HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
April 28, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
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

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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) ¨ ý
As of April 27, 2016, there were outstanding 393,384,892 shares of Common Stock, $0.01 par value per share, of the registrant.

1

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016
TABLE OF CONTENTS

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 our current expectations and assumptions regarding economic, competitive, legislative and other developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They have been made based upon management’s expectations and beliefs concerning future developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the “Company” or “The Hartford”). Future developments may not be in line with management’s expectations or may have unanticipated effects. 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 2015 Form 10-K Annual Report, and those identified from time to time in our other filings with the Securities and Exchange Commission.

- Risks Related to Economic, Market and Political 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 or other potentially adverse macroeconomic developments on the attractiveness of our products, the returns in our investment portfolios and the hedging costs associated with our runoff annuity block;

financial risk related to the continued reinvestment of our investment portfolios and performance of our hedge program for our runoff annuity block;

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

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

- 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 the valuation of the Company’s financial instruments that could result in changes to investment valuations;

the subjective determinations that underlie the Company’s evaluation of other-than-temporary impairments on available-for-sale securities;

the potential for further acceleration of deferred policy acquisition cost amortization;

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;

- Financial Strength, Credit and Counterparty Risks:

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;

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;

losses due to nonperformance or defaults by others, including sourcing partners, derivative counterparties and other third parties;

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;

•

Insurance Industry and
Product-Related Risks:

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

3

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 ability 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 uncertain effects of emerging claim and coverage issues;

actions by our competitors, many of which are 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 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;

volatility in our statutory and United States ("U.S.") GAAP earnings and potential material changes to our results resulting from our adjustment of our risk management program to emphasize protection of economic value;

- Regulatory and Legal Risks:

the cost and other effects of increased regulation as a result of the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the potential effect of other domestic and foreign regulatory 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;

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

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;

- Other Strategic and Operational Risks:

risks associated with the runoff of our Talcott Resolution business;

the risks, challenges and uncertainties associated with our capital management plan, including as a result of changes in our financial position and earnings, share price, capital position, legal restrictions, other investment opportunities, and other factors;

the risks, challenges and uncertainties associated with our expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings;

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 risk that our framework for managing operational risks may not be effective in mitigating material risk and loss to the Company;

the potential for difficulties arising from outsourcing and similar third-party relationships; and

the Company's ability to protect its intellectual property and defend against claims of infringement;

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.

4

Part I. FINANCIAL INFORMATION

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

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the "Company") as of March 31, 2016, and the related condensed consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the three-month periods ended March 31, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Public Company Accounting Oversight Board (United States), 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.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them 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), the consolidated balance sheet of the Company as of December 31, 2015, 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 26, 2016, 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, 2015 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
April 28, 2016

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
(In millions, except for per share data)	2016	2015
	(Unaudited)	
Revenues		
Earned premiums	$3,404	$3,322
Fee income	426	459
Net investment income	696	809
Net realized capital gains (losses):		
Total other-than-temporary impairment ("OTTI") losses	(27)	(12)
OTTI losses recognized in other comprehensive income (loss) (“OCI”)	4	—
Net OTTI losses recognized in earnings	(23)	(12)
Other net realized capital gains (losses)	(132)	17
Total net realized capital gains (losses)	(155)	5
Other revenues	20	22
Total revenues	4,391	4,617
Benefits, losses and expenses		
Benefits, losses and loss adjustment expenses	2,641	2,563
Amortization of deferred policy acquisition costs ("DAC")	374	387
Insurance operating costs and other expenses	909	948
Interest expense	86	94
Total benefits, losses and expenses	4,010	3,992
Income before income taxes	381	625
Income tax expense	58	158
Net income	$323	$467
Net income per common share		
Basic	$0.81	$1.11
Diluted	$0.79	$1.08
Cash dividends declared per common share	$0.21	$0.18

See Notes to Condensed Consolidated Financial Statements.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Comprehensive Income

(In millions)	Three Months Ended March 31, 2016	2015
	(Unaudited)	
Net income	$323	$467
Other comprehensive income (loss):		
Changes in net unrealized gain on securities	522	208
Changes in OTTI losses recognized in other comprehensive income	(8)	(3)
Changes in net gain on cash flow hedging instruments	54	27
Changes in foreign currency translation adjustments	6	(20)
Changes in pension and other postretirement plan adjustments	9	10
OCI, net of tax	583	222
Comprehensive income	$906	$689

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(In millions, except for share and per share data)	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $57,378 and $56,965)	$60,693	$ 59,196
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $0 and $150)	486	503
Equity securities, available-for-sale, at fair value (cost of $767 and $1,135) (includes equity securities, at fair value using the fair value option, of $0 and $282, and variable interest entity assets of $0 and $1)	798	1,121
Mortgage loans (net of allowances for loan losses of $22 and $23)	5,637	5,624
Policy loans, at outstanding balance	1,444	1,447
Limited partnerships and other alternative investments (includes variable interest entity assets of $394 and $2)	2,654	2,874
Other investments	280	120
Short-term investments (includes variable interest entity assets, at fair value, of $60 and $3)	1,918	1,843
Total investments	73,910	72,728
Cash (includes variable interest entity assets, at fair value, of $5 and $10)	479	448
Premiums receivable and agents' balances, net	3,605	3,537
Reinsurance recoverables, net	23,125	23,189
Deferred policy acquisition costs	1,694	1,816
Deferred income taxes, net	2,868	3,206
Goodwill	498	498
Property and equipment, net	995	974
Other assets (includes variable interest entity assets of $4 and $0)	1,958	1,829
Separate account assets	118,361	120,123
Total assets	$227,493	$ 228,348
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,842	$ 41,572
Other policyholder funds and benefits payable	31,525	31,670
Unearned premiums	5,497	5,385
Short-term debt	690	275
Long-term debt	4,633	5,084
Other liabilities (includes variable interest entity liabilities of $5 and $12)	6,833	6,597
Separate account liabilities	118,361	120,123
Total liabilities	$209,381	$ 210,706
Commitments and Contingencies (Note 8)		
Stockholders' Equity		
Common stock, $0.01 par value — 1,500,000,000 shares authorized, 490,923,222 and 490,923,222 shares issued	5	5
Additional paid-in capital	8,885	8,973
Retained earnings	12,789	12,550
Treasury stock, at cost — 95,319,786 and 89,102,038 shares	(3,821)	(3,557)
Accumulated other comprehensive income ("AOCI"), net of tax	254	(329)
Total stockholders' equity	$18,112	$ 17,642
Total liabilities and stockholders' equity	$227,493	$ 228,348

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity

	Three Months Ended March 31,	
(In millions, except for share data)	2016	2015
	(Unaudited)	
Common Stock	$5	$5
Additional Paid-in Capital, beginning of period	8,973	9,123
Issuance of shares under incentive and stock compensation plans	(124)	(150)
Stock-based compensation plans expense	19	16
Tax benefit on employee stock options and share-based awards	24	26
Issuance of shares for warrant exercise	(7)	(19)
Additional Paid-in Capital, end of period	8,885	8,996
Retained Earnings, beginning of period	12,550	11,191
Net income	323	467
Dividends declared on common stock	(84)	(75)
Retained Earnings, end of period	12,789	11,583
Treasury Stock, at cost, beginning of period	(3,557)	(2,527)
Treasury stock acquired	(350)	(250)
Issuance of shares under incentive and stock compensation plans	125	154
Net shares acquired related to employee incentive and stock compensation plans	(46)	(53)
Issuance of shares for warrant exercise	7	19
Treasury Stock, at cost, end of period	(3,821)	(2,657)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	(329)	928
Total other comprehensive income (loss)	583	222
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	254	1,150
Total Stockholders' Equity	$18,112	$19,077
Common Shares Outstanding, beginning of period (in thousands)	401,821	424,416
Treasury stock acquired	(8,394)	(6,128)
Issuance of shares under incentive and stock compensation plans	3,069	3,923
Return of shares under incentive and stock compensation plans to treasury stock	(1,066)	(1,299)
Issuance of shares for warrant exercise	173	477
Common Shares Outstanding, at end of period	395,603	421,389

