

HARTFORD FINANCIAL SERVICES GROUP INC/DE  
Form 10-Q  
October 25, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-13958

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.  Yes  No

• whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

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

- whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).    ý  
As of October 23, 2018, there were outstanding 358,734,819 shares of Common Stock, \$0.01 par value per share, of the registrant.

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

### Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “projects,” and similar references to future performance. Forward-looking statements are based on management's current expectations and assumptions regarding future economic, competitive, legislative and other developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the "Company" or "The Hartford"). Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual results could differ materially from expectations, depending on the evolution of various factors, including the risks and uncertainties identified below, as well as factors described in such forward-looking statements; Part II, Item 1A, Risk Factors of this Quarterly Report on Form 10-Q; Part II, Item 1A, Risk Factors in The Hartford's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018; Part I, Item 1A, Risk Factors in The Hartford's 2017 Form 10-K Annual Report; and our other filings with the Securities and Exchange Commission ("SEC").

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

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

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

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

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

- Insurance Industry and Product-Related Risks:

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

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

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

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

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

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

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

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

the uncertain effects of emerging claim and coverage issues;

#### Financial Strength, Credit and Counterparty Risks:

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

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

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

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

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

**Risks Relating to Estimates, Assumptions and Valuations;**

risk associated with the use of analytical models in making decisions in key areas such as underwriting, capital management, hedging, reserving, and catastrophe risk management;

the potential for differing interpretations of the methodologies, estimations and assumptions that underlie the Company's fair value estimates for its investments and the evaluation of other-than-temporary impairments on available-for-sale securities;

the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;

the significant uncertainties that limit our ability to estimate the ultimate reserves necessary for asbestos and environmental claims;

**Strategic and Operational Risks:**

the Company's ability to maintain the availability of its systems and safeguard the security of its data in the event of a disaster, cyber or other information security incident or other unanticipated event;

failure to complete our proposed acquisition of The Navigators Group, Inc. may cause volatility in our securities;

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

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

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

**Regulatory and Legal Risks:**

the cost and other potential effects of increased regulatory and legislative developments, including those that could adversely impact the demand for the Company's products, operating costs and required capital levels;

unfavorable judicial or legislative developments;

the impact of changes in federal or state tax laws;

regulatory requirements that could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests;

the impact of potential changes in accounting principles and related financial reporting requirements.

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

Part I - Item 1. Financial Statements

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Results of Review of Interim Financial Information

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

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

Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

/s/ DELOITTE & TOUCHE LLP  
Hartford, Connecticut  
October 25, 2018





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## THE HARTFORD FINANCIAL SERVICES GROUP, INC.

## Condensed Consolidated Statements of Operations

|   | Three Months  |         | Nine Months     |          |
|---|---------------|---------|-----------------|----------|
|   | Ended         |         | Ended September |          |
|   | September 30, |         | 30,             |          |
| (In millions, except for per share data)                        | 2018          | 2017    | 2018            | 2017     |
|   | (Unaudited)   |         |                 |          |
| Revenues  |               |         |                 |          |
| Earned premiums   | \$3,987       | \$3,447 | \$11,872        | \$10,340 |
| Fee income  | 344           | 291     | 994             | 855      |
| Net investment income   | 444           | 404     | 1,323           | 1,209    |
| Net realized capital gains (losses):                            |               |         |                 |          |
| Total other-than-temporary impairment ("OTTI") losses           | (4            | )(4     | )(6             | )(11     |
| OTTI losses recognized in other comprehensive income ("OCI")    | 3             | 3       | 5               | 7        |
| Net OTTI losses recognized in earnings                          | (1            | )(1     | )(1             | )(4      |
| Other net realized capital gains                                | 39            | 27      | 61              | 109      |
| Total net realized capital gains                                | 38            | 26      | 60              | 105      |
| Other revenues  | 29            | 24      | 73              | 66       |
| Total revenues  | 4,842         | 4,192   | 14,322          | 12,575   |
| Benefits, losses and expenses                                   |               |         |                 |          |
| Benefits, losses and loss adjustment expenses                   | 2,786         | 2,638   | 8,219           | 7,482    |
| Amortization of deferred policy acquisition costs ("DAC")       | 348           | 341     | 1,034           | 1,030    |
| Insurance operating costs and other expenses                    | 1,091         | 952     | 3,195           | 3,521    |
| Loss on extinguishment of debt                                  | —             | —       | 6               | —        |
| Interest expense  | 69            | 79      | 228             | 238      |
| Amortization of other intangible assets                         | 18            | 1       | 54              | 3        |
| Total benefits, losses and expenses                             | 4,312         | 4,011   | 12,736          | 12,274   |
| Income from continuing operations before income taxes           | 530           | 181     | 1,586           | 301      |
| Income tax expense  | 103           | 36      | 297             | 5        |
| Income from continuing operations, net of tax                   | 427           | 145     | 1,289           | 296      |
| Income from discontinued operations, net of tax                 | 5             | 89      | 322             | 276      |
| Net income  | \$432         | \$234   | \$1,611         | \$572    |
| Income from continuing operations, net of tax, per common share |               |         |                 |          |
| Basic   | \$1.19        | \$0.40  | \$3.60          | \$0.81   |
| Diluted   | \$1.17        | \$0.40  | \$3.54          | \$0.79   |
| Net income per common share                                     |               |         |                 |          |
| Basic   | \$1.20        | \$0.65  | \$4.50          | \$1.56   |
| Diluted   | \$1.19        | \$0.64  | \$4.42          | \$1.54   |
| Cash dividends declared per common share                        | \$0.30        | \$0.23  | \$0.80          | \$0.69   |

See Notes to Condensed Consolidated Financial Statements.

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## THE HARTFORD FINANCIAL SERVICES GROUP, INC.

## Condensed Consolidated Statements of Comprehensive Income (Loss)

|   | Three       |       | Nine Months   |         |
|---|-------------|-------|---------------|---------|
|   | Months      |       | Ended         |         |
|   | Ended       |       | September 30, |         |
| (In millions)   | 2018        | 2017  | 2018          | 2017    |
|   | (Unaudited) |       |               |         |
| Net income  | \$432       | \$234 | \$1,611       | \$572   |
| Other comprehensive income (loss):                              |             |       |               |         |
| Changes in net unrealized gain on securities                    | (171)       | 85    | (2,164)       | 564     |
| Changes in OTTI losses recognized in other comprehensive income | (1)         | (1)   | (1)           | (1)     |
| Changes in net gain on cash flow hedging instruments            | (5)         | (14)  | (37)          | (33)    |
| Changes in foreign currency translation adjustments             | 1           | 14    | (4)           | 21      |
| Changes in pension and other postretirement plan adjustments    | 10          | 7     | 29            | 371     |
| OCI, net of tax   | (166)       | 91    | (2,177)       | 922     |
| Comprehensive income (loss)                                     | \$266       | \$325 | \$(566)       | \$1,494 |
| See Notes to Condensed Consolidated Financial Statements.       |             |       |               |         |

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## THE HARTFORD FINANCIAL SERVICES GROUP, INC.

## Condensed Consolidated Balance Sheets

| (In millions, except for share and per share data)  | September 30,<br>2018 | December 31,<br>2017<br>(Unaudited) |
|---|-----------------------|-------------------------------------|
| Assets  |                       |                                     |
| Investments:  |                       |                                     |
| Fixed maturities, available-for-sale, at fair value (amortized cost of \$36,094 and \$35,612)   | \$36,166              | \$ 36,964                           |
| Fixed maturities, at fair value using the fair value option   | 24                    | 41                                  |
| Equity securities, at fair value  | 1,035                 | —                                   |
| Equity securities, available-for-sale, at fair value (cost of \$0 and \$907)  | —                     | 1,012                               |
| Mortgage loans (net of allowances for loan losses of \$1 and \$1)   | 3,559                 | 3,175                               |
| Limited partnerships and other alternative investments  | 1,712                 | 1,588                               |
| Other investments   | 98                    | 96                                  |
| Short-term investments  | 3,540                 | 2,270                               |
| Total investments   | 46,134                | 45,146                              |
| Cash  | 102                   | 180                                 |
| Premiums receivable and agents' balances, net   | 4,025                 | 3,910                               |
| Reinsurance recoverables, net   | 3,931                 | 4,061                               |
| Deferred policy acquisition costs   | 670                   | 650                                 |
| Deferred income taxes, net  | 1,244                 | 1,164                               |
| Goodwill  | 1,290                 | 1,290                               |
| Property and equipment, net   | 997                   | 1,034                               |
| Other intangible assets, net  | 651                   | 659                                 |
| Other assets  | 2,393                 | 2,230                               |
| Assets held for sale  | —                     | 164,936                             |
| Total assets  | \$61,437              | \$ 225,260                          |
| Liabilities   |                       |                                     |
| Unpaid losses and loss adjustment expenses  | \$32,297              | \$ 32,287                           |
| Reserve for future policy benefits  | 656                   | 713                                 |
| Other policyholder funds and benefits payable   | 775                   | 816                                 |
| Unearned premiums   | 5,388                 | 5,322                               |
| Short-term debt   | 413                   | 320                                 |
| Long-term debt  | 4,263                 | 4,678                               |
| Other liabilities   | 4,916                 | 5,188                               |
| Liabilities held for sale   | —                     | 162,442                             |
| Total liabilities   | \$48,708              | \$ 211,766                          |
| Commitments and Contingencies (Note 13)   |                       |                                     |
| Stockholders' Equity  |                       |                                     |
| Common stock, \$0.01 par value — 1,500,000,000 shares authorized, 384,923,222 shares issued,<br>at September 30, 2018 and December 31, 2017 | \$4                   | \$ 4                                |
| Additional paid-in capital  | 4,385                 | 4,379                               |
| Retained earnings   | 10,973                | 9,642                               |
| Treasury stock, at cost — 26,247,219 and 28,088,186 shares  | (1,114 )              | (1,194 )                            |
| Accumulated other comprehensive income (loss), net of tax   | (1,519 )              | 663                                 |
| Total stockholders' equity  | \$12,729              | \$ 13,494                           |
| Total liabilities and stockholders' equity  | \$61,437              | \$ 225,260                          |
| See Notes to Condensed Consolidated Financial Statements.   |                       |                                     |



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## THE HARTFORD FINANCIAL SERVICES GROUP, INC.

## Condensed Consolidated Statements of Changes in Stockholders' Equity

| (In millions, except for share data)  | Nine Months<br>Ended September<br>30, |          |
|---|---------------------------------------|----------|
|   | 2018                                  | 2017     |
|   | (Unaudited)                           |          |
| Common Stock  | \$4                                   | \$4      |
| Additional Paid-in Capital  |                                       |          |
| Additional Paid-in Capital, beginning of period                                 | 4,379                                 | 5,247    |
| Issuance of shares under incentive and stock compensation plans                 | (92)                                  | (68)     |
| Stock-based compensation plans expense  | 105                                   | 77       |
| Issuance of shares for warrant exercise   | (7)                                   | (65)     |
| Additional Paid-in Capital, end of period                                       | 4,385                                 | 5,191    |
| Retained Earnings   |                                       |          |
| Retained Earnings, beginning of period  | 9,642                                 | 13,114   |
| Cumulative effect of accounting changes, net of tax                             | 5                                     | —        |
| Adjusted balance, beginning of period   | 9,647                                 | 13,114   |
| Net income  | 1,611                                 | 572      |
| Dividends declared on common stock  | (285)                                 | (252)    |
| Retained Earnings, end of period  | 10,973                                | 13,434   |
| Treasury Stock, at cost   |                                       |          |
| Treasury Stock, at cost, beginning of period                                    | (1,194)                               | (1,125)  |
| Treasury stock acquired   | —                                     | (975)    |
| Issuance of shares under incentive and stock compensation plans                 | 109                                   | 90       |
| Net shares acquired related to employee incentive and stock compensation plans  | (36)                                  | (36)     |
| Issuance of shares for warrant exercise   | 7                                     | 65       |
| Treasury Stock, at cost, end of period  | (1,114)                               | (1,981)  |
| Accumulated Other Comprehensive Income (Loss), net of tax                       |                                       |          |
| Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period  | 663                                   | (337)    |
| Cumulative effect of accounting changes, net of tax                             | (5)                                   | —        |
| Adjusted balance, beginning of period   | 658                                   | (337)    |
| Total other comprehensive income (loss)   | (2,177)                               | 922      |
| Accumulated Other Comprehensive Income (Loss), net of tax, end of period        | (1,519)                               | 585      |
| Total Stockholders' Equity  | \$12,729                              | \$17,233 |
| Common Shares Outstanding   |                                       |          |
| Common Shares Outstanding, beginning of period (in thousands)                   | 356,835                               | 373,949  |
| Treasury stock acquired   | —                                     | (19,281) |
| Issuance of shares under incentive and stock compensation plans                 | 2,373                                 | 2,078    |
| Return of shares under incentive and stock compensation plans to treasury stock | (694)                                 | (718)    |
| Issuance of shares for warrant exercise   | 162                                   | 1,512    |
| Common Shares Outstanding, at end of period                                     | 358,676                               | 357,540  |
| See Notes to Condensed Consolidated Financial Statements.                       |                                       |          |

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## THE HARTFORD FINANCIAL SERVICES GROUP, INC.

## Condensed Consolidated Statements of Cash Flows

|  | Nine Months<br>Ended  |          |
|--|-----------------------|----------|
|  | September 30,<br>2018 | 2017     |
|  | (Unaudited)           |          |
| (In millions)  |                       |          |
| Operating Activities   |                       |          |
| Net income   | \$1,611               | \$ 572   |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                       |          |
| Net realized capital gains   | (7 )                  | (52 )    |
| Amortization of deferred policy acquisition costs  | 1,092                 | 1,088    |
| Additions to deferred policy acquisition costs   | (1,057 )              | (1,039 ) |
| Depreciation and amortization  | 359                   | 300      |
| Loss on extinguishment of debt   | 6                     | —        |
| Gain on sale   | (202 )                | —        |
| Pension settlement   | —                     | 747      |
| Other operating activities, net  | 346                   | 328      |
| Change in assets and liabilities:  |                       |          |
| Decrease in reinsurance recoverables   | 111                   | 43       |
| Decrease (increase) in accrued and deferred income taxes   | (74 )                 | 64       |
| Increase (decrease) in unpaid losses and loss adjustment expenses, reserve for future policy benefits, and unearned premiums | (119 )                | 845      |
| Net change in other assets and other liabilities   | (224 )                | (1,372 ) |
| Net cash provided by operating activities  | 1,842                 | 1,524    |
| Investing Activities   |                       |          |
| Proceeds from the sale/maturity/prepayment of:   |                       |          |
| Fixed maturities, available-for-sale   | 20,069                | 21,371   |
| Fixed maturities, fair value option  | 21                    | 140      |
| Equity securities, at fair value   | 1,171                 | —        |
| Equity securities, available-for-sale  | —                     | 599      |
| Mortgage loans   | 314                   | 558      |
| Partnerships   | 377                   | 190      |
| Proceeds from repurchase agreements program  | (11 )                 | —        |
| Payments for the purchase of:  |                       |          |
| Fixed maturities, available-for-sale   | (18,679)              | (22,021) |
| Equity securities, at fair value   | (1,084 )              | —        |
| Equity securities, available-for-sale  | —                     | (517 )   |
| Mortgage loans   | (667 )                | (943 )   |
| Partnerships   | (408 )                | (344 )   |
| Repayments of repurchase agreements program  | 42                    | —        |
| Net payments for derivatives   | (228 )                | (98 )    |
| Net additions of property and equipment  | (70 )                 | (129 )   |
| Net payments for short-term investments  | (2,720 )              | (523 )   |
| Other investing activities, net  | (4 )                  | 10       |
| Proceeds from business sold, net of cash transferred   | 1,115                 | 222      |
| Net cash used for investing activities   | (762 )                | (1,485)  |
| Financing Activities   |                       |          |
| Deposits and other additions to investment and universal life-type contracts   | 1,814                 | 3,628    |
| Withdrawals and other deductions from investment and universal life-type contracts   | (9,210 )              | (10,623) |

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|  |        |         |
|--|--------|---------|
| Net transfers from separate accounts related to investment and universal life-type contracts | 6,949  | 6,080   |
| Repayments at maturity or settlement of consumer notes                                       | (2     | )(12 )  |
| Net increase (decrease) in securities loaned or sold under agreements to repurchase          | (646   | )(1,434 |
| Repayment of debt  | (826   | )(416 ) |
| Proceeds from the issuance of debt   | 490    | 500     |
| Net issuance (return) of shares under incentive and stock compensation plans                 | 10     | (16 )   |
| Treasury stock acquired  | —      | (975 )  |
| Dividends paid on common stock   | (270   | )(258 ) |
| Net cash used for financing activities   | (1,691 | )(658 ) |
| Foreign exchange rate effect on cash   | (4     | )70     |
| Net decrease in cash, including cash classified as assets held for sale                      | (615   | )(549 ) |
| Less: Net decrease in cash classified as assets held for sale                                | (537   | )(315 ) |
| Net (decrease) in cash   | (78    | )(234 ) |
| Cash – beginning of period   | 180    | 328     |
| Cash – end of period   | \$102  | \$ 94   |
| Supplemental Disclosure of Cash Flow Information   |        |         |
| Income tax received (paid)   | \$(1   | )\$ 3   |
| Interest paid  | \$197  | \$ 205  |
| See Notes to Condensed Consolidated Financial Statements                                     |        |         |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollar amounts in millions, except for per share data, unless otherwise stated)  
1. Basis of Presentation and Significant Accounting Policies

**Basis of Presentation**

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

On August 22, 2018, the Company announced it entered into a definitive agreement to acquire all outstanding common shares of The Navigators Group, Inc. (“Navigators Group”), a global specialty underwriter, for \$70 a share, or \$2.1 billion in cash. The transaction is expected to close in the first half of 2019, subject to approval by Navigators Group’s shareholders and other customary closing conditions, including receipt of regulatory approvals.

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

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

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

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

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

**Consolidation**

The Condensed Consolidated Financial Statements include the

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

**Discontinued Operations**

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



financial results such as a separate major line of business or a separate major geographical area of operations.

