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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from ____________ to ______________

Commission file number 001-13958

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

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

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

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

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

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

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

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

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015
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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 those set forth in Part I, Item 1A, Risk Factors in The Hartford’s 2014 Form 10-K Annual Report, and those identified from time to time in our other filings with the Securities and Exchange Commission. These important risks and uncertainties include:

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

- the uncertain effects of emerging claim and coverage issues;

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

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

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

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

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
October 26, 2015

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

See Notes to Condensed Consolidated Financial Statements

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1. Basis of Presentation and Significant Accounting Policies

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

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

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, which differ materially from the accounting practices prescribed by various insurance regulatory authorities. These Condensed Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2014 Form 10-K Annual Report. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

The accompanying Condensed Consolidated Financial Statements and Notes are unaudited. These financial statements reflect all adjustments (generally consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The Company's significant accounting policies are summarized in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2014 Form 10-K Annual Report.

Consolidation

The Condensed Consolidated Financial Statements include the accounts of The Hartford Financial Services Group, Inc., companies in which the Company directly or indirectly has a controlling financial interest and those variable interest entities (“VIEs”) which the Company is required to consolidate. Entities in which the Company has significant influence over the operating and financing decisions but is not required to consolidate are reported using the equity method. For further information on VIEs see Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements. All intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated.

Discontinued Operations

The results of operations of a component of the Company are reported in discontinued operations when certain criteria are met as of the date of disposal, or earlier if classified as held-for-sale. When a component is identified for discontinued operations reporting, amounts for prior periods are retrospectively reclassified as discontinued operations. Prior to January 1, 2015, components were identified as discontinued operations if the operations and cash flows of the component had been or would be eliminated from the ongoing operations of the Company as a result of the disposal transaction and the Company would not have any significant continuing involvement in the operations of the component after the disposal transaction. For transactions occurring January 1, 2015 or later, under updated guidance issued by the Financial Accounting Standards Board, components are identified as discontinued operations if they are a major part of an entity’s operations and financial results such as a separate major line of business or a separate major geographical area of operations regardless of whether the Company has significant continuing involvement in the operations of the component after the disposal transaction. For information on the specific discontinued operations, see Note 13 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

Use of Estimates

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

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

Reclassifications

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

Future Adoption of New Accounting Standard

Amendments to Consolidation Guidance

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

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

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

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

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

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

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

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

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

Commercial Lines

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

Personal Lines

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

Property & Casualty Other Operations

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

Group Benefits

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

Mutual Funds

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

Talcott Resolution

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

Corporate

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

Financial Measures and Other Segment Information

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

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

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

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

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

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

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

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

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

Financial instruments carried at fair value in the Company's Condensed Consolidated Financial Statements include fixed maturity and equity securities, available-for-sale ("AFS"); fixed maturities at fair value using the fair value option ("FVO"); equity securities, FVO; short-term investments; freestanding and embedded derivatives; certain limited partnerships and other alternative investment; separate account assets and certain other liabilities.
The following section applies to the fair value hierarchy and disclosure requirements for the Company's financial instruments that are carried at fair value. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2 or 3).

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

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

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

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

	September 30, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
Asset-backed-securities ("ABS")	$2,716	$—	$2,689	$27
Collateralized debt obligations ("CDOs")	3,031	—	2,486	545
Commercial mortgage-backed securities ("CMBS")	4,542	—	4,373	169
Corporate	26,772	—	25,867	905
Foreign government/government agencies	1,255	—	1,205	50
Municipal	12,211	—	12,161	50
Residential mortgage-backed securities ("RMBS")	3,859	—	2,367	1,492
U.S. Treasuries	4,723	934	3,789	—
Total fixed maturities	59,109	934	54,937	3,238
Fixed maturities, FVO	548	1	486	61
Equity securities, trading [1]	11	11	—	—
Equity securities, AFS	813	565	149	99
Derivative assets				
Credit derivatives	13	—	13	—
Foreign exchange derivatives	10	—	10	—
Interest rate derivatives	79	—	69	10
Guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	94	—	9	85
Macro hedge program	100	—	—	100
Other derivative contracts	8	—	—	8
Total derivative assets [2]	304	—	101	203
Short-term investments	3,433	700	2,733	—
Limited partnerships and other alternative investments [3]	815	—	717	98
Reinsurance recoverable for GMWB	73	—	—	73
Modified coinsurance reinsurance contracts	62	—	62	—
Separate account assets [4]	117,725	77,368	39,847	510
Total assets accounted for at fair value on a recurring basis	$182,893	$79,579	$99,032	$4,282
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
GMWB	$(270)	$—	$—	$(270)
Equity linked notes	(21)	—	—	(21)
Total other policyholder funds and benefits payable	(291)	—	—	(291)
Derivative liabilities				

Credit derivatives	(29	) —	(29	) —
Commodity derivatives	7	—	—	7
Equity derivatives	20	—	20	—
Foreign exchange derivatives	(469	) —	(469	) —
Interest rate derivatives	(648	) —	(618	) (30)
GMWB hedging instruments	113	—	27	86
Macro hedge program	83	—	—	83
Total derivative liabilities [5]	(923	) —	(1,069	) 146
Total liabilities accounted for at fair value on a recurring basis	$(1,214	) $—	$(1,069	) $(145)

