HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
April 28, 2016

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ______________
Commission file number 001-13958

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

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

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

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

• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) ¨ ý
As of April 27, 2016, there were outstanding 393,384,892 shares of Common Stock, $0.01 par value per share, of the registrant.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016
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Forward-Looking Statements

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

- Risks Related to Economic, Market and Political Conditions:

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

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

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

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

- Risks Relating to Estimates, Assumptions and Valuations;

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

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

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

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

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

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

- Financial Strength, Credit and Counterparty Risks:

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

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

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

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

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Insurance Industry and
Product-Related Risks:

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

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

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

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

the uncertain effects of emerging claim and coverage issues;

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

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

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

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

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

- Regulatory and Legal Risks:

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

unfavorable judicial or legislative developments;

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

the impact of changes in federal or state tax laws;

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

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

- Other Strategic and Operational Risks:

risks associated with the runoff of our Talcott Resolution business;

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

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

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

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

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

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

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

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

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the "Company") as of March 31, 2016, and the related condensed consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the three-month periods ended March 31, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

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

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

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

DELOITTE & TOUCHE LLP
Hartford, Connecticut
April 28, 2016

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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 March 31, 2016	2015
	(Unaudited)	
Revenues		
Earned premiums	$3,404	$3,322
Fee income	426	459
Net investment income	696	809
Net realized capital gains (losses):		
Total other-than-temporary impairment ("OTTI") losses	(27)	(12)
OTTI losses recognized in other comprehensive income (loss) (“OCI”)	4	—
Net OTTI losses recognized in earnings	(23)	(12)
Other net realized capital gains (losses)	(132)	17
Total net realized capital gains (losses)	(155)	5
Other revenues	20	22
Total revenues	4,391	4,617
Benefits, losses and expenses		
Benefits, losses and loss adjustment expenses	2,641	2,563
Amortization of deferred policy acquisition costs ("DAC")	374	387
Insurance operating costs and other expenses	909	948
Interest expense	86	94
Total benefits, losses and expenses	4,010	3,992
Income before income taxes	381	625
Income tax expense	58	158
Net income	$323	$467
Net income per common share		
Basic	$0.81	$1.11
Diluted	$0.79	$1.08
Cash dividends declared per common share	$0.21	$0.18

See Notes to Condensed Consolidated Financial Statements.

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

(In millions)	Three Months Ended March 31, 2016	2015
	(Unaudited)	
Net income	$323	$467
Other comprehensive income (loss):		
Changes in net unrealized gain on securities	522	208
Changes in OTTI losses recognized in other comprehensive income	(8)	(3)
Changes in net gain on cash flow hedging instruments	54	27
Changes in foreign currency translation adjustments	6	(20)
Changes in pension and other postretirement plan adjustments	9	10
OCI, net of tax	583	222
Comprehensive income	$906	$689

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)	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $57,378 and $56,965)	$60,693	$ 59,196
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $0 and $150)	486	503
Equity securities, available-for-sale, at fair value (cost of $767 and $1,135) (includes equity securities, at fair value using the fair value option, of $0 and $282, and variable interest entity assets of $0 and $1)	798	1,121
Mortgage loans (net of allowances for loan losses of $22 and $23)	5,637	5,624
Policy loans, at outstanding balance	1,444	1,447
Limited partnerships and other alternative investments (includes variable interest entity assets of $394 and $2)	2,654	2,874
Other investments	280	120
Short-term investments (includes variable interest entity assets, at fair value, of $60 and $3)	1,918	1,843
Total investments	73,910	72,728
Cash (includes variable interest entity assets, at fair value, of $5 and $10)	479	448
Premiums receivable and agents’ balances, net	3,605	3,537
Reinsurance recoverables, net	23,125	23,189
Deferred policy acquisition costs	1,694	1,816
Deferred income taxes, net	2,868	3,206
Goodwill	498	498
Property and equipment, net	995	974
Other assets (includes variable interest entity assets of $4 and $0)	1,958	1,829
Separate account assets	118,361	120,123
Total assets	$227,493	$ 228,348
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,842	$ 41,572
Other policyholder funds and benefits payable	31,525	31,670
Unearned premiums	5,497	5,385
Short-term debt	690	275
Long-term debt	4,633	5,084
Other liabilities (includes variable interest entity liabilities of $5 and $12)	6,833	6,597
Separate account liabilities	118,361	120,123
Total liabilities	$209,381	$ 210,706
Commitments and Contingencies (Note 8)		
Stockholders’ Equity		
Common stock, $0.01 par value — 1,500,000,000 shares authorized, 490,923,222 and 490,923,222 shares issued	5	5
Additional paid-in capital	8,885	8,973
Retained earnings	12,789	12,550
Treasury stock, at cost — 95,319,786 and 89,102,038 shares	(3,821)	(3,557)
Accumulated other comprehensive income ("AOCI"), net of tax	254	(329)
Total stockholders’ equity	$18,112	$ 17,642
Total liabilities and stockholders’ equity	$227,493	$ 228,348