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
(In millions)	2016	2015
Operating Activities	(Unaudited)	
Net income	$323	$467
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital (gains) losses	155	(5)
Amortization of deferred policy acquisition costs	374	387
Additions to deferred policy acquisition costs	(354)	(354)
Depreciation and amortization	95	101
Other operating activities, net	81	22
Change in assets and liabilities:		
Decrease in reinsurance recoverables	53	37
Increase (decrease) in deferred and accrued income taxes	(14)	168
Increase in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	158	120
Net change in other assets and other liabilities	(473)	(496)
Net cash provided by operating activities	398	447
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	5,460	6,584
Fixed maturities, fair value option	19	36
Equity securities, available-for-sale	414	363
Mortgage loans	114	104
Partnerships	235	179
Payments for the purchase of:		
Fixed maturities, available-for-sale	(5,752)	(7,375)
Fixed maturities, fair value option	(38)	(59)
Equity securities, available-for-sale	(130)	(566)
Mortgage loans	(128)	(154)
Partnerships	(88)	(106)
Net proceeds from derivatives	189	45
Net increase (decrease) in policy loans	2	(24)
Net additions to property and equipment	(84)	(58)
Net proceeds from (payments for) short-term investments	(29)	1,325
Other investing activities, net	10	1
Net cash provided by investing activities	194	295
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	1,165	1,209
Withdrawals and other deductions from investment and universal life-type contracts	(4,174)	(4,682)
Net transfers from separate accounts related to investment and universal life-type contracts	2,810	3,175
Repayments at maturity or settlement of consumer notes	(5)	(2)
Net increase in securities loaned or sold under agreements to repurchase	64	323
Repayment of debt	—	(289)
Net issuance (return) of shares under incentive and stock compensation plans and excess tax benefit	10	(25)

Treasury stock acquired	(350)	(250)
Dividends paid on common stock	(85)	(78)
Net cash used for financing activities	(565)	(619)
Foreign exchange rate effect on cash	4	(22)
Net increase in cash	31	101
Cash – beginning of period	448	399
Cash – end of period	$479	$500
Supplemental Disclosure of Cash Flow Information		
Income tax refunds received	$—	$47
Interest paid	$71	$77

See Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Significant Accounting Policies

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 to individual and business customers in the United States (collectively, “The Hartford”, the “Company”, “we” or “our”). Also, the Company continues to runoff life and annuity products previously sold.

On March 16, 2016, the Company announced it had entered into a definitive agreement for its wholly-owned subsidiary, Hartford Fire Insurance Company, to purchase Northern Homelands Company, the holding company of Maxum Specialty Insurance Group headquartered in Alpharetta, Georgia for $170, subject to post closing adjustments. Maxum will maintain its brand and limited wholesale distribution model and will be managed as a separate unit within The Hartford's Small Commercial line of business. The transaction, which will not have a material impact on the Company's financial position, results of operations or cashflows, is expected to close in the third quarter of 2016, subject to regulatory approvals.

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 2015 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 2015 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 have been eliminated.

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 insurance product reserves, net of reinsurance; estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts; evaluation of other-than-temporary impairments on available-for-sale securities and valuation allowances on investments; living benefits required to be fair valued; 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. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the Condensed Consolidated Financial Statements.

Reclassifications

Certain reclassifications have been made to prior period financial information to conform to the current period presentation.

Adoption of New Accounting Standards

On January 1, 2016 the Company adopted new consolidation guidance issued by the Financial Accounting Standards Board (“FASB”). The updates revise when to consolidate variable interest entities ("VIEs") and general partners’ investments in limited partnerships, end the deferral granted for applying the VIE guidance to certain investment companies, and reduce the number of circumstances where a decision maker’s or service provider’s fee arrangement is deemed to be a variable interest in an entity. The updates also modify guidance for determining whether limited partnerships are VIEs or voting interest entities. The new guidance did not have a material effect on the Company’s Condensed Consolidated Financial Statements though one investment in a hedge fund of funds that was previously consolidated as a voting interest entity is now consolidated as a VIE. For further discussion, see Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Future Adoption of New Accounting Standards

Leases

In February 2016, the FASB issued updated guidance on lease accounting. Under the new guidance, lessees with operating leases will be required to recognize a liability for the present value of future minimum lease payments with a corresponding asset for the right of use of the property. Under existing guidance, future minimum lease payments on operating leases are commitments that are not recognized as liabilities on the balance sheet. The updated guidance is to be adopted effective January 1, 2019 through a cumulative effect adjustment to retained earnings for the earliest period presented, with early application permitted. Leases will be classified as financing or operating leases similar to capital and operating leases, respectively, under current accounting guidance. Where the lease is economically similar to a purchase because The Hartford obtains control of the underlying asset, the lease will be a financing lease and the Company will recognize amortization of the right of use asset and interest expense on the liability. Where the lease provides The Hartford with only the right to control the use of the underlying asset over the lease term and the lease term is greater than one year, the lease will be an operating lease and the amortization and interest cost will be recognized as rental expense over the lease term on a straight-line basis. Leases with a term of one year or less will also be expensed over the lease term but will not be recognized on the balance sheet. The Company is currently evaluating the potential impact of the new guidance to the consolidated financial statements, including the timing of adoption. We do not expect a material impact to the consolidated financial statements; however, it is expected that assets and liabilities will increase based on the present value of remaining lease payments for leases in place at the adoption date.

Stock Compensation

In March 2016, the FASB issued updated guidance on accounting for share-based payments to employees. The updated guidance requires the excess tax benefit or deficiency on vesting or settlement of awards to be recognized in earnings as an income tax benefit or expense, respectively. This recognition of excess tax benefits and deficiencies will result in earnings volatility as current accounting guidance recognizes these amounts as an adjustment to additional paid-in capital. The excess tax benefit was $27 and $6 for the years ended December 31, 2015 and 2014, respectively, which would have increased net income in each of those years. The excess tax benefits or deficiencies are discrete items in the reporting period in which they occur, and so will not be considered in determining the annual estimated effective tax rate. The excess tax benefits or deficiencies will be presented as a cash flow within operating activities instead of within financing activities as is the case under current accounting. The Hartford will adopt the updated guidance January 1, 2017 and will recognize excess tax benefits or deficiencies in net income, as well as the related cash flows in operating activities, on a prospective basis. The impact of the adoption will depend on the excess tax benefits or deficiencies realized on vesting or settlement of awards resulting from the difference between the market value of awards at vesting or settlement and the grant date fair value recognized through compensation expense.

Table of Contents

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

2. Earnings Per Common Share

The following table presents the computation of basic and diluted earnings per common share.

(In millions, except for per share data)	Three Months Ended March 31, 2016	2015
Earnings		
Net income	$323	$467
Shares		
Weighted average common shares outstanding, basic	398.5	422.6
Dilutive effect of stock compensation plans	4.2	5.5
Dilutive effect of warrants	3.6	5.6
Weighted average common shares outstanding and dilutive potential common shares	406.3	433.7
Net income per common share		
Basic	$0.81	$1.11
Diluted	$0.79	$1.08

3. Segment Information

The Company currently conducts business principally in six reporting segments including Commercial Lines, Personal Lines, Property & Casualty Other Operations, Group Benefits, Mutual Funds and Talcott Resolution, as well as a Corporate category. The Company's revenues are generated primarily in the United States ("U.S."). Any foreign sourced revenue is immaterial.

The following table presents net income (loss) for each reporting segment, as well as the Corporate category.

Net Income (Loss)	Three Months Ended March 31, 2016	2015
Commercial Lines	$228	$240
Personal Lines	20	76
Property & Casualty Other Operations	17	23
Group Benefits	50	52
Mutual Funds	20	22
Talcott Resolution	17	111
Corporate	(29)	(57)
Net income	$323	$467

13

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
3. Segment Information (continued)

The following table presents revenues by product line for each reporting segment, as well as the Corporate category.