#### Use of Estimates

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

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

#### Reclassifications

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

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

#### Adoption of New Accounting Standards

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

On January 1, 2018, the Company adopted the FASB's new guidance for the effect on deferred tax assets and liabilities related to items recorded in accumulated other comprehensive income ("AOCI") resulting from the Tax Cuts and Jobs Act of 2017

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

("Tax Reform") enacted on December 22, 2017. Tax Reform reduced the federal tax rate applied to the Company's deferred tax balances from 35% to 21% on enactment. Under U.S. GAAP, the Company recorded the total effect of the change in enacted tax rates on deferred tax balances as a charge to income tax expense within net income during the fourth quarter of 2017, including the change in deferred tax balances related to components of AOCI. The new accounting guidance permitted the Company to reclassify the "stranded" tax effects out of AOCI and into retained earnings that resulted from recording the tax effects of unrealized investment gains, unrecognized actuarial losses on pension and other postretirement benefit plans, and cumulative translation adjustments at a 35% tax rate because the 14 point reduction in tax rate was recognized in net income instead of other comprehensive income. On adoption, the Company recorded a reclassification of \$88 from AOCI to retained earnings. As a result of the reclassification, in the first quarter of 2018, the Company reduced the estimated loss on sale recorded in income from discontinued operations by \$193, net of tax, for the increase in AOCI related to the assets held for sale. The reduction in the loss on sale resulted in a corresponding increase in assets held for sale and AOCI as of January 1, 2018 and the AOCI associated with assets held for sale was removed from the balance sheet when the sale closed on May 31, 2018. Additionally, as of January 1, 2018, the Company reclassified \$105 of stranded tax effects related to continuing operations which reduced AOCI and increased retained earnings.

Financial Instruments- Recognition and Measurement

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

recognized in AOCI to be evaluated for recoverability in combination with the Company's other deferred tax assets. Under prior guidance, the Company reported equity securities, available for sale ("AFS"), at fair value with changes in fair value reported in other comprehensive income. As of January 1, 2018, the Company reclassified from AOCI to retained earnings net unrealized gains of \$83, after tax, related to equity securities having a fair value of \$1.0 billion. In addition, \$10 of net unrealized gains net of shadow DAC related to discontinued operations were reclassified from AOCI to retained earnings of the life and annuity run-off business held for sale, which increased the estimated loss on sale in 2018 by the same amount. Beginning in 2018, the Company reports equity securities at fair value with changes in fair value reported in net realized capital gains and losses.

Revenue Recognition

On January 1, 2018, the Company adopted the FASB's updated guidance for recognizing revenue from contracts with customers, which excludes insurance contracts and financial instruments. Revenue subject to the guidance is recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to receive in exchange for those goods or services. For all but certain revenues associated with our Mutual Funds business, the updated guidance is consistent with previous guidance for the Company's transactions and did not have an effect on the Company's financial position, cash flows or net income. The updated guidance also updated criteria for determining when the Company acts as a principal or an agent. The Company determined that it is the principal for some of its mutual fund distribution service contracts and, upon adoption, reclassified distribution costs of \$48 and \$140 for the three and nine months ended September 30, 2017, respectively, that were previously netted against fee income to insurance operating costs and other expenses.

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



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 1. Basis of Presentation and Significant Accounting Policies (continued)

## Revenue from Non-Insurance Contracts with Customers

|   |                   | Three months ended September 30, |       | Nine months ended September 30, |       |
|---|-------------------|----------------------------------|-------|---------------------------------|-------|
|   | Revenue Line Item | 2018                             | 2017  | 2018                            | 2017  |
| Commercial Lines                                |                   |                                  |       |                                 |       |
| Installment billing fees                        | Fee income        | \$9                              | \$9   | \$26                            | \$28  |
| Personal Lines                                  |                   |                                  |       |                                 |       |
| Installment billing fees                        | Fee income        | 10                               | 11    | 30                              | 33    |
| Insurance servicing revenues                    | Other revenues    | 24                               | 24    | 66                              | 66    |
| Group Benefits                                  |                   |                                  |       |                                 |       |
| Administrative services                         | Fee income        | 43                               | 19    | 131                             | 57    |
| Mutual Funds                                    |                   |                                  |       |                                 |       |
| Advisor, distribution and other management fees | Fee income        | 245                              | 229   | 722                             | 660   |
| Other fees                                      | Fee income        | 21                               | 22    | 63                              | 75    |
| Corporate                                       |                   |                                  |       |                                 |       |
| Investment management and other fees            | Fee income        | 15                               | 1     | 21                              | 2     |
| Transition service revenues                     | Other revenues    | 6                                | —     | 8                               | —     |
| Total revenues subject to updated guidance      |                   | \$373                            | \$315 | \$1,067                         | \$921 |

Installment fees are charged on property and casualty insurance contracts for billing the insurance customer in installments over the policy term. These fees are recognized in fee income as earned on collection.

Insurance servicing revenues within Personal Lines consist of up-front commissions earned for collecting premiums and processing claims on insurance policies for which The Hartford does not assume underwriting risk, predominantly related to the National Flood Insurance Plan program. These insurance servicing revenues are recognized over the period of the flood program's policy terms.

Group Benefits products earn fee income from employers for the administration of underwriting, implementation and claims processing for employer self-funded plans and for leave management services. Fees are recognized as services are provided and collected monthly.

The Company provides investment management, administrative and distribution services to mutual funds and exchange-traded products. The Company assesses investment advisory, distribution and other asset management fees primarily based on the average daily net asset values from mutual funds and exchange-traded products, which are recorded in the period in which the services are provided and collected monthly. Fluctuations in domestic and international markets and related investment performance, volume and mix of sales and redemptions of mutual funds or exchange-traded products, and other changes to the composition of assets under management are all factors that ultimately have a direct effect on fee income earned.

Mutual Funds other fees primarily include transfer agent fees, generally assessed as a charge per account, and are recognized as fee income in the period in which the services are provided with payments collected monthly.

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

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

Future Adoption of New Accounting Standards

Hedging Activities

The FASB issued updated guidance on hedge accounting. See Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2017 Form 10-K Annual Report for more information on the future adoption of the new hedging activities accounting standard. The Company will adopt the updated guidance January 1, 2019, as required, although earlier adoption is permitted. The adoption is not expected to have a material effect on the Company's financial position, cash flows or net income.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Leases

In accordance with the FASB's update to its new lease accounting standard, the Company will adopt the new guidance as of the January 1, 2019 effective date with no change to comparative periods. See Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2017 Form 10-K Annual Report for more information on the future adoption of the new lease accounting standard. 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.

Reserve for Future Policy Benefits

The FASB issued new guidance on accounting for long-duration insurance contracts. The Company's long-duration insurance contracts include paid-up life insurance and whole-life insurance policies resulting from conversion from group life policies and run-off structured settlement and terminal funding agreement liabilities. Under existing guidance, a reserve for future policy benefits is calculated as the present value of future benefits and related expenses less the present value of any future premiums using assumptions "locked in" at the time the policies were issued, including discount rate, lapse rate, mortality, and expense assumptions. Under existing guidance, assumptions are only updated if there is an expected premium deficiency. The new guidance will require that underlying cash flow assumptions (such as for lapse rate, mortality and expenses) be reviewed and updated at least annually in the same quarter each year. The new guidance also requires that the discount rate assumption be updated each quarter and be based on an upper-medium grade (low-credit-risk) fixed-income investment yield. The change in the reserve estimate as a result of updating cash flow assumptions will be recognized in net income. The change in the reserve estimate as a result of updating the discount rate assumption will be recognized in other comprehensive income. Because reserves will be based on updated assumptions and no longer locked in at contract inception, there will no longer be a test for premium deficiency. The new guidance will be effective January 1, 2021, and will be applied to balances in place as of the earliest period presented. Early adoption is permitted. The Company has not yet determined the method or timing for adoption or estimated the effect on the Company's financial statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. Business Acquisitions

## Aetna Group Insurance

On November 1, 2017, The Hartford acquired Aetna's U.S. group life and disability business through a reinsurance transaction for total consideration of \$1.452 billion and recorded provisional estimates of the fair value of the assets acquired and liabilities assumed. In September 2018, The Hartford and Aetna agreed on the final assets acquired and liabilities assumed as of the acquisition date and The Hartford finalized its provisional

estimates with a final cash settlement in October. As a result, in the third quarter of 2018, The Hartford recorded additional assets and liabilities at fair value of \$80 and \$80, respectively, with no change in goodwill. The following table presents the preliminary allocation of the purchase price to the assets acquired and liabilities assumed as of the acquisition date, the measurement period adjustments recorded, and the final purchase price allocation.

## Fair Value of Assets Acquired and Liabilities Assumed at the Acquisition Date

|   | Preliminary<br>Value as of<br>November<br>1, 2017 (as<br>previously<br>reported as<br>of<br>December<br>31, 2017) | As<br>Measurement<br>Period<br>Adjustments | Adjusted<br>Value as of<br>November<br>1, 2017 |
|---|---|--|--|
| <b>Assets</b>                                 |   |  |  |
| Cash and invested assets [1]                  | \$ 3,360  | \$ 45                                      | \$ 3,405                                       |
| Premiums receivable                           | 96  | 7  | 103  |
| Deferred income taxes, net                    | 56  | 13   | 69   |
| Other intangible assets                       | 629   | —  | 629  |
| Property and equipment                        | 68  | —  | 68   |
| Reinsurance recoverables                      | —   | 31   | 31   |
| Other assets                                  | 16  | (16)                                       | —  |
| <b>Total Assets Acquired</b>                  | <b>4,225</b>  | <b>80</b>                                  | <b>4,305</b>                                   |
| <b>Liabilities</b>                            |   |  |  |
| Unpaid losses and loss adjustment expenses    | 2,833   | 71   | 2,904  |
| Reserve for future policy benefits payable    | 346   | 1  | 347  |
| Other policyholder funds and benefits payable | 245   | 1  | 246  |
| Unearned premiums                             | 3   | 1  | 4  |
| Other liabilities                             | 69  | 6  | 75   |
| <b>Total Liabilities Assumed</b>              | <b>3,496</b>  | <b>80</b>                                  | <b>3,576</b>                                   |
| Net identifiable assets acquired              | 729   | —  | 729  |
| Goodwill [2]                                  | 723   | —  | 723  |
| <b>Net Assets Acquired</b>                    | <b>\$ 1,452</b>   | <b>\$ —</b>                                | <b>\$ 1,452</b>                                |

[1] Includes \$45 of cash received from Aetna in October 2018 in settlement of the final balance sheet and reported as a receivable in other assets in the Condensed Consolidated Balance Sheet as of September 30, 2018.

[2] Approximately \$610 is deductible for income tax purposes.

The effect of measurement period adjustments on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 was immaterial and was determined as if the accounting had been completed as of the acquisition date.

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

Pro Forma Results

|               | Three<br>months<br>ended<br>September<br>30, 2017<br>[1] | Nine<br>months<br>ended<br>September<br>30, 2017<br>[1] |
|---------------|--|---|
| Total Revenue | \$ 4,777   | \$ 14,309   |
| Net Income    | \$ 249   | \$ 619  |

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



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. Earnings Per Common Share

## Computation of Basic and Diluted Earnings per Common Share

|   | Three<br>Months<br>Ended<br>September<br>30, |        | Nine Months<br>Ended<br>September<br>30, |        |
|---|--|--------|--|--------|
| (In millions, except for per share data)  | 2018   | 2017   | 2018                                     | 2017   |
| <b>Earnings</b>   |  |        |  |        |
| Income from continuing operations, net of tax                                   | \$427  | \$145  | \$1,289                                  | \$296  |
| Income from discontinued operations, net of tax                                 | 5  | 89     | 322                                      | 276    |
| Net income  | \$432  | \$234  | \$1,611                                  | \$572  |
| <b>Shares</b>   |  |        |  |        |
| Weighted average common shares outstanding, basic                               | 358.6  | 360.2  | 358.1                                    | 365.9  |
| Dilutive effect of stock compensation plans                                     | 3.6  | 4.5    | 4.0                                      | 4.1    |
| Dilutive effect of warrants   | 1.9  | 2.3    | 2.0                                      | 2.6    |
| Weighted average common shares outstanding and dilutive potential common shares | 364.1  | 367.0  | 364.1                                    | 372.6  |
| Net income per common share   |  |        |  |        |
| <b>Basic</b>  |  |        |  |        |
| Income from continuing operations, net of tax                                   | \$1.19                                       | \$0.40 | \$3.60                                   | \$0.81 |
| Income from discontinued operations, net of tax                                 | \$0.01                                       | \$0.25 | \$0.90                                   | \$0.75 |
| Net income per common share   | \$1.20                                       | \$0.65 | \$4.50                                   | \$1.56 |
| <b>Diluted</b>  |  |        |  |        |
| Income from continuing operations, net of tax                                   | \$1.17                                       | \$0.40 | \$3.54                                   | \$0.79 |
| Income from discontinued operations, net of tax                                 | \$0.02                                       | \$0.24 | \$0.88                                   | \$0.75 |
| Net income per common share   | \$1.19                                       | \$0.64 | \$4.42                                   | \$1.54 |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. Segment Information

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

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

Net Income

|                                      | Three<br>Months<br>Ended<br>September<br>30, |       | Nine Months<br>Ended<br>September<br>30, |       |
|--------------------------------------|--|-------|--|-------|
|                                      | 2018   | 2017  | 2018                                     | 2017  |
| Commercial Lines                     | \$289  | \$90  | \$959                                    | \$579 |
| Personal Lines                       | 51   | 8     | 146                                      | 65    |
| Property & Casualty Other Operations | 9  | 18    | 31                                       | 62    |
| Group Benefits                       | 77   | 71    | 227                                      | 185   |
| Mutual Funds                         | 41   | 26    | 112                                      | 73    |
| Corporate                            | (35)   | 21    | 136                                      | (392) |
| Net income                           | \$432  | \$234 | \$1,611                                  | \$572 |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. Segment Information (continued)

## Revenues

|   | Three Months  |         | Nine Months   |          |
|---|---------------|---------|---------------|----------|
|   | Ended         |         | Ended         |          |
|   | September 30, |         | September 30, |          |
|   | 2018          | 2017    | 2018          | 2017     |
| Earned premiums and fee income                            |               |         |               |          |
| Commercial Lines  |               |         |               |          |
| Workers' compensation                                     | \$845         | \$828   | \$2,495       | \$2,461  |
| Liability   | 170           | 150     | 480           | 450      |
| Package business  | 343           | 325     | 1,013         | 965      |
| Automobile  | 157           | 155     | 454           | 477      |
| Professional liability                                    | 65            | 63      | 190           | 183      |
| Bond  | 60            | 59      | 179           | 172      |
| Property  | 154           | 152     | 456           | 451      |
| Total Commercial Lines                                    | 1,794         | 1,732   | 5,267         | 5,159    |
| Personal Lines  |               |         |               |          |
| Automobile  | 598           | 653     | 1,809         | 1,975    |
| Homeowners  | 261           | 279     | 785           | 843      |
| Total Personal Lines [1]                                  | 859           | 932     | 2,594         | 2,818    |
| Group Benefits  |               |         |               |          |
| Group disability  | 684           | 386     | 2,051         | 1,146    |
| Group life  | 652           | 383     | 1,968         | 1,176    |
| Other   | 60            | 53      | 179           | 159      |
| Total Group Benefits                                      | 1,396         | 822     | 4,198         | 2,481    |
| Mutual Funds  |               |         |               |          |
| Mutual fund and Exchange-Traded Products ("ETP") [2]      | 242           | 225     | 710           | 657      |
| Talcott Resolution life and annuity separate accounts [3] | 25            | 26      | 76            | 78       |
| Total Mutual Funds  | 267           | 251     | 786           | 735      |
| Corporate   | 15            | 1       | 21            | 2        |
| Total earned premiums and fee income                      | 4,331         | 3,738   | 12,866        | 11,195   |
| Net investment income                                     | 444           | 404     | 1,323         | 1,209    |
| Net realized capital gains                                | 38            | 26      | 60            | 105      |
| Other revenues  | 29            | 24      | 73            | 66       |
| Total revenues  | \$4,842       | \$4,192 | \$14,322      | \$12,575 |

For the three months ended September 30, 2018 and 2017, AARP members accounted for earned premiums of [1] \$758 and \$801, respectively. For the nine months ended September 30, 2018 and 2017, AARP members accounted for earned premiums of \$2.3 billion and \$2.4 billion, respectively.

Excludes distribution costs of \$48 and \$140 for the three and nine months ended September 30, 2017, respectively, [2] that were previously netted against fee income and are now presented gross in insurance operating costs and other expenses.

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements

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

- Level 1 Fair values based primarily on unadjusted quoted prices for identical assets or liabilities, in active markets that the Company has the ability to access at the measurement date.
- Level 2 Fair values primarily based on observable inputs, other than quoted prices included in Level 1, or based on prices for similar assets and liabilities.

Fair values derived when one or more of the significant inputs are unobservable (including assumptions about risk). With little or no observable market, the determination of fair values uses considerable judgment and Level 3 represents the Company's best estimate of an amount that could be realized in a market exchange for the asset or liability. Also included are securities that are traded within illiquid markets and/or priced by independent brokers.

