HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
October 27, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ______________
Commission file number 001-13958

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

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

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

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

• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) ¨ ý
As of October 26, 2016, there were outstanding 377,734,367 shares of Common Stock, $0.01 par value per share, of the registrant.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016
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Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “projects,” and similar references to future per Forward-looking statements are based on our current expectations and assumptions regarding economic, competitive, legislative and other developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They have been made based upon management’s expectations and beliefs concerning future developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the “Company” or “The Hartford”). Future developments may not be in line with management’s expectations or may have unanticipated effects. Actual results could differ materially from expectations, depending on the evolution of various factors, including the risks and uncertainties identified below, as well as factors described in such forward-looking statements or in Part I, Item 1A, Risk Factors in The Hartford’s 2015 Form 10-K Annual Report, and those identified from time to time in our other filings with the Securities and Exchange Commission.

- Risks Related to Economic, Market and Political Conditions:

challenges related to the Company’s current operating environment, including global political, economic and market conditions, and the effect of financial market disruptions, economic downturns or other potentially adverse macroeconomic developments on the attractiveness of our products, the returns in our investment portfolios and the hedging costs associated with our runoff annuity block;

the financial impacts on the Company relating to the referendum vote on June 23, 2016 by the United Kingdom to leave the European Union;

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

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

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

- Risks Relating to Estimates, Assumptions and Valuations;

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

the potential for differing interpretations of the methodologies, estimations and assumptions that underlie the valuation of the Company’s financial instruments that could result in changes to investment valuations;

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

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

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

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

- Financial Strength, Credit and Counterparty Risks:

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

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

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

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

- Insurance Industry and Product-Related Risks:

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

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

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

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

the uncertain effects of emerging claim and coverage issues;

actions by our competitors, many of which are larger or have greater financial resources than we do;

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

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

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

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

- Regulatory and Legal Risks:

the cost and other effects of increased regulation as a result of the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the potential effect of other domestic and foreign regulatory developments, including those that could adversely impact the demand for the Company’s products, operating costs and required capital levels;

unfavorable judicial or legislative developments;

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

the impact of changes in federal or state tax laws;

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

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

- Other Strategic and Operational Risks:

risks associated with the runoff of our Talcott Resolution business;

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

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

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

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

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

the Company’s ability to protect its intellectual property and defend against claims of infringement.

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

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, 2016, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2016 and 2015, and statements of changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP
Hartford, Connecticut
October 27, 2016

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

(In millions, except for per share data)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
	(Unaudited)			
Revenues				
Earned premiums	$3,484	$3,404	$10,332	$10,117
Fee income	432	448	1,280	1,376
Net investment income	772	730	2,203	2,335
Net realized capital gains (losses):				
Total other-than-temporary impairment ("OTTI") losses	(15)	(42)	(50)	(67)
OTTI losses recognized in other comprehensive income (loss) (“OCI”)	1	2	6	4
Net OTTI losses recognized in earnings	(14)	(40)	(44)	(63)
Other net realized capital gains (losses)	(3)	(4)	(75)	33
Total net realized capital losses	(17)	(44)	(119)	(30)
Other revenues	24	24	67	66
Total revenues	4,695	4,562	13,763	13,864
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	2,780	2,710	8,563	8,085
Amortization of deferred policy acquisition costs ("DAC")	403	434	1,145	1,212
Insurance operating costs and other expenses	898	971	2,719	2,829
Loss on extinguishment of debt	—	—	—	21
Reinsurance gain on dispositions	—	(20)	—	(28)
Interest expense	86	88	257	271
Total benefits, losses and expenses	4,167	4,183	12,684	12,390
Income before income taxes	528	379	1,079	1,474
Income tax expense	90	7	102	222
Income from continuing operations, net of tax	438	372	977	1,252
Income from discontinued operations, net of tax	—	9	—	9
Net income	$438	$381	$977	$1,261
Income from continuing operations, net of tax, per common share				
Basic	$1.14	$0.90	$2.50	$2.99
Diluted	$1.12	$0.88	$2.45	$2.92
Net income per common share				
Basic	$1.14	$0.92	$2.50	$3.01
Diluted	$1.12	$0.90	$2.45	$2.94
Cash dividends declared per common share	$0.21	$0.21	$0.63	$0.57

See Notes to Condensed Consolidated Financial Statements.

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

(In millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(Unaudited)			
Net income	$438	$381	$977	$1,261
Other comprehensive income (loss):				
Changes in net unrealized gain on securities	22	(94)	1,180	(807)
Changes in OTTI losses recognized in other comprehensive income	5	3	2	1
Changes in net gain on cash flow hedging instruments	(28)	48	42	20
Changes in foreign currency translation adjustments	78	(14)	65	(30)
Changes in pension and other postretirement plan adjustments	10	9	27	28
OCI, net of tax	87	(48)	1,316	(788)
Comprehensive income	$525	$333	$2,293	$473

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, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $55,742 and $56,965)	$60,225	$ 59,196
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $0 and $150)	360	503
Equity securities, available-for-sale, at fair value (cost of $812 and $1,135) (includes equity securities, at fair value using the fair value option, of $0 and $282, and variable interest entity assets of $0 and $1)	875	1,121
Mortgage loans (net of allowances for loan losses of $19 and $23)	5,611	5,624
Policy loans, at outstanding balance	1,432	1,447
Limited partnerships and other alternative investments (includes variable interest entity assets of $0 and $2)	2,482	2,874
Other investments	515	120
Short-term investments (includes variable interest entity assets, at fair value, of $0 and $3)	2,219	1,843
Total investments	73,719	72,728
Cash (includes variable interest entity assets, at fair value, of $5 and $10)	810	448
Premiums receivable and agents' balances, net	3,663	3,537
Reinsurance recoverables, net	23,126	23,189
Deferred policy acquisition costs	1,683	1,816
Deferred income taxes, net	2,439	3,206
Goodwill	567	498
Property and equipment, net	1,001	974
Other assets	1,853	1,829
Assets held for sale	921	—
Separate account assets	118,648	120,123
Total assets	$228,430	$ 228,348
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,852	$ 41,572
Other policyholder funds and benefits payable	31,245	31,670
Unearned premiums	5,622	5,385
Short-term debt	690	275
Long-term debt	4,635	5,084
Other liabilities (includes variable interest entity liabilities of $5 and $12)	6,427	6,597
Liabilities held for sale	653	—
Separate account liabilities	118,648	120,123
Total liabilities	$209,772	$ 210,706
Commitments and Contingencies (Note 8)		
Stockholders' Equity		
Common stock, $0.01 par value — 1,500,000,000 shares authorized, 490,923,222 and 490,923,222 shares issued	5	5
Additional paid-in capital	8,893	8,973
Retained earnings	13,282	12,550
Treasury stock, at cost — 111,275,234 and 89,102,038 shares	(4,509)	(3,557)
Accumulated other comprehensive income ("AOCI"), net of tax	987	(329)

Total stockholders’ equity	$18,658	$ 17,642
Total liabilities and stockholders’ equity	$228,430	$ 228,348

See Notes to Condensed Consolidated Financial Statements.

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, 2016	2015
	(Unaudited)	
Common Stock	$5	$5
Additional Paid-in Capital, beginning of period	8,973	9,123
Issuance of shares under incentive and stock compensation plans	(129)	(164)
Stock-based compensation plans expense	58	57
Tax benefit on employee stock options and share-based awards	2	27
Issuance of shares for warrant exercise	(11)	(87)
Additional Paid-in Capital, end of period	8,893	8,956
Retained Earnings, beginning of period	12,550	11,191
Net income	977	1,261
Dividends declared on common stock	(245)	(237)
Retained Earnings, end of period	13,282	12,215
Treasury Stock, at cost, beginning of period	(3,557)	(2,527)
Treasury stock acquired	(1,050)	(800)
Issuance of shares under incentive and stock compensation plans	134	182
Net shares acquired related to employee incentive and stock compensation plans	(47)	(54)
Issuance of shares for warrant exercise	11	87
Treasury Stock, at cost, end of period	(4,509)	(3,112)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	(329)	928
Total other comprehensive income (loss)	1,316	(788)
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	987	140
Total Stockholders’ Equity	$18,658	$18,204
Common Shares Outstanding, beginning of period (in thousands)	401,821	424,416
Treasury stock acquired	(24,652)	(18,625)
Issuance of shares under incentive and stock compensation plans	3,297	4,617
Return of shares under incentive and stock compensation plans to treasury stock	(1,091)	(1,306)
Issuance of shares for warrant exercise	273	2,212
Common Shares Outstanding, at end of period	379,648	411,314

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(In millions)	Nine Months Ended September 30, 2016	2015
	(Unaudited)	
Operating Activities		
Net income	$977	$1,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital losses	119	30
Amortization of deferred policy acquisition costs	1,145	1,212
Additions to deferred policy acquisition costs	(1,052)	(1,055)
Depreciation and amortization	296	245
Loss on extinguishment of debt	—	21
Reinsurance gain on disposition	—	(28)
Other operating activities, net	119	78
Change in assets and liabilities:		
Decrease in reinsurance recoverables	349	161
Increase (decrease) in deferred and accrued income taxes	(51)	254
Increase in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	403	449
Net change in other assets and other liabilities	(900)	(628)
Net cash provided by operating activities	1,405	2,000
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	17,007	19,210
Fixed maturities, fair value option	163	111
Equity securities, available-for-sale	562	1,171
Mortgage loans	325	613
Partnerships	656	298
Payments for the purchase of:		
Fixed maturities, available-for-sale	(16,141)	(19,919)
Fixed maturities, fair value option	(94)	(180)
Equity securities, available-for-sale	(384)	(1,007)
Mortgage loans	(305)	(612)
Partnerships	(298)	(411)
Net proceeds from derivatives	154	64
Net increase (decrease) in policy loans	14	(12)
Net additions to property and equipment	(183)	(194)
Net proceeds from (payments for) short-term investments	(388)	1,472
Other investing activities, net	32	(1)
Acquisitions, net of cash acquired	(175)	—
Net cash provided by investing activities	945	603
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	3,381	3,703
Withdrawals and other deductions from investment and universal life-type contracts	(11,737)	(12,935)
Net transfers from separate accounts related to investment and universal life-type contracts	7,734	8,218
Repayments at maturity or settlement of consumer notes	(14)	(31)
Net increase (decrease) in securities loaned or sold under agreements to repurchase	(38)	313

Repayment of debt	—	(585)
Net issuance of shares under incentive and stock compensation plans and excess tax benefit	10	40
Treasury stock acquired	(1,050)	(800)
Dividends paid on common stock	(253)	(229)
Net cash used for financing activities	(1,967)	(2,306)
Foreign exchange rate effect on cash	(21)	(31)
Net increase in cash	362	266
Cash – beginning of period	448	399
Cash – end of period	$810	$665
Supplemental Disclosure of Cash Flow Information		
Income tax refunds received (paid)	$(131)	$80
Interest paid	$239	$258

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)
(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 and exchange traded 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 July 29, 2016, the Company completed the acquisition of Northern Homelands Company, the holding company of Maxum Specialty Insurance Group (collectively "Maxum"). On July 29, 2016, the Company completed the acquisition of Lattice Strategies LLC ("Lattice"). On July 26, 2016, the Company announced the signing of a definitive agreement to sell its United Kingdom ("U.K.") property and casualty run-off subsidiaries. For discussion of these transactions, see Note 2 - Business Acquisitions and Dispositions 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 2015 Form 10-K Annual Report. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

The accompanying Condensed Consolidated Financial Statements and Notes are unaudited. These financial statements reflect all adjustments (generally consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The Company's significant accounting policies are summarized in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2015 Form 10-K Annual Report.

Consolidation

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

Use of Estimates

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

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

Reclassifications

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

Adoption of New Accounting Standards

On January 1, 2016 the Company adopted new consolidation guidance issued by the Financial Accounting Standards Board (“FASB”). The updates revise when to consolidate variable interest entities ("VIEs") and general partners’ investments in limited partnerships, end the deferral granted for applying the VIE guidance to certain investment companies, and reduce the number of circumstances where a decision maker’s or service provider’s fee arrangement is deemed to be a variable interest in an entity. The updates also modify guidance for determining whether limited partnerships are VIEs or voting interest entities. The new guidance did not have a material effect on the Company’s Condensed Consolidated Financial Statements.

Future Adoption of New Accounting Standards

Financial Instruments - Credit Losses

In June 2016, the FASB issued updated guidance for recognition and measurement of credit losses on financial instruments. The new guidance will replace the “incurred loss” approach with an “expected loss” model for recognizing credit losses for instruments carried at other than fair value, which will initially result in the recognition of greater allowances for losses. The allowance will be an estimate of credit losses expected over the life of debt instruments, such as mortgage loans, reinsurance recoverables and receivables. Credit losses on available-for-sale (“AFS”) debt securities carried at fair value will continue to be measured as other-than-temporary impairments (“OTTI”) when incurred; however, the losses will be recognized through an allowance and no longer as an adjustment to the cost basis. Recoveries of OTTI will be recognized as reversals of valuation allowances and no longer accreted as investment income through an adjustment to the investment yield. The allowance on AFS securities cannot cause the net carrying value to be below fair value and, therefore, it is possible that increases in fair value due to decreases in market interest rates could cause the reversal of a valuation allowance and increase net income. The new guidance will also require purchased financial assets with a more-than-insignificant amount of credit deterioration since original issuance to be recorded based on contractual amounts due and an initial allowance recorded at the date of purchase. The guidance is effective January 1, 2020 through a cumulative-effect adjustment to retained earnings for the change in the allowance for credit losses for debt instruments carried at other than fair value. No allowance will be recognized at adoption for AFS debt securities; rather, their cost basis will be evaluated for an allowance for OTTI prospectively. Early adoption is permitted as of January 1, 2019. The Company has not yet determined the timing for adoption or estimated the effect on the Company’s consolidated financial statements.

