

HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
October 27, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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, 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 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.) Yes No

As of October 22, 2014, there were outstanding 431,481,274 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, 2014
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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 performance. 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 2013 Form 10-K Annual Report and Part II, IA, Risk Factors in The Hartford’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014. 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 variable annuities business;
- the risks, challenges and uncertainties associated with the realignment of our business to focus on our property and casualty, group benefits and mutual fund businesses;
- the risks, challenges and uncertainties associated with our capital management plan, expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings;
- execution risk related to the continued reinvestment of our investment portfolios and refinement of our hedge program for our run-off annuity block;
- market risks associated with our business, including changes in interest rates, credit spreads, equity prices, market volatility and foreign exchange rates, and implied volatility levels, as well as continuing uncertainty in key sectors such as the global real estate market;
- 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;
- 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 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;
- 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;
- the impact on our investment portfolio if our investment portfolio is concentrated in any particular segment of the economy;
- 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 potential for differing interpretations of the methodologies, estimations and assumptions that underlie the valuation of the Company’s financial instruments that could result in changes to investment valuations;

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

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

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

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- the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;
- the possible occurrence of terrorist attacks and the Company's ability to contain its exposure, including the effect of the absence or insufficiency of applicable terrorism legislation on coverage;
- the difficulty in predicting the Company's potential exposure for asbestos and environmental claims;
- the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- the Company's ability to distribute its products through distribution channels, both current and future;
- 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 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 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;
- 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, 2014, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2014 and 2013 and statements of changes in stockholders' equity, and cash flows for the nine-month periods ended September 30, 2014 and 2013. 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, 2013, 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 28, 2014, 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, 2013 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 27, 2014

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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		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
	(Unaudited)			
Revenues				
Earned premiums	\$3,337	\$3,338	\$9,958	\$9,885
Fee income	524	538	1,522	1,561
Net investment income	810	787	2,402	2,453
Net realized capital gains (losses):				
Total other-than-temporary impairment (“OTTI”) losses	(15	)(28	)(46	)(78
OTTI losses recognized in other comprehensive income (“OCI”)	1	2	3	19
Net OTTI losses recognized in earnings	(14	)(26	)(43	)(59
Net realized capital gains on business dispositions	—	—	—	1,575
Other net realized capital gains	83	157	73	280
Total net realized capital gains	69	131	30	1,796
Other revenues	29	68	85	201
Total revenues	4,769	4,862	13,997	15,896
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	2,624	2,764	8,223	8,345
Amortization of deferred policy acquisition costs and present value of future profits	580	594	1,348	1,414
Insurance operating costs and other expenses	976	964	2,889	3,060
Loss on extinguishment of debt	—	—	—	213
Reinsurance loss on dispositions, including reduction in goodwill of \$156	—	—	—	1,574
Interest expense	93	94	282	301
Total benefits, losses and expenses	4,273	4,416	12,742	14,907
Income from continuing operations before income taxes	496	446	1,255	989
Income tax expense	108	81	251	148
Income from continuing operations, net of tax	388	365	1,004	841
Loss from discontinued operations, net of tax	—	(72	)(588	)(979
Net income (loss)	\$388	\$293	\$416	\$(138)
Preferred stock dividends	—	—	—	10
Net income (loss) available to common shareholders	\$388	\$293	\$416	\$(148)
Income from continuing operations, net of tax, available to common shareholders per common share				
Basic	\$0.89	\$0.81	\$2.25	\$1.86
Diluted	\$0.86	\$0.74	\$2.15	\$1.71
Net income (loss) available to common shareholders per common share				
Basic	\$0.89	\$0.65	\$0.93	\$(0.33)
Diluted	\$0.86	\$0.60	\$0.89	\$(0.28)
Cash dividends declared per common share	\$0.18	\$0.15	\$0.48	\$0.35

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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)			
Comprehensive Income				
Net income (loss)	\$388	\$293	\$416	\$(138)
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on securities	(62	)(174	) 1,206	(2,430)
Change in OTTI losses recognized in other comprehensive income	2	3	7	27
Change in net gain (loss) on cash-flow hedging instruments	(21	)(21	) 12	(261)
Change in foreign currency translation adjustments	(13	)92	(91	)(222)
Change in pension and other postretirement plan adjustments	9	9	22	26
Total other comprehensive income (loss)	(85	)(91	) 1,156	(2,860)
Total comprehensive income (loss)	\$303	\$202	\$1,572	\$(2,998)
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, 2014 (Unaudited)	December 31, 2013
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$55,898 and \$60,641) (includes variable interest entity assets, at fair value, of \$0 and \$31)	\$59,586	\$ 62,357
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of \$178 and \$161)	464	844
Equity securities, trading, at fair value (cost of \$11 and \$14,504)	12	19,745
Equity securities, available-for-sale, at fair value (cost of \$612 and \$850)	648	868
Mortgage loans (net of allowances for loan losses of \$19 and \$67)	5,730	5,598
Policy loans, at outstanding balance	1,425	1,420
Limited partnerships and other alternative investments (includes variable interest entity assets of \$3 and \$4)	3,027	3,040
Other investments	326	521
Short-term investments (includes variable interest entity assets, at fair value, of \$14 and \$3)	5,013	4,008
Total investments	76,231	98,401
Cash (includes variable interest entity assets, at fair value, of \$8 and \$0)	440	1,428
Premiums receivable and agents' balances, net	3,540	3,465
Reinsurance recoverables, net	22,814	23,330
Deferred policy acquisition costs and present value of future profits	1,868	2,161
Deferred income taxes, net	2,890	3,840
Goodwill	498	498
Property and equipment, net	816	877
Other assets	1,684	2,998
Separate account assets	136,319	140,886
Total assets	\$247,100	\$ 277,884
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	\$41,442	\$ 41,373
Other policyholder funds and benefits payable	32,748	39,029
Other policyholder funds and benefits payable – international variable annuities	—	19,734
Unearned premiums	5,389	5,225
Short-term debt	289	438
Long-term debt	5,819	6,106
Other liabilities (includes variable interest entity liabilities of \$8 and \$33)	6,259	6,188
Separate account liabilities	136,319	140,886
Total liabilities	228,265	258,979
Commitments and Contingencies (Note 14)		
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	9,013	9,894
Retained earnings	10,886	10,683
Treasury stock, at cost — 57,353,664 and 37,632,782 shares	(2,146)	(1,598)

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Accumulated other comprehensive income (loss), net of tax	1,077	(79)
Total stockholders' equity	18,835	18,905	
Total liabilities and stockholders' equity	\$247,100	\$ 277,884	

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,	
	2014	2013
	(Unaudited)	
Preferred Stock		
Balance, beginning of period	\$—	\$556
Conversion of shares to common stock	—	(556)
Balance, end of period	\$—	\$—
Common Stock	5	5
Additional Paid-in Capital, beginning of period	9,894	10,038
Repurchase of warrants	—	(33)
Forward purchase of shares under accelerated share repurchase agreement	(131))—
Issuance of shares under incentive and stock compensation plans	12	(47)
Tax benefits on employee stock options and awards	4	3
Conversion of mandatory convertible preferred stock	—	556
Issuance of shares for warrant exercise	(766)	)(103)
Additional Paid-in Capital, end of period	9,013	10,414
Retained Earnings, beginning of period	10,683	10,745
Net income (loss)	416	(138)
Dividends on preferred stock	—	(10)
Dividends declared on common stock	(213)	)(158)
Retained Earnings, end of period	10,886	10,439
Treasury Stock, at Cost, beginning of period	(1,598)	)(1,740)
Treasury stock acquired	(971)	)(105)
Repurchase of shares under accelerated share repurchase agreement	(394)	)(270)
Issuance of shares under incentive and stock compensation plans from treasury stock	65	114
Return of shares under incentive and stock compensation plans and other to treasury stock	(14)	)(15)
Issuance of shares for warrant exercise	766	103
Treasury Stock, at Cost, end of period	(2,146)	)(1,913)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	(79)	)(2,843)
Total other comprehensive income (loss)	1,156	(2,860)
Accumulated Other Comprehensive Income, net of tax, end of period	1,077	(17)
Total Stockholders' Equity	\$18,835	\$18,928
Common Shares Outstanding beginning of period (in thousands)	453,290	436,306
Treasury stock acquired	(39,066)	)(12,680)
Issuance of shares under incentive and stock compensation plans	1,562	2,101
Return of shares under incentive and stock compensation plans and other to treasury stock	(393)	)(548)
Conversion of mandatory convertible preferred shares	—	21,178
Issuance of shares for warrant exercise	18,177	2,136
Common Shares Outstanding, at end of period	433,570	448,493

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, 2014	2013
	(Unaudited)	
Operating Activities	\$416	\$(138)
Net income (loss)		
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	1,348	2,321
Additions to deferred policy acquisition costs and present value of future profits	(1,032)	(1,003)
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	405	(104)
Change in reinsurance recoverables	(108)	(405)
Change in receivables and other assets	(221)	(664)
Change in payables and accruals	(840)	572
Change in accrued and deferred income taxes	43	(536)
Net realized capital gains	127	(1,117)
Net disbursements from investment contracts related to policyholder funds—international variable annuities	(3,992)	(4,858)
Net decrease in equity securities, trading	3,992	4,858
Depreciation and amortization	152	140
Loss on extinguishment of debt	—	213
Reinsurance loss on dispositions	—	1,574
Loss on sale of business	659	102
Other operating activities, net	(54)	(52)
Net cash provided by operating activities	895	903
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	19,960	22,104
Fixed maturities, fair value option	378	60
Equity securities, available-for-sale	293	196
Mortgage loans	333	349
Partnerships	322	200
Payments for the purchase of:		
Fixed maturities, available-for-sale	(17,247)	(19,636)
Fixed maturities, fair value option	(320)	(95)
Equity securities, available-for-sale	(210)	(144)
Mortgage loans	(466)	(575)
Partnerships	(221)	(192)
Proceeds from business sold	963	485
Derivatives, net	115	(1,690)
Change in policy loans, net	8	44
Additions to property and equipment, net	(57)	—
Change in short-term investments, net	(1,919)	581
Other investing activities, net	(13)	1
Net cash provided by investing activities	1,919	1,688
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	5,448	7,186
Withdrawals and other deductions from investment and universal life-type contracts	(18,416)	(20,179)

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Net transfers from separate accounts related to investment and universal life-type contracts	11,202	12,242	
Repayments at maturity or settlement of consumer notes	(13	) (78)
Net decrease in securities loaned or sold under agreements to repurchase	—	(1,036)
Repurchase of warrants	—	(33)
Repayment of debt	(200	) (1,338)
Proceeds from the issuance of debt	—	295	
Proceeds from net issuance of shares under incentive and stock compensation plans, excess tax benefit and other	12	17	
Treasury stock acquired	(1,496	) (375)
Dividends paid on preferred stock	—	(21)
Dividends paid on common stock	(213	) (134)
Net cash used for financing activities	(3,676	) (3,454)
Foreign exchange rate effect on cash	(126	) (21)
Transfer of cash to held for sale	—	(115)
Net decrease in cash	(988	) (999)
Cash – beginning of period	1,428	2,421	
Cash – end of period	\$440	\$1,422	
Supplemental Disclosure of Cash Flow Information			
Income taxes paid (received)	\$(78	) \$140	
Interest paid	\$268	\$293	
See Notes to Condensed Consolidated Financial Statements			

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in millions, except for per share data, unless otherwise stated)

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

The Hartford Financial Services Group, Inc. is a holding company for insurance and financial services subsidiaries that provide property and casualty and life insurance as well as investment products to both individual and business customers in the United States (collectively, “The Hartford”, the “Company”, “we” or “our”). Also, the Company continues to manage 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.

