated.

Discontinued Operations

The results of operations of a component of the Company are reported in discontinued operations when certain criteria are met as of the date of disposal, or earlier if classified as held-for-sale. When a component is identified for discontinued operations reporting, amounts for prior periods are retrospectively reclassified as discontinued operations. Components are identified as discontinued operations if they are a major part of an entity's operations and financial results such as a separate major line of business or a separate major geographical area of operations.

Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining property and casualty and group long-term disability insurance product reserves, net of reinsurance; evaluation of goodwill for impairment; valuation of investments and derivative instruments; valuation allowance on deferred tax assets; and contingencies relating to corporate litigation and regulatory matters.

Reclassifications

Certain reclassifications have been made to prior year financial information to conform to the current year presentation. In particular:

- Distribution costs within the Mutual Funds segment that were previously netted against fee income are presented gross in insurance operating costs and other expenses.

Adoption of New Accounting Standards

Reclassification of Effect of Tax Rate Change from AOCI to Retained Earnings

In February 2018, the FASB issued new accounting guidance for the effect on deferred tax assets and liabilities related to items recorded in accumulated other comprehensive income ("AOCI") resulting from legislated Tax Cuts and Jobs Act of 2017 ("Tax Reform") enacted on December 22, 2017. Tax Reform reduced the federal tax rate applied to the Company's deferred tax balances from 35% to 21% on enactment. Under U.S. GAAP, the Company recorded the total effect of the change in enacted tax rates on deferred tax balances as a charge to income tax expense within net income during the fourth quarter of 2017, including the change in deferred tax balances related to components of AOCI. The new accounting guidance permitted the Company to reclassify the "stranded" tax effects out of AOCI and into retained

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earnings that resulted from recording the tax effects of unrealized investment gains, unrecognized actuarial losses on pension and other postretirement benefit plans, and cumulative translation adjustments at a 35% tax rate because the 14 point reduction in tax rate was recognized in net income instead of other comprehensive income. On January 1, 2018, the Company adopted the new guidance and recorded a reclassification of $88 from AOCI to retained earnings. As a result of the reclassification, in the first quarter of 2018, the Company reduced the estimated loss on sale recorded in income from discontinued operations by $193, net of tax, for the increase in AOCI related to the assets held for sale. The reduction in the loss on sale resulted in a corresponding increase in assets held for sale and AOCI as of January 1, 2018 and the AOCI associated with assets held for sale was removed from the balance sheet when the sale closed on May 31, 2018. Additionally, as of January 1, 2018, the Company reclassified $105 of stranded tax effects related to continuing operations which reduced AOCI and increased retained earnings.

Financial Instruments- Recognition and Measurement

On January 1, 2018, the Company adopted updated guidance issued by the FASB for the recognition and measurement of financial instruments through a cumulative effect adjustment to the opening balances of retained earnings and AOCI. The new guidance requires investments in equity securities to be measured at fair value with any changes in valuation reported in net income except for investments that are consolidated or are accounted for under the equity method of accounting. The new guidance also requires a deferred tax asset resulting from net unrealized losses on available-for-sale fixed maturities that are recognized in AOCI to be evaluated for recoverability in combination with the Company’s other deferred tax assets. Under prior guidance, the Company reported equity securities, available for sale ("AFS"), at fair value with changes in fair value reported in other comprehensive income. As of January 1, 2018,

the Company reclassified from AOCI to retained earnings net unrealized gains of $83, after tax, related to equity securities having a fair value of $1.0 billion. In addition, $10 of net unrealized gains net of shadow DAC related to discontinued operations were reclassified from AOCI to retained earnings of the life and annuity run-off business held for sale, which increased the estimated loss on sale in 2018 by the same amount. Beginning in 2018, the Company reports equity securities at fair value with changes in fair value reported in net realized capital gains and losses.

Revenue Recognition

On January 1, 2018, the Company adopted the FASB’s updated guidance for recognizing revenue from contracts with customers, which excludes insurance contracts and financial instruments. Revenue subject to the guidance is recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to receive in exchange for those goods or services. For all but certain revenues associated with our Mutual Funds business, the updated guidance is consistent with previous guidance for the Company’s transactions and did not have an effect on the Company’s financial position, cash flows or net income. The updated guidance also updated criteria for determining when the Company acts as a principal or an agent. The Company determined that it is the principal for some of its mutual fund distribution service contracts and, upon adoption, reclassified distribution costs of $46 and $92 for the three and six months ended June 30, 2017, respectively, that were previously netted against fee income to insurance operating costs and other expenses.

Information about the nature, amount, timing of recognition and cash flows for the Company’s revenues subject to the updated guidance follows.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
1. Basis of Presentation and Significant Accounting Policies (continued)

Revenue from Non-Insurance Contracts with Customers

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | Revenue Line Item | 2018 | 2017 | 2018 | 2017 |
| Commercial Lines | | | | | |
| Installment billing fees | Fee income | $8 | $9 | $17 | $19 |
| Personal Lines | | | | | |
| Installment billing fees | Fee income | 10 | 11 | 20 | 22 |
| Insurance servicing revenues | Other revenues | 23 | 23 | 42 | 42 |
| Group Benefits | | | | | |
| Administrative services | Fee income | 44 | 19 | 88 | 38 |
| Mutual Funds | | | | | |
| Advisor, distribution and other management fees | Fee income | 239 | 220 | 477 | 431 |
| Other fees | Fee income | 22 | 27 | 42 | 53 |
| Corporate | | | | | |
| Investment management and other fees | Fee income | 4 | — | 6 | 1 |
| Transition service revenues | Other revenues | 2 | — | 2 | — |
| Total revenues subject to updated guidance | | $352 | $309 | $694 | $606 |