	Three Months Ended March 31,	
Revenues	2016	2015
Earned premiums and fee income		
Commercial Lines		
Workers' compensation	$755	$744
Property	159	156
Automobile	157	148
Package business	303	292
Liability	143	135
Bond	53	53
Professional liability	53	55
Total Commercial Lines	1,623	1,583
Personal Lines		
Automobile	678	655
Homeowners	297	297
Total Personal Lines [1]	975	952
Group Benefits		
Group disability	369	371
Group life	375	365
Other	51	44
Total Group Benefits	795	780
Mutual Funds		
Mutual Fund	142	149
Talcott	25	30
Total Mutual Funds	167	179
Talcott Resolution	269	285
Corporate	1	2
Total earned premiums and fee income	3,830	3,781
Net investment income	696	809
Net realized capital gains (losses)	(155)	5
Other revenues	20	22
Total revenues	$4,391	$4,617

[1] For the three months ended March 31, 2016 and 2015, AARP members accounted for earned premiums of $807 and $766, respectively.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements

Fair value is determined based on the "exit price" notion which 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 for the asset or liability in an orderly transaction between market participants. Financial instruments carried at fair value in the Company's Condensed Consolidated Financial Statements include fixed maturity and equity securities, available-for-sale ("AFS"); fixed maturities and equity securities at fair value using the fair value option ("FVO"); short-term investments; freestanding and embedded derivatives; certain limited partnerships and other alternative investments; separate account assets and certain other liabilities.

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The Company categorizes its assets and liabilities measured at estimated fair value based on whether the significant inputs into the valuation are observable. The fair value hierarchy categorizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2 or 3).

Level 1	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	Observable inputs, other than quoted prices included in Level 1, for the asset or liability, or prices for similar assets and liabilities.
Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs, as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the Company’s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs. The Company’s fixed maturities included in Level 3 are classified as such because these securities are primarily within illiquid markets and/or priced by independent brokers.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

The following tables present assets and (liabilities) carried at fair value by hierarchy level. Upon implementation of the new disclosure guidance effective in 2016 certain NAV-based fair values are no longer included in the fair value level disclosures; however, these amounts are included in the total fair value disclosed. As a result, prior period values for limited partnerships and other alternative investments and separate account assets have been removed from Level 2 and Level 3.

	March 31, 2016			
	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")	$2,665	$ —	$ 2,633	$ 32
Collateralized debt obligations ("CDOs")	3,107	—	2,565	542
Commercial mortgage-backed securities ("CMBS")	5,224	—	5,090	134
Corporate	27,297	—	26,463	834
Foreign government/government agencies	1,189	—	1,113	76
Municipal	12,303	—	12,253	50
Residential mortgage-backed securities ("RMBS")	4,338	—	2,452	1,886
U.S. Treasuries	4,570	67	4,503	—
Total fixed maturities	60,693	67	57,072	3,554
Fixed maturities, FVO	486	—	472	14
Equity securities, trading [1]	11	11	—	—
Equity securities, AFS	798	548	158	92
Derivative assets				
Credit derivatives	16	—	16	—
Equity derivatives	2	—	—	2
Foreign exchange derivatives	5	—	5	—
Interest rate derivatives	(138)	—	(138)	—
Guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	146	—	61	85
Macro hedge program	64	—	—	64
Other derivative contracts	5	—	—	5
Total derivative assets [2]	100	—	(56)	156
Short-term investments	1,918	447	1,471	—
Limited partnerships and other alternative investments [3]	394	—	—	—
Reinsurance recoverable for GMWB	99	—	—	99
Modified coinsurance reinsurance contracts	57	—	57	—
Separate account assets [4]	115,959	74,486	40,156	155
Total assets accounted for at fair value on a recurring basis	$180,515	$ 75,559	$ 99,330	$ 4,070
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
GMWB	$(361)	$ —	$ —	$ (361)
Equity linked notes	(25)	—	—	(25)
Total other policyholder funds and benefits payable	(386)	—	—	(386)

Derivative liabilities				
Credit derivatives	(39)	—	(39)	—
Equity derivatives	28	—	25	3
Foreign exchange derivatives	(338)	—	(338)	—
Interest rate derivatives	(665)	—	(637)	(28)
GMWB hedging instruments	46	—	(13)	59
Macro hedge program	81	—	—	81
Total derivative liabilities [5]	(887)	—	(1,002)	115
Total liabilities accounted for at fair value on a recurring basis	$(1,273)	$ —	$(1,002)	$ (271)

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

	December 31, 2015			
	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				
ABS	$2,499	$ —	$ 2,462	$ 37
CDOs	3,038	—	2,497	541
CMBS	4,717	—	4,567	150
Corporate	26,802	—	25,948	854
Foreign government/government agencies	1,308	—	1,248	60
Municipal	12,121	—	12,072	49
RMBS	4,046	—	2,424	1,622
U.S. Treasuries	4,665	740	3,925	—
Total fixed maturities	59,196	740	55,143	3,313
Fixed maturities, FVO	503	2	485	16
Equity securities, trading [1]	11	11		
Equity securities, AFS	1,121	874	154	93
Derivative assets				
Credit derivatives	21	—	21	—
Foreign exchange derivatives	15	—	15	—
Interest rate derivatives	(227)	—	(227)	—
GMWB hedging instruments	111	—	27	84
Macro hedge program	74	—	—	74
Other derivative contracts	7	—	—	7
Total derivative assets [2]	1	—	(164)	165
Short-term investments	1,843	333	1,510	—
Limited partnerships and other alternative investments [3]	622	—	—	—
Reinsurance recoverable for GMWB	83	—	—	83
Modified coinsurance reinsurance contracts	79	—	79	—
Separate account assets [4]	118,174	78,110	38,700	140
Total assets accounted for at fair value on a recurring basis	$181,633	$ 80,070	$ 95,907	$ 3,810
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
GMWB	$(262)	$ —	$ —	$ (262)
Equity linked notes	(26)	—	—	(26)
Total other policyholder funds and benefits payable	(288)	—	—	(288)
Derivative liabilities				
Credit derivatives	(16)	—	(16)	—
Equity derivatives	41	—	41	—
Foreign exchange derivatives	(374)	—	(374)	—
Interest rate derivatives	(569)	—	(547)	(22)
GMWB hedging instruments	47	—	(4)	51
Macro hedge program	73	—	—	73

Total derivative liabilities [5]	(798)	—	(900)	102
Total liabilities accounted for at fair value on a recurring basis	$ (1,086)	$ —	$ (900)	$ (186)

17

[1] Included in other investments on the Condensed Consolidated Balance Sheets.

[2] Includes over-the-counter ("OTC") and OTC-cleared 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, clearing house rules and applicable law. See the following footnote 5 for derivative liabilities.

[3] Represents hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value. The fair value is estimated using the net asset value per unit as a practical expedient and is excluded from the disclosure requirement to classify amounts in the fair value hierarchy.

[4] Approximately $2.4 billion and $1.8 billion of investment sales receivable, as of March 31, 2016, and December 31, 2015, respectively, are excluded from this disclosure requirement because they are trade receivables in the ordinary course of business where the carrying amount approximates fair value. Included in the total fair value amount are $1.2 billion of investments, as of March 31, 2016 and December 31, 2015, for which the fair value is estimated using the net asset value per unit as a practical expedient which are excluded from the disclosure requirement to classify amounts in the fair value hierarchy.

[5] Includes OTC and OTC-cleared 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, clearing house rules and applicable law. In the following Level 3 roll-forward table in this Note 4, the derivative assets and liabilities are referred to as “freestanding derivatives” and are presented on a net basis.

Valuation Techniques, Procedures and Controls

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices where available, and where prices represent a reasonable estimate of fair value. The Company also determines fair value based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company’s default spreads, liquidity, and where appropriate, risk margins on unobservable parameters.

The fair value process is monitored by the Valuation Committee, which is a cross-functional group of senior management within the Company that meets at least quarterly. The Valuation Committee is co-chaired by the Heads of Investment Operations and Accounting, and has representation from various investment sector professionals, accounting, operations, legal, compliance, and risk management. The purpose of the committee is to oversee the pricing policy and procedures by ensuring objective and reliable valuation practices and pricing of financial instruments as well as addressing valuation issues and approving changes to valuation methodologies and pricing sources. 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"), which include various investment, operations, accounting and risk management professionals that meet monthly to review market data trends, pricing and trading statistics and results, and any proposed pricing methodology changes.

The Company also has an enterprise-wide Operational Risk Management function, led by the Chief Operational Risk Officer, which is responsible for establishing, maintaining and communicating the framework, principles and guidelines of the Company's operational risk management program. This includes model risk management which provides an independent review of the suitability, characteristics and reliability of model inputs as well as an analysis of significant changes to current models.