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

	Three Months Ended March 31,	
(In millions, except for share data)	2016	2015
	(Unaudited)	
Common Stock	$5	$5
Additional Paid-in Capital, beginning of period	8,973	9,123
Issuance of shares under incentive and stock compensation plans	(124)	(150)
Stock-based compensation plans expense	19	16
Tax benefit on employee stock options and share-based awards	24	26
Issuance of shares for warrant exercise	(7)	(19)
Additional Paid-in Capital, end of period	8,885	8,996
Retained Earnings, beginning of period	12,550	11,191
Net income	323	467
Dividends declared on common stock	(84)	(75)
Retained Earnings, end of period	12,789	11,583
Treasury Stock, at cost, beginning of period	(3,557)	(2,527)
Treasury stock acquired	(350)	(250)
Issuance of shares under incentive and stock compensation plans	125	154
Net shares acquired related to employee incentive and stock compensation plans	(46)	(53)
Issuance of shares for warrant exercise	7	19
Treasury Stock, at cost, end of period	(3,821)	(2,657)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	(329)	928
Total other comprehensive income (loss)	583	222
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	254	1,150
Total Stockholders' Equity	$18,112	$19,077
Common Shares Outstanding, beginning of period (in thousands)	401,821	424,416
Treasury stock acquired	(8,394)	(6,128)
Issuance of shares under incentive and stock compensation plans	3,069	3,923
Return of shares under incentive and stock compensation plans to treasury stock	(1,066)	(1,299)
Issuance of shares for warrant exercise	173	477
Common Shares Outstanding, at end of period	395,603	421,389

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
(In millions)	2016	2015
Operating Activities	(Unaudited)	
Net income	$323	$467
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital (gains) losses	155	(5)
Amortization of deferred policy acquisition costs	374	387
Additions to deferred policy acquisition costs	(354)	(354)
Depreciation and amortization	95	101
Other operating activities, net	81	22
Change in assets and liabilities:		
Decrease in reinsurance recoverables	53	37
Increase (decrease) in deferred and accrued income taxes	(14)	168
Increase in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	158	120
Net change in other assets and other liabilities	(473)	(496)
Net cash provided by operating activities	398	447
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	5,460	6,584
Fixed maturities, fair value option	19	36
Equity securities, available-for-sale	414	363
Mortgage loans	114	104
Partnerships	235	179
Payments for the purchase of:		
Fixed maturities, available-for-sale	(5,752)	(7,375)
Fixed maturities, fair value option	(38)	(59)
Equity securities, available-for-sale	(130)	(566)
Mortgage loans	(128)	(154)
Partnerships	(88)	(106)
Net proceeds from derivatives	189	45
Net increase (decrease) in policy loans	2	(24)
Net additions to property and equipment	(84)	(58)
Net proceeds from (payments for) short-term investments	(29)	1,325
Other investing activities, net	10	1
Net cash provided by investing activities	194	295
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	1,165	1,209
Withdrawals and other deductions from investment and universal life-type contracts	(4,174)	(4,682)
Net transfers from separate accounts related to investment and universal life-type contracts	2,810	3,175
Repayments at maturity or settlement of consumer notes	(5)	(2)
Net increase in securities loaned or sold under agreements to repurchase	64	323
Repayment of debt	—	(289)
Net issuance (return) of shares under incentive and stock compensation plans and excess tax benefit	10	(25)

Treasury stock acquired	(350)	(250)
Dividends paid on common stock	(85)	(78)
Net cash used for financing activities	(565)	(619)
Foreign exchange rate effect on cash	4	(22)
Net increase in cash	31	101
Cash – beginning of period	448	399
Cash – end of period	$479	$500
Supplemental Disclosure of Cash Flow Information		
Income tax refunds received	$—	$47
Interest paid	$71	$77