Installment fees are charged on property and casualty insurance contracts for billing the insurance customer in installments over the policy term. These fees are recognized in fee income as earned on collection.
Insurance servicing revenues within Personal Lines consist of up-front commissions earned for collecting premiums and processing claims on insurance policies for which The Hartford does not assume underwriting risk, predominantly related to the National Flood Insurance Plan program. These insurance servicing revenues are recognized over the period of the flood program's policy terms.
Group Benefits products earn fee income from employers for the administration of underwriting, implementation and claims processing for employer self-funded plans and for leave management services. Fees are recognized as services are provided and collected monthly.
The Company provides investment management, administrative and distribution services to mutual funds and exchange-traded products. The Company assesses investment advisory, distribution and other asset management fees primarily based on the average daily net asset values from mutual funds and exchange-traded products, which are recorded in the period in which the services are provided and collected monthly. Fluctuations in domestic and international markets and related investment performance, volume and mix of sales and redemptions of mutual funds or exchange-traded products, and other changes to the composition of assets under management are all factors that ultimately have a direct effect on fee income earned.
Mutual Funds other fees primarily include transfer agent fees, generally assessed as a charge per account, and are recognized as fee income in the period in which the services are provided with payments collected monthly.

Corporate investment management and other fees are primarily for managing third party invested assets, including management of the invested assets of the Talcott Resolution life and annuity run-off business sold in the second quarter of 2018 ("Talcott Resolution"). These fees, calculated based on the average quarterly net asset values, are recorded in the period in which the services are provided and are collected quarterly. Fluctuations in markets and interest rates and other changes to the composition of assets under management are all factors that ultimately have a direct effect on fee income earned.

Corporate transition service revenues consist of operational services provided to The Hartford's former life and annuity run-off business that will be provided for a period up to 24 months from the May 31, 2018 sale date. The transition service revenues are recognized as other revenues in the period in which the services are provided with payments collected monthly.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Business Acquisitions

Aetna Group Insurance

On November 1, 2017, The Hartford acquired Aetna's U.S. group life and disability business through a reinsurance transaction for total consideration of $1.452 billion. The acquisition date fair values of certain assets and liabilities, including insurance reserves and intangible assets, as well as the related estimated useful lives of intangibles, are provisional and are subject to revision within one year of the acquisition date. Under the terms of the agreement, a final balance sheet will be agreed to in 2018 and our estimates of fair values are pending finalization. There were no adjustments to the provisional amounts during the six month period ended June 30, 2018.

The following table presents supplemental pro forma amounts of revenue and net income for the Company for the three and six months ended June 30, 2017, as though the business was acquired on January 1, 2016.

Pro Forma Results

| | Three months ended June 30, 2017 [1] | Six months ended June 30, 2017 [1] |
|---|---|---|
| Total Revenue | $4,793 | $9,532 |
| Net Income | $(20) | $370 |

[1]Pro forma adjustments include the revenue and earnings of the Aetna U.S. group life and disability business as well as amortization of identifiable intangible assets acquired and the fair value adjustment to acquired insurance reserves. Pro forma adjustments do not include retrospective adjustments to defer and amortize acquisition costs as would be recorded under the Company's accounting policy.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
3. Earnings Per Common Share

Computation of Basic and Diluted Earnings per Common Share

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In millions, except for per share data) | 2018 | 2017 | 2018 | 2017 |
| Earnings | | | | |
| Income (loss) from continuing operations, net of tax | $434 | $(152) | $862 | $151 |
| Income from discontinued operations, net of tax | 148 | 112 | 317 | 187 |
| Net income (loss) | $582 | $(40) | $1,179 | $338 |
| Shares | | | | |
| Weighted average common shares outstanding, basic | 358.3 | 366.0 | 357.9 | 368.7 |
| Dilutive effect of stock compensation plans | 4.0 | — | 4.2 | 4.0 |
| Dilutive effect of warrants | 1.9 | — | 2.0 | 2.8 |
| Weighted average common shares outstanding and dilutive potential common shares | 364.2 | 366.0 | 364.1 | 375.5 |
| Net income per common share | | | | |
| Basic | | | | |
| Income (loss) from continuing operations, net of tax | $1.21 | $(0.42) | $2.41 | $0.41 |
| Income from discontinued operations, net of tax | $0.41 | $0.31 | $0.88 | $0.51 |
| Net income (loss) per common share | $1.62 | $(0.11) | $3.29 | $0.92 |
| Diluted | | | | |
| Income (loss) from continuing operations, net of tax | $1.19 | $(0.42) | $2.37 | $0.40 |
| Income from discontinued operations, net of tax | $0.41 | $0.31 | $0.87 | $0.50 |
| Net income (loss) per common share | $1.60 | $(0.11) | $3.24 | $0.90 |

As a result of the net loss from continuing operations for the three months ended June 30, 2017, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of 3.8 million shares for stock compensation plans and 2.5 million shares for warrants would have been antidilutive to the earnings (loss) per share calculation. In the absence of the net loss, weighted average common shares outstanding and dilutive potential common shares would have totaled 372.3 million.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Segment Information

The Company currently conducts business principally in five reporting segments including Commercial Lines, Personal Lines, Property & Casualty Other Operations, Group Benefits, and Mutual Funds, as well as a Corporate category. The Company includes in the Corporate category investment management fees and expenses related to managing third party business, including management of the invested assets of the Talcott Resolution life and annuity run-off business sold in the second quarter of 2018, discontinued operations related to the sale of Talcott Resolution, reserves for run-off structured settlement and terminal funding agreement liabilities, capital raising activities (including debt financing and related interest expense), purchase accounting adjustments related to goodwill and other expenses not allocated to the reporting segments. In addition, Corporate includes a 9.7% ownership interest in the limited partnership that acquired Talcott Resolution. For further discussion of continued involvement with Talcott Resolution, see Note 18 - Business Dispositions and Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

The Company's revenues are generated primarily in the United States ("U.S."). Any foreign sourced revenue is immaterial.

