HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-K
March 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2012
or

o	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)
SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT
(ALL OF WHICH ARE LISTED ON THE NEW YORK STOCK EXCHANGE INC.):
Common Stock, par value $0.01 per share
Depositary shares, representing interests in 7.25% Mandatory Convertible Preferred Stock, Series F, par value $0.01 per share
Warrants (expiring June 26, 2019)
6.10% Notes due October 1, 2041
7.875% Fixed-to-Floating Rate Junior Subordinated Debentures due 2042
SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:
None

Indicate by check mark:	Yes	No
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	þ	
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.		þ
• 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.	þ	
• 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).	þ	
• if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements	þ	

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

- 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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
- whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) þ

The aggregate market value of the shares of Common Stock held by non-affiliates of the registrant as of June 30, 2012 was approximately $7.6 billion, based on the closing price of $17.63 per share of the Common Stock on the New York Stock Exchange on June 30, 2012.

As of February 21, 2013, there were outstanding 436,598,310 shares of Common Stock, $0.01 par value per share, of the registrant.

Documents Incorporated by Reference

Portions of the registrant’s definitive proxy statement for its 2013 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
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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 and legislative 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”). Future developments may not be in line with management’s expectations or 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 Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and those identified from time to time in our other filings with the Securities and Exchange Commission. These important risks and uncertainties include:

- challenges related to the company's current operating environment, including continuing uncertainty about the strength and speed of the recovery in the United States and other key economies and the impact of governmental stimulus and austerity initiatives, sovereign credit concerns, a sustained low interest rate environment, higher tax rates and other potentially adverse developments on financial, commodity and credit markets and consumer and business spending and investment and the effect of these events on our returns in investment portfolios and our hedging costs associated with our variable annuities business;
- the risks, challenges and uncertainties associated with our capital management plan and our strategic realignment to focus on our property and casualty, group benefits and mutual fund businesses, place our Individual Annuity business into run-off and the sale of the Individual Life, Woodbury Financial Services and the Retirement Plans businesses;
- 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, 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 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;
- 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 enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which, among other effects, vests a Financial Services Oversight Council with the power to designate "systemically important" institutions, will require central clearing of, and/or impose new margin and capital requirements on, derivatives transactions, and created a new "Federal Insurance Office" within the U.S. Department of the Treasury ("Treasury");
- unfavorable judicial or legislative developments;
- 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;
- 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 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 impact of any future errors in financial reporting;
- 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-K. 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.

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PART I

Item 1. BUSINESS

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

General

The Hartford Financial Services Group, Inc. (together with its subsidiaries, “The Hartford”, the “Company”, “we”, or “our”) is an insurance and financial services company. The Hartford, headquartered in Connecticut, is among the largest providers of property and casualty insurance and investment products to both individual and business customers in the United States of America. Also, The Hartford continues to manage life and annuity products previously sold. Hartford Fire Insurance Company, founded in 1810, is the oldest of The Hartford’s subsidiaries. At December 31, 2012, total assets and total stockholders’ equity of The Hartford were $298.5 billion and $22.4 billion, respectively.

Organization

The Hartford strives to maintain and enhance its position as a market leader within the financial services industry. The Company sells diverse and innovative products through multiple distribution channels to consumers and businesses. The Company seeks on an ongoing basis to develop and expand its distribution channels, achieving cost efficiencies through economies of scale and improved technology, and capitalizes on its brand name and The Hartford Stag Logo, one of the most recognized symbols in the financial services industry.

In 2012, The Hartford concluded an evaluation of its strategy and business portfolio. The Company is currently focusing on its Property & Casualty, Group Benefits and Mutual Fund businesses. The objective of this realignment is to position the organization for higher returns on equity, reduced sensitivity to capital markets, a lower cost of capital and increased financial flexibility. As a result, the Company completed the sales of its Retirement Plans and Individual Life businesses in January 2013 and in 2012, the Company sold Woodbury Financial Services, Inc. ("Woodbury Financial Services", "WFS") an indirect wholly-owned broker-dealer subsidiary, and placed its annuity businesses into runoff.

As a holding company that is separate and distinct from its subsidiaries, The Hartford Financial Services Group, Inc. has no significant business operations of its own. Therefore, it relies on the dividends from its insurance companies and other subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of The Hartford Financial Services Group, Inc. may be found in the Capital Resources and Liquidity section of Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”).

Reporting Segments

The Hartford currently conducts business principally in six reporting segments including Property & Casualty Commercial, Consumer Markets, Property & Casualty Other Operations, Group Benefits, Mutual Funds and Talcott Resolution (formerly Life Other Operations), as well as a Corporate category. The Hartford includes in its Corporate category the Company’s debt financing and related interest expense, as well as other capital raising activities; and certain purchase accounting adjustments and other charges not allocated to the reporting segments.

The following discussion describes the principal products and services, marketing and distribution, and competition of The Hartford's reporting segments. For further discussion on the reporting segments, including financial disclosures of revenues by product line, geographical revenue, net income (loss), and assets for each reporting segment, see Note 4 of Notes to Consolidated Financial Statements.

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Property & Casualty Commercial

Principal Products and Services

Property & Casualty Commercial provides workers' compensation, property, automobile, liability and umbrella coverages under several different products, primarily throughout the United States, within its standard commercial lines, which consists of The Hartford's small commercial and middle market lines of business. Additionally, a variety of customized insurance products and risk management services including workers' compensation, automobile, general liability, professional liability, livestock and specialty casualty coverages are offered through the segment's specialty lines.

Standard commercial lines seeks to offer products with coverage options and customized pricing based on the policyholder's individualized risk characteristics. For small businesses, those businesses whose annual payroll is under $5 and whose revenue and property values are less than $15 each, property and liability coverages are bundled as part of a single multi-peril package policy marketed under the Spectrum name. Medium-sized businesses, companies whose payroll, revenue and property values exceed the small business definition, are served within middle market. The middle market line of business provides workers' compensation, property, automobile, liability, umbrella fidelity, surety and marine coverages.

Within the specialty lines, a significant portion of the specialty casualty business, including workers' compensation business, is written through large deductible programs where the insured typically provides collateral to support loss payments made within their deductible. The specialty casualty business also provides retrospectively-rated programs where the premiums are adjustable based on loss experience. Captive and Specialty Programs provide tailored property and casualty programs primarily to customers with common risk characteristics and those seeking a loss sensitive solution.

Marketing and Distribution

Standard commercial lines provide insurance products and services through the Company's home office located in Hartford, Connecticut, and multiple domestic regional office locations and insurance centers. The products are marketed nationwide utilizing brokers and independent agents. The current pace of consolidation within the independent agent and broker distribution channel will likely continue such that, in the future a larger proportion of written premium will likely be concentrated among fewer agents and brokers. Additionally the Company offers insurance products to customers of payroll service providers through its relationships with major national payroll companies.

Specialty lines also provide insurance products and services through its home office located in Hartford, Connecticut and multiple domestic office locations. Specialty lines markets its products nationwide utilizing a variety of distribution networks including independent retail agents, brokers and wholesalers.

Competition

In the small commercial marketplace, The Hartford competes against a number of large national carriers, as well as regional carriers in certain territories. Competitors include other stock companies, mutual companies and other underwriting organizations. The small commercial market has become increasingly competitive as carriers seek to differentiate themselves through product expansion, price reduction, enhanced service and cutting-edge technology. Larger carriers such as The Hartford have improved their pricing sophistication and ease of doing business with agents through the use of predictive modeling tools and automation which speeds up the process of evaluating a risk and quoting new business.

Written premium growth rates in the small commercial market have slowed in recent years and underwriting margins have been pressured by increases in loss costs, particularly in workers' compensation, and higher catastrophes. A number of companies have sought to grow their business by increasing their underwriting appetite, appointing new agents and expanding business with existing agents. Also, carriers serving middle market-sized accounts are more aggressively competing for small commercial accounts as small commercial business has generally been less price-sensitive.

Middle market business is characterized as "high touch" and involves case-by-case underwriting and pricing decisions. The pricing of middle market accounts is prone to significant variation or cyclicality over time, with sensitivity to legislative and macro-economic forces. Over the last several years, there has been a reduction in average premium size

as shrinking company payrolls, smaller auto fleets, and fewer business locations depress insurance exposures. Additionally, various state legislative reforms in recent years designed to control workers compensation indemnity costs have led to rate reductions in many states. These factors, characterized by highly competitive pricing on new business, have resulted in more new business opportunities in the marketplace as customers shop their policies for a lower price. In the face of this competitive environment, The Hartford continues to maintain a disciplined underwriting approach. To gain a competitive advantage in this environment, carriers are improving automation with agents and brokers, increasing pricing sophistication, and enhancing their product offerings. These enhancements include industry specialization, with The Hartford and other national carriers tailoring products and services to specific industry verticals such as technology, health care and renewable energy.

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In the surety business, favorable underwriting results over the past couple of years have led to increased competition for market share, setting the stage for potential written price decreases. Driven by the upheaval in the credit markets, new private construction activity has declined dramatically, resulting in lower demand for contract surety business.
Specialty lines is comprised of a diverse group of businesses that operate independently within their specific industries. These businesses, while somewhat interrelated, have different business models and operating cycles. Specialty lines competes on an account- by-account basis due to the complex nature of each transaction. Competition in this market includes other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. The relatively large size and underwriting capacity of The Hartford provides opportunities not available to smaller companies. Disciplined underwriting and targeted returns are the objectives of specialty lines since premium writings may fluctuate based on the segment's view of perceived market opportunity.
For specialty casualty businesses, written pricing competition continues to be significant, particularly for the larger individual accounts. Carriers are aggressively negotiating renewals with customers by initiating the renewal process well in advance of the policy renewal date, to improve retention, reducing new business opportunities within the marketplace. Within the national account business, as the market firms, more insureds may opt for loss-sensitive products in lieu of guaranteed cost policies.
Carriers writing professional liability business are increasingly focused on profitable private, middle market companies. This trend has continued as the downturn in the economy has led to a significant drop in the number of initial public offerings, and volatility for all public companies. Also, carriers' new business opportunities in the marketplace for directors & officers and errors & omissions insurance have been significantly influenced by customer perceptions of financial strength, as investment portfolio losses have had a negative effect on the financial strength ratings of some insurers.
In the commercial marketplace, the weak economy has prompted carriers to offer differentiated products and services as a means of gaining a competitive advantage. In addition to the initiatives specific to each of The Hartford's Property & Casualty Commercial lines of business noted above, the Company is leveraging its diverse product, service and distribution capabilities to deliver differentiated value in the market, while simultaneously increasing its ability to access its own diverse customer base for new product sales.

Consumer Markets

Principal Products and Services

Consumer Markets provides standard automobile, homeowners and home-based business coverages to individuals across the United States, including a special program designed exclusively for members of AARP ("AARP Program"). The Hartford's auto and homeowners products provide coverage options and customized pricing tailored to a customer's individual risk. The Hartford has individual customer relationships with AARP Program policyholders and, as a group, these customers represent a significant portion of the total Consumer Markets' business. Business sold to AARP members, either direct or through independent agents, amounted to earned premiums of $2.8 billion, $2.8 billion and $2.9 billion in 2012, 2011 and 2010, respectively. Consumer Markets also operates a member contact center for health insurance products offered through the AARP Health program, with the current agreement in place through 2018.

Marketing and Distribution

Consumer Markets reaches diverse customers through multiple distribution channels including direct sales to the consumer, brokers and independent agents. In direct sales to the consumer, the Company markets its products through a mix of media, including direct mail and e-commerce marketing, television and advertising, both digitally and in publications. Most of Consumer Markets' direct sales to the consumer are associated with its exclusive licensing arrangement with AARP, with the current agreement in place until January 1, 2020, to market automobile, homeowners and home-based business insurance products to AARP's approximately 37 million members. This agreement provides Consumer Markets with an important competitive advantage given the number of "baby boomers" over age 50, many of whom become AARP members.
Consumer Markets is also focused on targeting specific customer groups and writing business through partnerships and affinities other than AARP. The Company has affinity agreements with the American Kennel Club, Sierra Club,

the National Wildlife Federation and Direct Selling Association. In addition to selling product through its relationship with AARP and other affinities, the Company markets direct to the consumer within select underwriting markets, acquired through partnerships or list acquisitions, and to consumers in geographies where it is especially competitive. The agency channel provides customized products and services to customers through a network of independent agents in the standard personal lines market. These independent agents are not employees of The Hartford. During 2011 and 2012, the Company completed the rollout of its Open Road Advantage auto product and its Hartford Home Advantage homeowners' product.

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Competition

The personal lines automobile and homeowners businesses are highly competitive. Personal lines insurance is written by insurance companies of varying sizes that compete on the basis of price, product, service (including claims handling), stability of the insurer and brand recognition. Companies with recognized brands, direct sales capability and economies of scale will have a competitive advantage. In recent years, a number of carriers have increased their advertising in an effort to gain new business and retain profitable business. This has been particularly true of carriers that sell directly to the consumer. Industry sales of personal lines insurance direct to the consumer have been growing faster than sales through agents, particularly for auto insurance.

Carriers that distribute products mainly through agents compete by offering agents commissions and additional incentives to attract new business. To distinguish themselves in the marketplace, top tier carriers are offering on-line and self service capabilities to agents and consumers. More agents have been using “comparative rater” tools that allow the agent to compare premium quotes among several insurance companies. The use of comparative rater tools has further increased price competition. Carriers with more efficient cost structures will have an advantage in competing for new business through price.

The use of data mining and predictive modeling is used by more and more carriers to target the most profitable business and carriers have further segmented their pricing plans to expand market share in what they believe to be the most profitable segments. Some companies, including The Hartford, have written a greater percentage of their new business in preferred market segments which tend to have better loss experience but also lower average premiums. In addition, a number of companies have invested in telematics — the use of devices in insured vehicles to transmit information about driving behavior such as miles driven, speed, acceleration, deceleration — and are using that information to price the risk. Companies that are the first to introduce telematics may enjoy a competitive advantage through favorable risk selection.

Group Benefits

Principal Products and Services

Group Benefits provides group life, accident and disability coverage, group retiree health and voluntary benefits to individual members of employer groups, associations, affinity groups and financial institutions. Group Benefits offers disability underwriting, administration, claims processing and reinsurance to other insurers and self-funded employer plans. Policies sold in this segment are generally term insurance, allowing Group Benefits to adjust the rates or terms of its policies in order to minimize the adverse effect of market trends, declining interest rates, and other factors. Policies are typically sold with one, two or three-year rate guarantees depending upon the product.

In addition to the products and services traditionally offered within each of its lines of business, Group Benefits offers The Hartford Productivity Advantage (“THPA”), a single-company solution for leave management, integrating work absence data from the insurer’s short-term and long-term group disability and workers’ compensation insurance with its leave management administration services.

Marketing and Distribution

The Group Benefits distribution network includes an experienced group of Company employees, managed through a regional sales office system, to distribute its group insurance products and services through a variety of distribution outlets including brokers, consultants, third-party administrators and trade associations.

Competition

Group Benefits competes with numerous other insurance companies and other financial intermediaries marketing insurance products. This line of business focuses on both its risk management expertise and economies of scale to derive a competitive advantage. Competitive factors affecting Group Benefits include the variety and quality of products and services offered, the price quoted for coverage and services, the Company’s relationships with its third-party distributors, and the quality of customer service. In addition, active price competition continues in the marketplace resulting in multi-year rate guarantees being offered to customers. Top tier carriers in the marketplace also offer on-line and self service capabilities to agents and consumers. The relatively large size and underwriting capacity of the Group Benefits business provides opportunities not available to smaller companies.

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Mutual Funds

Principal Products and Services

Mutual Funds offers mutual funds for retail accounts such as retirement plans and 529 college savings plans and provides investment-management and administrative services such as product design, implementation and oversight. In 2012, Mutual Funds expanded its relationship with Wellington Management, which serves as the primary sub-advisor for The Hartford's 57 retail mutual funds, including equity, fixed-income and asset-allocation funds.

Marketing and Distribution

Mutual Fund sales professionals are segmented into two teams; a retail team and an institutional team. The retail team distributes The Hartford's open-end funds and markets 529 college savings plans to national and regional broker-dealer organizations, banks and other financial institutions, independent financial advisors and registered investment advisors. The institutional team distributes The Hartford's funds to professional buyers, such as broker-dealers, consultants, record keepers, and bank trust groups.

Competition

Mutual Funds compete with other mutual fund companies along with investment brokerage companies and differentiate themselves through product solutions, performance, and service. In this non-proprietary broker sold market, the Company and its competitors compete aggressively for net sales.

Talcott Resolution

Talcott Resolution's business is comprised of runoff business from the Company's U.S. annuity, international annuity, and institutional and private-placement life insurance businesses. Talcott Resolution's mission is to pursue opportunities to reduce the size and risk of the annuity book of business while honoring the Company's obligations to its annuity contractholders. Talcott Resolution manages approximately 1.7 million annuity contracts with account values of approximately $163 billion as of December 31, 2012.

In 2009, the Company suspended international annuity sales in its Japan and European operations and institutional annuity sales in the United States. In March 2012, the Company announced its intention to place its U.S. annuity business into runoff and sell its Retirement Plans and Individual Life businesses. Subsequently, the Company completed the sale of its U.S. individual annuities new business capabilities to Forethought Financial Group and the sale of the administration and operating assets of its private placement life insurance business to Philadelphia Financial Group, Inc. The Talcott Resolution business segment also includes our Retirement Plans and Individual Life businesses that were sold in January 2013. For further discussion of these transactions, see Note 2 - Business Dispositions of the Notes to Consolidated Financial Statements.

Reserves

The Hartford establishes and carries as liabilities reserves for its insurance products to estimate for the following:

- a liability for unpaid losses, including those that have been incurred but not yet reported, as well as estimates of all expenses associated with processing and settling these claims;
- a liability equal to the balance that accrues to the benefit of the life insurance policyholder as of the consolidated financial statement date, otherwise known as the account value;
- a liability for future policy benefits, representing the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums;
- fair value reserves for living benefits embedded derivative guarantees; and
- death and living benefit reserves which are computed based on a percentage of revenues less actual claim costs.

Further discussion of The Hartford's property and casualty insurance product reserves, including asbestos and environmental claims reserves, may be found in Part II, Item 7, MD&A — Critical Accounting Estimates — Property and Casualty Insurance Product Reserves, Net of Reinsurance. Additional discussion may be found in the Company's accounting policies for insurance product reserves within Note 1 of the Notes to Consolidated Financial Statements.

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Reinsurance

The Hartford cedes insurance to affiliated and unaffiliated insurers for both its property and casualty and life insurance products. Such arrangements do not relieve The Hartford of its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to The Hartford.

For property and casualty insurance products, reinsurance arrangements are intended to provide greater diversification of business and limit The Hartford's maximum net loss arising from large risks or catastrophes. A major portion of The Hartford's property and casualty insurance product reinsurance is effected under general reinsurance contracts known as treaties, or, in some instances, is negotiated on an individual risk basis, known as facultative reinsurance. The Hartford also has in-force excess of loss contracts with reinsurers that protect it against a specified part or all of a layer of losses over stipulated amounts.

For life insurance products, The Hartford is involved in both the cession and assumption of insurance with other insurance and reinsurance companies. As of December 31, 2012 and 2011, the Company's policy for the largest amount of life insurance retained on any one life by any one of its operations was $10. For the years ended December 31, 2012, 2011 and 2010, the Company did not make any significant changes in the terms under which reinsurance is ceded to other insurers. The Company entered into two reinsurance transactions upon completion of the sales of its Retirement Plans and Individual Life businesses in January 2013. See Note 2 - Business Dispositions of the Notes to Consolidated Financial Statements for further discussion of these transactions. In addition, the Company has reinsured a portion of the risk associated with U.S. variable annuities and the associated guaranteed minimum death benefit ("GMDB") and guaranteed minimum withdrawal benefit ("GMWB") riders, and of the risks associated with variable annuity contract and rider benefits issued by Hartford Life Insurance K.K.'s ("HLIKK"), an indirect wholly owned subsidiary.

For further discussion on reinsurance, see Part II, Item 7, MD&A — Enterprise Risk Management. Additional discussion may be found in the Company's accounting policies for reinsurance within Note 1 of the Notes to Consolidated Financial Statements.

Investment Operations

The majority of the Company's investment portfolios are managed by Hartford Investment Management Company ("HIMCO"). HIMCO manages the portfolios to maximize economic value, while attempting to generate the income necessary to support the Company's various product obligations, within internally established objectives, guidelines and risk tolerances. The portfolio objectives and guidelines are developed based upon the asset/liability profile, including duration, convexity and other characteristics within specified risk tolerances. The risk tolerances considered include, for example, asset and credit issuer allocation limits, maximum portfolio limits for below investment grade holdings and foreign currency exposure limits. The Company attempts to minimize adverse impacts to the portfolio and the Company's results of operations from changes in economic conditions through asset allocation limits, asset/liability duration matching and through the use of derivatives. For further discussion of HIMCO's portfolio management approach, see Part II, Item 7, MD&A — Enterprise Risk Management — Credit Risk.

In addition to managing the general account assets of the Company, HIMCO is also a SEC registered investment adviser for third party institutional clients, a sub-advisor for certain mutual funds and serves as the sponsor and collateral manager for capital markets transactions. HIMCO specializes in investment management that incorporates proprietary research and active portfolio management within a disciplined risk framework that seeks to provide value added returns versus peers and benchmarks. As of December 31, 2012 and 2011, the fair value of HIMCO's total assets under management was approximately $144.1 billion and $164.9 billion, respectively, of which $7.6 billion and $7.1 billion, respectively, were held in HIMCO managed third party accounts.

Enterprise Risk Management

The Company has an enterprise risk management function ("ERM") that is charged with providing analysis of the Company's risks on an individual and aggregated basis and with ensuring that the Company's risks remain within its risk appetite and tolerances. ERM plays an integral role at The Hartford by fostering a strong risk management culture and discipline. The mission of ERM is to support the Company in achieving its strategic priorities by:

- Providing a comprehensive view of the risks facing the Company, including risk concentrations and correlations;
-

- Helping management define the Company's overall capacity and appetite for risk by evaluating the risk return profile of the business relative to the Company's strategic intent and financial underpinning;
- Assisting management in setting specific risk tolerances and limits that are measurable, actionable, and comply with the Company's overall risk philosophy;
- Communicating and monitoring the firm's risk exposures relative to set limits and recommending, or implementing as appropriate, mitigating strategies; and
- Providing valuable insight to assist leaders in growing the businesses and achieving optimal risk-adjusted returns within established guidelines.

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Enterprise Risk Management Structure and Governance

At The Hartford, the Board of Directors ("the Board") has ultimate responsibility for risk oversight. It exercises its oversight function through its standing committees, each of which has primary risk oversight responsibility with respect to all matters within the scope of its duties as contemplated by its charter. In addition, the Finance, Investment and Risk Management Committee ("FIRMCo"), which is comprised of all members of the Board, has responsibility for overseeing the investment activities, financial management, and risk management activities of the Company and its subsidiaries, and all risks that do not fall within the oversight responsibility of any other standing committee. The Audit Committee is responsible for discussing with management risk assessment policies and overseeing enterprise operational risk.

At the corporate level, the Company's Enterprise Chief Risk Officer ("ECRO" or "Chief Risk Officer") leads ERM. The Chief Risk Officer reports directly to the Company's Chief Executive Officer ("CEO"). Reporting to the ECRO are the Chief Insurance Risk Officer ("CIRO"), Chief Operational Risk Officer ("CORO"), Chief Market Risk Officer ("CMRO"), Head of Asset Liability Management, and HIMCO Chief Risk Officer. The Company has established the Enterprise Risk and Capital Committee ("ERCC") that includes the Company's CEO, Chief Financial Officer ("CFO"), Chief Investment Officer ("CIO"), Chief Risk Officer, the divisional Presidents and the General Counsel. The ERCC is responsible for managing the Company's risks and overseeing the enterprise risk management program. The ERCC also manages the capital structure of the enterprise and is responsible the attribution of capital to the lines of business. The ERCC reports to the Board primarily through FIRMCo and through interactions with the Audit Committee.

The Company also has committees that manage specific risks and recommend risk mitigation strategies to the ERCC. These committees include, but are not limited to, the Company and Division Asset Liability Committees, Catastrophe Risk Committee, Emerging Risk Committees, Model Oversight Committees ("MOC") and Operational Risk Committee ("ORC").

Risk Management Framework

At the Company, risk is managed at multiple levels. The first line of risk management is generally the responsibility of the lines of business. Senior business leaders are responsible for taking and managing risks specific to their business objectives and business environment. In many cases, the second line of risk management is the principal responsibility of ERM. ERM has the responsibility to ensure the Company has insight into its aggregate risk and that risks are managed within the Company's overall risk tolerance. Internal Audit forms the third line of risk management by helping assess and ensure that risk controls are present and effective.

The Company's Risk Management Framework consists of four core elements:

1. Risk Culture and Governance: The Company has established policies for its major risks and a formal governance structure with leadership oversight and an assignment of accountability and authority. The governance structure starts at the Board and cascades to the ERCC and then to individual risk committees across the Company. In addition, the Company promotes a strong risk management culture and high expectations around ethical behavior.
2. Risk Identification and Assessment: Through its ERM organization, the Company has developed processes for the identification, assessment, and, when appropriate, response to internal and external risks to the Company's operations and business objectives. Risk identification and prioritization has been established within each area, including processes around emerging risks.
3. Risk Appetite and Limits: The Company has a formal risk appetite framework that is approved by the Company's ERCC and reviewed by the Board. The risk appetite framework includes risk appetite statements, risk preferences, risk tolerances and an associated limit structure for each of its major insurance and financial risks. These formal limits are encapsulated in formal risk policies that are reviewed at least annually by the ERCC.
4. Risk Monitoring, Controls and Communication: The Company monitors its major risks at the enterprise level through a number of enterprise reports, including but not limited to, a monthly risk dashboard, tracking the return on risk-capital across products, and regular stress testing. ERM communicates the Company's risk exposures to senior and executive management and the Board, and reviews key business performance metrics, risk indicators, audit reports, risk/control self assessments and risk event data.

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Risk Exposures and Quantification

The Company quantifies its enterprise insurance and financial risk exposures using multiple lenses including statutory, economic and, where appropriate, U.S. GAAP. ERM leverages various modeling techniques and metrics to provide a view of the Company's risk exposure in both normal and stressed environments. ERM regularly monitors the Company's risk exposure as compared to defined statutory limits and provides regular reporting to the ERCC.

In order to quantify group capital levels the Company uses an Economic Capital Model ("ECM") to quantify the value of risk management across the business lines and to advance its risk-based decision-making and optimization across risk and business. The Company also uses the ECM to inform the attribution of risk capital to each line of business.

The Company categorizes its main risks as follows in order to achieve a consistent and disciplined approach to quantifying, evaluating, and managing risk:

- Insurance Risk
- Operational Risk
- Financial Risk
- Business Risk

Insurance Risk

The Company defines insurance risk as its exposure to loss due to property, liability, mortality, morbidity, disability, longevity and other perils and risks covered under its policies, including adverse development on loss reserves supporting its products and geographic accumulations of loss over time due to property or casualty catastrophes.

Operational Risk

The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Financial Risk

Financial risk is broadly defined by the Company to include liquidity, interest rate, equity, foreign exchange, and credit risks, all of which have the potential to materially impact the Company's financial condition. Financial risk also includes exposure to events that may cause correlated movement in the above risk factors.

Business Risk

The Company manages its business risk at all levels of the organization. The Company categorizes its business risk as strategic risk and management risk. Strategic risk is defined as the risk to the defined company objectives from adverse developments in the Company's strategy vis-à-vis changing market conditions and competitor actions. Management risk is defined as the risk to defined company objectives from the ineffective or inefficient execution of the Company's strategic and business decisions. Enterprise strategic and management risks are assessed through strategic, business and operating plan reviews, as well as through management self-assessment processes and benchmarking.

For further discussion on risk management, see Part II, Item 7, MD&A - Enterprise Risk Management.

Regulation

Insurance companies are subject to comprehensive and detailed regulation and supervision throughout the United States. The extent of such regulation varies, but generally has its source in statutes which delegate regulatory, supervisory and administrative powers to state insurance departments. Such powers relate to, among other things, the standards of solvency that must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; establishing premium rates; claim handling and trade practices; restrictions on the size of risks which may be insured under a single policy; deposits of securities for the benefit of policyholders; approval of policy forms; periodic examinations of the affairs of companies; annual and other reports required to be filed on the financial condition of companies or for other purposes; fixing maximum interest rates on life insurance policy loans and minimum rates for accumulation of surrender values; and the adequacy of reserves and other necessary provisions for unearned premiums, unpaid losses and loss adjustment expenses and other liabilities, both reported and unreported.

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Most states have enacted legislation that regulates insurance holding company systems such as The Hartford. This legislation provides that each insurance company in the system is required to register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any entity in its holding company system. In addition, certain of such transactions cannot be consummated without the applicable insurance department's prior approval. In the jurisdictions in which the Company's insurance company subsidiaries are domiciled, the acquisition of more than 10% of The Hartford's outstanding common stock would require the acquiring party to make various regulatory filings.

Certain of the Company's life insurance subsidiaries sold variable life insurance, variable annuity, and some fixed guaranteed products that are "securities" registered with the SEC under the Securities Act of 1933, as amended. Some of the products have separate accounts that are registered as investment companies under the Investment Company Act of 1940, as amended (the "1940 Act"), and/or are regulated by state law. Separate account investment products are also subject to state insurance regulation. Moreover, each separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund that is also registered as an investment company under the 1940 Act ("Underlying Funds"). The Company offers these Underlying Funds and retail mutual funds that are registered with and regulated by the SEC.

In addition, other subsidiaries of the Company sold and distributed the Company's variable insurance products, Underlying Funds and retail mutual funds as broker dealers and are subject to regulation promulgated and enforced by the Financial Industry Regulatory Authority ("FINRA"), the SEC and/or in, some instances, state securities administrators. Other entities operate as investment advisers registered with the SEC under the Investment Advisers Act of 1940 and are registered as investment advisers under certain state laws, as applicable. One subsidiary is an investment company registered under the 1940 Act. Because federal and state laws and regulations are primarily intended to protect investors in securities markets, they generally grant regulators broad rulemaking and enforcement authority. Some of these regulations include, among other things, regulations impacting sales methods, trading practices, suitability of investments, use and safekeeping of customers' funds, corporate governance, capital, record keeping, and reporting requirements.

The extent of insurance regulation on business outside the United States varies significantly among the countries in which The Hartford operates. Some countries have minimal regulatory requirements, while others regulate insurers extensively. Foreign insurers in certain countries are faced with greater restrictions than domestic competitors domiciled in that particular jurisdiction. The Hartford's international operations are comprised of insurers licensed in their respective countries.

In addition, as described under "Legislative Developments," we are subject to a number of Dodd-Frank Act provisions. Failure to comply with federal and state laws and regulations may result in censure, fines, the issuance of cease-and-desist orders or suspension, termination or limitation of the activities of our operations and/or our employees. We cannot predict the impact of these actions on our businesses, results of operations or financial condition.

Intellectual Property

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property.

We have a worldwide trademark portfolio that we consider important in the marketing of our products and services, including, among others, the trademarks of The Hartford name, the Stag Logo and the combination of these two marks. The duration of trademark registrations varies from country to country and may be renewed indefinitely subject to country-specific use and registration requirements. We regard our trademarks as extremely valuable assets in marketing our products and services and vigorously seek to protect them against infringement.

Employees

The Hartford has approximately 22,500 employees as of December 31, 2012.

Available Information

The Hartford makes available, free of charge, on or through its Internet website (http://www.thehartford.com) The Hartford's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after The Hartford electronically files such material with, or furnishes it to, the SEC. None of the information made available on The Hartford's Internet website shall be deemed to be incorporated by reference herein and the reference to The Hartford's Internet website is provided as an inactive textual reference only. Information filed or furnished to the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website (http://sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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Item 1A. RISK FACTORS

Investing in The Hartford involves risk. In deciding whether to invest in The Hartford, you should carefully consider the following risk factors, any of which could have a significant or material adverse effect on the business, financial condition, results of operations, or liquidity of The Hartford and could also cause the trading price of our securities, including our common stock and other equity-related securities, to experience significant fluctuations and volatility. However, the risks and uncertainties described below are not the only ones related to our business and The Hartford may also be subject to other general risks that are not specifically enumerated which may have a significant or material adverse effect on the business, financial condition, results of operations or liquidity of The Hartford. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the Securities and Exchange Commission ("SEC"). The following risk factors are not necessarily listed in order of importance.

Our operating environment remains subject to uncertainty about the timing and strength of an economic recovery. The success of the realignment of our businesses and our capital management plan are subject to material challenges, uncertainties and risks and may not be adequate to mitigate the financial, competitive and other risks associated with our operating environment, which could adversely affect our business, financial condition, results of operations and liquidity.

The significant disruptions and difficult conditions in global economies and capital markets experienced in recent years has cast significant uncertainty regarding the timing and strength of an economic recovery, which may adversely affect our business, financial condition, results of operations and liquidity in 2013. Continued high unemployment, lower family income, higher tax rates, including on small business owners, lower business investment and lower consumer spending have adversely affected or may in the future adversely affect the demand for financial and insurance products, as well as their profitability in some cases. The rate of growth and recovery, including employment levels, from the recession has been below historic levels and a period of slow growth may persist for an extended period of time, which could adversely affect our business, financial condition, results of operations and liquidity.