Fixed Maturities, Equity Securities, and Short-term Investments

The fair value of fixed maturities, equity securities, and short-term investments in an active and orderly market (e.g., not distressed or forced liquidation) are determined by management using a "waterfall" approach after considering the following pricing sources: quoted prices for identical assets or liabilities, prices from third-party pricing services, independent broker quotations, or internal matrix pricing processes. Typical inputs used by these pricing sources include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and/or estimated cash flows, prepayment speeds, and default rates. Most fixed maturities do not trade daily. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third-party pricing services utilize matrix pricing to derive security prices. Matrix pricing relies on securities' relationships to other benchmark quoted securities, which trade more frequently. Pricing services utilize recently reported trades of identical or similar securities making adjustments through the reporting date based on the preceding outlined available market observable information. If there are no recently reported trades, the third-party pricing services may develop a security price using expected future cash flows based upon collateral performance and discounted at an estimated market rate. Both matrix pricing and discounted cash flow techniques develop prices by factoring in the time value for cash flows and risk, including liquidity and credit.

Prices from third-party pricing services may be unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

Table of Contents

The Company utilizes an internally developed matrix pricing process for private placement securities for which the Company is unable to obtain a price from a third-party pricing service. The Company's process is similar to the third-party pricing services. The Company develops credit spreads each month 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 credit spreads determined through this survey approach are based upon the issuer's financial strength and term to maturity, utilizing independent public security index and trade information and adjusting for the non-public nature of the securities. Credit spreads combined with risk-free rates are applied to contractual cash flows to develop a price.

The Securities Working Group performs ongoing analyses of the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. As a part of these analyses, the Company considers trading volume, new issuance activity and other factors to determine whether the market activity is significantly different than normal activity in an active market, and if so, whether transactions may not be orderly considering the weight of available evidence. If the available evidence indicates that pricing is based upon transactions that are stale or not orderly, the Company places little, if any, weight on the transaction price and will estimate fair value utilizing an internal pricing model. In addition, the Company ensures that prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models utilizing spreads, and when available, market indices. As a result of this analysis, if the Company determines that there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly and approved by the Valuation Committee.

The Company conducts other specific monitoring controls around pricing. Daily analyses identify price changes over 3% for fixed maturities and 5% for equity securities and trade prices for both debt and equity securities that differ over 3% to the current day's price. Weekly analyses identify prices that differ more than 5% from published bond prices of a corporate bond index. Monthly analyses identify price changes over 3%, prices that have not changed, and missing prices. Also on a monthly basis, a second source validation is performed on most sectors. Analyses are conducted by a dedicated pricing unit that follows up with trading and investment sector professionals and challenges prices with vendors when the estimated assumptions used differ from what the Company feels a market participant would use. Examples of other procedures performed include, but are not limited to, initial and on-going review of third-party pricing services' methodologies, review of pricing statistics and trends, and back testing recent trades.

The Company has analyzed the third-party pricing services' valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Most prices provided by third-party pricing services are classified into Level 2 because the inputs used in pricing the securities are observable. Due to the lack of transparency in the process that brokers use to develop prices, most valuations that are based on brokers' prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated with observable market data.

Derivative Instruments, including Embedded Derivatives within Investments

Derivative instruments are fair valued using pricing valuation models for OTC derivatives that utilize independent market data inputs, quoted market prices for exchange-traded and OTC-cleared derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of March 31, 2016 and December 31, 2015, 96% and 96%, respectively, of derivatives, based upon notional values, were priced by valuation models, including discounted cash flow models and option-pricing models that utilize present value techniques, or quoted market prices. The remaining derivatives were priced by broker quotations.

The Derivatives Working Group performs ongoing analyses of the valuations, assumptions and methodologies used to ensure that the prices represent a reasonable estimate of the fair value. The Company performs various controls on derivative valuations which include both quantitative and qualitative analyses. Analyses are conducted by a dedicated derivative pricing team that works directly with investment sector professionals to analyze impacts of changes in the market environment and investigate variances. On a daily basis, market valuations are compared to counterparty valuations for OTC derivatives. There are monthly analyses to identify market value changes greater than pre-defined thresholds, stale prices, missing prices, and zero prices. Also on a monthly basis, a second source validation, typically to broker quotations, is performed for certain of the more complex derivatives and all new deals during the month. A model validation review is performed on any new models, which typically includes detailed documentation and validation to a second source. The model validation documentation and results of validation are presented to the Valuation Committee for approval. There is a monthly control to review changes in pricing sources to ensure that new models are not moved to production until formally approved.

The Company utilizes 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 assets and liabilities. 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.

Limited Partnerships and Other Alternative Investments

The portion of limited partnerships and other alternative investments recorded at fair value includes hedge funds for which investment company accounting has been applied to a wholly-owned fund of funds measured at fair value. The hedge funds are comprised of approximately half credit and equity related funds and approximately half global macro with a market neutral focus. Fair value is determined for these funds using the NAV, as a practical expedient, calculated on a monthly basis, and is the amount at which a unit or shareholder may redeem their investment, if redemption is allowed. Certain impediments to redemption include, but are not limited to the following: 1) redemption notice periods vary and may be as long as 90 days, 2) redemption may be restricted (e.g. only be allowed on a quarter-end), 3) a holding period referred to as a lock-up may be imposed whereby an investor must hold their investment for a specified period of time before they can make a notice for redemption, 4) gating provisions may limit all redemptions in a given period to a percentage of the entities' equity interests, or may only allow an investor to redeem a portion of their investment at one time, 5) early redemption penalties may be imposed that are expressed as a percentage of the amount redeemed and 6) redemptions not allowed. The Company regularly assesses impediments to redemption and current market conditions that will restrict the redemption at the end of the notice period. Funds that were subject to significant liquidity restrictions due to lock-up or gating provisions consisted of 8% and 9%, respectively, of the value of the investments as of March 31, 2016 and December 31, 2015. The remaining restriction period for these investments is approximately one year as of both March 31, 2016 and December 31, 2015. Funds where redemptions are not allowed consisted of 4% and 3%, respectively, of the value of the investments as of March 31, 2016 and December 31, 2015.

Valuation Inputs for Investments

For Level 1 investments, which are comprised 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, valuations are based on quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.

For the Company’s Level 2 and 3 debt securities, typical inputs used by pricing techniques include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and/or estimated cash flows, prepayment speeds, and default rates. Derivative instruments are valued using mid-market inputs that are predominantly observable in the market.

A description of additional inputs used in the Company’s Level 2 and Level 3 measurements is included in the following discussion:

Level 2	The fair values of most of the Company’s Level 2 investments are determined by management after considering prices received from third party pricing services. These investments include most fixed maturities and preferred stocks, including those reported in separate account assets as well as certain derivative instruments.

- ABS, CDOs, CMBS and RMBS – Primary inputs also include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, and credit default swap indices. ABS and RMBS prices also include estimates of the rate of future principal prepayments over the remaining life of the securities. These estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral.
- Corporates, including investment grade private placements – Primary inputs also include observations of credit default swap curves related to the issuer.
- Foreign government/government agencies — Primary inputs also include observations of credit default swap curves related to the issuer and political events in emerging market economies.
- Municipals – Primary inputs also include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

- Short-term investments – Primary inputs also include material event notices and new issue money market rates.
- Credit derivatives – Primary inputs include the swap yield curve and credit default swap curves.
- Equity derivatives – Primary inputs include equity index levels.
- Foreign exchange derivatives – Primary inputs include the swap yield curve, currency spot and forward rates, and cross currency basis curves.
- Interest rate derivatives – Primary input is the swap yield curve.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

Level 3	Most of the Company's securities classified as Level 3 include less liquid securities such as lower quality ABS, CMBS, commercial real estate ("CRE") CDOs and RMBS primarily backed by sub-prime loans. Also included in Level 3 are securities valued based on broker prices or broker spreads, without adjustments. Primary inputs for non-broker priced investments, including structured securities, are consistent with the typical inputs used in the preceding noted Level 2 measurements, but are Level 3 due to their less liquid markets. Additionally, certain long-dated securities are priced based on third party pricing services, including certain municipal securities, foreign government/government agency securities, and bank loans, which are included with corporate fixed maturities. Primary inputs for these long-dated securities are consistent with the typical inputs used in the preceding noted Level 1 and Level 2 measurements, but include benchmark interest rate or credit spread assumptions that are not observable in the marketplace. Significant inputs for Level 3 derivative contracts primarily include the typical inputs used in the preceding noted Level 1 and Level 2 measurements; but also include equity and interest rate volatility and swap yield curves beyond observable limits.