Net Income (Loss)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Commercial Lines | $372 | $258 | $670 | $489 |
| Personal Lines | 6 | 24 | 95 | 57 |
| Property & Casualty Other Operations | 5 | 20 | 22 | 44 |
| Group Benefits | 96 | 69 | 150 | 114 |
| Mutual Funds | 37 | 24 | 71 | 47 |
| Corporate | 66 | (435 ) | 171 | (413 ) |
| Net income (loss) | $582 | $(40 ) | $1,179 | $338 |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Segment Information (continued)

Revenues

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Earned premiums and fee income | | | | |
| Commercial Lines | | | | |
| Workers' compensation | $832 | $820 | $1,650 | $1,633 |
| Liability | 159 | 152 | 310 | 300 |
| Package business | 338 | 326 | 670 | 640 |
| Automobile | 148 | 161 | 297 | 322 |
| Professional liability | 63 | 60 | 125 | 120 |
| Bond | 61 | 58 | 119 | 113 |
| Property | 152 | 152 | 302 | 299 |
| Total Commercial Lines | 1,753 | 1,729 | 3,473 | 3,427 |
| Personal Lines | | | | |
| Automobile | 604 | 660 | 1,211 | 1,322 |
| Homeowners | 262 | 281 | 524 | 564 |
| Total Personal Lines [1] | 866 | 941 | 1,735 | 1,886 |
| Group Benefits | | | | |
| Group disability | 690 | 379 | 1,367 | 760 |
| Group life | 652 | 394 | 1,316 | 793 |
| Other | 59 | 51 | 119 | 106 |
| Total Group Benefits | 1,401 | 824 | 2,802 | 1,659 |
| Mutual Funds | | | | |
| Mutual fund and Exchange-Traded Products ("ETP") [2] | 236 | 221 | 468 | 432 |
| Talcott Resolution life and annuity separate accounts [3] | 25 | 26 | 51 | 52 |
| Total Mutual Funds | 261 | 247 | 519 | 484 |
| Corporate | 4 | — | 6 | 1 |
| Total earned premiums and fee income | 4,285 | 3,741 | 8,535 | 7,457 |
| Net investment income | 428 | 395 | 879 | 805 |
| Net realized capital gains | 52 | 55 | 22 | 79 |
| Other revenues | 24 | 23 | 44 | 42 |
| Total revenues | $4,789 | $4,214 | $9,480 | $8,383 |

[1] For the three months ended June 30, 2018 and 2017, AARP members accounted for earned premiums of $758 and $800, respectively. For the six months ended June 30, 2018 and 2017, AARP members accounted for earned premiums of $1.5 billion and $1.6 billion, respectively.

[2] Excludes distribution costs of $46 and $92 for the three and six months ended June 30, 2017, respectively, that were previously netted against fee income and are now presented gross in insurance operating costs and other expenses.

[3] Relates to Talcott Resolution life and annuity business sold in May, 2018 that is still managed by the Company's Mutual Funds segment.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements

The Company carries certain financial assets and liabilities at estimated fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. Our fair value framework includes a hierarchy that gives the highest priority to the use of quoted prices in active markets, followed by the use of market observable inputs, followed by the use of unobservable inputs. The fair value hierarchy levels are as follows:

| | |
|---|---|
| Level 1 | Fair values based primarily on unadjusted quoted prices for identical assets or liabilities, in active markets that the Company has the ability to access at the measurement date. |
| Level 2 | Fair values primarily based on observable inputs, other than quoted prices included in Level 1, or based on prices for similar assets and liabilities. |
| Level 3 | Fair values derived when one or more of the significant inputs are unobservable (including assumptions about risk). With little or no observable market, the determination of fair values uses considerable judgment and represents the Company’s best estimate of an amount that could be realized in a market exchange for the asset or liability. Also included are securities that are traded within illiquid markets and/or priced by independent brokers. |

The Company will classify the financial asset or liability by level based upon the lowest level input that is significant to the determination of the fair value. In most cases, both observable inputs (e.g., changes in interest rates) and unobservable inputs (e.g., changes in risk assumptions) are used to determine fair values that the Company has classified within Level 3.

Assets and (Liabilities) Carried at Fair Value by Hierarchy Level as of June 30, 2018

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets accounted for at fair value on a recurring basis | | | | |
| Fixed maturities, AFS | | | | |
| Asset-backed-securities ("ABS") | $994 | $ — | $ 937 | $ 57 |
| Collateralized debt obligations ("CDOs") | 1,089 | — | 930 | 159 |
| Commercial mortgage-backed securities ("CMBS") | 3,494 | — | 3,466 | 28 |
| Corporate | 13,349 | — | 12,790 | 559 |
| Foreign government/government agencies | 1,133 | — | 1,130 | 3 |
| Municipal | 11,142 | — | 11,133 | 9 |
| Residential mortgage-backed securities ("RMBS") | 3,207 | — | 2,070 | 1,137 |
| U.S. Treasuries | 1,786 | 378 | 1,408 | — |
| Total fixed maturities | 36,194 | 378 | 33,864 | 1,952 |
| Fixed maturities, FVO | 36 | — | 36 | — |
| Equity securities, at fair value | 1,003 | 892 | 45 | 66 |
| Derivative assets | | | | |
| Credit derivatives | 15 | — | 15 | — |
| Equity derivatives | 1 | — | — | 1 |
| Foreign exchange derivatives | (1) | — | (1) | — |
| Total derivative assets [1] | 15 | — | 14 | 1 |
| Short-term investments | 3,296 | 861 | 2,435 | — |
| Total assets accounted for at fair value on a recurring basis | $40,544 | $ 2,131 | $ 36,394 | $ 2,019 |

| | | | | |
|---|---|---|---|---|
| Liabilities accounted for at fair value on a recurring basis | | | | |
| Derivative liabilities | | | | |
| Credit derivatives | (5) | — | (5) | — |
| Foreign exchange derivatives | (11) | — | (11) | — |
| Interest rate derivatives | (59) | — | (61) | 2 |
| Total derivative liabilities [2] | (75) | — | (77) | 2 |
| Contingent consideration [3] | (31) | — | — | (31) |
| Total liabilities accounted for at fair value on a recurring basis | $(106) | $ — | $ (77) | $ (29) |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Assets and (Liabilities) Carried at Fair Value by Hierarchy Level as of December 31, 2017