The success of the realignment of our businesses and our capital management plan remain subject to material challenges, uncertainties and risks. We may not achieve all of the benefits we expect to derive from our plan to repurchase $500 of our equity and reduce our debt by $1 billion over the course of 2013 and 2014 and our decision to focus on our Property and Casualty, Group Benefits and Mutual Fund businesses, place our Individual Annuity business into runoff and sell the Individual Life, Woodbury Financial Services and Retirement Plans businesses. Our capital management plan is subject to execution risks, including, among others, risks related to market fluctuations and investor interest and potential legal constraints that could delay execution at an otherwise optimal time. There can be no assurance that we will in fact complete our capital management plan over the planned time frame or at all. Further, our opportunities to reduce the size and risk of the variable annuity book may be limited and initiatives pursued may not achieve the anticipated benefits. We also may not be able to eliminate expenses associated with the divested businesses in the manner and on the schedule we currently anticipate and we may incur additional restructuring charges. We may take further actions beyond the capital management plan and business realignment, which may include acquisitions, divestitures or restructurings that may involve additional uncertainties and risks that negatively impact our business, financial condition, results of operations and liquidity. In addition, we are exposed to execution risk relating to the continued reinvestment of our investment portfolios and the continuing refinement of our hedge programs for our run-off annuity block. If our actions are not adequate, our ability to support the scale of our business and to absorb operating losses and liabilities under our customer contracts could be impaired, which would in turn adversely affect our overall competitiveness and the capital position of the Company.

Our results, financial condition and statutory capital remain sensitive to equity and credit market performance and effects of interest rates and foreign currency, and we expect that market conditions will put pressure on returns in our investment portfolios and that our hedging costs (in particular with respect to our in-force variable annuity blocks) will remain higher than historical levels. Interest rates in recent periods continue to be at or near historically low levels. A sustained low interest rate environment would continue to pressure our net investment income and could

result in lower margins, increased pension expense and lower estimated gross profits on certain products. Further, if global economic conditions worsen and real estate valuations drop to new cycle lows, we may experience additional realized and unrealized investment losses, particularly in the real estate and financial services sectors. Negative rating agency actions with respect to our investments could also indirectly adversely affect our statutory capital and risk-based capital ("RBC") ratios, which could in turn have other negative consequences for our business and results. Even if the measures we have taken (or take in the future) are effective to mitigate the risks associated with our current operating environment, they may have unintended consequences. For example, rebalancing our hedging program to protect economic value, while being mindful of statutory surplus, may result in greater earnings volatility under generally accepted accounting principles in the U.S. ("U.S. GAAP"). We could be required to consider actions to manage our capital position and liquidity or further reduce our exposure to market and financial risks. We may also be forced to sell assets on unfavorable terms that could cause us to incur losses or lose the potential for market upside on those assets in a market recovery. We could also face other pressures, such as employee recruitment and retention issues and potential loss of distribution for our products.

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We are exposed to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices, market volatility, foreign exchange rates and global real estate market deterioration that may have a material adverse effect on our business, financial condition, results of operations, and liquidity.

One important exposure to equity risk relates to the potential for lower earnings associated with our operations in Mutual Funds and Talcott Resolution, such as U.S. and international variable annuities, where fee income is earned based upon the fair value of the assets under management. Should equity markets decline from current levels, assets under management and related fee income will be reduced. Such a decline could result in a need for significant additional allocated capital to certain insurance companies due to rating agency and regulatory requirements, including with respect to stress scenarios. Furthermore, certain of our products have guaranteed benefits that increase our potential obligation and statutory capital exposure should equity markets decline. Sustained declines in equity markets may result in the need to devote significant additional capital to support these products and adversely affect our ability to support our other businesses.

Interest rates in recent periods continue to be at or near historically low levels. As noted above, a sustained low interest rate environment would continue to pressure our net investment income and could result in lower margins, increased pension expense and lower estimated gross profits on certain products. In addition, due to the long-term nature of the liabilities within our Talcott Resolution operations, such as structured settlements and guaranteed benefits on variable annuities, sustained declines in long-term interest rates subjects us to reinvestment risks, increased hedging costs, spread compression and capital volatility. A rise in interest rates, in the absence of other countervailing changes, will reduce the market value of our investment portfolio and, if long-term interest rates were to rise dramatically within a six-to-twelve month time period, certain products within our Talcott Resolution division might be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate assets in an unrealized loss position. Although our products have features such as surrender charges and market-value adjustments, we are subject to disintermediation risk. An increase in interest rates can also impact our tax planning strategies and in particular our ability to utilize tax benefits to offset certain previously recognized realized capital losses.

Our exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. If issuer credit spreads widen significantly or retain historically wide levels over an extended period of time, additional other-than-temporary impairments and decreases in the market value of our investment portfolio will likely result. In addition, losses have also occurred due to the volatility in credit spreads. When credit spreads widen, we incur losses associated with the credit derivatives where the Company assumes exposure. When credit spreads tighten, we incur losses associated with derivatives where the Company has purchased credit protection. If credit spreads tighten significantly, the Company's net investment income associated with new purchases of fixed maturities may be reduced. In addition, a reduction in market liquidity can make it difficult to value certain of our securities when trading becomes less frequent. As such, valuations may include assumptions or estimates that may be more susceptible to significant period-to-period changes, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our statutory surplus is also affected by widening credit spreads as a result of the accounting for the assets and liabilities on our fixed market value adjusted (“MVA”) annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities we are required to use current crediting rates in the U.S. and Japanese LIBOR in Japan. In many capital market scenarios, current crediting rates in the U.S. are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. As actual credit spreads are not fully reflected in current crediting rates in the U.S. or Japanese LIBOR in Japan, the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in reductions in statutory surplus. This has resulted and may continue to result in the need to devote significant additional capital to support the fixed MVA product.

Our primary foreign currency exchange risk is related to certain guaranteed benefits associated with the Japan and U.K. variable annuities. The strengthening of the yen compared with other currencies would substantially increase our exposure to pay yen-denominated obligations. In addition, our foreign currency exchange risk relates to net income from foreign operations, non-U.S. dollar denominated investments, investments in foreign subsidiaries, and our yen-denominated individual fixed annuity product. In general, the weakening of foreign currencies versus the U.S. dollar will unfavorably affect net income from foreign operations, the value of non-U.S. dollar denominated investments, investments in foreign subsidiaries and realized gains or losses on the yen denominated annuity products. A strengthening of the U.S. dollar compared to foreign currencies will increase our exposure to the U.S. variable annuity guarantee benefits where policyholders have elected to invest in international funds, generating losses and statutory surplus strain.

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Our real estate market exposure includes investments in commercial mortgage-backed securities, residential mortgage-backed securities, commercial real estate collateralized debt obligations, mortgage and real estate partnerships, and mortgage loans. Deterioration in the real estate market in the recent past has adversely affected our business, financial condition, results of operations and liquidity. Significant further deterioration in the real estate market, including increases in property vacancy rates, delinquencies and foreclosures, could result in new cycle lows for market values and have a negative impact on sources of refinancing resulting in reduced market liquidity and higher risk premiums. This could result in impairments of real estate backed securities, a reduction in net investment income associated with real estate partnerships, and increases in our valuation allowance for mortgage loans. Significant declines in equity prices, changes in U.S. interest rates, changes in credit spreads, inflation, the strengthening or weakening of foreign currencies against the U.S. dollar, or global real estate market deterioration, individually or in combination, could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our business, financial condition, results of operations and liquidity may be materially adversely affected by unfavorable loss development.

Our success, in part, depends upon our ability to accurately assess the risks associated with the businesses that we insure. We establish loss reserves to cover our estimated liability for the payment of all unpaid losses and loss expenses incurred with respect to premiums earned on the policies that we write. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate settlement and administration of claims will cost, less what has been paid to date. These estimates are based upon actuarial and statistical projections and on our assessment of currently available data, as well as estimates of claims severity and frequency, legal theories of liability and other factors. Loss reserve estimates are refined periodically as experience develops and claims are reported and settled. Establishing an appropriate level of loss reserves is an inherently uncertain process. Because of this uncertainty, it is possible that our reserves at any given time will prove inadequate. Furthermore, since estimates of aggregate loss costs for prior accident years are used in pricing our insurance products, we could later determine that our products were not priced adequately to cover actual losses and related loss expenses in order to generate a profit. To the extent we determine that losses and related loss expenses are emerging unfavorably to our initial expectations, we will be required to increase reserves. Increases in reserves would be recognized as an expense during the period or periods in which these determinations are made, thereby adversely affecting our results of operations for the related period or periods. Depending on the severity and timing of any changes in these estimated losses, such determinations could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We are particularly vulnerable to losses from catastrophes, both natural and man-made, which could materially and adversely affect our business, financial condition, results of operations and liquidity.

Our insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, severe winter weather, wind storms, fires, tornadoes, explosions, pandemics and other natural or man-made disasters. The geographic distribution of our business subjects us to catastrophe exposure for events occurring in a number of areas, including, but not limited to, hurricanes in Florida, the Gulf Coast, the Northeast and the Atlantic coast regions of the United States, tornadoes in the Midwest and Southeast, earthquakes in California and the New Madrid region of the United States, and the spread of disease in metropolitan areas. We expect that increases in the values and concentrations of insured property in these areas will continue to increase the severity of catastrophic events in the future. Starting in 2004 and 2005, third-party catastrophe loss models for hurricane loss events have incorporated medium-term forecasts of increased hurricane frequency and severity - reflecting the potential influence of multi-decadal climate patterns within the Atlantic. In addition, changing climate conditions across longer time scales, including the potential risk of broader climate change, may be increasing, or may in the future increase, the severity of certain natural catastrophe losses across various geographic regions. In addition, changing climate conditions, primarily rising global temperatures, may be increasing, or may in the future increase, the frequency and severity of natural catastrophes and increase the potency of viral pathogens and bacterial outbreaks that can cause pandemics or adverse mortality trends. Potential examples of the impact of climate change on catastrophe exposure include, but are not limited to the following: an increase in the

frequency or severity of wind and thunderstorm and tornado/hailstorm events due to increased convection in the atmosphere, more frequent brush fires in certain geographies due to prolonged periods of drought, higher incidence of deluge flooding, and the potential for an increase in severity of the largest hurricane events due to higher sea surface temperatures. Additionally, due to such catastrophes, policyholders may be unable to meet their obligations to pay premiums on our insurance policies or make deposits on our investment products.

Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which could result in extraordinary losses. In addition, in part because accounting rules do not permit insurers to reserve for such catastrophic events until they occur, claims from catastrophic events could have a material adverse effect on our business, financial condition, results of operations or liquidity. To the extent that loss experience unfolds or models improve, we will seek to reflect any of these changes in the design and pricing of our products. However, the Company may be exposed to regulatory or legislative actions that prevent a full accounting of loss expectations in the design or pricing of our products or result in additional risk-shifting to the insurance industry.

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Actual results could materially differ from the analytical models we use to assist our decision making in key areas such as underwriting, capital, hedging, reserving, and catastrophe risks, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We employ various modeling techniques (e.g., scenarios, predictive, stochastic and/or forecasting) to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. We use the modeled outputs and related analyses to assist us in decision-making related to underwriting, pricing, capital allocation, reserving, hedging, reinsurance, and catastrophe risk. Both proprietary and third party models we use incorporate numerous assumptions and forecasts about the future level and variability of interest rates, capital requirements, loss frequency and severity, currency exchange rates, policyholder behavior, equity markets and inflation, among others. The modeled outputs and related analyses are subject to the inherent limitations of any statistical analysis, including the use of historical internal and industry data and assumptions. Consequently, actual results may differ materially from our modeled results. The profitability and financial condition of the Company substantially depends on the extent to which our actual experience is consistent with assumptions we use in our models and ultimate model outputs. If, based upon these models or other factors, we misprice our products or our estimates of the risks we are exposed to prove to be materially inaccurate, our business, financial condition, results of operations or liquidity may be adversely affected.

Our business, financial condition, results of operations and liquidity may be adversely affected by the emergence of unexpected and unintended claim and coverage issues.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may either extend coverage beyond our underwriting intent or increase the frequency or severity of claims. In some instances, these changes may not become apparent until some time after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued, and this liability may have a material adverse effect on our business, financial condition, results of operations and liquidity at the time it becomes known.

As a property and casualty insurer, the premium rates we are able to charge and the profits we are able to obtain are affected by the actions of state insurance departments that regulate our business, the cyclical nature of the business in which we compete and our ability to adequately price the risks we underwrite, which may have a material adverse effect on our business, financial condition, results of operations and liquidity.

Pricing adequacy depends on a number of factors, including the ability to obtain regulatory approval for rate changes, proper evaluation of underwriting risks, the ability to project future loss cost frequency and severity based on historical loss experience adjusted for known trends, our response to rate actions taken by competitors, and expectations about regulatory and legal developments and expense levels. We seek to price our property and casualty insurance policies such that insurance premiums and future net investment income earned on premiums received will provide for an acceptable profit in excess of underwriting expenses and the cost of paying claims.

State insurance departments that regulate us often propose premium rate changes for the benefit of the consumer at the expense of the insurer and may not allow us to reach targeted levels of profitability. In addition to regulating rates, certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, joint underwriting associations and other residual market plans, or to offer coverage to all consumers and often restrict an insurer's ability to charge the price it might otherwise charge or restrict an insurer's ability to offer or enforce specific policy deductibles. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates or accept additional risk not contemplated in our existing rates, participate in the operating losses of residual market plans or pay assessments to fund operating deficits of state-sponsored funds, possibly leading to unacceptable returns on equity. The laws and regulations of many states also limit an insurer's ability to withdraw from one or more lines of insurance in the state, except pursuant to a plan that is approved by the state's insurance department. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Any of these factors could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Additionally, the property and casualty insurance market is historically cyclical, experiencing periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively low levels of competition, more selective underwriting standards and relatively high premium rates. Prices tend to increase for a particular line of business when insurance carriers have incurred significant losses in that line of business in the recent past or when the industry as a whole commits less of its capital to writing exposures in that line of business. Prices tend to decrease when recent loss experience has been favorable or when competition among insurance carriers increases. In all of our property and casualty insurance product lines and states, there is a risk that the premium we charge may ultimately prove to be inadequate as reported losses emerge. In addition, there is a risk that regulatory constraints, price competition or incorrect pricing assumptions could prevent us from achieving targeted returns. Inadequate pricing could have a material adverse effect on our results of operations.

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The amount of statutory capital that we have, and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements, can vary significantly from time to time and is sensitive to a number of factors outside of our control, including equity market, credit market, interest rate and foreign currency conditions, changes in policyholder behavior and changes in rating agency models.

We conduct the vast majority of our business through licensed insurance company subsidiaries. Accounting standards and statutory capital and reserve requirements for these entities are prescribed by the applicable insurance regulators and the National Association of Insurance Commissioners (“NAIC”). Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital formulas for both life and property and casualty companies. The RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain death benefits or certain living benefits. The RBC formula for property and casualty companies adjusts statutory surplus levels for certain underwriting, asset, credit and off-balance sheet risks. Our international operations are subject to regulation in the relevant jurisdiction in which they operate, which in many ways is similar to the state regulation outlined above, with similar related restrictions and obligations.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments, changes in interest rates and foreign currency exchange rates, the impact of internal reinsurance arrangements, and changes to the NAIC RBC formulas. Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing the amount of statutory capital we must hold in order to maintain our current ratings. Also, in extreme scenarios of equity market declines and other capital market volatility, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees increases at a greater than linear rate. This reduces the statutory surplus used in calculating our RBC ratios. When equity markets increase, surplus levels and RBC ratios will generally increase. This may be offset, however, as a result of a number of factors and market conditions, including the level of hedging costs and other risk transfer activities, reserve requirements for death and living benefit guarantees and RBC requirements could also increase, lowering RBC ratios. For example, while our property and casualty companies are expected to generate statutory surplus in 2013, our life companies' statutory surplus, excluding the statutory surplus gain from the dispositions of Individual Life and Retirement Plans, is expected to be flat to positive in 2013, which while an improvement over 2012 is challenged due to continued low interest rates and high loss cost trends in Group Benefits. Due to these factors, projecting statutory capital and the related RBC ratios is complex. If our statutory capital resources are insufficient to maintain a particular rating by one or more rating agencies, we may seek to raise capital through public or private equity or debt financing. If we were not to raise additional capital, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be downgraded by one or more rating agencies.

Downgrades in our financial strength or credit ratings, which may make our products less attractive, could increase our cost of capital and inhibit our ability to refinance our debt, which would have a material adverse effect on our business, financial condition, results of operations and liquidity.

Financial strength and credit ratings, including commercial paper ratings, are important in establishing the competitive position of insurance companies. Rating agencies assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating agency, general economic conditions, and circumstances outside the rated company's control. In addition, rating agencies may employ different models and formulas to assess the financial strength of a rated company, and from time to time rating agencies have, at their discretion, altered these models. Changes to the models, general economic conditions, or circumstances outside our control could impact a rating agency's judgment of its rating and the rating it assigns us. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which

may adversely affect us.

Our financial strength ratings, which are intended to measure our ability to meet policyholder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. A downgrade or a potential downgrade in the rating of our financial strength or of one of our principal insurance subsidiaries could affect our competitive position and reduce future sales of our products.

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Our credit ratings also affect our cost of capital. A downgrade or a potential downgrade of our credit ratings could make it more difficult or costly to refinance maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the financial strength ratings of our principal insurance subsidiaries. Downgrades could begin to trigger potentially material collateral calls on certain of our derivative instruments and counterparty rights to terminate derivative relationships, both of which could limit our ability to purchase additional derivative instruments. These events could materially adversely affect our business, financial condition, results of operations and liquidity. For a further discussion of potential impacts of ratings downgrades on derivative instruments, including potential collateral calls, see the "Capital Resources and Liquidity - Derivative Commitments" section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Concentration of our investment portfolio in any particular segment of the economy may have adverse effects on our business, financial condition, results of operations and liquidity.

The concentration of our investment portfolios in any particular industry, collateral type, group of related industries or geographic sector could have an adverse effect on our investment portfolios and consequently on our business, financial condition, results of operations and liquidity. Events or developments that have a negative impact on any particular industry, group of related industries or geographic region may have a greater adverse effect on our investment portfolio to the extent that the portfolio is concentrated rather than diversified.

Our adjustment of our risk management program relating to products we offered with guaranteed benefits to emphasize protection of economic value will likely result in greater U.S. GAAP volatility in our earnings and potentially material charges to net income (loss) in periods of rising equity market pricing levels.

Some of the in-force business within our Talcott Resolution operations, especially variable annuities, offer guaranteed benefits which, in the event of a decline in equity markets, would not only result in lower earnings, but will also increase our exposure to liability for benefit claims. We are also subject to equity market volatility related to these benefits, including the guaranteed minimum withdrawal benefit (“GMWB”), guaranteed minimum accumulation benefit (“GMAB”), guaranteed minimum death benefit (“GMDB”) and guaranteed minimum income benefit (“GMIB”) associated with in-force variable annuities. We use reinsurance structures and have modified benefit features to mitigate the exposure associated with GMDB. We also use reinsurance in combination with a modification of benefit features and derivative instruments to attempt to minimize the claim exposure and to reduce the volatility of net income associated with the GMWB liability. However, due to the severe economic conditions experienced in recent years, we adjusted our risk management program to place greater relative emphasis on the protection economic value. This shift in relative emphasis has resulted in greater U.S. GAAP earnings volatility and, based upon the types of hedging instruments used, can result in potentially material charges to net income (loss) in periods of rising equity market pricing levels, lower interest rates, rises in volatility and weakening of the yen against other currencies. While we believe that these actions have improved the efficiency of our risk management related to these benefits, we remain liable for the guaranteed benefits in the event that reinsurers or derivative counterparties are unable or unwilling to pay and in turn may need additional capital to support in-force business. We are also subject to the risk that these management procedures prove ineffective or that unanticipated policyholder behavior, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed, which individually or collectively may have a material adverse effect on our business, financial condition, results of operations and liquidity.

Our valuations of many of our financial instruments include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our business, results of operations, financial condition and liquidity.

The following financial instruments are carried at fair value in the Company's consolidated financial statements: fixed maturities, equity securities, freestanding and embedded derivatives, and separate account assets. The determination of fair values is made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the financial environment. In such cases, securities may require more subjectivity and management judgment in determining their fair values and those fair values may differ materially from the value at which the investments may be ultimately sold. Further, rapidly changing or unprecedented credit and equity market conditions could materially impact the valuation of securities and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our business, results of operations, financial condition and liquidity.

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Evaluation of available-for-sale securities for other-than-temporary impairment involves subjective determinations and could materially impact our business, financial condition, results of operations and liquidity.

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether a credit and/or non-credit impairment exists and whether an impairment should be recognized in current period earnings or in other comprehensive income. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or future recovery prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. For securitized financial assets with contractual cash flows, the Company currently uses its best estimate of cash flows over the life of the security. In addition, estimating future cash flows involves incorporating information received from third-party sources and making internal assumptions and judgments regarding the future performance of the underlying collateral and assessing the probability that an adverse change in future cash flows has occurred. The determination of the amount of other-than-temporary impairments is based upon our quarterly evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

Additionally, our management considers a wide range of factors about the security issuer and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations in the impairment evaluation process include, but are not limited to:

- the length of time and the extent to which the fair value has been less than cost or amortized cost;
- changes in the financial condition, credit rating and near-term prospects of the issuer;
- whether the issuer is current on contractually obligated interest and principal payments;
- changes in the financial condition of the security's underlying collateral;
- the payment structure of the security;
- the potential for impairments in an entire industry sector or sub-sector;
- the potential for impairments in certain economically depressed geographic locations;
- the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources;
- unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities;
- for mortgage-backed and asset-backed securities, commercial and residential property value declines that vary by property type and location and average cumulative collateral loss rates that vary by vintage year;
- other subjective factors, including concentrations and information obtained from regulators and rating agencies;
- our intent to sell a debt or an equity security with debt-like characteristics (collectively, “debt security”) or whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery; and
- our intent and ability to retain an equity security without debt-like characteristics for a period of time sufficient to allow for the recovery of its value.

Impairment losses in earnings could materially adversely affect our results of operation and financial condition.

Losses due to nonperformance or defaults by others, including issuers of investment securities (which include structured securities such as commercial mortgage backed securities and residential mortgage backed securities, European private and sovereign issuers, or other high yielding bonds) mortgage loans or reinsurance and derivative instrument counterparties, could have a material adverse effect on the value of our investments, business, financial condition, results of operations and liquidity.

Issuers or borrowers whose securities or loans we hold, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, government intervention or other reasons. Such defaults could have a material adverse effect on the value of our investments, business, financial condition, results of operations and liquidity. Additionally, the underlying assets supporting our structured securities or loans may deteriorate causing these securities or loans to incur losses.

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Our investment portfolio includes securities backed by real estate assets the value of which have been adversely impacted by the recent recessionary period, high unemployment rates and the associated property value declines, ultimately resulting in a reduction in expected future cash flows for certain securities. The Company also has exposure to European based issuers of securities and providers of reinsurance, as well as indirect European exposure resulting from the variable annuity products that it has sold in Japan and the United Kingdom. Further details of the European private and sovereign issuers held within the investment portfolio and indirect variable annuity exposures can be found in Part II, Item 7, MD&A - Enterprise Risk Management - Investment Portfolio Risks and Risk Management. The Company's European based reinsurance arrangements are further described in Part II, Item 7, MD&A - Enterprise Risk Management - Investment Portfolio Risks and Risk Management - European Exposure.

Further property value declines and loss rates that exceed our current estimates, as outlined in Part II, Item 7, MD&A - Enterprise Risk Management - Other-Than-Temporary Impairments, or a worsening of global economic conditions could have a material adverse effect on our business, financial condition, results of operations and liquidity.

To the extent the investment portfolio is not adequately diversified, concentrations of credit risk may exist which could negatively impact the Company if significant adverse events or developments occur in any particular industry, group of related industries or geographic regions. The Company is not exposed to any credit concentration risk of a single issuer greater than 10% of the Company's stockholders' equity other than U.S. government and U.S. government agencies backed by the full faith and credit of the U.S. government, and the Government of Japan. However, if issuers of securities or loans we hold are acquired, merge or otherwise consolidate with other issuers of securities or loans held by the Company, the Company's credit concentration risk could increase above the 10% threshold, for a period of time, until the Company is able to sell securities to get back in compliance with the established investment credit policies.

If assumptions used in estimating future gross profits differ from actual experience, we may be required to accelerate the amortization of DAC and increase reserves for guaranteed minimum death and income benefits, which could have a material adverse effect on our results of operations and financial condition.

The Company deferred acquisition costs associated with the prior sales of its universal and variable life and variable annuity products. These costs are amortized over the expected life of the contracts. The remaining deferred but not yet amortized cost is referred to as the Deferred Acquisition Cost (“DAC”) asset. We amortize these costs in proportion to the present value of estimated gross profits (“EGPs”). The Company evaluates the EGPs compared to the DAC asset to determine if an impairment exists. The Company also establishes reserves for GMDB and GMIB using components of EGPs. The projection of EGPs, or components of EGPs, requires the use of certain assumptions, principally related to separate account fund returns in excess of amounts credited to policyholders, surrender and lapse rates, interest margin (including impairments), mortality, benefit utilization, annuitization and hedging costs. Of these factors, we anticipate that changes in investment returns are most likely to impact the rate of amortization of such costs. However, other factors such as those the Company might employ to reduce risk, such as the cost of hedging or other risk mitigating techniques, could also significantly reduce estimates of future gross profits. Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. If our assumptions regarding policyholder behavior, including lapse rates, benefit utilization, surrenders, and annuitization, hedging costs or costs to employ other risk mitigating techniques prove to be inaccurate or if significant or sustained equity market declines occur, we could be required to accelerate the amortization of DAC related to variable annuity and variable universal life contracts, and increase reserves for GMDB and GMIB which would result in a charge to net income. Such adjustments could have a material adverse effect on our results of operations and financial condition.

If our businesses do not perform well, we may be required to recognize an impairment of our goodwill or to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the “reporting unit” to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The fair value of the reporting unit is impacted by the

performance of the business and could be adversely impacted by any efforts made by the Company to limit risk. If it is determined that the goodwill has been impaired, the Company must write down the goodwill by the amount of the impairment, with a corresponding charge to net income (loss). These write downs could have a material adverse effect on our results of operations or financial condition.

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Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the business including the ability to generate capital gains, to offset previously recognized capital losses, from a variety of sources and tax planning strategies. If based on available information, it is more likely than not that we are unable to recognize a full tax benefit on realized capital losses, then a valuation allowance will be established with a corresponding charge to net income (loss). Charges to increase our valuation allowance could have a material adverse effect on our results of operations and financial condition.

The occurrence of one or more terrorist attacks in the geographic areas we serve or the threat of terrorism in general may have a material adverse effect on our business, financial condition, results of operations and liquidity.

The occurrence of one or more terrorist attacks in the geographic areas we serve could result in substantially higher claims under our insurance policies than we have anticipated. Private sector catastrophe reinsurance is extremely limited and generally unavailable for terrorism losses caused by attacks with nuclear, biological, chemical or radiological weapons. Reinsurance coverage from the federal government under the Terrorism Risk Insurance Program Reauthorization Act of 2007 (“TRIPRA”) is also limited. Although TRIPRA provides benefits in the event of certain acts of terrorism, those benefits are subject to a deductible and other limitations. Under TRIPRA, once our losses exceed 20% of our subject commercial property and casualty insurance premium for the preceding calendar year, the federal government will reimburse us for 85% of our losses attributable to certain acts of terrorism which exceed this deductible up to a total industry program cap of $100 billion. Our estimated deductible under the program is $1.2 billion for 2013. In addition, because the interpretation of this law is untested, there is substantial uncertainty as to how it will be applied to specific circumstances. It is also possible that future legislative action could change TRIPRA, which is due to expire at the end of 2014, unless extended.

Accordingly, the effects of a terrorist attack in the geographic areas we serve may result in claims and related losses for which we do not have adequate reinsurance. This would likely cause us to increase our reserves, adversely affect our results during the period or periods affected and, could adversely affect our business, financial condition, results of operations and liquidity. Further, the continued threat of terrorism and the occurrence of terrorist attacks, as well as heightened security measures and military action in response to these threats and attacks or other geopolitical or military crises, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in our investment portfolio as well as those in our separate accounts. Terrorist attacks also could disrupt our operations centers in the U.S. or abroad. As a result, it is possible that any, or a combination of all, of these factors may have a material adverse effect on our business, financial condition, results of operations and liquidity.

It is difficult for us to predict our potential exposure for asbestos and environmental claims, and our ultimate liability may exceed our currently recorded reserves, which may have a material adverse effect on our business, financial condition, results of operations and liquidity.

We continue to receive asbestos and environmental claims. Significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses for both environmental and particularly asbestos claims. For some asbestos and environmental claims, we believe that the actuarial tools and other techniques we employ to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for our asbestos and environmental exposures. Accordingly, the degree of variability of reserve estimates for these longer-tailed exposures is significantly greater than for other more traditional exposures. It is also not possible to predict changes in the legal and legislative environment and their effect on the future development of asbestos and environmental claims. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses for both environmental and particularly asbestos claims, the ultimate liabilities may exceed the currently recorded reserves. Increases in reserves would be recognized as an expense during the periods in which these determinations are made, thereby adversely affecting our results of operations for the related periods. Any such additional liability cannot be reasonably estimated now, but could have a material adverse effect on our business, financial condition, results of operations and liquidity.

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We may incur losses due to our reinsurers' unwillingness or inability to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance may not be sufficient to protect us against losses. As an insurer, we frequently seek to reduce the effect of losses that may arise from catastrophes to transfer other risks that can cause unfavorable results of operations, or to effect the sale of one line of business to an independent company through reinsurance. Under these reinsurance arrangements, other insurers assume a portion of our losses and related expenses; however, we remain liable as the direct insurer on all risks reinsured. Consequently, ceded reinsurance arrangements do not eliminate our obligation to pay claims, and we are subject to our reinsurers' credit risk with respect to our ability to recover amounts due from them. Although we regularly evaluate the financial condition of our reinsurers to minimize our exposure to significant losses from reinsurer insolvencies, our reinsurers may become financially unsound or choose to dispute their contractual obligations by the time their financial obligations become due. The inability or unwillingness of any reinsurer to meet its financial obligations to us could have a material adverse effect on our results of operations. In addition, market conditions beyond our control determine the availability and cost of the reinsurance we are able to purchase. Historically, reinsurance pricing has changed significantly from time to time. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms as are currently available. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our net liability exposure, reduce the amount of business we write, or develop to the extent possible other alternatives to reinsurance. Further, due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables will be 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 quarterly or annual period.

Competitive activity may adversely affect our market share and financial results, which could have a material adverse effect on our business and results of operations.

The insurance industry is highly competitive. Our principal competitors are other property and casualty insurers, group benefits providers and mutual funds. Larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. These highly competitive pressures could result in increased pricing pressures on a number of our products and services and may harm our ability to maintain or increase our profitability. Because of the highly competitive nature of the insurance industry, there can be no assurance that we will continue to compete effectively with our industry rivals, or that competitive pressure will not have a material adverse effect on our business and results of operations.

We may experience difficulty in marketing, distributing and providing investment advisory services in relation to our products through current and future distribution channels and advisory firms.

We distribute our insurance products and mutual funds through a variety of distribution channels, including brokers, independent agents, broker-dealers, banks, wholesalers, affinity partners, our own internal sales force and other third-party organizations. In some areas of our business, we generate a significant portion of our business through or in connection with individual third-party arrangements. For example, we market our Consumer Markets products in part through an exclusive licensing arrangement with AARP that continues through January 2020. Our ability to distribute products through affinity partners may be adversely impacted by membership levels and the pace of membership growth. In December 2011, we entered into a 5-year agreement with Wellington Management Company as the preferred sub-advisor for The Hartford Mutual Funds. We periodically negotiate provisions and renewals of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in our continuing relationship with certain of these third parties, including potentially as a result of a strategic transaction, could materially affect our ability to market our products and could have a material adverse effect on our business, financial condition, results of operations and liquidity.

The impact of regulatory initiatives, including the enactment of the Dodd-Frank Act, could have a material adverse impact on our business, financial condition, results of operations and liquidity.

Regulatory developments relating to the recent financial crisis may significantly affect our operations and prospects in ways that we cannot predict. U.S. and overseas governmental and regulatory authorities, including the SEC, the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (“FDIC”), the NYSE and the Financial Industry Regulatory Authority, Inc. (“FINRA”) are considering enhanced or new regulatory requirements intended to prevent future crises or otherwise stabilize the institutions under their supervision. Such measures are likely to lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important companies in particular. Such measures could include taxation of financial transactions and restrictions on employee compensation.

The Dodd-Frank Act was enacted on July 21, 2010, mandating changes to the regulation of the financial services industry. Implementation of the Dodd-Frank Act is ongoing and may affect our operations and governance in ways that could adversely affect our financial condition and results of operations.

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Certain provisions of the Dodd-Frank Act will require central clearing of, and/or impose new margin and capital requirements on, derivatives transactions, which we expect will increase the costs of our hedging program. Other provisions in the Dodd-Frank Act that may impact us include: the new “Federal Insurance Office” within Treasury; the possible adverse impact on the pricing and liquidity of the securities in which we invest resulting from the proprietary trading and market making limitation of the Volcker Rule; the possible prohibition of certain asset-backed securities transactions that could adversely impact our ability to offer insurance-linked securities; and enhancements to corporate governance, especially regarding risk management.

The Dodd-Frank Act vests the Financial Stability Oversight Council (“FSOC”) with the power to designate “systemically important” institutions, which will be subject to special regulatory supervision and other provisions intended to prevent, or mitigate the impact of, future disruptions in the U.S. financial system. Systemically important institutions are limited to large bank holding companies and nonbank financial companies that are so important that their potential failure could “pose a threat to the financial stability of the United States.” The FSOC published a final rule setting forth the process they propose to follow when designating systemically important nonbank financial companies in April 2012. Based on its most current financial data, The Hartford is below the initial quantitative thresholds that will be used to determine which nonbank companies merit consideration. The FSOC has indicted it will review on a quarterly basis whether nonbank financial institutions meet the metrics for further review.