On December 12, 2013, the Company completed the sale of all of the issued and outstanding equity of Hartford Life International Limited, a U.K. company (“HLIL”), to Columbia Insurance Company, a Berkshire Hathaway company.

On January 1, 2013, the Company completed the sale of its Retirement Plans business to Massachusetts Mutual Life Insurance Company (“MassMutual”) and on January 2, 2013 the Company completed the sale of its Individual Life insurance business to The Prudential Insurance Company of America (“Prudential”), a subsidiary of Prudential Financial, Inc.

For further discussion of these transactions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, which differ materially from the accounting practices prescribed by various insurance regulatory authorities. These Condensed Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2013 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 as of September 30, 2014, and for the three and nine months ended September 30, 2014 and 2013 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. In 2014, a subsidiary of the Company changed its method of reporting revenues and expenses. Fee income and directly related expenses previously reported as gross amounts are being reported as a net amount in insurance operating costs and other expenses in the Condensed Consolidated Statements of Operations. This change in the method of reporting revenues and expenses did not have a material impact on the Company's condensed consolidated results of operations, financial position or liquidity. The Condensed Consolidated Financial Statements have been retrospectively adjusted to conform to the current year presentation.

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 2013 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”) in which the Company is required to consolidate. Entities in which the Company has significant influence over the operating and financing decisions but are not required to consolidate are reported using the equity method. All intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated. For further information on VIEs see Note 6 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Discontinued Operations

The results of operations of a component of the Company that either has been disposed of or is classified as held-for-sale are reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the Company as a result of the disposal transaction and the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction. The Company presents the operations of businesses that meet these criteria as discontinued operations in the Condensed Consolidated Financial Statements. Accordingly, results of operations for prior periods are retrospectively reclassified. For information on the specific businesses and related impacts, see Note 17 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Use of Estimates

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

The most significant estimates include those used in determining property and casualty insurance product reserves, net of reinsurance; estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts; evaluation of other-than-temporary impairments on available-for-sale securities and valuation allowances on investments; living benefits required to be fair valued; 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.

Mutual Funds

The Company maintains a mutual fund operation whereby the Company provides investment management, administrative and distribution services to The Hartford-sponsored mutual funds (collectively, "mutual funds"). These mutual funds are registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940. The mutual funds are owned by the shareholders of those funds and not by the Company. As such, the mutual fund assets and liabilities and related investment returns are not reflected in the Company's Condensed Consolidated Financial Statements since they are not assets, liabilities and operations of the Company.

Reclassifications

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

Future Adoption of New Accounting Standard

Revenue Recognition

In May 2014, the FASB issued updated guidance for recognizing revenue. The guidance excludes insurance contracts and financial instruments. Revenue is to be recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to be entitled in exchange for those goods or services, and this accounting guidance is similar to current accounting for many transactions. This guidance is effective retrospectively for years beginning after December 15, 2016, with a choice of restating prior periods or recognizing a cumulative effect for contracts in place as of the adoption. Early adoption is not permitted. The Company has not yet determined its method for adoption or estimated the effect of the adoption on the Company's Consolidated Financial Statements.

Reporting Discontinued Operations

In April 2014, the FASB issued updated guidance on reporting discontinued operations. Under this updated guidance, a discontinued operation will include a disposal of 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. The guidance raises the threshold to be a major operation but no longer precludes discontinued operations presentation where there is significant continuing involvement or cash flows with a disposed component of an entity. The guidance expands disclosures to include cash flows where there is significant continuing involvement with a discontinued operation and the pre-tax profit or loss of disposal transactions not reported as discontinued operations. The updated guidance is effective prospectively for years beginning on or after December 15, 2014, with early application permitted. The Company will apply the guidance to new disposals and operations newly classified as held for sale beginning first quarter of 2015, with no effect on existing reported discontinued operations. The effect on the Company's future results of operations or financial condition will depend on the nature of future disposal transactions.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Business Dispositions

Sale of Hartford Life Insurance KK

On June 30, 2014, the Company completed the sale of all of the issued and outstanding equity of HLIKK to ORIX Life Insurance Corporation ("Buyer"), a subsidiary of ORIX Corporation, a Japanese company for cash proceeds of \$963, subject to certain purchase price adjustments pending final valuation of HLIKK in accordance with the purchase and sale agreement. The purchase price adjustment is expected to be finalized in fourth quarter 2014 and the impact on the Company's results of operations, financial position and liquidity is expected to be immaterial. HLIKK sold variable and fixed annuity policies in Japan from 2001 to 2009 and has been in runoff since 2009. The sale transaction resulted in an after-tax loss upon disposition of \$659 in the nine months ended September 30, 2014. The operations of the Company's Japan business meet the criteria for reporting as discontinued operations. For further information regarding discontinued operations, see Note 17 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements. The Company's Japan business is included in the Talcott Resolution reporting segment.

Concurrently with the sale, HLIKK recaptured certain risks that had been reinsured to the Company's U.S. subsidiaries, Hartford Life and Annuity Insurance Company ("HLAI") and Hartford Life Insurance Company ("HLIC") by terminating intercompany agreements. Upon closing, the Buyer is responsible for all liabilities for the recaptured business. The Company has, however, continued to provide reinsurance for approximately \$1.1 billion of Japan fixed payout annuities.

The major classes of assets and liabilities transferred by the Company in connection with the sale of HLIKK are as follows:

	Carrying Value As of Closing
Assets	
Cash and investments	\$ 18,733
Reinsurance recoverables	\$ 46
Property and equipment, net	\$ 18
Other assets	\$ 988
Liabilities	
Reserve for future policy benefits and unpaid loss and loss adjustment expenses	\$ 320
Other policyholder funds and benefits payable	\$ 2,265
Other policyholder funds and benefits payable - international variable annuities	\$ 16,465
Short-term debt	\$ 247
Other liabilities	\$ 102

Sale of Hartford Life International Limited

On December 12, 2013, the Company completed the sale of all of the issued and outstanding equity of HLIL in a cash transaction to Columbia Insurance Company, a Berkshire Hathaway company, for approximately \$285. At closing, HLIL's sole asset was its subsidiary, Hartford Life Limited, a Dublin-based company that sold variable annuities in the U.K. from 2005 to 2009. The sale transaction resulted in an after-tax loss of \$102 upon disposition for the nine months ended September 30, 2013. The operations of the Company's U.K. variable annuity business meet the criteria for reporting as discontinued operations. For further information regarding discontinued operations, see Note 17 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements. The Company's U.K. variable annuities business is included in the Talcott Resolution reporting segment.

Sale of Retirement Plans

On January 1, 2013, the Company completed the sale of its Retirement Plans business to MassMutual for a ceding commission of \$355. The business sold included products and services provided to corporations pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), and products and services provided to municipalities and not-for-profit organizations under Sections 457 and 403(b) of the Code, collectively referred to as government plans. The sale was structured as a reinsurance transaction and resulted in an after-tax loss of \$25 for the

nine months ended September 30, 2013. The after-tax loss is primarily driven by the reduction in goodwill that is non-deductible for income tax purposes. The Company recognized \$634 in reinsurance loss on disposition offset by \$634 in net realized capital gains for the nine months ended September 30, 2013.

Upon closing, the Company reinsured \$9.2 billion of policyholder liabilities and \$26.3 billion of separate account liabilities under an indemnity reinsurance arrangement. The reinsurance transaction does not extinguish the Company's primary liability on the insurance policies issued under the Retirement Plans business. The company continued to sell retirement plans during the transition period which ended on June 30, 2014. MassMutual has assumed all expenses and risks for these sales through the reinsurance agreement.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Business Dispositions (continued)

Sale of Individual Life

On January 2, 2013, the Company completed the sale of its Individual Life insurance business to Prudential for consideration of \$615 consisting primarily of a ceding commission. The business sold included variable universal life, universal life, and term life insurance. The sale was structured as a reinsurance transaction and resulted in a loss on business disposition consisting of a reinsurance loss partially offset by realized capital gains. The Company recognized a reinsurance loss on business disposition of \$533, pre-tax, in 2012.

Upon closing the Company recognized an additional \$940 in reinsurance loss on disposition offset by \$940 in realized capital gains for a \$0 impact on income, pre-tax, for the nine months ended September 30, 2013. In addition, the Company reinsured \$8.7 billion of policyholder liabilities and \$5.3 billion of separate account liabilities under indemnity reinsurance arrangements. The reinsurance transaction does not extinguish the Company's primary liability on the insurance policies issued under the Individual Life business. The Company continued to sell life insurance products and riders during the transition period which ended on June 30, 2014. Prudential has assumed all expenses and risk for these sales through the reinsurance agreement.

For additional information regarding business dispositions, see Note 2 - Business Dispositions and Note 9 - Goodwill and Other Intangible Assets in The Hartford's 2013 Annual Report on Form 10-K.

Sale of Catalyst 360

On December 31, 2013 the Company completed the sale of its member contact center for health insurance products offered through the AARP Health Program ("Catalyst 360") to Optum, Inc., a division of UnitedHealth Group. The impact of this transaction was not material to the Company's results of operations, financial position or liquidity. The Company will provide limited transition services for 18-24 months following the sale. Catalyst 360 is included in the Consumer Markets reporting segment.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Earnings (Loss) Per Common Share

The following table presents a reconciliation of net income (loss) and shares used in calculating basic earnings (loss) per common share to those used in calculating diluted earnings (loss) per common share. Diluted potential common shares are included in the calculation of all diluted per share amounts provided there is income from continuing operations, net of tax, available to common shareholders.

(In millions, except for per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Earnings				
Income from continuing operations				
Income from continuing operations, net of tax	\$388	\$365	\$1,004	\$841
Less: Preferred stock dividends	—	—	—	10
Income from continuing operations, net of tax, available to common shareholders	\$388	\$365	\$1,004	\$831
Add: Dilutive effect of preferred stock dividends	—	—	—	10
Income from continuing operations, net of tax, available to common shareholders and assumed conversion of preferred shares	\$388	\$365	\$1,004	\$841
Loss from discontinued operations, net of tax	\$—	\$(72)	\$(588)	\$(979)
Net income (loss)	\$388	\$293	\$416	\$(138)
Less: Preferred stock dividends	—	—	—	10
Net income (loss) available to common shareholders	\$388	\$293	\$416	\$(148)
Add: Dilutive effect of preferred stock dividends	—	—	—	10
Net income (loss) available to common shareholders and assumed conversion of preferred shares	\$388	\$293	\$416	\$(138)
Shares				
Weighted average common shares outstanding, basic	437.2	452.1	445.9	446.6
Dilutive effect of warrants	7.7	33.9	13.9	33.0
Dilutive effect of stock compensation plans	5.9	4.6	6.1	4.2
Dilutive effect of mandatory convertible preferred shares	—	—	—	8.3
Weighted average shares outstanding and dilutive potential common shares [1]	450.8	490.6	465.9	492.1
Earnings (loss) per common share				
Basic				
Income from continuing operations, net of tax, available to common shareholders	\$0.89	\$0.81	\$2.25	\$1.86
Loss from discontinued operations, net of tax	—	(0.16)	(1.32)	(2.19)
Net income (loss) available to common shareholders	\$0.89	\$0.65	\$0.93	\$(0.33)
Diluted				
Income from continuing operations, net of tax, available to common shareholders	\$0.86	\$0.74	\$2.15	\$1.71
Loss from discontinued operations, net of tax	—	(0.14)	(1.26)	(1.99)
Net income (loss) available to common shareholders	\$0.86	\$0.60	\$0.89	\$(0.28)

[1] For additional information, see Note 13 - Equity of Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information

The Company currently conducts business principally in six reporting segments, as well as a Corporate category. The Company's reporting segments, as well as the Corporate category, are as follows:

Property & Casualty Commercial

Property & Casualty Commercial 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, fidelity, surety, and specialty casualty coverages.