Leases

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

Stock Compensation

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

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
2. Business Acquisitions and Dispositions

Business Acquisitions
Maxum
On July 29, 2016, the Company acquired 100% of the outstanding shares of Northern Homelands Company, the holding company of Maxum Specialty Insurance Group headquartered in Alpharetta, Georgia in a cash transaction for approximately $169, subject to post closing adjustments. The acquisition adds excess and surplus lines capability to the Company's Small Commercial line of business. Maxum will maintain its brand and limited wholesale distribution model. Maxum's revenues and earnings since the acquisition date are included in the Company's Condensed Consolidated Statements of Operations and are not material to the Company's consolidated results of operations for the three and nine months ended September 30, 2016.
The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date.

	As of July 29, 2016
Assets	
Cash and investments (including cash of $12)	$ 274
Reinsurance recoverables	113
Intangible assets [1]	11
Other assets	80
Total assets acquired	478
Liabilities	
Unpaid losses	235
Unearned premiums	77
Other liabilities	34
Total liabilities assumed	346
Net identifiable assets acquired	132
Goodwill [2]	37
Net assets acquired	$ 169

[1] Comprised of indefinite lived intangibles of $5 related to state insurance licenses acquired and other intangibles of $6 related to agency distribution relationships of Maxum which will amortize over 10 years.
[2] Non-deductible for income tax purposes.

The goodwill recognized is attributable to expected growth from the opportunity to sell both existing products and excess and surplus lines coverage to a broader customer base and will be allocated to the Small Commercial reporting unit within the Commercial Lines reporting segment.
The Company recognized $1 of acquisition related costs in the three months ended September 30, 2016. These costs are included in insurance operating costs and other expenses in the Condensed Consolidated Statement of Operations.
Lattice
On July 29, 2016, an indirect wholly-owned subsidiary of the Company acquired 100% of the membership interests outstanding of Lattice Strategies LLC, an investment management firm and provider of strategic beta exchange-traded funds ("ETF") with approximately $200 of assets under management ("AUM") at the acquisition date.
The following table summarizes the fair value of the consideration transferred at the acquisition date.

Fair value of consideration transferred	
Cash	$ 19
Contingent consideration	23
Total	$ 42

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
2. Business Acquisitions and Dispositions (continued)

	As of July 29, 2016
Assets	
Intangible assets [1]	$ 11
Other assets (including cash of $1)	2
Total assets acquired	13
Liabilities	
Total liabilities assumed	1
Net identifiable assets acquired	12
Goodwill [2]	30
Net assets acquired	$ 42

[1] Comprised of an indefinite lived intangible asset of $10 related to customer relationships and $1 of other intangibles, which are amortizable over 5 to 8 years.
[2] Deductible for federal income tax purposes.

Lattice's revenues and earnings since the acquisition date are included in the Company's Condensed Consolidated Statements of Operations in the Mutual Funds reporting segment and are not material to the Company's consolidated results of operations for the three and nine months ended September 30, 2016.

In addition to the initial cash consideration, the Company is required to make future payments to the former owners of Lattice of up to $60 based upon growth in ETF AUM over a four-year period beginning on the date of acquisition. The contingent consideration was measured at fair value at the acquisition date by projecting future ETF AUM and discounting expected payments back to the valuation date. The projected ETF AUM and risk-adjusted discount rate are significant unobservable inputs to fair value.

The goodwill recognized is attributable to the fact that the acquisition of Lattice enables the Company to offer ETFs which are expected to be a significant source of future revenue and earnings growth. Goodwill will be allocated to the Mutual Funds reporting segment.

The Company recognized $1 of acquisition related costs in the three months ended September 30, 2016. These costs are included in insurance operating costs and other expenses in the Condensed Consolidated Statement of Operations.

Business Disposition

Sale of U.K. businesses

On July 26, 2016, the Company announced it had entered into an agreement to sell its U.K. property and casualty run-off subsidiaries, Hartford Financial Products International Limited and Downlands Liability Management Limited, in a cash transaction to Catalina Holdings UK Limited ("buyer"), for approximately $268, net of transaction costs. The Company's U.K. property and casualty run-off subsidiaries are included in the P&C Other Operations reporting segment. Revenues and earnings are not material to the Company's consolidated results of operations for the three and nine months ended September 30, 2016 and 2015.

The Company recognized an estimated capital loss of $59, before tax, and related income tax benefit of $65, for an estimated after-tax net gain of $6 on the sale for the three and nine months ended September 30, 2016. The accrual for the estimated before tax loss is included as a reduction of the carrying value of assets held for sale in the Company's Condensed Consolidated Balance Sheets as of September 30, 2016. The transaction is expected to close in the fourth quarter of 2016, subject to regulatory approvals and other customary closing conditions.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
2. Business Acquisitions and Dispositions (continued)

The carrying values of the assets and liabilities to be transferred by the Company to the buyer in connection with the sale are as follows:

	As of September 30, 2016
Assets	
Cash and investments	$ 695
Reinsurance recoverables [1]	226
Total assets held for sale	921
Liabilities	
Reserve for future policy benefits and unpaid loss and loss adjustment expenses	638
Other liabilities	15
Total liabilities held for sale	$ 653

[1] Includes intercompany reinsurance recoverables of $58 to be settled in cash or securities prior to closing.

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

3. 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)	2016	2015	2016	2015
Earnings				
Income from continuing operations				
Income from continuing operations, net of tax	$438	$372	$977	$1,252
Income from discontinued operations, net of tax	—	9	—	9
Net income	$438	$381	$977	$1,261
Shares				
Weighted average common shares outstanding, basic	383.8	413.8	391.4	418.4
Dilutive effect of stock compensation plans	3.2	5.1	3.5	5.0
Dilutive effect of warrants	3.5	4.1	3.6	4.9
Weighted average common shares outstanding and dilutive potential common shares	390.5	423.0	398.5	428.3
Net income per common share				
Basic				
Income from continuing operations, net of tax	$1.14	$0.90	$2.50	$2.99
Income from discontinued operations, net of tax	—	0.02	—	0.02
Net income per common share	$1.14	$0.92	$2.50	$3.01
Diluted				
Income from continuing operations, net of tax	$1.12	$0.88	$2.45	$2.92
Income from discontinued operations, net of tax	—	0.02	—	0.02
Net income per common share	$1.12	$0.90	$2.45	$2.94

4. Segment Information

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Income (Loss)	2016	2015	2016	2015
Commercial Lines	$272	$211	$740	$710
Personal Lines	29	19	(4)	136
Property & Casualty Other Operations	31	16	(106)	(72)
Group Benefits	62	42	167	150
Mutual Funds	21	22	61	66
Talcott Resolution	78	74	199	402

Corporate	(55)	(3)	(80)	(131)
Net income	$438	$381	$977	$1,261

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

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

Revenues	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Earned premiums and fee income				
Commercial Lines				
Workers' compensation	$772	$769	$2,299	$2,273
Liability	156	146	447	423
Package business	313	305	925	896
Automobile	162	156	472	456
Professional liability	57	58	165	168
Bond	56	55	163	163
Property	161	158	479	474
Total Commercial Lines	1,677	1,647	4,950	4,853
Personal Lines				
Automobile	686	674	2,044	1,994
Homeowners	294	303	887	901
Total Personal Lines [1]	980	977	2,931	2,895
Property & Casualty Other Operations	—	1	—	1
Group Benefits				
Group disability	378	361	1,128	1,106
Group life	383	365	1,134	1,106
Other	51	43	153	133
Total Group Benefits	812	769	2,415	2,345
Mutual Funds				
Mutual Fund	153	154	442	457
Talcott	25	28	75	88
Total Mutual Funds	178	182	517	545
Talcott Resolution	268	275	796	848
Corporate	1	1	3	6
Total earned premiums and fee income	3,916	3,852	11,612	11,493
Net investment income	772	730	2,203	2,335
Net realized capital losses	(17)	(44)	(119)	(30)
Other revenues	24	24	67	66
Total revenues	$4,695	$4,562	$13,763	$13,864

[1] For the three months ended September 30, 2016 and 2015, AARP members accounted for earned premiums of $825 and $797, respectively. For the nine months ended September 30, 2016 and 2015, AARP members accounted for earned premiums of $2.4 billion and $2.3 billion.

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

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

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

Level 1	Unadjusted quoted prices for identical assets, or liabilities, in active markets that the Company has the ability to access at the measurement date.
Level 2	Observable inputs, other than quoted prices included in Level 1, for the asset or liability, or prices for similar assets and liabilities.
Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs, as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the Company’s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

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

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

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

	September 30, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
Asset-backed-securities ("ABS")	$2,685	$ —	$2,654	$ 31
Collateralized debt obligations ("CDOs")	2,573	—	2,104	469
Commercial mortgage-backed securities ("CMBS")	5,268	—	5,191	77
Corporate	26,904	—	25,810	1,094
Foreign government/government agencies	1,186	—	1,112	74
Municipal	12,594	—	12,468	126
Residential mortgage-backed securities ("RMBS")	4,936	—	2,881	2,055
U.S. Treasuries	4,079	348	3,731	—
Total fixed maturities	60,225	348	55,951	3,926
Fixed maturities, FVO	360	—	351	9
Equity securities, trading [1]	11	11	—	—
Equity securities, AFS	875	645	130	100
Derivative assets				
Credit derivatives	8	—	8	—
Foreign exchange derivatives	2	—	2	—
Interest rate derivatives	104	—	104	—
Guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	66	—	(15)	81
Macro hedge program	96	—	—	96
Other derivative contracts	2	—	—	2
Total derivative assets [2]	278	—	99	179
Short-term investments	2,219	494	1,725	—
Limited partnerships and other alternative investments [3]	—	—	—	—
Reinsurance recoverable for GMWB	98	—	—	98
Modified coinsurance reinsurance contracts	31	—	31	—
Separate account assets [4]	116,163	74,870	40,028	325
Total assets accounted for at fair value on a recurring basis	$180,260	$ 76,368	$98,315	$ 4,637
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
GMWB	$(348)	$ —	$ —	$ (348)
Equity linked notes	(31)	—	—	(31)
Total other policyholder funds and benefits payable	(379)	—	—	(379)
Derivative liabilities				

Credit derivatives	(10)	—	(10)	—
Equity derivatives	30	—	30	—
Foreign exchange derivatives	(257)	—	(257)	—
Interest rate derivatives	(961)	—	(929)	(32)
GMWB hedging instruments	103	—	53	50
Macro hedge program	40	—	(32)	72
Total derivative liabilities [5]	(1,055)	—	(1,145)	90
Contingent consideration [6]	23	—	—	23
Total liabilities accounted for at fair value on a recurring basis	$(1,411)	$ —	$(1,145)	$ (266)

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

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

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

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

[1] Included in other investments on the Condensed Consolidated Balance Sheets.
[2] Includes over-the-counter ("OTC") and OTC-cleared derivative instruments in a net positive fair value position after consideration of the accrued interest and impact of collateral posting requirements which may be imposed by agreements, clearing house rules and applicable law. See the following footnote 5 for derivative liabilities.
[3] Represents hedge funds where investment company accounting was applied to a wholly-owned fund of funds measured at fair value. During 2016, the Company liquidated this fund of funds.
[4] Approximately $2.5 billion and $1.8 billion of investment sales receivable, as of September 30, 2016, and December 31, 2015, respectively, are excluded from this disclosure requirement because they are trade receivables in the ordinary course of business where the carrying amount approximates fair value. Included in the total fair value amount are $0.9 billion and $1.2 billion of investments, as of September 30, 2016 and December 31, 2015, for which the fair value is estimated using the net asset value per unit as a practical expedient and which are excluded from the disclosure requirement to classify amounts in the fair value hierarchy in connection with the retrospective adoption of ASU 2015-07, Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent), on January 1, 2016.
[5] Includes OTC and OTC-cleared derivative instruments in a net negative fair value position (derivative liability) after consideration of the accrued interest and impact of collateral posting requirements, which may be imposed by agreements, clearing house rules and applicable law.
[6] For additional information on the Lattice acquisition, see Note 2 - Business Acquisitions and Dispositions of Notes to Condensed Consolidated Financial Statements.

Valuation Techniques, Procedures and Controls

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

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

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

Fixed Maturities, Equity Securities, and Short-term Investments

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

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

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

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

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

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

Derivative Instruments, including Embedded Derivatives within Investments

Derivative instruments are fair valued using pricing valuation models for OTC derivatives that utilize independent market data inputs, quoted market prices for exchange-traded and OTC-cleared derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of September 30, 2016 and December 31, 2015, 97% and 96%, respectively, of derivatives, based upon notional values, were priced by valuation models, including discounted cash flow models and option-pricing models that utilize present value techniques, or quoted market prices. The remaining derivatives were priced by broker quotations.

The Derivatives Working Group performs ongoing analyses of the valuations, assumptions and methodologies used to ensure that the prices represent a reasonable estimate of the fair value. The Company performs various controls on derivative valuations which include both quantitative and qualitative analyses. Analyses are conducted by a dedicated derivative pricing team that works directly with investment sector professionals to analyze impacts of changes in the market environment and investigate variances. On a daily basis, market valuations are compared to counterparty valuations for OTC derivatives. There are monthly analyses to identify market value changes greater than pre-defined thresholds, stale prices, missing prices, and zero prices. Also on a monthly basis, a second source validation, typically to broker quotations, is performed for certain of the more complex derivatives and all new deals during the month. A model validation review is performed on any new models, which typically includes detailed documentation and validation to a second source. The model validation documentation and results of validation are presented to the Valuation Committee for approval.

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

Limited Partnerships and Other Alternative Investments

The portion of limited partnerships and other alternative investments recorded at fair value represents hedge funds for which investment company accounting has been applied to a wholly-owned fund of funds measured at fair value. During 2016, the Company liquidated this wholly-owned hedge fund of funds. Fair value was determined for these funds using the fund's NAV, as a practical expedient, calculated on a monthly basis, and is the amount at which a unit or shareholder may have redeemed their investment, if redemption was allowed.

Valuation Inputs for Investments

For Level 1 investments, which are comprised of on-the-run U.S. Treasuries, money market funds, exchange-traded equity securities, open-ended mutual funds, short-term investments, and exchange traded futures and option contracts, valuations are based on quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.