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

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

|   | Total    | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------|--|--|--|
| Assets accounted for at fair value on a recurring basis       |          |  |  |  |
| Fixed maturities, AFS   |          |  |  |  |
| Asset-backed-securities ("ABS")                               | \$1,191  | \$ —   | \$ 1,137   | \$ 54  |
| Collateralized loan obligations ("CLOs")                      | 1,326    | —  | 1,030  | 296  |
| Commercial mortgage-backed securities ("CMBS")                | 3,657    | —  | 3,635  | 22   |
| Corporate   | 13,492   | —  | 12,941   | 551  |
| Foreign government/government agencies                        | 952      | —  | 949  | 3  |
| Municipal   | 10,602   | —  | 10,593   | 9  |
| Residential mortgage-backed securities ("RMBS")               | 3,118    | —  | 2,184  | 934  |
| U.S. Treasuries   | 1,828    | 695  | 1,133  | —  |
| Total fixed maturities  | 36,166   | 695  | 33,602   | 1,869  |
| Fixed maturities, FVO   | 24       | —  | 24   | —  |
| Equity securities, at fair value                              | 1,035    | 905  | 52   | 78   |
| Derivative assets   |          |  |  |  |
| Credit derivatives  | 14       | —  | 14   | —  |
| Equity derivatives  | 1        | —  | —  | 1  |
| Foreign exchange derivatives                                  | (1)      | )—   | (1)  | )—   |
| Total derivative assets [1]                                   | 14       | —  | 13   | 1  |
| Short-term investments  | 3,540    | 980  | 2,560  | —  |
| Total assets accounted for at fair value on a recurring basis | \$40,779 | \$ 2,580   | \$ 36,251  | \$ 1,948   |

Liabilities accounted for at fair value on a recurring basis

Derivative liabilities

|  |       |       |       |         |   |
|--|-------|-------|-------|---------|---|
| Foreign exchange derivatives                                       | (10   | )—    | (10   | )—      |   |
| Interest rate derivatives  | (51   | )—    | (53   | )2      |   |
| Total derivative liabilities [2]                                   | (61   | )—    | (63   | )2      |   |
| Contingent consideration [3]                                       | (32   | )—    | —     | (32     | ) |
| Total liabilities accounted for at fair value on a recurring basis | \$(93 | )\$ — | \$(63 | )\$ (30 | ) |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

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

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

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

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

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

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

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

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

Quoted prices, unadjusted, for identical assets or liabilities in active markets, which are classified as Level 1.

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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

Internal matrix pricing, which is a valuation process internally developed for private placement securities for which the Company is unable to obtain a price from a third-party pricing service. Internal pricing matrices determine credit spreads that, when combined with risk-free rates, are applied to contractual cash flows to develop a price. The Company develops credit spreads using market based data for public securities adjusted for credit spread differentials between public and private securities, which are obtained from a survey of multiple private placement brokers. The market-based reference credit spread considers the issuer's financial strength and term to maturity, using an independent public security index and trade information, while the credit spread differential considers the non-public nature of the security. Securities priced using internal matrix pricing are classified as Level 2 because the inputs are observable or can be corroborated with observable data.

Independent broker quotes, which are typically non-binding, use inputs that can be difficult to corroborate with observable market based data. Brokers may use present value techniques using assumptions specific to the security types, or they may use recent transactions of similar securities. Due to the lack of transparency in the process that brokers use to develop prices, valuations that are based on independent broker quotes are classified as Level 3. The fair value of derivative instruments is determined primarily using a discounted cash flow model or option model technique and incorporate counterparty credit risk. In some cases, quoted market prices for exchange-traded and OTC-cleared derivatives may be used and in other cases independent broker quotes may be used. The pricing valuation models primarily use inputs that are observable in the market or can be corroborated by observable market data. The valuation of certain derivatives may include significant inputs that are unobservable, such as volatility levels, and reflect the Company's view of what other market participants would use when pricing such instruments.

Valuation Controls

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

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

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



internal process, such as a pricing matrix.

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

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

• Review of daily price changes over specific thresholds and new trade comparison to third-party pricing services.

• Daily comparison of OTC derivative market valuations to counterparty valuations.

• Review of weekly price changes compared to published bond prices of a corporate bond index.

• Monthly reviews of price changes over thresholds, stale prices, missing prices, and zero prices.

• Monthly validation of prices to a second source for securities in most sectors and for certain derivatives.

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Valuation Inputs

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

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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

| Level 2   | Level 3   |
|---|---|
| Primary Observable Inputs   | Primary Unobservable Inputs   |
| Fixed Maturity Investments  |   |
| Structured securities (includes ABS, CDOs, CMBS and RMBS)   |   |
| <ul style="list-style-type: none"> <li>• Benchmark yields and spreads</li> <li>• Monthly payment information</li> <li>• Collateral performance, which varies by vintage year and includes delinquency rates, loss severity rates and refinancing assumptions</li> <li>• Credit default swap indices</li> </ul>            | <ul style="list-style-type: none"> <li>• Independent broker quotes</li> <li>• Credit spreads beyond observable curve</li> <li>• Interest rates beyond observable curve</li> </ul>   |
| Other inputs for ABS and RMBS:  | Other inputs for less liquid securities or those that trade less actively, including subprime RMBS:   |
| <ul style="list-style-type: none"> <li>• Estimate of future principal prepayments, derived from the characteristics of the underlying structure</li> <li>• Prepayment speeds previously experienced at the interest rate levels projected for the collateral</li> </ul>   | <ul style="list-style-type: none"> <li>• Estimated cash flows</li> <li>• Credit spreads, which include illiquidity premium</li> <li>• Constant prepayment rates</li> <li>• Constant default rates</li> <li>• Loss severity</li> </ul> |
| Corporates  |   |
| <ul style="list-style-type: none"> <li>• Benchmark yields and spreads</li> <li>• Reported trades, bids, offers of the same or similar securities</li> <li>• Issuer spreads and credit default swap curves</li> </ul>  | <ul style="list-style-type: none"> <li>• Independent broker quotes</li> <li>• Credit spreads beyond observable curve</li> <li>• Interest rates beyond observable curve</li> </ul>   |
| Other inputs for investment grade privately placed securities that utilize internal matrix pricing:   | Other inputs for below investment grade privately placed securities:  |
| <ul style="list-style-type: none"> <li>• Credit spreads for public securities of similar quality, maturity, and sector, adjusted for non-public nature</li> </ul>   | <ul style="list-style-type: none"> <li>• Independent broker quotes</li> <li>• Credit spreads for public securities of similar quality, maturity, and sector, adjusted for non-public nature</li> </ul>                                |
| U.S Treasuries, Municipals, and Foreign government/government agencies  |   |
| <ul style="list-style-type: none"> <li>• Benchmark yields and spreads</li> <li>• Issuer credit default swap curves</li> <li>• Political events in emerging market economies</li> <li>• Municipal Securities Rulemaking Board reported trades and material event notices</li> <li>• Issuer financial statements</li> </ul> | <ul style="list-style-type: none"> <li>• Credit spreads beyond observable curve</li> <li>• Interest rates beyond observable curve</li> </ul>  |
| Equity Securities   |   |
| <ul style="list-style-type: none"> <li>• Quoted prices in markets that are not active</li> </ul>  | <ul style="list-style-type: none"> <li>• For privately traded equity securities, internal discounted cash flow models utilizing earnings multiples or other cash flow assumptions that are not observable</li> </ul>                  |
| Short Term Investments  |   |
| <ul style="list-style-type: none"> <li>• Benchmark yields and spreads</li> <li>• Reported trades, bids, offers</li> <li>• Issuer spreads and credit default swap curves</li> <li>• Material event notices and new issue money market rates</li> </ul>   | Not applicable  |
| Derivatives   |   |

Credit derivatives

- Swap yield curve
- Credit default swap curves

Not applicable

Equity derivatives

- Equity index levels
- Swap yield curve

- Independent broker quotes
- Equity volatility

Foreign exchange derivatives

- Swap yield curve
- Currency spot and forward rates
- Cross currency basis curves

Not applicable

Interest rate derivatives

- Swap yield curve

- Independent broker quotes
- Interest rate volatility

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

## Significant Unobservable Inputs for Level 3 - Securities

## Assets

| accounted for at fair value on a recurring basis | Fair Value | Predominant Valuation Technique | Significant Unobservable Input                                  | Minimum | Maximum   | Weighted Average [1] | Impact of Increase in Input on Fair Value [2] |
|--|------------|---------------------------------|---|---------|-----------|----------------------|---|
| As of September 30, 2018                         |            |                                 |   |         |           |                      |   |
| CMBS [3]   | \$ 12      | Discounted cash flows           | Spread (encompasses prepayment, default risk and loss severity) | 9 bps   | 1,040 bps | 177 bps              | Decrease                                      |
| Corporate [4]                                    | \$ 289     | Discounted cash flows           | Spread  | 100 bps | 761 bps   | 201 bps              | Decrease                                      |
| Municipal  | \$ 9       | Discounted cash flows           | Spread  | 160 bps | 160 bps   | 160 bps              | Decrease                                      |
| RMBS [3]   | \$ 913     | Discounted cash flows           | Spread  | 7 bps   | 288 bps   | 67 bps               | Decrease                                      |
|  |            |                                 | Constant prepayment rate  | 1%      | 15%       | 6%                   | Decrease [5]                                  |
|  |            |                                 | Constant default rate   | 1%      | 8%        | 3%                   | Decrease                                      |
|  |            |                                 | Loss severity   | —%      | 100%      | 60%                  | Decrease                                      |
| As of December 31, 2017                          |            |                                 |   |         |           |                      |   |
| CMBS [3]   | \$ 56      | Discounted cash flows           | Spread (encompasses prepayment, default risk and loss severity) | 9 bps   | 1,040 bps | 400 bps              | Decrease                                      |
| Corporate [4]                                    | \$ 251     | Discounted cash flows           | Spread  | 103 bps | 1,000 bps | 242 bps              | Decrease                                      |
| Municipal  | \$ 17      | Discounted cash flows           | Spread  | 192 bps | 250 bps   | 219 bps              | Decrease                                      |
| RMBS [3]   | \$ 1,215   | Discounted cash flows           | Spread  | 24 bps  | 351 bps   | 74 bps               | Decrease                                      |
|  |            |                                 | Constant prepayment rate  | 1%      | 25%       | 6%                   | Decrease [5]                                  |
|  |            |                                 | Constant default rate   | —%      | 9%        | 4%                   | Decrease                                      |
|  |            |                                 | Loss severity   | —%      | 100%      | 66%                  | Decrease                                      |

[1] The weighted average is determined based on the fair value of the securities.

[2] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table.

[3] Excludes securities for which the Company bases fair value on broker quotations.

Excludes securities for which the Company bases fair value on broker quotations; however, included are broker priced lower-rated private placement securities for which the Company receives spread and yield information to corroborate the fair value.

[5] Decrease for above market rate coupons and increase for below market rate coupons.

## Significant Unobservable Inputs for Level 3 - Derivatives

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

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|                             |      |                                       |    |   |    |   |          |
|-----------------------------|------|---------------------------------------|----|---|----|---|----------|
| Equity Options              | 1    | Option model Equity volatility        | 19 | % | 26 | % | Increase |
| As of December 31, 2017     |      |                                       |    |   |    |   |          |
| Interest rate swaptions [2] | \$ 1 | Option model Interest rate volatility | 2  | % | 2  | % | Increase |
| Equity options              | \$ 1 | Option model Equity volatility        | 18 | % | 22 | % | Increase |

Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in [1] 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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

Transfers between Levels

Transfers of securities among the levels occur at the beginning of the reporting period. The amount of transfers from Level 1 to Level 2 was \$379 and \$1.3 billion for three and nine months ended September 30, 2018, respectively, and \$300 and \$1.1 billion for the three and nine months ended September 30, 2017, respectively, which represented previously on-the-run U.S. Treasury securities that are now off-the-run. Transfers from Level 2 to Level 1 for both the three and nine months ended September 30, 2018, were immaterial and there were no transfers from Level 2 to Level 1 for the same period in 2017. See the fair value rollforward tables for the three and nine months ended September 30, 2018 and 2017, for the transfers into and out of Level 3.

Contingent Consideration

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

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

The contingency period for ETP AUM growth ends in June, 2020 and management will adjust the fair value of the contingent consideration if and when it revises its projection of ETP AUM for the acquired business. Before discounting to fair value, the Company has accrued a contingent commission payable of \$32 assuming ETP AUM for the acquired business grows to approximately \$4 billion over the contingency period. The Company will evaluate the projected AUM growth again in the fourth quarter of 2018.

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

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

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

|                                  | Fair value as of June 30, 2018 | Total realized/unrealized gains (losses) |                     |           |             |         |                            |                              |                                     |  |
|----------------------------------|--------------------------------|--|---------------------|-----------|-------------|---------|----------------------------|------------------------------|-------------------------------------|--|
|                                  |                                | Included in net income [1]               | Included in OCI [2] | Purchases | Settlements | Sales   | Transfers into Level 3 [3] | Transfers out of Level 3 [3] | Fair value as of September 30, 2018 |  |
| <b>Assets</b>                    |                                |  |                     |           |             |         |                            |                              |                                     |  |
| <b>Fixed Maturities, AFS</b>     |                                |  |                     |           |             |         |                            |                              |                                     |  |
| ABS                              | \$57                           | \$ —                                     | \$ —                | \$ 39     | \$ (2)      | \$ —    | \$ 9                       | \$ (49)                      | \$ 54                               |  |
| CLOs                             | 159                            | —  | —                   | 211       | —           | —       | —                          | (74)                         | 296                                 |  |
| CMBS                             | 28                             | (1)                                      | 1                   | —         | (1)         | —       | —                          | (5)                          | 22                                  |  |
| Corporate                        | 559                            | —  | (2)                 | 12        | (2)         | (12)    | —                          | (4)                          | 551                                 |  |
| Foreign Govt./Govt. Agencies     | 3                              | —  | —                   | —         | —           | —       | —                          | —                            | 3                                   |  |
| Municipal                        | 9                              | —  | —                   | —         | —           | —       | —                          | —                            | 9                                   |  |
| RMBS                             | 1,137                          | —  | (3)                 | —         | (77)        | (26)    | —                          | (97)                         | 934                                 |  |
| Total Fixed Maturities, AFS      | 1,952                          | (1)                                      | (4)                 | 262       | (82)        | (38)    | 9                          | (229)                        | 1,869                               |  |
| Equity Securities, at fair value | 66                             | —  | —                   | 12        | —           | —       | —                          | —                            | 78                                  |  |
| <b>Derivatives, net [4]</b>      |                                |  |                     |           |             |         |                            |                              |                                     |  |
| Equity                           | 1                              | —  | —                   | —         | —           | —       | —                          | —                            | 1                                   |  |
| Interest rate                    | 2                              | —  | —                   | —         | —           | —       | —                          | —                            | 2                                   |  |
| Total Derivatives, net [4]       | 3                              | —  | —                   | —         | —           | —       | —                          | —                            | 3                                   |  |
| Total Assets                     | \$2,021                        | \$ (1)                                   | \$ (4)              | \$ 274    | \$ (82)     | \$ (38) | \$ 9                       | \$ (229)                     | \$ 1,950                            |  |
| <b>Liabilities</b>               |                                |  |                     |           |             |         |                            |                              |                                     |  |
| Contingent Consideration [5]     | (31)                           | (1)                                      | —                   | —         | —           | —       | —                          | —                            | (32)                                |  |
| Total Liabilities                | \$(31)                         | \$(1)                                    | \$ —                | \$ —      | \$ —        | \$ —    | \$ —                       | \$ —                         | \$(32)                              |  |



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

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

|                                  | Fair value as of January 1, 2018 | Total realized/unrealized gains (losses) | Fair value as of September 30, 2018 |
|----------------------------------|----------------------------------|--|-------------------------------------|
|                                  | Included in net income [1]       | Included in OCI [2]                      | Purchases Settlements Sales         |
|                                  | Transfers into Level 3 [3]       | Transfers out of Level 3 [3]             | Fair value as of September 30, 2018 |
| <b>Assets</b>                    |                                  |  |                                     |
| <b>Fixed Maturities, AFS</b>     |                                  |  |                                     |
| ABS                              | \$ 19                            | \$ —                                     | \$ 89                               |
| CLOs                             | 95                               | —  | 309                                 |
| CMBS                             | 69                               | (1 )                                     | 25                                  |
| Corporate                        | 520                              | 1  | 143                                 |
| Foreign Govt./Govt. Agencies     | 2                                | —  | 1                                   |
| Municipal                        | 17                               | (1 )                                     | —                                   |
| RMBS                             | 1,230                            | —  | 170                                 |
| Total Fixed Maturities, AFS      | 1,952                            | (21 )                                    | 737                                 |
| Equity Securities, at fair value | 76                               | 28                                       | 13                                  |
| <b>Derivatives, net [4]</b>      |                                  |  |                                     |
| Equity                           | 1                                | 1  | 1                                   |
| Interest rate                    | 1                                | 1  | —                                   |
| Total Derivatives, net [4]       | 2                                | 2  | 1                                   |
| Total Assets                     | \$2,030                          | \$ 30                                    | \$ 751                              |
| <b>Liabilities</b>               |                                  |  |                                     |
| Contingent Consideration [5]     | (29 )                            | (3 )                                     | —                                   |
| Total Liabilities                | \$(29 )                          | \$( 3 )                                  | \$ —                                |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

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

|                              | Fair value as of June 30, 2017 | Included in net income [1] | Included in OCI [2] | Purchases | Settlements | Sales   | Transfers into Level 3 [3] | Transfers out of Level 3 [3] | Fair value as of September 30, 2017 |
|------------------------------|--------------------------------|----------------------------|---------------------|-----------|-------------|---------|----------------------------|------------------------------|-------------------------------------|
| <b>Assets</b>                |                                |                            |                     |           |             |         |                            |                              |                                     |
| <b>Fixed Maturities, AFS</b> |                                |                            |                     |           |             |         |                            |                              |                                     |
| ABS                          | \$63                           | \$ —                       | \$ —                | \$ —      | \$ (3 )     | \$(6 )  | \$ 4                       | \$(32 )                      | \$ 26                               |
| CLOs                         | 203                            | —                          | —                   | 9         | —           | —       | —                          | (116 )                       | 96                                  |
| CMBS                         | 65                             | (1 )                       | —                   | —         | (3 )        | —       | —                          | —                            | 61                                  |
| Corporate                    | 528                            | —                          | 5                   | 36        | (1 )        | (24 )   | 19                         | (30 )                        | 533                                 |
| Foreign Govt./Govt. Agencies | 22                             | —                          | 1                   | 7         | —           | —       | —                          | (5 )                         | 25                                  |
| Municipal                    | 16                             | —                          | —                   | —         | —           | —       | —                          | —                            | 16                                  |
| RMBS                         | 1,272                          | —                          | 17                  | 39        | (72 )       | —       | —                          | (1 )                         | 1,255                               |
| Total Fixed Maturities, AFS  | 2,169                          | (1 )                       | 23                  | 91        | (79 )       | (30 )   | 23                         | (184 )                       | 2,012                               |
| Equity Securities, AFS       | 55                             | —                          | (2 )                | 20        | —           | —       | —                          | —                            | 73                                  |
| <b>Derivatives, net [4]</b>  |                                |                            |                     |           |             |         |                            |                              |                                     |
| Equity                       | 2                              | —                          | —                   | —         | —           | —       | —                          | —                            | 2                                   |
| Interest rate                | 3                              | (1 )                       | —                   | —         | —           | —       | —                          | —                            | 2                                   |
| Total Derivatives, net [4]   | 5                              | (1 )                       | —                   | —         | —           | —       | —                          | —                            | 4                                   |
| Total Assets                 | \$2,229                        | \$ (2 )                    | \$ 21               | \$ 111    | \$ (79 )    | \$(30 ) | \$ 23                      | \$(184 )                     | \$ 2,089                            |
| <b>Liabilities</b>           |                                |                            |                     |           |             |         |                            |                              |                                     |
| Contingent Consideration [5] | (27 )                          | (1 )                       | —                   | —         | —           | —       | —                          | —                            | (28 )                               |
| Total Liabilities            | \$(27 )                        | \$(1 )                     | \$ —                | \$ —      | \$ —        | \$ —    | \$ —                       | \$ —                         | \$(28 )                             |

