HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
October 26, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from ____________ to ______________

Commission file number 001-13958

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

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

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

Indicate by check mark:	Yes	No
• whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	ý	¨
• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	ý	¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of October 21, 2015, there were outstanding 409,609,906 shares of Common Stock, $0.01 par value per share, of the registrant.

1

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015
TABLE OF CONTENTS

2

Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “projects,” and similar references to future per Forward-looking statements are based on our current expectations and assumptions regarding economic, competitive, legislative and other developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict.

They have been made based upon management’s expectations and beliefs concerning future developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the “Company” or “The Hartford”). Future developments may not be in line with management’s expectations or may have unanticipated effects. Actual results could differ materially from expectations, depending on the evolution of various factors, including those set forth in Part I, Item 1A, Risk Factors in The Hartford’s 2014 Form 10-K Annual Report, and those identified from time to time in our other filings with the Securities and Exchange Commission. These important risks and uncertainties include:

- challenges related to the Company’s current operating environment, including global political, economic and market conditions, and the effect of financial market disruptions, economic downturns or other potentially adverse macroeconomic developments on the attractiveness of our products, the returns in our investment portfolios and the hedging costs associated with our runoff annuity block;
- financial risk related to the continued reinvestment of our investment portfolios and performance of our hedge program for our runoff annuity block;
- market risks associated with our business, including changes in interest rates, credit spreads, equity prices, market volatility and foreign exchange rates, commodities prices and implied volatility levels, as well as continuing uncertainty in key sectors such as the global real estate market;
- the impact on our investment portfolio if our investment portfolio is concentrated in any particular segment of the economy;
- risk associated with the use of analytical models in making decisions in key areas such as underwriting, capital, hedging, reserving, and catastrophe risk management;
- the potential for further acceleration of deferred policy acquisition cost amortization;
- the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;
- the potential for differing interpretations of the methodologies, estimations and assumptions that underlie the valuation of the Company’s financial instruments that could result in changes to investment valuations;
- the difficulty in predicting the Company’s potential exposure for asbestos and environmental claims;
- the subjective determinations that underlie the Company’s evaluation of other-than-temporary impairments on available-for-sale securities;
- the impact on our statutory capital of various factors, including many that are outside the Company’s control, which can in turn affect our credit and financial strength ratings, cost of capital, regulatory compliance and other aspects of our business and results;
- risks to our business, financial position, prospects and results associated with negative rating actions or downgrades in the Company’s financial strength and credit ratings or negative rating actions or downgrades relating to our investments;
- losses due to nonperformance or defaults by others, including reinsurers, sourcing partners, derivative counterparties and other third parties;
- the potential for losses due to our reinsurers’ unwillingness or inability to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect us against losses;
- 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 uncertain effects of emerging claim and coverage issues;

3

- 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;
- technology innovations, such as telematics and other usage-based methods of determining premiums, auto technology advancements that improve driver safety and technologies that facilitate ride or home sharing, 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 possible occurrence of terrorist attacks and the Company’s ability to contain its exposure, including limitations on coverage from the federal government under applicable reinsurance terrorism laws;
- volatility in our statutory and United States ("U.S.") GAAP earnings and potential material changes to our results resulting from our adjustment of our risk management program to emphasize protection of economic value;
- the cost and other effects of increased regulation as a result of the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the potential effect of other domestic and foreign regulatory developments, including those that could adversely impact the demand for the Company’s products, operating costs and required capital levels;
- unfavorable judicial or legislative developments;
- regulatory limitations on the ability of the Company and certain of its subsidiaries to declare and pay dividends;
- the impact of changes in federal or state tax laws;
- the impact of potential changes in accounting principles and related financial reporting requirements;
- regulatory requirements that could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests;
- the risks, challenges and uncertainties associated with our capital management plan, including as a result of changes in our financial position and earnings, share price, capital position, legal restrictions, other investment opportunities, and other factors;
- the risks, challenges and uncertainties associated with our expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- the Company’s ability to market, distribute and provide investment advisory services in relation to our products through current and future distribution channels and advisory firms;
- the Company’s ability to maintain the availability of its systems and safeguard the security of its data in the event of a disaster, cyber or other information security incident or other unanticipated event;
- the risk that our framework for managing operational risks may not be effective in mitigating material risk and loss to the Company;
- the potential for difficulties arising from outsourcing and similar third-party relationships;
- the Company’s ability to protect its intellectual property and defend against claims of infringement; and
- other factors described in such forward-looking statements.