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

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

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

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

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

Transfers between Levels

Transfers of securities among the levels occur at the beginning of the reporting period. The amount of transfers from Level 1 to Level 2 was $508 and $1,316, for the three and nine months ended September 30, 2016 and $471 and $995 for the three and nine months ended September 30, 2015, 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, 2016 and 2015, there were no transfers from Level 2 to Level 1. See the fair value roll-forward tables for the three and nine months ended September 30, 2016 and 2015, for the transfers into and out of Level 3.

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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 Assets Measured at Fair Value
The following tables present information about significant unobservable inputs used in Level 3 assets measured at fair value. The tables exclude ABS, CRE CDOs, certain CMBS, corporate and municipal securities as well as index options for which fair values are based on broker quotations.

Securities Unobservable Inputs

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, 2016						
CMBS [3]	$53	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	11 bps	1,274 bps	331 bps	Decrease
Corporate [3]	508	Discounted cash flows	Spread	87 bps	1,364 bps	421 bps	Decrease
Municipal [3]	109	Discounted cash flows	Spread	195 bps	326 bps	252 bps	Decrease
RMBS	2,055	Discounted cash flows	Spread	43 bps	1,736 bps	194 bps	Decrease
			Constant prepayment rate	—%	20%	3%	Decrease [4]
			Constant default rate	—%	11%	6%	Decrease
			Loss severity	—%	100%	79%	Decrease
	As of December 31, 2015						
CMBS [3]	$122	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	31 bps	1,505 bps	266 bps	Decrease
Corporate [3]	339	Discounted cash flows	Spread	63 bps	800 bps	306 bps	Decrease
Municipal [3]	31	Discounted cash flows	Spread	193 bps	193 bps	193 bps	Decrease
RMBS	1,622	Discounted cash flows	Spread	30 bps	1,696 bps	178 bps	Decrease
			Constant prepayment rate	—%	20%	2%	Decrease [4]
			Constant default rate	1%	10%	6%	Decrease
			Loss severity	—%	100%	78%	Decrease

[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; however, included are broker priced lower-rated private placement securities for which the Company receives spread and yield information to corroborate the fair value.
[4] Decrease for above market rate coupons and increase for below market rate coupons.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

Freestanding Derivatives	Unobservable Inputs							
	As of September 30, 2016							
	Fair Value	Predominant Valuation Technique	Significant Unobservable Input	Minimum		Maximum		Impact of Increase in Input on Fair Value [1]
Interest rate derivative								
Interest rate swaps	$(34)	Discounted cash flows	Swap curve beyond 30 years	2	%	2	%	Decrease
Interest rate swaptions [2]	2	Option model	Interest rate volatility	1	%	1	%	Increase
GMWB hedging instruments								
Equity variance swaps	(36)	Option model	Equity volatility	20	%	23	%	Increase
Equity options	25	Option model	Equity volatility	27	%	29	%	Increase
Customized swaps	142	Discounted cash flows	Equity volatility	12	%	30	%	Increase
Macro hedge program [3]								
Equity options	195	Option model	Equity volatility	15	%	27	%	Increase
	As of December 31, 2015							
Interest rate derivative								
Interest rate swaps	$(30)	Discounted cash flows	Swap curve beyond 30 years	3	%	3	%	Decrease
Interest rate swaptions [2]	8	Option model	Interest rate volatility	1	%	2	%	Increase
GMWB hedging instruments								
Equity variance swaps	(31)	Option model	Equity volatility	19	%	21	%	Increase
Equity options	35	Option model	Equity volatility	27	%	29	%	Increase
Customized swaps	131	Discounted cash flows	Equity volatility	10	%	40	%	Increase
Macro hedge program [3]								
Equity options	179	Option model	Equity volatility	14	%	28	%	Increase

[1] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table. Changes are based on long positions, unless otherwise noted. Changes in fair value will be inversely impacted for short positions.
[2] The swaptions presented are purchased options that have the right to enter into a pay-fixed swap.
[3] Excludes derivatives for which the Company bases fair value on broker quotations as noted in the following discussion.

Securities and derivatives for which the Company bases fair value on broker quotations include ABS, CDOs, CMBS, corporate, and index options. Due to the lack of transparency in the process brokers use to develop prices for these investments, the Company does not have access to the significant unobservable inputs brokers use to price these securities and derivatives. The Company believes however, the types of inputs brokers may use would likely be similar to those used to price securities and derivatives for which inputs are available to the Company, and therefore may include but not be limited to, loss severity rates, constant prepayment rates, constant default rates and credit spreads. Therefore, similar to non broker priced securities and derivatives, generally, increases in these inputs would cause fair values to decrease. For the three and nine months ended September 30, 2016, no significant adjustments were made by the Company to broker prices received.

Product Derivatives

The Company formerly offered certain variable annuity products with GMWB riders. The GMWB provides the policyholder with a guaranteed remaining balance ("GRB") which is generally equal to premiums less withdrawals. If the policyholder's account value is reduced to the specified level through a combination of market declines and withdrawals but the GRB still has value, the Company is obligated to continue to make annuity payments to the policyholder until the GRB is exhausted. Certain contract provisions can increase the GRB at contractholder election or after the passage of time. GMWB payments that are not life-contingent represent an embedded derivative in the variable annuity contract. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host for measurement purposes. The embedded derivative is carried at fair value, with changes in fair value reported in net realized capital gains and losses. The Company's GMWB liability, excluding life-contingent benefits, is carried at fair value and reported in other policyholder funds and benefits payable in the Condensed Consolidated Balance Sheets. The notional value of the embedded derivative is the GRB.

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In valuing the embedded derivative, the Company attributes to the derivative a portion of the fees collected from the contract holder equal to the present value of future GMWB claims (the “Attributed Fees”) as determined at contract issuance. All changes in the fair value of the embedded derivative are recorded in net realized capital gains and losses. The excess of fees collected from the contract holder over the Attributed Fees are associated with the host variable annuity contract and are reported in fee income.

GMWB Reinsurance Derivative

The Company has reinsurance arrangements in place to transfer a portion of its risk of loss due to GMWB. These arrangements are recognized as derivatives and carried at fair value in reinsurance recoverables. Changes in the fair value of the reinsurance agreements are reported in net realized capital gains and losses.

The fair value of the GMWB reinsurance derivative is calculated as an aggregation of the components described in the following Living Benefits Required to be Fair Valued discussion and is modeled using significant unobservable policyholder behavior inputs, identical to those used in calculating the underlying liability, such as lapses, fund selection, resets and withdrawal utilization and risk margins.

Living Benefits Required to be Fair Valued (in Other Policyholder Funds and Benefits Payable)

Fair values for GMWBs classified as embedded derivatives are calculated using the income approach based upon internally developed models because active, observable markets do not exist for those items. The fair value of these GMWBs and the related reinsurance and customized freestanding derivatives are calculated as an aggregation of the following components: Best Estimate Claim Payments; Credit Standing Adjustment; and Margins. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. The Company believes the aggregation of these components, as necessary and as reconciled or calibrated to the market information available to the Company, results in an amount that the Company would be required to transfer to or receive from market participants in an active liquid market, if one existed, for those market participants to assume the risks associated with the guaranteed minimum benefits and the related reinsurance and customized derivatives. The fair value is likely to materially diverge from the ultimate settlement of the liability as the Company believes settlement will be based on our best estimate assumptions rather than those best estimate assumptions plus risk margins. In the absence of any transfer of the guaranteed benefit liability to a third party, the release of risk margins is likely to be reflected as realized gains in future periods’ net income. Each component described in the following discussion is unobservable in the marketplace and requires subjectivity by the Company in determining its value.

Oversight of the Company's valuation policies and processes for product and GMWB reinsurance derivatives is performed by a multidisciplinary group comprised of finance, actuarial and risk management professionals. This multidisciplinary group reviews and approves changes and enhancements to the Company's valuation model as well as associated controls.

Best Estimate Claim Payments

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

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

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

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5. Fair Value Measurements (continued)

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

Credit Standing Adjustment

This assumption makes an adjustment that market participants would make, in determining fair value, to reflect the risk that guaranteed benefit obligations, or the GMWB reinsurance recoverables will not be fulfilled. The Company incorporates a blend of observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. The credit standing adjustment assumption, net of reinsurance, resulted in pre-tax realized gains (losses) of $0 and $0, for the three months ended September 30, 2016 and 2015, respectively and $(1) and $(1) for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016 and December 31, 2015 the credit standing adjustment was $(1) and $0, respectively.

Margins

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

There were no policyholder assumption updates related to the behavior risk margin for the three and nine months ended September 30, 2016 and 2015. As of September 30, 2016 and December 31, 2015 the behavior risk margin was $42 and $45.

In addition to the non-market-based update described in the preceding discussion, the Company recognized non-market-based updates driven by the relative outperformance (underperformance) of the underlying actively managed funds as compared to their respective indices resulting in pre-tax realized gains (losses) of approximately $11 and $(21), for the three months ended September 30, 2016 and 2015, respectively and $24 and $(10) for the nine months ended September 30, 2016 and 2015, respectively.

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

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

	As of December 31, 2015		
Significant Unobservable Input	Unobservable Inputs (Minimum)	Unobservable Inputs (Maximum)	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization [2]	20%	100%	Increase
Withdrawal Rates [3]	—%	8%	Increase

Lapse Rates [4]	—%	75%	Decrease
Reset Elections [5]	20%	75%	Increase
Equity Volatility [6]	10%	40%	Increase

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

[2] Range represents assumed cumulative percentages of policyholders taking withdrawals.

[3] Range represents assumed cumulative annual amount withdrawn by policyholders.

[4] Range represents assumed annual percentages of full surrender of the underlying variable annuity contracts across all policy durations for in force business.

[5] Range represents assumed cumulative percentages of policyholders that would elect to reset their guaranteed benefit base.

[6] Range represents implied market volatilities for equity indices based on multiple pricing sources.

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

Separate Account Assets

Separate account assets are primarily invested in mutual funds. Other separate account assets include fixed maturities, limited partnerships, equity securities, short-term investments and derivatives that are valued in the same manner, and using the same pricing sources and inputs, as those investments held by the Company. For limited partnerships in which fair value represents the separate account's share of the NAV, 39% and 28% were subject to significant liquidation restrictions due to lock-up or gating provisions as of September 30, 2016 and December 31, 2015, respectively. Limited partnerships where redemptions are not allowed consisted of 19% and 4% as of September 30, 2016 and December 31, 2015, respectively. Separate account assets classified as Level 3 primarily include long-dated bank loans, subprime RMBS, and commercial mortgage loans.

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

The following tables provide fair value roll-forwards for the three and nine months ended September 30, 2016 and 2015, for the financial instruments classified as Level 3.

For the three months ended September 30, 2016

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of June 30, 2016	$41	$478	$ 79	$ 1,136	$ 72	$ 90	$1,873	$ 3,769	$ 6
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	—	(1)	(12)	—	—	—	(13)	—
Included in OCI [3]	—	(3)	—	27	2	2	15	43	—
Purchases	18	1	15	69	9	34	253	399	5
Settlements	—	(7)	(6)	3	(1)	—	(78)	(89)	(1)
Sales	(2)	—	—	(52)	(8)	—	(8)	(70)	(1)
Transfers into Level 3 [4]	—	—	—	115	—	—	—	115	—
Transfers out of Level 3 [4]	(26)	—	(10)	(192)	—	—	—	(228)	—
Fair value as of September 30, 2016	$31	$469	$ 77	$ 1,094	$ 74	$ 126	$2,055	$ 3,926	$ 9
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$—	$—	$ —	$ (13)	$ —	$ —	$—	$ (13)	$ —

		Freestanding Derivatives [5]					
Assets (Liabilities)	Equity Securities, AFS	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of June 30, 2016	$ 97	$1	$ (32)	$ 165	$ 141	$ 4	$ 279
Total realized/unrealized gains (losses)							
Included in net income [1] [2] [6]	(1)	(1)	—	(34)	(32)	(2)	(69)
Included in OCI [3]	—	—	—	—	—	—	—
Purchases	4	—	—	—	63	—	63
Settlements	—	—	—	—	(4)	—	(4)
Sales	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—

Transfers out of Level 3 [4]	—	—	—	—	—	—	—
Fair value as of September 30, 2016	$ 100	$ —	$ (32)	$ 131	$ 168	$ 2	$ 269
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$ (1)	$ —	$ —	$ (34)	$ (34)	$ (2)	$ (70)

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5. Fair Value Measurements (continued)

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of June 30, 2016	$ 106	$ 171
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	(12)	1
Included in OCI [3]	—	(1)
Purchases	—	165
Settlements	4	(3)
Sales	—	(11)
Transfers into Level 3 [4]	—	10
Transfers out of Level 3 [4]	—	(7)
Fair value as of September 30, 2016	$ 98	$ 325
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$ (12)	$ —

	Other Policyholder Funds and Benefits Payable			
Liabilities	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Contingent Consideration [8]
Fair value as of June 30, 2016	$(412)	$ (28)	$ (440)	$ —
Issuance	—	—	—	23
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	81	(3)	78	—
Insurance operating costs and other expenses	—	—	—	—
Settlements	(17)	—	(17)	—
Fair value as of September 30, 2016	$(348)	$ (31)	$ (379)	$ 23
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$81	$ (3)	$ 78	$ —

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

For the nine months ended September 30, 2016

Assets	Fixed Maturities, AFS ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2016	$37	$541	$150	$854	$ 60	$ 49	$1,622	$ 3,313	$ 16
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	(1)	(2)	(26)	1	—	—	(28)	(1)
Included in OCI [3]	—	(5)	(3)	39	11	7	11	60	—
Purchases	18	1	65	136	24	54	683	981	11
Settlements	(7)	(67)	(24)	(52)	(3)	—	(236)	(389)	(3)
Sales	(2)	—	(3)	(143)	(19)	—	(8)	(175)	(4)
Transfers into Level 3 [4]	18	—	1	628	—	16	5	668	—
Transfers out of Level 3 [4]	(33)	—	(107)	(342)	—	—	(22)	(504)	(10)
Fair value as of September 30, 2016	$31	$469	$77	$1,094	$ 74	$ 126	$2,055	$ 3,926	$ 9
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$—	$—	$(1)	$(14)	$ —	$ —	$—	$(15)	$ —