Consumer Markets

Consumer Markets provides standard automobile, homeowners and personal umbrella coverages to individuals across the U.S., including a special program designed exclusively for members of AARP. Consumer Markets previously operated a member contact center for health insurance products offered through the AARP Health program ("Catalyst 360"). For further information regarding the sale of Catalyst 360 in 2013, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

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 substantially all of the Company's asbestos and environmental exposures.

Group Benefits

Group Benefits provides employers, associations, affinity groups 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 mutual funds for retail and retirement accounts and provides investment-management and administrative services such as product design, implementation and oversight. This business also includes the runoff of the mutual funds supporting the Company's variable annuity products.

Talcott Resolution

Talcott Resolution is comprised of runoff business from the Company's individual annuity, the retained Japan fixed payout annuity liabilities, institutional and private-placement life insurance businesses. The Company's individual annuity business consists of U.S. annuity products for individuals, which include variable, fixed, and payout annuity products. In addition, Talcott Resolution includes the Retirement Plans and Individual Life businesses sold in January 2013 and the Company's discontinued Japan and U.K. annuity businesses. For further, information regarding the sale of these businesses, see Note 2 - Business Dispositions and Note 17 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

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 group annuity contracts from another to fund pension costs and annuities to settle casualty 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)	2014	2013	2014	2013
Property & Casualty Commercial	\$280	\$174	\$721	\$619
Consumer Markets	73	68	142	160

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Property & Casualty Other Operations	14	22	(108)(28)
Group Benefits	37	31	143	134	
Mutual Funds	22	19	64	57	
Talcott Resolution	28	7	(331)(619)
Corporate	(66)(28) (215)(461)
Net income (loss)	\$388	\$293	\$416	\$(138)

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information (continued)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Revenues	2014	2013	2014	2013
Earned premiums and fee income				
Property & Casualty Commercial				
Workers' compensation	\$738	\$751	\$2,204	\$2,225
Property	142	132	415	384
Automobile	149	146	438	434
Package business	294	285	866	851
Liability	144	142	435	421
Fidelity and surety	55	51	158	152
Professional liability	56	56	162	170
Total Property & Casualty Commercial	1,578	1,563	4,678	4,637
Consumer Markets				
Automobile	662	637	1,948	1,882
Homeowners	302	288	890	847
Total Consumer Markets [1]	964	925	2,838	2,729
Group Benefits				
Group disability	357	357	1,091	1,086
Group life	354	435	1,113	1,289
Other	42	39	125	120
Total Group Benefits	753	831	2,329	2,495
Mutual Funds				
Retail and Retirement	150	131	436	383
Annuity	35	37	106	110
Total Mutual Funds	185	168	542	493
Talcott Resolution	379	387	1,084	1,085
Corporate	2	2	9	7
Total earned premiums and fee income	3,861	3,876	11,480	11,446
Net investment income	810	787	2,402	2,453
Net realized capital gains	69	131	30	1,796
Other revenues	29	68	85	201
Total revenues	\$4,769	\$4,862	\$13,997	\$15,896

For the three months ended September 30, 2014 and 2013, AARP members accounted for earned premiums of [1]\$772 and \$729, respectively. For the nine months ended September 30, 2014 and 2013, AARP members accounted for earned premiums of \$2.3 billion and \$2.1 billion, respectively.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements

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 reported in separate account assets, 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 limited partnerships and other alternative assets measured at fair value where an investment can be redeemed, or substantially redeemed, at the NAV at 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 limited partnerships and other alternative investments carried at fair value 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 \$278 and \$1.9 billion, for the three and nine months ended September 30, 2014, respectively, and \$443 and \$909 for the three and nine months ended September 30, 2013, 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, 2014 and 2013, 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 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

	September 30, 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					
Asset-backed-securities ("ABS")	\$2,439	\$ —	\$2,298	\$ 141	
Collateralized debt obligations ("CDOs")	2,445	—	1,855	590	
Commercial mortgage-backed securities ("CMBS")	4,482	—	4,151	331	
Corporate	27,714	—	26,571	1,143	
Foreign government/government agencies	1,672	—	1,623	49	
Municipal	12,761	—	12,697	64	
Residential mortgage-backed securities ("RMBS")	3,995	—	2,737	1,258	
U.S. Treasuries	4,078	575	3,503	—	
Total fixed maturities	59,586	575	55,435	3,576	
Fixed maturities, FVO	464	—	366	98	
Equity securities, trading	12	12	—	—	
Equity securities, AFS	648	386	174	88	
Derivative assets					
Credit derivatives	28	—	13	15	
Foreign exchange derivatives	(73	)—	(73)—	
Interest rate derivatives	5	—	(12	)17
Guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	96	—	9	87	
Macro hedge program	81	—	—	81	
Other derivative contracts	13	—	—	13	
Total derivative assets [1]	150	—	(63	)213
Short-term investments	5,013	697	4,316	—	
Limited partnerships and other alternative investments [2]	791	—	704	87	
Reinsurance recoverable for GMWB	36	—	—	36	
Modified coinsurance reinsurance contracts	41	—	41	—	
Separate account assets [3]	133,490	93,002	39,697	791	
Total assets accounted for at fair value on a recurring basis	\$200,231	\$ 94,672	\$100,670	\$ 4,889	
Liabilities accounted for at fair value on a recurring basis					
Other policyholder funds and benefits payable					
Guaranteed withdrawal benefits	\$(56)\$ —	\$—	\$(56)
Equity linked notes	(23)—	—	(23)
Total other policyholder funds and benefits payable	(79)—	—	(79)
Derivative liabilities					
Credit derivatives	(38)—	(21)17)
Equity derivatives	23	—	21	2	
Foreign exchange derivatives	(357)—	(357)—	
Interest rate derivatives	(560)—	(533)27)
GMWB hedging instruments	28	—	(22)50	

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Macro hedge program	53	—	—	53	
Total derivative liabilities [4]	(851)—	(912)61	
Consumer notes [5]	(2)—	—	(2)
Total liabilities accounted for at fair value on a recurring basis	\$(932)\$ —	\$(912)\$ (20)

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

	December 31, 2013			
	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	\$2,365	\$ —	\$2,218	\$ 147
CDOs	2,387	—	1,723	664
CMBS	4,446	—	3,783	663
Corporate	28,490	—	27,216	1,274
Foreign government/government agencies	4,104	—	4,039	65
Municipal	12,173	—	12,104	69
RMBS	4,647	—	3,375	1,272
U.S. Treasuries	3,745	1,311	2,434	—
Total fixed maturities	62,357	1,311	56,892	4,154
Fixed maturities, FVO	844	—	651	193
Equity securities, trading	19,745	12	19,733	—
Equity securities, AFS	868	454	337	77
Derivative assets				
Credit derivatives	25	—	20	5
Foreign exchange derivatives	14	—	14	—
Interest rate derivatives	(21	)—	(63	)42
GMWB hedging instruments	26	—	(42	)68
Macro hedge program	109	—	—	109
International program hedging instruments	272	—	241	31
Other derivative contracts	17	—	—	17
Total derivative assets [1]	442	—	170	272
Short-term investments	4,008	427	3,581	—
Limited partnerships and other alternative investments [2]	921	—	813	108
Reinsurance recoverable for GMWB	29	—	—	29
Modified coinsurance reinsurance contracts	67	—	67	—
Separate account assets [3]	138,495	99,930	37,828	737
Total assets accounted for at fair value on a recurring basis	\$227,776	\$ 102,134	\$120,072	\$ 5,570

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

	December 31, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
Guaranteed withdrawal benefits	\$(36)	\$ —	\$ —	\$(36)
International guaranteed withdrawal benefits	3	—	—	3
International other guaranteed living benefits	3	—	—	3
Equity linked notes	(18)	—	—	(18)
Total other policyholder funds and benefits payable	(48)	—	—	(48)
Derivative liabilities				
Credit derivatives	(12)	—	(9)	(3)
Equity derivatives	19	—	16	3
Foreign exchange derivatives	(388)	—	(388)	—
Interest rate derivatives	(582)	—	(558)	(24)
GMWB hedging instruments	15	—	(63)	78
Macro hedge program	30	—	—	30
International program hedging instruments	(305)	—	(245)	(60)
Total derivative liabilities [4]	(1,223)	—	(1,247)	24
Consumer notes [5]	(2)	—	—	(2)
Total liabilities accounted for at fair value on a recurring basis	\$(1,273)	\$ —	\$(1,247)	\$(26)

Includes over-the-counter ("OTC") and OTC-cleared derivative instruments in a net asset value position after consideration of the impact of collateral posting requirements which may be imposed by agreements, clearing [1]house rules and applicable law. As of September 30, 2014 and December 31, 2013, \$157 and \$128, respectively, of cash collateral liability was netted against the derivative asset value in the Condensed Consolidated Balance Sheet and is excluded from the table above. See footnote 4 below for derivative liabilities.

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

[3] Approximately \$2.8 billion and \$2.4 billion of investment sales receivable that are not subject to fair value accounting are excluded as of September 30, 2014 and December 31, 2013, respectively.

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

[5] 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 following is a discussion of the methodologies used to determine fair values for the financial instruments listed in the above tables.

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 described in more detail in the following paragraphs.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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.

AFS Securities, Fixed Maturities, FVO, Equity Securities, Trading, and Short-term Investments

The fair value of AFS securities, fixed maturities, FVO, equity securities, trading, and short-term investments in active and orderly markets (e.g. not distressed or forced liquidation) are determined by management after considering one of three primary sources of information: 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 then 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 available market observable information as outlined above. 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.

A pricing matrix is used to price private placement securities for which the Company is unable to obtain a price from a third-party pricing service by discounting the expected future cash flows from the security by a developed market discount rate utilizing current credit spreads. 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 appropriate 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, sale trade prices that differ over 3% from the prior day's price, and purchase trade prices that differ more than 3% from 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. Any changes from the identified pricing source are verified by further confirmation of assumptions used. 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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 for OTC derivatives that utilize independent market data inputs, quoted market prices for exchange-traded and OTC-cleared derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of September 30, 2014 and December 31, 2013, 96% and 97%, 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. 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, as well as for any existing deals with a market value greater than \$10 and all new deals during the month. In addition, on a daily basis, market valuations are compared to counterparty valuations for OTC derivatives. A model validation review is performed on any new models, which typically includes detailed documentation and validation to a second source. The model validation documentation and results of validation are presented to the Valuation Committee for approval. 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 Level 3 may not reflect the offsetting impact of the realized and unrealized gains and losses of the associated assets and liabilities.

Limited partnerships and other alternative investments

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. These funds are fair valued using the net asset value per share or equivalent ("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 will assess 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Valuation Techniques and Inputs for Investments

Generally, the Company determines the estimated fair value of its AFS securities, fixed maturities, FVO, equity securities, trading, 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 listed below:

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

Equity securities, trading – Consist of investments in mutual funds. Primary inputs include net asset values obtained from third party pricing services.

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.

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. Securities included in level 3 are primarily 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 Level 2 measurements noted above, but are Level 3 due to their less liquid markets. Additionally, certain long-dated securities are priced based on third party pricing services, including municipal securities, foreign government/government agencies, bank loans and below investment grade private placement securities. Primary inputs for these long-dated securities are consistent with the typical inputs used in Level 1 and Level 2 measurements noted above, but include benchmark interest rate or credit spread assumptions that are not observable in the marketplace. Level 3 investments also include certain limited partnerships and other alternative investments 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 Level 1 and Level 2 measurements noted above; but also include equity and interest rate volatility and swap yield curves beyond observable limits.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value

The following table presents information about significant unobservable inputs used in Level 3 assets measured at fair value.