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

	December 31, 2014			
	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	$2,472	$—	$2,350	$122
CDOs	2,841	—	2,218	623
CMBS	4,415	—	4,131	284
Corporate	27,359	—	26,319	1,040
Foreign government/government agencies	1,636	—	1,577	59
Municipal	12,871	—	12,805	66
RMBS	3,918	—	2,637	1,281
U.S. Treasuries	3,872	106	3,766	—
Total fixed maturities	59,384	106	55,803	3,475
Fixed maturities, FVO	488	—	396	92
Equity securities, trading [1]	11	11	—	—
Equity securities, AFS	1,047	786	163	98
Derivative assets				
Credit derivatives	8	—	10	(2)
Equity derivatives	3	—	—	3
Interest rate derivatives	129	—	113	16
GMWB hedging instruments	119	—	5	114
Macro hedge program	93	—	—	93
Other derivative contracts	12	—	—	12
Total derivative assets [2]	364	—	128	236
Short-term investments	4,883	349	4,534	—
Limited partnerships and other alternative investments [3]	770	—	581	189
Reinsurance recoverable for GMWB	56	—	—	56
Modified coinsurance reinsurance contracts	34	—	34	—
Separate account assets [4]	132,211	91,537	40,096	578
Total assets accounted for at fair value on a recurring basis	$199,248	$92,789	$101,735	$4,724
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
GMWB	$(139)	$—	$—	$(139)
Equity linked notes	(26)	—	—	(26)
Total other policyholder funds and benefits payable	(165)	—	—	(165)
Derivative liabilities				
Credit derivatives	(16)	—	(9)	(7)
Equity derivatives	28	—	25	3
Foreign exchange derivatives	(445)	—	(445)	—
Interest rate derivatives	(597)	—	(574)	(23)
GMWB hedging instruments	55	—	(1)	56

Macro hedge program	48	—	—	48
Total derivative liabilities [5]	(927)	—	(1,004)	77
Consumer notes [6]	(3)	—	—	(3)
Total liabilities accounted for at fair value on a recurring basis	$(1,095)	$—	$(1,004)	$(91)

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[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. As of September 30, 2015, and December 31, 2014, $136 and $413, respectively, of cash collateral liability was netted against the derivative asset value in the Condensed Consolidated Balance Sheets and is excluded from the preceding table. See the following footnote 5 for derivative liabilities.

[3] Represents hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value.

[4] Approximately $3.9 billion and $2.5 billion of investment sales receivable, as of September 30, 2015, and December 31, 2014, 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.

[5] Includes OTC and OTC-cleared derivative instruments in a net negative fair value position (derivative liability) after consideration of the accrued interest and impact of collateral posting requirements, which may be imposed by agreements, clearing house rules and applicable law. In the following Level 3 roll-forward table in this Note 4, the derivative assets and liabilities are referred to as “freestanding derivatives” and are presented on a net basis.

[6] Represents embedded derivatives associated with non-funding agreement-backed consumer equity linked notes.

Determination of Fair Values

The valuation methodologies used to determine the fair values of assets and liabilities under the “exit price” notion, reflect market participant objectives and are based on the application of the fair value hierarchy that prioritizes relevant observable market inputs over unobservable inputs. 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 after considering the following primary sources of information: quoted prices for identical assets or liabilities, third-party pricing services, independent broker quotations, or pricing matrices. Security pricing is applied using a “waterfall” approach whereby publicly available prices are first sought from third-party pricing services, and the remaining unpriced securities are submitted to independent brokers for prices, or priced using a pricing matrix. Typical inputs used by these pricing methods include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows, prepayment speeds, and default rates. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third-party pricing services will normally derive the security prices from recent reported trades for identical or similar securities making adjustments through the reporting date based upon the preceding outlined available market observable information. If there are no recently reported trades, the third-party pricing services and independent brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of ABS and RMBS are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such 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. Actual prepayment experience may vary from these estimates.

Prices from third-party pricing services are often 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.

Private placement securities are priced using a pricing matrix to determine the credit spreads that are used to discount the expected future cash flows for securities for which the Company is unable to obtain a price from a third-party pricing service. Credit spreads are developed 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 an independent public security index and trade information and adjusting for the non-public nature of the securities.

The Securities Working Group performs ongoing analysis 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 this analysis, 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 developed based on 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's internal pricing model utilizes the Company's best estimate of expected future cash flows discounted at a rate of return that a market participant would require. The significant inputs to the model include, but are not limited to, current market inputs, such as credit loss assumptions, estimated prepayment speeds and market risk premiums.

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 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 market observable. Due to a general 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 that utilize independent market data inputs for OTC derivatives, quoted market prices for exchange-traded and OTC-cleared derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of September 30, 2015 and December 31, 2014, 96% and 96%, respectively, of derivatives, based upon notional values, were priced by valuation models or quoted market prices. The remaining derivatives were priced by broker quotations.

The Derivatives Working Group performs ongoing analysis 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 analysis. 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 is a monthly analysis 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 are presented to the Valuation Committee for approval. There is a monthly control to review changes in pricing sources to ensure that new models are not moved to production until formally approved.

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

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

Limited Partnerships and Other Alternative Investments

A portion of limited partnerships and other alternative investments include hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value. Fair value is determined for these funds using the NAV, as a practical expedient, calculated on a monthly basis, and is the amount at which a unit or shareholder may redeem their investment, if redemption is allowed. Certain impediments to redemption include, but are not limited to the following: 1) redemption notice periods vary and may be as long as 90 days, 2) redemption may be restricted (e.g. only be allowed on a quarter-end), 3) a holding period referred to as a lock-up may be imposed whereby an investor must hold their investment for a specified period of time before they can make a notice for redemption, 4) gating provisions may limit all redemptions in a given period to a percentage of the entities' equity interests, or may only allow an investor to redeem a portion of their investment at one time and 5) early redemption penalties may be imposed that are expressed as a percentage of the amount redeemed. The Company regularly assesses impediments to redemption and current market conditions that will restrict the redemption at the end of the notice period. Any funds that are subject to significant liquidity restrictions are reported in Level 3; all others are classified as Level 2.

Valuation Techniques and Inputs for Investments

Generally, the Company determines the estimated fair value of its fixed maturities, equity securities, and short-term investments using the market approach. The income approach is used for securities priced using a pricing matrix, as well as for derivative instruments. Certain limited partnerships and other alternative investments are measured at fair value using a NAV as a practical expedient. For Level 1 investments, which are comprised of on-the-run U.S. Treasuries, exchange-traded equity securities, short-term investments, and exchange traded futures and option contracts, valuations are based on observable inputs that reflect quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.