If we are designated as a systemically important institution, we could be subject to higher capital requirements and additional regulatory oversight imposed by the Federal Reserve, as well as to post-event assessments imposed by the FDIC to recoup the costs associated with the orderly liquidation of other systemically important institutions in the event one or more such institutions fails. Further, in certain circumstances the FDIC is authorized to petition a state court to commence an insolvency proceeding to liquidate an insurance company that fails in the event the insurer's state regulator fails to act. If designated, we could also be subject to increased capital requirements or quantitative limits with respect to our sponsorship of and investments in private equity and hedge funds, which could limit our discretion in managing our general account. The Federal Reserve issued a proposed rule in December 2011 that would apply capital and liquidity requirements, single-counterparty credit limits, and stress testing and risk management requirements to systemically important institutions, and subject such institutions to an early remediation regime based on these requirements. The Federal Reserve has noted that they may tailor the application of the proposed rule to the particular attributes of systemically important nonbank financial companies. If The Hartford were to be designated as systemically important by the FSOC, these requirements could apply to The Hartford. However, it is not yet clear how or to what extent these requirements would be applied to systemically important nonbank financial companies.

We may experience unfavorable judicial or legislative developments involving claim litigation that could have a material adverse effect on our business, financial condition, results of operations and liquidity.

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. The Company is also involved in legal actions that do not arise in the ordinary course of business, some of which assert claims for substantial amounts. Pervasive or significant changes in the judicial environment relating to matters such as trends in the size of jury awards, developments in the law relating to the liability of insurers or tort defendants, and rulings concerning the availability or amount of certain types of damages could cause our ultimate liabilities to change from our current expectations. Changes in federal or state tort litigation laws or other applicable law could have a similar effect. It is not possible to predict changes in the judicial and legislative environment and their impact on the future development of the adequacy of our loss reserves, particularly reserves for longer-tailed lines of business, including asbestos and environmental reserves, and how those changes might adversely affect our ability to price our products appropriately. Our business, financial condition, results of operations and liquidity could also be adversely affected if judicial or legislative developments cause our ultimate liabilities to increase from current expectations.

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Potential changes in domestic and foreign regulation may increase our business costs and required capital levels, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.
We are subject to extensive U.S. and non-U.S. laws and regulations that are complex, subject to change and often conflicting in their approach or intended outcomes. Compliance with these laws and regulations is costly and can affect our strategy, as well as the demand for and profitability of the products we offer.
State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled, licensed or authorized to conduct business. U.S. state laws grant insurance regulatory authorities broad administrative powers with respect to, among other things:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving policy forms;
- regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- protecting privacy;
- establishing statutory capital and reserve requirements and solvency standards;
- fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;
- approving changes in control of insurance companies;
- approving acquisitions, divestitures and similar transactions;
- restricting the payment of dividends to the parent company and other transactions between affiliates;
- establishing assessments and surcharges for guaranty funds, second-injury funds and other mandatory pooling arrangements;
- requiring insurers to dividend any excess profits to policy holders; and
- regulating the types, amounts and valuation of investments.

In addition, future regulatory initiatives could be adopted at the federal or state level that could impact the profitability of our businesses. For example, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs or increased statutory capital and reserve requirements.
Further, because these laws and regulations are complex and sometimes inexact, there is also a risk that any particular regulator's or enforcement authority's interpretation of a legal, accounting, or reserving issue may change over time to our detriment, or expose us to different or additional regulatory risks. The application of these regulations and guidelines by insurers involves interpretations and judgments that may not be consistent with the opinion of state insurance departments. We cannot provide assurance that such differences of opinion will not result in regulatory, tax or other challenges to the actions we have taken to date. The result of those potential challenges could require us to increase levels of statutory capital and reserves or incur higher operating and/or tax costs.
In addition, our international operations are subject to regulation in the relevant jurisdictions in which they operate (primarily the Japan Financial Services Agency, the Central Bank of Ireland and the United Kingdom Financial Services Authority), which in many ways is similar to the state regulation outlined above, with similar related restrictions and obligations. Our asset management businesses are also subject to extensive regulation in the various jurisdictions where they operate.

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These laws and regulations are primarily intended to protect investors in the securities markets or investment advisory clients and generally grant supervisory authorities broad administrative powers. Compliance with these laws and regulations is costly, time consuming and personnel intensive, and may have an adverse effect on our business, financial condition, results of operations and liquidity. See the risk factor, “The impact of regulatory initiatives, including the enactment of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), could have a material adverse impact on our business, financial condition, results of operations and liquidity.”

Our ability to declare and pay dividends is subject to limitations.

The payment of future dividends on our capital stock is subject to the discretion of our board of directors, which considers, among other factors, our operating results, overall financial condition, credit-risk considerations and capital requirements, as well as general business and market conditions.

Moreover, as a holding company that is separate and distinct from our insurance subsidiaries, we have no significant business operations of our own. Therefore, we rely on dividends from our insurance company subsidiaries and other subsidiaries as the principal source of cash flow to meet our obligations. These obligations include payments on our debt securities and the payment of dividends on our capital stock. The Connecticut insurance holding company laws limit the payment of dividends by Connecticut-domiciled insurers. In addition, these laws require notice to and approval by the state insurance commissioner for the declaration or payment by those subsidiaries of any dividend which, together with other dividends or distributions made within the preceding 12 months, exceeds the greater of:

- 10% of the insurer's policyholder surplus as of December 31 of the preceding year, or
- net income, or net gain from operations if the subsidiary is a life insurance company, for the previous calendar year, in each case determined under statutory insurance accounting principles.

In addition, if any dividend of a Connecticut-domiciled insurer exceeds the insurer's earned surplus, it requires the prior approval of the Connecticut Insurance Commissioner. The insurance holding company laws of the other jurisdictions in which our insurance subsidiaries are incorporated, or deemed commercially domiciled, generally contain similar, and in some instances more restrictive, limitations on the payment of dividends. Dividends paid to us by our insurance subsidiaries are further dependent on their cash requirements. For further discussion on dividends from insurance subsidiaries, see Part II, Item 7, MD&A - Capital Resources & Liquidity.

Our rights to participate in any distribution of the assets of any of our subsidiaries, for example, upon their liquidation or reorganization, and the ability of holders of our common stock to benefit indirectly from a distribution, are subject to the prior claims of creditors of the applicable subsidiary, except to the extent that we may be a creditor of that subsidiary. Claims on these subsidiaries by persons other than us include, as of December 31, 2012, claims by policyholders for benefits payable amounting to $111.9 billion, claims by separate account holders of $141.6 billion, and other liabilities including claims of trade creditors, claims from guaranty associations and claims from holders of debt obligations, amounting to $14.4 billion.

Holders of our capital stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Moreover, our common stockholders are subject to the prior dividend rights of any holders of our preferred stock or depositary shares representing such preferred stock then outstanding. As of December 31, 2012, there were 575,000 shares of our Series F Preferred Stock issued and outstanding. Under the terms of the Series F Preferred Stock, our ability to declare and pay dividends on or repurchase our common stock will be subject to restrictions in the event we fail to declare and pay (or set aside for payment) full dividends on the Series F Preferred Stock.

The terms of our outstanding junior subordinated debt securities also prohibit us from declaring or paying any dividends or distributions on our capital stock or purchasing, acquiring, or making a liquidation payment on such stock, if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing.

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If we are unable to maintain the availability of our systems and safeguard the security of our data due to the occurrence of disasters or a cyber or other information security incident, our ability to conduct business may be compromised, we may incur substantial costs and suffer other negative consequences, all of which may have a material adverse effect on our business, financial condition, results of operations and liquidity.

We use computer systems to process, store, retrieve, evaluate and utilize customer and company data and information. Our computer, information technology and telecommunications systems, in turn, interface with and rely upon third-party systems or third-parties firms to maintain our systems. Our business is highly dependent on our ability, and the ability of certain third parties, to access these systems to perform necessary business functions, including, without limitation, conducting our financial reporting and analysis, providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios and hedging programs.

Systems failures or outages could compromise our ability to perform our business functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a disaster such as a natural catastrophe, a pandemic, an industrial accident, a blackout, a terrorist attack or war, systems upon which we rely may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees and business partners are able to report to work, they may be unable to perform their duties for an extended period of time if our data or systems used to conduct our business are disabled or destroyed.

Moreover, our computer systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorized access, cyber-attacks or other computer related penetrations. While, to date, The Hartford has not experienced a material breach of cybersecurity, administrative and technical controls as well as other preventive actions we take to reduce the risk of cyber incidents and protect our information technology may be insufficient to prevent physical and electronic break-ins, denial of service and other cyber-attacks or other security breaches to our computer systems. Such an event could compromise our confidential information as well as that of our clients and third parties with whom we interact, impede or interrupt our business operations and may result in other negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation and reputational damage.

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to utilize such capabilities in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect confidential information.

Furthermore, certain of our businesses are subject to compliance with regulations enacted by U.S. federal and state governments, the European Union, Japan or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy of the information of clients, employees or others. A misuse or mishandling of confidential or proprietary information being sent to or received from an employee or third party could result in legal liability, regulatory action and reputational harm.

Third parties to whom we outsource certain of our functions are also subject to the risks outlined above, any one of which may result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, financial condition, results of operations and liquidity.

While we maintain cyber liability insurance that provides both third party liability and first party insurance coverages, our insurance may not be sufficient to protect against all loss.

Our framework for managing operational risks may not be effective in mitigating risk and loss to us that could adversely affect our businesses.

Our business performance is highly dependent on our ability to manage operational risks that arise from a large number of day-to-day business activities, including insurance underwriting, claims processing, servicing, investment, financial and tax reporting, compliance with regulatory requirements and other activities, many of which are very complex and for some of which we rely on third parties. We seek to monitor and control our exposure to risks arising out of these activities through a risk control framework encompassing a variety of reporting systems, internal controls, management review processes and other mechanisms. We cannot be completely confident that these processes and

procedures will effectively control all known risks or effectively identify unforeseen risks, or that our employees and third-party agents will effectively implement them. Management of operational risks can fail for a number of reasons, including design failure, systems failure, failures to perform, cyber security attacks, human error, or unlawful activities on the part of employees or third parties. In the event that our controls are not effective or not properly implemented, we could suffer financial or other loss, disruption of our businesses, regulatory sanctions or damage to our reputation. Losses resulting from these failures can vary significantly in size, scope and scale and may have material adverse effects on our financial condition or results of operations.

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If we experience difficulties arising from outsourcing relationships, our ability to conduct business may be compromised, which may have an adverse effect on our business and results of operations.

As we continue to focus on reducing the expense necessary to support our operations, we have become increasingly committed to outsourcing strategies for certain technology and business functions. If third-party providers experience disruptions or do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, an inability to meet obligations, including, but not limited to, policyholder obligations, increased costs and a loss of business that may have a material adverse effect on our business and results of operations. For other risks associated with our outsourcing of certain functions, see the risk factor, “If we are unable to maintain the availability of our systems and safeguard the security of our data due to the occurrence of disasters or a cyber or other information security incident, our ability to conduct business may be compromised, we may incur substantial costs and suffer other negative consequences, all of which may have a material adverse effect on our business, financial condition, results of operation and liquidity.”

Changes in federal or state tax laws could adversely affect our business, financial condition, results of operations and liquidity.

Changes in federal or state tax laws could adversely affect our business, financial condition, results of operations and liquidity. For instance, the steps taken by the federal government to avoid automatic tax increases and spending cuts that would have gone into effect on January 1, 2013 will result in higher tax rates, including for many small business owners who are already preparing for increased costs associated with healthcare reform. This may cause small businesses to hire fewer workers and decrease investment in their businesses, including purchasing vehicles, property and equipment, which could adversely affect our business, financial condition, results of operations and liquidity. Conversely, if income tax rates decline it could adversely affect the Company's ability to realize the benefits of its deferred tax assets.

Many of the products that the Company previously sold benefit from one or more forms of tax-favored status under current federal and state income tax regimes. For example, the Company previously sold individual life insurance policies that benefit from the deferral or elimination of taxation on earnings accrued under the policy, as well as permanent exclusion of certain death benefits that may be paid to policyholders' beneficiaries. We also sold annuity contracts that allowed policyholders to defer the recognition of taxable income earned within the contract. The Company also benefits from certain tax items, including but not limited to, tax-exempt bond interest, dividends received deductions, tax credits (such as foreign tax credits), and insurance reserve deductions.

Because the Company no longer sells individual life insurance, changes in the future taxation of life insurance and/or annuity contracts will not adversely impact future sales. If, however, the treatment of earnings accrued inside a life or annuity contract was changed prospectively, and the taxation of current contracts was grandfathered, it would make running off our existing annuity business more difficult. Furthermore, changes to the taxation of tax exempt bonds could limit our investment choices and depress portfolio yields. Lastly, there could be changes in the taxation of reserving methodologies for P&C companies that could increase our taxes.

Due in large part to the recent financial crisis that has affected many governments, there is an increasing risk that federal and/or state tax legislation could be enacted that would result in higher taxes on insurance companies and/or their policyholders. For example, the Obama Administration proposed federal budget released in February 2012 entitled FY 2013, Budget of the United States Government included among many other proposals, a proposal which, if enacted, would have adversely affected the amount of the dividends received deduction the Company currently enjoys. If this proposal were included in the federal budget proposal for FY 2014 and subsequently enacted, the Company's actual tax expense could increase, reducing earnings. Although the specific form of FY 2014 budget and any related legislation is uncertain, any such legislation could include provisions that lessen or eliminate some or all of the tax advantages currently benefiting the Company and/or its policyholders or not provide for grandfathering the current tax treatment of existing life and annuity products. This could occur in the context of deficit reduction or other tax reform. The effects of any such changes could have a material adverse effect on our profitability and financial condition, and could result in lapses of policies currently held, and/or our incurrence of materially higher corporate taxes.

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

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the acquirer's plans for the future operations of the domestic insurer, and any such additional information as the insurance commissioner may deem necessary or appropriate for the protection of policyholders or in the public interest. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of the domestic insurer or its parent company. Because a person acquiring 10 percent or more of our Common Stock would indirectly control the same percentage of the stock of our U.S. insurance subsidiaries, the insurance change of control laws of various U.S. jurisdictions would likely apply to such a transaction. Other laws or required approvals pertaining to one or more of our existing subsidiaries, or a future subsidiary, may contain similar or additional restrictions on the acquisition of control of the Company. These laws may discourage potential acquisition proposals and may delay, deter, or prevent a change of control, including transactions that our Board of Directors and some or all of our shareholders might consider to be desirable.

Changes in accounting principles and financial reporting requirements could result in material changes to our reported results and financial condition.

U.S. GAAP and related financial reporting requirements are complex, continually evolving and may be subject to varied interpretation by the relevant authoritative bodies. Such varied interpretations could result from differing views related to specific facts and circumstances. Changes in U.S. GAAP and financial reporting requirements, or in the interpretation of U.S. GAAP or those requirements, could result in material changes to our reported results and financial condition. Moreover, the SEC is currently evaluating International Financial Reporting Standards (“IFRS”) to determine whether IFRS should be incorporated into the financial reporting system for U.S. issuers. Certain of these standards could result in material changes to our reported results of operation.

In connection with the restatement of our results for the three and nine month period ended September 30, 2012, we identified a material weakness, since remediated, in our internal control over financial reporting and an ineffectiveness in our disclosure controls and procedures. Future material weaknesses could lead to errors in our financial statements that could require a restatement or untimely filings, which could cause investors to lose confidence in our reported financial information, and a decline in our stock price and that of our other securities.

In connection with the restatement of our results for the three and nine month period ended September 30, 2012 and the filing of an amendment to our Quarterly Report on Form 10-Q for such period, we identified a material weakness in our internal control over financial reporting and that our disclosure controls for that same period were ineffective. We have since remediated such material weakness in internal control over financial reporting and in our disclosure controls and procedures, and as of December 31, 2012, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective within the meaning of Exchange Act Rule 13a-15(e) and that our internal control over financial reporting was effective, taking into account the steps taken to address such material weakness. Further material weaknesses in internal control over financial reporting or ineffectiveness in disclosure controls and procedures could result in errors in our financial statements or untimely filings, which could cause investors to lose confidence in our reported financial information, and a decline in our stock price and that of our other securities.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon another party's intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, methods, processes or services. Any party that holds such a patent could make a claim of infringement against us. We may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed a third-party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

Item 1B. UNRESOLVED STAFF COMMENTS

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None.

Item 2. PROPERTIES

As of December 31, 2012, The Hartford owned building space of approximately 3.1 million square feet, of which approximately 2.7 million square feet comprised its Hartford, Connecticut location and other properties within the greater Hartford, Connecticut area. In addition, as of December 31, 2012, The Hartford leased approximately 2.5 million square feet, throughout the United States of America, and approximately 43 thousand square feet, in other countries. All of the properties owned or leased are used by one or more of all six reporting segments, depending on the location. For more information on reporting segments, see Part I, Item 1, Business of The Hartford — Reporting Segments. The Company believes its properties and facilities are suitable and adequate for current operations.

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Item 3. LEGAL PROCEEDINGS

Litigation

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties discussed below under the caption “Asbestos and Environmental Claims,” management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.

The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, and in addition to the matters described below, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, life and inland marine; improper sales practices in connection with the sale of life insurance and other investment products; and improper fee arrangements in connection with investment products. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in particular quarterly or annual periods.

Apart from the inherent difficulty of predicting litigation outcomes, the Mutual Funds Litigation identified below purports to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel applications of complex legal theories. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company's experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. The matter is in the earliest stages of litigation, with no discovery having been taken and no substantive legal decisions by the court defining the scope of the potentially available damages. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any, or predict the timing of the eventual resolution of this matter.

Mutual Funds Litigation - In February 2011, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of New Jersey, alleging that Hartford Investment Financial Services, LLC (“HIFSCO”), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. HIFSCO moved to dismiss and, in September 2011, the motion was granted in part and denied in part, with leave to amend the complaint. In November 2011, plaintiffs filed an amended complaint on behalf of The Hartford Global Health Fund, The Hartford Conservative Allocation Fund, The Hartford Growth Opportunities Fund, The Hartford Inflation Plus Fund, The Hartford Advisors Fund, and The Hartford Capital Appreciation Fund. Plaintiffs seek to rescind the investment management agreements and distribution plans between HIFSCO and these funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received, in addition to lost earnings. HIFSCO filed a partial motion to dismiss the amended complaint and, in December 2012, the court dismissed without prejudice the claims regarding distribution fees and denied the motion with respect to the advisory fees claims. HIFSCO disputes the allegations and intends to defend vigorously.

Asbestos and Environmental Claims - As discussed in Part II, Item 7, MD&A - Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance - Reserving for Asbestos and Environmental Claims within Property & Casualty Other Operations, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford

continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford's consolidated operating results, financial condition and liquidity.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR THE HARTFORD'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Hartford's common stock is traded on the New York Stock Exchange ("NYSE") under the trading symbol "HIG". The following table presents the high and low closing prices for the common stock of The Hartford on the NYSE for the periods indicated, and the quarterly dividends declared per share.

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2012				
Common Stock Price				
High	$22.02	$21.95	$20.34	$22.88
Low	$16.37	$16.10	$15.93	$19.41
Dividends Declared	$0.10	$0.10	$0.10	$0.10
2011				
Common Stock Price				
High	$30.80	$28.97	$27.05	$20.27
Low	$24.75	$23.81	$15.82	$14.92
Dividends Declared	$0.10	$0.10	$0.10	$0.10

On February 28, 2013, The Hartford's Board of Directors declared a quarterly dividend of $0.10 per common share payable on April 1, 2013 to common shareholders of record as of March 11, 2013 and a dividend of $18.125 on each share of Series F preferred stock payable on April 1, 2013 to shareholders of record as of March 15, 2013.

As of February 21, 2013, the Company had approximately 183,800 shareholders. The closing price of The Hartford's common stock on the NYSE on February 21, 2013 was $23.70.

The Company's Chief Executive Officer has certified to the NYSE that he is not aware of any violation by the Company of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE's Listed Company Manual.

There are also various legal and regulatory limitations governing the extent to which The Hartford's insurance subsidiaries may extend credit, pay dividends or otherwise provide funds to The Hartford Financial Services Group, Inc. as discussed in Part II, Item 7, MD&A — Capital Resources and Liquidity — Liquidity Requirements and Sources of Capital.

See Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for information related to securities authorized for issuance under equity compensation plans.

Purchases of Equity Securities by the Issuer

The following table summarizes the Company's repurchases of its common stock for the three months ended December 31, 2012:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) [2]
October 1, 2012 – October 31, 2012	2,606	[1]	$16.78	—	$—
November 1, 2012 – November 30, 2012	7,200	[1]	$21.71	—	$—
December 1, 2012 – December 31, 2012	852	[1]	$20.94	—	$—
Total	10,658		$20.44	—	N/A

[1] Primarily represents shares acquired from employees of the Company for tax withholding purposes in connection with the Company's stock compensation plans.

[2] On January 31, 2013 the Company's Board of Directors authorized a $500 equity repurchase program. The Company's repurchase authorization, which expires on December 31, 2014, permits purchases of common stock, as

well as warrants or other derivative securities. Repurchases may be made in the open market, through derivative, accelerated share repurchase and other privately negotiated transactions, and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The timing of any future repurchases will be dependent upon several factors, including the market price of the Company's securities, the Company's capital position, consideration of the effect of any repurchases on the Company's financial strength or credit ratings, and other corporate considerations. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

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Total Return to Shareholders

The following tables present The Hartford's annual percentage return and five-year total return on its common stock including reinvestment of dividends in comparison to the S&P 500 and the S&P Insurance Composite Index.

Annual Return Percentage

	For the Years Ended					
Company/Index	2008	2009	2010	2011	2012	
The Hartford Financial Services Group, Inc.	(79.99	)%43.91	%14.89	%(37.55	)%41.01	%
S&P 500 Index	(37.00	)%26.46	%15.06	%2.11	%16.00	%
S&P Insurance Composite Index	(58.14	)%13.90	%15.80	%(8.28	)%19.09	%

Cumulative Five-Year Total Return

	Base Period	For the Years Ended				
Company/Index	2007	2008	2009	2010	2011	2012
The Hartford Financial Services Group, Inc.	$100	20.01	28.80	33.09	20.66	29.13
S&P 500 Index	$100	63.00	79.67	91.67	93.60	108.58
S&P Insurance Composite Index	$100	41.86	47.68	55.21	50.64	60.31

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Item 6. SELECTED FINANCIAL DATA
(In millions, except for per share data and combined ratios)

	2012	2011	2010	2009	2008
Income Statement Data					
Earned premiums	$13,631	$14,088	$14,055	$14,424	$15,503
Fee income	4,432	4,750	4,748	4,547	5,103
Net investment income (loss):					
Securities available-for-sale and other	4,237	4,272	4,364	4,017	4,327
Equity securities, trading	4,565	(1,359)	(774)	3,188	(10,340)
Total net investment income (loss)	8,802	2,913	3,590	7,205	(6,013)
Net realized capital losses:					
Total other-than-temporary impairment (“OTTI”) losses	(389)	(263)	(852)	(2,191)	(3,964)
OTTI losses recognized in other comprehensive income	40	89	418	683	—
Net OTTI losses recognized in earnings	(349)	(174)	(434)	(1,508)	(3,964)
Net realized capital gains (losses), excluding net OTTI losses recognized in earnings	(362)	29	(177)	(496)	(1,941)
Total net realized capital losses	(711)	(145)	(611)	(2,004)	(5,905)
Other revenues	258	253	267	261	249
Total revenues	26,412	21,859	22,049	24,433	8,937
Benefits, losses and loss adjustment expenses	13,250	14,625	13,025	13,831	14,088
Benefits, losses and loss adjustment expenses — returns credited on international variable annuities	4,564	(1,359)	(774)	3,188	(10,340)
Amortization of deferred policy acquisition costs and present value of future profits	1,988	2,444	1,692	3,125	3,049
Insurance operating costs and other expenses	5,237	5,310	5,326	5,358	5,643
Loss on extinguishment of debt	910	—	—	—	—
Reinsurance loss on disposition, including goodwill impairment of $342	533	—	—	—	—
Interest expense	457	508	508	476	343
Goodwill impairment	—	30	—	32	745
Total benefits, losses and expenses	26,939	21,558	19,777	26,010	13,528
Income (loss) from continuing operations before income taxes	(527)	301	2,272	(1,577)	(4,591)
Income tax expense (benefit)	(494)	(325)	572	(812)	(1,817)
Income (loss) from continuing operations, net of tax	(33)	626	1,700	(765)	(2,774)
Income (loss) from discontinued operations, net of tax	(5)	86	(64)	(4)	10
Net income (loss)	(38)	712	1,636	(769)	(2,764)
Preferred stock dividends and accretion of discount	42	42	515	127	8
Net income (loss) available to common shareholders	$(80)	$670	$1,121	$(896)	$(2,772)
Balance Sheet Data					
Separate account assets	$141,569	$143,870	$159,742	$150,394	$130,184
Total assets	298,513	302,609	316,789	306,035	285,665
Total debt (including capital lease obligations)	7,126	6,216	6,607	5,839	6,221
Separate account liabilities	141,569	143,870	159,742	150,394	130,184
Common equity, excluding AOCI	19,048	19,679	19,188	16,696	15,135
Preferred Stock	556	556	556	2,960	—
AOCI, net of tax	2,843	1,251	(990)	(3,472)	(7,785)
Total stockholders’ equity	22,447	21,486	18,754	16,184	7,350
Income (loss) from continuing operations, net of tax, available to common shareholders per common share					

Basic	$(0.17)	$1.31	$2.75	$(2.58)	$(9.07)
Diluted	(0.17)	1.22	2.53	(2.58)	(9.07)
Net income (loss) available to common shareholders per common share					
Basic	$(0.18)	$1.51	$2.60	$(2.59)	$(9.04)
Diluted	(0.18)	1.40	2.40	(2.59)	(9.04)
Cash dividends declared per common share	0.40	0.40	0.20	0.20	1.91
Other Data					
Total revenues, excluding net investment income on equity securities, trading	$21,847	$23,218	$22,823	$21,245	$19,277
Unlock benefit (charge), after-tax	$31	$(473)	$93	$(846)	$(795)
Total investments, excluding equity securities, trading	$105,317	$104,449	$98,175	$93,235	$89,287

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") addresses the financial condition of The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, "The Hartford" or the "Company") as of December 31, 2012, compared with December 31, 2011, and its results of operations for each of the three years in the period ended December 31, 2012. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes beginning on page F-1. The Hartford made changes to its reporting segments in 2012 to reflect the manner in which the Company is currently organized for purposes of making operating decisions and assessing performance. Accordingly, segment data for prior reporting periods has been adjusted to reflect the new segment reporting; see Note 4 of the Notes to Consolidated Financial Statement for further discussion. Additionally, certain reclassifications have been made to prior year financial information to conform to the current year presentation.

On January 1, 2012, the Company retrospectively adopted Accounting Standards Update ("ASU") No. 2010-26, Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts which clarifies the definition of policy acquisition costs that are eligible for deferral. Previously reported financial information has been revised to reflect the effect of the Company's adoption of this accounting standard. For further information regarding the effect of adoption of this accounting standard, see Note 1 and Note 8 of the Notes to Consolidated Financial Statements.

The Hartford defines increases or decreases greater than or equal to 200%, or changes from a net gain to a net loss position, or vice versa, as "NM" or not meaningful.

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CONSOLIDATED RESULTS OF OPERATIONS

Net income (loss) by segment	2012	2011	2010	Increase (Decrease) From 2011 to 2012	Increase (Decrease) From 2010 to 2011
Property & Casualty Commercial	$547	$526	$1,007	$21	$(481)
Consumer Markets	166	7	125	159	(118)
Property & Casualty Other Operations	57	(117)	(53)	174	(64)
Group Benefits	129	92	188	37	(96)
Mutual Funds	71	98	132	(27)	(34)
Talcott Resolution	1	540	672	(539)	(132)
Corporate	(1,009)	(434)	(435)	(575)	1
Net income (loss)	$(38)	$712	$1,636	$(750)	$(924)

Year ended December 31, 2012 compared to the year ended December 31, 2011

The decrease in net income from 2011 to 2012 was primarily due to the following items:

- A loss on extinguishment of debt of $587, after-tax, in 2012 related to the repurchase of all outstanding 10% fixed-to-floating rate junior subordinated debentures due 2068 with a $1.75 billion aggregate principal amount all held by Allianz. The loss consisted of the premium associated with repurchasing the 10% Debentures at an amount greater than the face amount, the write-off of the unamortized discount and debt issuance costs related to the 10% Debentures and other costs related to the repurchase transaction.
- Net realized capital losses increased primarily due to losses in 2012 on the international variable annuity hedge program, compared to gains in 2011. The losses resulted from rising equity markets and weakening of the yen. Certain hedge assets generated realized capital losses on rising equity markets and weakening of the yen and are used to hedge liabilities that are not carried at fair value. In addition, 2012 includes intent-to-sell impairments relating to the sales of the Retirement Plans and Individual Life businesses. For further discussion of the results, see Net Realized Capital Gains (Losses) within Investment Results. For information on the related sensitivities of the variable annuity hedging program, see Variable Product Guarantee Risks and Risk Management within Enterprise Risk Management.
- Reinsurance loss on disposition of $388, after-tax, in 2012 consisting of a goodwill impairment charge and loss accrual for premium deficiency related to the disposition of the Individual Life business. For further discussion, see Notes 2 and 9 of the Notes to Consolidated Financial Statements. As discussed in Item 9A and Amendment No. 1 to the Company's Third Quarter 2012 Form 10-Q (the “Q3 Form 10-Q/A”) the Company concluded that it would be necessary to recognize an estimated pre-tax loss on the Transaction of $533, comprised of the impairment of goodwill attributed to the Individual Life business of $342 and a loss accrual for premium deficiency of $191, which should have been recorded in the third quarter of 2012. The estimate is subject to change pending final determination of net assets sold, transaction costs, and other adjustments.
- Income (loss) from discontinued operations, net of tax, decreased due to a realized gain on the sale of Specialty Risk Services of $150, after-tax, which was partially offset by a loss of $74, after-tax, from the disposition of Federal Trust Corporation.
- Income tax benefit in 2011 includes a release of $86, or 100%, of the valuation allowance associated with realized capital losses, as well as a tax benefit of $52 as a result of a resolution of a tax matter with the IRS for the computation of DRD for years 1998, 2000 and 2001. For additional information, see Note 14 of the Notes to Consolidated Financial Statements.

Partially offsetting these decreases in net income were the following items:

- An Unlock benefit of $31, after-tax, in 2012 compared to an Unlock charge of $473, after-tax, in 2011. The benefit in 2012 was driven primarily by actual separate account returns above our aggregated estimated return, partially offset by policyholder assumption changes which reduced expected future gross profits including additional costs associated with the U.S. variable annuity macro hedge program. The Unlock charge in 2011 was primarily due to the impact of changes to the international variable annuity hedge program. For further discussion of Unlocks see the Critical Accounting Estimates within the MD&A.
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Net asbestos reserve strengthening of $31, after-tax, in 2012, compared to $189, after-tax, in 2011 resulting from the Company's annual review of its asbestos liabilities. For further information, see Property & Casualty Other Operations Claims with the Property and Casualty Insurance Product Reserves, Net of Reinsurance section in Critical Accounting Estimates.

- The Company recorded reserve releases of $40, after-tax, in 2012, compared to reserve strengthening of $31, after-tax, in 2011, in its property and casualty insurance prior accident years development, excluding asbestos and environmental reserves. For additional information regarding prior accident years development, see Critical Accounting Estimates within the MD&A.
- A $73, after-tax, charge in 2011 related to the write-off of capitalized costs associated with a policy administration software project that was discontinued.
- Current accident year catastrophe losses of $459, after-tax, in 2012 compared to $484, after-tax, in 2011. The losses in 2012 primarily include Storm Sandy in the Northeast, as well as severe thunderstorms, hail events, and tornadoes in the South, Midwest and Mid-

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Atlantic states. The losses in 2011 primarily relate to more severe tornadoes and wind storms in the Midwest and Southeast, Hurricane Irene, and winter storms in the Northeast and Midwest.

See the segment sections of the MD&A for a discussion on their respective performances.

Year ended December 31, 2011 compared to the year ended December 31, 2010

The decrease in net income from 2010 to 2011 was primarily due to the following items:

- An Unlock charge of $473, after-tax, in 2011 compared to an Unlock benefit of $93, after-tax, in 2010. The Unlock charge in 2011 was primarily due to the impact of changes to the international variable annuity hedge program. The Unlock benefit for 2010 was attributable to actual separate account returns being above our aggregated estimated return and the impact of assumption updates primarily related to decreasing lapse and withdrawal rates and lower hedge costs. For further discussion of Unlocks see the Critical Accounting Estimates within the MD&A.
- Current accident year catastrophe losses of $484, after-tax, in 2011 compared to $294, after-tax, in 2010. The losses in 2011 primarily relate to more severe tornadoes and wind storms in the Midwest and Southeast, Hurricane Irene, and winter storms in the Northeast and Midwest. The losses in 2010 include severe windstorm events, including a hail storm in Arizona, tornadoes and hail in the Midwest, Plains States and the Southeast and winter storms in the Mid-Atlantic and Northeast.
- The Company recorded reserve strengthening of $31, after-tax, in 2011, compared to reserve releases of $294, after-tax, in 2010, in its property and casualty insurance prior accident years development, excluding asbestos and environmental reserves. For additional information regarding prior accident years development, see Critical Accounting Estimates within the MD&A.
- An asbestos reserve strengthening of $189, after-tax, in 2011, compared to $110, after-tax, in 2010 resulting from the Company's annual review of its asbestos liabilities in Property & Casualty Other Operations. The reserve strengthening in 2011 was primarily driven by higher frequency and severity of mesothelioma claims, particularly against certain smaller, more peripheral insureds, while the reserve strengthening in 2010 was primarily driven by increases in claim severity and expenses. For further information, see Property & Casualty Other Operations Claims within the Property and Casualty Insurance Product Reserves, Net of Reinsurance section in Critical Accounting Estimates.
- A $73, after-tax, charge in 2011 related to the write-off of capitalized costs associated with a policy administration software project that was discontinued.