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets accounted for at fair value on a recurring basis | | | | |
| Fixed maturities, AFS | | | | |
| Asset-backed-securities ("ABS") | $ 1,126 | $ — | $ 1,107 | $ 19 |
| Collateralized debt obligations ("CDOs") | 1,260 | — | 1,165 | 95 |
| Commercial mortgage-backed securities ("CMBS") | 3,336 | — | 3,267 | 69 |
| Corporate | 12,804 | — | 12,284 | 520 |
| Foreign government/government agencies | 1,110 | — | 1,108 | 2 |
| Municipal | 12,485 | — | 12,468 | 17 |
| Residential mortgage-backed securities ("RMBS") | 3,044 | — | 1,814 | 1,230 |
| U.S. Treasuries | 1,799 | 333 | 1,466 | — |
| Total fixed maturities | 36,964 | 333 | 34,679 | 1,952 |
| Fixed maturities, FVO | 41 | — | 41 | — |
| Equity securities, AFS | 1,012 | 887 | 49 | 76 |
| Derivative assets | | | | |
| Credit derivatives | 9 | — | 9 | — |
| Equity derivatives | 1 | — | — | 1 |
| Foreign exchange derivatives | (1) | — | (1) | — |
| Interest rate derivatives | 1 | — | 1 | — |
| Total derivative assets [1] | 10 | — | 9 | 1 |
| Short-term investments | 2,270 | 1,098 | 1,172 | — |
| Total assets accounted for at fair value on a recurring basis | $ 40,297 | $ 2,318 | $ 35,950 | $ 2,029 |
| Liabilities accounted for at fair value on a recurring basis | | | | |
| Derivative liabilities | | | | |
| Credit derivatives | (3) | — | (3) | — |
| Foreign exchange derivatives | (13) | — | (13) | — |
| Interest rate derivatives | (84) | — | (85) | 1 |
| Total derivative liabilities [2] | (100) | — | (101) | 1 |
| Contingent consideration [3] | (29) | — | — | (29) |
| Total liabilities accounted for at fair value on a recurring basis | $ (129) | $ — | $ (101) | $ (28) |

[1] Includes derivative instruments in a net positive fair value position after consideration of the accrued interest and impact of collateral posting requirements which may be imposed by agreements and applicable law. See footnote 2 to this table for derivative liabilities.

[2] Includes derivative instruments in a net negative fair value position (derivative liability) after consideration of the accrued interest and impact of collateral posting requirements which may be imposed by agreements and applicable law.

[3] For additional information see the Contingent Consideration section below.

Fixed Maturities, Equity Securities, Short-term Investments, and Derivatives

Valuation Techniques

The Company generally determines fair values using valuation techniques that use prices, rates, and other relevant information evident from market transactions involving identical or similar instruments. Valuation techniques also include, where appropriate, estimates of future cash flows that are converted into a single discounted amount using current market expectations. The Company uses a "waterfall" approach

comprised of the following pricing sources and techniques, which are listed in priority order:

- Quoted prices, unadjusted, for identical assets or liabilities in active markets, which are classified as Level 1.
- Prices from third-party pricing services, which primarily utilize a combination of techniques. These services utilize recently reported trades of identical, similar, or benchmark securities making adjustments for market observable inputs available through the reporting date. If there are no recently reported trades, they may use a discounted cash flow technique to develop a price using expected cash flows based upon the anticipated future performance of the underlying collateral discounted at an estimated market rate. Both

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techniques develop prices that consider the time value of future cash flows and provide a margin for risk, including liquidity and credit risk. Most prices provided by third-party pricing services are classified as Level 2 because the inputs used in pricing the securities are observable. However, some securities that are less liquid or trade less actively are classified as Level 3. Additionally, certain long-dated securities, such as municipal securities and bank loans, include benchmark interest rate or credit spread assumptions that are not observable in the marketplace and are thus classified as Level 3.

- Internal matrix pricing, which is a valuation process internally developed for private placement securities for which the Company is unable to obtain a price from a third-party pricing service. Internal pricing matrices determine credit spreads that, when combined with risk-free rates, are applied to contractual cash flows to develop a price. The Company develops credit spreads using market based data for public securities adjusted for credit spread differentials between public and private securities, which are obtained from a survey of multiple private placement brokers. The market-based reference credit spread considers the issuer’s financial strength and term to maturity, using an independent public security index and trade information, while the credit spread differential considers the non-public nature of the security. Securities priced using internal matrix pricing are classified as Level 2 because the inputs are observable or can be corroborated with observable data.
- Independent broker quotes, which are typically non-binding, use inputs that can be difficult to corroborate with observable market based data. Brokers may use present value techniques using assumptions specific to the security types, or they may use recent transactions of similar securities. Due to the lack of transparency in the process that brokers use to develop prices, valuations that are based on independent broker quotes are classified as Level 3.

The fair value of derivative instruments is determined primarily using a discounted cash flow model or option model technique and incorporate counterparty credit risk. In some cases, quoted market prices for exchange-traded and OTC-cleared derivatives may be used and in other cases independent broker quotes may be used. The pricing valuation models primarily use inputs that are observable in the market or can be corroborated by observable market data. The valuation of certain derivatives may include significant inputs that are unobservable, such as volatility levels, and reflect the Company’s view of what other market participants would use when pricing such instruments.