For most of the Company’s debt securities, the following inputs are typically used in the Company’s pricing methods: reported trades, benchmark yields, bids and/or estimated cash flows. For securities, except U.S. Treasuries, inputs also include issuer spreads which may consider credit default swaps. 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, hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value, and 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, credit default swap indices and, for ABS and RMBS, estimated prepayment rates.
- 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.
- 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.
- Limited partnerships and other alternative investments — Primary inputs include a NAV for investment companies with no redemption restrictions as reported on their U.S. GAAP financial statements, which are typically recorded on a one-month lag.

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

Level 3	Most of the Company's securities classified as Level 3 include less liquid securities such as lower quality ABS, CMBS, commercial real estate ("CRE") CDOs and RMBS primarily backed by sub-prime loans. Also included in Level 3 are securities valued based on broker prices or broker spreads, without adjustments. Primary inputs for non-broker priced investments, including structured securities, are consistent with the typical inputs used in the preceding noted Level 2 measurements, but are Level 3 due to their less liquid markets. Additionally, certain long-dated securities are priced based on third party pricing services, including certain municipal securities, foreign government/government agencies, and bank loans. 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. Level 3 investments also include hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value where the Company does not have the ability to redeem the investment in the near-term at the NAV. Also included in Level 3 are certain derivative instruments that either have significant unobservable inputs or are valued based on broker quotations. Significant inputs for these 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, and commodity price curves.

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 securities such as ABS and CRE CDOs for which fair values are predominately based on broker quotations.

Securities	Unobservable Inputs						
	As of September 30, 2015						
Assets Accounted for at Fair Value on a Recurring Basis	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum	Maximum	Weighted Average [1]	Impact of Increase in Input on Fair Value [2]
CMBS	$169	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	36 bps	757 bps	228 bps	Decrease
Corporate [3]	406	Discounted cash flows	Spread	70 bps	735 bps	326 bps	Decrease
Municipal [3]	32	Discounted cash flows	Spread	197 bps	197 bps	197 bps	Decrease
RMBS	1,492	Discounted cash flows	Spread	53 bps	1,176 bps	169 bps	Decrease
			Constant prepayment rate	—%	100%	4%	Decrease [4]
			Constant default rate	—%	14%	6%	Decrease
			Loss severity	—%	100%	78%	Decrease
	As of December 31, 2014						
CMBS	$284	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	46 bps	2,475 bps	284 bps	Decrease
Corporate [3]	568	Discounted cash flows	Spread	123 bps	765 bps	279 bps	Decrease
Municipal [3]	32	Discounted cash flows	Spread	212 bps	212 bps	212 bps	Decrease
RMBS	1,281		Spread	23 bps	1,904 bps	142 bps	Decrease

Discounted cash flows					
	Constant prepayment rate	—%	7%	2%	Decrease [4]
	Constant default rate	1%	14%	7%	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 preceding table.

[3] Level 3 corporate and municipal securities excludes those for which the Company bases fair value on broker quotations as noted in the following discussion.

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

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

Freestanding Derivatives	Unobservable Inputs					
	As of September 30, 2015					
	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum	Maximum	Impact of Increase in Input on Fair Value [1]
Interest rate derivative						
Interest rate swaps	$(30)	Discounted cash flows	Swap curve beyond 30 years	3%	3%	Decrease
Interest rate swaptions [2]	10	Option model	Interest rate volatility	1%	1%	Increase
GMWB hedging instruments						
Customized swaps	171	Discounted cash flows	Equity volatility	10%	40%	Increase
Macro hedge program						
Equity options	183	Option model	Equity volatility	15%	28%	Increase
	As of December 31, 2014					
Interest rate derivative						
Interest rate swaps	$(29)	Discounted cash flows	Swap curve beyond 30 years	3%	3%	Decrease
Interest rate swaptions	22	Option model	Interest rate volatility	1%	1%	Increase
GMWB hedging instruments						
Equity options	46	Option model	Equity volatility	22%	34%	Increase
Customized swaps	124	Discounted cash flows	Equity volatility	10%	40%	Increase
Macro hedge program						
Equity options	141	Option model	Equity volatility	27%	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.

Securities and derivatives for which the Company bases fair value on broker quotations predominately include ABS, CDOs, and corporate. 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, 2015, no significant adjustments were made by the Company to broker prices received.

As of September 30, 2015 and December 31, 2014, excluded from the preceding tables are hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value which total $98 and $189, respectively, of Level 3 assets. The predominant valuation method uses a NAV calculated on a monthly basis and represents funds where the Company does not have the ability to redeem the investment in the near-term at that NAV, including an assessment of the investee's liquidity.

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. The GMWB represents 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 payment, is carried at fair value and reported in other policyholder funds and benefits payable in the Condensed Consolidated Balance Sheets. The notional value of the embedded derivative is the GRB.

In valuing the embedded derivative, the Company attributes to the derivative a portion of the expected fees to be collected over the expected life of the contract from the contract holder equal to the present value of future GMWB claims. The excess of fees collected from the contract holder in the current period over the current period's attributed fees are associated with the host variable annuity contract and 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 or receive, for an asset, to or 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 is 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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4. Fair Value Measurements (continued)

On a daily basis, 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. The Company monitors various aspects of policyholder behavior and may modify certain of its assumptions, including living benefit lapses and withdrawal rates, if credible emerging data indicates that changes are warranted. In addition, the Company will continue to evaluate policyholder behavior assumptions as we implement initiatives to reduce the size of the variable annuity business. At a minimum, all policyholder behavior assumptions are reviewed and updated, as appropriate, in conjunction with the completion of the Company’s annual comprehensive study to refine its estimate of future gross profits, which was completed in the third quarter of 2014 and will be completed in the fourth quarter of 2015.