Partially offsetting these decreases in net income were the following items:

- Income (loss) from discontinued operations, net of tax, increased due to a realized gain on the sale of Specialty Risk Services of $150, after-tax, in 2011, which was partially offset by a loss of $74, after-tax, from the disposition of Federal Trust Corporation in 2011. In 2010, loss from discontinued operations, net of tax, primarily relates to goodwill impairment on Federal Trust Corporation of approximately $100, after-tax.
- 2010 includes an accrual for a litigation settlement of $73, before-tax, for a class action lawsuit related to structured settlements.
- Income tax expense (benefit) in 2010 includes a valuation allowance expense of $87 compared to a benefit of $86 in 2011. See Note 14 of the Notes to Consolidated Financial Statements for a reconciliation of the tax provision at the U.S. Federal statutory rate to the provision for income taxes.
- In 2011, the Company recorded a $52 income tax benefit related to a resolution of a tax matter with the IRS for the computation of dividends received deduction ("DRD") for years 1998, 2000 and 2001. For additional information see Note 14 of the Notes to Consolidated Financial Statements.

See the segment sections of the MD&A for a discussion on their respective performances.

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Income Taxes

The differences between the effective rate and the U.S. statutory rate of 35% for 2012, 2011 and 2010 were due principally to tax-exempt interest earned on invested assets and the DRD. The 2012 and 2011 effective tax rates also include a deferred tax asset valuation allowance decrease, and the 2010 effective tax rate included a deferred tax asset valuation allowance increase.

The separate account DRD is estimated for the current year using information from the most recent return, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments and level of policy owner equity account balances. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received in the mutual funds, amounts of distributions from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company's taxable income before the DRD. The Company recorded benefits of $140, $201 and $145 related to the separate account DRD in the years ended December 31, 2012, 2011 and 2010, respectively. These amounts included benefits (charges) related to prior years' tax returns of $(4), $3, and $(3) in 2012, 2011 and 2010, respectively.

The Company receives a foreign tax credit for foreign taxes paid including payments from its separate account assets. This credit reduces the Company's U.S. tax liability. The separate account foreign tax credit is estimated for the current year using information from the most recent filed return, adjusted for the change in the allocation of separate account investments to the international equity markets during the current year. The actual current year foreign tax credit can vary from the estimates due to actual foreign tax credits passed through from the mutual funds. The Company recorded benefits of $9, $11 and $4 related to the separate account foreign tax credit in the years ended December 31, 2012, 2011 and 2010, respectively.

The Company's unrecognized tax benefits were unchanged for the years ended December 31, 2012, 2011 and 2010, remaining at $48 as of December 31, 2012 and 2011. This entire amount, if it were recognized, would affect the effective tax rate in the period it is released.

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OUTLOOKS

The Hartford provides projections and other forward-looking information in the following discussions, which contain many forward-looking statements, particularly relating to the Company's future financial performance. These forward-looking statements are estimates based on information currently available to the Company, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to the cautionary statements set forth on pages 3 and 4 of this Form 10-K and the risk factors set forth under Item 1A and other similar information contained in this Form 10-K and in other filings made from time to time by the Company with the SEC. Actual results are likely to differ, and in the past have differed, materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each discussion below and in Item 1A, Risk Factors. The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise.

Overview

As a result of a strategic business realignment announced in March 2012, the Company is currently focusing on its Property & Casualty, Group Benefits and Mutual Fund businesses. The objective of this realignment is to position the organization for higher returns on equity, reduced sensitivity to capital markets, a lower cost of capital and increased financial flexibility.

In 2012, the Company completed the sale of its U.S. individual annuities new business capabilities, the sale of the administration and operating assets of its private placement life insurance business and the sale of Woodbury Financial Services, Inc. ("WFS"). In January 2013, the Company completed the sale of its Retirement Plans and Individual Life insurance businesses. For further discussion of these transactions, see Note 2 - Business Dispositions of Notes to Consolidated Financial Statements.

On January 31, 2013, the Board of Directors authorized a capital management plan which provides for a $500 equity repurchase program to be completed by December 31, 2014 and the reduction of approximately $1.0 billion of debt including repayment of 2013 and 2014 debt maturities totaling $520 in aggregate principal amount.

Slow economic and employment expansion may adversely impact the performance of The Hartford's insurance protection businesses where insureds may change their level of insurance, and asset accumulation businesses may see customers changing their investment choices and level of savings based on anticipated economic conditions. In addition, the performance of The Hartford's divisions is subject to uncertainty due to capital market conditions, which impact the earnings of its asset management businesses and valuations and earnings in its investment portfolio. The current and future interest rate environment also affects the performance of the Company's divisions. A sustained low interest rate environment would result in lower net investment income, lower estimated gross profits on certain Talcott Resolution products, and lower margins.

Property & Casualty Commercial

Property & Casualty Commercial focuses on growth through market-differentiated products and services while maintaining a disciplined underwriting approach. Improving market conditions are expected to continue, which should enable the Company to also continue achieving price increases, while a slowly recovering economy is anticipated to drive a modest increase in insurance exposures. The Company expects low single-digit written premium growth for 2013, as compared to 2012, driven by small commercial, with programs aimed at growing total policy counts, the rollout of new product enhancements, a leveraging of the payroll model, and the continued expansion of ease of doing business technology, and middle market, driven by strong pricing and initiatives which management believes positions the Company to expand its property and general liability footprint. In specialty lines, the Company expects written premiums to decline as management continues to streamline its programs business and adjust the mix within professional liability. The Property & Casualty Commercial combined ratio before catastrophes and prior accident year development is expected to improve to between approximately 92.5 and 95.5 for full year 2013 as compared to the 96.6 achieved in 2012 due to anticipated margin expansion across all businesses as expected earned pricing increases outpace loss costs.

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Consumer Markets

The Company expects written premiums to be flat to slightly higher in 2013 compared to 2012, with growth in business sold through independent agents to AARP members and flat to slightly higher written premium for AARP Direct. In 2013, management expects an increase in new business and improvement in premium retention as the effect of renewal written price increases on retained business is anticipated to more than offset a slight decline in policy retention. Within the Agency channel, management expects written premiums from policyholders other than AARP members to decline, driven by continued pricing and underwriting actions to improve profitability, including efforts to reposition the book into more mature, preferred market business. Management expects that the combined ratio before catastrophes and prior accident year development will be between approximately 89.5 and 92.5 for full year 2013 compared to the 90.8 achieved in 2012. For auto, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to improve slightly for the 2013 full year driven by anticipated earned pricing increases that outpace slightly lower claim frequency and higher average claim severity. For homeowners, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to increase in 2013, driven by an expected return to more normal non-catastrophe weather claim frequency after experiencing very favorable non-catastrophe weather claim frequency in 2012.

Group Benefits

Group Benefits premiums are expected to decline for 2013 as compared to 2012, reflecting the competitive environment coupled with pricing discipline with respect to new sales and renewals with the goal of improving profitability. Specifically, Group Benefits did not renew its largest account effective January 1, 2013 due to pricing and other considerations. Overall, the reductions to premiums will not significantly impact Group Benefits profitability due to expected improvements in the disability loss ratio as a result of pricing actions and improvements in claims management. The Company expects Group Benefits' disability results to improve, contributing to a loss ratio between approximately 77 and 80 for full year 2013 as compared to the 79.5 achieved in 2012.

Mutual Funds

Mutual Funds has been offering new funds to improve our participation in asset classes where we see potential growth opportunities. Wellington now serves as the primary sub-advisor for The Hartford’s retail mutual funds, including equity, fixed-income and asset-allocation funds.

Talcott Resolution

The principal goal for Talcott Resolution is to reduce the size and risk associated with the Company's U.S. and international in-force variable annuities. As a result, the Company expects account values and consequently earnings to decline over time as fees decrease due to surrenders, policyholder initiatives or transactions with third parties that will reduce the size of this legacy book of business. Our international variable annuity business will also continue to be a significant driver of earnings variability due to hedge programs which generate mark to market gains and losses while the underlying international liabilities being hedged are not marked to market. This can result in unpredictable earnings volatility period to period.

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CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, and in the past have differed, from those estimates.

The Company has identified the following estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability:

- 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 mortgage loans;
- living benefits required to be fair valued (in other policyholder funds and benefits payable);
- goodwill impairment;
- valuation of investments and derivative instruments;
- pension and other postretirement benefit obligations;
- 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 Consolidated Financial Statements. In developing these estimates management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available upon compilation of the financial statements.

Property and Casualty Insurance Product Reserves, Net of Reinsurance

The Hartford establishes reserves on its property and casualty insurance products to provide for the estimated costs of paying claims under insurance policies written by the Company. These reserves include estimates for both claims that have been reported and those that have not yet been reported, and include estimates of all expenses associated with processing and settling these claims. Incurred but not reported ("IBNR") reserves represent the difference between the estimated ultimate cost of all claims and the actual reported loss and loss adjustment expenses ("reported losses"). Reported losses represent cumulative loss and loss adjustment expenses paid plus case reserves for outstanding reported claims. Company actuaries evaluate the total reserves (IBNR and case reserves) on an accident year basis. An accident year is the calendar year in which a loss is incurred, or, in the case of claims-made policies, the calendar year in which a loss is reported.

Reserve estimates can change over time because of unexpected changes in the external environment. Potential external factors include (1) changes in the inflation rate for goods and services related to covered damages such as medical care, hospital care, auto parts, wages and home repair; (2) changes in the general economic environment that could cause unanticipated changes in the claim frequency per unit insured; (3) changes in the litigation environment as evidenced by changes in claimant attorney representation in the claims negotiation and settlement process; (4) changes in the judicial environment regarding the interpretation of policy provisions relating to the determination of coverage and/or the amount of damages awarded for certain types of damages; (5) changes in the social environment regarding the general attitude of juries in the determination of liability and damages; (6) changes in the legislative environment regarding the definition of damages; and (7) new types of injuries caused by new types of injurious exposure: past examples include lead paint, construction defects and tainted Chinese-made drywall.

Reserve estimates can also change over time because of changes in internal Company operations. Potential internal factors include (1) periodic changes in claims handling procedures; (2) growth in new lines of business where exposure and loss development patterns are not well established; or (3) changes in the quality of risk selection in the underwriting process.

In the case of assumed reinsurance, all of the above risks apply. In addition, changes in ceding company case reserving and reporting patterns can create additional factors that need to be considered in estimating the reserves. Due to the inherent complexity of the assumptions used, final claim settlements may vary significantly from the present estimates, particularly when those settlements may not occur until well into the future.

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Through both facultative and treaty reinsurance agreements, the Company cedes a share of the risks it has underwritten to other insurance companies. The Company's net reserves for loss and loss adjustment expenses include anticipated recovery from reinsurers on unpaid claims. The estimated amount of the anticipated recovery, or reinsurance recoverable, is net of an allowance for uncollectible reinsurance.

Reinsurance recoverables include an estimate of the amount of gross loss and loss adjustment expense reserves that may be ceded under the terms of the reinsurance agreements, including IBNR unpaid losses. The Company calculates its ceded reinsurance projection based on the terms of any applicable facultative and treaty reinsurance, often including an estimate by reinsurance agreement of how IBNR losses will ultimately be ceded.

The Company provides an allowance for uncollectible reinsurance, reflecting 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. 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. The allowance for uncollectible reinsurance was $268 as of December 31, 2012, comprised of $65 related to Property & Casualty Commercial and $203 related to Property & Casualty Other Operations.

The Company's estimate of reinsurance recoverables, net of an allowance for uncollectible reinsurance, is subject to similar risks and uncertainties as the estimate of the gross reserve for unpaid losses and loss adjustment expenses.

The Hartford, like other insurance companies, categorizes and tracks its insurance reserves for its segments by "line of business". Furthermore, The Hartford regularly reviews the appropriateness of reserve levels at the line of business level, taking into consideration the variety of trends that impact the ultimate settlement of claims for the subsets of claims in each particular line of business. In addition, Property & Casualty Other Operations categorizes reserves as asbestos and environmental ("A&E"), whereby the Company reviews these reserve levels by type of event, rather than by line of business. Adjustments to previously established reserves, which may be material, are reflected in the operating results of the period in which the adjustment is determined to be necessary. In the judgment of management, information currently available has been properly considered in the reserves established for losses and loss adjustment expenses.

Loss and loss adjustment expense reserves by line of business as of December 31, 2012, net of reinsurance are as follows:

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty
Reserve Line of Business				
Commercial property	$213	$—	$—	$213
Homeowners'	—	430	—	430
Auto physical damage	20	39	—	59
Auto liability	615	1,412	—	2,027
Package business	1,291	—	—	1,291
Workers' compensation	8,101	—	—	8,101
General liability	2,564	28	—	2,592
Professional liability	669	—	—	669
Fidelity and surety	161	—	—	161
Assumed reinsurance	—	—	309	309
All other non-A&E	—	—	749	749
A&E	21	1	2,066	2,088
Total reserves-net	13,655	1,910	3,124	18,689
Reinsurance and other recoverables	2,365	16	646	3,027
Total reserves-gross	$16,020	$1,926	$3,770	$21,716

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Reserving Methodology

(See Reserving for Asbestos and Environmental Claims within Property & Casualty Other Operations for a discussion of how A&E reserves are set)

How reserves are set

Reserves are set by line of business within the various segments. A single line of business may be written in more than one segment. Case reserves are established by a claims handler on each individual claim and are adjusted as new information becomes known during the course of handling the claim. Lines of business for which loss data (e.g., paid losses and case reserves) emerge (i.e., is reported) over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's shortest-tail lines of business are property and auto physical damage. The longest tail lines of business include workers' compensation, general liability, professional liability and assumed reinsurance. For short-tail lines of business, emergence of paid loss and case reserves is credible and likely indicative of ultimate losses. For long-tail lines of business, emergence of paid losses and case reserves is less credible in the early periods and, accordingly, may not be indicative of ultimate losses.

The Company's reserving actuaries, who are independent of the business units, regularly review reserves for both current and prior accident years using the most current claim data. For most lines of business, these reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. These selections incorporate input, as judged by the reserving actuaries to be appropriate, from claims personnel, pricing actuaries and operating management on reported loss cost trends and other factors that could affect the reserve estimates. Most reserves are reviewed fully each quarter, including loss and loss adjustment expense reserves for property, auto physical damage, auto liability, package business, workers' compensation, most general liability, professional liability and fidelity and surety. Other reserves are reviewed semi-annually (twice per year) or annually. These include, but are not limited to, reserves for losses incurred in accident years older than twelve and twenty years, for Consumer Markets and Property & Casualty Commercial, respectively, assumed reinsurance, latent exposures, such as construction defects and unallocated loss adjustment expense. For reserves that are reviewed semi-annually or annually, management monitors the emergence of paid and reported losses in the intervening quarters to either confirm that the estimate of ultimate losses should not change or, if necessary, perform a reserve review to determine whether the reserve estimate should change.

An expected loss ratio is used in initially recording the reserves for both short-tail and long-tail lines of business. This expected loss ratio is determined through a review of prior accident years' loss ratios and expected changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to impact the loss ratio for the current accident year. For short-tail lines, IBNR for the current accident year is initially recorded as the product of the expected loss ratio for the period, earned premium for the period and the proportion of losses expected to be reported in future calendar periods for the current accident period. For long-tailed lines, IBNR reserves for the current accident year are initially recorded as the product of the expected loss ratio for the period and the earned premium for the period, less reported losses for the period.

In addition to the expected loss ratio, the actuarial techniques or methods used primarily include paid and reported loss development and frequency / severity techniques as well as the Bornhuetter-Ferguson method (a combination of the expected loss ratio and paid development or reported development method). Within any one line of business, the methods that are given more influence vary based primarily on the maturity of the accident year, the mix of business and the particular internal and external influences impacting the claims experience or the methods. The output of the reserve reviews are reserve estimates that are referred to herein as the "actuarial indication".

As of December 31, 2012 and 2011, net property and casualty insurance product reserves for losses and loss adjustment expenses reported under accounting principles generally accepted in the United States of America ("U.S. GAAP") were approximately equal to net reserves reported on a statutory basis. Under U.S. GAAP, liabilities for unpaid losses for permanently disabled workers' compensation claimants are discounted at rates that are no higher than risk-free interest rates and which generally exceed the statutory discount rates set by regulators, such that workers' compensation reserves for statutory reporting are higher than the net reserves for U.S. GAAP reporting. Largely offsetting the effect of the difference in discounting is that a portion of the U.S. GAAP provision for uncollectible

reinsurance is not recognized under statutory accounting. Most of the Company's property and casualty insurance product reserves are not discounted. However, the Company has discounted liabilities funded through structured settlements and has discounted certain reserves for indemnity payments due to permanently disabled claimants under workers' compensation policies.

Provided below is a general discussion of which methods are preferred by line of business. Because the actuarial estimates are generated at a much finer level of detail than line of business (e.g., by distribution channel, coverage, accident period), this description should not be assumed to apply to each coverage and accident year within a line of business. Also, as circumstances change, the methods that are given more influence will change.

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Property and Auto Physical Damage. These lines are fast-developing and paid and reported development techniques are used as these methods use historical data to develop paid and reported loss development patterns, which are then applied to current paid and reported losses by accident period to estimate ultimate losses. The Company relies primarily on reported development techniques although a review of frequency and severity and the initial loss expectation based on the expected loss ratio is used for the most immature accident months. The advantage of frequency / severity techniques is that frequency estimates are generally easier to predict and external information can be used to supplement internal data in making severity estimates.

Personal Auto Liability. For auto liability, and bodily injury in particular, the Company performs a greater number of techniques than it does for property and auto physical damage. In addition, because the paid development technique is affected by changes in claim closure patterns and the reported development method is affected by changes in case reserving practices, the Company uses Berquist-Sherman techniques which adjust these patterns to reflect current settlement rates and case reserving techniques. The Company generally uses the reported development method for older accident years as a higher percentage of ultimate losses are reflected in reported losses than in cumulative paid losses and the frequency/severity and Berquist-Sherman methods for more recent accident years. Recent periods are influenced by changes in case reserve practices and changing disposal rates; the frequency/severity techniques are not affected as much by these changes and the Berquist-Sherman techniques specifically adjust for these changes.

Auto Liability for Commercial Lines and Short-Tailed General Liability. The Company performs a variety of techniques, including the paid and reported development methods and frequency / severity techniques. For older, more mature accident years, the Company finds that reported development techniques are best. For more recent accident years, the Company typically prefers frequency / severity techniques that make separate assumptions about loss activity above and below a selected capping level.

Long-Tailed General Liability, Fidelity and Surety and Large Deductible Workers' Compensation. For these long-tailed lines of business, the Company generally relies on the expected loss ratio and reported development techniques. The Company generally weights these techniques together, relying more heavily on the expected loss ratio method at early ages of development and more on the reported development method as an accident year matures.

Workers' Compensation. Workers' compensation is the Company's single largest reserve line of business so a wide range of methods are reviewed in the reserve analysis. Methods performed include paid and reported development, variations on expected loss ratio methods, and an in-depth analysis on the largest states. Historically, paid development patterns in the Company's workers' compensation business have been stable, so paid techniques are preferred. Although paid techniques may be less predictive of the ultimate liability when a low percentage of ultimate losses are paid as in early periods of development, recent changes in the frequency of workers' compensation claims have caused the Company to place greater reliance on paid methods with continued consideration of the state-by-state analysis and the expected loss ratio approach.

Professional Liability. Reported and paid loss developments patterns for this line tend to be volatile. Therefore, the Company typically relies on frequency and severity techniques.

Assumed Reinsurance and All Other. For these lines, the Company tends to rely on the reported development techniques. In assumed reinsurance, assumptions are influenced by information gained from claim and underwriting audits.

Allocated Loss Adjustment Expenses (ALAE). For some lines of business (e.g., professional liability and assumed reinsurance), ALAE and losses are analyzed together. For most lines of business, however, ALAE is analyzed separately, using paid development techniques and an analysis of the relationship between ALAE and loss payments.

Unallocated Loss Adjustment Expense (ULAE). ULAE is analyzed separately from loss and ALAE. For most lines of business, incurred ULAE costs to be paid in the future are projected based on an expected cost per claim year and the anticipated claim closure pattern and the ratio of paid ULAE to paid loss.

The final step in the reserve review process involves a comprehensive review by senior reserving actuaries who apply their judgment and, in concert with senior management, determine the appropriate level of reserves based on the information that has been accumulated. Numerous factors are considered in this process including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, pertinent trends observed over the recent past, the level of volatility within a particular line of business,

and the improvement or deterioration of actuarial indications in the current period as compared to the prior periods. Total recorded net reserves, excluding asbestos and environmental, were 1.8% higher than the actuarial indication of the reserves as of December 31, 2012.

See the Reserve Development section for a discussion of changes to reserve estimates recorded in 2012.

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Current trends contributing to reserve uncertainty

The Hartford is a multi-line company in the property and casualty insurance business. The Hartford is therefore subject to reserve uncertainty stemming from a number of conditions, including but not limited to those noted above, any of which could be material at any point in time. Certain issues may become more or less important over time as conditions change. As various market conditions develop, management must assess whether those conditions constitute a long-term trend that should result in a reserving action (i.e., increasing or decreasing the reserve).

Within Property & Casualty Commercial and Property & Casualty Other Operations, the Company has exposure to claims asserted for bodily injury as a result of long-term or continuous exposure to harmful products or substances. Examples include, but are not limited to, pharmaceutical products, silica and lead paint. The Company also has exposure to claims from construction defects, where property damage or bodily injury from negligent construction is alleged. In addition, the Company has exposure to claims asserted against religious institutions and other organizations relating to molestation or abuse. Such exposures may involve potentially long latency periods and may implicate coverage in multiple policy periods. These factors make reserves for such claims more uncertain than other bodily injury or property damage claims. With regard to these exposures, the Company is monitoring trends in litigation, the external environment, the similarities to other mass torts and the potential impact on the Company's reserves.

In Consumer Markets, reserving estimates are generally less variable than for the Company's other property and casualty segments because of the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends and their impact on recorded reserve levels. Severity trends can be impacted by changes in internal claim handling and case reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels. In addition, the introduction of new products has led to a different mix of business by type of insured than the Company experienced in the past. Such changes in mix increase the uncertainty of the reserve projections, since historical data and reporting patterns may not be applicable to the new business.

In standard commercial lines, workers' compensation is the Company's single biggest line of business and the line of business with the longest pattern of loss emergence. Medical costs make up more than 50% of workers' compensation payments. As such, reserve estimates for workers' compensation are particularly sensitive to changes in medical inflation, the changing use of medical care procedures and changes in state legislative and regulatory environments. In addition, a changing economic environment can affect the ability of an injured worker to return to work and the length of time a worker receives disability benefits. The Company has recently experienced a sharp increase in workers' compensation claim frequency, while only seeing a partial offset from moderating severity trends. These factors increase the uncertainty in the estimate of reserves.

In specialty lines, many lines of insurance are "long-tail", including large deductible workers' compensation insurance, as such, reserve estimates for these lines are more difficult to determine than reserve estimates for shorter-tail lines of insurance. Estimating required reserve levels for large deductible workers' compensation insurance is further complicated by the uncertainty of whether losses that are attributable to the deductible amount will be paid by the insured; if such losses are not paid by the insured due to financial difficulties, the Company would be contractually liable. Another example of reserve variability relates to reserves for directors' and officers' insurance. There is potential volatility in the required level of reserves due to the continued uncertainty regarding the number and severity of class action suits, including uncertainty regarding the Company's exposure to losses arising from the collapse of the sub-prime mortgage market. Additionally, the Company's exposure to losses under directors' and officers' insurance policies is primarily in excess layers, making estimates of loss more complex. The recent financial market turmoil has increased the number of shareholder class action lawsuits against our insureds or their directors and officers and this trend could continue for some period of time.

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Impact of changes in key assumptions on reserve volatility

As stated above, the Company's practice is to estimate reserves using a variety of methods, assumptions and data elements. Within its reserve estimation process for reserves other than asbestos and environmental, the Company does not consistently use statistical loss distributions or confidence levels around its reserve estimate and, as a result, does not disclose reserve ranges.

The reserve estimation process includes assumptions about a number of factors in the internal and external environment. Across most lines of business, the most important assumptions are future loss development factors applied to paid or reported losses to date. The trend in loss costs is also a key assumption, particularly in the most recent accident years, where loss development factors are less credible.

The following discussion includes disclosure of possible variation from current estimates of loss reserves due to a change in certain key indicators of potential losses. Each of the impacts described below is estimated individually, without consideration for any correlation among key indicators or among lines of business. Therefore, it would be inappropriate to take each of the amounts described below and add them together in an attempt to estimate volatility for the Company's reserves in total. The estimated variation in reserves due to changes in key indicators is a reasonable estimate of possible variation that may occur in the future, likely over a period of several calendar years. It is important to note that the variation discussed is not meant to be a worst-case scenario, and therefore, it is possible that future variation may be more than the amounts discussed below.

Recorded reserves for auto liability, net of reinsurance, are $2.0 billion across all lines, $1.4 billion of which is in Consumer Markets. Personal auto liability reserves are shorter-tailed than other lines of business (such as workers' compensation) and, therefore, less volatile. However, the size of the reserve base means that future changes in estimates could be material to the Company's results of operations in any given period. The key indicator for Consumer Markets auto liability is the annual loss cost trend, particularly the severity trend component of loss costs. A 2.5 point change in annual severity for the two most recent accident years would change the estimated net reserve need by $80, in either direction. A 2.5 point change in annual severity is within the Company's historical variation.

Recorded reserves for workers' compensation, net of reinsurance, are $8.1 billion. Loss development patterns are a key indicator for this line of business, particularly for more mature accident years. Historically, loss development patterns have been impacted by, among other things, medical cost inflation and other changes in loss cost trends. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 3%, the estimated net reserve need would change by $500, in either direction. A 3% change in reported loss development patterns is within the Company's historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Recorded reserves for general liability, net of reinsurance, are $2.6 billion. Loss development patterns are a key indicator for this line of business, particularly for more mature accident years. Historically, loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g., construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 9%, the estimated net reserve need would change by $200, in either direction. A 9% change in reported loss development patterns is within the Company's historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

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Reserving for Asbestos and Environmental Claims within Property & Casualty Other Operations

How A&E reserves are set

In establishing reserves for asbestos claims, the Company evaluates its insureds' estimated liabilities for such claims using a ground-up approach. The Company considers a variety of factors, including the jurisdictions where underlying claims have been brought, past, pending and anticipated future claim activity, disease mix, past settlement values of similar claims, dismissal rates, allocated loss adjustment expense, and potential bankruptcy impact.

Similarly, a ground-up exposure review approach is used to establish environmental reserves. The Company's evaluation of its insureds' estimated liabilities for environmental claims involves consideration of several factors, including historical values of similar claims, the number of sites involved, the insureds' alleged activities at each site, the alleged environmental damage at each site, the respective shares of liability of potentially responsible parties at each site, the appropriateness and cost of remediation at each site, the nature of governmental enforcement activities at each site, and potential bankruptcy impact.

Having evaluated its insureds' probable liabilities for asbestos and/or environmental claims, the Company then evaluates its insureds' insurance coverage programs for such claims. The Company considers its insureds' total available insurance coverage, including the coverage issued by the Company. The Company also considers relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds' estimated liabilities and the Company's exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by the Company's lawyers and is subject to applicable privileges.

For both asbestos and environmental reserves, the Company also compares its historical direct net loss and expense paid and reported experience, and net loss and expense paid and reported experience year by year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and reported activity.

Once the gross ultimate exposure for indemnity and allocated loss adjustment expense is determined for its insureds by each policy year, the Company calculates its ceded reinsurance projection based on any applicable facultative and treaty reinsurance and the Company's experience with reinsurance collections.

Uncertainties Regarding Adequacy of Asbestos and Environmental Reserves

A number of factors affect the variability of estimates for asbestos and environmental reserves including assumptions with respect to the frequency of claims, the average severity of those claims settled with payment, the dismissal rate of claims with no payment and the expense to indemnity ratio. The uncertainty with respect to the underlying reserve assumptions for asbestos and environmental adds a greater degree of variability to these reserve estimates than reserve estimates for more traditional exposures. While this variability is reflected in part in the size of the range of reserves developed by the Company, that range may still not be indicative of the potential variance between the ultimate outcome and the recorded reserves. The recorded net reserves as of December 31, 2012 of $2.09 billion ($1.79 billion and $297 for asbestos and environmental, respectively) are within an estimated range, unadjusted for covariance, of $1.6 billion to $2.4 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of uncertainties, which are detailed in Note 13 of Notes to Consolidated Financial Statements. The Company believes that its current asbestos and environmental reserves are appropriate. However, analyses of future developments could cause the Company to change its estimates and ranges of its asbestos and environmental reserves, and the effect of these changes could be material to the Company's consolidated operating results, financial condition and liquidity. Consistent with the Company's long-standing reserve practices, the Company will continue to review and monitor its reserves in Property & Casualty Other Operations regularly, including its annual reviews of asbestos liabilities, reinsurance recoverables and the allowance for uncollectible reinsurance, and environmental liabilities, and where future developments indicate, make appropriate adjustments to the reserves.

Total Property and Casualty Insurance Product Reserves, Net of Reinsurance, Results

In the opinion of management, based upon the known facts and current law, the reserves recorded for the Company's property and casualty insurance products at December 31, 2012 represent the Company's best estimate of its ultimate liability for losses and loss adjustment expenses related to losses covered by policies written by the Company. However, because of the significant uncertainties surrounding reserves, and particularly asbestos and environmental exposures, it is possible that management's estimate of the ultimate liabilities for these claims may change and that the

required adjustment to recorded reserves could exceed the currently recorded reserves by an amount that could be material to the Company's results of operations, financial condition and liquidity.

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Reserve Roll-forwards and Development

Based on the results of the quarterly reserve review process, the Company determines the appropriate reserve adjustments, if any, to record. Recorded reserve estimates are changed after consideration of numerous factors, including but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, adjustments are made more quickly to more mature accident years and less volatile lines of business. Such adjustments of reserves are referred to as “reserve development”. Reserve development that increases previous estimates of ultimate cost is called “reserve strengthening”. Reserve development that decreases previous estimates of ultimate cost is called “reserve releases”. Reserve development can influence the comparability of year over year underwriting results and is set forth in the paragraphs and tables that follow.

A roll-forward follows of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses for the year ended December 31, 2012:

For the year ended December 31, 2012

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$15,437	$2,061	$4,052	$21,550
Reinsurance and other recoverables	2,343	9	681	3,033
Beginning liabilities for unpaid losses and loss adjustment expenses, net	13,094	2,052	3,371	18,517
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	4,178	2,390	—	6,568
Current accident year catastrophes	325	381	—	706
Prior accident years	72	(141)	65	(4)
Total provision for unpaid losses and loss adjustment expenses	4,575	2,630	65	7,270
Less: Payments	4,014	2,772	312	7,098
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,655	1,910	3,124	18,689
Reinsurance and other recoverables	2,365	16	646	3,027
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$16,020	$1,926	$3,770	$21,716
Earned premiums	$6,259	$3,636		
Loss and loss expense paid ratio [1]	64.1	76.2		
Loss and loss expense incurred ratio	73.1	72.3		
Prior accident years development (pts) [2]	1.2	(3.9)		

[1] The “loss and loss expense paid ratio” represents the ratio of paid losses and loss adjustment expenses to earned premiums.

[2] “Prior accident years development (pts)” represents the ratio of prior accident years development to earned premiums.

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Prior accident years development recorded in 2012

Included within prior accident years development for the year ended December 31, 2012 were the following loss and loss adjustment expense reserve strengthenings (releases):

For the year ended December 31, 2012

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty Insurance
Auto liability	$56	$(81)	$—	$(25)
Homeowners	—	(32)	—	(32)
Professional liability	40	—	—	40
Package business	(20)	—	—	(20)
Workers' compensation	78	—	—	78
General liability	(87)	—	—	(87)
Fidelity and surety	(9)	—	—	(9)
Commercial property	(8)	—	—	(8)
Net asbestos reserves	—	—	48	48
Net environmental reserves	—	—	10	10
Change in workers' compensation discount, including accretion	52	—	—	52
Catastrophes	(37)	(29)	—	(66)
Other reserve re-estimates, net	7	1	7	15
Total prior accident years development	$72	$(141)	$65	$(4)

During 2012, the Company's re-estimates of prior accident years reserves included the following significant reserve changes:

- Released reserves for personal auto liability claims, primarily for accident years 2008 through 2011. As these accident years matured, favorable bodily injury severity trends were observed and management placed more weight on the emerged experience. Management has adjusted trend assumptions accordingly.
- Released reserves for homeowners claims, primarily for accident year 2011 as a result of favorable large loss frequency and lower than expected severity.
- Strengthened reserves for commercial auto liability claims, primarily for accident year 2010 and 2011. Higher than expected bodily injury severity, driven by large loss activity, has been observed for these accident years.
- Strengthened reserves for professional liability directors and officers claims for accident years 2011 and prior as a result of higher severity, primarily for mid- and large-sized accounts.
- Released reserves in package business liability coverages and general liability, primarily for accident years 2006 through 2011. Claim severity emergence for these years was lower than expected and management has placed more weight on the emerged experience. In addition, older years have improved due to favorable emergence of larger claims.
- Strengthened reserves in workers' compensation primarily due to the emergence of lost time claims from 2011.
- The change in workers' compensation discount, including accretion, primarily reflects a decrease in the number of tabular claims, and to a lesser extent, the decrease in interest rates.
- Reserve releases on certain prior year catastrophes, primarily related to 2001 World Trade Center worker's compensation claims.
- Refer to the Property & Casualty Other Operations Claims section for further discussion on net asbestos and net environmental reserves.