Valuation Controls

The fair value process for investments is monitored by the Valuation Committee, which is a cross-functional group of senior management within the Company that meets at least quarterly. The purpose of the committee is to oversee the pricing policy and procedures, as well as to approve changes to valuation methodologies and pricing sources. Controls and procedures used to assess third-party pricing services are reviewed by the Valuation Committee, including the results of annual due-diligence reviews.

There are also two working groups under the Valuation Committee: a Securities Fair Value Working Group (“Securities Working Group”) and a Derivatives Fair Value Working Group ("Derivatives Working Group"). The working groups, which include various investment, operations, accounting and risk management professionals, meet monthly to review market data trends, pricing and trading statistics and results, and any proposed pricing methodology changes.

The Securities Working Group reviews prices received from third parties to ensure that the prices represent a reasonable estimate of the fair value. The group considers trading volume, new issuance activity, market trends, new regulatory rulings and other factors to determine whether the market activity is significantly different than normal activity in an active market. A dedicated pricing unit follows up with trading and investment sector professionals and challenges prices of third-party pricing services when the estimated assumptions used differ from what the unit believes a market participant would use. If the available evidence indicates that pricing from third-party pricing services or broker quotes is based upon transactions that are stale or not from trades made in an orderly market, the Company places little, if any, weight on the third party service’s transaction price and will estimate fair value using an internal process, such as a pricing matrix.

The Derivatives Working Group reviews the inputs, assumptions and methodologies used to ensure that the prices represent a reasonable estimate of the fair value. A dedicated pricing team works directly with investment sector professionals to investigate the impacts of changes in the market environment on prices or valuations of derivatives. New models and any changes to current models are required to have detailed documentation and are validated to a second source. The model validation documentation and results of validation are presented to the Valuation Committee for approval.

The Company conducts other monitoring controls around securities and derivatives pricing including, but not limited to, the following:

- Review of daily price changes over specific thresholds and new trade comparison to third-party pricing services.
- Daily comparison of OTC derivative market valuations to counterparty valuations.
- Review of weekly price changes compared to published bond prices of a corporate bond index.
- Monthly reviews of price changes over thresholds, stale prices, missing prices, and zero prices.
- Monthly validation of prices to a second source for securities in most sectors and for certain derivatives.

In addition, the Company's enterprise-wide Operational Risk Management function, led by the Chief Risk Officer, is responsible for model risk management and provides an independent review of the suitability and reliability of model inputs, as well as an analysis of significant changes to current models.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Valuation Inputs
Quoted prices for identical assets in active markets are considered Level 1 and consist of on-the-run U.S. Treasuries,

money market funds, exchange-traded equity securities, open-ended mutual funds, short-term investments, and exchange traded futures and option contracts.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Valuation Inputs Used in Levels 2 and 3 Measurements for Securities and Derivatives

| Level 2<br>Primary Observable Inputs | Level 3<br>Primary Unobservable Inputs |
|---|---|
| Fixed Maturity Investments | |
| Structured securities (includes ABS, CDOs, CMBS and RMBS) | |
| • Benchmark yields and spreads<br>• Monthly payment information<br>• Collateral performance, which varies by vintage year and includes delinquency rates, loss severity rates and refinancing assumptions<br>• Credit default swap indices<br><br>Other inputs for ABS and RMBS:<br>• Estimate of future principal prepayments, derived from the characteristics of the underlying structure<br>• Prepayment speeds previously experienced at the interest rate levels projected for the collateral | • Independent broker quotes<br>• Credit spreads beyond observable curve<br>• Interest rates beyond observable curve<br><br>Other inputs for less liquid securities or those that trade less actively, including subprime RMBS:<br>• Estimated cash flows<br>• Credit spreads, which include illiquidity premium<br>• Constant prepayment rates<br>• Constant default rates<br>• Loss severity |
| Corporates | |
| • Benchmark yields and spreads<br>• Reported trades, bids, offers of the same or similar securities<br>• Issuer spreads and credit default swap curves<br><br>Other inputs for investment grade privately placed securities that utilize internal matrix pricing:<br>• Credit spreads for public securities of similar quality, maturity, and sector, adjusted for non-public nature | • Independent broker quotes<br>• Credit spreads beyond observable curve<br>• Interest rates beyond observable curve<br><br>Other inputs for below investment grade privately placed securities:<br>• Independent broker quotes<br>• Credit spreads for public securities of similar quality, maturity, and sector, adjusted for non-public nature |
| U.S Treasuries, Municipals, and Foreign government/government agencies | |
| • Benchmark yields and spreads<br>• Issuer credit default swap curves<br>• Political events in emerging market economies<br>• Municipal Securities Rulemaking Board reported trades and material event notices<br>• Issuer financial statements | • Credit spreads beyond observable curve<br>• Interest rates beyond observable curve |
| Equity Securities | |
| • Quoted prices in markets that are not active | • For privately traded equity securities, internal discounted cash flow models utilizing earnings multiples or other cash flow assumptions that are not observable |
| Short Term Investments | |
| • Benchmark yields and spreads<br>• Reported trades, bids, offers<br>• Issuer spreads and credit default swap curves<br>• Material event notices and new issue money market rates | Not applicable |
| Derivatives | |

| | |
|---|---|
| Credit derivatives<br>• Swap yield curve<br>• Credit default swap curves | Not applicable |
| Equity derivatives<br>• Equity index levels<br>• Swap yield curve | • Independent broker quotes<br>• Equity volatility |
| Foreign exchange derivatives<br>• Swap yield curve<br>• Currency spot and forward rates<br>• Cross currency basis curves | Not applicable |
| Interest rate derivatives<br>• Swap yield curve | • Independent broker quotes<br>• Interest rate volatility |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Significant Unobservable Inputs for Level 3 - Securities