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. FINANCIAL INFORMATION
Item 1. Financial Statements
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
The Hartford Financial Services Group, Inc.
Hartford, Connecticut

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the "Company") as of September 30, 2015, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014 and the statements of changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2015 and 2014. These interim financial statements are the responsibility of the Company's management.

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

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2014, 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 27, 2015, 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, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
October 26, 2015

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Operations

(In millions, except for per share data)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
	(Unaudited)			
Revenues				
Earned premiums	$3,404	$3,337	$10,117	$9,958
Fee income	448	524	1,376	1,522
Net investment income	730	810	2,335	2,402
Net realized capital gains (losses):				
Total other-than-temporary impairment (“OTTI”) losses	(42)	(15)	(67)	(46)
OTTI losses recognized in other comprehensive income (loss) (“OCI”)	2	1	4	3
Net OTTI losses recognized in earnings	(40)	(14)	(63)	(43)
Other net realized capital gains (losses)	(4)	83	33	73
Total net realized capital gains (losses)	(44)	69	(30)	30
Other revenues	24	29	66	85
Total revenues	4,562	4,769	13,864	13,997
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	2,710	2,624	8,085	8,223
Amortization of deferred policy acquisition costs ("DAC")	434	580	1,212	1,348
Insurance operating costs and other expenses	971	976	2,829	2,889
Loss on extinguishment of debt	—	—	21	—
Reinsurance gain on dispositions	(20)	—	(28)	—
Interest expense	88	93	271	282
Total benefits, losses and expenses	4,183	4,273	12,390	12,742
Income from continuing operations before income taxes	379	496	1,474	1,255
Income tax expense	7	108	222	251
Income from continuing operations, net of tax	372	388	1,252	1,004
Income (loss) from discontinued operations, net of tax	9	—	9	(588)
Net income	$381	$388	$1,261	$416
Income from continuing operations, net of tax, per common share				
Basic	$0.90	$0.89	$2.99	$2.25
Diluted	$0.88	$0.86	$2.92	$2.15
Net income per common share				
Basic	$0.92	$0.89	$3.01	$0.93
Diluted	$0.90	$0.86	$2.94	$0.89
Cash dividends declared per common share	$0.21	$0.18	$0.57	$0.48

See Notes to Condensed Consolidated Financial Statements.

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

(In millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(Unaudited)			
Net income	$381	$388	$1,261	$416
Other comprehensive income (loss):				
Changes in net unrealized gain on securities	(94)	(62)	(807)	1,206
Changes in OTTI losses recognized in other comprehensive income	3	2	1	7
Changes in net gain on cash flow hedging instruments	48	(21)	20	12
Changes in foreign currency translation adjustments	(14)	(13)	(30)	(91)
Changes in pension and other postretirement plan adjustments	9	9	28	22
OCI, net of tax	(48)	(85)	(788)	1,156
Comprehensive income	$333	$303	$473	$1,572

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(In millions, except for share and per share data)	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $56,275 and $55,362)	$59,109	$59,384
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $191 and $218)	548	488
Equity securities, available-for-sale, at fair value (cost of $826 and $1,027) (includes equity securities, at fair value using the fair value option, of $0 and $348, and variable interest entity assets of $1 and $0)	813	1,047
Mortgage loans (net of allowances for loan losses of $20 and $18)	5,552	5,556
Policy loans, at outstanding balance	1,428	1,431
Limited partnerships and other alternative investments (includes variable interest entity assets of $2 and $3)	3,067	2,942
Other investments	455	547
Short-term investments (includes variable interest entity assets, at fair value, of $4 and $16)	3,433	4,883
Total investments	74,405	76,278
Cash (includes variable interest entity assets, at fair value, of $7 and $9)	665	399
Premiums receivable and agents’ balances, net	3,601	3,429
Reinsurance recoverables, net	23,087	22,920
Deferred policy acquisition costs	1,710	1,823
Deferred income taxes, net	3,062	2,897
Goodwill	498	498
Property and equipment, net	932	831
Other assets	1,859	1,236
Separate account assets	121,634	134,702
Total assets	$231,453	$245,013
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,685	$41,444
Other policyholder funds and benefits payable	31,923	32,532
Unearned premiums	5,508	5,255
Short-term debt	167	456
Long-term debt	5,359	5,653
Other liabilities (includes variable interest entity liabilities of $5 and $6)	6,973	6,251
Separate account liabilities	121,634	134,702
Total liabilities	$213,249	$226,293
Commitments and Contingencies (Note 8)		
Stockholders’ Equity		
Common stock, $0.01 par value — 1,500,000,000 shares authorized, 490,923,222 and 490,923,222 shares issued	5	5
Additional paid-in capital	8,956	9,123
Retained earnings	12,215	11,191
Treasury stock, at cost — 79,609,209 and 66,507,690 shares	(3,112)	(2,527)
Accumulated other comprehensive income ("AOCI"), net of tax	140	928
Total stockholders’ equity	$18,204	$18,720