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

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

|                              | Fair value as of January 1, 2017 | Included in net income [1] | Included in OCI [2] | Purchases | Settlements | Sales   | Transfers into Level 3 [3] | Transfers out of Level 3 [3] | Fair value as of September 30, 2017 |
|------------------------------|----------------------------------|----------------------------|---------------------|-----------|-------------|---------|----------------------------|------------------------------|-------------------------------------|
| <b>Assets</b>                |                                  |                            |                     |           |             |         |                            |                              |                                     |
| <b>Fixed Maturities, AFS</b> |                                  |                            |                     |           |             |         |                            |                              |                                     |
| ABS                          | \$45                             | \$ —                       | \$ —                | \$ 56     | \$ (6 )     | \$(6 )  | \$ 27                      | \$ (90 )                     | \$ 26                               |
| CLOs                         | 154                              | —                          | —                   | 195       | (101 )      | —       | —                          | (152 )                       | 96                                  |
| CMBS                         | 59                               | (2 )                       | —                   | 42        | (7 )        | —       | —                          | (31 )                        | 61                                  |
| Corporate                    | 514                              | 1                          | 16                  | 169       | (42 )       | (141 )  | 54                         | (38 )                        | 533                                 |
| Foreign Govt./Govt. Agencies | 47                               | —                          | 3                   | 12        | —           | (2 )    | —                          | (35 )                        | 25                                  |
| Municipal                    | 46                               | 4                          | 1                   | —         | —           | (35 )   | —                          | —                            | 16                                  |
| RMBS                         | 1,261                            | —                          | 39                  | 156       | (193 )      | (7 )    | —                          | (1 )                         | 1,255                               |
| Total Fixed Maturities, AFS  | 2,126                            | 3                          | 59                  | 630       | (349 )      | (191 )  | 81                         | (347 )                       | 2,012                               |
| Fixed Maturities, FVO        | 11                               | —                          | —                   | 4         | (2 )        | (13 )   | —                          | —                            | —                                   |
| Equity Securities, AFS       | 55                               | —                          | (4 )                | 22        | —           | —       | —                          | —                            | 73                                  |
| <b>Derivatives, net [4]</b>  |                                  |                            |                     |           |             |         |                            |                              |                                     |
| Equity                       | —                                | (3 )                       | —                   | 5         | —           | —       | —                          | —                            | 2                                   |
| Interest rate                | 9                                | (7 )                       | —                   | —         | —           | —       | —                          | —                            | 2                                   |
| Other contracts              | 1                                | (1 )                       | —                   | —         | —           | —       | —                          | —                            | —                                   |
| Total Derivatives, net [4]   | 10                               | (11 )                      | —                   | 5         | —           | —       | —                          | —                            | 4                                   |
| Total Assets                 | \$2,202                          | \$ (8 )                    | \$ 55               | \$ 661    | \$ (351 )   | \$(204) | \$ 81                      | \$ (347 )                    | \$ 2,089                            |
| <b>Liabilities</b>           |                                  |                            |                     |           |             |         |                            |                              |                                     |
| Contingent Consideration [5] | (25 )                            | (3 )                       | —                   | —         | —           | —       | —                          | —                            | (28 )                               |
| Total Liabilities            | \$(25 )                          | \$(3 )                     | \$ —                | \$ —      | \$ —        | \$ —    | \$ —                       | \$ —                         | \$(28 )                             |

[1] Amounts in these columns are generally reported in net realized capital gains (losses). All amounts are before income taxes.

[2] All amounts are before income taxes.

[3] Transfers in and/or (out) of Level 3 are primarily attributable to the availability of market observable information and the re-evaluation of the observability of pricing inputs.

[4] Derivative instruments are reported in this table on a net basis for asset (liability) positions and reported in the Condensed Consolidated Balance Sheets in other investments and other liabilities.

[5] For additional information, see Note 2 - Business Acquisitions of Notes to Consolidated Financial Statements included in the Company's 2017 form 10-K Annual Report for discussion of the contingent consideration in connection with the acquisition of Lattice. Includes both market and non-market impacts in deriving realized and unrealized gains (losses).

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

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

|               | Three<br>months<br>ended<br>September<br>30,<br>2018 | Three<br>months<br>ended<br>September<br>30,<br>2017 | Nine<br>months<br>ended<br>September<br>30,<br>2018 | Nine<br>months<br>ended<br>September<br>30,<br>2017 |
|---------------|--|--|---|---|
|               | [1]  | [1]  | [1]   | [1]   |
|               | [2]  | [2]  | [2]   | [2]   |
| Assets        |  |  |   |   |
| Fixed         |  |  |   |   |
| Maturities,   |  |  |   |   |
| AFS           |  |  |   |   |
| CMBS          | \$ —   | \$ —   | \$ —  | \$ (1 )   |
| Total Fixed   |  |  |   |   |
| Maturities,   | —  | —  | —   | (1 )  |
| AFS           |  |  |   |   |
| Derivatives,  |  |  |   |   |
| net           |  |  |   |   |
| Equity        | (1 )   | —  | (1 )  | (2 )  |
| Interest rate | —  | (1 )   | —   | (6 )  |
| Total         |  |  |   |   |
| Derivatives,  | (1 )   | (1 )   | (1 )  | (8 )  |
| net           |  |  |   |   |
| Total Assets  | \$ (1 )  | \$ (1 )  | \$ (1 )   | \$ (9 )   |
| Liabilities   |  |  |   |   |
| Contingent    |  |  |   |   |
| Consideration | (1 )   | (1 )   | (3 )  | (3 )  |
| [3]           |  |  |   |   |
| Total         |  |  |   |   |
| Liabilities   | \$ (1 )  | \$ (1 )  | \$ (3 )   | \$ (3 )   |

[1] All amounts in these rows are reported in net realized capital gains (losses). All amounts are before income taxes.

[2] Amounts presented are for Level 3 only and therefore may not agree to other disclosures included herein.

For additional information, see Note 2 - Business Acquisitions of Notes to Consolidated Financial Statements  
[3] included in the Company's 2017 form 10-K Annual Report for discussion of the contingent consideration in connection with the acquisition of Lattice.

Fair Value Option

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

As of September 30, 2018 and December 31, 2017, the fair value of assets and liabilities using the fair value option was \$24 and \$41, respectively, within the residential real estate sector.

For three and nine months ended September 30, 2018 there were no realized capital gains (losses) related to the fair value of assets using the fair value option. For both the three and nine months ended September 30, 2017 the realized capital gains (losses) related to the fair value of assets using the fair value option were \$(1) within the residential real estate and corporate sectors.

Financial Instruments Not Carried at Fair Value

Financial Assets and Liabilities Not Carried at Fair Value

|   | Fair Value Hierarchy Level | Carrying Amount | Fair Value |
|---|----------------------------|-----------------|------------|
| September 30, 2018                            |                            |                 |            |
| Assets  |                            |                 |            |
| Mortgage loans                                | Level 3                    | \$ 3,559        | \$3,518    |
| Liabilities                                   |                            |                 |            |
| Other policyholder funds and benefits payable | Level 3                    | \$ 784          | \$785      |
| Senior notes [1]                              | Level 2                    | \$ 3,587        | \$3,940    |
| Junior subordinated debentures [1]            | Level 2                    | \$ 1,089        | \$1,142    |
| December 31, 2017                             |                            |                 |            |
| Assets  |                            |                 |            |
| Mortgage loans                                | Level 3                    | \$ 3,175        | \$3,220    |
| Liabilities                                   |                            |                 |            |
| Other policyholder funds and benefits payable | Level 3                    | \$ 825          | \$827      |
| Senior notes [1]                              | Level 2                    | \$ 3,415        | \$4,054    |
| Junior subordinated debentures [1]            | Level 2                    | \$ 1,583        | \$1,699    |

[1] Included in long-term debt in the Consolidated Balance Sheets, except for current maturities, which are included in short-term debt.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Investments

## Net Realized Capital Gains

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |      | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |       |
|---|--|------|---|-------|
| (Before tax)                                |  |      |   |       |
| Gross gains on sales                        | \$26   | \$46 | \$91  | \$184 |
| Gross losses on sales                       | (41)   | (16) | (129)   | (84)  |
| Equity securities [1]                       | 46   | —    | 88  | —     |
| Net OTTI losses recognized in earnings      | (1)  | (1)  | (1)   | (4)   |
| Transactional foreign currency revaluation  | —  | —    | 1   | 14    |
| Non-qualifying foreign currency derivatives | 1  | —    | 2   | (14)  |
| Other, net [2]                              | 7  | (3)  | 8   | 9     |
| Net realized capital gains                  | \$38   | \$26 | \$60  | \$105 |

[1] Effective January 1, 2018, with adoption of new accounting guidance for equity securities at fair value, includes all changes in fair value and trading gains and losses for equity securities.

[2] Includes gains (losses) on non-qualifying derivatives, excluding foreign currency derivatives, of \$8 and \$(1), respectively, for the three months ended September 30, 2018 and 2017. For the nine months ended September 30, 2018 and 2017, the non-qualifying derivatives, excluding foreign currency derivatives, were \$6 and \$7, respectively.

Net realized capital gains (losses) from investment sales are reported as a component of revenues and are determined on a specific identification basis. Before tax, net gains (losses) on sales and impairments previously reported as unrealized gains or losses in AOCI were \$(15) and \$(59) for the three and nine months ended September 30, 2018, respectively, and \$32 and \$102 for the three and nine months ended September 30, 2017, respectively. Proceeds from sales of AFS securities totaled \$4.6 billion and \$13.1 billion for the three and nine months ended September 30, 2018, respectively, and \$2.9 billion and \$11.4 billion for the three and nine months ended September 30, 2017, respectively. Effective January 1, 2018, with adoption of new accounting guidance for equity securities, the proceeds from sales of AFS securities no longer includes equity securities.

The net unrealized gain (loss) on equity securities included in net realized capital gains (losses) related to equity securities still held as of September 30, 2018, was \$41 and \$50 for the three and nine months ended September 30, 2018, respectively. Prior to January 1, 2018, changes in net unrealized gains (losses) on equity securities were included in AOCI.

Recognition and Presentation of Other-Than-Temporary Impairments

The Company will record an other-than-temporary impairment (“OTTI”) for fixed maturities 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 corresponding charge is recorded in net realized capital losses equal to the difference between the fair value and amortized cost basis of the security.

The Company will also record an OTTI for those fixed maturities for which the Company does not expect to recover the entire amortized cost basis. For these securities, the excess of the

amortized cost basis over its fair value is separated into the portion representing a credit OTTI, which is recorded in net realized capital losses, and the remaining non-credit amount, which is recorded in OCI. The credit OTTI amount is the excess of its amortized cost basis over the Company’s best estimate of discounted expected future cash flows. The non-credit amount is the excess of the best estimate of the discounted expected future cash flows over the fair value. The Company’s best estimate of discounted expected future cash flows becomes the new cost basis and accretes

prospectively into net investment income over the estimated remaining life of the security.

Developing the Company's best estimate of expected future cash flows is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions regarding the future performance. The Company's considerations include, but are not limited to, (a) changes in the financial condition of the issuer and the underlying collateral, (b) whether the issuer is current on contractually obligated interest and principal payments, (c) credit ratings, (d) payment structure of the security and (e) the extent to which the fair value has been less than the amortized cost of the security.

For non-structured securities, assumptions include, but are not limited to, economic and industry-specific trends and fundamentals, security-specific developments, industry earnings multiples and the issuer's ability to restructure and execute asset sales.

For structured securities, assumptions include, but are not limited to, various performance indicators such as historical and projected default and recovery rates, credit ratings, current and projected delinquency rates, loan-to-value ("LTV") ratios, average cumulative collateral loss rates that vary by vintage year, prepayment speeds, and property value declines. 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.

Prior to January 1, 2018, the Company recorded an OTTI for certain equity securities with debt-like characteristics if the Company intended to sell or it was more likely than not that the Company was required to sell the security before a recovery in value as well as for those equity securities for which the Company did not expect to recover the entire amortized cost basis. The Company also recorded an OTTI for equity securities where the decline in the fair value was deemed to be other-than-temporary. For further discussion of these policies, see Recognition and Presentation of Other-Than-Temporary Impairments within Note 6 - Investments of Notes to Consolidated Financial Statements included in the Company's 2017 Form 10-K Annual Report.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Investments (continued)

## Impairments in Earnings by Type

|                                  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |      | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |      |
|----------------------------------|--|------|---|------|
| Credit impairments               | \$ 1   | \$ — | \$ 1  | \$ 2 |
| Intent-to-sell impairments       | —  | —    | —   | —    |
| Impairments on equity securities | —  | 1    | —   | 2    |
| Total impairments                | \$ 1   | \$ 1 | \$ 1  | \$ 4 |

## Cumulative Credit Impairments

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |        | Nine Months<br>Ended<br>September<br>30,<br>2017 |         |
|---|--|--------|--|---------|
| (Before tax)  |  |        |  |         |
| Balance as of beginning of period                           | \$(20)   | \$(94) | \$(25)   | \$(110) |
| Additions for credit impairments recognized on [1]:         |  |        |  |         |
| Securities not previously impaired                          | —  | —      | —  | —       |
| Securities previously impaired                              | (1 )   | —      | (1 )   | (2 )    |
| Reductions for credit impairments previously recognized on: |  |        |  |         |
| Securities that matured or were sold during the period      | 1  | —      | 6  | 8       |
| Securities due to an increase in expected cash flows        | —  | —      | —  | 10      |
| Balance as of end of period                                 | \$(20)   | \$(94) | \$(20)   | \$(94 ) |

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



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Investments (continued)

## Available-for-Sale Securities

## AFS Securities by Type

|                              | September 30, 2018     |                        |                         |            |                     | December 31, 2017      |                        |                         |            |                     |
|------------------------------|------------------------|------------------------|-------------------------|------------|---------------------|------------------------|------------------------|-------------------------|------------|---------------------|
|                              | 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                          | \$1,191                | \$ 3                   | \$ (3)                  | \$1,191    | \$ —                | \$1,119                | \$ 9                   | \$ (2)                  | \$1,126    | \$ —                |
| CLOs                         | 1,328                  | 1                      | (3)                     | 1,326      | —                   | 1,257                  | 3                      | —                       | 1,260      | —                   |
| CMBS                         | 3,718                  | 25                     | (86)                    | 3,657      | (5)                 | 3,304                  | 58                     | (26)                    | 3,336      | (5)                 |
| Corporate                    | 13,640                 | 176                    | (324)                   | 13,492     | —                   | 12,370                 | 490                    | (56)                    | 12,804     | —                   |
| Foreign govt./govt. agencies | 961                    | 11                     | (20)                    | 952        | —                   | 1,071                  | 43                     | (4)                     | 1,110      | —                   |
| Municipal                    | 10,276                 | 402                    | (76)                    | 10,602     | —                   | 11,743                 | 754                    | (12)                    | 12,485     | —                   |
| RMBS                         | 3,126                  | 44                     | (52)                    | 3,118      | —                   | 2,985                  | 63                     | (4)                     | 3,044      | —                   |
| U.S. Treasuries              | 1,854                  | 17                     | (43)                    | 1,828      | —                   | 1,763                  | 46                     | (10)                    | 1,799      | —                   |
| Total fixed maturities, AFS  | 36,094                 | 679                    | (607)                   | 36,166     | (5)                 | 35,612                 | 1,466                  | (114)                   | 36,964     | (5)                 |
| Equity securities, AFS [2]   |                        |                        |                         |            |                     | 907                    | 121                    | (16)                    | 1,012      | —                   |
| Total AFS securities         | \$36,094               | \$ 679                 | \$ (607)                | \$36,166   | \$ (5)              | \$36,519               | \$ 1,587               | \$ (130)                | \$37,976   | \$ (5)              |

Represents the amount of cumulative non-credit OTTI losses recognized in OCI on securities that also had credit [1] impairments. These losses are included in gross unrealized losses in AOCI as of September 30, 2018 and December 31, 2017.

Effective January 1, 2018, with the adoption of new accounting standards for financial instruments, equity [2] securities, AFS were reclassified to equity securities at fair value and are excluded from the table above as of September 30, 2018.