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A roll-forward follows of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses for the year ended December 31, 2011:

For the year ended December 31, 2011

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$14,727	$2,177	$4,121	$21,025
Reinsurance and other recoverables	2,361	17	699	3,077
Beginning liabilities for unpaid losses and loss adjustment expenses, net	12,366	2,160	3,422	17,948
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	4,139	2,536	—	6,675
Current accident year catastrophes	320	425	—	745
Prior accident years	125	(75)	317	367
Total provision for unpaid losses and loss adjustment expenses	4,584	2,886	317	7,787
Less: Payments	3,856	2,994	368	7,218
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,094	2,052	3,371	18,517
Reinsurance and other recoverables	2,343	9	681	3,033
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$15,437	$2,061	$4,052	$21,550
Earned premiums	$6,127	$3,747		
Loss and loss expense paid ratio [1]	62.9	79.9		
Loss and loss expense incurred ratio	74.8	77.0		
Prior accident years development (pts) [2]	2.0	(2.0)		

[1] The “loss and loss expense paid ratio” represents the ratio of paid losses and loss adjustment expenses to earned premiums.

[2] “Prior accident years development (pts)” represents the ratio of prior accident years development to earned premiums.

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Prior accident years development recorded in 2011

Included within prior accident years development for the year ended December 31, 2011 were the following loss and loss adjustment expense reserve strengthenings (releases):

For the year ended December 31, 2011

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty Insurance
Auto liability	$(4)	$(93)	$—	$(97)
Homeowners	—	(1)	—	(1)
Professional liability	29	—	—	29
Package business	(76)	—	—	(76)
Workers' compensation	171	—	—	171
General liability	(40)	—	—	(40)
Fidelity and surety	(7)	—	—	(7)
Commercial property	(4)	—	—	(4)
Net asbestos reserves	—	—	294	294
Net environmental reserves	—	—	26	26
Change in workers' compensation discount, including accretion	38	—	—	38
Catastrophes	12	25	—	37
Other reserve re-estimates, net	6	(6)	(3)	(3)
Total prior accident years development	$125	$(75)	$317	$367

During 2011, the Company's re-estimates of prior accident years reserves included the following significant reserve changes:

- Released reserves for personal auto liability claims, primarily for accident years 2006 through 2010. Favorable trends in reported severity have persisted or improved over this time period.
- Strengthened reserves in professional liability for accident years 2007 through 2008, primarily in the directors and officers ("D&O") line of business. Detailed reviews of claims involving the sub-prime mortgage market collapse, and shareholder class action lawsuits, resulted in a higher estimate of future claim costs for these exposures.
- Released reserves in package business liability coverages and general liability, in accident years 2005 through 2009. As these accident years developed, claim severity has emerged lower than expected.
- Strengthened reserves in workers' compensation in accident years 2008 through 2010. Accident year 2010 loss costs trends were higher than expected as an increase in frequency outpaced a moderation of severity trends. Strengthening in accident years 2009 and 2008 was the result of higher than expected loss emergence for these years. Strengthening in more recent years is partially offset by releases in accident years 2007 and prior.
- Strengthened prior year catastrophe reserves, primarily related to a severe wind and hail storm in Arizona during the fourth quarter of 2010. Severity of property damage associated with this event increased more than expected.
- Refer to the Property & Casualty Other Operations Claims section for discussion concerning the Company's annual evaluations of net environmental and net asbestos reserves, and related reinsurance.

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A roll-forward follows of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses for the year ended December 31, 2010:

For the year ended December 31, 2010

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$15,051	$2,109	$4,491	$21,651
Reinsurance and other recoverables	2,570	11	860	3,441
Beginning liabilities for unpaid losses and loss adjustment expenses, net	12,481	2,098	3,631	18,210
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	3,579	2,737	—	6,316
Current accident year catastrophes	152	300	—	452
Prior accident years	(361)	(86)	251	(196)
Total provision for unpaid losses and loss adjustment expenses	3,370	2,951	251	6,572
Less: Payments	3,485	2,889	460	6,834
Ending liabilities for unpaid losses and loss adjustment expenses, net	12,366	2,160	3,422	17,948
Reinsurance and other recoverables	2,361	17	699	3,077
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$14,727	$2,177	$4,121	$21,025
Earned premiums	$5,744	$3,947		
Loss and loss expense paid ratio [1]	60.7	73.2		
Loss and loss expense incurred ratio	58.7	74.8		
Prior accident years development (pts) [2]	(6.3)	(2.2)		

[1] The “loss and loss expense paid ratio” represents the ratio of paid losses and loss adjustment expenses to earned premiums.

[2] “Prior accident years development (pts)” represents the ratio of prior accident years development to earned premiums.

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Prior accident years development recorded in 2010

Included within prior accident years development for the year ended December 31, 2010 were the following loss and loss adjustment expense reserve strengthenings (releases):

For the year ended December 31, 2010

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty Insurance
Auto liability	$(54)	$(115)	$—	$(169)
Homeowners	—	23	—	23
Professional liability	(88)	—	—	(88)
Package business	(19)	—	—	(19)
Workers' compensation	(70)	—	—	(70)
General liability	(108)	—	—	(108)
Fidelity and surety	(5)	—	—	(5)
Commercial property	(16)	—	—	(16)
Net asbestos reserves	—	—	189	189
Net environmental reserves	—	—	67	67
All other non-A&E	—	—	11	11
Uncollectible reinsurance	(30)	—	—	(30)
Change in workers' compensation discount, including accretion	26	—	—	26
Catastrophes	1	10	—	11
Other reserve re-estimates, net	2	(4)	(16)	(18)
Total prior accident years development	$(361)	$(86)	$251	$(196)

During 2010, the Company's re-estimates of prior accident years reserves included the following significant reserve changes:

- Released reserves for commercial auto liability claims as the Company lowered its reserve estimate to recognize a lower severity trend during 2010 on larger claims in accident years 2002 to 2009. In addition, reserves were released for personal auto liability claims for accident years 2004 to 2009, as a result of favorable trends in reported severity, most notably for accident years 2008 and 2009.
- Released reserves for professional liability claims, primarily related to D&O claims in accident years 2004 to 2008. For these accident years, reported losses for claims under D&O policies have emerged favorably to initial expectations due to lower than expected claim severity.
- Released reserves for workers' compensation business, primarily related to accident years 2006 and 2007. Management updated reviews of state reforms affecting these accident years and determined impacts to be more favorable than previously estimated.
- Released reserves for general liability claims, primarily related to accident years 2005 through 2008. The Company observed that claim emergence for these accident years continued to be lower than anticipated and believed this would continue, and therefore reduced its reserve estimate in response. Partially offsetting this release was strengthening on loss adjustment expense reserves during the second quarter of 2010 due to higher than expected allocated loss expenses for claims in accident years 2000 and prior.
- Released reserves for package business claims, primarily related to accident years 2005 through 2009. The Company observed that claim emergence within the liability portion of the package coverage for these accident years continued to be lower than anticipated and believed this lower level of claim activity would continue, and therefore reduced its reserve estimate in response.
- Strengthened reserves for homeowners' claims, as the Company observed a lengthening of the claim reporting period for homeowners' claims which resulted in increasing management's estimate of the ultimate cost to settle these claims. The Company also began spending more on independent adjuster fees to better assess property damages.
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- The Company reviewed its allowance for uncollectible reinsurance in the second quarter of 2010 and reduced its allowance, in part, by a reduction in gross ceded loss recoverables.
- Refer to the Property & Casualty Other Operations Claims section for discussion concerning the Company's annual evaluations of net environmental and net asbestos reserves, and related reinsurance.

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Property & Casualty Other Operations Claims
Reserve Activity

Reserves and reserve activity in Property & Casualty Other Operations are categorized and reported as asbestos, environmental, or “all other”. The “all other” category of reserves covers a wide range of insurance and assumed reinsurance coverages, including, but not limited to, potential liability for construction defects, lead paint, silica, pharmaceutical products, molestation and other long-tail liabilities.

The following table presents reserve activity, inclusive of estimates for both reported and incurred but not reported claims, net of reinsurance, for Property & Casualty Other Operations, categorized by asbestos, environmental and all other claims, for the years ended December 31, 2012, 2011 and 2010.

Property & Casualty Other Operations Losses and Loss Adjustment Expenses

	Asbestos	Environmental	All Other [1]	Total
2012				
Beginning liability — net [2] [3]	$1,892	$320	$1,159	$3,371
Losses and loss adjustment expenses incurred	48	10	7	65
Less: Losses and loss adjustment expenses paid	164	40	108	312
Ending liability — net [2] [3]	$1,776 [4]	$290	$1,058	$3,124
2011				
Beginning liability — net [2] [3]	$1,787	$334	$1,302	$3,423
Losses and loss adjustment expenses incurred	294	26	(3)	317
Less: Losses and loss adjustment expenses paid	189	40	140	369
Ending liability — net [2] [3]	$1,892	$320	$1,159	$3,371
2010				
Beginning liability — net [2] [3]	$1,892	$307	$1,432	$3,631
Losses and loss adjustment expenses incurred	189	67	(5)	251
Less: Losses and loss adjustment expenses paid	294	40	125	459
Ending liability — net [2] [3]	$1,787	$334	$1,302	$3,423

[1] “All Other” includes unallocated loss adjustment expense reserves. “All Other” also includes the Company’s allowance for uncollectible reinsurance. When the Company commutes a ceded reinsurance contract or settles a ceded reinsurance dispute, the portion of the allowance for uncollectible reinsurance attributable to that commutation or settlement, if any, is reclassified to the appropriate cause of loss.

[2] Excludes amounts reported in Property & Casualty Commercial and Consumer Markets reporting segments (collectively “Ongoing Operations”) for asbestos and environmental net liabilities of $15 and $7 respectively, as of December 31, 2012, $15 and $8, respectively, as of December 31, 2011, and $11 and $5, respectively, as of December 31, 2010; total net losses and loss adjustment expenses incurred for the years ended December 31, 2012, 2011 and 2010 of $13, $27 and $15, respectively, related to asbestos and environmental claims; and total net losses and loss adjustment expenses paid for the years ended December 31, 2012, 2011 and 2010 of $15, $20 and $14, respectively, related to asbestos and environmental claims.

[3] Gross of reinsurance, asbestos and environmental reserves, including liabilities in Property & Casualty Commercial and Consumer Markets, were $2,294 and $334, respectively, as of December 31, 2012; $2,442 and $367, respectively, as of December 31, 2011; and $2,308 and $378, respectively, as of December 31, 2010.

[4] The one year and average three year net paid amounts for asbestos claims, including Ongoing Operations, were $175 and $225, respectively, resulting in a one year net survival ratio of 10.3 and a three year net survival ratio of 8.0. Net survival ratio is the quotient of the net carried reserves divided by the average annual payment amount and is an indication of the number of years that the net carried reserve would last (i.e., survive) if the future annual claim payments were consistent with the calculated historical average.

For paid and incurred losses and loss adjustment expenses reporting, the Company classifies its asbestos and environmental reserves into three categories: Direct, Assumed Reinsurance and London Market. Direct insurance includes primary and excess coverage. Assumed reinsurance includes both “treaty” reinsurance (covering broad

categories of claims or blocks of business) and “facultative” reinsurance (covering specific risks or individual policies of primary or excess insurance companies). London Market business includes the business written by one or more of the Company’s subsidiaries in the United Kingdom, which are no longer active in the insurance or reinsurance business. Such business includes both direct insurance and assumed reinsurance.

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Of the three categories of claims (Direct, Assumed Reinsurance and London Market), direct policies tend to have the greatest factual development from which to estimate the Company's exposures.

Assumed reinsurance exposures are inherently less predictable than direct insurance exposures because the Company may not receive notice of a reinsurance claim until the underlying direct insurance claim is mature. This causes a delay in the receipt of information at the reinsurer level and adds to the uncertainty of estimating related reserves.

London Market exposures are the most uncertain of the three categories of claims. As a participant in the London Market (comprised of both Lloyd's of London and London Market companies), certain subsidiaries of the Company wrote business on a subscription basis, with those subsidiaries' involvement being limited to a relatively small percentage of a total contract placement. Claims are reported, via a broker, to the "lead" underwriter and, once agreed to, are presented to the following markets for concurrence. This reporting and claim agreement process makes estimating liabilities for this business the most uncertain of the three categories of claims.

The following table sets forth, for the years ended December 31, 2012, 2011 and 2010, paid and incurred loss activity by the three categories of claims for asbestos and environmental.

Paid and Incurred Losses and Loss Adjustment Expenses ("LAE") Development — Asbestos and Environmental

	Asbestos [1]		Environmental [1]	
	Paid Losses & LAE	Incurred Losses & LAE	Paid Losses & LAE	Incurred Losses & LAE
2012				
Gross				
Direct	$153	$55	$31	$9
Assumed Reinsurance	51	14	7	—
London Market	17	5	5	3
Total	221	74	43	12
Ceded	(57)	(26)	(3)	(2)
Net	$164	$48	$40	$10
2011				
Gross				
Direct	$170	$350	$32	$25
Assumed Reinsurance	55	12	8	—
London Market	23	16	6	4
Total	248	378	46	29
Ceded	(59)	(84)	(6)	(3)
Net	$189	$294	$40	$26
2010				
Gross				
Direct	$201	$209	$35	$50
Assumed — Domestic	128	—	12	5
London Market	42	(15)	7	10
Total	371	194	54	65
Ceded	(77)	(5)	(14)	2
Net	$294	$189	$40	$67

[1] Excludes asbestos and environmental paid and incurred loss and LAE reported in Ongoing Operations. Total gross losses and LAE incurred in Ongoing Operations for the years ended December 31, 2012, 2011 and 2010 includes $13, $30 and $15, respectively, related to asbestos and environmental claims. Total gross losses and LAE paid in Ongoing Operations for the years ended December 31, 2012, 2011 and 2010 includes $15, $22 and $14, respectively, related to asbestos and environmental claims.

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In the fourth quarters of 2012, 2011 and 2010, the Company completed evaluations of certain of its non-asbestos and environmental reserves, including its assumed reinsurance liabilities. In 2012 and 2011, the Company recognized no prior year development. In 2010, the Company recognized unfavorable prior year development of $11.

During the second quarter of 2012 and the third quarters of 2011 and 2010, the Company completed its annual ground up environmental reserve evaluations. In each of these evaluations, the Company reviewed all of its open direct domestic insurance accounts exposed to environmental liability as well as assumed reinsurance accounts and its London Market exposures for both direct and assumed reinsurance. The Company found estimates for some individual account exposures increased based upon unfavorable litigation results and increased clean-up or expense costs, with the vast majority of this deterioration emanating from a limited number of insureds. The net effect of these account-specific changes as well as quarterly actuarial evaluations of new account emergence and historical loss and expense paid experience resulted in $10, $19 and $62 increases in net environmental liabilities in 2012, 2011 and 2010, respectively. In addition to the quarterly actuarial evaluations, the Company currently expects to continue to perform an evaluation of its environmental liabilities annually.

During the second quarter of 2012, 2011 and 2010, the Company completed its annual ground-up asbestos reserve evaluations. As part of these evaluations, the Company reviewed all of its open direct domestic insurance accounts exposed to asbestos liability, as well as assumed reinsurance accounts and its London Market exposures for both direct insurance and assumed reinsurance. During 2012, the Company found estimates for individual cases changed based upon the particular circumstances of such accounts. These changes were case specific and not as a result of any underlying change in the current environment. The Company experienced moderate increases in claim severity, expense and costs associated with litigating asbestos coverage matters, particularly against certain smaller, more peripheral insureds. The Company also experienced unfavorable development on certain of its assumed reinsurance accounts driven largely by the same factors experienced by the direct policyholders. Based on this evaluation, the Company strengthened its net asbestos reserves by $48 in second quarter 2012. During 2011, for certain direct policyholders, the Company experienced increases in claim frequency, severity and expense which were driven by mesothelioma claims, particularly against certain smaller, more peripheral insureds. The Company also experienced unfavorable development on its assumed reinsurance accounts driven largely by the same factors experienced by the direct policyholders. Based on this evaluation, the Company strengthened its net asbestos reserves by $290 in second quarter 2011. During 2010, for certain direct policyholders, the Company experienced increases in claim severity and expense. Increases in severity and expense were driven by litigation in certain jurisdictions and, to a lesser extent, development on primarily peripheral accounts. The Company also experienced unfavorable development on its assumed reinsurance accounts driven largely by the same factors experienced by the direct policyholders. The net effect of these changes in 2010 resulted in $169 increase in net asbestos reserves. The Company currently expects to continue to perform an evaluation of its asbestos liabilities annually.

The Company divides its gross asbestos and environmental exposures into Direct, Assumed Reinsurance and London Market. Direct asbestos exposures include Major Asbestos Defendants, Non-Major Accounts, and Unallocated Direct Accounts.

- Major Asbestos Defendants represent the “Top 70” accounts in Tillinghast's published Tiers 1 and 2 and Wellington accounts. Major Asbestos Defendants have the fewest number of asbestos accounts and include reserves related to PPG Industries, Inc. (“PPG”). In January 2009, the Company, along with approximately three dozen other insurers, entered into a modified agreement in principle with PPG to resolve the Company's coverage obligations for all its PPG asbestos liabilities. The agreement is contingent on the fulfillment of certain conditions. Major Asbestos Defendants gross asbestos reserves accounted for approximately 30% of the Company's total Direct gross asbestos reserves as of the second quarter 2012 asbestos reserve evaluation.
- Non-Major Accounts are all other open direct asbestos accounts and largely represent smaller and more peripheral defendants. These exposures represented 1,143 accounts and contained approximately 41% of the Company's total Direct gross asbestos reserves as of the second quarter 2012 asbestos reserve evaluation.
- Unallocated Direct Accounts includes an estimate of the reserves necessary for asbestos claims related to direct insureds that have not previously tendered asbestos claims to the Company and exposures related to liability claims

that may not be subject to an aggregate limit under the applicable policies.

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The following table displays gross asbestos and environmental reserves by category as of December 31, 2012:

Summary of Gross A&E Reserves

	Asbestos [1]	Environmental [2]	Total A&E
Gross			
Direct	$ 1,722	$ 246	$ 1,968
Assumed Reinsurance	310	33	343
London Market	262	55	317
Total	2,294	334	2,628
Ceded	(503)	(37)	(540)
Net	$ 1,791	$ 297	$ 2,088

[1] The one year gross paid amount for total asbestos claims is $231, resulting in a one year gross survival ratio of 9.9. The three year average gross paid amount for total asbestos claims is $289, resulting in a three year gross survival ratio of 7.9.

[2] The one year gross paid amount for total environmental claims is $51, resulting in a one year gross survival ratio of 6.6. The three year average gross paid amount for total environmental claims is $56, resulting in a three year gross survival ratio of 5.9.

The Company provides an allowance for uncollectible reinsurance, reflecting management's best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers' unwillingness or inability to pay. During the second quarters of 2012, 2011 and 2010, the Company completed its annual evaluations of the collectability of the reinsurance recoverables and the adequacy of the allowance for uncollectible reinsurance associated with older, long-term casualty liabilities reported in the Property & Casualty Other Operations. In conducting this evaluation, the Company used its most recent detailed evaluations of ceded liabilities reported in the segment. The Company analyzed the overall credit quality of the Company's reinsurers, recent trends in arbitration and litigation outcomes in disputes between cedants and reinsurers, and recent developments in commutation activity between reinsurers and cedants. The evaluation in the second quarters of 2012, 2011, and 2010 resulted in no adjustments to the allowance for uncollectible reinsurance. As of December 31, 2012, 2011, and 2010, the allowance for uncollectible reinsurance for Property & Casualty Other Operations totaled $203, $207, and $207. The Company currently expects to perform its regular comprehensive review of Property & Casualty Other Operations reinsurance recoverables annually. Due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables become due, particularly for older, long-term casualty liabilities, it is possible that future adjustments to the Company's reinsurance recoverables, net of the allowance, could be required.

Consistent with the Company's long-standing reserving practices, the Company will continue to review and monitor its reserves in the Property & Casualty Other Operations segment regularly and, where future developments indicate, make appropriate adjustments to the reserves. The Company will complete both its annual ground-up asbestos and environmental reserve studies during the second quarter of 2013.

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Impact of Re-estimates

The establishment of property and casualty insurance product reserves is an estimation process, using a variety of methods, assumptions and data elements. Ultimate losses may vary significantly from the current estimates. Many factors can contribute to these variations and the need to change the previous estimate of required reserve levels. Subsequent changes can generally be thought of as being the result of the emergence of additional facts that were not known or anticipated at the time of the prior reserve estimate and/or changes in interpretations of information and trends.

The table below shows the range of annual reserve re-estimates experienced by The Hartford over the past ten years. The amount of prior accident year development (as shown in the reserve rollforward) for a given calendar year is expressed as a percent of the beginning calendar year reserves, net of reinsurance. The percentage relationships presented are significantly influenced by the facts and circumstances of each particular year and by the fact that only the last ten years are included in the range. Accordingly, these percentages are not intended to be a prediction of the range of possible future variability. See “Impact of key assumptions on reserve volatility” within this section for further discussion of the potential for variability in recorded loss reserves.

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property & Casualty
Range of prior accident year unfavorable (favorable) development for the ten years ended December 31, 2012 [1] [2]	(3.1)% - 1.5%	(6.9)% - 0.2%	1.9% - 67.5%	(1.2)% - 21.5%

[1] Excluding the reserve strengthening for asbestos and environmental reserves, over the past ten years reserve re-estimates for total property and casualty insurance ranged from (2.5)% to 1.6%.

[2] Development for Corporate is included in Property & Casualty Commercial and Consumer Markets in 2007 and prior.

The potential variability of the Company’s property and casualty insurance product reserves would normally be expected to vary by segment and the types of loss exposures insured by those segments. Illustrative factors influencing the potential reserve variability for each of the segments are discussed above.

A table depicting the historical development of the liabilities for unpaid losses and loss adjustment expenses, net of reinsurance, follows:

Loss Development Table

Loss And Loss Adjustment Expense Liability Development — Net of Reinsurance

For the Years Ended December 31,

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$13,141	$16,218	$16,191	$16,863	$17,604	$18,231	$18,347	$18,210	$17,948	$18,517	$18,689
Cumulative paid losses and loss expenses											
One year later	3,480	4,415	3,594	3,702	3,727	3,703	3,771	3,882	4,037	4,216	
Two years later	6,781	6,779	6,035	6,122	5,980	5,980	6,273	6,401	6,664		
Three years later	8,591	8,686	7,825	7,755	7,544	7,752	8,074	8,241	—		
Four years later	10,061	10,075	9,045	8,889	8,833	9,048	9,411	—	—		
Five years later	11,181	11,063	9,928	9,903	9,778	10,061	—	—	—		
Six years later	12,015	11,821	10,798	10,674	10,564	—	—	—	—		
Seven years later	12,672	12,601	11,448	11,334	—	—	—	—	—		
Eight years later	13,385	13,193	12,023	—	—	—	—	—	—		

Nine years later	13,935	13,718	—	—	—	—	—	—	—	
Ten years later	14,423	—	—	—	—	—	—	—	—	
Liabilities re-estimated										
One year later	15,965	16,632	16,439	17,159	17,652	18,005	18,161	18,014	18,315	18,513
Two years later	16,501	17,232	16,838	17,347	17,475	17,858	18,004	18,136	18,275	
Three years later	17,338	17,739	17,240	17,318	17,441	17,700	18,139	18,093	—	
Four years later	17,876	18,367	17,344	17,497	17,439	17,866	18,120	—	—	
Five years later	18,630	18,554	17,570	17,613	17,676	17,848	—	—	—	
Six years later	18,838	18,836	17,777	17,895	17,673	—	—	—	—	
Seven years later	19,126	19,063	18,064	17,899	—	—	—	—	—	
Eight years later	19,373	19,351	18,062	—	—	—	—	—	—	
Nine years later	19,671	19,358	—	—	—	—	—	—	—	
Ten years later	19,684	—	—	—	—	—	—	—	—	
Deficiency (redundancy), net of reinsurance	$6,543	$3,140	$1,871	$1,036	$69	$(383)	$(227)	$(117)	$327	$(4)

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The previous table shows the cumulative deficiency (redundancy) of the Company's reserves, net of reinsurance, as now estimated with the benefit of additional information. Those amounts are comprised of changes in estimates of gross losses and changes in estimates of related reinsurance recoveries.

The following table, for the periods presented, reconciles the net reserves to the gross reserves, as initially estimated and recorded, and as currently estimated and recorded, and computes the cumulative deficiency (redundancy) of the Company's reserves before reinsurance.

Loss And Loss Adjustment Expense Liability Development — Gross

For the Years Ended December 31,

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net reserve, as initially estimated	$16,218	$16,191	$16,863	$17,604	$18,231	$18,347	$18,210	$17,948	$18,517	$18,689
Reinsurance and other recoverables, as initially estimated	5,497	5,138	5,403	4,387	3,922	3,586	3,441	3,077	3,033	3,027
Gross reserve, as initially estimated	$21,715	$21,329	$22,266	$21,991	$22,153	$21,933	$21,651	$21,025	$21,550	$21,716
Net re-estimated reserve	$19,358	$18,062	$17,899	$17,673	$17,848	$18,120	$18,093	$18,275	$18,513	
Re-estimated and other reinsurance recoverables	5,693	5,579	5,911	4,311	4,041	3,716	3,225	2,954	2,766	
Gross re-estimated reserve	$25,051	$23,641	$23,810	$21,984	$21,889	$21,836	$21,318	$21,229	$21,279	
Gross deficiency (redundancy)	$3,336	$2,312	$1,544	$(7)	$(264)	$(97)	$(333)	$204	$(271)	

The following table is derived from the Loss Development table and summarizes the effect of reserve re-estimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2012. The total of each column details the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve re-estimates during the ten year period ended December 31, 2012 for the indicated accident year(s).

Effect of Net Reserve Re-estimates on Calendar Year Operations

	Calendar Year										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
By Accident year											
2002 & Prior	$2,824	$536	$837	$538	$754	$208	$288	$247	$298	$13	$6,543
2003	—	(122)	(237)	(31)	(126)	(21)	(6)	(20)	(10)	(6)	(579)
2004	—	—	(352)	(108)	(226)	(83)	(56)	(20)	(1)	(9)	(855)
2005	—	—	—	(103)	(214)	(133)	(47)	(91)	(5)	6	(587)
2006	—	—	—	—	(140)	(148)	(213)	(118)	(45)	(7)	(671)
2007	—	—	—	—	—	(49)	(113)	(156)	(71)	(15)	(404)
2008	—	—	—	—	—	—	(39)	1	(31)	(1)	(70)
2009	—	—	—	—	—	—	—	(39)	(13)	(24)	(76)
2010	—	—	—	—	—	—	—	—	245	3	248
2011	—	—	—	—	—	—	—	—	—	36	36
Total	$2,824	$414	$248	$296	$48	$(226)	$(186)	$(196)	$367	$(4)	$3,585

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Reserve changes for accident years 2002 & Prior

The largest impacts of net reserve re-estimates are shown in the “2002 & Prior” accident years. The reserve deterioration is driven, in part, by deterioration of reserves for asbestos, environmental, assumed casualty reinsurance, workers’ compensation, and general liability claims. Numerous actuarial assumptions on assumed casualty reinsurance turned out to be low, including loss cost trends, particularly on excess of loss business, and the impact of deteriorating terms and conditions.

The reserve re-estimates in calendar year 2003 include an increase in reserves of $2.6 billion related to reserve strengthening based on the Company’s evaluation of its asbestos reserves. The reserve evaluation that led to the strengthening in calendar year 2003 confirmed the Company’s view of the existence of a substantial long-term deterioration in the asbestos litigation environment. The reserve re-estimates in calendar years 2004 through 2006 were largely attributable to reductions in the reinsurance recoverable asset associated with older, long-term casualty liabilities, and unexpected development on mature claims in both general liability and workers’ compensation.

The reserve re-estimates during calendar year 2008 are largely driven by increases in asbestos, environmental and general liability reserves. The reserve re-estimates in calendar years 2009, 2010 and 2011 are largely due to increases in asbestos and environmental reserves, resulting from the Company’s annual evaluations of these liabilities. These reserve evaluations reflect deterioration in the litigation environment surrounding asbestos and environmental liabilities during this period.

Reserve changes for accident years 2003 through 2007

During the 2007 calendar year, the Company refined its processes for allocating incurred but not reported (“IBNR”) reserves by accident year, resulting in a reclassification of $347 of IBNR reserves from the 2003 to 2006 accident years to the 2002 and prior accident years. This reclassification of reserves by accident year had no effect on total recorded reserves within any segment or on total recorded reserves for any line of business within a segment. Even after considering the reclassification of IBNR reserves, accident years 2003 through 2007 show favorable development in calendar years 2004 through 2011. A portion of the release comes from short-tail lines of business, where results emerge quickly. During calendar year 2005 and 2006, favorable re-estimates occurred for both loss and allocated loss adjustment expenses. In addition, catastrophe reserves related to the 2004 and 2005 hurricanes developed favorably in 2006. During calendar years 2005 through 2008, the Company recognized favorable re-estimates of both loss and allocated loss adjustment expenses on workers’ compensation claims, driven, in part, by state regulatory reforms in California and Florida, underwriting actions, and expense reduction initiatives that had a greater impact in controlling costs than originally estimated. In 2007, the Company released reserves for package business claims as reported losses emerged favorably to previous expectations. In 2007 through 2009, the Company released reserves for general liability claims due to the favorable emergence of losses for high hazard and umbrella general liability claims. Reserves for professional liability claims were released in 2008 and 2009 related to the 2003 through 2007 accident years due to a lower estimate of claim severity on both directors’ and officers’ insurance claims and errors and omissions insurance claims. Reserves of auto liability claims, within Consumer Markets, were released in 2008 due largely to an improvement in emerged claim severity for the 2005 to 2007 accident years.

Reserve changes for accident years 2008 through 2009

Accident years 2008 through 2009 remain reasonably close to original estimates. Modest favorable reserve re-estimates during calendar periods 2009 through 2012 are primarily related to liability lines of business.

Reserve changes for accident year 2010

Unfavorable reserve re-estimates in calendar year 2011 are largely driven by workers’ compensation. Loss cost trends were higher than initially expected as an increase in frequency outpaced a moderation of severity trends.

Reserve changes for accident year 2011

Accident year 2011 remains reasonably close to the original estimate. Modest unfavorable reserve re-estimates during calendar periods 2012 are primarily related to workers compensation driven by late development of lost time claims.

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Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity and Other Universal Life-Type Contracts

Estimated gross profits are used in the amortization of: the deferred policy acquisition costs ("DAC") asset, which includes the present value of future profits; sales inducement assets (“SIA”); and unearned revenue reserves (“URR”). See Note 1, Note 2 and Note 8 of the Notes to Consolidated Financial Statements for additional information on DAC. See Note 11 of the Notes to Consolidated Financial Statements for additional information on SIA. Portions of EGPs are also used in the valuation of reserves for death and other insurance benefit features on variable annuity and universal life-type contracts. See Note 10 of the Notes to Consolidated Financial Statements for additional information on death and other insurance benefit reserves.

The most significant EGP based balances are as follows:

	Talcott Resolution	
	As of December 31,	
	2012	2011
DAC	$5,112	$5,931
SIA	$325	$434
URR	$1,880	$1,708
Death and Other Insurance Benefit Reserves	$1,942	$2,308

Unlocks

The (charge) benefit to net income (loss) by asset and liability as a result of the Unlocks is as follows:

	Talcott Resolution		
	For the years ended December 31,		
	2012	2011	2010
DAC	$(144)	$(419)	$107
SIA	(82)	(22)	—
URR	26	40	17
Death and Other Insurance Benefit Reserves	247	(333)	25
Total (pre-tax)	$47	$(734)	$149
Income tax effect	16	(261)	56
Total (after-tax)	$31	$(473)	$93

The Unlock benefit, after-tax for the year ended December 31, 2012 was driven primarily by actual separate account returns above our aggregated estimated return, partially offset by policyholder assumption changes which reduced expected future gross profits including additional costs associated with the U.S. variable annuity macro hedge program.

The Unlock charge for the year ended December 31, 2011 was driven primarily by policyholder assumption changes which reduced expected future gross profits including additional costs associated with implementing the Japan hedging strategy and the U.S. variable annuity macro hedge program, as well as actual separate account returns below our aggregated estimated return.

The Unlock benefit for the year ended December 31, 2010 was driven primarily by actual separate account returns above our aggregated estimated return. Also included in the benefit are policyholder assumption changes related to benefits from withdrawals and lapses, offset by hedging, annuitization estimates on Japan products, and long-term expected rate of return updates.

For most life insurance product contracts, the Company estimates gross profits over 20 years as EGPs emerging subsequent to that timeframe are immaterial. Products sold in a particular year are aggregated into cohorts. Future gross profits for each cohort are projected over the estimated lives of the underlying contracts, based on future account value projections for variable annuity and variable universal life products. The projection of future account values requires the use of certain assumptions including: separate account returns; separate account fund mix; fees assessed against the contract holder’s account balance; surrender and lapse rates; interest margin; mortality; and the extent and

duration of hedging activities and hedging costs. Changes in these assumptions and, in addition, changes to other policyholder behavior assumptions such as resets, partial surrenders, reaction to price increases, and asset allocations causes EGPs to fluctuate which impacts earnings.

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The Company determines EGPs from a single deterministic reversion to mean (“RTM”) separate account return projection which is an estimation technique commonly used by insurance entities to project future separate account returns. Through this estimation technique, the Company’s DAC model is adjusted to reflect actual account values at the end of each quarter. Through consideration of recent market returns, the Company will unlock, or adjust, projected returns over a future period so that the account value returns to the long-term expected rate of return, providing that those projected returns do not exceed certain caps or floors. This Unlock for future separate account returns is determined each quarter. Under RTM, the expected long term weighted average rate of return is 8.3% and 5.9% for U.S. and Japan, respectively.