See Notes to Condensed Consolidated Financial Statements

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

1. Basis of Presentation and Significant Accounting Policies

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

On March 16, 2016, the Company announced it had entered into a definitive agreement for its wholly-owned subsidiary, Hartford Fire Insurance Company, to purchase Northern Homelands Company, the holding company of Maxum Specialty Insurance Group headquartered in Alpharetta, Georgia for $170, subject to post closing adjustments. Maxum will maintain its brand and limited wholesale distribution model and will be managed as a separate unit within The Hartford's Small Commercial line of business. The transaction, which will not have a material impact on the Company's financial position, results of operations or cashflows, is expected to close in the third quarter of 2016, subject to regulatory approvals.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, which differ materially from the accounting practices prescribed by various insurance regulatory authorities. These Condensed Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2015 Form 10-K Annual Report. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

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

Consolidation

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

Use of Estimates

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

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

Reclassifications

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

Adoption of New Accounting Standards

On January 1, 2016 the Company adopted new consolidation guidance issued by the Financial Accounting Standards Board ("FASB"). The updates revise when to consolidate variable interest entities ("VIEs") and general partners' investments in limited partnerships, end the deferral granted for applying the VIE guidance to certain investment companies, and reduce the number of circumstances where a decision maker's or service provider's fee arrangement is deemed to be a variable interest in an entity. The updates also modify guidance for determining whether limited partnerships are VIEs or voting interest entities. The new guidance did not have a material effect on the Company's Condensed Consolidated Financial Statements though one investment in a hedge fund of funds that was previously consolidated as a voting interest entity is now consolidated as a VIE. For further discussion, see Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Future Adoption of New Accounting Standards

Leases

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

Stock Compensation

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

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

2. Earnings Per Common Share

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

(In millions, except for per share data)	Three Months Ended March 31, 2016	2015
Earnings		
Net income	$323	$467
Shares		
Weighted average common shares outstanding, basic	398.5	422.6
Dilutive effect of stock compensation plans	4.2	5.5
Dilutive effect of warrants	3.6	5.6
Weighted average common shares outstanding and dilutive potential common shares	406.3	433.7
Net income per common share		
Basic	$0.81	$1.11
Diluted	$0.79	$1.08

3. Segment Information

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

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

Net Income (Loss)	Three Months Ended March 31, 2016	2015
Commercial Lines	$228	$240
Personal Lines	20	76
Property & Casualty Other Operations	17	23
Group Benefits	50	52
Mutual Funds	20	22
Talcott Resolution	17	111
Corporate	(29)	(57)
Net income	$323	$467

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

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

	Three Months Ended March 31,	
Revenues	2016	2015
Earned premiums and fee income		
Commercial Lines		
Workers' compensation	$755	$744
Property	159	156
Automobile	157	148
Package business	303	292
Liability	143	135
Bond	53	53
Professional liability	53	55
Total Commercial Lines	1,623	1,583
Personal Lines		
Automobile	678	655
Homeowners	297	297
Total Personal Lines [1]	975	952
Group Benefits		
Group disability	369	371
Group life	375	365
Other	51	44
Total Group Benefits	795	780
Mutual Funds		
Mutual Fund	142	149
Talcott	25	30
Total Mutual Funds	167	179
Talcott Resolution	269	285
Corporate	1	2
Total earned premiums and fee income	3,830	3,781
Net investment income	696	809
Net realized capital gains (losses)	(155)	5
Other revenues	20	22
Total revenues	$4,391	$4,617

[1] For the three months ended March 31, 2016 and 2015, AARP members accounted for earned premiums of $807 and $766, respectively.

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4. Fair Value Measurements

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

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

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

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

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

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

	March 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
Asset-backed-securities ("ABS")	$2,665	$ —	$ 2,633	$ 32
Collateralized debt obligations ("CDOs")	3,107	—	2,565	542
Commercial mortgage-backed securities ("CMBS")	5,224	—	5,090	134
Corporate	27,297	—	26,463	834
Foreign government/government agencies	1,189	—	1,113	76
Municipal	12,303	—	12,253	50
Residential mortgage-backed securities ("RMBS")	4,338	—	2,452	1,886
U.S. Treasuries	4,570	67	4,503	—
Total fixed maturities	60,693	67	57,072	3,554
Fixed maturities, FVO	486	—	472	14
Equity securities, trading [1]	11	11	—	—
Equity securities, AFS	798	548	158	92
Derivative assets				