## Fixed maturities, AFS, by Contractual Maturity Year

|   | September 30, 2018 |            | December 31, 2017 |            |
|---|--------------------|------------|-------------------|------------|
|   | Amortized Cost     | Fair Value | Amortized Cost    | Fair Value |
| One year or less                            | \$1,033            | \$1,037    | \$1,507           | \$1,513    |
| Over one year through five years            | 6,233              | 6,242      | 5,007             | 5,119      |
| Over five years through ten years           | 6,543              | 6,469      | 6,505             | 6,700      |
| Over ten years                              | 12,922             | 13,126     | 13,928            | 14,866     |
| Subtotal                                    | 26,731             | 26,874     | 26,947            | 28,198     |
| Mortgage-backed and asset-backed securities | 9,363              | 9,292      | 8,665             | 8,766      |
| Total fixed maturities, AFS                 | \$36,094           | \$36,166   | \$35,612          | \$36,964   |

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 September 30, 2018 or December 31, 2017.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Investments (continued)

## Unrealized Losses on AFS Securities

## Unrealized Loss Aging for AFS Securities by Type and Length of Time as of September 30, 2018

|  | Less Than 12 Months |          |            | 12 Months or More |         |            | Total     |          |            |
|--|---------------------|----------|------------|-------------------|---------|------------|-----------|----------|------------|
|  | Amortized           | Fair     | Unrealized | Amortized         | Fair    | Unrealized | Amortized | Fair     | Unrealized |
|  | Cost                | Value    | Losses     | Cost              | Value   | Losses     | Cost      | Value    | Losses     |
| ABS  | \$668               | \$666    | \$ (2 )    | \$74              | \$73    | \$ (1 )    | \$742     | \$739    | \$ (3 )    |
| CLOs   | 929                 | 926      | (3 )       | 10                | 10      | —          | 939       | 936      | (3 )       |
| CMBS   | 1,995               | 1,952    | (43 )      | 740               | 697     | (43 )      | 2,735     | 2,649    | (86 )      |
| Corporate  | 7,586               | 7,364    | (222 )     | 1,412             | 1,310   | (102 )     | 8,998     | 8,674    | (324 )     |
| Foreign govt./govt. agencies                               | 552                 | 537      | (15 )      | 95                | 90      | (5 )       | 647       | 627      | (20 )      |
| Municipal  | 2,206               | 2,151    | (55 )      | 266               | 245     | (21 )      | 2,472     | 2,396    | (76 )      |
| RMBS   | 1,795               | 1,751    | (44 )      | 184               | 176     | (8 )       | 1,979     | 1,927    | (52 )      |
| U.S. Treasuries  | 1,024               | 1,001    | (23 )      | 402               | 382     | (20 )      | 1,426     | 1,383    | (43 )      |
| Total fixed maturities, AFS in an unrealized loss position | \$16,755            | \$16,348 | \$ (407 )  | \$3,183           | \$2,983 | \$ (200 )  | \$19,938  | \$19,331 | \$ (607 )  |

## Unrealized Loss Aging for AFS Securities by Type and Length of Time as of December 31, 2017

|   | Less Than 12 Months |         |            | 12 Months or More |         |            | Total     |         |            |
|---|---------------------|---------|------------|-------------------|---------|------------|-----------|---------|------------|
|   | Amortized           | Fair    | Unrealized | Amortized         | Fair    | Unrealized | Amortized | Fair    | Unrealized |
|   | Cost                | Value   | Losses     | Cost              | Value   | Losses     | Cost      | Value   | Losses     |
| ABS   | \$461               | \$460   | \$ (1 )    | \$30              | \$29    | \$ (1 )    | \$491     | \$489   | \$ (2 )    |
| CLOs  | 359                 | 359     | —          | 1                 | 1       | —          | 360       | 360     | —          |
| CMBS  | 1,178               | 1,167   | (11 )      | 243               | 228     | (15 )      | 1,421     | 1,395   | (26 )      |
| Corporate                                       | 2,322               | 2,302   | (20 )      | 1,064             | 1,028   | (36 )      | 3,386     | 3,330   | (56 )      |
| Foreign govt./govt. agencies                    | 244                 | 242     | (2 )       | 51                | 49      | (2 )       | 295       | 291     | (4 )       |
| Municipal                                       | 511                 | 507     | (4 )       | 236               | 228     | (8 )       | 747       | 735     | (12 )      |
| RMBS  | 889                 | 887     | (2 )       | 137               | 135     | (2 )       | 1,026     | 1,022   | (4 )       |
| U.S. Treasuries                                 | 658                 | 652     | (6 )       | 254               | 250     | (4 )       | 912       | 902     | (10 )      |
| Total fixed maturities, AFS                     | 6,622               | 6,576   | (46 )      | 2,016             | 1,948   | (68 )      | 8,638     | 8,524   | (114 )     |
| Equity securities, AFS [1]                      | 176                 | 163     | (13 )      | 24                | 21      | (3 )       | 200       | 184     | (16 )      |
| Total securities in an unrealized loss position | \$6,798             | \$6,739 | \$ (59 )   | \$2,040           | \$1,969 | \$ (71 )   | \$8,838   | \$8,708 | \$ (130 )  |

[1]Effective January 1, 2018, with the adoption of new accounting guidance for financial instruments, equity securities, AFS were reclassified to equity securities at fair value and are excluded from the table above as of September 30, 2018.

As of September 30, 2018, AFS securities in an unrealized loss position consisted of 2,926 securities, primarily in the corporate and commercial real estate sectors, which were depressed primarily due to an increase in interest rates and/or widening of credit spreads since the securities were purchased. As of September 30, 2018, 99% of these securities were depressed less than 20% of cost or amortized cost. The increase in unrealized losses during the nine months ended September 30, 2018 was primarily attributable to higher interest rates and wider credit spreads. Most of the securities depressed for twelve months or more relate to corporate securities, structured securities with exposure to commercial real estate, and municipal bonds. Corporate securities and commercial real estate securities were primarily

depressed because current market spreads are wider and interest rates are higher than at the securities' respective purchase dates. Certain municipal bonds were depressed because the securities have long-dated maturities and interest

rates have increased since their purchase. The Company neither has an intention to sell nor does it expect to be required to sell the securities outlined in the preceding discussion.

Mortgage Loans

Mortgage Loan Valuation Allowances

Mortgage loans are considered to be impaired when management estimates that, based upon current information and events, it is probable that the Company will be unable to collect amounts due

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Investments (continued)

according to the contractual terms of the loan agreement. The Company reviews mortgage loans on a quarterly basis to identify potential credit losses. Among other factors, management reviews current and projected macroeconomic trends, such as unemployment rates and property-specific factors such as rental rates, occupancy levels, LTV ratios and debt service coverage ratios (“DSCR”). In addition, the Company considers historical, current and projected delinquency rates and property values. Estimates of collectibility require the use of significant management judgment and include the probability and timing of borrower default and loss severity estimates. In addition, cash flow projections may change based upon new information about the borrower's ability to pay and/or the value of underlying collateral such as changes in projected property value estimates.

For mortgage loans that are deemed impaired, a valuation allowance is established for the difference between the carrying amount and estimated fair value. The mortgage loan's estimated fair value is most frequently the Company's share of the fair value of the collateral but may also be the Company's share of either (a) the present value of the expected future cash flows discounted at the loan's effective interest rate or (b) the loan's observable market price. A valuation allowance may be recorded for an individual loan or for a group of loans that have an LTV ratio of 90% or greater, a low DSCR or have other lower credit quality characteristics. Changes in valuation allowances are recorded in net realized capital gains and losses. Interest income on impaired loans is accrued to the extent it is deemed collectible and the borrowers continue to make payments under the original or restructured loan terms. The Company stops accruing interest income on loans when it is probable that the Company will not receive interest and principal payments according to the contractual terms of the loan agreement. The Company resumes accruing interest income when it determines that sufficient collateral exists to satisfy the full amount of the loan principal and interest payments and when it is probable cash will be received in the foreseeable future. Interest income on defaulted loans is recognized when received.

As of September 30, 2018 and December 31, 2017, mortgage loans had an amortized cost and carrying value of \$3.6 billion and \$3.2 billion, respectively, with a valuation allowance of \$1 for both periods.

As of both September 30, 2018 and December 31, 2017, the carrying value of mortgage loans that had a valuation allowance was \$24. There were no mortgage loans held-for-sale as of September 30, 2018 or December 31, 2017. As of September 30, 2018, the Company had no mortgage loans that have had extensions or restructurings other than what is allowable under the original terms of the contract.

The following table presents the activity within the Company's valuation allowance for mortgage loans. These loans have been evaluated both individually and collectively for impairment. Loans evaluated collectively for impairment are immaterial.

## Valuation Allowance Activity

|                             | 2018  | 2017 |
|-----------------------------|-------|------|
| Balance, as of January 1    | \$(1) | \$ — |
| Reversals/(Additions)       | —     | (1)  |
| Deductions                  | —     | 1    |
| Balance, as of September 30 | \$(1) | \$ — |

The weighted-average LTV ratio of the Company's mortgage loan portfolio was 53% as of September 30, 2018, while the weighted-average LTV ratio at origination of these loans was 61%. LTV ratios compare the loan amount to the value of the underlying property collateralizing the loan. The loan collateral values are updated no less than annually through reviews of the underlying properties. Factors considered in estimating property values include, among other things, actual and expected property cash flows, geographic market data and the ratio of the property's net operating income to its value. DSCR compares a property's net operating income to the borrower's principal and interest payments. As of September 30, 2018 and December 31, 2017, the Company held no delinquent mortgage loans past due by 90 days or more.

Mortgage Loans Credit Quality

|                      | September 30, 2018 |                             | December 31, 2017 |                                  |
|----------------------|--------------------|-----------------------------|-------------------|----------------------------------|
|                      | Avg.               |                             |                   |                                  |
| Loan-to-value        | Carrying Value     | Debt-Service Coverage Ratio | Carrying Value    | Avg. Debt-Service Coverage Ratio |
| Greater than 80%     | \$—                | —                           | \$18              | 1.27x                            |
| 65% - 80%            | 406                | 1.68x                       | 265               | 1.95x                            |
| Less than 65%        | 3,153              | 2.60x                       | 2,892             | 2.76x                            |
| Total mortgage loans | \$3,559            | 2.50x                       | \$3,175           | 2.69x                            |

Mortgage Loans by Region

|                      | September 30, 2018 |                  | December 31, 2017 |                  |
|----------------------|--------------------|------------------|-------------------|------------------|
|                      | Carrying Value     | Percent of Total | Carrying Value    | Percent of Total |
| East North Central   | \$250              | 7.0 %            | \$251             | 7.9 %            |
| Middle Atlantic      | 271                | 7.6 %            | 272               | 8.6 %            |
| Mountain             | 31                 | 0.9 %            | 31                | 1.0 %            |
| New England          | 290                | 8.2 %            | 293               | 9.2 %            |
| Pacific              | 870                | 24.4 %           | 760               | 23.9 %           |
| South Atlantic       | 713                | 20.0 %           | 710               | 22.4 %           |
| West North Central   | 148                | 4.2 %            | 149               | 4.7 %            |
| West South Central   | 421                | 11.8 %           | 278               | 8.7 %            |
| Other [1]            | 565                | 15.9 %           | 431               | 13.6 %           |
| Total mortgage loans | \$3,559            | 100.0 %          | \$3,175           | 100.0 %          |

[1] Primarily represents loans collateralized by multiple properties in various regions.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Investments (continued)

## Mortgage Loans by Property Type

|                      | September 30, 2018 |                  | December 31, 2017 |                  |
|----------------------|--------------------|------------------|-------------------|------------------|
|                      | Carrying Value     | Percent of Total | Carrying Value    | Percent of Total |
| Commercial           |                    |                  |                   |                  |
| Industrial           | \$1,018            | 28.6 %           | \$817             | 25.7 %           |
| Multifamily          | 1,083              | 30.4 %           | 1,006             | 31.7 %           |
| Office               | 760                | 21.4 %           | 751               | 23.7 %           |
| Retail               | 373                | 10.5 %           | 367               | 11.5 %           |
| Single Family        | 82                 | 2.3 %            | —                 | — %              |
| Other                | 243                | 6.8 %            | 234               | 7.4 %            |
| Total mortgage loans | \$3,559            | 100.0 %          | \$3,175           | 100.0 %          |

## Mortgage Servicing

The Company originates, sells and services commercial mortgage loans on behalf of third parties and recognizes servicing fee income over the period that services are performed. As of September 30, 2018, under this program, the Company serviced commercial mortgage loans with a total outstanding principal of \$5.9 billion, of which \$3.6 billion was serviced on behalf of third parties and \$2.3 billion was retained and reported in total investments on the Company's Condensed Consolidated Balance Sheets. As of December 31, 2017, the Company serviced commercial mortgage loans with a total outstanding principal balance of \$1.3 billion, of which \$402 was serviced on behalf of third parties, \$566 was retained and reported in total investments and \$356 was reported in assets held for sale on the Company's Consolidated Balance Sheets. Servicing rights are carried at the lower of cost or fair value and were zero as of September 30, 2018 and December 31, 2017, because servicing fees were market-level fees at origination and remain adequate to compensate the Company for servicing the loans.

## Variable Interest Entities

The Company is engaged with various special purpose entities and other entities that are deemed to be VIEs primarily as an investor through normal investment activities but also as an investment manager.

A VIE is an entity that either has investors that lack certain essential characteristics of a controlling financial interest, such as simple majority kick-out rights, or lacks sufficient funds to finance its own activities without financial support provided by other entities. The Company performs ongoing qualitative assessments of its VIEs to determine whether the Company has a controlling financial interest in the VIE and therefore is the primary beneficiary. The Company is deemed to have a controlling financial interest when it has both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. Based on the Company's assessment, if it determines it is the primary beneficiary, the Company

consolidates the VIE in the Company's Condensed Consolidated Financial Statements.

## Consolidated VIEs

As of September 30, 2018 and December 31, 2017, the Company did not hold any securities for which it is the primary beneficiary.

## Non-Consolidated VIEs

The Company, through normal investment activities, makes passive investments in limited partnerships and other alternative investments. For these non-consolidated VIEs, the Company has determined it is not the primary beneficiary as it has no ability to direct activities that could significantly affect the economic performance of the investments. The Company's maximum exposure to loss as of September 30, 2018 and December 31, 2017 was limited

to the total carrying value of \$1.0 billion and \$920, respectively, which are included in limited partnerships and other alternative investments in the Company's Condensed Consolidated Balance Sheets. As of September 30, 2018 and December 31, 2017, the Company has outstanding commitments totaling \$689 and \$787, respectively, whereby the Company is committed to fund these investments and may be called by the partnership during the commitment period to fund the purchase of new investments and partnership expenses. These investments are generally of a passive nature in that the Company does not take an active role in management. For further discussion of these investments, see Equity Method Investments within Note 6 - Investments of Notes to Consolidated Financial Statements included in the Company's 2017 Form 10-K Annual Report.

In addition, the Company also makes passive investments in structured securities issued by VIEs for which the Company is not the manager. These investments are included in ABS, CDOs, CMBS and RMBS in the Available-for-Sale Securities table and fixed maturities, AFS and FVO, in the Company's Condensed Consolidated Balance Sheets. The Company has not provided financial or other support with respect to these investments other than its original investment. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company's investment in comparison to the principal amount of the structured securities issued by the VIEs, the level of credit subordination which reduces the Company's obligation to absorb losses or right to receive benefits and the Company's inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company's maximum exposure to loss on these investments is limited to the amount of the Company's investment.

#### Securities Lending, Repurchase Agreements and Other Collateral Transactions

The Company enters into securities financing transactions as a way to earn additional income or manage liquidity, primarily through securities lending and repurchase agreements.



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments (continued)

Securities Lending

Under a securities lending program, the Company lends certain fixed maturities within the corporate, foreign government/government agencies, and municipal sectors as well as equity securities to qualifying third-party borrowers in return for collateral in the form of cash or securities. For domestic and non-domestic loaned securities, respectively, borrowers provide collateral of 102% and 105% of the fair value of the securities lent at the time of the loan. Borrowers will return the securities to the Company for cash or securities collateral at maturity dates generally of 90 days or less. Security collateral on deposit from counterparties in connection with securities lending transactions may not be sold or re-pledged, except in the event of default by the counterparty, and is not reflected on the Company's Condensed Consolidated Balance Sheets. Additional collateral is obtained if the fair value of the collateral falls below 100% of the fair value of the loaned securities. The agreements provide the counterparty the right to sell or re-pledge the securities loaned. If cash, rather than securities, is received as collateral, the cash is typically invested in short-term investments or fixed maturities and is reported as an asset on the Company's Condensed Consolidated Balance Sheets. Income associated with securities lending transactions is reported as a component of net investment income in the Company's Condensed Consolidated Statements of Operations.

Repurchase Agreements

From time to time, the Company enters into repurchase agreements to manage liquidity or to earn incremental income. A repurchase agreement is a transaction in which one party (transferor) agrees to sell securities to another party (transferee) in return for cash (or securities), with a simultaneous agreement to repurchase the same securities at a specified price at a later date. These transactions generally have a contractual maturity of ninety days or less. Repurchase agreements include master netting provisions that provide both counterparties the right to offset claims and apply securities held by them with respect to their obligations in the event of a default. Although the Company has the contractual right to offset claims, the Company's current positions do not meet the specific conditions for net presentation.

Under repurchase agreements, the Company transfers collateral of U.S. government and government agency securities and receives cash. For repurchase agreements, the Company obtains cash in an amount equal to at least 95% of the fair value of the securities transferred. The agreements require additional collateral to be transferred when necessary and provide the counterparty the right to sell or re-pledge the securities transferred. The cash received from the repurchase program is typically invested in short-term investments or fixed maturities and is reported as an asset on the Company's Condensed Consolidated Balance Sheets. The Company accounts for the repurchase agreements as collateralized borrowings. The securities transferred under repurchase agreements are included in fixed maturities, AFS with the obligation to repurchase those securities recorded in other liabilities on the Company's Condensed Consolidated Balance Sheets.

From time to time, the Company enters into reverse repurchase agreements where the Company purchases securities and

simultaneously agrees to resell the same or substantially the same securities. The agreements require additional collateral to be transferred to the Company when necessary and the Company has the right to sell or re-pledge the securities received. The Company accounts for reverse repurchase agreements as collateralized financing. The receivable for reverse repurchase agreements is included within short term investments in the Company's Condensed Consolidated Balance Sheets.

Securities Lending and Repurchase Agreements

|  | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
|  | Fair Value         | Fair Value        |

Securities Lending Transactions:

|  |        |        |
|--|--------|--------|
| Gross amount of securities on loan                               | \$ 697 | \$ 922 |
| Gross amount of associated liability for collateral received [1] | \$ 714 | \$ 945 |

Repurchase agreements:

|  |        |        |
|--|--------|--------|
| Gross amount of recognized liabilities for repurchase agreements         | \$ 167 | \$ 174 |
| Gross amount of collateral pledged related to repurchase agreements [2]  | \$ 168 | \$ 176 |
| Gross amount of recognized receivables for reverse repurchase agreements | \$ 36  | \$ —   |

[1] Cash collateral received is reinvested in fixed maturities, AFS and short term investments and is included in the Condensed Consolidated Balance Sheets. Amount includes additional securities collateral received of \$2 and \$0 million which are excluded from the Company's Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively.