Securities	Unobservable Inputs							
	As of September 30, 2014							
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	\$331	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	48	bps 2,457	bps 302	bps Decrease	
Corporate [3]	578	Discounted cash flows	Spread	75	bps 697	bps 254	bps Decrease	
Municipal [3]	31	Discounted cash flows	Spread	193	bps 193	bps 193	bps Decrease	
RMBS	1,258	Discounted cash flows	Spread	44	bps 1,475	bps 140	bps Decrease	
			Constant prepayment rate	—	% 7.0	% 2.0	% Decrease [4]	
			Constant default rate	1.0	% 15.0	% 8.0	% Decrease	
			Loss severity	—	% 100.0	% 78.0	% Decrease	
	As of December 31, 2013							
CMBS	\$663	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	99	bps 3,000	bps 527	bps Decrease	
Corporate [3]	665	Discounted cash flows	Spread	119	bps 5,594	bps 344	bps Decrease	
Municipal [3]	29	Discounted cash flows	Spread	184	bps 184	bps 184	bps Decrease	
RMBS	1,272	Discounted cash flows	Spread	62	bps 1,748	bps 232	bps Decrease	
			Constant prepayment rate	—	% 10.0	% 3.0	% Decrease [4]	
			Constant default rate	1.0	% 22.0	% 8.0	% Decrease	
			Loss severity	—	% 100.0	% 80.0	% Decrease	

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

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

[3] Level 3 corporate and municipal securities excludes those for which the Company bases fair value on broker quotations as discussed below.

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Freestanding Derivatives	Unobservable Inputs		Significant Unobservable Input	Minimum	Maximum	Impact of Increase in Input on Fair Value [1]
	Fair Value	Predominant Valuation Method				
As of September 30, 2014						
Interest rate derivative						
Interest rate swaps	(27)	Discounted cash flows	Swap curve beyond 30 years	3	% 3	% Increase
Interest rate swaptions	17	Option model	Interest rate volatility	3	% 4	% Increase
GMWB hedging instruments						
Equity options	44	Option model	Equity volatility	20	% 32	% Increase
Customized swaps	93	Discounted cash flows	Equity volatility	10	% 50	% Increase
Macro hedge program [2]						
Equity options	169	Option model	Equity volatility	23	% 24	% Increase
As of December 31, 2013						
Interest rate derivative						
Interest rate swaps	(24)	Discounted cash flows	Swap curve beyond 30 years	4	% 4	% Increase
Long interest rate swaptions	42	Option model	Interest rate volatility	1	% 1	% Increase
GMWB hedging instruments						
Equity options	72	Option model	Equity volatility	21	% 29	% Increase
Customized swaps	74	Discounted cash flows	Equity volatility	10	% 50	% Increase
Macro hedge program						
Equity options	139	Option model	Equity volatility	24	% 31	% Increase
International program hedging [2]						
Equity options	(35)	Option model	Equity volatility	24	% 37	% Increase
Short interest rate swaptions	(13)	Option model	Interest rate volatility	—	% 1	% Decrease
Long interest rate swaptions	50	Option model	Interest rate volatility	1	% 1	% Increase

Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in [1] the table. Changes are based on long positions, unless otherwise noted. Changes in fair value will be inversely impacted for short positions.

[2] Excludes derivatives for which the Company based fair value on broker quotations.

Securities and derivatives for which the Company bases fair value on broker quotations predominately include ABS, CDOs, corporate, fixed maturities and FVO. 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. However, the Company believes 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 counterparty 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, 2014, no significant adjustments were made by the Company to broker prices received.

As of September 30, 2014 and December 31, 2013, excluded from the tables above are limited partnerships and other alternative investments which total \$87 and \$108, respectively, of level 3 assets measured at fair value. 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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 is 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 “Attributed Fees”). 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 Living Benefits Required to be Fair Valued discussion below 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)

Living benefits required to be fair valued include GMWB contracts. Fair values for GMWB contracts 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 the Company’s guaranteed benefit liabilities, classified as embedded derivatives, 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 below is unobservable in the marketplace and requires judgment 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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 –including 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.

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. The Company continually monitors policyholder behavior assumptions in response to initiatives intended 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 comprehensive study to refine its estimate of future gross profits during the third quarter of each year.

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 (commonly referred to as “nonperformance risk”). 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 \$2 and \$0, for the three months ended September 30, 2014 and 2013, respectively, and \$2 and \$13 for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013 the credit standing adjustment was \$1 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.

Assumption updates, including policyholder behavior assumptions, affected best estimates and margins for total pre-tax realized gains of \$31, for the three and nine months ended September 30, 2014 and \$75, for the three and nine months ended September 30, 2013. As of September 30, 2014 and December 31, 2013 the behavior risk margin was \$77 and \$108, respectively.

In addition to the non-market-based updates described above, 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 \$(8) and \$22, for the three months ended September 30, 2014 and 2013, respectively and \$12 and \$29 for the nine months ended September 30, 2014 and 2013.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Significant unobservable inputs used in the fair value measurement of living benefits required to be fair valued 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 Living Benefits Required to be Fair Valued 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 [2]	—%	8%	Increase
Lapse Rates [3]	—%	75%	Decrease
Reset Elections [4]	20%	75%	Increase
Equity Volatility [5]	10%	50%	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] Ranges represent assumed cumulative percentages of policyholders taking withdrawals and the annual amounts withdrawn.

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

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

[5] 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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

The tables below provide fair value roll-forwards for the three and nine months ended September 30, 2014 and 2013, for the financial instruments classified as Level 3.

For the three months ended September 30, 2014

Assets	Fixed Maturities, AFS							Total Fixed Maturities, AFS	Fixed Maturities, FVO
	ABS	CDOs	CMBS	Corporate	Foreign govt./govt. agencies	Municipal	RMBS		
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

Assets (Liabilities)	Freestanding Derivatives [5]							Total Free-Standing Derivatives [5]
	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	
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	\$—	\$(4))\$—	\$(4))\$41	\$11	\$(1))\$43

[2] [7]

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. 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	\$—

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 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)\$(—

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

For the nine months ended September 30, 2014

Assets	Fixed Maturities, AFS							Total Fixed Maturities, AFS	Fixed Maturities, FVO
	ABS	CDOs	CMBS	Corporate	Foreign govt./govt. agencies	Municipal	RMBS		
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

Assets (Liabilities)	Freestanding Derivatives [5]							Total Free- Standing Derivatives [5]	
	Equity Securities, AFS	Credit Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Intl. Program Hedging	Other Contracts		
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)

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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	\$—

For the three months ended September 30, 2013

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, 2013	\$232	\$912	\$818	\$1,251	\$69	\$127	\$1,352	\$4,761	\$211	
Total realized/unrealized gains (losses)										
Included in net income [1], [2], [6]	—	—	(11) (2) —	—	(3) (16) (3)
Included in OCI [3]	1	2	42	6	—	(1	) (4	) 46	—
Purchases	11	8	20	39	5	7	100	190	6	
Settlements	(1) (51) (31) (14) (1) —	(51) (149) —	
Sales	—	—	(39) (8) —	—	(48) (95) (1)

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Transfers into Level 3 [4]	—	—	5	41	—	—	—	46	—
Transfers out of Level 3 [4]	(37)	(73)	(13)	(33)	—	—	—	(156)	(2)
Fair value as of September 30, 2013	\$206	\$798	\$791	\$1,280	\$73	\$133	\$1,346	\$4,627	\$211
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013	\$—	\$—	\$(8)	\$(2)	\$—	\$—	\$(5)	\$(15)	\$(3)
[2] [7]									

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Assets (Liabilities)	Freestanding Derivatives [5]								
	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 June 30, 2013	\$95	\$2	\$29	\$(15)	\$329	\$209	\$(43)	\$—	\$511
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	(6	)1	(6	)3	(109	)39	)72	)1	)223
Purchases	—	—	—	—	—	11	(4	)—	7
Settlements	—	—	—	—	(1	)—	46	—	45
Transfers out of Level 3 [4]	—	—	—	24	—	—	(28	)20	16
Fair value as of September 30, 2013	\$89	\$3	\$23	\$12	\$219	\$181	\$(101)	\$19	\$356
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013 [2] [7]	\$(6	)\$—	\$(5	)\$1	\$(111	)\$(39	)\$(138	)\$(4	)\$(296

Assets	Limited Partnerships and Reinsurance		
	Other Alternative Investments	Recoverable for GMWB	Separate Accounts
Fair value as of June 30, 2013	\$363	\$113	\$820
Total realized/unrealized gains (losses)			
Included in net income [1], [2], [6]	(20	)74	)9
Purchases	35	—	(19
Settlements	—	7	—
Sales	—	—	(35
Transfers into Level 3 [4]	—	—	35
Transfers out of Level 3 [4]	(42	)—	(57
Fair value as of September 30, 2013	\$336	\$46	\$735
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013 [2] [7]	\$(20	)\$(74	)\$3

Liabilities	Other Policyholder Funds and Benefits Payable						
	Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Policyholder Funds and Benefits Payable	Other Liabilities held for sale	Consumer Notes
Fair value as of June 30, 2013	\$(632	)\$1	\$3	\$(12	)\$(640	)\$(28	)\$(1

Total realized/unrealized gains (losses)								
Included in net income [1], [2], [6]	451	—	1	(1	)451	(2)—	
Settlements	(29	)—	(1	)—	(30	) (1)—	
Fair value as of September 30, 2013	\$(210	)\$1	\$3	\$(13	)\$ (219	) \$(31	) \$(1)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013 [2] [7]	\$451	\$—	\$1	\$(1)\$ 451	\$(2)\$—	

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

For the nine months ended September 30, 2013

Assets	Fixed Maturities, AFS							Total Fixed Maturities, AFS	Fixed Maturities, FVO
	ABS	CDOs	CMBS	Corporate	Foreign govt./govt. agencies	Municipal	RMBS		
Fair value as of January 1, 2013	\$278	\$944	\$859	\$2,001	\$ 56	\$ 227	\$1,373	\$5,738	\$ 214
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	3	(11	) (22	) 11	—	1	26	8	6
Included in OCI [3]	15	120	122	(29	) (10	) (11	) 39	246	—
Purchases	71	82	33	132	44	13	289	664	16
Settlements	(8	) (96	) (102	) (83	) (3	) —	(141	) (433	) (2
Sales	(94	) (200	) (115	) (356	) (8	) (53	) (240	) (1,066	) (22
Transfers into Level 3 [4]	—	32	39	117	—	—	—	188	2
Transfers out of Level 3 [4]	(59	) (73	) (23	) (513	) (6	) (44	) —	(718	) (3
Fair value as of September 30, 2013	\$206	\$798	\$791	\$1,280	\$ 73	\$ 133	\$1,346	\$4,627	\$ 211
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013	\$(4	) \$(2	) \$(16	) \$(6	) \$ —	\$ —	\$(5	) \$(33	) \$ 27
[2] [7]									

Assets (Liabilities)	Freestanding Derivatives [5]								
	Equity Securities, AFS	Credit Equity	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free- Standing Derivatives [5]
Fair value as of January 1, 2013	\$ 84	\$ 4	\$ 57	\$(32	) \$519	\$286	\$ 68	\$ 23	\$ 925
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	(12	) 1	(31	) 18	(299	) (139	) (247	) (4	) (701
Included in OCI [3]	7	—	—	—	—	—	—	—	—
Purchases	13	—	—	(3	) —	34	(42	) —	(11
Settlements	—	(2	) (3	) 3	(1	) —	63	—	60
Sales	(3) —	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	26	—	—	57	—	83
Fair value as of September 30, 2013	\$ 89	\$ 3	\$ 23	\$ 12	\$ 219	\$ 181	\$(101	) \$ 19	\$ 356
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013	\$(13) \$ —	\$(27) \$ 4	\$(296) \$(136) \$(292) \$(8) \$(755
[2] [7]									