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 $2, for the three months ended September 30, 2015 and 2014, respectively, and $(1) and $2 for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015 and December 31, 2014 the credit standing adjustment was $0 and $1, 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, 2015. Assumption updates, including policyholder behavior assumptions, affected best estimates and margins for pre-tax realized gains of $31 for the three and nine months ended September 30, 2014. As of September 30, 2015 and December 31, 2014 the behavior risk margin was $78 and $74, respectively.

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 $(21) and $(8), for the three months ended September 30, 2015 and 2014 and $(10) and $12 for the nine months ended September 30, 2015 and 2014, respectively.

Significant unobservable inputs used in the fair value measurement the GMWB embedded derivative and the GMWB reinsurance derivative are withdrawal utilization and withdrawal rates, lapse rates, reset elections and equity volatility. The following table provides quantitative information about the significant unobservable inputs and is applicable to all of the GMWB embedded derivative and the GMWB reinsurance derivative. Significant increases in any of the significant unobservable inputs, in isolation, will generally have an increase or decrease correlation with the fair value measurement, as shown in the table.

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. Separate account assets classified as Level 3 primarily include limited partnerships in which fair value represents the separate account's share of the fair value of the equity in the investment ("net asset value") and are classified in Level 3, based on the Company's ability to redeem its investment.

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, 2015 and 2014, for the financial instruments classified as Level 3.

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	—	—	—	—	—	—	—	—
Sales	(1)	—	—	—	—	—	—	—	—
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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of June 30, 2015	$230	$50	$735
Total realized/unrealized gains (losses)			
Included in net income [1] [2] [6]	(12)	46	(10)
Included in OCI [3]	—	—	(2)
Purchases	11	—	69
Settlements	—	(23)	(6)
Sales	—	—	(201)
Transfers into Level 3 [4]	—	—	1
Transfers out of Level 3 [4]	(131)	—	(76)
Fair value as of September 30, 2015	$98	$73	$510
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$(12)	$46	$(7)

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
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

For the nine months ended September 30, 2015

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, 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)

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

		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

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2015	$ 189	$ 56	$ 578
Total realized/unrealized gains (losses)			
Included in net income [1] [2] [6]	(4)	31	(3)
Included in OCI [3]	—	—	(3)
Purchases	44	—	331
Settlements	—	(14)	(16)
Sales	—	—	(251)
Transfers into Level 3 [4]	—	—	7
Transfers out of Level 3 [4]	(131)	—	(133)
Fair value as of September 30, 2015	$ 98	$ 73	$ 510
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2015 [2] [7]	$ (4)	$ 31	$ —

	Other Policyholder Funds and Benefits Payable			
Liabilities	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

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

For the three months ended September 30, 2014

	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, 2014	$73	$612	$471	$1,205	$ 55	$63	$1,295	$ 3,774	$139
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	12	(1)	(2)	—	—	3	12	1
Included in OCI [3]	—	(5)	2	(7)	—	1	3	(6)	—
Purchases	35	—	25	21	—	—	120	201	4
Settlements	—	(17)	(155)	(16)	(1)	—	(47)	(236)	(46)
Sales	—	(12)	—	(18)	(5)	—	(116)	(151)	—
Transfers into Level 3 [4]	75	—	11	25	—	—	—	111	—
Transfers out of Level 3 [4]	(42)	—	(22)	(65)	—	—	—	(129)	—
Fair value as of September 30, 2014	$141	$590	$331	$1,143	$ 49	$64	$1,258	$ 3,576	$98
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$—	$—	$(1)	$(2)	$ —	$—	$—	$ (3)	$1

		Freestanding Derivatives [5]						
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of June 30, 2014	$ 80	$(1)	$2	$21	$ 97	$ 120	$ 15	$ 254
Total realized/unrealized gains (losses)								
Included in net income [1] [2] [6]	—	(4)	—	(5)	40	11	(2)	40
Included in OCI [3]	(1)	—	—	—	—	—	—	—
Purchases	9	(3)	—	—	—	3	—	—
Transfers into Level 3 [4]	—	—	—	(26)	—	—	—	(26)
Transfers out of Level 3 [4]	—	6	—	—	—	—	—	6
Fair value as of September 30, 2014	$ 88	$(2)	$2	$(10)	$ 137	$ 134	$ 13	$ 274
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$—	$(4)	$—	$(4)	$ 41	$ 11	$ (1)	$ 43

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

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of June 30, 2014	$67	$31	$ 813
Total realized/unrealized gains (losses)			
Included in net income [1] [2] [6]	—	2	4
Purchases	20	—	33
Settlements	—	3	(1)
Sales	—	—	(56)
Transfers into Level 3 [4]	—	—	1
Transfers out of Level 3 [4]	—	—	(3)
Fair value as of September 30, 2014	$87	$36	$ 791
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$—	$2	$ —

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, 2014	$2	$(22)	$(20)	$(2)
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	(37)	(1)	(38)	—
Settlements	(21)	—	(21)	—
Fair value as of September 30, 2014	$(56)	$(23)	$(79)	$(2)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$(37)	$(1)	$(38)	$—

For the nine months ended September 30, 2014

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, 2014	$147	$664	$663	$1,274	$ 65	$69	$1,272	$4,154	$ 193
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	12	29	(20)	(2)	—	11	30	16
Included in OCI [3]	3	3	(22)	21	7	5	13	30	—
Purchases	72	—	115	112	3	16	383	701	14
Settlements	(2)	(52)	(235)	(41)	(3)	—	(143)	(476)	(121)
Sales	(18)	(12)	(103)	(129)	(21)	(1)	(223)	(507)	(4)
Transfers into Level 3 [4]	75	72	16	225	—	—	—	388	1