Total liabilities and stockholders' equity	$231,453	$245,013

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(In millions, except for share data)	Nine Months Ended September 30, 2015	2014
	(Unaudited)	
Common Stock	$5	$5
Additional Paid-in Capital, beginning of period	9,123	9,894
Forward purchase of shares under accelerated share repurchase agreement	—	(131)
Issuance of shares under incentive and stock compensation plans	(164)	(52)
Stock-based compensation plans expense	57	64
Tax benefit on employee stock options and share-based awards	27	4
Issuance of shares for warrant exercise	(87)	(766)
Additional Paid-in Capital, end of period	8,956	9,013
Retained Earnings, beginning of period	11,191	10,683
Net income	1,261	416
Dividends declared on common stock	(237)	(213)
Retained Earnings, end of period	12,215	10,886
Treasury Stock, at Cost, beginning of period	(2,527)	(1,598)
Treasury stock acquired	(800)	(971)
Repurchase of shares under accelerated share repurchase agreement	—	(394)
Issuance of shares under incentive and stock compensation plans	182	65
Net shares acquired related to employee incentive and stock compensation plans	(54)	(14)
Issuance of shares for warrant exercise	87	766
Treasury Stock, at Cost, end of period	(3,112)	(2,146)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	928	(79)
Total other comprehensive income (loss)	(788)	1,156
Accumulated Other Comprehensive Income, net of tax, end of period	140	1,077
Total Stockholders' Equity	$18,204	$18,835
Common Shares Outstanding beginning of period (in thousands)	424,416	453,290
Treasury stock acquired	(18,625)	(39,066)
Issuance of shares under incentive and stock compensation plans	4,617	1,562
Return of shares under incentive and stock compensation plans and other to treasury stock	(1,306)	(393)
Issuance of shares for warrant exercise	2,212	18,177
Common Shares Outstanding, at end of period	411,314	433,570

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
(In millions)	2015	2014
Operating Activities	(Unaudited)	
Net income	$1,261	$416
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred policy acquisition costs	1,212	1,348
Additions to deferred policy acquisition costs	(1,055)	(1,032)
Net realized capital losses	30	127
Depreciation and amortization	245	152
(Gain) loss on sale of business	(7)	659
Loss on extinguishment of debt	21	—
Reinsurance gain on disposition	(28)	—
Other operating activities, net	85	(54)
Change in assets and liabilities:		
Increase in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	449	405
(Increase) decrease in reinsurance recoverables	161	(108)
Increase in receivables and other assets	(289)	(221)
Decrease in payables and accruals	(339)	(840)
Increase in accrued and deferred income taxes	254	43
Net disbursements from investment contracts related to policyholder funds—international variable annuities	—	(3,992)
Net decrease in equity securities, trading	—	3,992
Net cash provided by operating activities	2,000	895
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	19,210	19,960
Fixed maturities, fair value option	111	378
Equity securities, available-for-sale	1,171	293
Mortgage loans	613	333
Partnerships	298	322
Payments for the purchase of:		
Fixed maturities, available-for-sale	(19,919)	(17,247)
Fixed maturities, fair value option	(180)	(320)
Equity securities, available-for-sale	(1,007)	(210)
Mortgage loans	(612)	(466)
Partnerships	(411)	(221)
Proceeds from business sold	—	963
Net payments for derivatives	64	115
Net increase (decrease) in policy loans	(12)	8
Net additions to property and equipment	(194)	(57)
Net proceeds from (payments for) short-term investments	1,472	(1,919)
Other investing activities, net	(1)	(13)
Net cash provided by investing activities	603	1,919
Financing Activities		