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 $741 and $106, for the three months ended March 31, 2016 and 2015, respectively, which represented previously on-the-run U.S. Treasury securities that are now off-the-run. For the three months ended March 31, 2016 and 2015, there were no transfers from Level 2 to Level 1. See the fair value roll-forward tables for the three months ended March 31, 2016 and 2015, for the transfers into and out of Level 3.
Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value
The following tables present information about significant unobservable inputs used in Level 3 assets measured at fair value. The tables exclude ABS, CRE CDOs, index options and certain corporate securities and CMBS for which fair values are based on broker quotations.

Securities	Unobservable Inputs						
	As of March 31, 2016						
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]
CMBS [3]	$115	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	31 bps	1,035 bps	409 bps	Decrease
Corporate [3]	320	Discounted cash flows	Spread	62 bps	725 bps	298 bps	Decrease
Municipal [3]	32	Discounted cash flows	Spread	219 bps	219 bps	219 bps	Decrease
RMBS	1,886	Discounted cash flows	Spread	34 bps	1,281 bps	217 bps	Decrease
			Constant prepayment rate	—%	20%	3%	Decrease [4]
			Constant default rate	1%	10%	6%	Decrease
			Loss severity	40%	100%	80%	Decrease
	As of December 31, 2015						
CMBS [3]	$122	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	31 bps	1,505 bps	266 bps	Decrease
Corporate [3]	339		Spread	63 bps	800 bps	306 bps	Decrease

		Discounted cash flows					
Municipal [3]	31	Discounted cash flows	Spread	193 bps	193 bps	193 bps	Decrease
RMBS	1,622	Discounted cash flows	Spread	30 bps	1,696 bps	178 bps	Decrease
			Constant prepayment rate	—%	20%	2%	Decrease [4]
			Constant default rate	1%	10%	6%	Decrease
			Loss severity	—%	100%	78%	Decrease

21

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

[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] Level 3 CMBS, corporate and municipal securities excludes those for which the Company bases fair value on broker quotations as noted in the following discussion.
[4] Decrease for above market rate coupons and increase for below market rate coupons.

Freestanding Derivatives	Unobservable Inputs					
	As of March 31, 2016					
	Fair Value	Predominant Valuation Technique	Significant Unobservable Input	Minimum	Maximum	Impact of Increase in Input on Fair Value [1]
Interest rate derivative						
Interest rate swaps	$(32)	Discounted cash flows	Swap curve beyond 30 years	2 %	2 %	Decrease
Interest rate swaptions [2]	4	Option model	Interest rate volatility	2 %	2 %	Increase
GMWB hedging instruments						
Equity variance swaps	(34)	Option model	Equity volatility	22 %	24 %	Increase
Equity options	28	Option model	Equity volatility	26 %	29 %	Increase
Customized swaps	150	Discounted cash flows	Equity volatility	12 %	30 %	Increase
Macro hedge program [3]						
Equity options	178	Option model	Equity volatility	12 %	27 %	Increase
	As of December 31, 2015					
Interest rate derivative						
Interest rate swaps	$(30)	Discounted cash flows	Swap curve beyond 30 years	3 %	3 %	Decrease
Interest rate swaptions [2]	8	Option model	Interest rate volatility	1 %	2 %	Increase
GMWB hedging instruments						
Equity variance swaps	(31)	Option model	Equity volatility	19 %	21 %	Increase
Equity options	35	Option model	Equity volatility	27 %	29 %	Increase
Customized swaps	131	Discounted cash flows	Equity volatility	10 %	40 %	Increase
Macro hedge program [3]						
Equity options	179	Option model	Equity volatility	14 %	28 %	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.

[3] Level 3 macro hedge derivatives excludes those for which the Company bases fair value on broker quotations as noted in the following discussion.

Securities and derivatives for which the Company bases fair value on broker quotations include ABS, CDOs, CMBS, corporate, and index options. Due to the lack of transparency in the process brokers use to develop prices for these investments, the Company does not have access to the significant unobservable inputs brokers use to price these securities and derivatives. The Company believes however, the types of inputs brokers may use would likely be similar to those used to price securities and derivatives for which inputs are available to the Company, and therefore may include but not be limited to, loss severity rates, constant prepayment rates, constant default rates and credit spreads. Therefore, similar to non broker priced securities and derivatives, generally, increases in these inputs would cause fair values to decrease. For the three months ended March 31, 2016, no significant adjustments were made by the Company to broker prices received.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

Product Derivatives
The Company formerly offered certain variable annuity products with GMWB riders. The GMWB provides the policyholder with a guaranteed remaining balance ("GRB") which is generally equal to premiums less withdrawals. If the policyholder's account value is reduced to the specified level through a combination of market declines and withdrawals but the GRB still has value, the Company is obligated to continue to make annuity payments to the policyholder until the GRB is exhausted. Certain contract provisions can increase the GRB at contractholder election or after the passage of time. GMWB payments that are not life-contingent represent an embedded derivative in the variable annuity contract. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host for measurement purposes. The embedded derivative is carried at fair value, with changes in fair value reported in net realized capital gains and losses. The Company's GMWB liability, excluding life-contingent payments, is carried at fair value and reported in other policyholder funds and benefits payable in the Condensed Consolidated Balance Sheets. The notional value of the embedded derivative is the GRB.
In valuing the embedded derivative, the Company attributes to the derivative a portion of the fees collected from the contract holder equal to the present value of future GMWB claims (the "Attributed Fees") as determined at contract issuance. All changes in the fair value of the embedded derivative are recorded in net realized capital gains and losses. The excess of fees collected from the contract holder over the Attributed Fees are associated with the host variable annuity contract reported in fee income.
GMWB Reinsurance Derivative
The Company has reinsurance arrangements in place to transfer a portion of its risk of loss due to GMWB. These arrangements are recognized as derivatives and carried at fair value in reinsurance recoverables. Changes in the fair value of the reinsurance agreements are reported in net realized capital gains and losses.
The fair value of the GMWB reinsurance derivative is calculated as an aggregation of the components described in the following Living Benefits Required to be Fair Valued discussion and is modeled using significant unobservable policyholder behavior inputs, identical to those used in calculating the underlying liability, such as lapses, fund selection, resets and withdrawal utilization and risk margins.
Living Benefits Required to be Fair Valued (in Other Policyholder Funds and Benefits Payable)
Fair values for GMWBs classified as embedded derivatives are calculated using the income approach based upon internally developed models because active, observable markets do not exist for those items. The fair value of these GMWBs and the related reinsurance and customized freestanding derivatives are calculated as an aggregation of the following components: Best Estimate Claim Payments; Credit Standing Adjustment; and Margins. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. The Company believes the aggregation of these components, as necessary and as reconciled or calibrated to the market information available to the Company, results in an amount that the Company would be required to transfer to or receive from market participants in an active liquid market, if one existed, for those market participants to assume the risks associated with the guaranteed minimum benefits and the related reinsurance and customized derivatives. The fair value is likely to materially diverge from the ultimate settlement of the liability as the Company believes settlement will be based on our best estimate assumptions rather than those best estimate assumptions plus risk margins. In the absence of any transfer of the guaranteed benefit liability to a third party, the release of risk margins is likely to be reflected as realized gains in future periods' net income. Each component described in the following discussion is unobservable in the marketplace and requires subjectivity by the Company in determining its value.
Oversight of the Company's valuation policies and processes for product and GMWB reinsurance derivatives is performed by a multidisciplinary group comprised of finance, actuarial and risk management professionals. This multidisciplinary group reviews and approves changes and enhancements to the Company's valuation model as well as

associated controls.

Best Estimate Claim Payments

The Best Estimate Claim Payments are calculated based on actuarial and capital market assumptions related to projected cash flows, including the present value of benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior such as lapses, fund selection, resets and withdrawal utilization. For the customized derivatives, policyholder behavior is prescribed in the derivative contract. Because of the dynamic and complex nature of these cash flows, best estimate assumptions and a Monte Carlo stochastic process are used in valuation. The Monte Carlo stochastic process involves the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates and a blend of observable implied index volatility levels. Estimating these cash flows involves numerous estimates and subjective judgments regarding a number of variables. These variables include expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and assumptions about policyholder behavior which emerge over time.