Assets (Liabilities)	Equity Securities, AFS	Freestanding Derivatives [5] Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2016	$ 93	$—	$(22)	$ 135	$ 147	$ 7	$ 267
Total realized/unrealized gains (losses)							
Included in net income [1] [2] [6]	(1)	(16)	(10)	(10)	(36)	(5)	(77)
Included in OCI [3]	7	—	—	—	—	—	—
Purchases	6	16	—	—	63	—	79
Settlements	—	—	—	—	(6)	—	(6)
Sales	(5)	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	6	—	—	6
Fair value as of September 30, 2016	$ 100	$—	$(32)	$ 131	$ 168	$ 2	$ 269
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$ (1)	$—	$(10)	$(2)	$(31)	$ (5)	$ (48)

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5. Fair Value Measurements (continued)

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2016	$ 83	$ 139
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	4	1
Included in OCI [3]	—	5
Purchases	—	226
Settlements	11	(12)
Sales	—	(27)
Transfers into Level 3 [4]	—	16
Transfers out of Level 3 [4]	—	(23)
Fair value as of September 30, 2016	$ 98	$ 325
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$ 4	$ —

Liabilities	Other Policyholder Funds and Benefits Payable			
	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Contingent Consideration [8]
Fair value as of January 1, 2016	$(262)	$ (26)	$ (288)	$ —
Issuance	—	—	—	23
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	(36)	(5)	(41)	—
Included in OCI [3]	—	—	—	—
Insurance operating costs and other expenses	—	—	—	—
Settlements	(50)	—	(50)	—
Fair value as of September 30, 2016	$(348)	$ (31)	$ (379)	$ 23
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2016 [2] [7]	$(36)	$ (5)	$ (41)	$ —

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

For the three months ended September 30, 2015

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of June 30, 2015	$53	$564	$214	$ 931	$ 40	$ 49	$1,540	$ 3,391	$ 86
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	(1)	1	(9)	—	—	—	(9)	—
Included in OCI [3]	—	(9)	(5)	1	(1)	1	(6)	(19)	—
Purchases	8	—	6	38	3	—	71	126	2
Settlements	(2)	(9)	(26)	(22)	(1)	—	(56)	(116)	(24)
Sales	(3)	—	—	(47)	(2)	—	(57)	(109)	(1)
Transfers into Level 3 [4]	—	—	2	51	11	—	—	64	—
Transfers out of Level 3 [4]	(29)	—	(23)	(38)	—	—	—	(90)	(2)
Fair value as of September 30, 2015	$27	$545	$169	$ 905	$ 50	$ 50	$1,492	$ 3,238	$ 61
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$—	$—	$(1)	$ (11)	$ —	$ —	$—	$ (12)	$ —

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Commodity	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of June 30, 2015	$ 97	$ 3	$ —	$ 3	$ (14)	$ 125	$ 165	$ 9	$ 291
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	(6)	4	—	(3)	(6)	46	18	(1)	58
Included in OCI [3]	5	—	—	—	—	—	—	—	—
Purchases	4	—	—	—	—	—	—	—	—
Settlements	—	—	—	—	—	—	—	—	—
Sales	(1)	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	—	—	—	—	—	—
Fair value as of September 30, 2015	$ 99	$ 7	$ —	$ —	$ (20)	$ 171	$ 183	$ 8	$ 349
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$ (6)	$ 4	$ —	$ —	$ (5)	$ 48	$ 12	$ (1)	$ 58

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

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of June 30, 2015	$ 50	$ 285
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	46	28
Included in OCI [3]	—	(2)
Purchases	—	57
Settlements	(23)	(6)
Sales	—	(200)
Transfers into Level 3 [4]	—	1
Transfers out of Level 3 [4]	—	1
Fair value as of September 30, 2015	$ 73	$ 164
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$ 46	$ 31

Liabilities	Other Policyholder Funds and Benefits Payable			
	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of June 30, 2015	$(112)	$ (26)	$ (138)	$ (3)
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	(177)	5	(172)	3
Included in OCI [3]	—	—	—	—
Settlements	19	—	19	—
Fair value as of September 30, 2015	$(270)	$ (21)	$ (291)	$ —
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$(177)	$ 5	$ (172)	$ 3

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

For the nine months ended September 30, 2015

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2015	$122	$623	$284	$1,040	$ 59	$ 66	$1,281	$3,475	$ 92
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	1	(5)	2	(13)	—	1	(2)	(16)	(7)
Included in OCI [3]	(2)	8	(8)	(41)	(4)	(4)	(6)	(57)	—
Purchases	79	—	45	61	15	—	516	716	21
Settlements	(6)	(34)	(64)	(51)	(3)	(13)	(149)	(320)	(24)
Sales	(16)	—	(6)	(80)	(28)	—	(142)	(272)	(8)
Transfers into Level 3 [4]	1	—	7	202	11	—	47	268	—
Transfers out of Level 3 [4]	(152)	(47)	(91)	(213)	—	—	(53)	(556)	(13)
Fair value as of September 30, 2015	$27	$545	$169	$905	$ 50	$ 50	$1,492	$3,238	$ 61
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$1	$(1)	$(2)	$(11)	$ —	$ —	$—	$(13)	$ (2)

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Commodity	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2015	$ 98	$(9)	$ —	$ 6	$(7)	$ 170	$ 141	$ 12	$ 313
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	6	(1)	(3)	9	(8)	21	(5)	(4)	9
Included in OCI [3]	1	—	—	—	—	—	—	—	—
Purchases	16	(13)	—	—	—	—	47	—	34
Settlements	—	—	—	(15)	(5)	(20)	—	—	(40)
Sales	(17)	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	10	—	—	—	—	—	10
Transfers out of Level 3 [4]	(5)	23	—	—	—	—	—	—	23
Fair value as of September 30, 2015	$ 99	$—	$ 7	$ —	$(20)	$ 171	$ 183	$ 8	$ 349
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$ (6)	$2	$ (4)	$ 3	$(17)	$ 32	$(3)	$ (5)	$ 8

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

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2015	$ 56	$ 112
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	31	29
Included in OCI [3]	—	(3)
Purchases	—	317
Settlements	(14)	(16)
Sales	—	(226)
Transfers into Level 3 [4]	—	7
Transfers out of Level 3 [4]	—	(56)
Fair value as of September 30, 2015	$ 73	$ 164
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$ 31	$ 32

Liabilities	Other Policyholder Funds and Benefits Payable			
	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of January 1, 2015	$(139)	$ (26)	$ (165)	$ (3)
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	(118)	5	(113)	3
Settlements	(13)	—	(13)	—
Fair value as of September 30, 2015	$(270)	$ (21)	$ (291)	$ —
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$(118)	$ 5	$ (113)	$ 3

[1] The Company classifies realized and unrealized gains (losses) on GMWB reinsurance derivatives and GMWB embedded derivatives as unrealized gains (losses) for purposes of disclosure in this table because it is impracticable to track on a contract-by-contract basis the realized gains (losses) for these derivatives and embedded derivatives.

[2] All amounts in these rows are reported in net realized capital gains (losses). The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. All amounts are before income taxes and amortization of DAC.

[3] All amounts are before income taxes and amortization of DAC.

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

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

[6] Includes both market and non-market impacts in deriving realized and unrealized gains (losses).

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

[8] For additional information, see Note 2 - Business Acquisitions and Dispositions of Notes to Condensed Consolidated Financial Statements for discussion of the contingent consideration in connection with the acquisition of Lattice.

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

Fair Value Option

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

The Company also elected the fair value option for certain equity securities in order to align the accounting with total return swap contracts that hedge the risk associated with the investments. The swaps do not qualify for hedge accounting and the change in value of both the equity securities and the total return swaps are recorded in net realized capital gains and losses. These equity securities are classified within equity securities, AFS on the Condensed Consolidated Balance Sheets. As of September 30, 2016, the Company no longer holds these investments. Income earned from FVO securities is recorded in net investment income and changes in fair value are recorded in net realized capital gains and losses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Assets				
Fixed maturities, FVO				
Corporate	$ 1	$ (2)	$ 1	$ (5)
CDOs	—	1	—	2
Foreign government	—	(3)	(1)	(4)
RMBS	3	—	8	—
Total fixed maturities, FVO	$ 4	$ (4)	$ 8	$ (7)
Equity, FVO	—	—	(34)	3
Total realized capital gains (losses)	$ 4	$ (4)	$ (26)	$ (4)

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

	September 30, 2016	December 31, 2015
Assets		
Fixed maturities, FVO		
ABS	$ 6	$ 13
CDOs	3	6
CMBS	8	24
Corporate	34	87
Foreign government	—	2
U.S government	2	3

RMBS	307	368
Total fixed maturities, FVO	$ 360	$ 503
Equity, FVO [1]	$ —	$ 282

[1] Included in equity securities, AFS on the Condensed Consolidated Balance Sheets. The Company did not hold any equity securities, FVO as of September 30, 2016.

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

Financial Instruments Not Carried at Fair Value

The following table presents carrying amounts and fair values of the Company's financial instruments not carried at fair value.

	Fair Value Hierarchy Level	September 30, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Policy loans	Level 3	$1,432	$1,432	$1,447	$1,447
Mortgage loans	Level 3	5,611	5,857	5,624	5,736
Liabilities					
Other policyholder funds and benefits payable [1]	Level 3	$6,607	$6,887	$6,706	$6,898
Senior notes [2]	Level 2	4,242	4,894	4,259	4,811
Junior subordinated debentures [2]	Level 2	1,083	1,299	1,100	1,304
Consumer notes [3]	Level 3	24	24	38	38
Assumed investment contracts [3]	Level 3	754	806	619	682

[1] Excludes guarantees on variable annuities, group accident and health and universal life insurance contracts, including corporate owned life insurance.

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

[3] Included in other liabilities in the Condensed Consolidated Balance Sheets.

Fair values for policy loans were determined using current loan coupon rates, which reflect the current rates available under the contracts. As a result, the fair value approximates the carrying value of the policy loans.

Fair values for mortgage loans were estimated using discounted cash flow calculations based on current lending rates for similar type loans. Current lending rates reflect changes in credit spreads and the remaining terms of the loans.

Fair values for other policyholder funds and benefits payable and assumed investment contracts, not carried at fair value, are estimated based on the cash surrender values of the underlying policies or by estimating future cash flows discounted at current interest rates adjusted for credit risk.

Fair values for senior notes and junior subordinated debentures are determined using the market approach based on reported trades, benchmark interest rates and issuer spread for the Company which may consider credit default swaps.

Fair values for consumer notes were estimated using discounted cash flow calculations using current interest rates adjusted for estimated loan durations.

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

Net Realized Capital Gains (Losses)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Before tax)	2016	2015	2016	2015
Gross gains on sales	$114	$83	$328	$401
Gross losses on sales	(24)	(73)	(157)	(333)
Net OTTI losses recognized in earnings	(14)	(40)	(44)	(63)
Valuation allowances on mortgage loans	—	1	—	(2)
Periodic net coupon settlements on credit derivatives	2	3	2	8
Results of variable annuity hedge program				
GMWB derivatives, net	6	(32)	(8)	(35)
Macro hedge program	(64)	51	(98)	24
Total results of variable annuity hedge program	(58)	19	(106)	(11)
Other, net [1]	(37)	(37)	(142)	(30)
Net realized capital gains (losses)	$(17)	$(44)	$(119)	$(30)

[1] Includes changes in the value of non-qualifying derivatives and transactional foreign currency revaluation gains (losses). For the three months ended September 30, 2016 and 2015, transactional foreign currency revaluation losses were $(19) and $(17), respectively, and related to yen denominated fixed payout annuity liabilities as well as the change in equity of the U.K. P&C runoff subsidiaries, currently held for sale, which were largely offset by gains of $18 and $8, respectively, on derivative instruments used to hedge the foreign currency exposure. For the nine months ended September 30, 2016 and 2015, the transactional foreign currency revaluation losses were $(150) and $(1), respectively, while there were also gains (losses) on the related hedging instruments of $135 and $(23), respectively. The three and nine months ended September 30, 2016 also include an estimated capital loss on sale of the Company's U.K. property and casualty run-off subsidiaries of $59, before tax. This excludes a related income tax benefit of $65 included within income tax expense on the Condensed Consolidated Statements of Operations, for an estimated after-tax net gain of $6 on the sale.

Net realized capital gains and losses from investment sales are reported as a component of revenues and are determined on a specific identification basis. Before tax, net gains (losses) on sales and impairments previously reported as unrealized gains (losses) in AOCI were $77 and $128, respectively, for the three and nine months ended September 30, 2016, and $(29) and $14 for the three and nine months ended September 30, 2015, respectively. Proceeds from sales of AFS securities totaled $4.3 billion and $13.3 billion, respectively, for the three and nine months ended September 30, 2016, and $4.5 billion and $16.3 billion for three and nine months ended September 30, 2015, respectively.

Recognition and Presentation of Other-Than-Temporary Impairments

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Credit impairments	$ 13	$ 12	$ 36	$ 16
Intent-to-sell impairments	—	21	3	38
Impairments on equity securities	1	6	5	6
Other impairments	—	1	—	3
Total impairments	$ 14	$ 40	$ 44	$ 63

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Before tax)	2016	2015	2016	2015
Balance as of beginning of period	$(293)	$(388)	$(324)	$(424)

Additions for credit impairments recognized on [1]:				
Securities not previously impaired	(4)	—	(25)	(3)
Securities previously impaired	(9)	(12)	(11)	(13)
Reductions for credit impairments previously recognized on:				
Securities that matured or were sold during the period	14	51	50	61
Securities the Company made the decision to sell or more likely than not will be required to sell	—	—	—	2
Securities due to an increase in expected cash flows	5	12	23	40
Balance as of end of period	$(287)	$(337)	$(287)	$(337)

[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

The following table presents the Company's AFS securities by type.

