

HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
July 26, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____

Commission file number 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-3317783

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

One Hartford Plaza, Hartford, Connecticut 06155

(Address of principal executive offices) (Zip Code)

(860) 547-5000

(Registrant's telephone number, including area code)

Indicate by check mark:

Yes No

• whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

• whether the registrant has submitted electronically 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). Yes No

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

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

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

- whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) ý
- As of July 24, 2018, there were outstanding 358,419,118 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 JUNE 30, 2018
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[a]The information required by this item is set forth in the Enterprise Risk Management section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Forward-Looking Statements

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

Risks Related to Economic, Political and Global Market Conditions:

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

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

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

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

- Insurance Industry and Product-Related Risks:

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

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

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

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

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

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

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

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

the uncertain effects of emerging claim and coverage issues;

Financial Strength, Credit and Counterparty Risks:

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

investments;

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

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

the potential for losses due to our reinsurers' unwillingness or inability to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; regulatory limitations on the ability of the Company and certain of its subsidiaries to declare and pay dividends;

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Risks Relating to Estimates, Assumptions and Valuations;

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

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

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

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

Strategic and Operational Risks:

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

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

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

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

Regulatory and Legal Risks:

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

unfavorable judicial or legislative developments;

the impact of changes in federal or state tax laws;

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

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

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

Part I - Item 1. Financial Statements

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Results of Review of Interim Financial Information

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

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

Basis for Review Results

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

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

/s/ DELOITTE & TOUCHE LLP
Hartford, Connecticut
July 26, 2018

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Condensed Consolidated Statements of Operations

(In millions, except for per share data)	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
	(Unaudited)			
Revenues				
Earned premiums	\$3,958	\$3,455	\$7,885	\$6,893
Fee income	327	286	650	564
Net investment income	428	395	879	805
Net realized capital gains (losses):				
Total other-than-temporary impairment ("OTTI") losses	—	(4)	(2)	(7)
OTTI losses recognized in other comprehensive income ("OCI")	—	2	2	4
Net OTTI losses recognized in earnings	—	(2)	—	(3)
Other net realized capital gains	52	57	22	82
Total net realized capital gains	52	55	22	79
Other revenues	24	23	44	42
Total revenues	4,789	4,214	9,480	8,383
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	2,738	2,420	5,433	4,844
Amortization of deferred policy acquisition costs ("DAC")	344	345	686	689
Insurance operating costs and other expenses	1,067	1,650	2,104	2,569
Loss on extinguishment of debt	6	—	6	—
Interest expense	79	79	159	159
Amortization of other intangible assets	18	1	36	2
Total benefits, losses and expenses	4,252	4,495	8,424	8,263
Income (loss) from continuing operations before income taxes	537	(281)	1,056	120
Income tax expense (benefit)	103	(129)	194	(31)
Income (loss) from continuing operations, net of tax	434	(152)	862	151
Income from discontinued operations, net of tax	148	112	317	187
Net income (loss)	\$582	\$(40)	\$1,179	\$338
Income (loss) from continuing operations, net of tax, per common share				
Basic	\$1.21	\$(0.42)	\$2.41	\$0.41
Diluted	\$1.19	\$(0.42)	\$2.37	\$0.40
Net income (loss) per common share				
Basic	\$1.62	\$(0.11)	\$3.29	\$0.92
Diluted	\$1.60	\$(0.11)	\$3.24	\$0.90
Cash dividends declared per common share	\$0.25	\$0.23	\$0.50	\$0.46

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		Six Months	
	Months	Months	Months	Months
	Ended June	Ended June	Ended June	Ended June
	30,	30,	30,	30,
	2018	2017	2018	2017
	(Unaudited)			
Net income (loss)	\$582	\$(40)	\$1,179	\$338
Other comprehensive income (loss):				
Changes in net unrealized gain on securities	(1,138)	342	(1,993)	479
Changes in OTTI losses recognized in other comprehensive income	2	1	—	—
Changes in net gain on cash flow hedging instruments	12	(1)	(32)	(19)
Changes in foreign currency translation adjustments	1	5	(5)	7
Changes in pension and other postretirement plan adjustments	9	354	19	364
OCI, net of tax	(1,114)	701	(2,011)	831
Comprehensive income (loss)	\$(532)	\$661	\$(832)	\$1,169
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)	June 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$35,913 and \$35,612)	\$36,194	\$ 36,964
Fixed maturities, at fair value using the fair value option	36	41
Equity securities, at fair value	1,003	—
Equity securities, available-for-sale, at fair value (cost of \$0 and \$907)	—	1,012
Mortgage loans (net of allowances for loan losses of \$1 and \$1)	3,355	3,175
Limited partnerships and other alternative investments	1,670	1,588
Other investments	94	96
Short-term investments	3,296	2,270
Total investments	45,648	45,146
Cash	147	180
Premiums receivable and agents' balances, net	4,001	3,910
Reinsurance recoverables, net	3,912	4,061
Deferred policy acquisition costs	662	650
Deferred income taxes, net	1,282	1,164
Goodwill	1,290	1,290
Property and equipment, net	1,013	1,034
Other intangible assets	669	659
Other assets	2,151	2,230
Assets held for sale	—	164,936
Total assets	\$60,775	\$ 225,260
Liabilities		
Unpaid losses and loss adjustment expenses	\$32,080	\$ 32,287
Reserve for future policy benefits	668	713
Other policyholder funds and benefits payable	784	816
Unearned premiums	5,446	5,322
Short-term debt	413	320
Long-term debt	4,262	4,678
Other liabilities	4,576	5,188
Liabilities held for sale	—	162,442
Total liabilities	\$48,229	\$ 211,766
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Common stock, \$0.01 par value — 1,500,000,000 shares authorized, 384,923,222 and 384,923,222 shares issued	\$4	\$ 4
Additional paid-in capital	4,374	4,379
Retained earnings	10,649	9,642
Treasury stock, at cost — 26,563,921 and 28,088,186 shares	(1,128)	(1,194)
Accumulated other comprehensive income (loss), net of tax	(1,353)	663
Total stockholders' equity	\$12,546	\$ 13,494
Total liabilities and stockholders' equity	\$60,775	\$ 225,260
See Notes to Condensed Consolidated Financial Statements.		

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity

	Six Months Ended June 30,	
(In millions, except for share data)	2018	2017
	(Unaudited)	
Common Stock	\$ 4	\$ 4
Additional Paid-in Capital		
Additional Paid-in Capital, beginning of period	4,379	5,247
Issuance of shares under incentive and stock compensation plans	(83)	(65)
Stock-based compensation plans expense	83	