[2] Collateral pledged is included within fixed maturities, AFS and short term investments in the Company's Condensed Consolidated Balance Sheets.

Other Collateral Transactions

The Company is required by law to deposit securities with government agencies in certain states in which it conducts business. As of September 30, 2018 and December 31, 2017, the fair value of securities on deposit were \$2.5 billion . As of September 30, 2018 and December 31, 2017, the Company pledged collateral of \$46 and \$104, respectively, of U.S. government securities and government agency securities or cash primarily related to certain bank loan participations committed to through a limited partnership agreement. These amounts also include collateral related to letters of credit.

For disclosure of collateral in support of derivative transactions, refer to the Derivative Collateral Arrangements section of Note 7 - Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Derivative Instruments

The Company utilizes a variety of OTC, OTC-cleared and exchange traded derivative instruments as a part of its overall risk management strategy as well as to enter into replication transactions. Derivative instruments are used to manage risk associated with interest rate, equity market, credit spread, issuer default, price, and currency exchange rate risk or volatility. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that are permissible investments under the Company's investment policies.

Strategies that Qualify for Hedge Accounting

Some of the Company's derivatives satisfy hedge accounting requirements as outlined in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements, included in The Hartford's 2017 Form 10-K Annual Report. Typically, these hedging instruments include interest rate swaps and, to a lesser extent, foreign currency swaps where the terms or expected cash flows of the hedged item closely match the terms of the swap. The interest rate swaps are typically used to manage interest rate duration of certain fixed maturity securities. The hedge strategies by hedge accounting designation include:

Cash Flow Hedges

Interest rate swaps are predominantly used to manage portfolio duration and better match cash receipts from assets with cash disbursements required to fund liabilities. These derivatives primarily convert interest receipts on floating-rate fixed maturity securities to fixed rates. The Company has also entered into interest rate swaps to convert the variable interest payments on the 3 month Libor + 2.125% junior subordinated debt to fixed interest payments. For further information, see the Junior Subordinated Debentures section within Note 13 - Debt of Notes to the Consolidated Financial Statements, included in The Hartford's 2017 Form 10-K Annual Report.

Foreign currency swaps are used to convert foreign currency-denominated cash flows related to certain investment receipts to U.S. dollars in order to reduce cash flow fluctuations due to changes in currency rates.

The Company also previously entered into forward starting swap agreements to hedge the interest rate exposure related to the future purchase of fixed-rate securities, primarily to hedge interest rate risk inherent in the assumptions used to price certain group benefits liabilities.

Non-qualifying Strategies

Derivative relationships that do not qualify for hedge accounting ("non-qualifying strategies") primarily include hedging and replication strategies that utilize credit default swaps. In addition, hedges of interest rate, foreign currency and equity risk of certain fixed maturities and equities do not qualify for hedge accounting. The non-qualifying strategies include:

Credit Contracts

Credit default swaps are used to purchase credit protection on an individual entity or referenced index to economically hedge against default risk and credit-related changes in the value of fixed maturity securities. Credit default swaps are also used to assume credit risk related to an individual entity or referenced index as a part of replication transactions. These contracts require the Company to pay or receive a periodic fee in exchange for compensation from the counterparty should the referenced security issuers experience a credit event, as defined in the contract. The Company also enters into credit default swaps to terminate existing credit default swaps, thereby offsetting the changes in value of the original swap going forward.

Interest Rate Swaps, Swaptions and Futures

The Company uses interest rate swaps, swaptions and futures to manage interest rate duration between assets and liabilities in certain investment portfolios. In addition, the Company enters into interest rate swaps to terminate existing swaps, thereby offsetting the changes in value of the original swap going forward. As of September 30, 2018 and December 31, 2017, the notional amount of interest rate swaps in offsetting relationships was \$7.1 billion and \$7.3 billion, respectively.

#### Foreign Currency Swaps and Forwards

The Company enters into foreign currency swaps to convert the foreign currency exposures of certain foreign currency-denominated fixed maturity investments to U.S. dollars. The Company may at times enter into foreign currency forwards to hedge non-U.S. dollar denominated cash and, previously, equity securities. The Company previously entered into foreign currency forwards to hedge currency impacts on changes in equity of the U.K. property and casualty run-off subsidiaries that were sold in May 2017. For further information on the disposition, see Note 2 - Business Acquisitions of Notes to Consolidated Financial Statements, included in The Hartford's 2017 Form 10-K Annual Report.

#### Equity Index Options

The Company enters into equity index options to hedge the impact of a decline in the equity markets on the investment portfolio. The Company also enters into call options on equity securities to generate additional return.

#### Derivative Balance Sheet Classification

For reporting purposes, the Company has elected to offset within assets or liabilities based upon the net of the fair value amounts, income accruals, and related cash collateral receivables and payables of OTC derivative instruments executed in a legal entity and with the same counterparty under a master netting agreement, which provides the Company with the legal right of offset. The following fair value amounts do not include income accruals or related cash collateral receivables and payables, which are netted with derivative fair value amounts to determine balance sheet presentation. The Company's derivative

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. Derivative Instruments (continued)

instruments are held for risk management purposes, unless otherwise noted in the following table. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to

quantify the volume of the Company's derivative activity. Notional amounts are not necessarily reflective of credit risk.

## Derivative Balance Sheet Presentation

| Hedge Designation/ Derivative Type                   | Net Derivatives |               | Asset Derivatives [1] |               | Liability Derivatives [1] |               |
|--|-----------------|---------------|-----------------------|---------------|---------------------------|---------------|
|  | Notional Amount | Fair Value    | Fair Value            | Fair Value    | Fair Value                | Fair Value    |
|  | Sep. 30, 2018   | Dec. 31, 2017 | Sep. 30, 2018         | Dec. 31, 2017 | Sep. 30, 2018             | Dec. 31, 2017 |
| Cash flow hedges                                     |                 |               |                       |               |                           |               |
| Interest rate swaps                                  | \$2,080         | \$2,190       | \$—                   | \$—           | \$—                       | \$1           |
| Foreign currency swaps                               | 153             | 153           | (11)                  | (13)          | 1                         | —             |
| Total cash flow hedges                               | 2,233           | 2,343         | (11)                  | (13)          | 1                         | 1             |
| Non-qualifying strategies                            |                 |               |                       |               |                           |               |
| Interest rate contracts                              |                 |               |                       |               |                           |               |
| Interest rate swaps and futures                      | 8,111           | 7,986         | (51)                  | (83)          | 3                         | 7             |
| Foreign exchange contracts                           |                 |               |                       |               |                           |               |
| Foreign currency swaps and forwards                  | 318             | 213           | —                     | (1)           | 1                         | —             |
| Credit contracts                                     |                 |               |                       |               |                           |               |
| Credit derivatives that purchase credit protection   | 8               | 61            | —                     | 1             | —                         | 2             |
| Credit derivatives that assume credit risk [2]       | 923             | 823           | 14                    | 3             | 15                        | 3             |
| Credit derivatives in offsetting positions           | 46              | 1,046         | —                     | 2             | 6                         | 11            |
| Equity contracts                                     |                 |               |                       |               |                           |               |
| Equity index swaps and options                       | 125             | 258           | 1                     | 1             | 1                         | 1             |
| Total non-qualifying strategies                      | 9,531           | 10,387        | (36)                  | (77)          | 26                        | 24            |
| Total cash flow hedges and non-qualifying strategies | \$11,764        | \$12,730      | \$(47)                | \$(90)        | \$27                      | \$25          |
| Balance Sheet Location                               |                 |               |                       |               |                           |               |
| Fixed maturities, available-for-sale                 | \$153           | \$153         | \$—                   | \$—           | \$—                       | \$—           |
| Other investments                                    | 9,377           | 9,957         | 14                    | 10            | 19                        | 16            |
| Other liabilities                                    | 2,234           | 2,620         | (61)                  | (100)         | 8                         | 9             |
| Total derivatives                                    | \$11,764        | \$12,730      | \$(47)                | \$(90)        | \$27                      | \$25          |

[1] Certain prior year amounts have been restated to conform to the current year presentation for OTC-cleared derivatives.

[2] The derivative instruments related to this strategy are held for other investment purposes.

## Offsetting of Derivative Assets/Liabilities

The following tables present the gross fair value amounts, the amounts offset, and net position of derivative instruments eligible for offset in the Company's Condensed Consolidated Balance Sheets. Amounts offset include fair value amounts, income

accruals and related cash collateral receivables and payables associated with derivative instruments that are traded under a common master netting agreement, as described in the preceding discussion. Also included in the tables are financial collateral receivables and payables, which are contractually permitted to be offset upon an event of default, although are disallowed for offsetting under U.S. GAAP.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. Derivative Instruments (continued)

## Offsetting Derivative Assets and Liabilities

|                          | (i)   | (ii)   | (iii) = (i) - (ii)  |   | (iv)  | (v) =<br>(iii) -<br>(iv) |
|--------------------------|---|--|---|---|---|--------------------------|
|                          |   |  | Net Amounts<br>Presented in the<br>Statement of<br>Financial Position |   | Collateral<br>Disallowed<br>for Offset<br>in the<br>Statement<br>of Financial<br>Position |                          |
|                          | Gross<br>Amounts of<br>Recognized<br>Assets<br>(Liabilities)<br>[1] | Gross<br>Amounts<br>Offset in<br>the<br>Statement<br>of<br>Financial<br>Position | Derivative<br>Assets<br>(Liabilities)<br>[2]<br>[3]                   | Accrued<br>Interest and<br>Cash<br>Collateral<br>(Received)<br>Pledged<br>[3] | Financial<br>Collateral<br>(Received)<br>Pledged [5]                                      | Net<br>Amount            |
| As of September 30, 2018 |   |  |   |   |   |                          |
| Other investments        | \$ 27   | \$ 23  | \$ 14   | \$ (10 )  | \$ 2  | \$ 2                     |
| Other liabilities        | \$ (74 )  | \$ (5 )  | \$ (61 )  | \$ (8 )   | \$ (61 )  | \$ (8 )                  |
| As of December 31, 2017  |   |  |   |   |   |                          |
| Other investments        | \$ 25   | \$ 22  | \$ 10   | \$ (7 )   | \$ 1  | \$ 2                     |
| Other liabilities        | \$ (115 )   | \$ (10 )   | \$ (100)  | \$ (5 )   | \$ (96 )  | \$ (9 )                  |

[1] Certain prior year amounts have been restated to conform to the current year presentation for OTC-cleared derivatives.

[2] Included in other investments in the Company's Condensed Consolidated Balance Sheets.

[3] Included in other liabilities in the Company's Condensed Consolidated Balance Sheets and is limited to the net derivative payable associated with each counterparty.

[4] Included in other investments in the Company's Condensed Consolidated Balance Sheets and is limited to the net derivative receivable associated with each counterparty.

[5] Excludes collateral associated with exchange-traded derivative instruments.

## Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current period earnings. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

## Derivatives in Cash Flow Hedging Relationships

Gain (Loss) Recognized  
in OCI on Derivative  
(Effective Portion)

|                        | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine Months<br>Ended<br>September<br>30,<br>2018 | 2017 |
|------------------------|--|--|------|
| Interest rate swaps    | \$—  | \$2  | \$16 |
| Foreign currency swaps | (4)  | 1  | (8)  |
| Total                  | \$(2)  | \$(15)   | \$8  |

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine Months<br>Ended<br>September<br>30,<br>2018 | 2017 |
|---|--|--|------|
| Gain (Loss)<br>Reclassified from<br>AOCI into Income<br>(Effective Portion) |  |  |      |

|                            |     |     |      |
|----------------------------|-----|-----|------|
| Interest rate swaps        |     |     |      |
| Net realized capital gains | \$— | \$— | \$1  |
| Net investment income      | 7   | 8   | 24   |
| Total                      | \$7 | \$8 | \$25 |

During the three and nine months ended September 30, 2018, and September 30, 2017, the Company had no ineffectiveness recognized in income within net realized capital gains (losses).

As of September 30, 2018, the before tax deferred net gains on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are \$24. This expectation is based on the anticipated interest payments on



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. Derivative Instruments (continued)

hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to net investment income over the term of the investment cash flows.

During the three and nine months ended September 30, 2018, and September 30, 2017, the Company had no net reclassifications from AOCI to earnings resulting from the discontinuance of cash-flow hedges due to forecasted

transactions that were no longer probable of occurring.

## Non-Qualifying Strategies

For non-qualifying strategies, including embedded derivatives that are required to be bifurcated from their host contracts and accounted for as derivatives, the gain or loss on the derivative is recognized currently in earnings within net realized capital gains (losses).

## Non-Qualifying Strategies Recognized within Net Realized Capital Gains

(Losses)

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |        | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |         |
|--|--|--------|---|---------|
| Foreign exchange contracts                         |  |        |   |         |
| Foreign currency swaps and forwards                | \$ 1   | \$ —   | \$ 2  | \$ (14) |
| Other non-qualifying derivatives                   |  |        |   |         |
| Interest rate contracts                            |  |        |   |         |
| Interest rate swaps, swaptions, and futures        | 1  | (4)    | 7   | (6)     |
| Credit contracts                                   |  |        |   |         |
| Credit derivatives that purchase credit protection | —  | 8      | —   | 26      |
| Credit derivatives that assume credit risk         | 8  | (2)    | —   | (9)     |
| Equity contracts                                   |  |        |   |         |
| Equity index swaps and options                     | (1)  | (3)    | (1)   | (3)     |
| Other  |  |        |   |         |
| Contingent capital facility put option             | —  | —      | —   | (1)     |
| Total other non-qualifying derivatives             | 8  | (1)    | 6   | 7       |
| Total [1]  | \$ 9   | \$ (1) | \$ 8  | \$ (7)  |

[1] Excludes investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 5 - Fair Value Measurements.

## Credit Risk Assumed through Credit Derivatives

The Company enters into credit default swaps that assume credit risk of a single entity or referenced index in order to synthetically replicate investment transactions that are permissible under the Company's investment policies. The Company will receive periodic payments based on an agreed upon rate and notional amount and will only make a payment if there is a credit event. A credit event payment will typically be equal to the notional value of the swap contract less the value of the referenced security

issuer's debt obligation after the occurrence of the credit event. A credit event is generally defined as a default on contractually obligated interest or principal payments or bankruptcy of the referenced entity. The credit default swaps in which the Company assumes credit risk primarily reference investment grade single corporate issuers and baskets,

which include standard diversified portfolios of corporate and CMBS issuers. The diversified portfolios of corporate issuers are established within sector concentration limits and may be divided into tranches that possess different credit ratings.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. Derivative Instruments (continued)

## Credit Risk Assumed Derivatives by Type

|                                      | Notional<br>Amount<br>[2] | Fair<br>Value | Weighted<br>Average<br>Years to<br>Maturity | Underlying Referenced<br>Credit<br>Obligation(s) [1]<br><br>Type | Average<br>Credit<br>Rating | Offsetting<br>Notional<br>Amount [3] | Offsetting<br>Fair<br>Value [3] |
|--------------------------------------|---------------------------|---------------|---|--|-----------------------------|--------------------------------------|---------------------------------|
| As of September 30, 2018             |                           |               |   |  |                             |                                      |                                 |
| Single name credit default swaps     |                           |               |   |  |                             |                                      |                                 |
| Investment grade risk exposure       | \$ 170                    | \$ 4          | 5 years                                     | Corporate Credit/<br>Foreign Gov.                                | A-                          | \$ —                                 | \$ —                            |
| Basket credit default swaps [4]      |                           |               |   |  |                             |                                      |                                 |
| Investment grade risk exposure       | 743                       | 10            | 6 years                                     | Corporate Credit   | BBB+                        | —                                    | —                               |
| Investment grade risk exposure       | 12                        | —             | 5 years                                     | CMBS Credit  | A-                          | 2                                    | —                               |
| Below investment grade risk exposure | 21                        | (6 )          | Less than 1 year                            | CMBS Credit  | CCC                         | 21                                   | 6                               |
| Total [5]                            | \$ 946                    | \$ 8          |   |  |                             | \$ 23                                | \$ 6                            |
| As of December 31, 2017              |                           |               |   |  |                             |                                      |                                 |
| Single name credit default swaps     |                           |               |   |  |                             |                                      |                                 |
| Investment grade risk exposure       | \$ 130                    | \$ 3          | 5 years                                     | Corporate Credit/<br>Foreign Gov.                                | A-                          | \$ —                                 | \$ —                            |
| Below investment grade risk exposure | 9                         | —             | Less than 1 year                            | Corporate Credit   | B                           | 9                                    | —                               |
| Basket credit default swaps [4]      |                           |               |   |  |                             |                                      |                                 |
| Investment grade risk exposure       | 1,137                     | 2             | 3 years                                     | Corporate Credit   | BBB+                        | 454                                  | (2 )                            |
| Below investment grade risk exposure | 27                        | 2             | 3 years                                     | Corporate Credit   | B+                          | 27                                   | —                               |
| Investment grade risk exposure       | 13                        | (1 )          | 5 years                                     | CMBS Credit  | A                           | 3                                    | —                               |
| Below investment grade risk exposure | 30                        | (6 )          | Less than 1 year                            | CMBS Credit  | CCC                         | 30                                   | 7                               |
| Total [5]                            | \$ 1,346                  | \$ —          |   |  |                             | \$ 523                               | \$ 5                            |

The average credit ratings are based on availability and are generally the midpoint of the available ratings among [1] Moody's, S&P, Fitch and Morningstar. If no rating is available from a rating agency, then an internally developed rating is used.

[2] Notional amount is equal to the maximum potential future loss amount. These derivatives are governed by [2] agreements and applicable law, which include collateral posting requirements. There is no additional specific collateral related to these contracts or recourse provisions included in the contracts to offset losses.