	September 30, 2016					December 31, 2015				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]
ABS	$2,683	$ 35	$ (33)	$2,685	$ —	$2,520	$ 24	$ (45)	$2,499	$ —
CDOs [2]	2,514	67	(9)	2,573	—	2,989	75	(23)	3,038	—
CMBS	5,066	226	(24)	5,268	(7)	4,668	105	(56)	4,717	(8)
Corporate	24,615	2,370	(81)	26,904	—	25,876	1,342	(416)	26,802	(3)
Foreign govt./govt. agencies	1,106	83	(3)	1,186	—	1,321	34	(47)	1,308	—
Municipal	11,345	1,254	(5)	12,594	—	11,124	1,008	(11)	12,121	—
RMBS	4,815	131	(10)	4,936	—	3,986	82	(22)	4,046	—
U.S. Treasuries	3,598	484	(3)	4,079	—	4,481	222	(38)	4,665	—
Total fixed maturities, AFS	$55,742	$ 4,650	$ (168)	$60,225	$ (7)	$56,965	$ 2,892	$ (658)	$59,196	$ (11)
Equity securities, AFS [3]	812	80	(17)	875	—	842	38	(41)	839	—
Total AFS securities	$56,554	$ 4,730	$ (185)	$61,100	$ (7)	$57,807	$ 2,930	$ (699)	$60,035	$ (11)

[1] Represents the amount of cumulative non-credit OTTI losses recognized in OCI on securities that also had credit impairments. These losses are included in gross unrealized losses as of September 30, 2016, and December 31, 2015.

[2] Gross unrealized gains (losses) exclude the fair value of bifurcated embedded derivatives within certain securities. Subsequent changes in value are recorded in net realized capital gains (losses).

[3] Excluded equity securities, FVO, with a cost and fair value of $293 and $282 as of December 31, 2015. The Company held no equity securities, FVO as of September 30, 2016.

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

	September 30, 2016		December 31, 2015	
Contractual Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$1,832	$1,848	$2,373	$2,405
Over one year through five years	9,623	10,052	10,929	11,200
Over five years through ten years	9,082	9,671	9,322	9,497
Over ten years	20,127	23,192	20,178	21,794
Subtotal	40,664	44,763	42,802	44,896
Mortgage-backed and asset-backed securities	15,078	15,462	14,163	14,300
Total fixed maturities, AFS	$55,742	$60,225	$56,965	$59,196

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

Concentration of Credit Risk

The Company aims to maintain a diversified investment portfolio including issuer, sector and geographic stratification, where applicable, and has established certain exposure limits, diversification standards and review procedures to mitigate credit risk. The Company had no investment exposure to any credit concentration risk of a single issuer greater than 10% of the Company's stockholders' equity, other than the U.S. government and certain U.S. government agencies as of September 30, 2016, and December 31, 2015.

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

	September 30, 2016								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$321	$320	$ (1)	$364	$332	$ (32)	$685	$652	$ (33)
CDOs [1]	665	664	(2)	1,028	1,021	(7)	1,693	1,685	(9)
CMBS	548	540	(8)	259	243	(16)	807	783	(24)
Corporate	1,759	1,725	(34)	812	765	(47)	2,571	2,490	(81)
Foreign govt./govt. agencies	105	104	(1)	27	25	(2)	132	129	(3)
Municipal	334	331	(3)	47	45	(2)	381	376	(5)
RMBS	278	278	—	707	697	(10)	985	975	(10)
U.S. Treasuries	347	344	(3)	—	—	—	347	344	(3)
Total fixed maturities, AFS	$4,357	$4,306	$ (52)	$3,244	$3,128	$ (116)	$7,601	$7,434	$ (168)
Equity securities, AFS [2]	171	160	(11)	68	62	(6)	239	222	(17)
Total securities in an unrealized loss position	$4,528	$4,466	$ (63)	$3,312	$3,190	$ (122)	$7,840	$7,656	$ (185)

	December 31, 2015								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$1,619	$1,609	$ (10)	$357	$322	$ (35)	$1,976	$1,931	$ (45)
CDOs [1]	1,164	1,154	(10)	1,243	1,227	(13)	2,407	2,381	(23)
CMBS	1,726	1,681	(45)	189	178	(11)	1,915	1,859	(56)
Corporate	9,206	8,866	(340)	656	580	(76)	9,862	9,446	(416)
Foreign govt./govt. agencies	679	646	(33)	124	110	(14)	803	756	(47)
Municipal	440	430	(10)	18	17	(1)	458	447	(11)
RMBS	1,349	1,340	(9)	415	402	(13)	1,764	1,742	(22)
U.S. Treasuries	2,432	2,394	(38)	8	8	—	2,440	2,402	(38)
Total fixed maturities, AFS	$18,615	$18,120	$ (495)	$3,010	$2,844	$ (163)	$21,625	$20,964	$ (658)
Equity securities, AFS [2]	480	449	(31)	62	52	(10)	542	501	(41)
Total securities in an unrealized loss position	$19,095	$18,569	$ (526)	$3,072	$2,896	$ (173)	$22,167	$21,465	$ (699)

[1] Unrealized losses exclude the change in fair value of bifurcated embedded derivatives within certain securities, for which changes in fair value are recorded in net realized capital gains (losses).

[2] As of September 30, 2016, and December 31, 2015, excludes equity securities, FVO which are included in equity securities, AFS on the Condensed Consolidated Balance Sheets.

As of September 30, 2016, AFS securities in an unrealized loss position consisted of 3,022 securities, primarily in the corporate sector, which were depressed primarily due to widening of credit spreads since the securities were purchased. As of September 30, 2016, 92% of these securities were depressed less than 20% of cost or amortized cost. The decrease in unrealized losses during 2016 was primarily attributable to a decline in interest rates and tighter credit spreads.

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Most of the securities depressed for twelve months or more relate to student loan ABS, corporate securities concentrated in the financial services sector, and structured securities with exposure to commercial and residential real estate. Corporate financial services securities and student loan ABS were primarily depressed because the securities have floating-rate coupons and long-dated maturities, and current credit spreads are wider than when these securities were purchased. For certain commercial and residential real estate securities, current spreads are wider than spreads at the securities' respective purchase dates. 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

The Company’s security monitoring process reviews mortgage loans on a quarterly basis to identify potential credit losses. Commercial 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 according to the contractual terms of the loan agreement. Criteria used to determine if an impairment exists include, but are not limited to: current and projected macroeconomic factors, 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 historic, current and projected delinquency rates and property values. These assumptions require the use of significant management judgment and include the probability and timing of borrower default and loss severity estimates. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the borrower and/or underlying collateral such as changes in the projections of the underlying property value estimates.

For mortgage loans that are deemed impaired, a valuation allowance is established for the difference between the carrying amount and the Company’s share of either (a) the present value of the expected future cash flows discounted at the loan’s effective interest rate, (b) the loan’s observable market price or, most frequently, (c) the fair value of the collateral. A valuation allowance has been established for either individual loans or as a projected loss contingency for loans with an LTV ratio of 90% or greater and after consideration of other credit quality factors, including DSCR. 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 loans continue to perform under the original or restructured terms. Interest income ceases to accrue for loans when it is probable that the Company will not receive interest and principal payments according to the contractual terms of the loan agreement. Loans may resume accrual status when it is determined that sufficient collateral exists to satisfy the full amount of the loan and interest payments as well as when it is probable cash will be received in the foreseeable future. Interest income on defaulted loans is recognized when received.

	September 30, 2016			December 31, 2015		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Total commercial mortgage loans	$5,630	$ (19)	$ 5,611	$5,647	$ (23)	$ 5,624

[1] Amortized cost represents carrying value prior to valuation allowances, if any.

As of September 30, 2016, and December 31, 2015, the carrying value of mortgage loans associated with the valuation allowance was $31 and $82, respectively. There were no mortgage loans held-for-sale as of September 30, 2016, and December 31, 2015. As of September 30, 2016, loans within the Company’s mortgage loan portfolio that have had extensions or restructurings other than what is allowable under the original terms of the contract are immaterial.

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.

	2016	2015
Balance, as of January 1	$(23)	$(18)
(Additions)/Reversals	—	(4)
Deductions	4	2
Balance, as of September 30	$(19)	$(20)

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

The weighted-average LTV ratio of the Company's commercial mortgage loan portfolio was 53% as of September 30, 2016, while the weighted-average LTV ratio at origination of these loans was 62%. LTV ratios compare the loan amount to the value of the underlying property collateralizing the loan. The loan values are updated no less than annually through property level reviews of the portfolio. Factors considered in the property valuation include, but are not limited to, actual and expected property cash flows, geographic market data and capitalization rates. DSCR compares a property's net operating income to the borrower's principal and interest payments. As of September 30, 2016, the Company held one delinquent commercial mortgage loan past due by 90 days or more. The loan had a total carrying value and valuation allowance of $15 and $16, respectively, and was not accruing income. As of December 31, 2015, the Company held two delinquent commercial mortgage loans, past due by 90 days or more. The loans had a total carrying value and valuation allowance of $17 and $20, respectively, and were not accruing income.
The following table presents the carrying value of the Company's commercial mortgage loans by LTV and DSCR.

Commercial Mortgage Loans Credit Quality

Loan-to-value	September 30, 2016 Carrying Value	Avg. Debt-Service Coverage Ratio	December 31, 2015 Carrying Value	Avg. Debt-Service Coverage Ratio
Greater than 80%	$15	0.45x	$24	0.81x
65% - 80%	640	2.06x	623	1.82x
Less than 65%	4,956	2.79x	4,977	2.75x
Total commercial mortgage loans	$5,611	2.68x	$5,624	2.63x

The following tables present the carrying value of the Company's mortgage loans by region and property type.

Mortgage Loans by Region

	September 30, 2016 Carrying Value	Percent of Total	December 31, 2015 Carrying Value	Percent of Total
East North Central	$294	5.2 %	$289	5.1 %
East South Central	14	0.3 %	14	0.2 %
Middle Atlantic	418	7.4 %	384	6.8 %
Mountain	35	0.6 %	32	0.6 %
New England	400	7.1 %	446	7.9 %
Pacific	1,635	29.2 %	1,669	29.7 %
South Atlantic	1,193	21.3 %	1,174	20.9 %
West North Central	29	0.5 %	29	0.5 %
West South Central	338	6.0 %	318	5.7 %
Other [1]	1,255	22.4 %	1,269	22.6 %
Total mortgage loans	$5,611	100.0 %	$5,624	100.0 %

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

Mortgage Loans by Property Type

	September 30, 2016 Carrying Value	Percent of Total	December 31, 2015 Carrying Value	Percent of Total
Commercial				

Agricultural	$16	0.3 %	$26	0.5 %
Industrial	1,444	25.7 %	1,422	25.3 %
Lodging	25	0.4 %	26	0.5 %
Multifamily	1,386	24.7 %	1,345	23.9 %
Office	1,451	25.9 %	1,547	27.5 %
Retail	1,050	18.7 %	1,109	19.7 %
Other	239	4.3 %	149	2.6 %
Total mortgage loans	$5,611	100.0 %	$5,624	100.0 %

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Mortgage Servicing

The Company originates, sells and services commercial mortgage loans on behalf of third parties and recognizes servicing fees over the period that services are performed in fee income. As of September 30, 2016, the Company serviced commercial mortgage loans under this program with a total outstanding principal of $571, of which $186 was serviced on behalf of third parties and $385 was retained and reported on the Company's Condensed Consolidated Balance Sheets, including $104 in separate account assets. As of December 31, 2015, the Company serviced commercial mortgage loans under this program with a total outstanding principal of $359, of which $129 was serviced on behalf of third parties and $230 was retained and reported on the Company's Condensed Consolidated Balance Sheets, including $54 in separate account assets. Servicing rights are carried at the lower of cost or fair value and were zero as of September 30, 2016 and December 31, 2015, because servicing fees were market-level fees at origination and remain adequate to compensate the Company to administer the servicing.

Variable Interest Entities

The Company is involved with various special purpose entities and other entities that are deemed to be VIEs primarily as a collateral or investment manager and as an investor through normal investment activities as well as a means of accessing capital through a contingent capital facility.

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

The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss relating to the VIEs for which the Company is the primary beneficiary. Creditors have no recourse against the Company in the event of default by these VIEs nor does the Company have any implied or unfunded commitments to these VIEs. The Company's financial or other support provided to these VIEs is limited to its collateral or investment management services and original investment.

	September 30, 2016			December 31, 2015		
	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]
CDO [3]	$ 5	$ 5	$ —	$ 5	$ 5	$ —
Investment funds [4]	—	—	—	159	7	151
Limited partnerships and other alternative investments [5]	—	—	—	2	—	2
Total	$ 5	$ 5	$ —	$ 166	$ 12	$ 153

[1] Included in other liabilities on the Company's Condensed Consolidated Balance Sheets.

[2] The maximum exposure to loss represents the maximum loss amount that the Company could recognize as a reduction in net investment income or as a realized capital loss and is the cost basis of the Company's investment.

[3] Total assets included in cash on the Company's Condensed Consolidated Balance Sheets.

[4] Total assets included in fixed maturities, FVO, short-term investments, equity, AFS, and cash on the Company's Condensed Consolidated Balance Sheets.

[5] Total assets included in limited partnerships and other alternative investments on the Company’s Condensed Consolidated Balance Sheets.

Effective January 1, 2016, the Company adopted new consolidation guidance and determined that three investment funds, that were previously identified as consolidated VIEs and for which the Company has management and control of the investments, are voting interest entities under the new consolidation guidance. The Company still owns a majority interest in one investment fund that is still consolidated on the Company's Condensed Consolidated Financial Statements; however, as of September 30, 2016, this fund is not included as VIE in the table above. The remaining two investment funds previously identified as consolidated VIEs were disposed of during the first six months of the year. CDO represents a structured investment vehicle for which the Company has a controlling financial interest as it provides collateral management services, earns a fee for those services and also holds investments in the security issued by this vehicle. For further information on the adoption, see Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

Non-Consolidated VIEs

The Company, through normal investment activities, makes passive investments in limited partnerships and other alternative investments. Upon the adoption of the new consolidation guidance, discussed above, these investments are now considered VIEs. 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, 2016 and December 31, 2015 is limited to the total carrying value of $1.8 billion and $1.5 billion, respectively, which are included in limited partnerships and other alternative investments in the Company's Condensed Consolidated Balance Sheets. As of September 30, 2016 and December 31, 2015, the Company has outstanding commitments totaling $1.3 billion and $692 million, 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 and Derivatives of Notes to Consolidated Financial Statements included in the Company's 2015 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 and, therefore, does not consolidate. These investments are included in ABS, CDOs, CMBS and RMBS in the Available-for-Sale Securities table and fixed maturities, 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.