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Assets	Limited Partnerships and Reinsurance Other Alternative Investments	Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2013	\$314	\$191	\$ 583
Total realized/unrealized gains (losses) Included in net income [1], [2], [6]	(16	)(166	)7
Purchases	125	—	240
Settlements	—	21	(1
Sales	(22	)—	(66
Transfers into Level 3 [4]	—	—	39
Transfers out of Level 3 [4]	(65	)—	(67
Fair value as of September 30, 2013	\$336	\$46	\$ 735
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013 [2] [7]	\$(16	)(166	)\$ 15

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	Liabilities held for sale	Consumer Notes
Fair value as of January 1, 2013	\$(1,249	)\$ (50	) \$2	\$ (7	)\$ (1,304	)\$ —	\$ (2
Transfers to liabilities held for sale	—	43	—	—	43	(43)—
Total realized/unrealized gains (losses) Included in net income [1], [2], [6]	1,099	8	4	(6	) 1,105	14	1
Included in OCI [3]	—	—	—	—	—	1	—
Settlements	(60	)—	(3	)—	(63	)(3)—
Fair value as of September 30, 2013	\$(210	)\$ 1	\$ 3	\$ (13	)\$ (219	)\$ (31	)\$ (1
Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2013 [2] [7]	\$ 1,099	\$ 8	\$ 4	\$ (6	)\$ 1,105	\$ 14	\$ 1

The Company classifies gains and losses on GMWB reinsurance derivatives and Guaranteed Living Benefit [1] 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), with the exception of International Guaranteed Living Benefits and International Other Living Benefits, which are reported in loss from discontinued operations, net of tax. 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 within net realized capital gains/(losses) are before income taxes and DAC amortization, and all amounts within loss from discontinued operations, net of tax, are after income taxes and DAC amortization.

[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 Sheet 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Fair Value Option

The Company elected the fair value option for certain investments held within consolidated investment funds. The Company elected the fair value option in order to report investments of 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.

FVO investments also include certain securities that contain embedded credit derivatives with underlying credit risk primarily related to residential and commercial real estate. 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 decline in fixed maturities, FVO is primarily due to the sale of the Japan variable and fixed annuity business. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

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,	
	2014	2013	2014	2013
Assets				
Fixed maturities, FVO				
Corporate	\$(5	)\$—	\$(1	)\$(14
CDOs	—	—	14	—
Foreign government	(1	)1	1	(4
RMBS	(1)—	—	—
Total realized capital gains (losses)	\$(7	)\$1	\$14	\$(18

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.

	As of	
	September 30, 2014	December 31, 2013
Assets		
Fixed maturities, FVO		
ABS	\$18	\$3
CDOs	78	183
CMBS	22	8
Corporate	139	92
Foreign government	31	518
U.S government	2	24
Municipals	2	1
RMBS	172	15
Total fixed maturities, FVO	\$464	\$844

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

Financial Instruments Not Carried at Fair Value

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

	Fair Value Hierarchy Level	September 30, 2014		December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Policy loans	Level 3	\$1,425	\$1,425	\$1,420	\$1,480
Mortgage loans	Level 3	5,730	5,895	5,598	5,641
Liabilities					
Other policyholder funds and benefits payable [1]	Level 3	\$7,335	\$7,515	\$9,152	\$9,352
Senior notes [2]	Level 2	5,008	5,792	5,206	5,845
Junior subordinated debentures [2]	Level 2	1,100	1,296	1,100	1,271
Revolving Credit Facility	Level 2	—	—	238	238
Consumer notes [3]	Level 3	68	68	82	82

[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 disclosures above.

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. During the second quarter of 2014, the Company changed the valuation technique used to estimate the fair value of policy loans, which previously was estimated by utilizing discounted cash flow calculations, using U.S. Treasury interest rates, based on the loan durations.

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, not carried at fair value, are estimated based on the cash surrender values of the underlying policies or by estimating future cash flows discounted at current interest rates adjusted for credit risk.

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

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments

Net Realized Capital Gains (Losses)

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
(Before tax)	2014	2013	2014	2013
Gross gains on sales [1]	\$116	\$105	\$421	\$2,021
Gross losses on sales	(29)	(137)	(191)	(326)
Net OTTI losses recognized in earnings	(14)	(26)	(43)	(59)
Valuation allowances on mortgage loans	—	—	(3)	—
Periodic net coupon settlements on credit derivatives	—	(1)	1	(5)
Results of variable annuity hedge program				
GMWB derivatives, net	6	203	15	219
Macro hedge program	12	(50)	(13)	(182)
Total results of variable annuity hedge program	18	153	2	37
Other, net [2]	(22)	37	(157)	128
Net realized capital gains	\$69	\$131	\$30	\$1,796

[1] Includes \$1.5 billion of gains relating to the sales of the Retirement Plans and Individual Life businesses for the nine months ended September 30, 2013.

Primarily consists of changes in the value of non-qualifying derivatives, including interest rate derivatives used to manage duration, transactional foreign currency revaluation gains (losses) on the Japan fixed payout annuity liabilities assumed from HLIKK and gains (losses) on non-qualifying derivatives used to hedge the foreign currency exposure of the liabilities. Gains (losses) from transactional foreign currency revaluation of the liabilities were \$83 and \$38, respectively, for the three and nine months ended September 30, 2014, and \$(16) and \$173,

[2] respectively, for the three and nine months ended September 30, 2013. Gains (losses) on instruments used to hedge the foreign currency exposure on the fixed payout annuities were \$(86) and \$(58), respectively, for the three and nine months ended September 30, 2014, and \$0 and \$(184), respectively, for the three and nine months ended September 30, 2013. Also includes \$71 of gains relating to the sales of the Retirement Plans and Individual Life businesses for the nine months ended September 30, 2013.

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 in net unrealized gains or losses in AOCI were \$61 and \$186, respectively, for the three and nine months ended September 30, 2014, and \$(58) and \$1.6 billion for the three and nine months ended September 30, 2013, respectively. Proceeds from sales of AFS securities totaled \$5.2 billion and \$19.6 billion, respectively, for the three and nine months ended September 30, 2014, and \$6.1 billion and \$25.5 billion for the three and nine months ended September 30, 2013, respectively.

Other-Than-Temporary Impairment Losses

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

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
(Before-tax)	2014	2013	2014	2013
Balance as of beginning of period	\$(488)	\$(902)	\$(552)	\$(1,013)
Additions for credit impairments recognized on [1]:				
Securities not previously impaired	(1)	(1)	(9)	(14)
Securities previously impaired	(3)	(2)	(17)	(11)
Reductions for credit impairments previously recognized on:				

Securities that matured or were sold during the period	49	58	122	184
Securities the Company made the decision to sell or more likely than not will be required to sell	—	2	—	2
Securities due to an increase in expected cash flows	6	8	19	15
Balance as of end of period	\$(437	) \$(837	) \$(437	) \$(837

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

Available-for-Sale Securities

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

	September 30, 2014					December 31, 2013				
	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	\$2,444	\$ 32	\$ (37)	\$2,439	\$ (1)	\$2,404	\$ 25	\$ (64)	\$2,365	\$ (2)
CDOs [2]	2,368	113	(33)	2,445	—	2,340	108	(59)	2,387	—
CMBS	4,310	191	(19)	4,482	(6)	4,288	216	(58)	4,446	(6)
Corporate	25,583	2,293	(162)	27,714	(2)	27,013	1,823	(346)	28,490	(7)
Foreign										
govt./govt. agencies	1,632	67	(27)	1,672	—	4,228	52	(176)	4,104	—
Municipal	11,744	1,027	(10)	12,761	—	11,932	425	(184)	12,173	—
RMBS	3,907	111	(23)	3,995	(1)	4,639	90	(82)	4,647	(4)
U.S. Treasuries	3,910	180	(12)	4,078	—	3,797	7	(59)	3,745	—
Total fixed maturities, AFS	55,898	4,014	(323)	59,586	(10)	60,641	2,746	(1,028)	62,357	(19)
Equity securities, AFS	612	58	(22)	648	—	850	67	(49)	868	—
Total AFS securities	\$56,510	\$ 4,072	\$ (345)	\$60,234	\$ (10)	\$61,491	\$ 2,813	\$ (1,077)	\$63,225	\$ (19)

Represents the amount of cumulative non-credit OTTI losses recognized in OCI on securities that also had credit [1] impairments. These losses are included in gross unrealized losses as of September 30, 2014 and December 31, 2013.

[2] Gross unrealized gains (losses) exclude the change in fair value of bifurcated embedded derivative features of certain securities. Changes in fair value are recorded in net realized capital gains (losses).

The decline in fixed maturities, AFS is primarily due to the sale of the Japan variable and fixed annuity business. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

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

Contractual Maturity	September 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	\$1,955	\$1,986	\$2,195	\$2,228
Over one year through five years	11,492	12,130	11,930	12,470
Over five years through ten years	9,496	9,947	10,814	11,183
Over ten years	19,926	22,162	22,031	22,631
Subtotal	42,869	46,225	46,970	48,512
Mortgage-backed and asset-backed securities	13,029	13,361	13,671	13,845
Total fixed maturities, AFS	\$55,898	\$59,586	\$60,641	\$62,357

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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

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, 2014								
	Less Than 12 Months			12 Months or More			Total		
	Amortized	Fair	Unrealized	Amortized	Fair	Unrealized	Amortized	Fair	Unrealized
	Cost	Value	Losses	Cost	Value	Losses	Cost	Value	Losses
ABS	\$678	\$676	\$(2)	\$496	\$461	\$(35)	\$1,174	\$1,137	\$(37)
CDOs [1]	355	353	(2)	1,552	1,518	(31)	1,907	1,871	(33)
CMBS	376	373	(3)	365	349	(16)	741	722	(19)
Corporate	2,933	2,875	(58)	1,366	1,262	(104)	4,299	4,137	(162)
Foreign govt./govt. agencies	330	323	(7)	268	248	(20)	598	571	(27)
Municipal	195	193	(2)	217	209	(8)	412	402	(10)
RMBS	307	306	(1)	531	509	(22)	838	815	(23)
U.S. Treasuries	1,314	1,312	(2)	449	439	(10)	1,763	1,751	(12)
Total fixed maturities, AFS	6,488	6,411	(77)	5,244	4,995	(246)	11,732	11,406	(323)
Equity securities, AFS	133	125	(8)	124	110	(14)	257	235	(22)
Total securities in an unrealized loss position	\$6,621	\$6,536	\$(85)	\$5,368	\$5,105	\$(260)	\$11,989	\$11,641	\$(345)
	December 31, 2013								
	Less Than 12 Months			12 Months or More			Total		
	Amortized	Fair	Unrealized	Amortized	Fair	Unrealized	Amortized	Fair	Unrealized
	Cost	Value	Losses	Cost	Value	Losses	Cost	Value	Losses
ABS	\$893	\$888	\$(5)	\$477	\$418	\$(59)	\$1,370	\$1,306	\$(64)
CDOs [1]	137	135	(2)	1,933	1,874	(57)	2,070	2,009	(59)
CMBS	812	788	(24)	610	576	(34)	1,422	1,364	(58)
Corporate	4,922	4,737	(185)	1,225	1,064	(161)	6,147	5,801	(346)
Foreign govt./govt. agencies	2,961	2,868	(93)	343	260	(83)	3,304	3,128	(176)
Municipal	3,150	2,994	(156)	190	162	(28)	3,340	3,156	(184)
RMBS	2,046	2,008	(38)	591	547	(44)	2,637	2,555	(82)
U.S. Treasuries	2,914	2,862	(52)	33	26	(7)	2,947	2,888	(59)
Total fixed maturities, AFS	17,835	17,280	(555)	5,402	4,927	(473)	23,237	22,207	(1,028)
Equity securities, AFS	196	188	(8)	223	182	(41)	419	370	(49)
Total securities in an unrealized loss position	\$18,031	\$17,468	\$(563)	\$5,625	\$5,109	\$(514)	\$23,656	\$22,577	\$(1,077)

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

As of September 30, 2014, AFS securities in an unrealized loss position, consisted of 3,007 securities, primarily in the corporate sector and securities backed by commercial and residential real estate, which are depressed primarily due to an increase in interest rates and wider credit spreads since the securities were purchased. As of September 30, 2014, 94% of these securities were depressed less than 20% of cost or amortized cost. The decrease in unrealized losses during 2014 was primarily attributable to a decrease in long term interest rates and tighter credit spreads.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. 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 and structured securities with exposure to commercial and residential real estate. Corporate securities are primarily depressed because the securities have floating-rate coupons and have long-dated maturities or are perpetual. For certain commercial and residential real estate securities' current market spreads continue to be wider than spreads at the securities' respective purchase dates, even though credit spreads have continued to tighten over the past five years. The Company neither has an intention to sell nor does it expect to be required to sell the securities outlined above.