| Assets accounted for at fair value on a recurring basis | Fair Value | Predominant Valuation Technique | Significant Unobservable Input | Minimum | Maximum | Weighted Average [1] | Impact of Increase in Input on Fair Value [2] |
|---|---|---|---|---|---|---|---|
| As of June 30, 2018 | | | | | | | |
| CMBS [3] | $17 | Discounted cash flows | Spread (encompasses prepayment, default risk and loss severity) | 9 bps | 1,040 bps | 182 bps | Decrease |
| Corporate [4] | $284 | Discounted cash flows | Spread | 113 bps | 767 bps | 209 bps | Decrease |
| Municipal | $9 | Discounted cash flows | Spread | 161 bps | 161 bps | 161 bps | Decrease |
| RMBS [3] | $1,071 | Discounted cash flows | Spread | 19 bps | 326 bps | 69 bps | Decrease |
| | | | Constant prepayment rate | 1% | 25% | 7% | Decrease [5] |
| | | | Constant default rate | —% | 8% | 4% | Decrease |
| | | | Loss severity | —% | 100% | 58% | Decrease |
| As of December 31, 2017 | | | | | | | |
| CMBS [3] | $56 | Discounted cash flows | Spread (encompasses prepayment, default risk and loss severity) | 9 bps | 1,040 bps | 400 bps | Decrease |
| Corporate [4] | $251 | Discounted cash flows | Spread | 103 bps | 1,000 bps | 242 bps | Decrease |
| Municipal | $17 | Discounted cash flows | Spread | 192 bps | 250 bps | 219 bps | Decrease |
| RMBS [3] | $1,215 | Discounted cash flows | Spread | 24 bps | 351 bps | 74 bps | Decrease |
| | | | Constant prepayment rate | 1% | 25% | 6% | Decrease [5] |
| | | | Constant default rate | —% | 9% | 4% | Decrease |
| | | | Loss severity | —% | 100% | 66% | Decrease |

[1] The weighted average is determined based on the fair value of the securities.
[2] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table.
[3] Excludes securities for which the Company bases fair value on broker quotations.
[4] Excludes securities for which the Company bases fair value on broker quotations; however, included are broker priced lower-rated private placement securities for which the Company receives spread and yield information to corroborate the fair value.
[5] Decrease for above market rate coupons and increase for below market rate coupons.

Significant Unobservable Inputs for Level 3 - Derivatives

| | Fair Value | Predominant Valuation Technique | Significant Unobservable Input | Minimum | Maximum | Impact of Increase in Input on Fair Value [1] |
|---|---|---|---|---|---|---|
| As of June 30, 2018 | | | | | | |
| Interest rate swaptions [2] | $ 2 | Option model | Interest rate volatility | 3 % | 3 % | Increase |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Equity Options | 1 | Option model | Equity volatility | 16 | % | 24 | % | Increase |
| As of December 31, 2017 | | | | | | | | |
| Interest rate swaptions [2] | $ 1 | Option model | Interest rate volatility | 2 | % | 2 | % | Increase |
| Equity options | $ 1 | Option model | Equity volatility | 18 | % | 22 | % | Increase |

[1] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table. Changes are based on long positions, unless otherwise noted. Changes in fair value will be inversely impacted for short positions.

[2] The swaptions presented are purchased options that have the right to enter into a pay-fixed swap.

The tables above excludes ABS and certain corporate securities for which fair values are predominately based on independent broker quotes. While the Company does not have access to the significant unobservable inputs that independent brokers may use in their pricing process, the Company believes brokers likely use inputs similar to those used by the Company and third-party pricing services to price similar instruments. As such, in their pricing models, brokers likely use estimated loss severity rates, prepayment rates, constant default rates and credit spreads. Therefore, similar to non-broker priced securities, increases in these inputs would generally cause fair values to decrease. For the three and six months ended June 30, 2018, no significant adjustments were made by the Company to broker prices received.

Transfers between Levels

Transfers of securities among the levels occur at the beginning of the reporting period. The amount of transfers from Level 1 to Level 2 was $549 and $882 for three and six months ended June 30, 2018, respectively, and $428 and $806 for the three and six months ended June 30, 2017, respectively, which represented previously on-the-run U.S. Treasury securities that are now off-the-run. Transfers from Level 2 to Level 1 for both the three and six months ended June 30, 2018, were immaterial and there were no transfers from Level 2 to Level 1 for the same period in 2017. See the fair value rollforward tables for the three and six months ended June 30, 2018 and 2017, for the transfers into and out of Level 3.

Contingent Consideration

The acquisition of Lattice Strategies LLC ("Lattice") in 2016 requires the Company to make payments to former owners of Lattice of up to $60 contingent upon growth in exchange-traded products ("ETP") assets under management ("AUM") over a four-year period beginning on the date of acquisition. The contingent

consideration is measured at fair value on a quarterly basis by projecting future eligible ETP AUM over the contingency period to estimate the amount of expected payout. The future expected payout is discounted back to the valuation date using a risk-adjusted discount rate of 16.7% The risk-adjusted discount rate is an internally generated and significant unobservable input to fair value.

The contingency period for ETP AUM growth ends in June, 2020 and management will adjust the fair value of the contingent consideration if and when it revises its projection of ETP AUM for the acquired business. Before discounting to fair value, the Company has accrued a contingent commission payable of $40 assuming ETP AUM for the acquired business grows to approximately $4 billion over the contingency period. The Company will evaluate the projected AUM growth again in the third quarter of 2018.