At each valuation date, the Company assumes expected returns based on:

- risk-free rates as represented by the Eurodollar futures, LIBOR deposits and swap rates to derive forward curve rates;
- market implied volatility assumptions for each underlying index based primarily on a blend of observed market "implied volatility" data;
- correlations of historical returns across underlying well known market indices based on actual observed returns over the ten years preceding the valuation date; and
- three years of history for fund indexes compared to separate account fund regression.

The Company updates capital market assumptions used in the GMWB liability model such as interest rates, equity indices and the blend of implied equity index volatilities on a daily basis. The Company monitors various aspects of policyholder behavior and may modify certain of its assumptions, including living benefit lapses and withdrawal rates, if credible emerging data indicates that changes are warranted. In addition, the Company will continue to evaluate policyholder behavior assumptions as we implement initiatives to reduce the size of the variable annuity business. At a minimum, all policyholder behavior assumptions are reviewed and updated, as appropriate, in conjunction with the completion of the Company's annual comprehensive study to refine its estimate of future gross profits with the study performed in the fourth quarter of each year.

Credit Standing Adjustment

This assumption makes an adjustment that market participants would make, in determining fair value, to reflect the risk that guaranteed benefit obligations, or the GMWB reinsurance recoverables will not be fulfilled. The Company incorporates a blend of observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. The credit standing adjustment assumption, net of reinsurance, resulted in pre-tax realized gains of $2 and $0, for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016 and December 31, 2015 the credit standing adjustment was $2 and $0, respectively.

Margins

The behavior risk margin adds a margin that market participants would require, in determining fair value, for the risk that the Company's assumptions about policyholder behavior could differ from actual experience. The behavior risk margin is calculated by taking the difference between adverse policyholder behavior assumptions and best estimate assumptions.

There were no policyholder assumption updates related to the behavior risk margin for the three months ended March 31, 2016 and 2015. As of March 31, 2016 and December 31, 2015 the behavior risk margin was $45.

In addition to the non-market-based update described in the preceding discussion, the Company recognized non-market-based updates driven by the relative outperformance (underperformance) of the underlying actively managed funds as compared to their respective indices resulting in pre-tax realized gains (losses) of approximately $(4) and $10, for the three months ended March 31, 2016 and 2015, respectively.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

The following table provides quantitative information about the significant unobservable inputs and is applicable to all of the GMWB embedded derivative and the GMWB reinsurance derivative.

	As of March 31, 2016		
Significant Unobservable Input	Unobservable Inputs (Minimum)	Unobservable Inputs (Maximum)	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization [2]	20%	100%	Increase
Withdrawal Rates [3]	—%	8%	Increase
Lapse Rates [4]	—%	75%	Decrease
Reset Elections [5]	20%	75%	Increase
Equity Volatility [6]	12%	30%	Increase

	As of December 31, 2015		
Significant Unobservable Input	Unobservable Inputs (Minimum)	Unobservable Inputs (Maximum)	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization [2]	20%	100%	Increase
Withdrawal Rates [3]	—%	8%	Increase
Lapse Rates [4]	—%	75%	Decrease
Reset Elections [5]	20%	75%	Increase
Equity Volatility [6]	10%	40%	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.
[2] Range represents assumed cumulative percentages of policyholders taking withdrawals.
[3] Range represents assumed cumulative annual amount withdrawn by policyholders.
[4] Range represents assumed annual percentages of full surrender of the underlying variable annuity contracts across all policy durations for in force business.
[5] Range represents assumed cumulative percentages of policyholders that would elect to reset their guaranteed benefit base.
[6] Range represents implied market volatilities for equity indices based on multiple pricing sources.

Generally, a change in withdrawal utilization assumptions would be accompanied by a directionally opposite change in lapse rate assumptions, as the behavior of policyholders that utilize GMWB riders is typically different from policyholders that do not utilize these riders.

Separate Account Assets

Separate account assets are primarily invested in mutual funds. Other separate account assets include fixed maturities, limited partnerships, equity securities, short-term investments and derivatives that are valued in the same manner, and using the same pricing sources and inputs, as those investments held by the Company. For limited partnerships in which fair value represents the separate account's share of the NAV, 29% and 28% were subject to significant liquidation restrictions due to lock-up or gating provisions as of March 31, 2016 and December 31, 2015, respectively. Limited partnerships where redemptions are not allowed consisted of 5% and 4% as of March 31, 2016 and December 31, 2015, respectively. Separate account assets classified as Level 3 primarily include long-dated bank loans, subprime RMBS, and commercial mortgage loans.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)
The following tables provide fair value roll-forwards for the three months ended March 31, 2016 and 2015, for the financial instruments classified as Level 3.
For the three months ended March 31, 2016

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2016	$37	$541	$150	$854	$60	$49	$1,622	$3,313	$16
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	—	(1)	(13)	—	—	—	(14)	(2)
Included in OCI [3]	—	—	(8)	(7)	5	1	(14)	(23)	—
Purchases	—	—	40	30	14	—	333	417	5
Settlements	(3)	1	(9)	(5)	(1)	—	(57)	(74)	(1)
Sales	—	—	—	(25)	(2)	—	—	(27)	—
Transfers into Level 3 [4]	5	—	—	58	—	—	2	65	—
Transfers out of Level 3 [4]	(7)	—	(38)	(58)	—	—	—	(103)	(4)
Fair value as of March 31, 2016	$32	$542	$134	$834	$76	$50	$1,886	$3,554	$14
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2016 [2] [7]	$—	$—	$(1)	$(13)	$—	$—	$—	$(14)	$(1)

		Freestanding Derivatives [5]					
Assets (Liabilities)	Equity Securities, AFS	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2016	$93	$—	$(22)	$135	$147	$7	$267
Total realized/unrealized gains (losses)							
Included in net income [1] [2] [6]	(1)	(11)	(6)	9	—	(2)	(10)
Included in OCI [3]	2	—	—	—	—	—	—
Purchases	—	16	—	—	—	—	16
Settlements	—	—	—	—	(2)	—	(2)
Sales	(2)	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	—	—	—	—
Fair value as of March 31, 2016	$92	$5	$(28)	$144	$145	$5	$271
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2016 [2] [7]	$(1)	$(11)	$(6)	$9	$(1)	$(2)	$(11)

Table of Contents

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

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2016	$ 83	$ 139
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	12	—
Included in OCI [3]	—	4
Purchases	—	38
Settlements	4	(5)
Sales	—	(10)
Transfers into Level 3 [4]	—	3
Transfers out of Level 3 [4]	—	(15)
Fair value as of March 31, 2016	$ 99	$ 154
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2016 [2] [7]	$ 12	$ —

Liabilities	Other Policyholder Funds and Benefits Payable: Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable
Fair value as of January 1, 2016	$ (262)	$ (26)	$ (288)
Total realized/unrealized gains (losses)			
Included in net income [1] [2] [6]	(82)	1	(81)
Settlements	(17)	—	(17)
Fair value as of March 31, 2016	$ (361)	$ (25)	$ (386)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2016 [2] [7]	$ (82)	$ 1	$ (81)

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

For the three months ended March 31, 2015

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2015	$122	$623	$284	$1,040	$ 59	$ 66	$1,281	$3,475	$ 92
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	(2)	(1)	(4)	—	—	(1)	(8)	(5)
Included in OCI [3]	—	19	(3)	(28)	1	(2)	(1)	(14)	—
Purchases	43	—	21	5	5	—	310	384	12
Settlements	(1)	(9)	(13)	1	(1)	—	(46)	(69)	—
Sales	—	—	—	(7)	(16)	—	(31)	(54)	(4)
Transfers into Level 3 [4]	1	—	5	139	—	—	4	149	—
Transfers out of Level 3 [4]	(4)	(47)	(25)	(34)	—	—	(53)	(163)	(10)
Fair value as of March 31, 2015	$161	$584	$268	$1,112	$ 48	$ 64	$1,463	$3,700	$ 85
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2015 [2] [7]	$—	$(1)	$(1)	$(2)	$ —	$ —	$(1)	$(5)	$ (1)

		Freestanding Derivatives [5]						
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2015	$ 98	$(9)	$ 6	$(7)	$ 170	$ 141	$ 12	$ 313
Total realized/unrealized gains (losses)								
Included in net income [1] [2] [6]	1	5	17	(11)	9	(1)	(1)	18
Included in OCI [3]	(3)	—	—	—	—	—	—	—
Purchases	8	(7)	—	—	—	47	—	40
Settlements	—	—	(15)	—	(20)	—	—	(35)
Sales	(2)	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	—	—	—	—	—
Fair value as of March 31, 2015	$ 102	$(11)	$ 8	$(18)	$ 159	$ 187	$ 11	$ 336
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2015 [2] [7]	$ 1	$5	$ 3	$(19)	$ 16	$ 3	$ (1)	$ 7