In the third quarter of each year, the Company completes a comprehensive non-market related policyholder behavior assumption study and incorporates the results of those studies into its projection of future gross profits. Additionally, throughout the year, the Company evaluates various aspects of policyholder behavior and periodically revises its policyholder assumptions as credible emerging data indicates that changes are warranted. The Company will continue to evaluate its assumptions related to policyholder behavior as initiatives to reduce the size of the variable annuity business are implemented by management. Upon completion of an annual assumption study or evaluation of credible new information, the Company will revise its assumptions to reflect its current best estimate. These assumption revisions will change the projected account values and the related EGPs in the DAC, SIA and URR amortization models, as well as the death and other insurance benefit reserving model.

All assumption changes that affect the estimate of future EGPs including the update of current account values, the use of the RTM estimation technique and policyholder behavior assumptions are considered an Unlock in the period of revision. An Unlock adjusts DAC, SIA, URR and death and other insurance benefit reserve balances in the Consolidated Balance Sheets with an offsetting benefit or charge in the Consolidated Statements of Operations in the period of the revision. An Unlock that results in an after-tax benefit generally occurs as a result of actual experience or future expectations of product profitability being favorable compared to previous estimates. An Unlock that results in an after-tax charge generally occurs as a result of actual experience or future expectations of product profitability being unfavorable compared to previous estimates.

EGPs are also used to determine the expected excess benefits and assessments included in the measurement of death and other insurance benefit reserves. These excess benefits and assessments are derived from a range of stochastic scenarios that have been calibrated to the Company’s RTM separate account returns. The determination of death and other insurance benefit reserves is also impacted by discount rates, lapses, volatilities, mortality assumptions and benefit utilization, including assumptions around annuitization rates.

An Unlock revises EGPs, on a quarterly basis, to reflect market updates of policyholder account value and the Company’s current best estimate assumptions. Modifications to the Company’s hedging programs may impact EGPs, and correspondingly impact DAC recoverability. After each quarterly Unlock, the Company also tests the aggregate recoverability of DAC by comparing the DAC balance to the present value of future EGPs. The margin between the DAC balance and the present value of future EGPs for U.S. and Japan individual variable annuities was 36% and 43% as of December 31, 2012, respectively. If the margin between the DAC asset and the present value of future EGPs is exhausted, then further reductions in EGPs would cause portions of DAC to be unrecoverable and the DAC asset would be written down to equal future EGPs.

Evaluation of Other-Than-Temporary Impairments on Available-for-Sale Securities and Valuation Allowances on Mortgage Loans

The Company has a monitoring process overseen by a committee of investment and accounting professionals that identifies investments that are subject to an enhanced evaluation on a quarterly basis to determine if an other-than-temporary impairment (“impairment”) is present for available-for-sale ("AFS") securities or a valuation allowance is required for mortgage loans. This evaluation is a quantitative and qualitative process, which is subject to risks and uncertainties. For further discussion of the accounting policies, see the Significant Investment Accounting Policies Section in Note 1 of the Notes to Consolidated Financial Statements. For a discussion of impairments recorded, see the Other-Than-Temporary Impairments within the Investment Portfolio Risks and Risk Management section of the MD&A.

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

Fair values for GMWB and GMAB 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 is calculated as an aggregation of the following components: Best Estimate Claims 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. For further discussion on the impact of fair value changes from living benefits see Note 5 of the Notes to Consolidated Financial Statements and for a discussion on the sensitivities of certain living benefits due to capital market factors see Variable Product Guarantee Risks and Risk Management section of the MD&A.

Goodwill Impairment

Goodwill balances are reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event for a potential impairment has occurred. The goodwill impairment test follows a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the carrying amount of the reporting unit's goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to that excess.

Management's determination of the fair value of each reporting unit incorporates multiple inputs into discounted cash flow calculations including assumptions that market participants would make in valuing the reporting unit. Assumptions include levels of economic capital, future business growth, earnings projections, and assets under management for Mutual Funds and the reporting units within Talcott Resolution and the weighted average cost of capital used for purposes of discounting. Decreases in the amount of economic capital allocated to a reporting unit, decreases in business growth, decreases in earnings projections and increases in the weighted average cost of capital will all cause a reporting unit's fair value to decrease.

A reporting unit is defined as an operating segment or one level below an operating segment. Certain of the Company's reporting units, for which goodwill has been allocated, are equivalent to the Company's operating segments as there is no discrete financial information available for the separate components of the segment or all of the components of the segment have similar economic characteristics. The Group Benefits, Consumer Markets and Mutual Funds operating segments all have equivalent reporting units. In 2012 and 2011, The Hartford changed its operating segments with no change to reporting units. As part of the operating segment changes in 2012, the Individual Life and Retirement Plans reporting units are now included in the Talcott Resolution operating segment. Goodwill associated with the June 30, 2000 buyback of Hartford Life, Inc. was allocated to each of Hartford Life's reporting units based on the reporting unit's fair value of in-force business at the time of the buyback. Although this goodwill was allocated to each reporting unit, as shown in the table below, it is held in Corporate for segment reporting.

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The carrying value of goodwill allocated to reporting units is as follows:

	As of December 31, 2012			As of December 31, 2011		
	Segment Goodwill	Goodwill in Corporate	Total	Segment Goodwill	Goodwill in Corporate	Total
Group Benefits	$—	$138	$138	$—	$138	$138
Consumer Markets	119	—	119	119	—	119
Mutual Funds [1] [2]	149	92	241	159	92	251
Talcott Resolution:						
Individual Life [1]	—	—	—	224	118	342
Retirement Plans [1]	87	69	156	87	69	156
Total Talcott Resolution	87	69	156	311	187	498
Total	$355	$299	$654	$589	$417	$1,006

[1] For further information, see Note 2 - Business Dispositions of the Notes to Consolidated Financial Statements.
[2] For further information, see Note 9 - Goodwill and Other Intangible Assets of the Notes to Consolidated Financial Statements.

During the first quarter of 2012, the Company determined that a triggering event requiring an impairment assessment had occurred as a result of its decision to pursue sales or other strategic alternatives for the Individual Life and Retirement Plans reporting units.

The Company completed interim impairment tests during each of the first three quarters of 2012 for the Retirement Plans reporting unit which resulted in no impairment of goodwill. The annual goodwill assessment for Retirement Plans was completed as of October 31, 2012 and an additional impairment test was completed as of December 31, 2012 as a result of the anticipated sale of this business unit. No write-down of goodwill resulted for the year ended December 31, 2012. Retirement Plans passed step one of the goodwill impairment tests with a margin of less than 10% between fair value and book value of the reporting unit as of both dates. The fair value of the Retirement Plans reporting unit as of October 31, 2012 and December 31, 2012 was based on a negotiated transaction price.

The Company completed interim impairment tests during each of the first three quarters of 2012 for the Individual Life reporting unit which resulted in no impairment of goodwill in the first and second quarters of 2012. In the third quarter of 2012, the Individual Life reporting unit failed the goodwill impairment tests as the carrying amount of the Individual Life reporting unit's goodwill exceeded the implied goodwill value. Accordingly, an impairment loss of $342 was recognized, representing the carrying value of the reporting unit's goodwill. The goodwill impairment loss is included in reinsurance loss on disposition in the Company's Consolidated Statements of Operations. The fair value of the Individual Life reporting unit as of September 30, 2012 was based on a negotiated transaction price. See Notes 2 and 9 of the Notes to Consolidated Financial Statements.

The annual goodwill assessment for the Mutual Funds, Group Benefits and Consumer Markets reporting units was completed as of October 31, 2012, which resulted in no write-downs of goodwill for the year ended December 31, 2012. The reporting units passed the first step of their annual impairment test with a significant margin with the exception of the Group Benefits reporting unit. Group Benefits passed the first step of its annual impairment test with less than a 10% margin. The fair value of the Group Benefits reporting unit is based on discounted cash flows using earnings projections on in force business and future business growth. There could be a positive or negative impact on the result of step one in future periods if assumptions change about the level of economic capital, future business growth, earnings projections or the weighted average cost of capital.

See Note 9 of the Notes to Consolidated Financial Statements for information on the results of goodwill impairment tests performed in 2011 and 2010.

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Valuation of Investments and Derivative Instruments

Available-for-Sale Securities, Fixed Maturities, FVO, Equity Securities, Trading, and Short-term Investments

The fair value of AFS securities, fixed maturities, at fair value using the fair value option ("FVO"), equity securities, trading, and short-term investments in an active and orderly market (i.e., not distressed or forced liquidation) is 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 prices are first sought from third-party pricing services, the remaining unpriced securities are submitted to independent brokers for prices, or lastly, securities are 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, prepayments 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 through 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 recent reported trades, the third party pricing services and 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. For further discussion, see the Available-for-Sale, Fixed Maturities, FVO, Equity Securities, Trading, and Short-Term Investments Section in Note 5 of the Notes to Consolidated Financial Statements.

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. For further discussion of fair value measurement, see Note 5 of the Notes to Consolidated Financial Statements.

Valuation of Derivative Instruments, including embedded derivatives within investments

Derivative instruments are reported on the Consolidated Balance Sheets at fair value and are reported in Other Investments and Other Liabilities. The fair value of derivative instruments is determined using pricing valuation models, which utilize market data inputs or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of December 31, 2012 and 2011, 97% and 98%, respectively, of derivatives based upon notional values, were priced by valuation models, which utilize independent market data. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market level inputs that are predominantly observable in the market with the exception of the customized swap contracts that hedge guaranteed minimum withdrawal benefits ("GMWB") liabilities. Inputs used to value derivatives include, but are not limited to, swap interest rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. For further discussion, see the Derivative Instruments, including embedded derivatives within the investments section in Note 5 of the Notes to Consolidated Financial Statements.

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 whose assets are measured at fair value. These funds are fair valued using the net asset value per share or equivalent ("NAV"). The NAV is calculated on a monthly basis and is the amount at which a unit or shareholder may redeem their investment, if redemption is allowed, and includes an assessment of current market conditions and the investee's liquidity. For further discussion of fair value measurement, see Note 5 of the Notes to Consolidated Financial Statements.

Pension and Other Postretirement Benefit Obligations

The Company maintains The Hartford Retirement Plan for U.S. Employees, a U.S. qualified defined benefit pension plan (the "Plan")that covers substantially all U.S. employees hired prior to January 1, 2013, as well as unfunded excess plans to provide benefits in excess of amounts permitted to be paid to participants of the Plan under the provisions of the Internal Revenue Code. The Company has also entered into individual retirement agreements with certain retired directors providing for unfunded supplemental pension benefits. In addition, the Company provides certain health care and life insurance benefits for eligible retired employees. The Company maintains international plans which represent an immaterial percentage of total pension assets, liabilities and expense and, for reporting purposes, are combined with domestic plans.

Pursuant to accounting principles related to the Company's pension and other postretirement obligations to employees under its various benefit plans, the Company is required to make a significant number of assumptions in order to calculate the related liabilities and expenses each period. The two economic assumptions that have the most impact on pension and other postretirement expense are the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate assumption, the Company utilizes a discounted cash flow analysis of the Company's pension and other postretirement obligations and currently available market and industry data. The yield curve utilized in the cash flow analysis is comprised of bonds rated Aa or higher with maturities primarily between zero and thirty years. Based on all available information, it was determined that 4.00% and 3.50% were the appropriate discount rates as of December 31, 2012 to calculate the Company’s pension and other postretirement obligations, respectively. Accordingly, the 4.00% and 3.50% discount rates will also be used to determine the Company’s 2013 pension and other postretirement expense, respectively. At December 31, 2011, the discount rate was 4.75% and 4.50% for pension and other postretirement expense, respectively.

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As of December 31, 2012, a 25 basis point increase/decrease in the discount rate would decrease/increase the pension and other postretirement obligations by $179 and $6, respectively.

The Company determines the expected long-term rate of return assumption based on an analysis of the Plan portfolio's historical compound rates of return since 1979 (the earliest date for which comparable portfolio data is available) and over 5 year and 10 year periods. The Company selected these periods, as well as shorter durations, to assess the portfolio's volatility, duration and total returns as they relate to pension obligation characteristics, which are influenced by the Company's workforce demographics. In addition, the Company also applies long-term market return assumptions to an investment mix that generally anticipates 60% fixed income securities, 20% equity securities and 20% alternative assets to derive an expected long-term rate of return. Based upon these analyses, the Company decreased the expected long term rate of return assumption to 7.10% to determine the Company's 2013 expense. The long-term rate of return assumption at December 31, 2011 and 2010 that was used to determine the Company's 2012 and 2011 expense, was 7.30%.

The Company uses a five-year averaging method to determine the market-related value of Plan assets, which is used to determine the expected return component of pension expense. Under this methodology, asset gains/losses that result from returns that differ from the Company's long-term rate of return assumption are recognized in the market-related value of assets on a level basis over a five year period. The difference between actual asset returns for the plans of $381 and $613 for the years ended December 31, 2012 and 2011, respectively, as compared to expected returns of $312 and $298 for the years ended December 31, 2012 and 2011, respectively, will be fully reflected in the market-related value of plan assets over the next five years using the methodology described above. The level of actuarial net loss continues to exceed the allowable amortization corridor. Based on the 4.00% discount rate selected as of December 31, 2012 and taking into account estimated future minimum funding, the difference between actual and expected performance in 2012 will decrease annual pension expense in future years. The decrease in pension expense will be approximately $1 in 2013 and will increase ratably to a decrease of approximately $8 in 2018.

Effective December 31, 2012, the Company amended the Plan to freeze participation and benefit accruals. As a result, employees will not accrue further benefits under the cash balance formula of the plan, although interest will continue to accrue to existing account balances. Compensation earned by employees up to December 31, 2012 will be used for purposes of calculating benefits under the Plan but there will be no future benefit accruals after that date. Participants as of December 31, 2012 will continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work. The freeze also applies to The Hartford Excess Pension Plan II, the Company's non-qualified excess benefit plan for certain highly compensated employees, effective December 31, 2012. The Company announced these changes in April 2012.

Pension expense reflected in the Company's results was $242, $213 and $186 in 2012, 2011 and 2010, respectively. The Company estimates its 2013 pension income will be approximately $20, based on current assumptions. The income in 2013 is a result of the expected return on plan assets more than offsetting the lower expenses due to the announced plan freeze. Lower expenses are primarily due to a change in the amortization period resulting in lower actuarial losses. To illustrate the impact of these assumptions on annual pension expense for 2013 and going forward, a 25 basis point decrease/increase in the discount rate will increase/decrease pension expense by approximately $2 and a 25 basis point change in the long-term asset return assumption will increase/decrease pension expense by approximately $11.

Also, in April 2012 changes to the Company's other postretirement medical, dental and life insurance coverage plans ("other postretirement plans") were approved to no longer provide subsidized coverage for current employees who retire on or after January 1, 2014. The Company announced these changes in April 2012.

Other postretirement plans (income) expense reflected in the Company's results was $(2), $10 and $15 in 2012, 2011 and 2010, respectively. The Company estimates its 2013 other postretirement plans income will be approximately $9 based on the updated assumptions. The income in 2013 is a result of the expected return on plan assets more than offsetting the lower expenses due to the announced plan freeze.

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Valuation Allowance on Deferred Tax Assets

Deferred tax assets represent the tax benefit of future deductible temporary differences and operating loss and tax credit carryforwards. Deferred tax assets are measured using the enacted tax rates expected to be in effect when such benefits are realized if there is no change in tax law. Under U.S. GAAP, we test the value of deferred tax assets for impairment on a quarterly basis at the entity level within each tax jurisdiction, consistent with our filed tax returns. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The determination of the valuation allowance for our deferred tax assets requires management to make certain judgments and assumptions. In evaluating the ability to recover deferred tax assets, we have considered all available evidence as of December 31, 2012, including past operating results, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In the event we determine it is not more likely than not that we will be able to realize all or part of our deferred tax assets in the future, an increase to the valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance and specific industry and investment market conditions.

The Company has recorded a deferred tax asset valuation allowance that is adequate to reduce the total deferred tax asset to an amount that will be more likely than not realized. The deferred tax asset valuation allowance was $58, relating mostly to foreign net operating losses, as of December 31, 2012 and was $83 as of December 31, 2011. In assessing the need for a valuation allowance, management considered future taxable temporary difference reversals, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in open carry back years, as well as other tax planning strategies. These tax planning strategies include holding a portion of debt securities with market value losses until recovery, altering the level of tax exempt securities held, selling appreciated securities to offset capital losses, business considerations such as asset-liability matching, and the sales of certain corporate assets. Management views such tax planning strategies as prudent and feasible, and would implement them, if necessary, to realize the deferred tax asset.

Contingencies Relating to Corporate Litigation and Regulatory Matters

Management evaluates each contingent matter separately. A loss is recorded if probable and reasonably estimable. Management establishes reserves for these contingencies at its “best estimate,” or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses.

The Company has a quarterly monitoring process involving legal and accounting professionals. Legal personnel first identify outstanding corporate litigation and regulatory matters posing a reasonable possibility of loss. These matters are then jointly reviewed by accounting and legal personnel to evaluate the facts and changes since the last review in order to determine if a provision for loss should be recorded or adjusted, the amount that should be recorded, and the appropriate disclosure. The outcomes of certain contingencies currently being evaluated by the Company, which relate to corporate litigation and regulatory matters, are inherently difficult to predict, and the reserves that have been established for the estimated settlement amounts are subject to significant changes. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of the Company. In view of the uncertainties regarding the outcome of these matters, as well as the tax-deductibility of payments, it is possible that the ultimate cost to the Company of these matters could exceed the reserve by an amount that would have a material adverse effect on the Company’s results of operations or liquidity in a particular quarterly or annual period.

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THE HARTFORD'S OPERATIONS OVERVIEW

The Hartford is a financial holding company for a group of subsidiaries that provide property and casualty and investment products to both individual and business customers in the United States and continues to administer life and annuity products previously sold.

The Company currently conducts business principally in the following six reporting segments Property & Casualty Commercial, Consumer Markets, Property & Casualty Other Operations, Group Benefits, Mutual Funds and Talcott Resolution. For additional discussion regarding The Hartford's reporting segments, see Note 4 of the Notes to Consolidated Financial Statements.

The Company derives its revenues principally from: (a) premiums earned for insurance coverages provided to insureds; (b) fee income, including asset management fees, on separate account and mutual fund assets and mortality and expense fees, as well as cost of insurance charges; (c) net investment income; (d) fees earned for services provided to third parties; and (e) net realized capital gains and losses. Premiums charged for insurance coverages are earned principally on a pro rata basis over the terms of the related policies in-force. Asset management fees and mortality and expense fees are primarily generated from separate account assets, which are deposited through the sale of variable annuity and variable universal life products and from mutual funds. Cost of insurance charges are assessed on the net amount at risk for investment-oriented life insurance products. Service fees principally include revenues from member contact center services provided through the AARP Health program.

Profitability over time is greatly influenced by the Company's underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance, the size of its in force block, actual mortality and morbidity experience, and its ability to manage its expense ratio which it accomplishes through economies of scale and its management of acquisition costs and other underwriting expenses.

Pricing adequacy depends on a number of factors, including the ability to obtain regulatory approval for rate changes, proper evaluation of underwriting risks, the ability to project future loss cost frequency and severity based on historical loss experience adjusted for known trends, the Company's response to rate actions taken by competitors, and expectations about regulatory and legal developments and expense levels. The Company seeks to price its insurance policies such that insurance premiums and future net investment income earned on premiums received will cover underwriting expenses and the ultimate cost of paying claims reported on the policies and provide for a profit margin. For many of its insurance products, the Company is required to obtain approval for its premium rates from state insurance departments.

The financial results in the Company's variable annuity and mutual fund businesses, depend largely on the amount of the contract holder account value or assets under management on which it earns fees and the level of fees charged. Changes in account value or assets under management are driven by two main factors: net flows, which measure the success of the Company's asset gathering and retention efforts, and the market return of the funds, which is heavily influenced by the return realized in the equity markets. Net flows are comprised of new sales and other deposits less surrenders, death benefits, policy charges and annuitizations of investment type contracts, such as variable annuity contracts. In the mutual fund business, net flows are known as net sales. Net sales are comprised of new sales less redemptions by mutual fund customers. The Company uses the average daily value of the S&P 500 Index as an indicator for evaluating market returns of the underlying account portfolios in the United States. Relative financial results of variable products are highly correlated to the growth in account values or assets under management since these products generally earn fee income on a daily basis. Equity market movements could also result in benefits for or charges against deferred acquisition costs.

The profitability of fixed annuities and other "spread-based" products depends largely on the Company's ability to earn target spreads between earned investment rates on its general account assets and interest credited to policyholders. In addition, the size and persistency of gross profits from these businesses is an important driver of earnings as it affects the rate of amortization of deferred policy acquisition costs.

The investment return, or yield, on invested assets is an important element of the Company's earnings since insurance products are priced with the assumption that premiums received can be invested for a period of time before benefits, loss and loss adjustment expenses are paid. Due to the need to maintain sufficient liquidity to satisfy claim

obligations, the majority of the Company's invested assets have been held in available-for-sale securities, including, among other asset classes, corporate bonds, municipal bonds, government debt, short-term debt, mortgage-backed securities and asset-backed securities.

The primary investment objective for the Company is to maximize economic value, consistent with acceptable risk parameters, including the management of credit risk and interest rate sensitivity of invested assets, while generating sufficient after-tax income to meet policyholder and corporate obligations. Investment strategies are developed based on a variety of factors including business needs, regulatory requirements and tax considerations.

For a discussion on how the Company establishes property and casualty insurance product reserves, see "Property and Casualty Insurance Product Reserves, Net of Reinsurance" in the Critical Accounting Estimates section of MD&A and for further information on Unlocks, see "Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity and Other Universal Life-Type Contracts" also in the Critical Accounting Estimates section of MD&A.

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Definitions of Non-GAAP and other measures and ratios

Account Value

Account value includes policyholders' balances for investment contracts and reserves for future policy benefits for insurance contracts. Account value is a measure used by the Company because a significant portion of the Company's fee income is based upon the level of account value. These revenues increase or decrease with a rise or fall in the amount of account value whether caused by changes in the market or through net flows.

After-tax Margin, excluding buyouts and realized gains (losses)

After-tax margin, excluding buyouts and realized gains (losses), is a non-GAAP financial measure that the Company uses to evaluate, and believes is an important measure of, the Group Benefits segment's operating performance. After-tax margin is the most directly comparable U.S. GAAP measure. The Company believes that the measure after-tax margin, excluding buyouts and realized gains (losses), provides investors with a valuable measure of the performance of Group Benefits because it reveals trends in the business that may be obscured by the effect of buyouts and realized gains (losses). After-tax margin, excluding buyouts and realized gains (losses), should not be considered as a substitute for after-tax margin and does not reflect the overall profitability of Group Benefits Therefore, the Company believes it is important for investors to evaluate both after-tax margin, excluding buyouts and realized gains (losses), and after-tax margin when reviewing performance. After-tax margin, excluding buyouts and realized gains (losses) is calculated by dividing core earnings excluding buyouts and realized gains (losses) by total core revenues excluding buyouts and realized gains (losses). A reconciliation of after-tax margin to after-tax margin, core earnings excluding buyouts and realized gains (losses) for the year ended December 31, 2012, 2011 and 2010 is set forth in the After-tax Margin section within MD&A - Group Benefits.

Assets Under Management

Assets under management ("AUM") include account values and mutual fund assets. AUM is a measure used by the Company because a significant portion of the Company's revenues are based upon asset values. These revenues increase or decrease with a rise or fall in the amount of account value whether caused by changes in the market or through net flows.

Catastrophe ratio

The catastrophe ratio (a component of the loss and loss adjustment expense ratio) represents the ratio of catastrophe losses incurred in the current calendar year (net of reinsurance) to earned premiums and includes catastrophe losses incurred for both the current and prior accident years. A catastrophe is an event that causes $25 or more in industry insured property losses and affects a significant number of property and casualty policyholders and insurers. The catastrophe ratio includes the effect of catastrophe losses, but does not include the effect of reinstatement premiums.

Combined ratio

The combined ratio is the sum of the loss and loss adjustment expense ratio, the expense ratio and the policyholder dividend ratio. This ratio is a relative measurement that describes the related cost of losses and expenses for every $100 of earned premiums. A combined ratio below 100 demonstrates underwriting profit; a combined ratio above 100 demonstrates underwriting losses.

Combined ratio before catastrophes and prior accident year development

The combined ratio before catastrophes and prior accident year development, a non-GAAP measure, represents the combined ratio for the current accident year, excluding the impact of catastrophes. Combined ratio is the most directly comparable U.S. GAAP measure. The Company believes this ratio is an important measure of the trend in profitability since it removes the impact of volatile and unpredictable catastrophe losses and prior accident year reserve development. A reconciliation of combined ratio to combined ratio before prior accident year reserve development for the years ended December 31, 2012, 2011 and 2010 is set forth in MD&A - Property & Casualty Commercial and Consumer Markets.

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Core Earnings

Core earnings, a non-GAAP measure is an important measure of the Company's operating performance. The Company believes that the measure core earnings provides investors with a valuable measure of the performance of the Company's ongoing businesses because it reveals trends in our insurance and financial services businesses that may be obscured by including the net effect of certain realized capital gains and losses, discontinued operations, loss on extinguishment of debt, gains and losses on business disposition transactions, certain restructuring charges and the impact of Unlocks to DAC, SIA, URR and death and other insurance benefit reserve balances. Some realized capital gains and losses are primarily driven by investment decisions and external economic developments, the nature and timing of which are unrelated to the insurance and underwriting aspects of our business. Accordingly, core earnings excludes the effect of all realized gains and losses (net of tax and the effects of DAC) that tend to be highly variable from period to period based on capital market conditions. The Company believes, however, that some realized capital gains and losses are integrally related to our insurance operations, so core earnings includes net realized gains and losses such as net periodic settlements on credit derivatives and net periodic settlements on the Japan fixed annuity cross-currency swap. These net realized gains and losses are directly related to an offsetting item included in the income statement such as net investment income. Net income (loss) is the most directly comparable U.S. GAAP measure. Core earnings should not be considered as a substitute for net income (loss) and does not reflect the overall profitability of the Company's business. Therefore, the Company believes that it is useful for investors to evaluate both net income (loss) and core earnings when reviewing the Company's performance.

A reconciliation of net income to core earnings for the years ended December 31, 2012, 2011 and 2010 is set forth below.

	For the years ended December 31,		
	2012	2011	2010
Net income	$(38)	$712	$1,636
Less: Unlock impacts on net income (loss)	31	(473)	97
Less: Restructuring and other costs, net of tax	(129)	(16)	(17)
Less: Income (loss) from discontinued operations, net of tax	(5)	86	(64)
Less: Loss on extinguishment of debt, net of tax	(587)	—	—
Less: Reinsurance loss on business disposition, net of tax	(388)	—	—
Less: Net realized capital gains (losses), net of tax and DAC, excluded from core earnings	(363)	(1)	(244)
Core earnings	$1,403	$1,116	$1,864

Current accident year loss and loss adjustment expense ratio before catastrophes

The current accident year loss and loss adjustment expense ratio before catastrophes is a measure of the cost of non-catastrophe claims incurred in the current accident year divided by earned premiums. Management believes that the current accident year loss and loss adjustment expense ratio before catastrophes is a performance measure that is useful to investors as it removes the impact of volatile and unpredictable catastrophe losses and prior accident year reserve development.

Expense ratio

The expense ratio for the underwriting segments of Property & Casualty Commercial and Consumer Markets is the ratio of underwriting expenses, excluding bad debt expense, to earned premiums. Underwriting expenses include the amortization of deferred policy acquisition costs and insurance operating costs and expenses. Deferred policy acquisition costs include commissions, taxes, licenses and fees and other underwriting expenses and are amortized over the policy term.

The expense ratio Group Benefits is expressed as a ratio of insurance operating costs and other expenses and amortization of deferred policy acquisition costs, to premiums and other considerations, excluding buyout premiums.

Fee Income

Fee income is largely driven from amounts collected as a result of contractually defined percentages of assets under management. These fees are generally collected on a daily basis. Therefore, the growth in assets under management either through positive net flows or net sales, or favorable equity market performance will have a favorable impact on

fee income. Conversely, either negative net flows or net sales, or unfavorable equity market performance will reduce fee income.

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Loss and loss adjustment expense ratio

The loss and loss adjustment expense ratio is a measure of the cost of claims incurred in the calendar year divided by earned premium and includes losses incurred for both the current and prior accident years, as well as the costs of mortality and morbidity and other contractholder benefits to policyholders. Among other factors, the loss and loss adjustment expense ratio needed for the Company to achieve its targeted return on equity fluctuates from year to year based on changes in the expected investment yield over the claim settlement period, the timing of expected claim settlements and the targeted returns set by management based on the competitive environment.

The loss and loss adjustment expense ratio is affected by claim frequency and claim severity, particularly for shorter-tail property lines of business, where the emergence of claim frequency and severity is credible and likely indicative of ultimate losses. Claim frequency represents the percentage change in the average number of reported claims per unit of exposure in the current accident year compared to that of the previous accident year. Claim severity represents the percentage change in the estimated average cost per claim in the current accident year compared to that of the previous accident year. As one of the factors used to determine pricing, the Company's practice is to first make an overall assumption about claim frequency and severity for a given line of business and then, as part of the ratemaking process, adjust the assumption as appropriate for the particular state, product or coverage.

Loss ratio, excluding buyouts

The loss ratio is utilized for the Group Benefits segment and is expressed as a ratio of benefits, losses and loss adjustment expenses to premiums and other considerations, excluding buyout premiums. Since Group Benefits occasionally buys a block of claims for a stated premium amount, the Company excludes this buyout from the loss ratio used for evaluating the underwriting results of the business as buyouts may distort the loss ratio. Buyout premiums represent takeover of open claim liabilities and other non-recurring premium amounts.

Mutual Fund Assets

Mutual fund assets are owned by the shareholders of those funds and not by the Company and therefore are not reflected in the Company's consolidated financial statements. Mutual fund assets are a measure used by the Company because a significant portion of the Company's revenues are based upon asset values. These revenues increase or decrease with a rise or fall in the amount of account value whether caused by changes in the market or through net flows.

New business written premium

New business written premium represents the amount of premiums charged for policies issues to customers who were not insured with the Company in the previous policy term. New business written premium plus renewal policy written premium equals total written premium.

Policies in force

Policies in force represent the number of policies with coverage in effect as of the end of the period. The number of policies in force is a growth measure used for Consumer Markets and standard commercial lines within Property & Casualty Commercial and is affected by both new business growth and premium renewal retention.

Policy count retention

Policy count retention represents the ratio of the number of policies renewed during the period divided by the number of policies from the previous policy term period. The number of policies available to renew from the previous policy term represents the number of policies written in the previous policy term net of any cancellations of those policies. Policy count retention is affected by a number of factors, including the percentage of renewal policy quotes accepted and decisions by the Company to non-renew policies because of specific policy underwriting concerns or because of a decision to reduce premium writings in certain classes of business or states. Policy count retention is also affected by advertising and rate actions taken by competitors.

Policyholder dividend ratio

The policyholder dividend ratio is the ratio of policyholder dividends to earned premium.

Prior accident year loss and loss adjustment expense ratio

The prior year loss and loss adjustment expense ratio represents the increase (decrease) in the estimated cost of settling catastrophe and non-catastrophe claims incurred in prior accident years as recorded in the current calendar year divided by earned premiums.

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Reinstatement premiums

Reinstatement premium represents additional ceded premium paid for the reinstatement of the amount of reinsurance coverage that was reduced as a result of a reinsurance loss payment.

Renewal earned pricing increase (decrease)

Written premiums are earned over the policy term, which is six months for certain personal lines auto business and 12 months for substantially all of the remainder of the Company's property and casualty business. Because the Company earns premiums over the 6 to 12 month term of the policies, renewal earned pricing increases (decreases) lag renewal written pricing increases (decreases) by 6 to 12 months.

Renewal written pricing increase (decrease)

Renewal written pricing increase (decrease) represents the combined effect of rate changes, amount of insurance and individual risk pricing decisions per unit of exposure since the prior year. The rate component represents the average change in rate filings during the period and the amount of insurance represents the value of the rating base, such as model year/vehicle symbol for auto, building replacement costs for property and wage inflation for workers' compensation. The renewal written price increase (decrease) does not include other factors that affect average premium per unit of exposure such as changes in the mix of business by state, territory, class plan and tier of risk. A number of factors affect renewal written pricing increases (decreases) including expected loss costs as projected by the Company's pricing actuaries, rate filings approved by state regulators, risk selection decisions made by the Company's underwriters and marketplace competition. Renewal written pricing changes reflect the property and casualty insurance market cycle. Prices tend to increase for a particular line of business when insurance carriers have incurred significant losses in that line of business in the recent past or the industry as a whole commits less of its capital to writing exposures in that line of business. Prices tend to decrease when recent loss experience has been favorable or when competition among insurance carriers increases.

Return on Assets ("ROA"), core earnings

ROA, core earnings, is a non-GAAP financial measure that the Company uses to evaluate, and believes is an important measure of, certain of the segment's operating performance. ROA is the most directly comparable U.S. GAAP measure. The Company believes that the measure ROA, core earnings, provides investors with a valuable measure of the performance of certain of the Company's on-going businesses because it reveals trends in our businesses that may be obscured by the effect of realized gains (losses). ROA, core earnings, should not be considered as a substitute for ROA and does not reflect the overall profitability of our businesses. Therefore, the Company believes it is important for investors to evaluate both ROA, core earnings, and ROA when reviewing the Company's performance. ROA is calculated by dividing core earnings by a two-point average AUM. A reconciliation of ROA to ROA, core earnings for the years ended December 31, 2012, 2011 and 2010 is set forth in the ROA section within MD&A - Mutual Funds.