The Company also holds a significant variable interest in a VIE for which it is not the primary beneficiary. This VIE represents a contingent capital facility ("facility") that has been held by the Company since February 2007 and for which the Company has no implied or unfunded commitments. Assets and liabilities recorded for the contingent capital facility were $2 and $3, respectively, as of September 30, 2016, and $7 and $8, respectively, as of December 31, 2015. Additionally, the Company has a maximum exposure to loss of $3 and $3, respectively, as of September 30, 2016, and December 31, 2015, which represents the issuance costs that were incurred to establish the facility. The Company does not have a controlling financial interest as it does not manage the assets of the facility nor does it have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the facility, as the asset manager has significant variable interest in the vehicle. The Company's financial or other support provided to the facility is limited to providing ongoing support to cover the facility's operating expenses. As such, the Company does not consolidate its variable interest in the facility. For further information on the facility, see Note 11 - Debt of Notes to Consolidated Financial Statements included in The Hartford's 2015 Form 10-K Annual Report.

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

The Company participates in securities lending programs to generate additional income. Through these programs, certain fixed maturities within the corporate, foreign government/government agencies, and municipal sectors as well as equity securities are loaned from the Company's portfolio to qualifying third-party borrowers in return for collateral in the form of cash or securities. Borrowers of these securities provide collateral of 102% and 105% of the fair value of the securities lent at the time of the loan for domestic and non-domestic securities, respectively. The borrower 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, and is not reflected on the Company's consolidated balance sheets. The fair value of the loaned securities is monitored and 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 transferred. 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 consolidated balance sheets. Income associated with securities lending transactions is reported as a component of net investment income on the Company’s consolidated statements of operations. As of September 30, 2016, the fair value of securities on loan and the associated liability for cash collateral received was $168 and $114, respectively. The Company also received securities collateral of $57 which was not included in the Company's Condensed Consolidated Balance Sheets. As of December 31, 2015, the fair value of securities on loan and the associated liability for cash collateral received was $67 and $68, respectively.

From time to time, the Company enters into repurchase agreements and similar transactions to manage liquidity or to earn incremental spread 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. A dollar roll is a type of repurchase agreement where a mortgage backed security is sold with an agreement to repurchase substantially the same security at a specified time in the future. Repurchase transactions generally have a contractual maturity of ninety days or less.

As part of 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 contain contractual provisions that 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. Repurchase agreements include master netting provisions that provide the 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, fixed maturities do not meet the specific conditions for net presentation under U.S. GAAP. 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.

As of September 30, 2016, the Company reported in fixed maturities, AFS on the Condensed Consolidated Balance Sheets financial collateral pledged relating to repurchase agreements of $358. The Company reported a corresponding obligation to repurchase the pledged securities of $356 in other liabilities on the Condensed Consolidated Balance Sheets. As of December 31, 2015, the Company reported financial collateral pledged relating to repurchase agreements $440 in fixed maturities, AFS and $5 in cash. The Company reported a corresponding obligation to repurchase the pledged securities of $445 in other liabilities on the Condensed Consolidated Balance Sheets. The Company had no outstanding dollar roll transactions as of September 30, 2016 or December 31, 2015.

The Company is required by law to deposit securities with government agencies in certain states in which it conducts business. As of September 30, 2016, and December 31, 2015, the fair value of securities on deposit was approximately $2.6 billion and $2.5 billion, respectively.

As of September 30, 2016 and December 31, 2015, the Company has pledged as collateral $75 and $35, 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. Also included is 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.

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, commodity 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. The Company also may enter into and has previously issued financial instruments and products that either are accounted for as free-standing derivatives, such as certain reinsurance contracts, or may contain features that are deemed to be embedded derivative instruments, such as the GMWB rider included with certain variable annuity products.

Strategies That Qualify for Hedge Accounting

Certain derivatives that the Company enters into satisfy the 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 2015 Form 10-K Annual Report. Typically, these hedge relationships 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 or liability contracts. 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 also enters into forward starting swap agreements to hedge the interest rate exposure related to the purchase of fixed-rate securities, primarily to hedge interest rate risk inherent in the assumptions used to price certain liabilities.

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

Fair Value Hedges

Interest rate swaps are used to hedge the changes in fair value of fixed maturity securities due to fluctuations in interest rates. These swaps are typically used to manage interest rate duration.

Non-Qualifying Strategies

Derivative relationships that do not qualify for hedge accounting ("non-qualifying strategies") primarily include the hedge program for the Company's variable annuity products as well as the hedging and replication strategies that utilize credit default swaps. In addition, hedges of interest rate, foreign currency and equity risk of certain fixed maturities, equities and liabilities do not qualify for hedge accounting.

The non-qualifying strategies include:

Interest Rate Swaps, Swaptions, and Futures

The Company uses interest rate swaps, swaptions, and futures to manage 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. As of September 30, 2016, and December 31, 2015, the notional amount of interest rate swaps in offsetting relationships was $12.1 billion and $12.9 billion, respectively.

Foreign Currency Swaps and Forwards

Foreign currency forwards are used to hedge non-U.S. dollar denominated cash and equity securities as well as currency impacts on changes in equity of the U.K. property and casualty runoff subsidiaries that is held for sale. For further information on the disposition, see Note 2 - Business Acquisitions and Dispositions of Notes to Condensed Consolidated Financial Statements. The Company also enters into foreign currency swaps and forwards to convert the foreign currency exposures of certain foreign currency-denominated fixed maturity investments to U.S. dollars.

Fixed Payout Annuity Hedge

The Company reinsures certain yen denominated fixed payout annuities. The Company invests in U.S. dollar denominated assets to support the reinsurance liability. The Company has in place pay U.S. dollar, receive yen swap contracts to hedge the currency and yen interest rate exposure between the U.S. dollar denominated assets and the yen denominated fixed liability reinsurance payments.

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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 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 is also exposed to credit risk related to certain structured fixed maturity securities that have embedded credit derivatives, which reference a standard index of corporate securities. In addition, the Company enters into credit default swaps to terminate existing credit default swaps, thereby offsetting the changes in value of the original swap going forward.

Equity Index Swaps and Options

The Company enters into equity index options to hedge the impact of a decline in the equity markets on the investment portfolio. During 2015, the Company entered into a total return swap to hedge equity risk of specific common stock investments which were accounted for using the fair value option in order to align the accounting treatment within net realized capital gains (losses). The swap matured in January 2016 and the specific common stock investments were sold at that time. In addition, the Company formerly offered certain equity indexed products that remain in force, a portion of which contain embedded derivatives that require bifurcation. The Company uses equity index swaps to economically hedge the equity volatility risk associated with the equity indexed products.

Commodity Contracts

The Company has used put option contracts on oil futures to partially offset potential losses related to certain fixed maturity securities that could be impacted by changes in oil prices.

GMWB Derivatives, Net

The Company formerly offered certain variable annuity products with GMWB riders. The GMWB product is a bifurcated embedded derivative (“GMWB product derivatives”) that has a notional value equal to the GRB. The Company uses reinsurance contracts to transfer a portion of its risk of loss due to GMWB. The reinsurance contracts covering GMWB (“GMWB reinsurance contracts”) are accounted for as free-standing derivatives with a notional amount equal to the GRB amount.

The Company utilizes derivatives (“GMWB hedging instruments”) as part of a dynamic hedging program designed to hedge a portion of the capital market risk exposures of the non-reinsured GMWB riders due to changes in interest rates, equity market levels, and equity volatility. These derivatives include customized swaps, interest rate swaps and futures, and equity swaps, options and futures, on certain indices including the S&P 500 index, EAFE index and NASDAQ index. The Company retains the risk for differences between assumed and actual policyholder behavior and between the performance of the actively managed funds underlying the separate accounts and their respective indices.

The following table presents notional and fair value for GMWB hedging instruments.

	Notional Amount		Fair Value	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Customized swaps	$5,366	$ 5,877	$ 142	$ 131
Equity swaps, options, and futures	1,355	1,362	(13)	2
Interest rate swaps and futures	3,743	3,740	40	25
Total	$10,464	$ 10,979	$ 169	$ 158

Macro Hedge Program

The Company utilizes equity swaps, options, futures, and forwards to provide partial protection against the statutory tail scenario risk arising from GMWB and guaranteed minimum death benefit ("GMDB") liabilities on the Company's statutory surplus. These derivatives cover some of the residual risks not otherwise covered by the dynamic hedging program. The following table presents notional and fair value for the macro hedge program.

	Notional Amount		Fair Value	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Equity swaps, options, futures, and forwards	$6,348	$ 4,548	$ 136	$ 147
Total	$6,348	$ 4,548	$ 136	$ 147

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Contingent Capital Facility Put Option

The Company entered into a put option agreement that provides the Company the right to require a third-party trust to purchase, at any time, The Hartford's junior subordinated notes in a maximum aggregate principal amount of $500. Under the put option agreement, The Hartford will pay premiums on a periodic basis and will reimburse the trust for certain fees and ordinary expenses.

Modified Coinsurance Reinsurance Contracts

As of September 30, 2016, and December 31, 2015, the Company had approximately $921 and $895, respectively, of invested assets supporting other policyholder funds and benefits payable reinsured under a modified coinsurance arrangement in connection with the sale of the Individual Life business, which was structured as a reinsurance transaction. The assets are primarily held in a trust established by the Company. The Company pays or receives cash quarterly to settle the results of the reinsured business, including the investment results. As a result of this modified coinsurance arrangement, the Company has an embedded derivative that transfers to the reinsurer certain unrealized changes in fair value due to interest rate and credit risks of these assets. The notional amount of the embedded derivative reinsurance contracts are the invested assets that are carried at fair value supporting the reinsured reserves.

Derivative Balance Sheet Classification

The following table summarizes the balance sheet classification of the Company's derivative related net fair value amounts as well as the gross asset and liability fair value amounts. For reporting purposes, the Company has elected to offset within total assets or total 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 Company has also elected to offset within total assets or total liabilities based upon the net of the fair value amounts, income accruals and related cash collateral receivables and payables of OTC-cleared derivative instruments based on clearing house agreements. 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. Derivative fair value reported as liabilities after taking into account the master netting agreements was $1.4 billion and $1.1 billion, respectively, as of September 30, 2016, and December 31, 2015. Derivatives in the Company's separate accounts, where the associated gains and losses accrue directly to policyholders, are not included in the table below. The Company's derivative 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. The following tables exclude 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 of Notes to Condensed Consolidated Financial Statements.

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

	Net Derivatives				Asset Derivatives		Liability Derivatives	
	Notional Amount		Fair Value		Fair Value		Fair Value	
Hedge Designation/ Derivative Type	Sep. 30, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2015
Cash flow hedges								
Interest rate swaps	$3,443	$3,527	$74	$17	$84	$50	$(10)	$(33)
Foreign currency swaps	182	143	(17)	(19)	8	7	(25)	(26)
Total cash flow hedges	3,625	3,670	57	(2)	92	57	(35)	(59)
Fair value hedges								
Interest rate swaps	23	23	—	—	—	—	—	—
Total fair value hedges	23	23	—	—	—	—	—	—
Non-qualifying strategies								
Interest rate contracts								
Interest rate swaps, swaptions, and futures	12,816	14,290	(931)	(814)	590	297	(1,521)	(1,111)
Foreign exchange contracts								
Foreign currency swaps and forwards	1,090	653	9	17	15	17	(6)	—
Fixed payout annuity hedge	1,063	1,063	(247)	(357)	—	—	(247)	(357)
Credit contracts								
Credit derivatives that purchase credit protection	185	423	(5)	18	—	22	(5)	(4)
Credit derivatives that assume credit risk [1]	1,828	2,458	4	(13)	15	9	(11)	(22)
Credit derivatives in offsetting positions	3,797	4,059	—	(2)	43	40	(43)	(42)
Equity contracts								
Equity index swaps and options	105	419	(1)	15	30	41	(31)	(26)
Variable annuity hedge program								
GMWB product derivatives [2]	13,603	15,099	(348)	(262)	—	—	(348)	(262)
GMWB reinsurance contracts	2,809	3,106	98	83	98	83	—	—
GMWB hedging instruments	10,464	10,979	169	158	307	264	(138)	(106)
Macro hedge program	6,348	4,548	136	147	197	179	(61)	(32)
Other								
Contingent capital facility put option	500	500	2	7	2	7	—	—
Modified coinsurance reinsurance contracts	921	895	31	79	31	79	—	—
Total non-qualifying strategies	55,529	58,492	(1,083)	(924)	1,328	1,038	(2,411)	(1,962)
Total cash flow hedges, fair value hedges, and non-qualifying strategies	$59,177	$62,185	$(1,026)	$(926)	$1,420	$1,095	$(2,446)	$(2,021)
Balance Sheet Location								
Fixed maturities, available-for-sale	$416	$425	$1	$(3)	$1	$—	$—	$(3)
Other investments	10,477	23,253	278	1	350	409	(72)	(408)
Other liabilities	30,902	19,358	(1,055)	(798)	940	524	(1,995)	(1,322)
Reinsurance recoverables	3,729	4,000	129	162	129	162	—	—
Other policyholder funds and benefits payable	13,653	15,149	(379)	(288)	—	—	(379)	(288)
Total derivatives	$59,177	$62,185	$(1,026)	$(926)	$1,420	$1,095	$(2,446)	$(2,021)

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

[2] These derivatives are embedded within liabilities and are not held for risk management purposes.