Transfers out of Level 3 [4]	(136)	(97)	(132)	(299)	—	(25)	(55)	(744)	(1)
Fair value as of September 30, 2014	$141	$590	$331	$1,143	$ 49	$64	$1,258	$3,576	$ 98
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$—	$—	$(1)	$(23)	$ (2)	$—	$(1)	$(27)	$ 20

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

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2014	$ 77	$ 2	$ 3	$ 18	$ 146	$ 139	$ (29)	$ 17	$ 296
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	(2)	(7)	(1)	(28)	(20)	(14)	28	(4)	(46)
Included in OCI [3]	4	—	—	—	—	—	—	—	—
Purchases	9	(3)	—	—	4	9	9	—	19
Settlements	—	—	—	—	7	—	(41)	—	(34)
Transfers out of Level 3 [4]	—	6	—	—	—	—	33	—	39
Fair value as of September 30, 2014	$ 88	$ (2)	$ 2	$ (10)	$ 137	$ 134	$ —	$ 13	$ 274
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$ (2)	$ (4)	$ —	$ (27)	$ (35)	$ (14)	$ (18)	$ (2)	$ (100)

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2014	$ 108	$ 29	$ 737
Total realized/unrealized gains (losses)			
Included in net income [1] [2] [6]	(5)	(9)	8
Purchases	50	—	298
Settlements	—	16	(2)
Sales	(24)	—	(219)
Transfers into Level 3 [4]	—	—	5
Transfers out of Level 3 [4]	(42)	—	(36)
Fair value as of September 30, 2014	$ 87	$ 36	$ 791
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$ (5)	$ (9)	$ 6

	Other Policyholder Funds and Benefits Payable					
Liabilities	Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of January 1, 2014	$ (36)	$ 3	$ 3	$ (18)	$ (48)	$ (2)
Total realized/unrealized gains (losses)						
Included in net income [1] [2] [6]	54	—	—	(5)	49	—
Settlements	(74)	(3)	(3)	—	(80)	—
Fair value as of September 30, 2014	$ (56)	$ —	$ —	$ (23)	$ (79)	$ (2)

Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2014 [2] [7]	$54	$—	$—	$(5)	$49	$—

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

[1] The Company classifies gains and 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.

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 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, 2015, the Company no longer has any of these investments.

Income earned from FVO securities is recorded in net investment income and changes in fair value are recorded in net realized capital gains and losses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Assets				
Fixed maturities, FVO				
Corporate	$(2)	$(5)	$(5)	$(1)
CDOs	1	—	2	14
Foreign government	(3)	(1)	(4)	1
RMBS	—	(1)	—	—
Total fixed maturities, FVO	$(4)	$(7)	$(7)	$14
Equity, FVO	—	—	3	—
Total realized capital gains (losses)	$(4)	$(7)	$(4)	$14

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

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, 2015	December 31, 2014
Assets		
Fixed maturities, FVO		
ABS	$12	$15
CDOs	50	69
CMBS	24	22
Corporate	98	133
Foreign government	36	30
U.S government	5	2
Municipals	2	2
RMBS	321	215
Total fixed maturities, FVO	$548	$488
Equity, FVO [1]	$—	$348

[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, 2015.

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 and not included in the preceding fair value discussion.

	Fair Value Hierarchy Level	September 30, 2015 Carrying Amount	September 30, 2015 Fair Value	December 31, 2014 Carrying Amount	December 31, 2014 Fair Value
Assets					
Policy loans	Level 3	$1,428	$1,428	$1,431	$1,431
Mortgage loans	Level 3	5,552	5,749	5,556	5,840
Liabilities					
Other policyholder funds and benefits payable [1]	Level 3	$6,768	$7,000	$7,304	$7,522
Senior notes [2]	Level 2	4,426	5,064	5,009	5,837
Junior subordinated debentures [2]	Level 2	1,100	1,289	1,100	1,291
Consumer notes [3] [4]	Level 3	40	40	68	68
Assumed investment contracts [4]	Level 3	783	851	763	851

[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] Excludes amounts carried at fair value and included in preceding disclosures.
[4] 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)
5. Investments and Derivative Instruments

Net Realized Capital Gains (Losses)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Before tax)	2015	2014	2015	2014
Gross gains on sales	$83	$116	$401	$421
Gross losses on sales	(73)	(29)	(333)	(191)
Net OTTI losses recognized in earnings	(40)	(14)	(63)	(43)
Valuation allowances on mortgage loans	1	—	(2)	(3)
Periodic net coupon settlements on credit derivatives	3	—	8	1
Results of variable annuity hedge program				
GMWB derivatives, net	(32)	6	(35)	15
Macro hedge program	51	12	24	(13)
Total results of variable annuity hedge program	19	18	(11)	2
Other, net [1]	(37)	(22)	(30)	(157)
Net realized capital gains (losses)	$(44)	$69	$(30)	$30

[1] Primarily consists of changes in the value of non-qualifying derivatives, transactional foreign currency revaluation gains (losses) on yen denominated fixed payout annuity liabilities and gains (losses) on non-qualifying derivatives used to hedge the foreign currency exposure of the liabilities. For the three months ended September 30, 2015 and 2014, gains (losses) from transactional foreign currency revaluation of the yen denominated fixed payout annuity liabilities were $(17) and $83, respectively. For the nine months ended September 30, 2015 and 2014, gains (losses) from transactional foreign currency revaluation of the yen denominated fixed payout annuity liabilities were $(1) and $38, respectively. For the three months ended September 30, 2015 and 2014, gains (losses) on instruments used to hedge the foreign currency exposure on the fixed payout annuities were $8 and $(86), respectively. For the nine months ended September 30, 2015 and 2014, gains (losses) on instruments used to hedge the foreign currency exposure on the fixed payout annuities were $(23) and $(58), respectively.