Underwriting gain (loss)

The Company's management evaluates profitability of the P&C businesses primarily on the basis of underwriting gain (loss). Underwriting gain (loss) is a before-tax measure that represents earned premiums less incurred losses, loss adjustment expenses and underwriting expenses. Net income is the most directly comparable GAAP measure. Underwriting gain (loss) is influenced significantly by earned premium growth and the adequacy of the Company's pricing. Underwriting profitability over time is also greatly influenced by the Company's underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio, which it accomplishes through economies of scale and its management of acquisition costs and other underwriting expenses. The Company believes that underwriting gain (loss) provides investors with a valuable measure of before-tax profitability derived from underwriting activities, which are managed separately from the Company's investing activities. A reconciliation of underwriting gain (loss) to net income for Property & Casualty Commercial and Consumer Markets is set forth in their respective discussions herein.

Written and earned premiums

Written premium is a statutory accounting financial measure which represents the amount of premiums charged for policies issued, net of reinsurance, during a fiscal period. Earned premium is a U.S. GAAP and statutory measure.

Premiums are considered earned and are included in the financial results on a pro rata basis over the policy period. Management believes that written premium is a performance measure that is useful to investors as it reflects current trends in the Company's sale of property and casualty insurance products. Written and earned premium are recorded net of ceded reinsurance premium.

Traditional life insurance type products, such as those sold by Group Benefits, collect premiums from policyholders in exchange for financial protection for the policyholder from a specified insurable loss, such as death or disability. These premiums together with net investment income earned from the overall investment strategy are used to pay the contractual obligations under these insurance contracts. Two major factors, new sales and persistency, impact premium growth. Sales can increase or decrease in a given year based on a number of factors, including but not limited to, customer demand for the Company's product offerings, pricing competition, distribution channels and the Company's reputation and ratings. Persistency refers to the percentage of policies remaining in-force from year-to-year.

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INVESTMENT RESULTS

Composition of Invested Assets

	December 31, 2012		December 31, 2011		
	Amount	Percent	Amount	Percent	
Fixed maturities, AFS, at fair value	$85,922	81.6	% $81,809	78.3	%
Fixed maturities, at fair value using the fair value option	1,087	1.0	% 1,328	1.3	%
Equity securities, AFS, at fair value	890	0.8	% 921	0.9	%
Mortgage loans	6,711	6.4	% 5,728	5.5	%
Policy loans, at outstanding balance	1,997	1.9	% 2,001	1.9	%
Limited partnerships and other alternative investments	3,015	2.9	% 2,532	2.4	%
Other investments [1]	1,114	1.1	% 2,394	2.3	%
Short-term investments	4,581	4.3	% 7,736	7.4	%
Total investments excluding equity securities, trading	105,317	100.0	% 104,449	100.0	%
Equity securities, trading, at fair value [2]	28,933		30,499		
Total investments [3]	$134,250		$134,948		

[1] Primarily relates to derivative instruments.

[2] As of December 31, 2012 and 2011, approximately $27.1 billion and $28.5 billion, respectively, of equity securities, trading, support Japan variable annuities. Those equity securities, trading, were invested in mutual funds, which, in turn, invested in the following asset classes as of December 31, 2012 and 2011, respectively, Japan equity 20% and 21%, Japan fixed income (primarily government securities) 15% and 15%, global equity 21% and 21%, global government bonds 43% and 42%, and cash and other 1% and 1%.

[3] Includes investments relating to the sales of the Retirement Plans and Individual Life businesses; see Note 2 - Business Dispositions of the Notes to the Consolidated Financial Statements for further discussion of this transaction.

Total investments decreased since December 31, 2011, primarily due to decreases in short-term investments, equity securities, trading, and other investments, partially offset by an increase in fixed maturities, AFS and mortgage loans. The decline in short-term investments primarily relates to a decline in derivative collateral held due to decreases in derivative market values, as well as reinvesting into longer duration investments. The decrease in equity securities, trading was largely due to variable annuity policy surrenders as well as depreciation of the Japanese yen versus the U.S. dollar, partially offset by market appreciation in the underlying investment funds supporting the variable annuity products. The decline in other investments was primarily due to a decline in derivative market values, primarily related to the variable annuity hedge program. The increase in fixed maturities, AFS, was primarily due to improved valuations as a result of credit spread tightening and declining interest rates. The increase in mortgage loans related to the funding of commercial whole loans.

Net Investment Income (Loss)

	For the years ended December 31,							
	2012		2011		2010			
	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]		
Fixed maturities [2]	$3,363	4.2 %	$3,396	4.2 %	$3,489	4.3 %		
Equity securities, AFS	37	4.3 %	36	3.8 %	53	4.8 %		
Mortgage loans	337	5.2 %	281	5.4 %	260	5.2 %		
Policy loans	119	6.0 %	131	6.1 %	132	6.1 %		
Limited partnerships and other alternative investments	196	7.1 %	243	12.0 %	216	12.6 %		
Other Investments [3]	296		301		329			
Investment expense	(111)		(116)		(115)			
Total securities AFS and other	$4,237	4.3 %	$4,272	4.4 %	$4,364	4.5 %		
Equity securities, trading	4,565		(1,359)		(774)			
Total net investment income (loss), before-tax	$8,802		$2,913		$3,590			

Total securities, AFS and other excluding limited partnerships and other alternative investments	4,041	4.3	%	4,029	4.2	%	4,148	4.3	%

[1] Yields calculated using annualized net investment income (excluding income related to equity securities, trading) before investment expenses divided by the monthly average invested assets at cost, amortized cost, or adjusted carrying value, as applicable, excluding equity securities, trading, repurchase agreement and dollar roll collateral, and consolidated variable interest entity non-controlling interests.

[2] Includes net investment income on short-term investments.

[3] Includes income from derivatives that qualify for hedge accounting and hedge fixed maturities.

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Year ended December 31, 2012 compared to the year ended December 31, 2011

Total net investment income increased largely due to equity securities, trading, resulting from market appreciation of the underlying investment funds supporting the Japanese variable annuity products. Total net investment income, excluding equity securities, trading, declined primarily due to lower returns on limited partnerships and other alternative investments. This decline was partially offset by the Company reallocating assets from fixed maturities to higher yielding assets, such as mortgage loans and limited partnerships and other alternative investments. The Company's expectation for 2013, based on the current interest rate and credit environment, is that portfolio yield will decline slightly as a result of reinvestment rates that are lower than the yield on maturing securities as well as the impact of the sales of the Retirement Plans and Individual Life businesses. However, the Company has increased its investment in certain higher yielding asset classes, such as commercial whole loans and a modest amount of emerging markets and high-yield securities.

Year ended December 31, 2011 compared to the year ended December 31, 2010

Total net investment income declined largely due to equity securities, trading, resulting from a market decline of the underlying investment funds supporting the Japanese variable annuity products and net outflows, partially offset by the Japanese yen strengthening in comparison to the euro. Also contributing to the decline was lower income on fixed maturities resulting from the proceeds from sales being reinvested at lower rates. These declines were partially offset by an increase in limited partnership and other alternative investment income due to additional allocations to this asset class and strong private equity and real estate returns, as well as an increase in mortgage loan income due to additional investments in commercial whole loans.

Net Realized Capital Gains (Losses)

	For the years ended December 31,		
(Before-tax)	2012	2011	2010
Gross gains on sales	$877	$693	$836
Gross losses on sales	(441)	(384)	(522)
Net OTTI losses recognized in earnings [1]	(349)	(174)	(434)
Valuation allowances on mortgage loans	14	24	(154)
Japanese fixed annuity contract hedges, net [2]	(36)	3	27
Periodic net coupon settlements on credit derivatives/Japan	(10)	(10)	(17)
Results of variable annuity hedge program			
U.S. GMWB derivatives, net	519	(397)	89
U.S. macro hedge program	(340)	(216)	(445)
Total U.S. program	179	(613)	(356)
International program	(1,490)	775	11
Total results of variable annuity hedge program	(1,311)	162	(345)
Other, net [3]	545	(459)	(2)
Net realized capital gains (losses), before-tax	$(711)	$(145)	$(611)

[1] Includes $177 of intent-to-sell impairments relating to the sales of the Retirement Plans and Individual Life businesses for the year ended December 31, 2012.

[2] Relates to the Japanese fixed annuity products (adjustment of product liability for changes in spot currency exchange rates, related derivative hedging instruments, excluding net period coupon settlements, and Japan FVO securities).

[3] Primarily consists of non-qualifying derivatives, transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, and Japan 3Win related foreign currency swaps.

Details on the Company's net realized capital gains and losses are as follows:

Gross gains and losses on sales

- Gross gains and losses on sales for the year ended December 31, 2012 were predominately from investment grade corporate securities, municipal bonds, mortgage backed securities and U.S. Treasuries. These sales were the result of tactical portfolio management in order to increase allocations to higher yielding securities as well as to maintain

duration targets.

- Gross gains and losses on sales for the year ended December 31, 2011 were predominately from investment grade corporate securities, U.S. Treasuries, municipal bonds and commercial real estate related securities. These sales were the result of reinvestment into spread product well-positioned for modest economic growth, as well as the purposeful reduction of certain exposures.

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- Gross gains and losses on sales for the year ended December 31, 2010 were predominately from sales of investment grade corporate securities in order to take advantage of attractive market opportunities, as well as sales of U.S. Treasuries related to tactical repositioning of the portfolio.

Net OTTI losses

- Includes $177 of intent-to-sell impairments for the year ended December 31, 2012, relating to the sales of the Retirement Plans and Individual Life businesses. For further information, see Other-Than-Temporary Impairments within the Investment Portfolio Risks and Risk Management section of the MD&A.

Valuation allowances on mortgage loans

- For further information, see Valuation Allowances on Mortgage Loans within the Investment Portfolio Risks and Risk Management section of the MD&A.

Variable annuity hedge program

- For the year ended December 31, 2012 the gain on U.S. GMWB related derivatives, net, was primarily driven by liability model assumption updates of $274, gains of $106 related to outperformance of underlying actively managed funds compared to their respective indices, and gains of $83 driven by lower equity market volatility. The loss on the U.S. macro hedge program for the year ended December 31, 2012 was primarily driven by losses of $167 related to the passage of time, losses of $118 due to an improvement in domestic equity markets, and losses of $60 related to a decrease in equity market volatility. The loss on the international program for the year ended December 31, 2012 was primarily driven by losses of $795 related to an improvement in global equity markets and losses of $672 related to depreciation of the Japanese yen in relation to the euro and the U.S. dollar.
- For the year ended December 31, 2011 the loss on U.S. GMWB related derivatives, net, was primarily due to a decrease in long-term interest rates that resulted in a charge of $283 and a higher interest rate volatility that resulted in a charge of $84. The loss on the U.S. macro hedge program for the year ended December 31, 2011 was primarily driven by the passage of time and a decrease in equity market volatility since the purchase date of certain options during the fourth quarter. The gain associated with the international program for the year ended December 31, 2011 was primarily driven by the Japanese yen strengthening, a decline in global equity markets, and a decrease in interest rates.
- For the year ended December 31, 2010 the gain on U.S. GMWB related derivatives, net, was primarily due to liability model assumption updates of $159, gains of $118 related to lower implied market volatility, and gains of $104 related to outperformance of the underlying actively managed funds as compared to their respective indices. These gains were partially offset by losses of $158 due to a general decrease in long-term interest rates and losses of $90 related to an improvement in domestic equity markets. The net loss on the U.S. macro hedge program for the year ended December 31, 2010 was primarily the result of an improvement in domestic equity markets and the impact of trading activity.

Other, net

- Other, net gain for the year ended December 31, 2012 was primarily related to gains of $313 on credit derivatives due to credit spread tightening, gains of $269 on transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, and gains of $96 on interest derivatives largely driven by the de-designation of the cash flow hedges associated with bonds included in the sale of Individual Life and Retirement Plans businesses. For further information on the business dispositions, see Note 2 of the Notes to the Consolidated Financial Statements. These gains were partially offset by losses of $111 related to Japan 3Win foreign currency swaps primarily driven by the strengthening of the currency basis swap spread between the U.S. dollar and Japanese yen and the decline in U.S. interest rates.
- Other, net loss for the year ended December 31, 2011 was primarily due to losses of $148 on credit derivatives driven by credit spread widening and losses of $141 on transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI. Additionally losses of $94 for the year ended December 31, 2011 resulted from equity futures and options used to hedge equity market risk in the investment portfolio due to an increase in equity market during the hedged period. Also included were losses of $69 on Japan 3Win foreign currency swaps primarily driven by a decrease in long-term U.S. interest rates.
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Other, net loss for the year ended December 31, 2010 was primarily due to a loss of $326 on transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, partially offset by gains of $217 on credit derivatives driven by credit spread tightening, and gains of $59 on interest rate derivatives used to manage portfolio duration driven by a decline in long-term interest rates.

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PROPERTY & CASUALTY COMMERCIAL

Underwriting Summary	2012	2011	2010
Written premiums	$6,209	$6,176	$5,796
Change in unearned premium reserve	(50)	49	52
Earned premiums	6,259	6,127	5,744
Losses and loss adjustment expenses			
Current accident year before catastrophes	4,178	4,139	3,579
Current accident year catastrophes	325	320	152
Prior accident years	72	125	(361)
Total losses and loss adjustment expenses	4,575	4,584	3,370
Amortization of deferred policy acquisition costs	927	917	905
Underwriting expenses	925	887	855
Dividends to policyholders	14	18	5
Underwriting gain (loss)	(182)	(279)	609
Net servicing income	17	13	9
Net investment income	924	910	935
Net realized capital gains (losses)	67	(50)	3
Goodwill impairment	—	(30)	—
Other expenses	(115)	(151)	(147)
Income from continuing operations before income taxes	711	413	1,409
Income tax expense	159	37	414
Income from continuing operations, net of tax	552	376	995
Income (loss) from discontinued operations, net of tax [1]	(5)	150	12
Net income	$547	$526	$1,007

[1] Represents the income from operations and sale of Specialty Risk Services (“SRS”). For additional information, see Note 20 of the Notes to Consolidated Financial Statements.

Premium Measures [1]	2012	2011	2010
New business premium	$968	$1,097	$1,122
Standard commercial lines policy count retention	83 %	82 %	84 %
Standard commercial lines renewal written pricing increase (decrease)	8 %	4 %	1 %
Standard commercial lines renewal earned pricing increase (decrease)	6 %	2 %	— %
Standard commercial lines policies in-force as of end of period	1,263,343	1,253,642	1,211,762

[1] Standard commercial lines represents the Company’s small commercial and middle market property and casualty lines.

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Ratios	2012	2011	2010
Loss and loss adjustment expense ratio			
Current accident year before catastrophes	66.8	67.6	62.3
Current accident year catastrophes	5.2	5.2	2.7
Prior accident years	1.2	2.0	(6.3)
Total loss and loss adjustment expense ratio	73.1	74.8	58.7
Expense ratio	29.6	29.4	30.7
Policyholder dividend ratio	0.2	0.3	0.1
Combined ratio	102.9	104.6	89.4
Catastrophe ratio			
Current accident year	5.2	5.2	2.7
Prior accident years	(0.6)	0.2	—
Total catastrophe ratio	4.6	5.4	2.7
Combined ratio before catastrophes	98.3	99.1	86.7
Non-catastrophe prior year development	1.7	1.8	(6.3)
Combined ratio before catastrophes and prior accident year development	96.6	97.3	93.0
Other revenues [1]	$102	$97	$96

[1] Represents servicing revenues

Year ended December 31, 2012 compared to the year ended December 31, 2011

Net income increased in 2012 primarily due to improvements in underwriting results, driven by an increase in earned premiums and lower unfavorable prior year development, and improvements in net realized capital gains (losses), mainly on derivatives. This was offset by the gain on sale of SRS which occurred in 2011.

Current accident year catastrophe losses in 2012 of $325, pre-tax, included Storm Sandy and thunderstorms and tornadoes in the Midwest and South. In 2011, catastrophes of $320, pre-tax, primarily included severe thunderstorms and tornadoes in the Midwest and Southeast, Hurricane Irene in the Northeast, Tropical Storm Lee, and winter storms in the Northeast and Midwest.

Unfavorable prior year development declined in 2012, primarily due to lower strengthening on workers' compensation reserves. For additional information regarding prior accident years reserve development, including reserve (releases) strengthenings by reserve line, see the Property and Casualty Insurance Product Reserves, Net of Reinsurance section within Critical Accounting Estimates.

Earned premiums increased in 2012 primarily due to improvements in workers’ compensation, driven by renewal earned pricing increases, strong policy count retention and an increase in policies-in-force. The earned pricing changes were primarily a reflection of written pricing changes over the last year. Renewal written pricing increased across all standard commercial lines driven by improving market conditions.

Net realized capital gains (losses) improved primarily due to gains on derivatives as a result of credit spreads tightening. For additional information, see the Investment Results section within Key Performance Measures and Ratios.

Property & Casualty Commercial's combined ratio before catastrophes and prior year development improved slightly primarily due to lower non-catastrophe property losses. Workers' compensation frequency has been improving since recognizing the increase in the latter six months of 2011, while severity has moderated and earned pricing has increased.

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. In addition, due to the availability of additional tax planning strategies, the Company released the valuation allowance associated with investment realized capital losses in 2011. For further discussion, see Income Taxes within Note 14 of the Notes to Consolidated Financial Statements.

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Year ended December 31, 2011 compared to the year ended December 31, 2010

Net income decreased in 2011, as compared to the prior year, primarily due to a decrease in underwriting results due to higher current accident year losses, including catastrophes, and unfavorable prior accident years development in 2011 compared to favorable prior accident years development in 2010. The decrease in underwriting results was partially offset by the net realized capital gain on the sale of SRS. The annual goodwill assessment for the Property & Casualty Commercial reporting unit resulted in a write-down of goodwill of $30, pre-tax for the year ended December 31, 2011. For further discussion, see Goodwill and Other Intangible Assets within Note 9 of the Notes to Consolidated Financial Statements.

Current accident year catastrophe losses increased $168, pre-tax, from 2010 to 2011. In 2011, catastrophes primarily included severe thunderstorms and tornadoes in the Midwest and Southeast, Hurricane Irene in the Northeast, Tropical Storm Lee, and winter storms, earlier in the year, in the Northeast and Midwest. In 2010, catastrophes primarily included tornadoes, thunderstorms and hail events in the Midwest, Plains States and the Southeast and winter storms in the Mid-Atlantic and Northeast.

For information regarding prior accident years reserve development, including reserve (releases) strengthenings by reserve line, see the Property and Casualty Insurance Product Reserves, Net of Reinsurance section within Critical Accounting Estimates.

The increase in earned premiums in 2011, is primarily due to improvements in workers' compensation, driven by higher new business premium, renewal earned pricing increases and an increase in policies-in-force. The earned pricing changes were primarily a reflection of written pricing changes over the last year. Renewal written pricing increased for all standard commercial lines driven by improving market conditions.

Current accident year losses and loss adjustment expenses before catastrophes increased, due primarily to the increase in earned premiums for workers' compensation, as well as an increase in the current accident year loss and loss adjustment expense ratio before catastrophes. The ratio increased primarily due to loss costs outpacing earned pricing increases driven by an increase in workers' compensation claim frequency, partially offset by moderating severity, resulting in an increase in current accident year reserve strengthening.

Underwriting expenses increased in 2011, driven by an increase in technology costs, partially offset by a decrease in compensation related costs. The year ended December 31, 2011 included a $12 release of reserves for other state funds and taxes, while the year ended December 31, 2010 included strengthening of $20, which was due to an increase in the assessment for New York state funds and taxes. The change in dividends to policyholders is due to a decrease in 2010 of dividends payable primarily for workers' compensation policyholders.

Net realized capital losses increased primarily due to losses on derivatives, partially offset by lower impairments. For additional information, see the Investment Results section within Key Performance Measures and Ratios.

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. In addition, due to the availability of additional tax planning strategies, the Company released the valuation allowance associated with investment realized capital losses in 2011. For further discussion, see Income Taxes within Note 14 of the Notes to Consolidated Financial Statements.

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CONSUMER MARKETS

Operating Summary	2012	2011	2010
Written premiums	$3,630	$3,675	$3,886
Change in unearned premium reserve	(6)	(72)	(61)
Earned premiums	3,636	3,747	3,947
Losses and loss adjustment expenses			
Current accident year before catastrophes	2,390	2,536	2,737
Current accident year catastrophes	381	425	300
Prior accident years	(141)	(75)	(86)
Total losses and loss adjustment expenses	2,630	2,886	2,951
Amortization of deferred policy acquisition costs	332	337	371
Underwriting expenses	581	572	613
Underwriting gain (loss)	93	(48)	12
Net servicing income	23	19	35
Net investment income	159	187	187
Net realized capital gains (losses)	12	(11)	—
Other expenses	(56)	(162)	(66)
Income (loss) before income taxes	231	(15)	168
Income tax expense (benefit)	65	(22)	43
Net income	$166	$7	$125
Written Premiums	2012	2011	2010
Product Line			
Automobile	$2,514	$2,562	$2,745
Homeowners	1,116	1,113	1,141
Total	$3,630	$3,675	$3,886
Earned Premiums			
Product Line			
Automobile	$2,526	$2,619	$2,806
Homeowners	1,110	1,128	1,141
Total	$3,636	$3,747	$3,947

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Premium Measures	2012	2011	2010
Policies in force at year end			
Automobile	2,015,323	2,080,535	2,226,351
Homeowners	1,319,101	1,338,676	1,426,107
Total policies in force at year end	3,334,424	3,419,211	3,652,458
New business premium			
Automobile	$332	$298	$311
Homeowners	$117	$91	$106
Policy count retention			
Automobile	85%	83%	83%
Homeowners	86%	84%	85%
Renewal written pricing increase			
Automobile	4%	5%	6%
Homeowners	6%	8%	10%
Renewal earned pricing increase			
Automobile	5%	6%	5%
Homeowners	7%	9%	7%

Ratios and Supplemental Data	2012	2011	2010
Loss and loss adjustment expense ratio			
Current accident year before catastrophes	65.7	67.7	69.4
Current accident year catastrophes	10.5	11.3	7.6
Prior accident years	(3.9)	(2.0)	(2.2)
Total loss and loss adjustment expense ratio	72.3	77.0	74.8
Expense ratio	25.1	24.3	24.9
Combined ratio	97.4	101.3	99.7
Catastrophe ratio			
Current accident year	10.5	11.3	7.6
Prior accident years	(0.8)	0.7	0.3
Total catastrophe ratio	9.7	12.0	7.8
Combined ratio before catastrophes	87.8	89.3	91.9
Non-catastrophe prior year development	(3.1)	(2.7)	(2.4)
Combined ratio before catastrophes and prior accident year development	90.8	91.9	94.3
Other revenues [1]	155	156	172

[1] Represents servicing revenues.

Product Combined Ratios	2012	2011	2010
Automobile	97.6	95.3	98.0
Homeowners	97.0	115.8	104.3
Total	97.4	101.3	99.7

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Year ended December 31, 2012 compared to the year ended December 31, 2011

Net income improved relative to the comparable prior period, primarily due to more favorable prior accident year reserve development, lower current accident year catastrophes, and a $73 after-tax charge in 2011, related to the write off of capitalized costs associated with a policy administration software project that was discontinued.

Current accident year catastrophe losses for 2012 were $381, pre-tax. In 2012, catastrophes primarily included Storm Sandy in the Northeast, severe tornadoes and thunderstorms in the Midwest, the South and Colorado, as well as tornadoes and thunderstorms spanning from the Ohio Valley to the Mid-Atlantic. In 2011, catastrophes losses of $425, pre-tax, primarily included severe tornado, hail and thunderstorm events in the Midwest and Southeast and Hurricane Irene.

Favorable prior year development of $141, pre-tax, in 2012 compared with $75, pre-tax, in 2011, as a result of more favorable development in homeowners' and catastrophe losses. For additional information regarding prior accident years reserve development, see the Property and Casualty Insurance Product Reserves, Net of Reinsurance section within Critical Accounting Estimates.

Earned premiums decreased in auto and were down modestly for homeowners, as a decline in renewal written premium more than offset an increase in new business written premium. Compared to 2011, the number of policies in-force decreased for both auto and home, driven by non-renewals. Policy count retention for auto and home increased as moderating renewal written price increases improved the Company's price competitiveness. Changes in underwriting practices and service operations have also contributed to the improvement in retention.

Auto and home new business written premium increased primarily due to more competitive new business pricing in AARP Direct and an increase in the sale of the AARP auto product through independent agents. The lower auto and homeowners renewal earned pricing in 2012 was primarily due to lower rate increases. For both auto and homeowners, an increase in earned pricing was partially offset by a shift in the mix of business by territory, class plan and pricing tier to policies with lower average earned premium, such that increases in average earned premium were less than the increases in earned pricing.

Current accident year losses and loss adjustment expenses before catastrophes decreased primarily due to lower earned premiums and a decrease in the overall current accident year loss and loss adjustment expense ratio before catastrophes. In 2012, the current accident year loss and loss adjustment expense ratio before catastrophes decreased primarily due to a decrease in home, partially offset by an increase in auto. The decrease for home was primarily due to earned pricing increases and a decrease in the frequency of non-catastrophe weather claims. The increase for auto was primarily due to higher loss cost severity for first party physical damage and third party property damage claims, largely offset by the effect of earned pricing increases.

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. For further discussion, see Income Taxes within Note 14 of the Notes to Consolidated Financial Statements.

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Year ended December 31, 2011 compared to the year ended December 31, 2010

Net income decreased in 2011, as compared to the prior year, due to higher current accident year catastrophes and a $73, after-tax, charge, recorded in other expenses, related to the write off of capitalized costs associated with a discontinued policy administration software project.

Current accident year catastrophe losses increased from 2010 to 2011, driven by an increase in tornado and thunderstorm losses in the Midwest and Southeast of approximately $140, pre-tax. In 2011, catastrophes primarily included severe tornadoes, hail and thunderstorm events in the Midwest and Southeast and Hurricane Irene. In 2010, catastrophes primarily included tornadoes, hail and thunderstorm events in the Midwest, Plains States and the Southeast, as well as, a severe wind and hail storm event in Arizona.

Earned premiums decreased in auto and were down modestly for homeowners. For both auto and homeowners, non-renewal of existing policies more than offset the impacts of new business written premium and renewal earned pricing increases. Compared to 2010, the number of policies in-force as of December 31, 2011 decreased for both auto and home, driven by non-renewals.

Auto new business written premium decreased, primarily due to the effect of written pricing increases and underwriting actions that lowered the policy issue rate in Agency. Home new business written premium decreased in both AARP and Agency driven largely by the effect of written pricing increases. While auto and home new business written premium declined for the full year, new business increased in the latter part of the year with new business growth in both channels in the fourth quarter of 2011.

The higher auto renewal earned pricing in 2011 was due to rate increases and the effect of policyholders purchasing newer vehicle models in place of older models. Average renewal earned premium per policy for auto increased modestly as renewal earned pricing increases were partially offset by the effect of a continued shift to more preferred market business which has lower average earned premium. Homeowners' renewal earned pricing increases were due to rate increases and increased coverage amounts. For both auto and home, the Company has increased rates in certain states for certain classes of business to maintain profitability in the face of rising loss costs.

Current accident year losses and loss adjustment expenses before catastrophes decreased primarily due to lower earned premiums. The overall current accident year loss and loss adjustment expense ratio before catastrophes decreased during 2011 as a 2.6 point decrease for auto was partially offset by a 1.2 point increase for home. For auto, the effect of earned pricing increases and lower estimated frequency on auto liability claims was partially offset by higher auto physical damage severity. For home, an increase in the frequency of non-catastrophe weather claims was partially offset by the effect of earned pricing increases.

Amortization of deferred acquisition costs decreased largely due to a decline in commissions paid to agents due to lower Agency earned premium. The decrease in underwriting expenses was primarily driven by a decrease in reserves for other state funds and taxes. The decline in net servicing income in 2011 was largely due to lower contact center transaction volumes handled as a third party administrator under the AARP Health program.

For information regarding prior accident years reserve development, including reserve (releases) strengthenings by reserve line, see the Property and Casualty Insurance Product Reserves, Net of Reinsurance section within Critical Accounting Estimates.

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. For further discussion, see Income Taxes within Note 14 of the Notes to Consolidated Financial Statements.

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PROPERTY & CASUALTY OTHER OPERATIONS

Underwriting Summary	2012	2011	2010
Written premiums	$8	$1	$2
Change in unearned premium reserve	10	1	1
Earned premiums	(2)	—	1
Losses and loss adjustment expenses			
Prior accident years	65	317	251
Total losses and loss adjustment expenses	65	317	251
Underwriting expenses	33	27	26
Underwriting losses	(100)	(344)	(276)
Net investment income	149	151	163
Net realized capital gains (losses)	17	(1)	24
Other income (expense)	5	3	(4)
Income (loss) before income taxes	71	(191)	(93)
Income tax expense (benefit)	14	(74)	(40)
Net income (loss)	$57	$(117)	$(53)

Year ended December 31, 2012 compared to the year ended December 31, 2011

The net income (loss) in Property & Casualty Other Operations improved for the year ended December 31, 2012. As a result of annual reviews of asbestos and environmental liabilities, the company strengthened its net asbestos reserves by $48, pre-tax, and environmental reserves by $3, pre-tax, as compared to $290, pre-tax, and $19, pre-tax, respectively, in 2011.

For information on net asbestos and environmental reserves, see Property & Casualty Other Operations Claims within the Property and Casualty Insurance Product Reserves, Net of Reinsurance section in Critical Accounting Estimates.

Year ended December 31, 2011 compared to the year ended December 31, 2010

The net loss in Property & Casualty Other Operations increased in 2011, as compared to 2010, primarily due to reserve strengthening of $290, pre-tax, in 2011, resulting from the company's annual review of its asbestos liabilities. In the comparable prior year period, the reserve strengthening was $169, pre-tax.

Partially offsetting the increase in asbestos reserve strengthening was lower reserve strengthening of net environmental reserves of $19, pre-tax, in 2011 compared to $62, pre-tax, in 2010, resulting from the company's annual review of its environmental liabilities.

For further information, see Property & Casualty Other Operations Claims within the Property and Casualty Insurance Product Reserves, Net of Reinsurance section in Critical Accounting Estimates.

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GROUP BENEFITS

Operating Summary	2012	2011	2010
Premiums and other considerations	$3,810	$4,147	$4,278
Net investment income	405	411	429
Net realized capital gains (losses)	40	(3)	46
Total revenues	4,255	4,555	4,753
Benefits, losses and loss adjustment expenses	3,029	3,306	3,331
Amortization of deferred policy acquisition costs	33	35	40
Insurance operating costs and other expenses	1,033	1,121	1,128
Total benefits, losses and expenses	4,095	4,462	4,499
Income before income taxes	160	93	254
Income tax expense	31	1	66
Net income	$129	$92	$188
Premiums and other considerations			
Fully insured — ongoing premiums	$3,745	$4,036	$4,166
Buyout premiums	3	49	58
Other	62	62	54
Total premiums and other considerations	3,810	4,147	4,278
Fully insured ongoing sales, excluding buyouts	$405	$505	$583
Ratios, excluding buyouts			
Loss ratio	79.5 %	79.5 %	77.6 %
Loss ratio, excluding financial institutions	84.1 %	84.5 %	82.8 %
Expense ratio	28.0 %	28.2 %	27.7 %
Expense ratio, excluding financial institutions	24.1 %	23.7 %	23.3 %
After-tax margin			
After-tax margin (excluding buyouts)	3.0 %	2.0 %	4.0 %
Effect of net realized gains (losses), net of tax on after-tax margin	0.6 %	0.1 %	0.5 %
After-tax margin (excluding buyouts), excluding realized gains (losses)	2.4 %	1.9 %	3.5 %

Group Benefits has a block of financial institution business that is subject to a profit sharing arrangement with a third party. This business comprised approximately 8% to 10% of the segment's 2012, 2011 and 2010 premiums and other considerations (excluding buyouts). With respect to the segment's core earnings, the financial institution business comprised 2% for 2012, 2% for 2011, 6% for 2010, excluding a one-time payment to a third party administrator in 2011.

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Year ended December 31, 2012 compared to the year ended December 31, 2011

Net income, as compared to the prior year period, increased for the year ended December 31, 2012. While realized capital gains improved in current year, this was partially offset by a decrease in fully insured ongoing premiums, due to the lower sales and persistency resulting from the Company's pricing initiatives as well as the competitive market environment.

The change in insurance operating costs and other expenses is due to lower commission payments as a result of lower sales and a onetime payment to a third party administrator in the first quarter of 2011.

Group Benefits' loss ratio remained flat for both years 2012 and 2011. Loss experience in 2012 reflects stable incidence trends during the year, although elevated when compared to historical levels, and a continuation of the slightly improving claim terminations in group long-term disability that emerged in mid-2012. Group life claims experience deteriorated modestly compared with 2011 but remained more favorable than group long-term disability.

The increase in Group Benefits' after-tax margin (excluding buyouts), excluding realized gains (losses), was primarily due to lower insurance operating costs and other expenses, partially offset by the impact of lower premiums and other considerations due to lower sales and persistency.

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. For further discussion, see Income Taxes within Note 14 of the Notes to Consolidated Financial Statements.

Year ended December 31, 2011 compared to the year ended December 31, 2010

Net income decreased, relative to prior year, primarily due to higher mortality and morbidity driven by elevated incidence and lower claim terminations, and to a lesser extent, a decrease in fully insured ongoing premiums, driven by lower sales over the past year, as well as, from a challenging economic environment.

The decrease in Group Benefits’ after-tax margin (excluding buyouts), excluding realized gains (losses), was primarily due to higher mortality and morbidity driven by elevated incidence and lower claim terminations, and to a lesser extent, a decrease in fully insured ongoing premiums, driven by lower sales over the past year, as well as from a challenging economic environment.