[3] The Company has entered into offsetting credit default swaps to terminate certain existing credit default swaps, thereby offsetting the future changes in value of, or losses paid related to, the original swap.

[4] Comprised of swaps of standard market indices of diversified portfolios of corporate and CMBS issuers referenced through credit default swaps. These swaps are subsequently valued based upon the observable standard market index.

[5] Excludes investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 5 - Fair Value Measurements.

## Derivative Collateral Arrangements

The Company enters into various collateral arrangements in connection with its derivative instruments, which require both the pledging and accepting of collateral. As of September 30, 2018 and December 31, 2017, the Company pledged cash collateral with a fair value of \$1 associated with derivative instruments. The collateral receivable has

been recorded in other assets or other liabilities on the Company's Condensed Consolidated Balance Sheets as determined by the Company's election to offset on the balance sheet. As of September 30, 2018 and December 31, 2017, the Company also pledged securities collateral associated with derivative instruments with a fair value of \$68 and \$101, respectively, which have been included in fixed

maturities on the Condensed Consolidated Balance Sheets. In addition, as of September 30, 2018 and December 31, 2017, the Company has also pledged initial margin of securities related to OTC-cleared and exchange traded derivatives with a fair value of \$99 and \$96, respectively, which are included within fixed maturities on the Company's Condensed Consolidated Balance Sheets. The counterparties generally have the right to sell or re-pledge these securities.

As of September 30, 2018 and December 31, 2017, the Company accepted cash collateral associated with derivative instruments of \$13 and \$11, respectively, which was invested and recorded in the Company's Condensed Consolidated Balance Sheets in fixed maturities and short-term investments with corresponding amounts recorded in other investments or other liabilities as determined by the Company's election to offset on the balance

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Derivative Instruments (continued)

sheet. The Company also accepted securities collateral as of September 30, 2018 and December 31, 2017, with a fair value of \$2, none of which the Company has the ability to sell or repledge. As of September 30, 2018 and December 31, 2017, the Company had no repledged securities and did not sell any securities held as collateral. In addition, as of September 30, 2018 and December 31, 2017, non-cash collateral accepted was held in separate custodial accounts and was not included in the Company's Consolidated Balance Sheets.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Other Intangible Assets

On February 16, 2018, The Company entered into a renewal rights agreement with Farmers Exchanges of the Farmers Group of Companies to acquire its Foremost-branded small commercial business sold through independent agents. In connection with the renewal rights agreement, the Company recorded a customer relationships intangible asset of \$46 which will be amortized over 10 years.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 9. Reserve for Unpaid Losses and Loss Adjustment Expenses

## Property and Casualty Insurance Products

## Rollforward of Liabilities for Unpaid Losses and Loss Adjustment Expenses

|   | For the nine<br>months ended<br>September 30, |          |
|---|---|----------|
|   | 2018  | 2017     |
| Beginning liabilities for unpaid losses and loss adjustment expenses, gross | \$23,775                                      | \$22,545 |
| Reinsurance and other recoverables  | 3,957   | 3,488    |
| Beginning liabilities for unpaid losses and loss adjustment expenses, net   | 19,818  | 19,057   |
| Provision for unpaid losses and loss adjustment expenses                    |   |          |
| Current accident year   | 5,151   | 5,587    |
| Prior accident year development   | (139)   | )1       |
| Total provision for unpaid losses and loss adjustment expenses              | 5,012   | 5,588    |
| Less payments   |   |          |
| Current accident year   | 1,647   | 1,770    |
| Prior accident years  | 3,166   | 3,143    |
| Total payments  | 4,813   | 4,913    |
| Ending liabilities for unpaid losses and loss adjustment expenses, net      | 20,017  | 19,732   |
| Reinsurance and other recoverables  | 3,780   | 3,508    |
| Ending liabilities for unpaid losses and loss adjustment expenses, gross    | \$23,797                                      | \$23,240 |
| Unfavorable (Favorable) Prior Accident Year Development                     |   |          |

|  | For the nine<br>months<br>ended<br>September<br>30, |        |
|--|---|--------|
|  | 2018  | 2017   |
| Workers' compensation                    | \$(97)  | \$(29) |
| Workers' compensation discount accretion | 30  | 21     |
| General liability                        | 32  | 10     |
| Package business                         | (16)  | )(22)  |
| Commercial property                      | (10)  | )(5)   |
| Professional liability                   | (12)  | )—     |
| Bond                                     | —   | 10     |
| Automobile liability - Commercial Lines  | (15)  | )20    |
| Automobile liability - Personal Lines    | (10)  | )—     |
| Homeowners                               | (20)  | )—     |
| Net asbestos reserves                    | —   | —      |
| Net environmental reserves               | —   | —      |
| Catastrophes                             | (47)  | )(12)  |
| Uncollectible reinsurance                | 22  | —      |
| Other reserve re-estimates, net          | 4   | 8      |
| Total prior accident year development    | \$(139)   | )\$1   |

Re-estimates of prior accident year reserves for the nine months ended September 30, 2018

Workers' compensation reserves were reduced in small commercial and middle market, primarily for accident years 2012 to 2015, as both claim frequency and medical claim severity have emerged favorably compared to previous reserve estimates.

General liability reserves were increased, primarily due to an increase in reserves for higher hazard general liability exposures in middle market for accident years 2009 to 2017, partially offset by a decrease in reserves for other lines within middle market, including premises and operations, umbrella and products liability, principally for accident years 2015 and prior. Contributing to the increase in reserves for higher hazard general liability exposures was an increase in large losses and, in more recent accident years, an increase in claim frequency. Contributing to the reduction in reserves for other middle market lines were more favorable outcomes due to initiatives to reduce legal expenses. In addition, reserve increases for claims with lead paint exposure were offset by reserve decreases for other mass torts and extra-contractual liability claims.

Package business reserves were reduced, primarily due to lower reserve estimates for both liability and property for accident years 2010 and prior, including a recovery of loss adjustment expenses for the 2005 accident year.

Commercial property reserves were reduced, driven by an increase in estimated reinsurance recoverables on middle market property losses from the 2017 accident year.



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Reserve for Unpaid Losses and Loss Adjustment Expenses (continued)

Professional liability reserves were reduced, principally for accident years 2014 and prior, for directors and officers liability claims principally due to a number of older claims closing with limited or no payment.

Automobile liability reserves were reduced, primarily driven by reduced estimates of loss adjustment expenses in small commercial for recent accident years and favorable development in personal automobile liability for accident years 2014 to 2017, principally due to lower severity, including with uninsured and underinsured motorist claims.

Homeowners reserves were reduced, primarily in accident years 2013 to 2017, driven by lower than expected severity across multiple perils.

Catastrophes reserves were reduced, primarily as a result of lower estimated net losses from 2017 catastrophes, principally related to hurricanes Harvey and Irma. Before reinsurance, estimated losses for 2017 catastrophe events decreased by \$133 in the nine months ended September 30, 2018, resulting in a decrease in reinsurance recoverables of \$90 as the Company no longer expects to recover under the 2017 Property Aggregate reinsurance treaty as aggregate ultimate losses for 2017 catastrophe events are now projected to be less than \$850.

Uncollectible reinsurance reserves were increased due to lower anticipated recoveries related to older accident years. Re-estimates of prior accident year reserves for the nine months ended September 30, 2017

Workers' compensation reserves were reduced, primarily in small commercial, given the continued emergence of

favorable frequency for accident years 2013 to 2015. Management has placed additional weight on this favorable experience as it becomes more credible.

General liability reserves were increased for the 2013 to 2016 accident years on a class of business that insures service and maintenance contractors. This increase was partially offset by a decrease in recent accident year reserves for other middle market general liability reserves.

Package reserves were reduced for accident years 2013 and prior largely due to reducing the Company's estimate of allocated loss adjustment expenses incurred to settle the claims.

Bond business reserves increased for customs bonds written between 2000 and 2010 which was partly offset by a reduction in reserves for recent accident years as reported losses for commercial and contract surety have emerged favorably.

Automobile liability reserves within Commercial Lines were increased in small commercial and large national accounts for the 2013 to 2016 accident years, driven by higher frequency of more severe accidents, including litigated claims.

Catastrophes reserves were reduced primarily due to lower estimates of 2016 wind and hail event losses and a decrease in losses on a 2015 wildfire.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Reserve for Unpaid Losses and Loss Adjustment Expenses (continued)

## Group Life, Disability and Accident Products

## Rollforward of Liabilities for Unpaid Losses and Loss Adjustment Expenses

|   | For the nine<br>months ended<br>September 30, |         |
|---|---|---------|
|   | 2018  | 2017    |
| Beginning liabilities for unpaid losses and loss adjustment expenses, gross | \$8,512                                       | \$5,772 |
| Reinsurance recoverables  | 209   | 208     |
| Beginning liabilities for unpaid losses and loss adjustment expenses, net   | 8,303   | 5,564   |
| Add: Aetna U.S. group life and disability business acquisition [1]          | 42  | —       |
| Provision for unpaid losses and loss adjustment expenses                    |   |         |
| Current incurral year   | 3,423   | 1,960   |
| Prior year's discount accretion   | 175   | 148     |
| Prior incurral year development [2]   | (284)   | (162)   |
| Total provision for unpaid losses and loss adjustment expenses [3]          | 3,314   | 1,946   |
| Less: payments  |   |         |
| Current incurral year   | 1,659   | 917     |
| Prior incurral years  | 1,741   | 1,118   |
| Total payments  | 3,400   | 2,035   |
| Ending liabilities for unpaid losses and loss adjustment expenses, net      | 8,259   | 5,475   |
| Reinsurance recoverables  | 241   | 208     |
| Ending liabilities for unpaid losses and loss adjustment expenses, gross    | \$8,500                                       | \$5,683 |

[1] Represents an adjustment to Aetna U.S. group life and disability business reserves, net of reinsurance as of the acquisition date, upon finalization of the opening balance sheet.

[2] Prior incurral year development represents the change in estimated ultimate incurred losses and loss adjustment expenses for prior incurral years on a discounted basis.

[3] Includes unallocated loss adjustment expenses of \$131, and \$74 for the nine months ended September 30, 2018 and 2017, respectively, that are recorded in insurance operating costs and other expenses in the Condensed Consolidated Statements of Operations.

Re-estimates of prior incurral years reserves for the nine months ended September 30, 2018

Group disability- Prior period reserve estimates decreased by approximately \$195 largely driven by group long-term disability claim recoveries higher than prior reserve assumptions and claim incidence lower than prior assumptions. Short-term disability has also experienced favorable claim recoveries.

Group life and accident (including group life premium waiver)- Prior period reserve estimates decreased by approximately \$85 largely driven by lower-than-previously expected claim incidence inclusive of group life, group life premium waiver, and group accidental death & dismemberment.

Re-estimates of prior incurral years reserves for the nine months ended September 30, 2017

Group disability- Prior period reserve estimates decreased by approximately \$105 largely driven by group long-term disability claim recoveries higher than prior reserve assumptions. This favorability was partially reduced by lower expectation of future benefit offsets, particularly lower Social Security disability

income approval rates and longer decision turnaround times in the Social Security Administration.

Group life and accident (including group life premium waiver)- Prior period reserve estimates decreased by approximately \$55 largely driven by lower than previously expected claim incidence in group life and group life

premium waiver and lower than expected severity on group accidental death & dismemberment.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 10. Reserve for Future Policy Benefits

Changes in Reserves for Future Policy Benefits<sup>[1]</sup>

|   |       |
|---|-------|
| Liability balance as of January 1, 2018                 | \$713 |
| Incurred  | 10    |
| Paid  | (25 ) |
| Change in unrealized investment gains and losses        | (42 ) |
| Liability balance as of September 30, 2018              | \$656 |
| Reinsurance recoverable asset, as of January 1, 2018    | \$26  |
| Incurred  | 10    |
| Paid  | (1 )  |
| Reinsurance recoverable asset, as of September 30, 2018 | \$35  |
| Liability balance as of January 1, 2017                 | \$322 |
| Incurred  | 27    |
| Paid  | (24 ) |
| Change in unrealized investment gains and losses        | (9 )  |
| Liability balance as of September 30, 2017              | \$316 |
| Reinsurance recoverable asset, as of January 1, 2017    | \$28  |
| Incurred  | (6 )  |
| Paid  | —     |
| Reinsurance recoverable asset, as of September 30, 2017 | \$22  |

[1]Reserves for future policy benefits includes paid-up life insurance and whole-life policies resulting from conversion from group life policies included within the Group Benefits segment and reserves for run-off structured settlement and terminal funding agreement liabilities which are in the Corporate category.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Debt

Senior Notes

On March 15, 2018, The Hartford issued \$500 of 4.4% senior notes ("4.4% Notes") due March 15, 2048 for net proceeds of approximately \$490, after deducting underwriting discounts and expenses from the offering. Interest is payable semi-annually in arrears on March 15 and September 15, commencing September 15, 2018. The Hartford, at its option, can redeem the 4.4% Notes at any time, in whole or in part, at a redemption price equal to the greater of 100% of the principal amount being redeemed or a make-whole amount based on a comparable maturity US Treasury plus 25 basis points, plus any accrued and unpaid interest, except the option of a make-whole payment is not applicable within the final six months before maturity.

On March 15, 2018, The Hartford repaid at maturity the \$320 principal amount of its 6.3% senior notes.

Junior Subordinated Debentures

On June 15, 2018, The Hartford redeemed \$500 aggregate principal amount of its 8.125% Fixed-to-Floating Rate Junior Subordinated Debentures due 2068. During the initial offering of the 8.125% debentures, the Company entered into a replacement capital covenant ("RCC"), and under the terms of the RCC, if the Company redeemed the 8.125% debentures at any time prior to June 15, 2048 it could only do so with the proceeds from the sale of certain qualifying replacement securities. The 3 month Libor plus 2.125% debentures issued February 15, 2017 are qualifying replacement securities within the definition of RCC. In connection with this redemption, the Company recognized a \$6 loss on extinguishment of debt for unamortized deferred debt issuance costs.

Revolving Credit Facility

On March 29, 2018, the Company entered into an amendment to its Five-Year Credit Agreement dated October 31, 2014. The Amendment reset the level of the Company's minimum consolidated net worth financial covenant to \$9 billion excluding AOCI from its former \$13.5 billion (where net worth was defined as stockholders' equity excluding AOCI and including junior subordinated debt), among other updates. Among other changes, under an amended and restated credit agreement that became effective in June 2018 after the closing of the sale of the Company's life and annuity run-off business, the aggregate amount of principal of the credit facility decreased from \$1 billion to \$750, including a reduction to the amount available for letters of credit from \$250 to \$100, the maturity date was extended to March 29, 2023, and the liens covenant and certain other covenants were modified.

Revolving loans from the Credit Facility may be in multiple currencies. U.S. dollar loans will bear interest at a floating rate equivalent to an indexed rate depending on the type of borrowing and a basis point spread based on The Hartford's credit rating and will mature no later than March 29, 2023. Letters of credit issued from the Credit Facility bear a fee based on The Hartford's credit rating and expire no later than March 29, 2024. The Credit Facility requires the Company to maintain a minimum consolidated net worth excluding AOCI of \$9 billion, limit the ratio of senior debt to capitalization, excluding AOCI, at 35% and meet other customary covenants. The Credit Facility is for general corporate purposes.

As of September 30, 2018, no borrowings were outstanding and

\$3 in letters of credit were issued under the Credit Facility and the Company was in compliance with all financial covenants.

Commercial Paper

As of September 30, 2018, the Hartford's maximum borrowings available under its commercial paper program was \$750 and there was no commercial paper outstanding. The Company is dependent upon market conditions to access short-term financing through the issuance of commercial paper to investors. On July 19, 2018, the Board of Directors revised the Company's commercial paper issuance authorization from \$1 billion to \$750 to align the program with the Company's \$750 five year revolving credit facility which became effective on June 11, 2018.

Collateralized Advances with Federal Home Loan Bank of Boston

In August 2018, the Company's subsidiaries, Hartford Fire Insurance Company ("Hartford Fire") and Hartford Life and Accident Insurance Company ("HLA"), became members of the Federal Home Loan Bank of Boston ("FHLBB").

Membership allows these subsidiaries access to collateralized advances, which may be short- or long-term with fixed or variable rates. FHLBB membership required the purchase of member stock and requires additional member stock ownership of 3% or 4% of any amount borrowed. Acceptable forms of collateral include real estate backed fixed maturities and mortgage loans and the amount of advances that can be taken is limited to a percentage of the fair value of the assets that ranges from a high of 97% for US government-backed fixed maturities maturing within 3 years to a low of 40% for A-rated commercial mortgage-backed fixed maturities maturing in 5 years or more. In its consolidated balance sheets, The Hartford would present the liability for advances taken based on use of the funds with advances for general corporate purposes presented in short- or long-term debt and advances to earn incremental investment income presented in other liabilities, consistent with other collateralized financing transactions such as securities lending and repurchase agreements. The Connecticut Department of Insurance (“CTDOI”) permits Hartford Fire and HLA to pledge up to \$1.3 billion and \$0.5 billion in qualifying assets, respectively, without prior approval, to secure FHLBB advances in 2018. The pledge limit is determined annually based on statutory admitted assets and capital and surplus of Hartford Fire and HLA, respectively. As of September 30, 2018, there were no advances outstanding under the FHLBB facility.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. Income Taxes

## Income Tax Rate Reconciliation

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |
|--|--|---|--|---|
| Tax provision at U.S. federal statutory rate [1] | \$ 112   | \$ 64   | \$ 333   | \$ 105  |
| Tax-exempt interest                              | (16 )  | (31 )   | (50 )  | (91 )   |
| Executive compensation                           | 1  | —   | 8  | —   |
| Stock-based compensation                         | (3 )   | (4 )  | (5 )   | (12 )   |
| Tax Reform                                       | 11   | —   | 13   | —   |
| Other  | (2 )   | 7   | (2 )   | 3   |
| Provision for income taxes                       | \$ 103   | \$ 36   | \$ 297   | \$ 5  |

[1]Due to the passage of Tax Reform on December 22, 2017, current and prior period federal statutory rates are reflected at 21% and 35% respectively.