Deposits and other additions to investment and universal life-type contracts	3,703	5,448
Withdrawals and other deductions from investment and universal life-type contracts	(12,935)	(18,416)
Net transfers from separate accounts related to investment and universal life-type contracts	8,218	11,202
Repayments at maturity or settlement of consumer notes	(31)	(13)
Net proceeds from securities loaned or sold under agreements to repurchase	313	—
Repayment of debt	(585)	(200)
Net issuance of shares under incentive and stock compensation plans, excess tax benefit, and other	40	12
Treasury stock acquired	(800)	(1,496)
Dividends paid on common stock	(229)	(213)
Net cash used for financing activities	(2,306)	(3,676)
Foreign exchange rate effect on cash	(31)	(126)
Net increase (decrease) in cash	266	(988)
Cash – beginning of period	399	1,428
Cash – end of period	$665	$440
Supplemental Disclosure of Cash Flow Information		
Income tax refunds	$80	$78
Interest paid	$(258)	$(268)

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

1. Basis of Presentation and Significant Accounting Policies

The Hartford Financial Services Group, Inc. is a holding company for insurance and financial services subsidiaries that provide property and casualty insurance, group life and disability products and mutual funds to individual and business customers in the United States (collectively, "The Hartford", the "Company", "we" or "our"). Also, the Company continues to runoff life and annuity products previously sold.

On June 30, 2014, the Company completed the sale of all of the issued and outstanding equity of Hartford Life Insurance KK, a Japanese company ("HLIKK"), to ORIX Life Insurance Corporation, a subsidiary of ORIX Corporation, a Japanese company. The operations of the Company's Japan business are reported as discontinued operations. For further information regarding the sale of HLIKK and discontinued operations, see the following Discontinued Operations section and Note 13 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

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 2014 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 2014 Form 10-K Annual Report.

Consolidation

The Condensed Consolidated Financial Statements include the accounts of The Hartford Financial Services Group, Inc., companies in which the Company directly or indirectly has a controlling financial interest and those variable interest entities ("VIEs") which the Company is required to consolidate. Entities in which the Company has significant influence over the operating and financing decisions but is not required to consolidate are reported using the equity method. For further information on VIEs see Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements. All intercompany transactions and balances between The Hartford and its subsidiaries and affiliates 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. Prior to January 1, 2015, components were identified as discontinued operations if the operations and cash flows of the component had been or would be eliminated from the ongoing operations of the Company as a result of the disposal transaction and the Company would not have any significant continuing involvement in the operations of the component after the disposal transaction. For transactions occurring January 1, 2015 or later, under updated guidance issued by the Financial Accounting Standards Board, 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 regardless of whether the Company has significant continuing involvement in the operations of the component after the disposal transaction. For information on the specific discontinued operations, see Note 13 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

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.

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

The most significant estimates include those used in determining property and casualty insurance product reserves, net of reinsurance; estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts; evaluation of other-than-temporary impairments on available-for-sale securities and valuation allowances on investments; living benefits required to be fair valued; goodwill impairment; valuation of investments and derivative instruments; valuation allowance on deferred tax assets; and contingencies relating to corporate litigation and regulatory matters. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the Condensed Consolidated Financial Statements.