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs

The Company uses derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instrument may not be classified with the same fair value hierarchy level as the associated asset or liability. Therefore, the realized and unrealized gains and losses on derivatives reported in the Level 3 rollforward may be offset by realized and unrealized gains and losses of the associated assets and liabilities in other line items of the financial statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Fair Value Rollforwards for Financial Instruments Classified as Level 3 for the Three Months Ended June 30, 2018

| | | Total realized/unrealized gains (losses) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value as of March 31, 2018 | Included in net income [1] [5] | Included in OCI [2] | Purchases | Settlements | Sales | Transfers into Level 3 [3] | Transfers out of Level 3 [3] | Fair value as of June 30, 2018 |
| Assets | | | | | | | | | |
| Fixed Maturities, AFS | | | | | | | | | |
| ABS | $14 | $ — | $ — | $ 50 | $ (1) | $— | $ 3 | $ (9) | $57 |
| CDOs | 106 | — | — | 77 | — | (4) | — | (20) | 159 |
| CMBS | 33 | — | — | 25 | (2) | (8) | — | (20) | 28 |
| Corporate | 515 | — | (7) | 66 | (18) | (8) | 15 | (4) | 559 |
| Foreign Govt./Govt. Agencies | 2 | — | — | 1 | — | — | — | — | 3 |
| Municipal | 16 | — | — | — | — | — | — | (7) | 9 |
| RMBS | 1,233 | — | (4) | 68 | (93) | (1) | — | (66) | 1,137 |
| Total Fixed Maturities, AFS | 1,919 | — | (11) | 287 | (114) | (21) | 18 | (126) | 1,952 |
| Equity Securities, at fair value | 65 | — | 1 | 1 | — | (1) | — | — | 66 |
| Derivatives, net [4] | | | | | | | | | |
| Equity | 1 | (1) | — | 1 | — | — | — | — | 1 |
| Interest rate | 2 | — | — | — | — | — | — | — | 2 |
| Total Derivatives, net [4] | 3 | (1) | — | 1 | — | — | — | — | 3 |
| Total Assets | $1,987 | $ (1) | $ (10) | $ 289 | $ (114) | $(22) | $ 18 | $ (126) | $2,021 |
| Liabilities | | | | | | | | | |
| Contingent Consideration [6] | (27) | (4) | — | — | — | — | — | — | (31) |
| Total Liabilities | $(27) | $ (4) | $ — | $ — | $ — | $— | $ — | $ — | $(31) |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Fair Value Rollforwards for Financial Instruments Classified as Level 3 for the Six Months Ended June 30, 2018

| | | Total realized/unrealized gains (losses) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value as of January 1, 2018 | Included in net income [1] [5] | Included in OCI [2] | Purchases | Settlements | Sales | Transfers into Level 3 [3] | Transfers out of Level 3 [3] | Fair value as of June 30, 2018 |
| Assets | | | | | | | | | |
| Fixed Maturities, AFS | | | | | | | | | |
| ABS | $19 | $ — | $ — | $ 50 | $ (3) | $— | $ 3 | $ (12) | $57 |
| CDOs | 95 | — | — | 98 | — | (4) | — | (30) | 159 |
| CMBS | 69 | — | (1) | 25 | (3) | (8) | — | (54) | 28 |
| Corporate | 520 | 1 | (8) | 131 | (32) | (31) | 15 | (37) | 559 |
| Foreign Govt./Govt. Agencies | 2 | — | — | 1 | — | — | — | — | 3 |
| Municipal | 17 | — | (1) | — | — | — | — | (7) | 9 |
| RMBS | 1,230 | — | (7) | 170 | (174) | (1) | — | (81) | 1,137 |
| Total Fixed Maturities, AFS | 1,952 | 1 | (17) | 475 | (212) | (44) | 18 | (221) | 1,952 |
| Equity Securities, at fair value | 76 | 28 | 1 | 1 | — | (40) | — | — | 66 |
| Derivatives, net [4] | | | | | | | | | |
| Equity | 1 | 1 | — | 1 | — | (2) | — | — | 1 |
| Interest rate | 1 | 1 | — | — | — | — | — | — | 2 |
| Total Derivatives, net [4] | 2 | 2 | — | 1 | — | (2) | — | — | 3 |
| Total Assets | $2,030 | $ 31 | $ (16) | $ 477 | $ (212) | $(86) | $ 18 | $ (221) | $2,021 |
| Liabilities | | | | | | | | | |
| Contingent Consideration [6] | (29) | (2) | — | — | — | — | — | — | (31) |
| Total Liabilities | $(29) | $ (2) | $ — | $ — | $ — | $— | $ — | $ — | $(31) |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Fair Value Rollforwards for Financial Instruments Classified as Level 3 for the Three Months Ended June 30, 2017

| | | Total realized/unrealized gains (losses) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value as of March 31, 2017 | Included in net income [1] [5] | Included in OCI [2] | Purchases | Settlements | Sales | Transfers into Level 3 [3] | Transfers out of Level 3 [3] | Fair value as of June 30, 2017 |
| Assets | | | | | | | | | |
| Fixed Maturities, AFS | | | | | | | | | |
| ABS | $81 | $ — | $ — | $ 23 | $ — | $— | $ — | $ (41) | $63 |
| CDOs | 120 | — | (3) | 186 | (100) | — | — | — | 203 |
| CMBS | 72 | — | — | 14 | (2) | — | — | (19) | 65 |
| Corporate | 521 | — | 6 | 33 | (4) | (20) | — | (8) | 528 |
| Foreign Govt./Govt. Agencies | 49 | — | — | 5 | — | (2) | — | (30) | 22 |
| Municipal | 44 | 4 | (2) | — | — | (30) | — | — | 16 |
| RMBS | 1,291 | — | 18 | 29 | (66) | — | — | — | 1,272 |
| Total Fixed Maturities, AFS | 2,178 | 4 | 19 | 290 | (172) | (52) | — | (98) | 2,169 |
| Equity Securities, AFS | 55 | — | — | — | — | — | — | — | 55 |
| Derivatives, net [4] | | | | | | | | | |
| Equity | 4 | (2) | — | — | — | — | — | — | 2 |
| Interest rate | 5 | (2) | — | — | — | — | — | — | 3 |
| Other contracts | — | — | — | — | — | — | — | — | — |
| Total Derivatives, net [4] | 9 | (4) | — | — | — | — | — | — | 5 |
| Total Assets | $2,242 | $ — | $ 19 | $ 290 | $ (172) | $(52) | $ — | $ (98) | $2,229 |
| Liabilities | | | | | | | | | |
| Contingent Consideration [6] | (26) | (1) | — | — | — | — | — | — | (27) |
| Total Liabilities | $(26) | $ (1) | $ — | $ — | $ — | $— | $ — | $ — | $(27) |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Fair Value Rollforwards for Financial Instruments Classified as Level 3 for the Six Months Ended June 30, 2017