Change in Notional Amount

The net decrease in notional amount of derivatives since December 31, 2015, was primarily due to the following:

- The decline in the combined notional amount associated with the GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by policyholder lapses and partial withdrawals.
- The decline in notional amount related to non-qualifying interest rate derivatives was primarily driven by the termination of interest rate swaps that were used for duration management.
- The decline in notional amount related to the termination of credit derivatives that assume credit risk was a result of re-balancing within certain fixed maturity sectors. The terminated positions related to replication transactions that pair credit derivatives with high quality liquid securities to earn a higher credit spread.
- The increase in the notional amount associated with the macro hedge program was primarily due to purchases of equity options and forwards to hedge more of the equity risk.
- The increase in the notional amount related to foreign currency derivatives was primarily due to purchases of currency forwards that are used to hedge non-U.S. dollar denominated cash.

Change in Fair Value

The net decline in the total fair value of derivative instruments since December 31, 2015, was primarily related to the following:

- The decrease in fair value related to the combined GMWB hedging program was primarily due to an increase in the U.S. equity markets, assumption and fund regression updates, partially offset by an increase in fair value driven by favorable policyholder behavior and outperformance of the underlying actively managed funds compared to their respective indices.
- The increase in fair value associated with qualifying cash flow hedge interest rate swaps was due to a decline in interest rates and the decrease in fair value related to non-qualifying interest rate swaps was due to the termination of offsetting swaps that were in a net gain position.
- The decrease in the fair value associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was primarily driven by a decline in interest rates.
- The increase in fair value associated with the fixed payout annuity hedges was primarily driven by an appreciation of the Japanese yen in comparison to the U.S. dollar, slightly offset by a decline in U.S. interest rates.

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)

As of September 30, 2016

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Other investments	$ 1,290	$ 1,024	$278	$ (12)	$ 209	$ 57
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount
Other liabilities	$ (2,067)	$ (1,049)	$ (1,055)	$ 37	$ (974)	$ (44)

As of December 31, 2015

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
	Gross Amounts of Recognized	Gross Amounts Offset in	Derivative Assets [1]	Accrued Interest and Cash	Financial Collateral Received	Net Amount

	Assets	the Statement of Financial Position		Collateral Received [2]	[4]	
Description						
Other investments	$ 933	$ 756	$ 1	$ 176	$ 100	$ 77

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount
Description						
Other liabilities	$ (1,730)	$ (818)	$ (798)	$ (114)	$ (889)	$ (23)

[1] Included in other invested assets in the Company's Condensed Consolidated Balance Sheets.

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

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

[4] 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.

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

The following tables present the components of the gain or loss on derivatives that qualify as cash flow hedges:
Derivatives in Cash Flow Hedging Relationships

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)				Net Realized Capital Gains(Losses) Recognized in Income on Derivative (Ineffective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
Interest rate swaps	$ (26)	$ 91	$ 120	$ 76	$ —	$ —	$ —	$ —
Foreign currency swaps	—	—	1	(1)	—	—	—	—
Total	$ (26)	$ 91	$ 121	$ 75	$ —	$ —	$ —	$ —

	Location	Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Interest rate swaps	Net realized capital gains	$—	$ 1	$ 7	$ 4
Interest rate swaps	Net investment income	16	15	46	47
Foreign currency swaps	Net realized capital gains (losses)	1	—	3	(7)
Total		$ 17	$ 16	$ 56	$ 44

As of September 30, 2016, 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 $29. This expectation is based on the anticipated interest payments on 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. The maximum term over which the Company is hedging its exposure to the variability of future cash flows for forecasted transactions, excluding interest payments on existing variable-rate financial instruments, is approximately two years.

During the three and nine months ended September 30, 2016, and September 30, 2015, 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.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current period earnings. The Company includes the gain or loss on the derivative in the same line item as the offsetting loss or gain on the hedged item. All components of each derivative’s gain or loss were included in the assessment of hedge effectiveness.

For both the three and nine months ended September 30, 2016 and 2015, the Company recognized in income losses of less than $1 representing the ineffective portion of fair value hedges for the derivative instrument and the hedged item.

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). The following table presents the gain or loss recognized in income on non-qualifying strategies:

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

Derivatives Used in Non-Qualifying Strategies
Gain or (Loss) Recognized within Net Realized Capital Gains and Losses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest rate contracts				
Interest rate swaps, swaptions, and futures	$(2)	$(11)	$(22)	$(16)
Foreign exchange contracts				
Foreign currency swaps and forwards [1]	4	3	25	11
Fixed payout annuity hedge [2]	13	8	109	(23)
Credit contracts				
Credit derivatives that purchase credit protection	(12)	7	(19)	5
Credit derivatives that assume credit risk	24	(23)	28	(25)
Equity contracts				
Equity index swaps and options	(2)	1	15	4
Commodity contracts				
Commodity options	—	2	—	(8)
Variable annuity hedge program				
GMWB product derivatives	87	(150)	(22)	(91)
GMWB reinsurance contracts	(15)	24	(2)	15
GMWB hedging instruments	(66)	94	16	41
Macro hedge program	(64)	51	(98)	24
Other				
Contingent capital facility put option	(1)	(2)	(4)	(5)
Modified coinsurance reinsurance contracts	(1)	2	(48)	28
Total [3]	$(35)	$6	$(22)	$(40)

[1] Not included in this amount is the associated transactional foreign currency revaluation related to changes in equity of the U.K. property and casualty runoff subsidiaries, currently held for sale, adjusted through realized capital losses of $(10) and $(33) for the three and nine months ended September 30, 2016.

[2] Not included in this amount is the associated liability adjustment for changes in foreign exchange spot rates through realized capital losses of $(10) and $(17) for the three months ended September 30, 2016 and 2015, respectively, and $(118) and $(1) for the nine months ended September 30, 2016 and 2015, respectively.

[3] 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.

For the three months ended September 30, 2016, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net gain on fixed payout annuity hedge was primarily driven by an appreciation of the Japanese yen in comparison to the U.S. dollar.
- The net gain on credit contracts was primarily driven by credit spread tightening.
- The net gain related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily due to favorable policyholder behavior and outperformance of the underlying actively managed funds compared to their respective indices, partially

offset by losses resulting from assumption updates and an increase in interest rates.

- The net loss on the macro hedge program was primarily driven by an increase in equity markets, time decay of options, and a decline in equity volatility.

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For the nine months ended September 30, 2016, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net loss related to interest rate derivatives was primarily driven by a decline in interest rates and terminations of derivative positions used for duration management.
- The net gain on foreign currency swaps and forwards primarily related to the U.K. property and casualty runoff subsidiary hedge and was driven by depreciation of the British pound.
- The net gain on the fixed annuity payout hedge was driven by an appreciation of the Japanese yen in comparison to the U.S. dollar, slightly offset by a decline in U.S. interest rates.
- The net gain on credit contracts was primarily driven by credit spread tightening.
- The net loss related to the combined GMWB hedging program was primarily due to an increase in the U.S. equity markets, partially offset by non-market gains. The non-market gains include favorable policyholder behavior and outperformance of the underlying actively managed funds compared to their respective indices, partially offset by assumption and fund regression updates.
- The net loss on the macro hedge program was primarily driven by an increase in equity markets and time decay of options.
- The loss associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was primarily driven by a decline in interest rates. The assets remain on the Company's books and the Company recorded an offsetting gain in AOCI as a result of the increase in market value of the bonds.

For the three and nine months ended September 30, 2015, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The losses related to interest rate swaps were driven by a decline in interest rates.
- For the nine months September 30, 2015, the net loss related to the fixed payout annuity hedge was primarily driven by a decline in U.S. interest rates.
- The net losses related to credit derivatives were primarily driven by widening credit spreads.
- The net losses related to the combined GMWB hedging program which includes the GMWB product, reinsurance, and hedging derivatives, were primarily driven by underperformance of the underlying actively managed funds compared to their respective indices and unfavorable policyholder behavior.
- For the three months ended September 30, 2015, the gain on the macro hedge program was primarily driven by a decline in equity markets. For the nine months ended September 30, 2015, the gain on the macro hedge program was primarily driven by a decline in equity markets, increased equity volatility, and a decline in interest rates, partially offset by a loss driven by time decay on options.
- The gains associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, were primarily driven by widening credit spreads, partially offset by a decline in long-term interest rates.

For additional disclosures regarding contingent credit related features in derivative agreements, see Note 10 - Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements.

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 would be 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)

The following tables present the notional amount, fair value, weighted average years to maturity, underlying referenced credit obligation type and average credit ratings, and offsetting notional amounts and fair value for credit derivatives in which the Company is assuming credit risk as of September 30, 2016, and December 31, 2015.

As of September 30, 2016

Credit Derivative Type by Derivative Risk Exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 169	$ 1	4 years	Corporate Credit/ Foreign Gov.	A-	$ 50	$ —
Below investment grade risk exposure	77	—	1 year	Corporate Credit	B+	77	—
Basket credit default swaps [4]							
Investment grade risk exposure	2,446	23	3 years	Corporate Credit	BBB+	1,415	(10)
Below investment grade risk exposure	50	3	5 years	Corporate Credit	B+	50	(3)
Investment grade risk exposure	516	(12)	5 years	CMBS Credit	AA+	188	1
Below investment grade risk exposure	118	(28)	1 year	CMBS Credit	CCC	118	28
Embedded credit derivatives							
Investment grade risk exposure	350	351	1 year	Corporate Credit	A+	—	—
Total [5]	$ 3,726	$ 338				$ 1,898	$ 16

As of December 31, 2015

Credit Derivative Type by Derivative Risk Exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 190	$ (1)	1 year	Corporate Credit/ Foreign Gov.	BBB+	$ 176	$ (1)
Below investment grade risk exposure	77	(2)	2 years	Corporate Credit	B	77	1
Basket credit default swaps [4]							
Investment grade risk exposure	3,036	22	4 years	Corporate Credit	BBB+	1,411	(13)
Investment grade risk exposure	681	(19)	6 years	CMBS Credit	AA+	212	1
Below investment grade risk exposure	153	(25)	1 year	CMBS Credit	CCC	153	25
Embedded credit derivatives							
Investment grade risk exposure	350	346	1 year	Corporate Credit	A+	—	—
Total [5]	$ 4,487	$ 321				$ 2,029	$ 13

[1] The average credit ratings are based on availability and the midpoint of the applicable ratings among 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 agreements, clearing house rules, 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] Includes $3.1 billion and $3.9 billion as of September 30, 2016, and December 31, 2015, respectively, 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, 2016, and December 31, 2015, the Company pledged cash collateral associated with derivative instruments with a fair value of $403 and $488, respectively, for which the collateral receivable has been primarily included within other assets on the Company's Condensed Consolidated Balance Sheets. The Company also pledged securities collateral associated with derivative instruments with a fair value of $1.2 billion and $1.1 billion, respectively, as of September 30, 2016, and December 31, 2015, which have been included in fixed maturities on the Condensed Consolidated Balance Sheets. The counterparties have the right to sell or re-pledge these securities.

As of September 30, 2016, and December 31, 2015, the Company accepted cash collateral associated with derivative instruments of $378 and $369, 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 liabilities. The Company also accepted securities collateral as of September 30, 2016, and December 31, 2015, with a fair value of $219 and $100, respectively, of which the Company has the ability to sell or repledge $207 and $100, respectively. As of September 30, 2016, and December 31, 2015, the Company had no repledged securities and did not sell any securities. In addition, as of September 30, 2016, and December 31, 2015, non-cash collateral accepted was held in separate custodial accounts and was not included in the Company’s Condensed Consolidated Balance Sheets.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
8. Separate Accounts, Death Benefits and Other Insurance Benefit Features

Changes in the gross GMDB/GMWB and universal life secondary guarantee benefits are as follows:

	GMDB/GMWB [1,2]	Universal Life Secondary Guarantees
Liability balance as of January 1, 2016	$ 863	$ 2,313
Incurred [3]	50	234
Paid	(92)	—
Liability balance as of September 30, 2016	$ 821	$ 2,547
Reinsurance recoverable asset, as of January 1, 2016	$ 523	$ 2,313
Incurred [3]	40	234
Paid	(73)	—
Reinsurance recoverable asset, as of September 30, 2016	$ 490	$ 2,547

	GMDB/GMWB [1,2]	Universal Life Secondary Guarantees
Liability balance as of January 1, 2015	$ 812	$ 2,041
Incurred [3]	76	203
Paid	(83)	—
Liability balance as of September 30, 2015	$ 805	$ 2,244
Reinsurance recoverable asset, as of January 1, 2015	$ 481	$ 2,041
Incurred [3]	89	203
Paid	(66)	—
Reinsurance recoverable asset, as of September 30, 2015	$ 504	$ 2,244

[1] Included in Reserve for future policy benefits and unpaid losses and loss adjustment expenses on the Condensed Consolidated Balance Sheets.

[2] These liability balances include all GMDB benefits, plus the life-contingent portion of GMWB benefits in excess of the return of the GRB. GMWB benefits up to the return of the GRB are embedded derivatives held at fair value and are excluded from these balances.

[3] Includes the portion of assessments established as additions to reserves as well as changes in estimates affecting the reserves.