Reclassifications

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

Future Adoption of New Accounting Standard

Amendments to Consolidation Guidance

In February 2015, the Financial Accounting Standards Board issued updated consolidation guidance. The amendments revise existing guidance for when to consolidate variable interest entities (“VIEs”) and general partners’ investments in limited partnerships, end the deferral granted for applying the VIE guidance to certain investment companies, and reduce the number of circumstances where a decision maker’s or service provider’s fee arrangement is deemed to be a variable interest in an entity. The updates also modify consolidation guidance for determining whether limited partnerships are VIEs or voting interest entities. This guidance is effective for years beginning after December 15, 2015, and may be applied fully retrospectively or through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption (modified retrospective approach). The Company will adopt the guidance using a modified retrospective approach effective as of January 1, 2016 and, upon adoption, the new guidance will not have a material effect on the Company’s Consolidated Financial Statements.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except for per share data)	2015	2014	2015	2014
Earnings				
Income from continuing operations, net of tax	$372	$388	$1,252	$1,004
Income (loss) from discontinued operations, net of tax	9	—	9	(588)
Net income	$381	$388	$1,261	$416
Shares				
Weighted average common shares outstanding, basic	413.8	437.2	418.4	445.9
Dilutive effect of stock compensation plans	5.1	5.9	5.0	6.1
Dilutive effect of warrants	4.1	7.7	4.9	13.9
Weighted average common shares outstanding and dilutive potential common shares [1]	423.0	450.8	428.3	465.9
Earnings per common share				
Basic				
Income from continuing operations, net of tax	$0.90	$0.89	$2.99	$2.25
Income (loss) from discontinued operations, net of tax	0.02	—	0.02	(1.32)
Net income per common share	$0.92	$0.89	$3.01	$0.93
Diluted				
Income from continuing operations, net of tax	$0.88	$0.86	$2.92	$2.15
Income (loss) from discontinued operations, net of tax	0.02	—	0.02	(1.26)
Net income per common share	$0.90	$0.86	$2.94	$0.89

[1] Includes 3.5 million common shares for the three and nine months ended September 30, 2014 related to the forward purchase of shares under an accelerated share repurchase agreement ("ASR"), as the effect of excluding these shares would have been anti-dilutive. As the ASR matured in December 2014, the additional 3.5 million common shares have been excluded from shares of treasury stock acquired reported in the accompanying Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2014.

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted potential common shares are included in the calculation of diluted per share amounts provided there is income from continuing operations, net of tax. Diluted earnings per share includes the dilutive effect of assumed exercise or issuance of warrants and stock-based awards under compensation plans using the treasury stock method. Under the treasury stock method, for warrants and stock-based awards, shares are assumed to be issued and then reduced for the number of shares repurchaseable with theoretical proceeds at the average market price for the period. Contingently issuable shares are included for the number of shares issuable assuming the end of the reporting period was the end of the contingency period, if dilutive.

Table of Contents

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

The Company currently conducts business principally in six reporting segments, as well as a Corporate category. The Company's revenues from continuing operations are generated primarily in the United States ("U.S."). Any foreign sourced revenue in continuing operations is immaterial.

The Company’s reporting segments, as well as the Corporate category, are as follows:

Commercial Lines

Commercial Lines provides workers’ compensation, property, automobile, marine, livestock, liability and umbrella coverages primarily throughout the U.S., along with a variety of customized insurance products and risk management services including professional liability, bond, surety and specialty casualty coverages.

Personal Lines

Personal Lines provides standard automobile, homeowners and personal umbrella coverages to individuals across the U.S., including a special program designed exclusively for members of AARP.

Property & Casualty Other Operations

Property & Casualty Other Operations includes certain property and casualty operations, managed by the Company, that have discontinued writing new business and including substantially all of the Company’s asbestos and environmental exposures.

Group Benefits

Group Benefits provides employers, associations and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, and group retiree health.

Mutual Funds

Mutual Funds offers investment products for retail and retirement accounts and provides investment management and administrative services such as product design, implementation and oversight. This business also includes a portion of the runoff of the mutual funds which supports the Company's variable annuity products.

Talcott Resolution

Talcott Resolution is comprised of runoff business from the Company's individual annuity, institutional, and private-placement life insurance businesses. The Company's individual annuity business consists of annuity products for individuals, which include variable, fixed, and payout annuity products. In addition, Talcott Resolution includes the retained Japan fixed payout annuity liabilities, as well as the Company's discontinued Japan annuity business prior to its sale in 2014.

Corporate

The Company includes in the Corporate category the Company’s debt financing and related interest expense, as well as other capital raising activities, certain purchase accounting adjustments and other charges not allocated to the segments.