Mortgage Loans

	September 30, 2014		December 31, 2013		
	Amortized Valuation Cost [1]	Carrying Allowance Value	Amortized Valuation Cost [1]	Carrying Allowance Value	
Total commercial mortgage loans	\$5,749	\$(19)	\$5,730	\$5,665 \$(67)	\$5,598

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

As of September 30, 2014 and December 31, 2013, the carrying value of mortgage loans associated with the valuation allowance was \$141 and \$191, respectively. Included in the table above are mortgage loans held-for-sale with a carrying value and valuation allowance of \$61 and \$3, respectively, as of December 31, 2013. The carrying value of these loans is included in mortgage loans in the Company's Condensed Consolidated Balance Sheets. There were no mortgage loans held-for-sale as of September 30, 2014. As of September 30, 2014, 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.

	2014	2013
Balance, as of January 1	\$(67)	\$(68)
(Additions)/Reversals	(3)	(1)
Deductions	51	2
Balance, as of September 30	\$(19)	\$(67)

The decline in the valuation allowance as compared to December 31, 2013 resulted from the sale of the underlying collateral supporting one commercial mortgage loan. The loan was fully reserved for and the Company did not recover any proceeds as a result of the sale.

The weighted-average LTV ratio of the Company's commercial mortgage loan portfolio was 57% as of September 30, 2014, 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 2.47x as of September 30, 2014. The Company held no delinquent commercial mortgage loans as of September 30, 2014.

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, 2014		December 31, 2013	
	Carrying Value	Avg. Debt-Service Coverage Ratio	Carrying Value	Avg. Debt-Service Coverage Ratio
Loan-to-value				

Greater than 80%	\$71	0.99x	\$101	0.99x
65% - 80%	891	1.78x	1,195	1.82x
Less than 65%	4,768	2.63x	4,302	2.53x
Total commercial mortgage loans	\$5,730	2.47x	\$5,598	2.34x

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

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

Mortgage Loans by Region

	September 30, 2014		December 31, 2013		
	Carrying Value	Percent of Total	Carrying Value	Percent of Total	
East North Central	\$197	3.4	% \$187	3.3	%
Middle Atlantic	452	7.9	% 409	7.3	%
Mountain	92	1.6	% 104	1.9	%
New England	381	6.6	% 353	6.3	%
Pacific	1,557	27.2	% 1,587	28.3	%
South Atlantic	1,046	18.3	% 899	16.1	%
West North Central	44	0.8	% 47	0.8	%
West South Central	304	5.3	% 338	6.0	%
Other [1]	1,657	28.9	% 1,674	30.0	%
Total mortgage loans	\$5,730	100.0	% \$5,598	100.0	%

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

Mortgage Loans by Property Type

	September 30, 2014		December 31, 2013		
	Carrying Value	Percent of Total	Carrying Value	Percent of Total	
Commercial					
Agricultural	\$61	1.1	% \$125	2.2	%
Industrial	1,679	29.2	% 1,718	30.7	%
Lodging	26	0.5	% 27	0.5	%
Multifamily	1,160	20.2	% 1,155	20.6	%
Office	1,499	26.2	% 1,278	22.8	%
Retail	1,151	20.1	% 1,140	20.4	%
Other	154	2.7	% 155	2.8	%
Total mortgage loans	\$5,730	100.0	% \$5,598	100.0	%

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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

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 deemed to be 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, 2014			December 31, 2013		
	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]
CDOs [3]	\$8	\$8	\$—	\$31	\$33	\$—
Investment funds [4]	192	—	195	164	—	173
Limited partnerships and other alternative investments	3	—	3	4	—	4
Total	\$203	\$8	\$198	\$199	\$33	\$177

[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 fixed maturities, AFS and short-term investments, or cash in the Company's Condensed Consolidated Balance Sheets.

[4] Total assets included in fixed maturities, FVO, short-term investments, and equity, AFS 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.

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 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 \$13 and \$13, respectively as of September 30, 2014 and \$17 and \$19, respectively, as of December 31, 2013. Additionally, the Company has a maximum exposure to loss of \$3 and \$3, respectively, as of September 30, 2014 and December 31, 2013, 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 15 - Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements included in The Hartford's 2013 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 and are included in ABS, CDOs, CMBS and RMBS in fixed maturities, AFS or fixed maturities, FVO on 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

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.

The Company had no outstanding repurchase agreements or dollar roll transactions as of September 30, 2014 or December 31, 2013.

The Company is required by law to deposit securities with government agencies in certain states in which it conducts business. As of September 30, 2014 and December 31, 2013, the fair value of securities on deposit was approximately \$2.4 billion and \$1.9 billion, respectively.

As of December 31, 2013, the Company pledged \$272 as collateral in Japan government bonds reported in fixed maturities, AFS, associated with short-term debt of \$238. The collateral and short-term debt were related to the Japan variable and fixed annuity business and were transferred to the Buyer as of June 30, 2014.

As of September 30, 2014 and December 31, 2013, the Company has pledged as collateral \$34 and \$34, respectively, of U.S. government securities and government agency securities or cash for letters of credit.

Refer to Derivative Collateral Arrangements section of this note for disclosure of collateral in support of derivative transactions.

Derivative Instruments

The Company utilizes a variety of OTC, OTC-cleared and exchange traded derivative instruments as a part of its overall risk management strategy as well as to enter into replication transactions. Derivative instruments are used to manage risk associated with interest rate, equity market, credit spread, issuer default, price, and currency exchange rate risk or volatility. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that 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 Condensed Consolidated Financial Statements, included in The Hartford's 2013 Form 10-K Annual Report. Typically, these hedge relationships include interest rate

and 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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

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.

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 and foreign currency 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, 2014 and December 31, 2013 the notional amount of interest rate swaps in offsetting relationships was \$13.2 billion and \$6.9 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.

Japan fixed payout annuity hedge

The Company formerly offered certain variable annuity products with a guaranteed minimum income benefit (“GMIB”) rider through HLIKK, a former indirect wholly-owned subsidiary that was sold on June 30, 2014. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements. The Company will continue to reinsure from HLIKK the Japan 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.

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 credit derivatives embedded within certain fixed maturity securities which are comprised of structured securities that contain credit derivatives that reference a standard index of corporate securities. In addition, the Company enters into credit default swaps to terminate existing credit default swaps, thereby offsetting the changes in value of the original swap going forward.

Equity index swaps and options

The Company enters into equity index options with the purpose of hedging 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.

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 guaranteed remaining balance ("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.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

	Notional Amount		Fair Value	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Customized swaps	\$7,181	\$ 7,839	\$93	\$ 74
Equity swaps, options, and futures	4,027	4,237	34	44
Interest rate swaps and futures	3,815	6,615	(3	)(77
Total	\$15,023	\$ 18,691	\$124	\$ 41

Macro hedge program

The Company utilizes equity options, swaps 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, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Equity options and swaps	6,028	9,934	134	139
Foreign currency options	400	—	—	—
Total	\$6,428	\$ 9,934	\$134	\$ 139

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, 2014 and December 31, 2013, the Company had approximately \$1.0 billion and 1.3 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 amounts 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 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 fair value amounts presented below 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, is \$935 and \$1.3 billion as of September 30, 2014, and December 31, 2013, respectively. 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 tables below exclude investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

Hedge Designation/ Derivative Type	Net Derivatives				Asset Derivatives		Liability Derivatives	
	Notional Amount		Fair Value		Fair Value		Fair Value	
	Sep. 30, 2014	Dec. 31, 2013	Sep. 30, 2014	Dec. 31, 2013	Sep. 30, 2014	Dec. 31, 2013	Sep. 30, 2014	Dec. 31, 2013
Cash flow hedges								
Interest rate swaps	\$4,505	\$5,026	\$(23)	\$(92)	\$28	\$50	\$(51)	\$(142)
Foreign currency swaps	143	143	(14)	(5)	3	2	(17)	(7)
Total cash flow hedges	4,648	5,169	(37)	(97)	31	52	(68)	(149)
Fair value hedges								
Interest rate swaps	226	1,799	1	(24)	1	3	—	(27)
Total fair value hedges	226	1,799	1	(24)	1	3	—	(27)
Non-qualifying strategies								
Interest rate contracts								
Interest rate swaps and futures	14,664	8,453	(532)	(487)	300	171	(832)	(658)
Foreign exchange contracts								
Foreign currency swaps and forwards	217	258	(5)	(9)	1	6	(6)	(15)
Japan fixed payout annuity hedge	1,571	1,571	(411)	(354)	—	—	(411)	(354)
Japanese fixed annuity hedging instruments [1]	—	1,436	—	(6)	—	88	—	(94)
Credit contracts								
Credit derivatives that purchase credit protection	571	938	(12)	(15)	—	1	(12)	(16)
Credit derivatives that assume credit risk [2]	1,530	1,886	2	33	15	36	(13)	(3)
Credit derivatives in offsetting positions	5,404	7,764	(4)	(7)	55	76	(59)	(83)
Equity contracts								
Equity index swaps and options	279	358	(2)	(1)	23	19	(25)	(20)
Variable annuity hedge program								
GMWB product derivatives [3]	18,792	21,512	(56)	(36)	—	—	(56)	(36)
GMWB reinsurance contracts	3,844	4,508	36	29	36	29	—	—
GMWB hedging instruments	15,023	18,691	124	41	257	333	(133)	(292)
Macro hedge program	6,428	9,934	134	139	170	178	(36)	(39)
International program product derivatives [1]	—	366	—	6	—	6	—	—
International program hedging instruments [1]	—	73,048	—	(33)	—	866	—	(899)
Other								
Contingent capital facility put option	500	500	13	17	13	17	—	—
Modified coinsurance reinsurance contracts	964	1,250	41	67	41	67	—	—
Total non-qualifying strategies	69,787	152,473	(672)	(616)	911	1,893	(1,583)	(2,509)
Total cash flow hedges, fair value hedges, and non-qualifying strategies	\$74,661	\$159,441	\$(708)	\$(737)	\$943	\$1,948	\$(1,651)	\$(2,685)
Balance Sheet Location								
Fixed maturities, available-for-sale	\$476	\$473	\$(3)	\$(2)	\$—	\$1	\$(3)	\$(3)
Other investments	20,013	53,219	150	442	376	909	(226)	(467)
Other liabilities	30,522	78,064	(853)	(1,225)	490	936	(1,343)	(2,161)

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Reinsurance recoverables	4,808	5,758	77	96	77	96	—	—
Other policyholder funds and benefits payable	18,842	21,927	(79)	(48)	—	6	(79)	(54)
Total derivatives	\$74,661	\$159,441	\$(708)	\$(737)	\$943	\$1,948	\$(1,651)	\$(2,685)

Represents hedge programs formerly associated with the Japan variable and fixed annuity products which were terminated due to the sale of HLIKK during 2014. For further information on the sale, see Note 2 - Business

[1] Dispositions of Notes to the Condensed Consolidated Financial Statements. For further information on the associated hedge programs, see Note 6 - Investments and Derivative Instruments of Notes to the Consolidated Financial Statements included in The Hartford's 2013 Form 10-K Annual Report.