Net realized capital gains and losses from investment sales are reported as a component of revenues and are determined on a specific identification basis. Before tax, net gains and losses on sales and impairments previously reported as unrealized gains in AOCI were $(29) and $14, respectively, for the three and nine months ended September 30, 2015, and $61 and $186 for the three and nine months ended September 30, 2014, respectively. Proceeds from sales of AFS securities totaled $4.5 billion and $16.3 billion, respectively, for three and nine months ended September 30, 2015, and $5.2 billion and $19.6 billion for the three and nine months ended September 30, 2014, 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 represents 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.

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, 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 investment and accounting professionals will only authorize the sale of these securities based on predefined criteria that relate to events that could not have been reasonably foreseen. Examples of the criteria include, but are not limited to, the deterioration in the issuer’s financial condition, security price declines, a change in regulatory requirements or a major business combination or major disposition.

The primary factors considered in evaluating whether an impairment exists for an equity security 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.

Impairments for the three and nine months ended September 30, 2015, were $40 and $63, respectively, and $14 and $43 for three and nine months ended September 30, 2014, respectively. Impairments for the three and nine months ended September 30, 2015, primarily consisted of securities in an unrealized loss position which the Company had made the decision to sell, and impairments caused by issuer specific deterioration. Impairments for the three months ended September 30, 2014, primarily consisted of securities in an unrealized loss position which the Company had made the decision to sell. Impairments for the nine months ended September 30, 2014, primarily consisted of credit impairments caused by issuer specific deterioration.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Before tax)	2015	2014	2015	2014
Balance as of beginning of period	$(388)	$(488)	$(424)	$(552)
Additions for credit impairments recognized on [1]:				
Securities not previously impaired	—	(1)	(3)	(9)
Securities previously impaired	(12)	(3)	(13)	(17)

Reductions for credit impairments previously recognized on:				
Securities that matured or were sold during the period	51	49	61	122
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	12	6	40	19
Balance as of end of period	$(337)	$(437)	$(337)	$(437)

[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)
5. Investments and Derivative Instruments (continued)

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

	September 30, 2015					December 31, 2014				
	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	$2,715	$ 37	$ (36)	$2,716	$ —	$2,470	$ 39	$ (37)	$2,472	$ (1)
CDOs [2]	2,962	89	(17)	3,031	—	2,776	98	(36)	2,841	—
CMBS	4,404	163	(25)	4,542	(6)	4,235	196	(16)	4,415	(6)
Corporate	25,427	1,636	(291)	26,772	(1)	25,188	2,382	(211)	27,359	(3)
Foreign govt./govt. agencies	1,258	43	(46)	1,255	—	1,592	73	(29)	1,636	—
Municipal	11,275	959	(23)	12,211	—	11,735	1,141	(5)	12,871	—
RMBS	3,777	101	(19)	3,859	—	3,815	122	(19)	3,918	(1)
U.S. Treasuries	4,457	274	(8)	4,723	—	3,551	326	(5)	3,872	—
Total fixed maturities, AFS	$56,275	$ 3,302	$ (465)	$59,109	$ (7)	$55,362	$ 4,377	$ (358)	$59,384	$ (11)
Equity securities, AFS [3]	826	34	(47)	813	—	676	50	(27)	699	—
Total AFS securities	$57,101	$ 3,336	$ (512)	$59,922	$ (7)	$56,038	$ 4,427	$ (385)	$60,083	$ (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, 2015, and December 31, 2014.
[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] Excludes equity securities, FVO, with a cost and fair value of $351 and $348, respectively, as of December 31, 2014. The Company did not hold any equity securities, FVO as of September 30, 2015.

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

	September 30, 2015		December 31, 2014	
Contractual Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$2,395	$2,413	$2,141	$2,168
Over one year through five years	10,997	11,427	11,264	11,827
Over five years through ten years	9,190	9,438	8,802	9,226
Over ten years	19,835	21,683	19,859	22,517
Subtotal	42,417	44,961	42,066	45,738
Mortgage-backed and asset-backed securities	13,858	14,148	13,296	13,646
Total fixed maturities, AFS	$56,275	$59,109	$55,362	$59,384

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, 2015, or December 31, 2014.

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

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

	September 30, 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	$791	$789	$(2)	$358	$324	$(34)	$1,149	$1,113	$(36)
CDOs [1]	1,047	1,041	(6)	1,104	1,090	(11)	2,151	2,131	(17)
CMBS	745	730	(15)	189	179	(10)	934	909	(25)
Corporate	6,528	6,298	(230)	660	599	(61)	7,188	6,897	(291)
Foreign govt./govt. agencies	517	485	(32)	127	113	(14)	644	598	(46)
Municipal	841	821	(20)	38	35	(3)	879	856	(23)
RMBS	835	830	(5)	402	388	(14)	1,237	1,218	(19)
U.S. Treasuries	766	758	(8)	8	8	—	774	766	(8)
Total fixed maturities, AFS	$12,070	$11,752	$(318)	$2,886	$2,736	$(147)	$14,956	$14,488	$(465)
Equity securities, AFS [2]	445	409	(36)	74	63	(11)	519	472	(47)
Total securities in an unrealized loss position	$12,515	$12,161	$(354)	$2,960	$2,799	$(158)	$15,475	$14,960	$(512)

	December 31, 2014								
	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	$897	$893	$(4)	$473	$440	$(33)	$1,370	$1,333	$(37)
CDOs [1]	748	743	(5)	1,489	1,461	(31)	2,237	2,204	(36)
CMBS	230	227	(3)	319	306	(13)	549	533	(16)
Corporate	3,082	2,980	(102)	1,177	1,068	(109)	4,259	4,048	(211)
Foreign govt./govt. agencies	363	349	(14)	227	212	(15)	590	561	(29)
Municipal	74	73	(1)	86	82	(4)	160	155	(5)
RMBS	320	318	(2)	433	416	(17)	753	734	(19)
U.S. Treasuries	432	431	(1)	361	357	(4)	793	788	(5)
Total fixed maturities, AFS	$6,146	$6,014	$(132)	$4,565	$4,342	$(226)	$10,711	$10,356	$(358)
Equity securities, AFS [2]	172	160	(12)	102	87	(15)	274	247	(27)
Total securities in an unrealized loss position	$6,318	$6,174	$(144)	$4,667	$4,429	$(241)	$10,985	$10,603	$(385)

[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, 2015, and December 31, 2014, excludes equity securities, FVO which are included in equity securities, AFS on the Condensed Consolidated Balance Sheets.