| | | Total realized/unrealized gains (losses) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value as of January 1, 2017 | Included in net income [1] [5] | Included in OCI [2] | Purchases | Settlements | Sales | Transfers into Level 3 [3] | Transfers out of Level 3 [3] | Fair value as of June 30, 2017 |
| Assets | | | | | | | | | |
| Fixed Maturities, AFS | | | | | | | | | |
| ABS | $45 | $ — | $ — | $ 56 | $ (3) | $— | $ 23 | $ (58) | $63 |
| CDOs | 154 | — | — | 186 | (101) | — | — | (36) | 203 |
| CMBS | 59 | (1) | — | 42 | (4) | — | — | (31) | 65 |
| Corporate | 514 | 1 | 11 | 133 | (41) | (117) | 35 | (8) | 528 |
| Foreign Govt./Govt. Agencies | 47 | — | 2 | 5 | — | (2) | — | (30) | 22 |
| Municipal | 46 | 4 | 1 | — | — | (35) | — | — | 16 |
| RMBS | 1,261 | — | 22 | 117 | (121) | (7) | — | — | 1,272 |
| Total Fixed Maturities, AFS | 2,126 | 4 | 36 | 539 | (270) | (161) | 58 | (163) | 2,169 |
| Fixed Maturities, FVO | 11 | — | — | 4 | (2) | (13) | — | — | — |
| Equity Securities, AFS | 55 | — | (2) | 2 | — | — | — | — | 55 |
| Derivatives, net [4] | | | | | | | | | |
| Equity | — | (3) | — | 5 | — | — | — | — | 2 |
| Interest rate | 9 | (6) | — | — | — | — | — | — | 3 |
| Other contracts | 1 | (1) | — | — | — | — | — | — | — |
| Total Derivatives, net [4] | 10 | (10) | — | 5 | — | — | — | — | 5 |
| Total Assets | $2,202 | $ (6) | $ 34 | $ 550 | $ (272) | $(174) | $ 58 | $ (163) | $2,229 |
| Liabilities | | | | | | | | | |
| Contingent Consideration [6] | (25) | (2) | — | — | — | — | — | — | (27) |
| Total Liabilities | $(25) | $ (2) | $ — | $ — | $ — | $— | $ — | $ — | $(27) |

[1] Amounts in these columns are generally reported in net realized capital gains (losses). All amounts are before income taxes.
[2] All amounts are before income taxes.
[3] Transfers in and/or (out) of Level 3 are primarily attributable to the availability of market observable information and the re-evaluation of the observability of pricing inputs.
[4] Derivative instruments are reported in this table on a net basis for asset (liability) positions and reported in the Condensed Consolidated Balance Sheets in other investments and other liabilities.
[5] Includes both market and non-market impacts in deriving realized and unrealized gains (losses).
[6] For additional information, see Note 2 - Business Acquisitions of Notes to Consolidated Financial Statements included in the Company's 2017 form 10-K Annual Report for discussion of the contingent consideration in connection with the acquisition of Lattice.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Changes in Unrealized Gains (Losses) Included in Net Income for Financial Instruments Classified as Level 3 Still Held at End of Period

| | Three months ended June 30, 2018 [1] [2] | Three months ended June 30, 2017 [1] [2] | Six months ended June 30, 2018 [1] [2] | Six months ended June 30, 2017 [1] [2] |
|---|---|---|---|---|
| Assets | | | | |
| Fixed Maturities, AFS | | | | |
| CMBS | $— | $— | $— | $(1) |
| Total Fixed Maturities, AFS | — | — | — | (1) |
| Derivatives, net | | | | |
| Equity | (1) | (2) | — | (2) |
| Interest rate | — | (2) | 1 | (2) |
| Total Derivatives, net | (1) | (4) | 1 | (4) |
| Total Assets | $(1) | $(4) | $1 | $(5) |
| Liabilities | | | | |
| Contingent Consideration [3] | (4) | (1) | (2) | (2) |
| Total Liabilities | $(4) | $(1) | $(2) | $(2) |

[1] All amounts in these rows are reported in net realized capital gains (losses). All amounts are before income taxes.
[2] Amounts presented are for Level 3 only and therefore may not agree to other disclosures included herein.
[3] For additional information, see Note 2 - Business Acquisitions of Notes to Consolidated Financial Statements included in the Company's 2017 form 10-K Annual Report for discussion of the contingent consideration in connection with the acquisition of Lattice.

Fair Value Option

The Company has elected the fair value option for certain securities that contain embedded credit derivatives with underlying credit risk primarily related to residential real estate, and these securities are included within Fixed Maturities, FVO on the Condensed Consolidated Balance Sheets. The Company reports changes in the fair value of these securities in net realized capital gains and losses.

Changes in Fair Value of Assets using Fair Value Option

| | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Assets | | | | |
| Fixed maturities, FVO | | | | |
| Corporate | $ — | $ — | $ — | $ (1 ) |
| RMBS | — | 1 | — | 1 |
| Total fixed maturities, FVO | — | 1 | — | — |
| Total realized capital gains | $ — | $ 1 | $ — | $ — |

Fair Value of Assets and Liabilities using the Fair Value Option

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Fixed maturities, FVO | | |
| RMBS | $ 36 | $ 41 |