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

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

Change in Notional Amount

The net decrease in notional amount of derivatives since December 31, 2013 was primarily due to the following:

The decrease in notional amount related to the international program hedging instruments resulted from the termination of the hedging program associated with the Japan variable annuity product due to the sale of HLIKK. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

The decrease in notional amount related to the GMWB hedging instruments primarily resulted from portfolio re-balancing, including the termination of offsetting positions.

The decrease in notional amount associated with the macro hedge program was primarily driven by the expiration of certain out-of-the-money options.

These declines in notional amount were partially offset by an increase in notional amount related to non-qualifying interest rate swaps and futures related to duration shortening positions of \$2.6 billion, which were subsequently offset by \$3.8 billion of long positions.

Change in Fair Value

The net improvement in the total fair value of derivative instruments since December 31, 2013 was primarily related to the following:

The increase in the fair value related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by liability model assumption updates and increased volatility, partially offset by losses resulting from policyholder behavior primarily related to increased surrenders.

The increase in the fair value associated with the international program hedging instruments resulted from the termination of the hedging program associated with the Japan variable annuity product due to the sale of HLIKK. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

These improvements in fair value were partially offset by a decrease in fair value associated with the fixed payout annuity hedges primarily driven by a depreciation of the Japanese yen in relation to the U.S. dollar.

Additional declines in fair value related to modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, were driven by a decline in interest rates.

Offsetting of Derivative Assets/Liabilities

The following tables present the gross fair value amounts, the amounts offset, and net position of derivative instruments eligible for offset in the Company's Condensed Consolidated Balance Sheets. Amounts offset include fair value amounts, income accruals and related cash collateral receivables and payables associated with derivative instruments that are traded under a common master netting agreement, as described above. Also included in the tables are financial collateral receivables and payables, which are contractually permitted to be offset upon an event of default, although are disallowed for offsetting under U.S. GAAP.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

As of September 30, 2014

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Other investments	\$866	\$681	\$150	\$35	\$98	\$87
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount
Other liabilities	\$(1,567)	\$(647)	\$(851)	\$(69)	\$(1,029)	\$109

As of December 31, 2013

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Other investments	\$1,845	\$1,463	\$442	\$(60)	\$242	\$140
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount

Description	Liabilities	Statement of Financial Position	Collateral Pledged [3]
Other liabilities	\$ (2,626)	\$ (1,496)	\$ (1,204)
[1] Included in other invested assets in the Company's Condensed Consolidated Balance Sheets.	\$ (1,223)		\$ 93
[2] Included in other assets in the Company's Condensed Consolidated Balance Sheets and is limited to the net derivative receivable associated with each counterparty.			\$ 74
[3] Included in other liabilities in the Company's Condensed Consolidated Balance Sheets and is limited to the net derivative payable associated with each counterparty. Not included in this amount are embedded derivatives associated with consumer notes of \$(2) as of September 30, 2014 and December 31, 2013, which were not eligible for offset in the Company's Condensed Consolidated Balance Sheets.			
[4] Excludes collateral associated with exchange-traded derivative instruments.			

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

Cash Flow Hedges

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

The following table presents the components of the gain or loss on derivatives that qualify as cash flow hedges:

Derivatives in Cash Flow Hedging Relationships

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)				Net Realized Capital Gains(Losses) Recognized in Income on Derivative (Ineffective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Interest rate swaps	\$(19)	\$(5)	\$82	\$(254)	\$4	\$(1)	\$3	\$(3)
Foreign currency swaps	(2)	3	(5)	9	—	—	—	—
Total	\$(21)	\$(2)	\$77	\$(245)	\$4	\$(1)	\$3	\$(3)

Derivatives in Cash Flow Hedging Relationships

	Location	Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
Interest rate swaps	Net realized capital gain/(loss)	\$4	)\$4	\$(2	)\$84
Interest rate swaps	Net investment income	22	24	67	73
Foreign currency swaps	Net realized capital gain/(loss)	(9	)4	(9	)3
Total		\$9	\$32	\$56	\$160

As of September 30, 2014 the before-tax deferred net gains on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are \$67. This expectation is based on the anticipated interest payments on hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to interest income over the term of the investment cash flows. The maximum term over which the Company is hedging its exposure to the variability of future cash flows for forecasted transactions, excluding interest payments on existing variable-rate financial instruments, is approximately two years.

During the three and nine months ended September 30, 2014 and September 30, 2013 the Company had no net reclassifications from AOCI to earnings resulting from the discontinuance of cash-flow hedges due to forecasted transactions that were no longer probable of occurring.

Fair Value Hedges

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

The Company recognized in income gains (losses) representing the ineffective portion of fair value hedges as follows:
Derivatives in Fair-Value Hedging Relationships

	Gain or (Loss) Recognized in Income [1]							
	Three Months Ended September 30, 2014				Nine Months Ended September 30, 2013			
	Derivative	Hedge Item	Derivative	Hedge Item	Derivative	Hedge Item	Derivative	Hedge Item
Interest rate swaps								
Net realized capital gain/(loss)	\$2	\$(2)	\$(4)	\$6	\$—	\$(1)	\$7	\$(10)
Foreign currency swaps								
Net realized capital gain/(loss)	—	—	2	(2)	—	—	—	—
Benefits, losses and loss adjustment expenses	—	—	(1)	1	—	—	(2)	2
Total	\$2	\$(2)	\$(3)	\$5	\$—	\$(1)	\$5	\$(8)

The amounts presented do not include the periodic net coupon settlements of the derivative or the coupon income [1](expense) related to the hedged item. The net of the amounts presented represents the ineffective portion of the hedge.

Non-qualifying Strategies

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

Derivatives Used in Non-Qualifying Strategies

Gain or (Loss) Recognized within Net Realized Capital Gains and Losses

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	2014	2013	2014	2013
Interest rate contracts				
Interest rate swaps and forwards	\$(8)	\$14	\$(153)	\$19
Foreign exchange contracts				
Foreign currency swaps and forwards	6	(6)	2	2
Japan fixed payout annuity hedge [1]	(86)	—	(58)	(184)
Credit contracts				
Credit derivatives that purchase credit protection	1	(10)	(9)	(22)
Credit derivatives that assume credit risk	(11)	49	8	51
Equity contracts				
Equity index swaps and options	—	(6)	(1)	(30)
Variable annuity hedge program				
GMWB product derivatives	(37)	451	54	1,099
GMWB reinsurance contracts	2	(74)	(9)	(166)
GMWB hedging instruments	41	(174)	(30)	(714)
Macro hedge program	12	(50)	(13)	(182)
Other				
Contingent capital facility put option	(2)	(1)	(5)	(5)

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Modified coinsurance reinsurance contracts	9	7	(26)61
Derivative instruments formerly associated with Japan [3]	(2)—	(2)—
Total [2]	\$(75	)\$200	\$(242	)\$(71)

Not included in this amount is the associated liability adjustment for changes in foreign exchange spot rates [1] through realized capital gains of \$83 and \$(16) for the three months ended September 30, 2014 and 2013, respectively and \$38 and \$173, for the nine months ended September 30, 2014 and 2013, respectively.

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

[3] These amounts relate to the termination of the hedging program associated with the Japan variable annuity product due to the sale of HLIKK. For further information, see Note 6 - Investments and Derivative Instruments of Notes to the Condensed Consolidated Financial Statements included in The Hartford's Form 10-Q for the period ended June 30, 2014.

For the three and nine months ended September 30, 2014 the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net losses related to interest derivatives, primarily used to manage duration, were due to a decline in U.S. interest rates.

- The net losses related to the Japan fixed annuity payout hedge was driven by a depreciation of the Japanese yen in relation to the U.S. dollar.

For the nine months ended September 30, 2014, the loss associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was primarily driven by a decline in long-term interest rates during the period. The assets remain on the Company's books and the Company recorded an offsetting gain in AOCI as a result of the increase in market value of the bonds.

The net gains related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, were primarily driven by liability/model assumption updates and increased volatility, partially offset by losses resulting from policyholder behavior primarily related to increased surrenders.

In addition, for the three and nine months ended September 30, 2014, the Company recognized gains of \$0 and \$11, respectively, due to cash recovered on derivative receivables that were previously written-off related to the bankruptcy of Lehman Brothers Inc. The derivative receivables were the result of the contractual collateral threshold amounts and open collateral calls prior to the bankruptcy filing as well as interest rate and credit spread movements from the date of the last collateral call to the date of the bankruptcy filing.

For the three and nine months ended September 30, 2013 the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- For the nine months ended September 30, 2013 the net loss related to the Japan fixed payout annuity hedge was primarily due to a depreciation of the Japanese yen in relation to the U.S. dollar.

For the three and nine months ended September 30, 2013 the net gain related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily a result of favorable policyholder behavior, liability model changes and the passage of time.

- For the three and nine months ended September 30, 2013 the net loss on the macro hedge program was primarily due to an improvement in domestic equity markets, passage of time, and an increase in long term interest rates.

For additional disclosures regarding contingent credit related features in derivative agreements, see Note 14 - Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements.

Credit Risk Assumed through Credit Derivatives

The Company enters into credit default swaps that assume credit risk of a single entity or referenced index in order to synthetically replicate investment transactions. The Company will receive periodic payments based on an agreed upon rate and notional amount and will only make a payment if there is a credit event. A credit event payment will typically be equal to the notional value of the swap contract less the value of the referenced security issuer's debt obligation after the occurrence of the credit event. A credit event is generally defined as a default on contractually obligated interest or principal payments or bankruptcy of the referenced entity. The credit default swaps in which the Company assumes credit risk primarily reference investment grade single corporate issuers and baskets, which include standard and customized diversified portfolios of corporate issuers. The diversified portfolios of corporate issuers are established within sector concentration limits and may be divided into tranches that possess different credit ratings.