As of September 30, 2015, AFS securities in an unrealized loss position, consisted of 4,208 securities, primarily in the corporate sector, which are depressed primarily due to an increase in interest rates and/or widening of credit spreads since the securities were purchased. As of September 30, 2015, 88% of these securities were depressed less than 20% of cost or amortized cost. The increase in unrealized losses as compared to December 31, 2014, was primarily attributable to wider credit spreads, partially offset by a decline in interest rates.

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

Most of the securities depressed for twelve months or more relate to certain floating rate corporate securities with greater than 10 years to maturity concentrated in the financial services sector, structured securities with exposure to commercial and residential real estate and student loan ABS. Corporate securities and student loan ABS, are primarily depressed because the securities have floating-rate coupons and have long-dated maturities, or are perpetual, and current credit spreads are wider than when these securities were purchased. For certain commercial and residential real estate securities, current market spreads continue to be 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 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, 2015			December 31, 2014		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Total commercial mortgage loans	$5,572	$(20)	$5,552	$5,574	$(18)	$5,556

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

As of September 30, 2015, and December 31, 2014, the carrying value of mortgage loans associated with the valuation allowance was $80 and $140, respectively. There were no mortgage loans held-for-sale as of September 30, 2015, or December 31, 2014. As of September 30, 2015, 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.

	2015	2014

Balance, as of January 1	$(18)	$(67)
(Additions)/Reversals	(4)	(3)
Deductions	2	51
Balance, as of September 30	$(20)	$(19)

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The weighted-average LTV ratio of the Company’s commercial mortgage loan portfolio was 55% as of September 30, 2015, 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. The weighted average DSCR of the Company’s commercial mortgage loan portfolio was 2.67x as of September 30, 2015. As of September 30, 2015, and December 31, 2014, 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 $6 and $2, respectively, and was 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

	September 30, 2015		December 31, 2014	
Loan-to-value	Carrying Value	Avg. Debt-Service Coverage Ratio	Carrying Value	Avg. Debt-Service Coverage Ratio
Greater than 80%	$23	1.16x	$53	1.07x
65% - 80%	722	1.80x	789	1.75x
Less than 65%	4,807	2.82x	4,714	2.66x
Total commercial mortgage loans	$5,552	2.67x	$5,556	2.51x

The following tables present the carrying value of the Company’s mortgage loans by region and property type.
Mortgage Loans by Region

	September 30, 2015		December 31, 2014	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
East North Central	$259	4.7 %	$211	3.8 %
East South Central	14	0.3 %	—	— %
Middle Atlantic	419	7.5 %	468	8.4 %
Mountain	47	0.8 %	88	1.6 %
New England	406	7.3 %	381	6.9 %
Pacific	1,619	29.3 %	1,607	29.0 %
South Atlantic	1,173	21.1 %	1,019	18.3 %
West North Central	30	0.5 %	44	0.8 %
West South Central	311	5.6 %	302	5.4 %
Other [1]	1,274	22.9 %	1,436	25.8 %
Total mortgage loans	$5,552	100.0 %	$5,556	100.0 %

[1] Primarily represents loans collateralized by multiple properties in various regions.
Mortgage Loans by Property Type

	September 30, 2015		December 31, 2014	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Commercial				
Agricultural	$33	0.6 %	$46	0.8 %
Industrial	1,437	25.9 %	1,476	26.6 %
Lodging	26	0.5 %	26	0.5 %

Multifamily	1,339	24.1	%	1,190	21.4	%
Office	1,504	27.1	%	1,517	27.3	%
Retail	1,063	19.1	%	1,147	20.6	%
Other	150	2.7	%	154	2.8	%
Total mortgage loans	$5,552	100.0	%	$5,556	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, 2015, under this program the Company serviced commercial mortgage loans with a total outstanding principal of $148 of which $59 was serviced on behalf of third parties and $89 was retained and reported on the Company’s Condensed Consolidated Balance Sheets, including $20 in separate account assets. Servicing rights are carried at the lower of cost or fair value and were zero as of September 30, 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 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, 2015			December 31, 2014		
	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]
CDOs [3]	$5	$5	$—	$5	$5	$—
Investment funds [4]	198	—	201	238	—	243
Limited partnerships and other alternative investments	2	—	2	3	1	2
Total	$205	$5	$203	$246	$6	$245

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

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

CDOs represent structured investment vehicles 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 securities issued by these vehicles. Investment funds represent wholly-owned fixed income funds for which the Company has management and control of the investments which is the activity that most significantly impacts its economic performance. Limited partnerships represent one hedge fund of funds for which the Company holds a majority interest in the fund as an investment.