## Rollforward of Unrecognized Tax Benefits

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |
|---|--|---|--|---|
| Balance, beginning of period                    | \$ 9   | \$ 12   | \$ 9   | \$ 12   |
| Gross increases - tax positions in prior period | 5  | —   | 5  | —   |
| Gross decreases - tax positions in prior period | —  | —   | —  | —   |
| Balance, end of period                          | \$ 14  | \$ 12   | \$ 14  | \$ 12   |

The Company's unrecognized tax benefits were increased by \$5 for the three and nine months ended September 30, 2018 due to the filing of the Company's 2017 federal income tax return.

The entire amount of unrecognized tax benefits, if recognized, would affect the effective tax rate in the period of the release. In addition, for the three and nine months ended September 30, 2018 the Company recorded a receivable of \$5 related to a tax indemnification agreement associated with the sale of Talcott Resolution. The receivable is separate from the tax liability and is classified as an other asset on the balance sheet.

For the three and nine months ended September 30, 2018, the Company recorded income tax expenses of \$11 and \$13, respectively, related to tax reform due to the filing of the Company's 2017 federal income tax return and finalization of the opening balance sheet for the Aetna Group Benefits acquisition as a lower corporate income tax rate (post acquisition) reduced the value of net deferred tax assets that were adjusted during the measurement period. The federal audits have been completed through 2013, and the Company is not currently under examination for any open years. Management believes that adequate provision has been made in the consolidated financial statements for any potential adjustments that may result from tax examinations and other tax-related matters for all open tax years. The Company classifies interest and penalties (if applicable) as income tax expense in the consolidated financial statements. The Company recognized no interest expense for the three and nine months ended September 30, 2018 and 2017. The Company had no interest payable as of September 30, 2018 and 2017. The Company does not believe it would be subject to any penalties in any open tax years and, therefore, has not recorded any accrual for penalties.

Net deferred income taxes include the future tax benefits associated with the net operating loss carryover, foreign tax credit carryover and general business credit carryforward as shown in the table below.

Future Tax Benefits

|  | As of<br>September 30,<br>2018 | Expected<br>Carryover<br>amount | Expiration<br>Dates | Amount   |
|--|--------------------------------|---------------------------------|---------------------|----------|
| Net operating loss carryover - U.S.    | \$2,814                        | \$ 591                          | 2023-2036           | \$ 2,814 |
| Net operating loss carryover - foreign | \$4                            | \$ —                            | No<br>expiration    | \$ 4     |
| Foreign tax credit carryover           | \$5                            | \$ 5                            | 2023-2024           | \$ 5     |
| General business credit carryover      | \$4                            | \$ 4                            | 2031-2037           | \$ 4     |

Net Operating Loss Carryover

U.S. Net Operating Losses ("NOLs") reflected above arose in taxable years prior to 2017 and are still subject to prior tax law which allows for carryback and limits the period over which carryforwards may be used to offset taxable income as shown in the above table. Utilization of the Company's loss carryovers is dependent upon the generation of sufficient future taxable

income. Given the expected earnings of the Company going forward, including earnings of its property and casualty, group benefits and mutual fund businesses, the Company expects to generate sufficient taxable income in the future to utilize its net operating loss carryover. Although the Company projects there will be sufficient future taxable income to fully recover the remainder of the loss carryover, the Company's estimate of the likely realization may change over time.



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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Income Taxes (continued)

Tax Credit Carryovers

Foreign Tax Credits and General Business Credits- These credits are available to offset regular federal income taxes from future taxable income. The use of these credits prior to expiration depends on the generation of sufficient taxable income to first utilize all U.S. net operating loss carryovers. However, the Company has purchased certain investments which allow for utilization of the foreign tax credits without first using the net operating loss carryover. Consequently, the Company believes it is more likely than not the foreign tax credit carryover will be fully realized. Accordingly, no valuation allowance has been provided.

Alternative Minimum Tax Credit Carryovers- As of September 30, 2018, the Company had alternative minimum tax credit (AMT) carryovers, net of a sequestration fee payable, of \$789, which are reflected as current income tax receivables within Other Assets in the accompanying condensed consolidated balance sheet. For the three and nine months ended September 30, 2018, the Company recorded a decrease in the AMT of \$4 due to the filing of the 2017 federal income tax return as well as filings of the 2014, 2015 and 2016 amended federal income tax returns. AMT credits may be used to offset a regular tax liability for any taxable year beginning after December 31, 2017, and are refundable at an amount equal to 50 percent of the excess of the minimum tax credit for the taxable year over the amount of the credit allowable for the year against regular tax liability. Any remaining credits not used against regular tax liability are refundable in the 2021 tax year to be collected in 2022. The sequestration fee applies to refunds of AMT credits but does not apply if those credits are used against regular tax liability. As of September 30, 2018, the Company's AMT credit carryover was net of an estimated sequestration fee payable of \$52, but the amount of the fee that is ultimately payable is subject to change depending on the level and timing of future taxable income and any subsequent changes in the sequestration rate. For the three and nine months ended September 30, 2018, the Company recorded income tax benefits of \$0 and \$3, respectively, related to the reduction of the sequestration rate from 6.6 percent to 6.2 percent.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Commitments and Contingencies

Management evaluates each contingent matter separately. A loss is recorded if probable and reasonably estimable. Management establishes liabilities for these contingencies at its “best estimate,” or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated liability at the low end of the range of losses.

Litigation

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties in the following discussion under the caption “Asbestos and Environmental Claims,” management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.

The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. In addition to the matter described below, these actions include putative class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper sales or underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, disability, life and inland marine. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims or other allegedly unfair or improper business practices. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company’s results of operations or cash flows in particular quarterly or annual periods.

Mutual Funds Litigation — In February 2011, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of New Jersey, alleging that Hartford Investment Financial Services, LLC (“HIFSCO”), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. During the course of the litigation, the claims regarding distribution fees were dismissed without prejudice, the lineup of funds as plaintiffs changed several times, and the plaintiffs added as a defendant Hartford Funds Management Company (“HFMC”), an indirect subsidiary of the

Company that assumed the role of advisor to the funds as of January 2013. In June 2015, HFMC and HIFSCO moved for summary judgment, and plaintiffs cross-moved for partial summary judgment with respect to one fund. In March 2016, the court denied the plaintiff’s motion, and granted summary judgment for HIFSCO and HFMC with respect to one fund, leaving six funds as plaintiffs: The Hartford Balanced Fund, The Hartford Capital Appreciation Fund, The Hartford Floating Rate Fund, The Hartford Growth Opportunities Fund, The Hartford Healthcare Fund, and The Hartford Inflation Plus Fund. A bench trial on the issue of liability was held in November 2016. In February 2017, the court granted judgment for HIFSCO and HFMC as to all claims. Plaintiffs appealed. In August 2018, the judgment was affirmed by the United States Court of Appeals for the Third Circuit. Although plaintiffs may still seek review by the United States Supreme Court, management believes that the possibility of a material adverse outcome in this matter is remote.

Asbestos and Environmental Claims –The Company continues to receive asbestos and environmental (“A&E”) claims. Asbestos claims relate primarily to bodily injuries asserted by people who came in contact with asbestos or products

containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs.

The Company wrote several different categories of insurance contracts that may cover A&E claims. First, the Company wrote primary policies providing the first layer of coverage in an insured's liability program. Second, the Company wrote excess and umbrella policies providing higher layers of coverage for losses that exhaust the limits of underlying coverage. Third, the Company acted as a reinsurer assuming a portion of those risks assumed by other insurers writing primary, excess, umbrella and reinsurance coverages.

Significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid gross losses and expenses related to environmental and particularly asbestos claims. The degree of variability of gross reserve estimates for these exposures is significantly greater than for other more traditional exposures.

In the case of the reserves for asbestos exposures, factors contributing to the high degree of uncertainty include inadequate loss development patterns, plaintiffs' expanding theories of liability, the risks inherent in major litigation, and inconsistent emerging legal doctrines. Furthermore, over time, insurers, including the Company, have experienced significant changes in the rate at which asbestos claims are brought, the claims experience of particular insureds, and the value of claims, making predictions of future exposure from past experience uncertain. Plaintiffs and insureds also have sought to use bankruptcy proceedings, including "pre-packaged" bankruptcies, to accelerate and increase loss payments by insurers. In addition, some policyholders have asserted new classes of claims for coverages to which an aggregate limit of liability may not apply. Further uncertainties include insolvencies of other carriers and unanticipated developments pertaining to the Company's ability to recover reinsurance for A&E claims. Management believes these issues are not likely to be resolved in the near future.

In the case of the reserves for environmental exposures, factors contributing to the high degree of uncertainty include expanding

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Commitments and Contingencies (continued)

theories of liability and damages, the risks inherent in major litigation, inconsistent decisions concerning the existence and scope of coverage for environmental claims, and uncertainty as to the monetary amount being sought by the claimant from the insured.

The reporting pattern for assumed reinsurance claims, including those related to A&E claims, is much longer than for direct claims. In many instances, it takes months or years to determine that the policyholder's own obligations have been met and how the reinsurance in question may apply to such claims. The delay in reporting reinsurance claims and exposures adds to the uncertainty of estimating the related reserves.

It is also not possible to predict changes in the legal and legislative environment and their effect on the future development of A&E claims.

Given the factors described above, the Company believes the actuarial tools and other techniques it employs to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for A&E exposures. For this reason, the Company principally relies on exposure-based analysis to estimate the ultimate costs of these claims, both gross and net of reinsurance, and regularly evaluates new account information in assessing its potential A&E exposures. The Company supplements this exposure-based analysis with evaluations of the Company's historical direct net loss and expense paid and reported experience, and net loss and expense paid and reported experience by calendar and/or report year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and reported activity.

While the Company believes that its current A&E reserves are appropriate, significant uncertainties limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses. The ultimate liabilities, thus, could exceed the currently recorded reserves, and any such additional liability, while not estimable now, could be material to The Hartford's consolidated operating results and liquidity.

As of September 30, 2018, the Company reported \$1.1 billion of net asbestos reserves and \$214 of net environmental reserves. While the Company believes that its current A&E reserves are appropriate, significant uncertainties limit our ability to estimate the ultimate reserves necessary for unpaid losses and related expenses. The ultimate liabilities, thus, could exceed the currently recorded reserves, and any such additional liability, while not reasonably estimable now, could be material to The Hartford's consolidated operating results and liquidity.

Effective December 31, 2016, the Company entered into an A&E adverse development cover ("ADC") reinsurance agreement with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., to reduce uncertainty about potential adverse development of A&E reserves. Under the ADC, the Company paid a reinsurance premium of \$650 for NICO to assume adverse net loss and allocated loss adjustment expense reserve development up to \$1.5 billion above the Company's existing net A&E reserves as of December 31, 2016 of approximately \$1.7 billion. The \$650 reinsurance premium was placed in a collateral trust account as security for NICO's claim payment obligations to the Company.

Under retroactive reinsurance accounting, net adverse A&E reserve development after December 31, 2016 will result in an offsetting reinsurance recoverable up to the \$1.5 billion limit. Cumulative ceded losses up to the \$650 reinsurance premium paid are recognized as a dollar-for-dollar offset to direct losses incurred. Cumulative ceded losses exceeding the \$650 reinsurance premium paid would result in a deferred gain. The deferred gain would be recognized over the claim settlement period in the proportion of the amount of cumulative ceded losses collected from the reinsurer to the estimated ultimate reinsurance recoveries. Consequently, until periods when the deferred gain is recognized as a benefit to earnings, cumulative adverse development of A&E claims after December 31, 2016 in excess of \$650 may result in significant charges against earnings. Furthermore, cumulative adverse development of A&E claims could ultimately exceed the \$1.5 billion treaty limit in which case any adverse development in excess of the treaty limit would be absorbed as a charge to earnings by the Company. In these scenarios, the effect of these changes could be material to the Company's consolidated operating results and liquidity. As of September 30, 2018, the Company has incurred \$285 in cumulative adverse development on A&E reserves that have been ceded under the

ADC treaty with NICO, leaving approximately \$1.2 billion of coverage available for future adverse net reserve development, if any.

#### Derivative Commitments

Certain of the Company's derivative agreements contain provisions that are tied to the financial strength ratings, as set by nationally recognized statistical agencies, of the individual legal entity that entered into the derivative agreement. If the legal entity's financial strength were to fall below certain ratings, the counterparties to the derivative agreements could demand immediate and ongoing full collateralization and in certain instances enable the counterparties to terminate the agreements and demand immediate settlement of all outstanding derivative positions traded under each impacted bilateral agreement. The settlement amount is determined by netting the derivative positions transacted under each agreement. If the termination rights were to be exercised by the counterparties, it could impact the legal entity's ability to conduct hedging activities by increasing the associated costs and decreasing the willingness of counterparties to transact with the legal entity. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position as of September 30, 2018 was \$69, of which the legal entities have posted collateral of \$68 in the normal course of business. Based on derivative market values as of September 30, 2018, a downgrade of one level below the current financial strength rates by either Moody's or S&P would not require additional assets to be posted as collateral. Based on derivative market values as of September 30, 2018, a downgrade of two levels below the current financial strength ratings by either Moody's or S&P would require an additional \$8 of assets to be posted as collateral. These collateral amounts could change as derivative market values change, as a result of changes in our hedging activities or to the extent changes in contractual terms are negotiated. The nature of the collateral that we post, if required, is primarily in the form of U.S. Treasury bills, U.S. Treasury notes and government agency securities.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Equity

Capital Purchase Program ("CPP") Warrants

As of September 30, 2018 and December 31, 2017, respectively, the Company has 2.1 million and 2.2 million of CPP warrants outstanding and exercisable. CPP warrant exercises were 0.1 million and 0.6 million for the three months ended September 30, 2018 and 2017, respectively. CPP warrant exercises were 0.2 million and 1.7 million for the nine months ended September 30, 2018 and 2017, respectively.

The declaration of common stock dividends by the Company in excess of a threshold triggers a provision in the Company's

warrant agreement with The Bank of New York Mellon resulting in adjustments to the CPP warrant exercise price. Accordingly, the declaration of a common stock dividend during the three months ended September 30, 2018 resulted in an adjustment to the CPP warrant exercise price. The CPP warrant exercise price was \$8.886 as of September 30, 2018 and \$8.999 as of December 31, 2017.

Equity Repurchase Program

The Company does not currently have an equity repurchase authorization in 2018.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 15. Changes In and Reclassifications From Accumulated Other Comprehensive Income (Loss)

## Changes in AOCI, Net of Tax for the Three Months Ended September 30, 2018

|                                | Changes in |         | Net Gain on Foreign |             | Pension and    |           |
|--------------------------------|------------|---------|---------------------|-------------|----------------|-----------|
|                                | Net        | OTTI    | Cash Flow           | Currency    | Other          | AOCI,     |
|                                | Unrealized | Losses  | Hedging             | Translation | Postretirement | net of    |
|                                | Gain on    | in OCI  | Instruments         | Adjustments | Plan           | tax       |
|                                | Securities |         |                     |             | Adjustments    |           |
| Beginning balance              | \$211      | \$ (3 ) | \$ (12 )            | \$ 33       | \$ (1,582 )    | \$(1,353) |
| OCI before reclassifications   | (183 )     | (1 )    | 1                   | 1           | 1              | (181 )    |
| Amounts reclassified from AOCI | 12         | —       | (6 )                | —           | 9              | 15        |
| OCI, net of tax                | (171 )     | (1 )    | (5 )                | 1           | 10             | (166 )    |
| Ending balance                 | \$40       | \$ (4 ) | \$ (17 )            | \$ 34       | \$ (1,572 )    | \$(1,519) |

## Changes in AOCI, Net of Tax for the Nine Months Ended September 30, 2018

|   | Changes in |         | Net Gain on Cash |             | Foreign     | Pension and    |           |
|---|------------|---------|------------------|-------------|-------------|----------------|-----------|
|   | Net        | OTTI    | Flow             | Currency    | Currency    | Other          | AOCI,     |
|   | Unrealized | Losses  | Hedging          | Translation | Translation | Postretirement | net of    |
|   | Gain on    | in OCI  | Instruments      | Adjustments | Adjustments | Plan           | tax       |
|   | Securities |         |                  |             |             | Adjustments    |           |
| Beginning balance                                       | \$1,931    | \$ (3 ) | \$ 18            | \$ 34       | \$ 34       | \$ (1,317 )    | \$663     |
| Cumulative effect of accounting changes, net of tax [1] | 273        | —       | 2                | 4           | 4           | (284 )         | (5 )      |
| Adjusted balance, beginning of period                   | 2,204      | (3 )    | 20               | 38          | 38          | (1,601 )       | 658       |
| OCI before reclassifications [2]                        | (2,213 )   | —       | (12 )            | (4 )        | (4 )        | —              | (2,229 )  |
| Amounts reclassified from AOCI                          | 49         | (1 )    | (25 )            | —           | —           | 29             | 52        |
| OCI, net of tax   | (2,164 )   | (1 )    | (37 )            | (4 )        | (4 )        | 29             | (2,177 )  |
| Ending balance  | \$40       | \$ (4 ) | \$ (17 )         | \$ 34       | \$ 34       | \$ (1,572 )    | \$(1,519) |

[1]Includes reclassification to retained earnings of \$88 of stranded tax effects and \$93 of net unrealized gains. Refer to Note 1 - Basis of Presentation and Significant Accounting Policies for further information.

[2]The reduction in AOCI included the effect of removing \$758 of Talcott Resolution AOCI from the balance sheet when the business was sold effective May 31, 2018.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Changes In and Reclassifications From Accumulated Other Comprehensive Income (Loss) (continued)

Reclassifications from AOCI

|                                      | Three<br>Months<br>Ended<br>September<br>30, 2018 | Nine<br>Months<br>Ended<br>September<br>30, 2018 | Affected Line Item in the Condensed Consolidated Statement of<br>Operations |
|--------------------------------------|---|--|---|
| Net Unrealized Gain on<br>Securities |   |  |   |
| Available-for-sale securities        | \$ (15 )  | \$ (59 )   | Net realized capital gains  |
|                                      | (15 )   | (59 )  | Total before tax  |
|                                      | (3 )  | (12 )  | Income tax expense  |
|                                      | —   | (2 )   |   |