The following tables present the notional amount, fair value, weighted average years to maturity, underlying referenced credit obligation type and average credit ratings, and offsetting notional amounts and fair value for credit

derivatives in which the Company is assuming credit risk as of September 30, 2014 and December 31, 2013.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

As of September 30, 2014

Credit Derivative type by derivative risk exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	\$ 375	\$ 6	3 years	Corporate Credit/ Foreign Gov.	BBB+	\$ 271	\$(6)
Below investment grade risk exposure	32	—	3 years	Corporate Credit	BB	4	—
Basket credit default swaps [4]							
Investment grade risk exposure	2,563	35	3 years	Corporate Credit	BBB	2,003	\$(27)
Below investment grade risk exposure	42	3	5 years	Corporate Credit	BB-	—	—
Investment grade risk exposure	716	(14)	6 years	CMBS Credit	AA+	270	4
Below investment grade risk exposure	154	(22)	2 years	CMBS Credit	CCC+	154	22
Embedded credit derivatives							
Investment grade risk exposure	350	341	3 years	Corporate Credit	A	—	—
Total [5]	\$ 4,232	\$ 349				\$ 2,702	\$(7)

As of December 31, 2013

Credit Derivative type by derivative risk exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	\$ 1,259	\$ 8	1 year	Corporate Credit/ Foreign Gov.	A-	\$ 1,066	\$(9)
Below investment grade risk exposure	24	—	1 year	Corporate Credit	CCC	24	\$(1)
Basket credit default swaps [4]							
Investment grade risk exposure	3,447	50	3 years	Corporate Credit	BBB	2,270	\$(35)
Below investment grade risk exposure	166	15	5 years	Corporate Credit	BB-	—	—
Investment grade risk exposure	327	(7)	3 years	CMBS Credit	A	327	7
Below investment grade risk exposure	195	(31)	3 years	CMBS Credit	B-	195	31
Embedded credit derivatives							
Investment grade risk exposure	350	339	3 years	Corporate Credit	BBB+	—	—
Total [5]	\$ 5,768	\$ 374				\$ 3,882	\$(7)

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

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

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

[4] Includes \$3.5 billion and \$4.1 billion as of September 30, 2014 and December 31, 2013, respectively, of standard market indices of diversified portfolios of corporate and CMBS issuers referenced through credit default swaps. These swaps are subsequently valued based upon the observable standard market index.

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Investments and Derivative Instruments (continued)

Derivative Collateral Arrangements

The Company enters into various collateral arrangements in connection with its derivative instruments, which require both the pledging and accepting of collateral. As of September 30, 2014 and December 31, 2013, the Company pledged cash collateral associated with derivative instruments with a fair value of \$125 and \$347 as of September 30, 2014 and December 31, 2013, respectively, for which the collateral receivable has been primarily included within other assets on the Company's Condensed Consolidated Balance Sheets. The Company also pledged securities collateral associated with derivative instruments with a fair value of \$1.0 billion and \$1.3 billion, respectively, which have been included in fixed maturities on the Consolidated Balance Sheets. The counterparties have the right to sell or re-pledge these securities.

As of September 30, 2014 and December 31, 2013, the Company accepted cash collateral associated with derivative instruments of \$189 and \$180, respectively, which was invested and recorded in the Consolidated Balance Sheets in fixed maturities and short-term investments with corresponding amounts recorded in other liabilities. The Company also accepted securities collateral as of September 30, 2014 and December 31, 2013 with a fair value of \$98 and \$243, respectively, of which the Company has the ability to sell or repledge \$83 and \$191, respectively. As of September 30, 2014 and December 31, 2013 the fair value of repledged securities totaled \$0 and \$39, respectively, and the Company did not sell any securities. In addition, as of September 30, 2014 and December 31, 2013 non-cash collateral accepted was held in separate custodial accounts and was not included in the Company's Consolidated Balance Sheets.

7. Reinsurance

The Company cedes insurance to affiliated and unaffiliated insurers to enable the Company to manage capital and risk exposure. Such arrangements do not relieve the Company of its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company's procedures include careful initial selection of its reinsurers, structuring agreements to provide collateral funds where necessary, and regularly monitoring the financial condition and ratings of its reinsurers. The Company entered into two reinsurance transactions in connection with the sales of its Retirement Plans and Individual Life businesses in January 2013. For further discussion of these transactions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

Reinsurance Recoverables

Reinsurance recoverables include balances due from reinsurance companies and are presented net of an allowance for uncollectible reinsurance. Reinsurance recoverables include an estimate of the amount of gross losses and loss adjustment expense reserves that may be ceded under the terms of the reinsurance agreements, including incurred but not reported unpaid losses. The Company's estimate of losses and loss adjustment expense reserves ceded to reinsurers is based on assumptions that are consistent with those used in establishing the gross reserves for business ceded to the reinsurance contracts. The Company calculates its ceded reinsurance projection based on the terms of any applicable facultative and treaty reinsurance, including an estimate of how incurred but not reported losses will ultimately be ceded by reinsurance agreements. Accordingly, the Company's estimate of reinsurance recoverables is subject to similar risks and uncertainties as the estimate of the gross reserve for unpaid losses and loss adjustment expenses. The Company's reinsurance recoverables are summarized as follows:

	September 30, 2014	December 31, 2013
Property and Casualty Insurance Products:		
Paid loss and loss adjustment expenses	\$123	\$138
Unpaid loss and loss adjustment expenses	2,915	2,841
Gross reinsurance recoverable	3,038	2,979
Allowance for uncollectible reinsurance	(247	)(244
Net reinsurance recoverables	\$2,791	\$2,735
Life Insurance Products:		

Future policy benefits and unpaid loss and loss adjustment expenses and other policyholder funds and benefits payable

Sold businesses (MassMutual and Prudential)	\$ 18,822	\$ 19,374
Other reinsurers	1,201	1,221
Net reinsurance recoverables	\$ 20,023	\$ 20,595
Reinsurance recoverables, net	\$ 22,814	\$ 23,330

As of September 30, 2014, the Company has reinsurance recoverables from MassMutual and Prudential of \$8.6 billion and \$10.2 billion, respectively. These reinsurance recoverables are secured by invested assets held in trust for the benefit of the Company in the event of a default by the reinsurers. As of September 30, 2014, the fair value of assets held in trust securing the reinsurance recoverables from MassMutual and Prudential were \$9.5 billion and \$8.7 billion, respectively. As of September 30, 2014, the Company has no reinsurance-related concentrations of credit risk greater than 10% of the Company's consolidated stockholders' equity.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Reinsurance (continued)

The allowance for uncollectible reinsurance reflects management's best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers' unwillingness or inability to pay. The Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between reinsurers and cedants and the overall credit quality of the Company's reinsurers. Based on this analysis, the Company may adjust the allowance for uncollectible reinsurance or charge off reinsurer balances that are determined to be uncollectible. Where its contracts permit, the Company secures future claim obligations with various forms of collateral, including irrevocable letters of credit, secured trusts, funds held accounts and group-wide offsets.

Due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables become due, it is possible that future adjustments to the Company's reinsurance recoverables, net of the allowance, could be required, which could have a material adverse effect on the Company's consolidated results of operations or cash flows in a particular quarter or annual period.

Insurance Revenues

The effect of reinsurance on property and casualty premiums written and earned is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Premiums Written				
Direct	\$2,655	\$2,790	\$8,032	\$8,120
Assumed	75	96	206	207
Ceded	(127	)(330	)(464	)(747
Net	\$2,603	\$2,556	\$7,774	\$7,580
Premiums Earned				
Direct	\$2,625	\$2,651	\$7,862	\$7,829
Assumed	65	87	194	196
Ceded	(148	)(250	)(540	)(659
Net	\$2,542	\$2,488	\$7,516	\$7,366

The reduction in ceded premium for the three and nine months ended September 30, 2014 was driven by the Company's decision to exit unprofitable programs, including captive programs where the Company ceded direct premiums to insured captive insurance companies. Ceded losses, which reduce losses and loss adjustment expenses incurred, were \$73 and \$409 for the three and nine months ended September 30, 2014, respectively, and \$143 and \$375 for three and nine months ended September 30, 2013, respectively.

The effect of reinsurance on life insurance earned premiums and fee income is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Gross earned premiums and fee income	\$1,509	\$1,600	\$4,544	\$4,732
Reinsurance assumed	51	49	149	147
Reinsurance ceded	(428	)(431	)(1,280	)(1,299
Net	\$1,132	\$1,218	\$3,413	\$3,580

The Company reinsures certain of its risks to other reinsurers under yearly renewable term, coinsurance, and modified coinsurance arrangements, and variations thereto. Yearly renewable term and coinsurance arrangements result in passing all or a portion of the risk to the reinsurer. Generally, the reinsurer receives a proportionate amount of the premiums less an allowance for commissions and expenses and is liable for a corresponding proportionate amount of all benefit payments. Modified coinsurance is similar to coinsurance except that the cash and investments that support the liabilities for contract benefits are not transferred to the assuming company, and settlements are made on a net basis between the companies. Coinsurance with funds withheld is a form of coinsurance except that the investment

assets that support the liabilities are withheld by the ceding company.

The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. Insurance recoveries on ceded reinsurance agreements, which reduce death and other benefits, were \$197 and \$624 for the three and nine months ended September 30, 2014, respectively and \$214 and \$680 for the three and nine months ended September 30, 2013, respectively.

In addition, the Company has reinsured a portion of the risk associated with variable annuities and the associated GMDB and GMWB riders.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Deferred Policy Acquisition Costs and Present Value of Future Profits

Changes in the DAC balance are as follows:

	Nine Months Ended September 30,	
	2014	2013
Balance, beginning of period	\$2,161	\$5,725
Deferred costs	1,032	1,003
Amortization — DAC	(1,200	)(1,230
Amortization — Unlock charge, pre-tax [1]	(148	)(1,091
Amortization — DAC related to business dispositions [2] [3]	—	(2,229
Adjustments to unrealized gains and losses on securities AFS and other	23	157
Effect of currency translation	—	(86
Balance, end of period	\$1,868	\$2,249

[1] Includes Unlock charge of \$887 related to elimination of future estimated gross profits on the Japan variable annuity block in the first quarter of 2013. As a result of the Japan annuity business sale completed in June 2014, this Unlock charge has been reclassified to discontinued operations. For further information regarding this transaction, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[2] Includes accelerated amortization of \$352 and \$2,374 recognized upon the sale of the Retirement Plans and Individual Life businesses, respectively, in 2013. For further information, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[3] Includes previously unrealized gains on securities AFS of \$148 and \$349 recognized upon the sale of the Retirement Plans and Individual Life businesses, respectively, in 2013.

9. Sales Inducements

Changes in sales inducement activity are as follows:

	Nine Months Ended September 30,	
	2014	2013
Balance, beginning of period	\$149	\$325
Sales inducements deferred	—	3
Amortization — Unlock charge [1] [2]	(35	)(71
Amortization charged to income	(21	)(22
Amortization related to business dispositions [3]	—	(71
Balance end of period	\$93	\$164

[1] In 2014 the unlock charge is due to assumption changes in connection with the annual policyholder behavior assumption study.

[2] In 2013 the unlock charge includes \$52 related to elimination of future estimated gross profits on the Japan variable annuity block. As a result of the Japan annuity business sale completed in June 2014, this Unlock charge has been reclassified to discontinued operations. For further information regarding this transaction, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[3] Represents accelerated amortization of \$22 and \$49 recognized upon the sale of the Retirement Plans and Individual Life businesses, respectively. For further information, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Separate Accounts, Death Benefits and Other Insurance Benefit Features

U.S. GMDB/GMWB, International GMDB/GMIB, and UL Secondary Guarantee Benefits

Changes in the gross U.S. GMDB/GMWB, International GMDB/GMIB, and UL secondary guarantee benefits are as follows:

	U.S. GMDB/GMWB	International GMDB/GMIB	UL Secondary Guarantees
Liability balance as of January 1, 2014	\$ 849	\$ 272	\$ 1,802
Incurred	136	28	174
Paid	(85	) (15) —
Unlock	(90	) (41	) 5
Impact of Japan business disposition	—	(254) —
Currency translation adjustment	—	10	—
Liability balance as of September 30, 2014	\$ 810	\$ —	\$ 1,981
Reinsurance recoverable asset, as of January 1, 2014	\$ 533	\$ 23	\$ 1,802
Incurred	78		