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Non-Consolidated VIEs
The Company holds a significant variable interest for one VIE for which it is not the primary beneficiary and, therefore, was not consolidated on the Company’s Condensed Consolidated Balance Sheets. 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 $8 and $8, respectively, as of September 30, 2015, and $12 and $14, respectively, as of December 31, 2014. Additionally, the Company has a maximum exposure to loss of $3 and $3, respectively, as of September 30, 2015, and December 31, 2014, 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. For further information on the facility, see Note 12 - Debt of Notes to Consolidated Financial Statements included in The Hartford’s 2014 Form 10-K Annual Report.
In addition, the Company, through normal investment activities, makes passive investments in structured securities issued by VIEs for which the Company is not the manager which 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.
Repurchase Agreements, Dollar Roll Transactions and Other Collateral Transactions
From time to time, the Company enters into repurchase agreements and dollar roll 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. These transactions generally have a contractual maturity of ninety days or less and the carrying amounts of these instruments approximates fair value.
As part of repurchase agreements and dollar roll transactions, the Company transfers collateral of U.S. government and government agency securities and receives cash. For the 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 and dollar roll transactions as collateralized borrowings. The securities transferred under repurchase agreements and dollar roll transactions 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, 2015, the Company reported in fixed maturities, AFS and cash on the Condensed Consolidated Balance Sheets financial collateral pledged relating to repurchase agreements of $315. The Company reported a

corresponding obligation to repurchase the pledged securities of $315 in other liabilities on the Condensed Consolidated Balance Sheets. The Company had no outstanding dollar roll transactions as of September 30, 2015. The Company had no outstanding repurchase agreements or dollar roll transactions as of December 31, 2014.

The Company is required by law to deposit securities with government agencies in certain states in which it conducts business. As of September 30, 2015, and December 31, 2014, the fair value of securities on deposit was approximately $2.7 billion and $2.5 billion, respectively.

As of September 30, 2015, and December 31, 2014, the Company has pledged as collateral $35 and $34, respectively, of U.S. government securities and government agency securities or cash for letters of credit.

For disclosure of collateral in support of derivative transactions, refer to the Derivative Collateral Arrangements section of this note.

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5. Investments and Derivative Instruments (continued)

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 would be 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 2014 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 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 commodity risk of certain fixed maturities 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, 2015, and December 31, 2014, the notional amount of interest rate swaps in offsetting relationships was $13.0 billion and 13.1 billion, respectively.

Foreign Currency Swaps and Forwards

The Company 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 formerly offered certain variable annuity products with a guaranteed minimum income benefit ("GMIB") and continues to reinsure certain yen denominated fixed payout annuities. The Company invests in U.S.

dollar denominated assets to support the reinsurance liability. The Company entered into 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 on 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
During 2014, the Company entered into total return swaps to hedge equity risk of specific common stock investments which are accounted for using fair value option in order to align the accounting treatment within net realized capital gains (losses). The Company may also use equity index options to hedge the impact of an adverse equity market environment on the investment portfolio. In addition, the Company formerly offered certain equity indexed products, 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
During 2015, the Company purchased for $11 put option contracts on West Texas Intermediate oil futures with a strike of $35 dollars per barrel in order to partially offset potential losses related to certain fixed maturity securities that could arise if oil prices decline substantially. These options expire in early 2016.
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 an actively managed 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 following table presents notional and fair value for GMWB hedging instruments.

	Notional Amount		Fair Value	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Customized swaps	$5,851	$7,041	$155	$124
Equity swaps, options, and futures	1,663	3,761	25	39
Interest rate swaps and futures	3,625	3,640	27	11
Total	$11,139	$14,442	$207	$174

Macro Hedge Program
The Company utilizes equity options, swaps, futures, and foreign currency options to partially hedge against a decline in the equity markets and the resulting statutory surplus and capital impact primarily arising from the guaranteed minimum death benefit ("GMDB") and GMWB obligations. The following table presents notional and fair value for the macro hedge program.

	Notional Amount	Fair Value

	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Equity swaps, options, and futures	$4,272	$5,983	$183	$141
Foreign currency options	—	400	—	—
Total	$4,272	$6,383	$183	$141

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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, 2015, and December 31, 2014, the Company had approximately $918 and $1.0 billion, 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 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 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 $1.2 billion and $1.1 billion, respectively, as of September 30, 2015, and December 31, 2014. Derivatives in the Company's separate accounts, where the associated gains and losses accrue directly to policyholders, are not included. 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 4 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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	Net Derivatives				Asset Derivatives		Liability Derivatives	
	Notional Amount		Fair Value		Fair Value		Fair Value	
Hedge Designation/ Derivative Type	Sep. 30, 2015	Dec. 31, 2014	Sep. 30, 2015	Dec. 31, 2014	Sep. 30, 2015	Dec. 31, 2014	Sep. 30, 2015	Dec. 31, 2014
Cash flow hedges								
Interest rate swaps	$3,974	$3,999	$88	$44	$89	$52	$(1)	$(8)
Foreign currency swaps	143	143	(20)	(19)	6	3	(26)	(22)
Total cash flow hedges	4,117	4,142	68	25	95	55	(27)	(30)
Fair value hedges								
Interest rate swaps	43	32	—	—	—	—	—	—
Total fair value hedges	43	32	—	—	—	—	—	—
Non-qualifying strategies								
Interest rate contracts								
Interest rate swaps and futures	14,442	15,254	(657)	(512)	492	536	(1,149)	(1,048)
Foreign exchange contracts								
Foreign currency swaps and forwards	305	177	11	1	11	3	—	(2)
Fixed payout annuity hedge	1,319	1,319	(450)	(427)	—	—	(450)	(427)
Credit contracts								
Credit derivatives that purchase credit protection	304	595	11	(6)	14	4	(3)	(10)
Credit derivatives that assume credit risk [1]	2,645	1,487	(28)	3	5	14	(33)	(11)
Credit derivatives in offsetting positions	4,127	5,343	(2)	(3)	39	53	(41)	(56)
Equity contracts								
Equity index swaps and options	124	635	(1)	2	20	31	(21)	(29)
Commodity contracts								
Commodity options	486	—	7	—	7	—	—	—
Variable annuity hedge program								
GMWB product derivatives [2]	15,730	17,908	(270)	(139)	—	—	(270)	(139)
GMWB reinsurance contracts	3,233	3,659	73	56	73	56	—	