The following table provides details concerning GMDB/GMWB exposure as of September 30, 2016:

Account Value by GMDB/GMWB Type

Maximum anniversary value (“MAV”) [1]	Account Value (“AV”) [8]	Net Amount at Risk (“NAR”) [9]	Retained Net Amount at Risk (“RNAR”) [9]	Weighted Average Attained Age of Annuitant
MAV only	$13,815	$ 2,353	$ 359	71
With 5% rollup [2]	1,188	192	61	71
With Earnings Protection Benefit Rider (“EPB”) [3]	3,516	472	75	70
With 5% rollup & EPB	475	104	23	73
Total MAV	18,994	3,121	518	
Asset Protection Benefit (“APB”) [4]	10,766	197	131	69
Lifetime Income Benefit (“LIB”) — Death Benefit [5]	480	6	6	69
Reset [6] (5-7 years)	2,457	15	14	70

Return of Premium ("ROP") [7]/Other	8,999	65	61	68
Subtotal Variable Annuity with GMDB/GMWB [10]	41,696	$ 3,404	$ 730	70
Less: General Account Value with GMDB/GMWB	3,806			
Subtotal Separate Account Liabilities with GMDB	37,890			
Separate Account Liabilities without GMDB	80,758			
Total Separate Account Liabilities	$118,648			

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
8. Separate Accounts, Death Benefits and Other Insurance Benefit Features (continued)

[1] MAV GMDB is the greatest of current AV, net premiums paid and the highest AV on any anniversary before age 80 years (adjusted for withdrawals).
[2] Rollup GMDB is the greatest of the MAV, current AV, net premium paid and premiums (adjusted for withdrawals) accumulated at generally 5% simple interest up to the earlier of age 80 years or 100% of adjusted premiums.
[3] EPB GMDB is the greatest of the MAV, current AV, or contract value plus a percentage of the contract’s growth. The contract’s growth is AV less premiums net of withdrawals, subject to a cap of 200% of premiums net of withdrawals.
[4] APB GMDB is the greater of current AV or MAV, not to exceed current AV plus 25% times the greater of net premiums and MAV (each adjusted for premiums in the past 12 months).
[5] LIB GMDB is the greatest of current AV; net premiums paid; or, for certain contracts, a benefit amount generally based on market performance that ratchets over time.
[6] Reset GMDB is the greatest of current AV, net premiums paid and the most recent five to seven year anniversary AV before age 80 years (adjusted for withdrawals).
[7] ROP GMDB is the greater of current AV or net premiums paid.
[8] AV includes the contract holder’s investment in the separate account and the general account.
[9] NAR is defined as the guaranteed benefit in excess of the current AV. RNAR represents NAR reduced for reinsurance. NAR and RNAR are highly sensitive to equity markets movements and increase when equity markets decline.
[10] Some variable annuity contracts with GMDB also have a life-contingent GMWB that may provide for benefits in excess of the return of the GRB. Such contracts included in this amount have $6.6 billion of total account value and weighted average attained age of 72 years. There is no NAR or retained NAR related to these contracts.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

Asset type	As of September 30, 2016	As of December 31, 2015
Equity securities (including mutual funds)	$ 34,772	$ 36,970
Cash and cash equivalents	3,118	3,453
Total	$ 37,890	$ 40,423

As of September 30, 2016 and December 31, 2015, approximately 16% and 17%, respectively, of the equity securities (including mutual funds), in the preceding table were funds invested in fixed income securities and approximately 84% and 83%, respectively, were funds invested in equity securities.
For further information on guaranteed living benefits that are accounted for at fair value, such as GMWB, see Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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

A reconciliation of the tax provision at the U.S. federal statutory rate to the provision (benefit) for income taxes is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Tax provision at U.S. federal statutory rate	$185	$133	$378	$516
Tax-exempt interest	(31)	(33)	(94)	(100)
Dividends-received deduction ("DRD")	(14)	(36)	(57)	(131)
Decrease in valuation allowance	—	(60)	(78)	(57)
Sale of U.K. business	(50)	—	(50)	—
Other	—	3	3	(6)
Provision for income taxes	$90	$7	$102	$222

In addition to the effect of tax-exempt interest and DRD, the Company’s effective tax rate for the three and nine months ended September 30, 2016 reflects a federal income tax benefit related to the sale of the Company's U.K. property and casualty runoff subsidiaries. The tax benefit of $50 relates to the difference between the tax basis and book basis of the Company's investment in the subsidiaries. The total estimated tax benefit recognized related to the sale of the U.K. property and casualty runoff subsidiaries was $65. For discussion of this transaction, see Note 2 - Business Acquisitions and Dispositions of Notes to Condensed Consolidated Financial Statements. The Company’s effective tax rate for the nine months ended September 30, 2016 also reflects a reduction of $78 in deferred tax valuation allowance related to capital loss carryovers, which are fully utilized.

The Company's effective tax rate for the three and nine months ended September 30, 2015 reflects a $60 benefit from the reduction of the deferred tax asset valuation allowance on the capital loss carryover due to taxable gains on sales of investments in the third quarter 2015. The Company’s effective tax rate for the nine months ended September 30, 2015 also reflects a $36 net reduction in the provision for income taxes related to uncertain tax positions consisting of a $48 reduction in the provision in second quarter 2015, offset by a $12 increase in the provision for the three months ended September 30, 2015.

The separate account DRD is estimated for the current year using information from the most recent return, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments and level of policy owner equity account balances. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received in the mutual funds, amounts of distribution from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company’s taxable income before the DRD. The Company evaluates its DRD computations on a quarterly basis.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	$ 12	$ —	$ 12	$ 48
Gross increases - tax positions in prior period	—	12	—	12
Gross decreases - tax positions in prior period [1]	—	—	—	(48)

Balance, end of period	$ 12	$ 12	$ 12	$ 12

[1] Gross decreases in 2015 relate to conclusion of the Internal Revenue Service audit of the Company's 2007-2011 federal consolidated corporate income tax returns.

The entire amount of unrecognized tax benefits, if recognized, would affect the effective tax rate in the period of the release.

The federal audit of the years 2012 and 2013 began in March 2015 and is expected to be completed in 2017. Management believes that adequate provision has been made in the financial statements for any potential adjustments that may result from tax examinations and other tax-related matters for all open tax years.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
9. Income Taxes (continued)

Net deferred income taxes include the future tax benefits associated with the net operating loss carryover, foreign tax credit carryover, capital loss carryover, and alternative minimum tax credit carryover as follows:

	As of September 30, 2016		December 31, 2015		Expiration	
	Carryover amount	Expected tax benefit, gross	Carryover amount	Expected tax benefit, gross	Dates	Amount
Net operating loss carryover - U.S.	$4,820	$ 1,687	$5,182	$ 1,814	2016-2020	$ 3
					2023-2033	$ 4,817
Net operating loss carryover - foreign	$76	$ 15	$89	$ 17	No expiration	$ 76
Foreign tax credit carryover	$65	$ 65	$154	$ 154	2020-2024	$ 65
Capital loss carryover	$—	$ —	$222	$ 78		$ —
Alternative minimum tax credit carryover	$684	$ 684	$639	$ 639	No expiration	$ 684

Net Operating Loss Carryover
Due to limitations on the use of losses for one subsidiary, a valuation allowance of $1 has been established as of September 30, 2016 and December 31, 2015 in order to recognize only the portion of net operating losses that will more likely than not be realized.
Utilization of these loss carryovers is dependent upon the generation of sufficient future taxable income. Most of the net operating loss carryover originated from the Company's U.S. and international annuity business, including from the hedging program. Given the continued runoff of the U.S. fixed and variable annuity business, the exposure to taxable losses from the Talcott Resolution business is significantly lessened. Given the expected 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 net of the recorded valuation allowance. 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.
Alternative Minimum Tax Credit and Foreign Tax Credit Carryover
These credits are available to offset regular federal income taxes from future taxable income and although the Company believes there will be sufficient future regular federal taxable income, there can be no certainty that future events will not affect the ability to utilize the credits. Additionally, the use of the foreign tax credits generally depends on the generation of sufficient taxable income to first utilize all U.S. net operating loss carryover. However, the Company has identified and begun to purchase 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 on either the alternative minimum tax carryover or foreign tax credit carryover.

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

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. These actions include, among others, and in addition to the matters in the following discussion, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper 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.
In addition to the inherent difficulty of predicting litigation outcomes, the Mutual Funds Litigation identified below purports to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel applications of complex legal theories. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company's experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. The application of the legal standard identified by the court for assessing the potentially available damages, as described below, is inherently unpredictable, and no legal precedent has been identified that would aid in determining a reasonable estimate of potential loss. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any.
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. HIFSCO moved to dismiss and, in September 2011, the motion was granted in part and denied in part, with leave to amend the complaint. In November 2011, plaintiffs filed an amended complaint on behalf of The Hartford Global Health Fund, The Hartford Conservative Allocation Fund, The Hartford Growth Opportunities Fund, The Hartford Inflation Plus Fund, The Hartford Advisors Fund, and The Hartford Capital Appreciation Fund. Plaintiffs seek to rescind the investment management agreements and distribution plans between HIFSCO and these funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received, in addition to lost earnings. HIFSCO filed a partial motion to dismiss the amended complaint and, in December 2012, the court dismissed without prejudice the claims regarding distribution fees and denied the motion with respect to the advisory fees claims. In March 2014, the plaintiffs filed a new complaint that, among other things, added as new plaintiffs The Hartford Floating Rate Fund and The Hartford Small Company Fund and named as a defendant Hartford Funds Management Company, LLC ("HFMC"), an indirect subsidiary of the Company which assumed the role as 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 The Hartford Capital Appreciation Fund. In March 2016, the court, in large part, denied summary judgment for all parties. The court granted judgment for HFMC and HIFSCO with respect to all claims made by The Hartford Small Company Fund and certain claims made by The Hartford Floating Rate Fund. The court further ruled that the appropriate measure of damages on the surviving claims is the difference, if any, between the actual advisory fees paid through trial and those that could have been paid under the applicable legal standard. A bench trial on the issue of liability is scheduled to be held in November 2016.

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

Asbestos and Environmental Claims – As discussed in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance - Property & Casualty Other Operations Claims, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford’s consolidated operating results and liquidity.

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 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, 2016 is $1.4 billion. Of this $1.4 billion the legal entities have posted collateral of $1.6 billion in the normal course of business. In addition, the Company has posted collateral of $31 associated with a customized GMWB derivative. Based on derivative market values as of September 30, 2016 a downgrade of one or two levels below the current financial strength ratings by either Moody’s or S&P would not require additional 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 would post, if required, would be primarily in the form of U.S. Treasury bills, U.S. Treasury notes and government agency securities.

11. Equity

Capital Purchase Program ("CPP") Warrants

As of September 30, 2016 and December 31, 2015, respectively, the Company has 4.1 million and 4.4 million of CPP warrants outstanding and exercisable. CPP warrant exercises were 0.1 million and 1.1 million for the three months ended September 30, 2016 and 2015, respectively and 0.3 million and 2.7 million during the nine months ended September 30, 2016 and 2015, 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, 2016 resulted in an adjustment to the CPP warrant exercise price. The CPP warrant exercise price was $9.161 as of September 30, 2016 and $9.264 as of December 31, 2015.

Equity Repurchase Program

The following summarizes equity repurchase activity in 2016 and remaining repurchase capacity as of September 30, 2016.

Three months ended	Common Shares Repurchased	Cost of Shares Repurchased	Average Price Paid per Share	Remaining Capacity Under Share Repurchase

				Authorization
(In millions, except for per share data)				
March 31, 2016	8.4	$ 350	$ 41.72	
June 30, 2016	7.8	$ 350	$ 44.74	
September 30, 2016	8.4	$ 350	$ 41.54	
Total	24.6	$ 1,050		$ 280

In October 2016, the Board of Directors authorized a new equity repurchase plan for $1.3 billion for the period commencing October 31, 2016 through December 31, 2017. The $1.3 billion authorization is in addition to the Company’s prior equity repurchase plan, which expires on December 31, 2016. During the period October 1, 2016 through October 26, 2016, the Company repurchased approximately 2.0 million common shares for $85.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Changes In and Reclassifications From Accumulated Other Comprehensive Income

Changes in AOCI, net of tax, by component consist of the following:

Three months ended September 30, 2016

	Changes in					
	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$2,437	$(10)	$ 200	$ (68)	$ (1,659)	$900
OCI before reclassifications	72	4	(17)	78	—	137
Amounts reclassified from AOCI	(50)	1	(11)	—	10	(50)
OCI, net of tax	22	5	(28)	78	10	87
Ending balance	$2,459	$(5)	$ 172	$ 10	$ (1,649)	$987

Nine months ended September 30, 2016

	Changes in					
	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$1,279	$ (7)	$ 130	$ (55)	$ (1,676)	$(329)
OCI before reclassifications	1,263	(1)	78	65	—	1,405
Amounts reclassified from AOCI	(83)	3	(36)	—	27	(89)
OCI, net of tax	1,180	2	42	65	27	1,316
Ending balance	$2,459	$ (5)	$ 172	$ 10	$ (1,649)	$987

Reclassifications from AOCI consist of the following:

AOCI	Amount Reclassified from AOCI		Affected Line Item in the Condensed Consolidated Statement of Operations
	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	
Net Unrealized Gain on Securities			
Available-for-sale securities	$77	$ 128	Net realized capital losses
	77	128	Total before tax
	27	45	Income tax expense
	$50	$ 83	Net income
OTTI Losses in OCI			
Other than temporary impairments	$(1)	$ (5)	Net realized capital losses
	(1)	(5)	Total before tax
	—	(2)	Income tax expense
	$(1)	$ (3)	Net income
Net Gains on Cash Flow Hedging Instruments			

Interest rate swaps	$—	$ 7	Net realized capital losses
Interest rate swaps	16	46	Net investment income
Foreign currency swaps	1	3	Net realized capital losses
	17	56	Total before tax
	6	20	Income tax expense
	$11	$ 36	Net income
Pension and Other Postretirement Plan Adjustments			
Amortization of prior service credit	$2	$ 5	Insurance operating costs and other expenses
Amortization of actuarial loss	(17)	(46)	Insurance operating costs and other expenses
	(15)	(41)	Total before tax
	(5)	(14)	Income tax expense
	$(10)	$ (27)	Net income
Total amounts reclassified from AOCI	$50	$ 89	Net income

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
12. Changes In and Reclassifications From Accumulated Other Comprehensive Income (continued)

Changes in AOCI, net of tax, by component consist of the following:

Three months ended September 30, 2015

	Changes in Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$1,657	$ (7)	$ 122	$ (24)	$ (1,560)	$188
OCI before reclassifications	(113)	2	58	(14)	(1)	(68)
Amounts reclassified from AOCI	19	1	(10)	—	10	20
OCI, net of tax	(94)	3	48	(14)	9	(48)
Ending balance	$1,563	$ (4)	$ 170	$ (38)	$ (1,551)	$140

Nine months ended September 30, 2015

	Changes in Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$2,370	$ (5)	$ 150	$ (8)	$ (1,579)	$928
OCI before reclassifications	(798)	—	49	(30)	—	(779)
Amounts reclassified from AOCI	(9)	1	(29)	—	28	(9)
OCI, net of tax	(807)	1	20	(30)	28	(788)
Ending balance	$1,563	$ (4)	$ 170	$ (38)	$ (1,551	