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2015	$ 56	$ 112
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	4	1
Purchases	—	38
Settlements	5	(5)
Sales	—	(6)
Transfers into Level 3 [4]	—	1
Transfers out of Level 3 [4]	—	(4)
Fair value as of March 31, 2015	$ 65	$ 137
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2015 [2] [7]	$ 4	$ 1

Liabilities	Other Policyholder Funds and Benefits Payable			
	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of January 1, 2015	$(139)	$ (26)	$ (165)	$ (3)
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	(19)	—	(19)	—
Settlements	(18)	—	(18)	—
Fair value as of March 31, 2015	$(176)	$ (26)	$ (202)	$ (3)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2015 [2] [7]	$(19)	$ —	$ (19)	$ —

[1] The Company classifies realized and unrealized gains (losses) on GMWB reinsurance derivatives and GMWB embedded derivatives as unrealized gains (losses) for purposes of disclosure in this table because it is impracticable to track on a contract-by-contract basis the realized gains (losses) for these derivatives and embedded derivatives.
[2] All amounts in these rows are reported in net realized capital gains (losses). The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. All amounts are before income taxes and amortization of DAC.
[3] All amounts are before income taxes and amortization of DAC.
[4] 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.
[5] 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.
[6] Includes both market and non-market impacts in deriving realized and unrealized gains (losses).
[7] Amounts presented are for Level 3 only and therefore may not agree to other disclosures included herein.

29

Table of Contents

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

Fair Value Option

FVO investments include certain securities that contain embedded credit derivatives with underlying credit risk primarily related to residential and commercial real estate, for which the company has elected the fair value option. The Company also classifies the underlying fixed maturities held in certain consolidated investment funds within the Fixed Maturities, FVO line on the Condensed Consolidated Balance Sheets. The Company reports these consolidated investment companies at fair value with changes in the fair value of these securities recognized in net realized capital gains and losses, which is consistent with accounting requirements for investment companies. The investment funds hold fixed income securities in multiple sectors and the Company has management and control of the funds as well as a significant ownership interest.

The Company also elected the fair value option for certain equity securities in order to align the accounting with total return swap contracts that hedge the risk associated with the investments. The swaps do not qualify for hedge accounting and the change in value of both the equity securities and the total return swaps are recorded in net realized capital gains and losses. These equity securities are classified within equity securities, AFS on the Condensed Consolidated Balance Sheets. As of March 31, 2016, the Company no longer has any of these investments. Income earned from FVO securities is recorded in net investment income and changes in fair value are recorded in net realized capital gains and losses.

The following table presents the changes in fair value of those assets and liabilities accounted for using the fair value option reported in net realized capital gains and losses in the Company's Condensed Consolidated Statements of Operations.

	Three Months Ended March 31,	
	2016	2015
Assets		
Fixed maturities, FVO		
CDOs	$—	$ 1
Foreign government	(1)	—
RMBS	1	1
Total fixed maturities, FVO	$—	$ 2
Equity, FVO	(34)	2
Total realized capital gains (losses)	$(34)	$ 4

The following table presents the fair value of assets and liabilities accounted for using the fair value option included in the Company's Condensed Consolidated Balance Sheets.

	March 31, 2016	December 31, 2015
Assets		
Fixed maturities, FVO		
ABS	$ 9	$ 13
CDOs	4	6
CMBS	16	24
Corporate	62	87
Foreign government	8	2
U.S government	3	3
RMBS	384	368
Total fixed maturities, FVO	$ 486	$ 503

Equity, FVO [1]	$ —	$ 282

[1] Included in equity securities, AFS on the Condensed Consolidated Balance Sheets. The Company did not hold any equity securities, FVO as of March 31, 2016.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

Financial Instruments Not Carried at Fair Value
The following table presents carrying amounts and fair values of the Company's financial instruments not carried at fair value.

	Fair Value Hierarchy Level	March 31, 2016 Carrying Amount	March 31, 2016 Fair Value	December 31, 2015 Carrying Amount	December 31, 2015 Fair Value
Assets					
Policy loans	Level 3	$1,444	$1,444	$1,447	$1,447
Mortgage loans	Level 3	5,637	5,900	5,624	5,736
Liabilities					
Other policyholder funds and benefits payable [1]	Level 3	$6,636	$6,888	$6,706	$6,898
Senior notes [2]	Level 2	4,240	4,836	4,259	4,811
Junior subordinated debentures [2]	Level 2	1,083	1,283	1,100	1,304
Consumer notes [3]	Level 3	33	33	38	38
Assumed investment contracts [3]	Level 3	668	730	619	682

[1] Excludes guarantees on variable annuities, group accident and health and universal life insurance contracts, including corporate owned life insurance.
[2] Included in long-term debt in the Condensed Consolidated Balance Sheets, except for current maturities, which are included in short-term debt.
[3] Included in other liabilities in the Condensed Consolidated Balance Sheets.

Fair values for policy loans were determined using current loan coupon rates, which reflect the current rates available under the contracts. As a result, the fair value approximates the carrying value of the policy loans.
Fair values for mortgage loans were estimated using discounted cash flow calculations based on current lending rates for similar type loans. Current lending rates reflect changes in credit spreads and the remaining terms of the loans.
Fair values for other policyholder funds and benefits payable and assumed investment contracts, not carried at fair value, are estimated based on the cash surrender values of the underlying policies or by estimating future cash flows discounted at current interest rates adjusted for credit risk.
Fair values for senior notes and junior subordinated debentures are determined using the market approach based on reported trades, benchmark interest rates and issuer spread for the Company which may consider credit default swaps.
Fair values for consumer notes were estimated using discounted cash flow calculations using current interest rates adjusted for estimated loan durations.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments

Net Realized Capital Gains (Losses)

	Three Months Ended March 31,	
(Before tax)	2016	2015
Gross gains on sales	$90	$197
Gross losses on sales	(108)	(148)
Net OTTI losses recognized in earnings	(23)	(12)
Valuation allowances on mortgage loans	—	(3)
Periodic net coupon settlements on credit derivatives	—	1
Results of variable annuity hedge program		
GMWB derivatives, net	(17)	1
Macro hedge program	(14)	(4)
Total results of variable annuity hedge program	(31)	(3)
Other, net [1]	(83)	(27)
Net realized capital gains (losses)	$(155)	$5

[1] Primarily consists of changes in the value of non-qualifying derivatives, transactional foreign currency revaluation gains (losses) on yen denominated fixed payout annuity liabilities and gains (losses) on non-qualifying derivatives used to hedge the foreign currency exposure of the liabilities. For the three months ended March 31, 2016 and 2015, gains (losses) from transactional foreign currency revaluation of $(50) and $0, respectively, were primarily related to the yen denominated fixed payout annuity liabilities. For the three months ended March 31, 2016 and 2015, gains (losses) on instruments used to hedge the foreign currency exposure on the fixed payout annuities were $36 and $(14), respectively.

Net realized capital gains and losses from investment sales are reported as a component of revenues and are determined on a specific identification basis. Before tax, net gains and losses on sales and impairments previously reported as unrealized gains in AOCI were $41 and $37 for the three months ended March 31, 2016 and 2015, respectively. Proceeds from sales of AFS securities totaled $4.9 billion and $6.2 billion for three months ended March 31, 2016 and 2015, respectively.

Recognition and Presentation of Other-Than-Temporary Impairments

The Company deems bonds and certain equity securities with debt-like characteristics (collectively “debt securities”) to be other-than-temporarily impaired (“impaired”) if a security meets the following conditions: a) the Company intends to sell or it is more likely than not that the Company will be required to sell the security before a recovery in value, or b) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell or it is more likely than not that the Company will be required to sell the security before a recovery in value, a charge is recorded in net realized capital losses equal to the difference between the fair value and amortized cost basis of the security. For those impaired debt securities which do not meet the first condition and for which the Company does not expect to recover the entire amortized cost basis, the difference between the security’s amortized cost basis and the fair value is separated into the portion representing a credit OTTI, which is recorded in net realized capital losses, and the remaining non-credit impairment, which is recorded in OCI. Generally, the Company determines a security’s credit impairment as the difference between its amortized cost basis and its best estimate of expected future cash flows discounted at the security’s effective yield prior to impairment. The remaining non-credit impairment is the difference between the security’s fair value and the Company’s best estimate of expected future cash flows discounted at the security’s effective yield prior to the impairment, which typically includes current market liquidity and risk premiums. The previous amortized cost basis less the impairment recognized in net realized capital losses becomes the security’s new cost basis. The Company accretes the new cost basis to the estimated future cash flows over the expected remaining life of the security by prospectively adjusting the security’s yield, if necessary.