Financial Measures and Other Segment Information

Certain transactions between segments occur during the year that primarily relate to tax settlements, insurance coverage, expense reimbursements, services provided, security transfers and capital contributions. Also, one segment may purchase annuity contracts from another to fund pension costs and to settle certain group life claims. In addition, certain inter-segment transactions occur that relate to interest income on allocated surplus. Consolidated net investment income is unaffected by such transactions.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Income (Loss)	2015	2014	2015	2014
Commercial Lines	$211	$280	$710	$721
Personal Lines	19	73	136	142
Property & Casualty Other Operations	16	14	(72)	(108)
Group Benefits	42	37	150	143
Mutual Funds	22	22	66	64

Talcott Resolution	74	28	402	(331)
Corporate	(3)	(66)	(131)	(215)
Net income	$381	$388	$1,261	$416

14

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenues	2015	2014	2015	2014
Earned premiums and fee income				
Commercial Lines				
Workers' compensation	$769	$738	$2,273	$2,204
Property	158	142	474	415
Automobile	156	149	456	438
Package business	305	294	896	866
Liability	146	144	423	435
Bond	55	55	163	158
Professional liability	58	56	168	162
Total Commercial Lines	1,647	1,578	4,853	4,678
Personal Lines				
Automobile	674	662	1,994	1,948
Homeowners	303	302	901	890
Total Personal Lines [1]	977	964	2,895	2,838
Property & Casualty Other Operations	1	—	1	—
Group Benefits				
Group disability	361	357	1,106	1,091
Group life	365	354	1,106	1,113
Other	43	42	133	125
Total Group Benefits	769	753	2,345	2,329
Mutual Funds				
Mutual Fund	154	150	457	436
Talcott	28	35	88	106
Total Mutual Funds	182	185	545	542
Talcott Resolution	275	379	848	1,084
Corporate	1	2	6	9
Total earned premiums and fee income	3,852	3,861	11,493	11,480
Net investment income	730	810	2,335	2,402
Net realized capital gains (losses)	(44)	69	(30)	30
Other revenues	24	29	66	85
Total revenues	$4,562	$4,769	$13,864	$13,997

[1] For the three months ended September 30, 2015 and 2014, AARP members accounted for earned premiums of $797 and $772, respectively. For the nine months ended September 30, 2015 and 2014, AARP members accounted for earned premiums of $2.3 billion.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements

Financial instruments carried at fair value in the Company's Condensed Consolidated Financial Statements include fixed maturity and equity securities, available-for-sale ("AFS"); fixed maturities at fair value using the fair value option ("FVO"); equity securities, FVO; short-term investments; freestanding and embedded derivatives; certain limited partnerships and other alternative investment; separate account assets and certain other liabilities.

The following section applies to the fair value hierarchy and disclosure requirements for the Company’s financial instruments that are carried at fair value. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2 or 3).

Level 1	Observable inputs that reflect quoted prices for identical assets, or liabilities, in active markets that the Company has the ability to access at the measurement date. Level 1 securities include highly liquid U.S. Treasuries, money market funds and exchange traded equity securities, open-ended mutual funds, and exchange-traded derivative instruments.
Level 2	Observable inputs, other than quoted prices included in Level 1, for the asset or liability, or prices for similar assets and liabilities. Most fixed maturities and preferred stocks, including those reported in separate account assets, are model priced by vendors using observable inputs and are classified within Level 2. Also included are hedge funds where investment company accounting guidance has been applied to a wholly-owned fund of funds measured at fair value where an investment can be redeemed, or substantially redeemed, at the net asset value per share or equivalent ("NAV") on the measurement date or in the near-term, not to exceed 90 days. Derivative instruments classified within Level 2 are priced using observable market inputs such as swap yield curves and credit default swap curves.
Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities, guaranteed product embedded and reinsurance derivatives and other complex derivative instruments, as well as hedge fund investments carried at fair value, consistent with investment company accounting guidance, that cannot be redeemed in the near-term at the NAV. Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs, as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the Company’s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. 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 $471 and $995, for the three and nine months ended September 30, 2015, respectively, and $278 and $1.9 billion for the three and nine months ended September 30, 2014, respectively, which represented previously on-the-run U.S. Treasury securities that are now off-the-run. For the three and nine months ended September 30, 2015 and 2014, there were no transfers from Level 2 to Level 1. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs. The Company’s fixed maturities included in Level 3 are classified as such because these securities are primarily priced by independent brokers and/or within illiquid markets.

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

The following tables present assets and (liabilities) carried at fair value by hierarchy level. These disclosures provide information as to the extent to which the Company uses fair value to measure financial instruments and information about the inputs used to value those financial instruments to allow users to assess the relative reliability of the measurements.

	September 30, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				