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

The Company’s evaluation of whether a credit impairment exists for debt securities includes but is not limited to, the following factors: (a) changes in the financial condition of the security’s underlying collateral, (b) whether the issuer is current on contractually obligated interest and principal payments, (c) changes in the financial condition, credit rating and near-term prospects of the issuer, (d) the extent to which the fair value has been less than the amortized cost of the security and (e) the payment structure of the security. The Company’s best estimate of expected future cash flows used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the security. The Company’s best estimate of future cash flows involves assumptions including, but not limited to, earnings multiples, underlying asset valuations and various performance indicators, such as historical and projected default and recovery rates, credit ratings, current and projected delinquency rates, and loan-to-value ("LTV") ratios. In addition, for structured securities, the Company considers factors including, but not limited to, average cumulative collateral loss rates that vary by vintage year, commercial and residential property value declines that vary by property type and location and commercial real estate delinquency levels. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer and/or underlying collateral such as changes in the projections of the underlying property value estimates.

For equity securities where the decline in the fair value is deemed to be other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost basis of the security. The previous cost basis less the impairment becomes the security’s new cost basis. The Company asserts its intent and ability to retain those equity securities deemed to be temporarily impaired until the price recovers. Once identified, these securities are systematically restricted from trading unless approved by investment and accounting professionals.

The primary factors considered in evaluating whether an impairment exists for an equity security may include, but are not limited to: (a) the length of time and extent to which the fair value has been less than the cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on preferred stock dividends and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.

The following table presents the Company's impairments by impairment type.

	Three Months Ended March 31,	
	2016	2015
Credit impairments	$18	$ 3
Intent-to-sell impairments	2	9
Impairments on equity securities	3	—
Total impairments	$23	$ 12

The following table presents a roll-forward of the Company’s cumulative credit impairments on fixed maturities held.

	Three Months Ended March 31,	
(Before tax)	2016	2015
Balance as of beginning of period	$(324)	$(424)
Additions for credit impairments recognized on [1]:		
Securities not previously impaired	(17)	(3)

Securities previously impaired	(1)	—
Reductions for credit impairments previously recognized on:		
Securities that matured or were sold during the period	1	4
Securities the Company made the decision to sell or more likely than not will be required to sell	—	2
Securities due to an increase in expected cash flows	5	9
Balance as of end of period	$(336)	$(412)

[1] These additions are included in the net OTTI losses recognized in earnings in the Condensed Consolidated Statements of Operations.

33

Table of Contents
THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

Available-for-Sale Securities
The following table presents the Company’s AFS securities by type.

	March 31, 2016					December 31, 2015				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]
ABS	$2,683	$ 29	$ (47)	$2,665	$ —	$2,520	$ 24	$ (45)	$2,499	$ —
CDOs [2]	3,075	68	(37)	3,107	—	2,989	75	(23)	3,038	—
CMBS	5,132	155	(63)	5,224	(8)	4,668	105	(56)	4,717	(8)
Corporate	25,723	1,818	(244)	27,297	(17)	25,876	1,342	(416)	26,802	(3)
Foreign govt./govt. agencies	1,146	57	(14)	1,189	—	1,321	34	(47)	1,308	—
Municipal	11,186	1,124	(7)	12,303	—	11,124	1,008	(11)	12,121	—
RMBS	4,263	103	(28)	4,338	—	3,986	82	(22)	4,046	—
U.S. Treasuries	4,170	403	(3)	4,570	—	4,481	222	(38)	4,665	—
Total fixed maturities, AFS	$57,378	$ 3,757	$ (443)	$60,693	$ (25)	$56,965	$ 2,892	$ (658)	$59,196	$ (11)
Equity securities, AFS [3]	767	56	(25)	798	—	842	38	(41)	839	—
Total AFS securities	$58,145	$ 3,813	$ (468)	$61,491	$ (25)	$57,807	$ 2,930	$ (699)	$60,035	$ (11)

[1] Represents the amount of cumulative non-credit OTTI losses recognized in OCI on securities that also had credit impairments. These losses are included in gross unrealized losses as of March 31, 2016, and December 31, 2015.
[2] Gross unrealized gains (losses) exclude the fair value of bifurcated embedded derivatives within certain securities. Subsequent changes in value are recorded in net realized capital gains (losses).
[3] Excluded equity securities, FVO, with a cost and fair value of $293 and $282 as of December 31, 2015. The Company held no equity securities, FVO as of March 31, 2016.

The following table presents the Company’s fixed maturities, AFS, by contractual maturity year.

	March 31, 2016		December 31, 2015	
Contractual Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$2,509	$2,527	$2,373	$2,405
Over one year through five years	10,591	10,986	10,929	11,200
Over five years through ten years	8,816	9,242	9,322	9,497
Over ten years	20,309	22,604	20,178	21,794
Subtotal	42,225	45,359	42,802	44,896
Mortgage-backed and asset-backed securities	15,153	15,334	14,163	14,300
Total fixed maturities, AFS	$57,378	$60,693	$56,965	$59,196

Estimated maturities may differ from contractual maturities due to security call or prepayment provisions. Due to the potential for variability in payment speeds (i.e. prepayments or extensions), mortgage-backed and asset-backed securities are not categorized by contractual maturity.

Concentration of Credit Risk

The Company aims to maintain a diversified investment portfolio including issuer, sector and geographic stratification, where applicable, and has established certain exposure limits, diversification standards and review procedures to mitigate credit risk. The Company had no investment exposure to any credit concentration risk of a single issuer greater than 10% of the Company's stockholders' equity, other than the U.S. government and certain U.S.

government agencies as of March 31, 2016, or December 31, 2015.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

Unrealized Losses on AFS Securities

The following tables present the Company’s unrealized loss aging for AFS securities by type and length of time the security was in a continuous unrealized loss position.

	March 31, 2016								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$1,121	$1,112	$ (9)	$368	$330	$ (38)	$1,489	$1,442	$ (47)
CDOs [1]	1,543	1,523	(21)	1,108	1,092	(16)	2,651	2,615	(37)
CMBS	1,370	1,322	(48)	250	235	(15)	1,620	1,557	(63)
Corporate	3,810	3,662	(148)	890	794	(96)	4,700	4,456	(244)
Foreign govt./govt. agencies	217	210	(7)	78	71	(7)	295	281	(14)
Municipal	272	267	(5)	33	31	(2)	305	298	(7)
RMBS	919	909	(10)	743	725	(18)	1,662	1,634	(28)
U.S. Treasuries	248	246	(2)	25	24	(1)	273	270	(3)
Total fixed maturities, AFS	$9,500	$9,251	$ (250)	$3,495	$3,302	$ (193)	$12,995	$12,553	$ (443)
Equity securities, AFS [2]	276	257	(19)	56	50	(6)	332	307	(25)
Total securities in an unrealized loss position	$9,776	$9,508	$ (269)	$3,551	$3,352	$ (199)	$13,327	$12,860	$ (468)

	December 31, 2015								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$1,619	$1,609	$ (10)	$357	$ 322	$ (35)	$1,976	$1,931	$ (45)
CDOs [1]	1,164	1,154	(10)	1,243	1,227	(13)	2,407	2,381	(23)
CMBS	1,726	1,681	(45)	189	178	(11)	1,915	1,859	(56)
Corporate	9,206	8,866	(340)	656	580	(76)	9,862	9,446	(416)
Foreign govt./govt. agencies	679	646	(33)	124	110	(14)	803	756	(47)
Municipal	440	430	(10)	18	17	(1)	458	447	(11)
RMBS	1,349	1,340	(9)	415	402	(13)	1,764	1,742	(22)
U.S. Treasuries	2,432	2,394	(38)	8	8	—	2,440	2,402	(38)
Total fixed maturities, AFS	$								