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. In addition, due to the availability of additional tax planning strategies, the Company released the valuation allowance associated with investment realized capital losses in 2011. For further discussion, see Income Taxes within Note 14 of the Notes to Consolidated Financial Statements.

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MUTUAL FUNDS

Operating Summary	2012	2011	2010
Fee income and other	$599	$649	$664
Net investment loss	(3)	(3)	(8)
Net realized capital gains	—	1	—
Total revenues	596	647	656
Amortization of deferred policy acquisition costs	35	47	51
Insurance operating costs and other expenses	452	448	458
Total benefits, losses and expenses	487	495	509
Income from continuing operations, before income taxes	109	152	147
Income tax expense	38	54	52
Income from continuing operations	71	98	95
Income from discontinued operations, net of tax [1]	—	—	37
Net income	$71	$98	$132

[1] Represents income from discontinued operations, net of tax of Hartford Investments Canada Corporation ("HICC"). For additional information, see Note 20 of the Notes to Consolidated Financial Statements.

Assets Under Management	2012	2011	2010
Retail mutual fund assets	$43,149	$40,228	$48,753
Investment only mutual fund assets	16,598	16,140	16,634
Other plan assets	1,864	1,557	1,472
Mutual fund assets	61,611	57,925	66,859
Annuity mutual fund assets	26,036	27,613	33,627
Total AUM	$87,647	$85,538	$100,486

Retail Mutual Funds			
AUM, beginning of period	$40,228	$48,753	$42,829
Sales	8,559	10,876	12,732
Redemptions	(10,947)	(16,431)	(11,703)
Net flows	(2,388)	(5,555)	1,029
Change in market value and other	5,309	(2,970)	4,895
AUM, end of period	$43,149	$40,228	$48,753

Return on Assets			
ROA	8.2	10.5	13.7
Effect of restructuring, net of tax	0.3	—	—
Effect of net realized gains, net of tax and DAC	—	—	3.9
ROA, core earnings	8.5	10.5	9.8

Year ended December 31, 2012 compared to the year ended December 31, 2011

Net income, as compared to the prior year period, decreased for the year ended December 31, 2012 primarily due to lower fee income and other driven by lower average AUM and higher distribution and marketing expenses in 2012 compared to 2011. AUM increased modestly reflecting the improving performance of the Company's mutual funds in the equity markets largely offset by negative net flows primarily in mutual funds supporting the Company's variable annuity products. Retail net outflows decreased in 2012 compared to 2011 as redemption rates continued to trend lower compared to 2011, although new business sales activity decreased in 2012 compared to 2011. Total AUM is expected to be impacted by a planned redemption of approximately $1.5 billion in the second quarter of 2013.

Year ended December 31, 2011 compared to the year ended December 31, 2010

Net income decreased in 2011 primarily due to discontinued operations. The decline in income from discontinued operations in 2011 compared to 2010 is due to the sale of the Canadian mutual fund operations, which closed in

December 2010. Net income from continuing operations increased compared to 2010 due to a decline in expenses largely due to a capital infusion to the Money Market Funds in the third quarter of 2010.

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TALCOTT RESOLUTION

Operating Summary	2012	2011	2010
Earned premiums [1]	$(10)	$129	$137
Fee income and other [1]	3,604	3,830	3,843
Net investment income (loss)			
Securities available-for-sale and other	2,572	2,593	2,577
Equity securities trading [2]	4,565	(1,359)	(774)
Total net investment income	7,137	1,234	1,803
Net realized capital gains (losses)	(972)	15	(750)
Total revenues	9,759	5,208	5,033
Benefits, losses and loss adjustment expenses	2,951	3,535	3,124
Benefits, losses and loss adjustment expenses — returns credited on international variable annuities [2]	4,564	(1,359)	(774)
Amortization of deferred policy acquisition costs	661	1,108	325
Insurance operating costs and other expenses	1,451	1,504	1,475
Reinsurance loss on disposition, including goodwill impairment of $224	415	—	—
Total benefits, losses and expenses	10,042	4,788	4,150
Income (loss) from continuing operations, before income taxes	(283)	420	883
Income tax expense (benefit)	(284)	(120)	205
Income from continuing operations	1	540	678
Loss from discontinued operations, net of tax [3]	—	—	(6)
Net income	$1	$540	$672
Assets Under Management			
Variable annuity account value	$94,371	$99,922	$116,520
Fixed Market Value Adjusted annuity and other account value	14,755	16,417	16,819
Institutional annuity account value [4]	17,744	19,330	19,674
Other account value [5]	102,429	100,937	100,804
Total account value [4]	$228,143	$235,310	$252,397
Variable Annuities - Account Value Roll Forward			
Account value, beginning of period	$99,922	$116,520	$118,032
Net flows	(13,594)	(13,400)	(11,977)
Change in market value and other	11,303	(4,831)	6,429
Effect of currency translation	(3,260)	1,633	4,036
Account value, end of period	$94,371	$99,922	$116,520

[1] Includes earned premiums, fees and other related to the Retirement Plans business of $368, $380 and $359 and the Individual Life business of
$866, $899 and $856, for the years ended December 31, 2012, 2011 and 2010, respectively.

[2] Includes investment income and mark-to-market effects of equity securities, trading, supporting the international variable annuity business, which
are classified in net investment income with corresponding amounts credited to policyholders within benefits, losses and loss adjustment expenses.

[3] Represents loss from discontinued operations, net of tax, of Hartford Advantage Investment, Ltd. (“HAIL”). For additional information, see Note 20
of the Notes to Consolidated Financial Statements.

[4] Included in the balance is approximately $(1.2) billion, $(1.3) billion and $(1.4) billion at December 31, 2012, December 31, 2011 and December
31, 2010, respectively, related to an intra-segment funding agreement which is eliminated in consolidation.

[5] Other account value includes $37.4 billion, $13.2 billion and $51.8 billion, respectively, at December 31, 2012 for the Private Placement Life

Insurance, Individual Life and Retirement Plans businesses.

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In the fourth quarter of 2012, the Company made changes to its reporting segments to reflect the manner in which it is currently organized for purposes of making operating decisions and assessing performance. The Talcott Resolution (formerly Life Other Operations) Operating Summary currently includes the operating results of the Retirement Plans and Individual Life businesses that were sold in January 2013. For further discussion of these transactions, see Note 2 - Business Dispositions of the Notes to Consolidated Financial Statements.

Year ended December 31, 2012 compared to the year ended December 31, 2011

Net income, as compared to the prior year period, decreased for the year ended December 31, 2012 primarily due to net realized capital losses as compared to net realized capital gains in the prior period and the estimated reinsurance loss on disposition of the Individual Life business, including an after tax goodwill impairment charge of $146. The estimate is subject to change pending final determination of net assets sold, transaction costs, and other adjustments. Restructuring costs of $44, after-tax in 2012 also contributed to the decrease in net income as compared to the prior year period as there were no restructuring costs in 2011. An Unlock benefit in 2012 partially offset the decrease in net income as compared to the prior year period. In addition, benefits, losses and loss adjustment expenses, decreased as compared to the prior year period, reflecting an improvement in equity market performance. For related discussion of the goodwill impairment, see MD&A – Critical Accounting Estimates, MD&A - Corporate and Note 9 - Goodwill and Other Intangible Assets of Notes to Consolidated Financial Statements. For further discussion of the reinsurance loss on disposition, see Note 2 - Business Dispositions of Notes to Consolidated Financial Statements.

Net income of the Retirement Plans business decreased, as compared to the prior year, to a net loss of $39 in 2012 from net income of $3 in 2011 primarily due to an increase in net realized capital losses and restructuring costs of $14, after-tax in 2012 associated with the sale of the business. Net income (loss) of the Individual Life business decreased, as compared to the prior year, to a net loss of $172 in 2012 from net income of $114 in 2011 primarily due to the reinsurance loss on disposition, including an after tax goodwill impairment charge of $146, unfavorable mortality, and restructuring costs of $25, after-tax in 2012 associated with the sale of the business.

The net increase in realized capital losses was primarily due to losses in the variable annuity hedge program. Variable annuity hedge program losses for the year ended December 31, 2012 were $1,311 including international losses of $1,490, compared to gains of $162, including international gains of $775 for the prior year period. Net realized capital losses in 2012 also include intent-to-sell impairment losses of $177 related to the sales in January 2013 of the Retirement Plans and Individual Life businesses. Total net impairment losses, including intent-to-sell impairment losses, increased to $247 in 2012 as compared to $117 for the prior year period. For further discussion of investment results and the results of the variable annuity hedge program, see MD&A – Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses) within Key Performance Measures and Ratios.

Talcott Resolution's effective tax rate for 2012 differs from the statutory rate of 35% primarily due to permanent differences for separate account DRD. For further discussion of income taxes, see Note 14 of the Notes to Consolidated Financial Statements.

Account values for Talcott Resolution decreased to approximately $228 billion at December 31, 2012 from approximately $235 billion at December 31, 2011, due primarily to surrenders of approximately $10 billion in 2012 in the U.S. variable annuity block, largely offset by the impact of improved equity market performance. In 2012, the annualized full surrender rate on U.S. variable annuities rose to 10.9% compared to 9.3% in 2011 and the annualized full surrender rate on Japan variable annuities rose to 3.4% in 2012 from 2.6% in 2011.

The Company expects annuity account values and consequently earnings to continue to decline over time as fee income decreases due to surrenders, policyholder initiatives or potential transactions with third parties that will reduce the size of the related book of business. In addition, as the Individual Life and Retirement Plans sale transactions were structured as reinsurance transactions, account values associated with these businesses will no longer generate asset-based fee income following the January 2013 closings.

Year ended December 31, 2011 compared to the year ended December 31, 2010

Net income, as compared to the prior year period, decreased for December 31, 2011 primarily due to an Unlock charge in 2011 as compared to an Unlock benefit in 2010, partially offset by net realized capital gains in 2011 as compared to net realized capital losses in the prior year period. Benefits, losses and loss adjustment expenses increased in 2011 reflecting the decline in equity market performance however, these expenses were partially offset by

the release of a reserve related to a Japan product. In addition, insurance operating costs and other expenses increased in 2011 due to costs associated with expected assessments related to the Executive Life Insurance Company of New York (“ELNY”) insolvency. Net income of the Retirement Plans business decreased, as compared to the prior year, to $3 in 2011 from $6 in 2010. Net income of the Individual Life business decreased, as compared to the prior year, to $114 in 2011 from $198 in 2010. For further discussion of the Unlock see MD&A – Critical Accounting Estimates. The net realized capital gains in 2011 compared to net realized capital losses in 2010 were primarily due to gains in the variable annuity hedge program and lower net impairment losses. Variable annuity hedge program gains were $162 in 2011 compared to losses of $345 in 2010. For further discussion of investment results and the results of the variable annuity hedge program see MD&A - Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses) within Key Performance Measures and Ratios.

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Talcott Resolution's effective tax rate for 2011 differs from the statutory rate of 35% primarily due to permanent differences for separate account DRD and release of a valuation allowance on deferred tax benefits related to certain realized losses on securities that back certain institutional annuities. For further discussion of income taxes, see Note 14 of the Notes to Consolidated Financial Statements.

Account values decreased to approximately $235 billion at December 31, 2011 from approximately $252 billion at December 31, 2010, reflecting an increase in surrenders in the variable annuity block and declining equity market performance as compared to the prior year period.

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CORPORATE

Operating Summary	2012	2011	2010
Earned premiums	$—	$—	$2
Fee income [1]	167	209	187
Net investment income	31	23	81
Net realized capital gains (losses)	125	(96)	66
Other revenue	1	—	(1)
Total revenues	324	136	335
Benefits, losses and loss adjustment expenses	—	(3)	(2)
Insurance operating costs and other expenses	365	202	325
Loss on extinguishment of debt	910	—	—
Reinsurance loss on disposition, including goodwill impairment of $118	118	—	—
Interest expense	457	508	508
Total benefits, losses and expenses	1,850	707	831
Loss from continuing operations before income taxes	(1,526)	(571)	(496)
Income tax benefit	(517)	(201)	(168)
Loss from continuing operations, net of tax	(1,009)	(370)	(328)
Loss from discontinued operations, net of tax [2]	—	(64)	(107)
Net loss	$(1,009)	$(434)	$(435)

[1] Fee income includes the income associated with the sales of non-proprietary insurance products in the Company's broker-dealer subsidiaries that has an offsetting commission expense in insurance operating costs and other expenses.

[2] Represents the loss from operations and sale of Federal Trust Corporation. For additional information, see Note 20 of the Notes to Consolidated Financial Statements.

Year ended December 31, 2012 compared to the year ended December 31, 2011

The net loss in Corporate deteriorated in 2012 primarily due to a loss on extinguishment of debt related to the repurchase of all outstanding 10% fixed-to-floating rate junior subordinated debentures due 2068 with a $1.75 billion aggregate principal amount all held by Allianz. The loss consisted of the premium associated with repurchasing the 10% Debentures at an amount greater than the face amount, the write-off of the unamortized discount and debt issuance costs related to the 10% Debentures and other costs related to the repurchase transaction.

Also in 2012, the Company recorded a reinsurance loss on disposition consisting of an impairment of goodwill related to the disposition of the Individual Life business. See Note 9 of the Notes to Consolidated Financial Statements for additional information on the goodwill impairment.

In addition, insurance operating costs and other expenses increased as a result of restructuring and other costs related to the Company's implementation of its strategic initiatives. See Note 21 of the Notes to Consolidated Financial Statements for additional information on restructuring and other costs.

Partially offsetting the losses was an increase in net realized capital gains (losses), primarily due to gains on derivatives as a result of credit spreads tightening. For additional information on net realized capital gains, see the Investment Results section.

See Note 14 of the Notes to Consolidated Financial Statements for a reconciliation of the tax provision at the U.S. Federal statutory rate to the provision (benefit) for income taxes.

Year ended December 31, 2011 compared to the year ended December 31, 2010

The net loss in Corporate remained flat due to net realized capital losses in 2011, compared to gains in 2010, partially offset by a decrease in insurance operating costs and other expenses. The net realized capital losses in 2011 primarily relate to losses on derivatives.

Insurance operating costs and other expenses decreased primarily as a result of an accrual for a litigation settlement of $73, before-tax, in 2010, for a class action lawsuit related to structured settlements.

The loss from discontinued operations, net of tax, in 2011, is due to a net realized capital loss of $74, after-tax, from the disposition of Federal Trust Corporation. Loss from discontinued operations, net of tax, in 2010, primarily relates

to goodwill impairment on Federal Trust Corporation of approximately $100, after-tax.
See Note 14 of the Notes to Consolidated Financial Statements for a reconciliation of the tax provision at the U.S. Federal statutory rate to the provision (benefit) for income taxes.

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ENTERPRISE RISK MANAGEMENT

The Company has an enterprise risk management function (“ERM”) that is charged with providing analysis of the Company’s risks on an individual and aggregated basis and with ensuring that the Company’s risks remain within its risk appetite and tolerances. The Company has established the Enterprise Risk and Capital Committee (“ERCC”) that includes the Company’s CEO, Chief Financial Officer (“CFO”), Chief Investment Officer (“CIO”), Chief Risk Officer, the divisional Presidents and the General Counsel. The ERCC is responsible for managing the Company’s risks and overseeing the enterprise risk management program.

The Company categorizes its main risks as follows:

- Insurance Risk
- Operational Risk
- Financial Risk

Insurance Risk Management

The Company categorizes its insurance risks across both property-casualty and life products. The Company's insurance operations are vested in the ability to add value through the effective underwriting, pooling, and pricing of insurance risks. As such, working under the direction of the Company's Chief Insurance Risk Officer (“CIRO”), the Company has developed a disciplined approach to insurance risk management that is well integrated into the organization's underwriting, pricing, reinsurance, claims, and capital management processes.

At the same time, the Company has policies and procedures to manage concentrations or correlations of insurance risk, including ERM policies governing the risks related to natural and man-made property catastrophes such as hurricanes, earthquakes, tornado/hailstorms, winter storms, pandemics, terrorism, and casualty catastrophes. The Company establishes risk limits to control potential loss and actively monitors the risk exposures as a percent of statutory surplus. The Company also uses reinsurance to transfer insurance risk to well-established and financially secure reinsurers (see Reinsurance Section). The Company's CIRO has enterprise responsibility for establishing and maintaining the framework, principles and guidelines of The Hartford's insurance risk management program.

Non-Catastrophic Insurance Risks

Non-catastrophic insurance risks exist within each of the Company's divisions and include, but are not limited to, the following:

- Property: Risk of loss to personal or commercial property from automobile related accidents, weather, explosions, smoke, shaking, fire, theft, vandalism, inadequate installation, faulty equipment, collisions and falling objects, and/or machinery mechanical breakdown resulting in physical damage and other covered perils.
- Liability: Risk of loss from automobile related accidents, uninsured and underinsured drivers, lawsuits from accidents, defective products, breach of warranty, negligent acts by professional practitioners, environmental claims, latent exposures, fraud, coercion, forgery, failure to fulfill obligations per contract surety, liability from errors and omissions, derivative lawsuits, and other securities actions and covered perils.
- Mortality: Risk of loss from unexpected trends in insured deaths impacting timing of payouts from life insurance or annuity products, personal or commercial automobile related accidents, and death of employees or executives during the course of employment, while on disability, or while collecting workers compensation benefits.
- Morbidity: Risk of loss to an insured from illness incurred during the course of employment or illness from other covered perils.
- Disability: Risk of loss incurred from personal or commercial automobile related losses, accidents arising outside of the workplace, injuries or accidents incurred during the course of employment, or from equipment each loss resulting short term or long term disability payments.
- Longevity: Risk of loss from increase life expectancy trends among policyholders receiving long term benefit payments or annuity payouts.

The Company's processes for managing these risks include disciplined underwriting protocols, exposure controls, sophisticated risk based pricing, risk modeling, risk transfer, and capital management strategies. The Company has established underwriting guidelines for both individual risks, including individual policy limits, and risks in the aggregate, including aggregate exposure limits by geographic zone and peril. Pricing indications for each line of

business are set independent of the business by corporate actuarial and are integrated into the reserve review process to ensure consistency between pricing and reserving. Monthly reports track loss cost trends relative to pricing objectives within each state and product, and corporate actuarial provides an independent report to the Board on the Company's reserve position and loss cost trends.

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Natural Catastrophe Risk

Natural catastrophe risk is defined as the exposure arising from natural phenomena (e.g., weather, earthquakes, wildfires, etc.) that create a concentration or aggregation of loss across the Company's insurance or asset portfolios. The Company uses both internal and third-party models to estimate the potential loss resulting from various catastrophe events and the potential financial impact those events would have on the Company's financial position and results of operations across the property-casualty, life, and asset management businesses. For natural catastrophe perils, the Company generally limits its estimated pre-tax loss as a result of natural catastrophes for property & casualty exposures from a single 250-year event to less than 30% of statutory surplus prior to reinsurance and to less than 15% of statutory surplus after reinsurance. The Company's modeled loss estimates are derived by averaging 21 modeled loss events representing a 250-year return period loss. For the peril of earthquake, the 21 events averaged to determine the modeled loss estimate include events occurring in California as well as the Northeastern, Southeastern, Northwestern, and Midwestern regions of the United States with associated magnitudes ranging from 6.9 to 8.6 on the Moment Magnitude scale. For the peril of hurricane, the 21 events averaged to determine the modeled loss estimate include category 3, 4 and 5 events in Florida, as well as other Gulf and Northeastern region landfalls.

While Enterprise Risk Management has a process to track and manage these limits, from time to time, the estimated loss to natural catastrophes from a single 250-year event prior to reinsurance may fluctuate above or below these limits due to changes in modeled loss estimates, exposures, or statutory surplus. Currently, the Company's estimated pre-tax loss to a single 250-year natural catastrophe event prior to reinsurance is less than 30% of the statutory surplus of the property and casualty insurance subsidiaries and the Company's estimated pre-tax loss net of reinsurance is less than 15% of statutory surplus of the property and casualty operations. The estimated 250 year pre-tax probable maximum losses from hurricane events are estimated to be $1.6 billion and $553, before and after reinsurance, respectively. The estimated 250 year pre-tax probable maximum loss from earthquake events is estimated to be $786 before reinsurance and $479 net of reinsurance. The loss estimates represent total property losses for hurricane events and property and workers compensation losses for earthquake events resulting from a single event. The estimates provided are based on 250-year return period loss estimates that have a 0.4% likelihood of being exceeded in any single year.

The net loss estimates provided above assume that the Company is able to recover all losses ceded to reinsurers under its reinsurance programs. There are various methodologies used in the industry to estimate the potential property and workers compensation losses that would arise from various catastrophe events and companies may use different models and assumptions in their estimates. Therefore, the Company's estimates of gross and net losses arising from a 250-year hurricane or earthquake event may not be comparable to estimates provided by other companies. Furthermore, the Company's estimates are subject to significant uncertainty and could vary materially from the actual losses that would arise from these events and the loss estimates provided by other companies. The Company also manages natural catastrophe risk for group life, group disability, and individual life insurance, which in combination with property and workers compensation loss estimates are subject to separate enterprise risk management net aggregate loss limits as a percent of enterprise surplus.

Terrorism Risk

The Company defines terrorism risk as the risk of losses from terrorist attacks, including losses caused by single-site and multi-site conventional attacks, as well as the potential for attacks using nuclear, biological, chemical or radiological weapons (“NBCR”). The Company monitors aggregations of terrorism risk exposure around key landmarks primarily in major metropolitan areas that span the Company's insurance portfolio. Enterprise Risk Management limits for terrorism apply to aggregations of risk across property-casualty, group benefits, life insurance and specific asset portfolios and are defined based on a deterministic, single-site conventional terrorism attack scenario. The Company manages its potential estimated loss from a conventional terrorism loss scenario to less than $1.3 billion. In addition, the Company monitors exposures monthly and employs both internally developed and vendor-licensed loss modeling tools as part of its risk management discipline. While our modeled exposures to conventional terrorist attacks around landmark locations may fluctuate above and below $1.3 billion, currently, all such terrorism exposures are within ERM limits. For a discussion on risks related to terrorist attacks, see the risk factor, "The occurrence of one or more terrorist attacks in the geographic areas we serve or the threat of terrorism in general may have a material adverse

effect on our business, financial condition, results of operations and liquidity."

Pandemic Risk

Pandemic risk is the exposure to loss arising from widespread influenza or other pathogens or bacterial infections that create an aggregation of loss across the Company's insurance or asset portfolios. Consistent with industry practice, the Company assesses exposure to pandemics by analyzing the potential impact from a variety of pandemic scenarios based on conditions consistent with historical outbreaks of flu-like viruses such as the “Severe” 1918 Spanish Flu, the Asian flu of 1957, the Hong Kong flu of 1968, and the 2009 outbreak of the swine flu. For pandemic risk, the Company generally limits its estimated pre-tax loss from a single 250 year event to less than 12.5% of the statutory surplus for the enterprise. In evaluating these scenarios, the Company assesses the impact on group and individual life policies, short-term and long term disability, annuities, COLI, property & casualty claims, and losses in the investment portfolio associated with market declines in the event of a widespread pandemic. While Enterprise Risk Management has a process to track and manage these limits, from time to time, the estimated loss for pandemics may fluctuate above or below these limits due to changes in modeled loss estimates, exposures, or statutory surplus. Currently, the Company's estimated pre-tax loss for pandemic is less than 12.5% of enterprise statutory surplus.

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Reinsurance as a Risk Management Strategy

The Hartford utilizes reinsurance to transfer risk to affiliated and unaffiliated insurers. Reinsurance is used to manage aggregation of risk as well as to transfer certain risk to reinsurance companies based on specific geographic or risk concentrations. All reinsurance processes are aligned under a single enterprise reinsurance risk management policy. Reinsurance purchasing is a centralized function within Commercial, Consumer Markets and Wealth Management to support a consistent strategy and to ensure that the reinsurance activities are fully integrated into the organization's risk management processes.

A variety of traditional reinsurance products are used as part of the Company's risk management strategy, including excess of loss occurrence-based products that protect property and workers compensation exposures, and individual risk or quota share arrangements, that protect specific classes or lines of business. The Company has no significant finite risk contracts in place and the statutory surplus benefit from all such prior year contracts is immaterial.

Facultative reinsurance is used by the Company to manage policy-specific risk exposures based on established underwriting guidelines. The Hartford also participates in governmentally administered reinsurance facilities such as the Florida Hurricane Catastrophe Fund (“FHCF”), the Terrorism Risk Insurance Program established under The Terrorism Risk Insurance Program Reauthorization Act of 2007 (“TRIPRA”) and other reinsurance programs relating to particular risks or specific lines of business.

Reinsurance for Catastrophes

The Company has several catastrophe reinsurance programs, including reinsurance treaties that cover property and workers’ compensation losses aggregating from single catastrophe events. The following table summarizes the primary catastrophe treaty reinsurance coverage’s that the Company has in place as of January 1, 2013:

Coverage	Treaty term	% of layer(s) reinsurance	Per occurrence limit		Retention
Principal property catastrophe program covering property catastrophe losses from a single event	1/1/2013 to 1/1/2014	90%	$750		$350
Reinsurance with the FHCF covering Florida Personal Lines property catastrophe losses from a single event	6/1/2012 to 6/1/2013	90%	128	[1]	48
Workers compensation losses arising from a single catastrophe event [2]	7/1/2012 to 7/1/2013	95%	350		100

[1] The per occurrence limit on the FHCF treaty is $128 for the 6/1/2012 to 6/1/2013 treaty year based on the Company's election to purchase the required coverage from FHCF. Coverage is estimated based on the best available information from FHCF, which was updated in January 2013.

[2] In addition, to the limit shown above, the workers compensation reinsurance includes a non-catastrophe, industrial accident layer, 80% of $30 excess a $20 retention.

In addition to the property catastrophe reinsurance coverage described in the above table, the Company has other catastrophe and working layer treaties and facultative reinsurance agreements that cover property catastrophe losses on an aggregate excess of loss and on a per risk basis. The principal property catastrophe reinsurance program and other reinsurance programs include a provision to reinstate limits in the event that a catastrophe loss exhausts limits on one or more layers under the treaties.

In addition to the reinsurance protection provided by The Hartford's traditional property catastrophe reinsurance program described above, the Hartford has fully collateralized reinsurance coverages from Foundation Re III for losses sustained from qualifying hurricane loss events. Under the terms of the treaties, the Company is reimbursed for losses from hurricanes using customized industry index contracts designed to replicate The Hartford's own catastrophe losses, with a provision that the actual losses incurred by the Company for covered events, net of reinsurance recoveries, cannot be less than zero.

The following table summarizes the terms of the reinsurance treaties with Foundation Re III that were in place as of December 31, 2012:

Covered perils	Treaty term	Covered losses	Bond amount issued by Foundation Re III
Hurricane loss events affecting the Gulf and Eastern Coast of the United States	1/27/2010 to 1/27/2014	90% of $200 in losses in excess of an index loss trigger equating to approximately $1.2 billion in losses to The Hartford	$180
Hurricane loss events affecting the Gulf and Eastern Coast of the United States	2/18/2011 to 2/18/2015	67.5% of $200 in losses in excess of an index loss trigger equating to approximately $1.4 billion in losses to The Hartford	135

As of December 31, 2012, there have been no events that are expected to trigger a recovery under the Foundation Re III reinsurance program and, accordingly, the Company has not recorded any recoveries from the associated reinsurance treaties.

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Reinsurance for Terrorism

For the risk of terrorism, private sector catastrophe reinsurance capacity is generally limited and largely unavailable for terrorism losses caused by nuclear, biological, chemical or radiological weapons attacks. As such, the Company's principal reinsurance protection against large-scale terrorist attacks is the coverage currently provided through the TRIPRA. On December 26, 2007, the President signed TRIPRA extending the Terrorism Risk Insurance Act of 2002 (“TRIA”) through the end of 2014. TRIPRA provides a backstop for insurance-related losses resulting from any “act of terrorism” certified by the Secretary of the Treasury, in concurrence with the Secretary of State and Attorney General, that result in industry losses in excess of $100. In addition, TRIPRA revised the TRIA definition of a certified “act of terrorism” by removing the requirement that an act be committed “on behalf of any foreign person or foreign interest.” As a result, domestic acts of terrorism can now be certified as “acts of terrorism” under the program, subject to the other requirements of TRIPRA. Under the program, in any one calendar year, the federal government would pay 85% of covered losses from a certified act of terrorism after an insurer's losses exceed 20% of the Company's eligible direct commercial earned premiums of the prior calendar year up to a combined annual aggregate limit for the federal government and all insurers of $100 billion. The Company's estimated deductible under the program is $1.2 billion for 2013. If an act of terrorism or acts of terrorism result in covered losses exceeding the $100 billion annual industry aggregate limit, a future Congress would be responsible for determining how additional losses in excess of $100 billion will be paid.

Among other items, TRIPRA required that the President's Working Group on Financial Markets (“PWG”) continue to perform an analysis regarding the long-term availability and affordability of insurance for terrorism risk. Among the findings detailed in the PWG's initial report, released October 2, 2006, were that the high level of uncertainty associated with predicting the frequency of terrorist attacks, coupled with the unwillingness of some insurance policyholders to purchase insurance coverage, makes predicting long-term development of the terrorism risk market difficult, and that there is likely little potential for future market development for NBCR coverage. The January 2011 PWG report notes some improvements in capacity and modeling, but also noted that take-up rates for terrorism coverage remained relatively flat over the past three years and that insurers remain uncertain about the ability of models to predict the frequency and severity of terrorist attacks. With respect to NBCR coverage, a December 2008 study by the U.S. Government Accountability Office (“GAO”) found that property and casualty insurers still generally seek to exclude NBCR coverage from their commercial policies when permitted. However, while nuclear, pollution and contamination exclusions are contained in many property and liability insurance policies, the GAO report concluded that such exclusions may be subject to challenges in court because they were not specifically drafted to address terrorist attacks. Furthermore, workers compensation policies generally have no exclusion or limitations. The GAO found that commercial property and casualty policyholders, including companies that own high-value properties in large cities, generally reported that they could not obtain NBCR coverage. Commercial property and casualty insurers generally remain unwilling to offer NBCR coverage because of uncertainties about the risk and the potential for catastrophic losses.

Reinsurance Recoverables

Reinsurance Security

To manage reinsurer credit risk, a reinsurance security review committee evaluates the credit standing, financial performance, management and operational quality of each potential reinsurer. Through this process, the Company maintains a centralized list of reinsurers approved for participation in reinsurance transactions. Only reinsurers approved through this process are eligible to participate in new reinsurance transactions. The Company's approval designations reflect the differing credit exposure associated with various classes of business. Participation eligibility is categorized based upon the nature of the risk reinsured, including the expected liability payout duration. In addition to defining participation eligibility, the Company regularly monitors credit risk exposure to each reinsurance counterparty and has established limits tiered by counterparty credit rating. For further discussions on how the Company manages and mitigates third party credit risk, refer to the Credit Risk section.

Property and Casualty Insurance Product Reinsurance Recoverable

Property and casualty insurance product reinsurance recoverables represent loss and loss adjustment expense recoverable from a number of entities, including reinsurers and pools. The following table shows the components of

the gross and net reinsurance recoverable as of December 31, 2012 and 2011:

Reinsurance Recoverable	December 31, 2012	December 31, 2011
Paid loss and loss adjustment expenses	$170	$153
Unpaid loss and loss adjustment expenses	2,852	2,884
Gross reinsurance recoverable	3,022	3,037
Less: allowance for uncollectible reinsurance	(268)	(290)
Net reinsurance recoverable	$2,754	$2,747

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As shown in the following table, a portion of the total gross reinsurance recoverable relates to the Company's mandatory participation in various involuntary assigned risk pools and the value of annuity contracts held under structured settlement agreements. Reinsurance recoverables due from mandatory pools are backed by the financial strength of the property and casualty insurance industry. Annuities purchased from third-party life insurers under structured settlements are recognized as reinsurance recoverables in cases where the Company has not obtained a release from the claimant. Of the remaining gross reinsurance recoverable as of December 31, 2012 and 2011, the following table shows the portion of recoverables due from companies rated by A.M. Best:

Distribution of gross reinsurance recoverable	December 31, 2012		December 31, 2011		
Gross reinsurance recoverable	$3,022		$3,037		
Less: mandatory (assigned risk) pools and structured settlements	(588)		(617)		
Gross reinsurance recoverable excluding mandatory pools and structured settlements	$2,434		$2,420		
		% of Total		% of Total	
Rated A- (Excellent) or better by A.M. Best [1]	$1,691	69.5 %	$1,774	73.3	%
Other rated by A.M. Best	6	0.2 %	52	2.2	%
Total rated companies	1,697	69.7 %	1,826	75.5	%
Voluntary pools	95	3.9 %	100	4.1	%
Captives	368	15.1 %	242	10.0	%
Other not rated companies	274	11.3 %	252	10.4	%
Total	$2,434	100.0 %	$2,420	100.0	%

[1] Based on A.M. Best ratings as of December 31, 2012 and 2011, respectively.

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. As part of its reinsurance recoverable review, the Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between cedants and reinsurers and the overall credit quality of the Company's reinsurers. Due largely to investment losses sustained by reinsurers in 2008 along with significant catastrophe losses and European sovereign debt concerns in 2011 and 2012, the financial strength ratings of some reinsurers have been downgraded and the financial strength ratings of other reinsurers have been put on negative watch. Nevertheless, as indicated in the above table, 69.5% of the gross reinsurance recoverables due from reinsurers rated by A.M. Best were rated A- (excellent) or better as of December 31, 2012. Due to the inherent uncertainties as to collection and the length of time before such amounts will be 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 quarterly or annual period.

Annually, the Company completes evaluations of the reinsurance recoverable asset associated with older, long-term casualty liabilities reported in the Property & Casualty Other Operations reporting segment, and the allowance for uncollectible reinsurance reported in the Property & Casualty Commercial reporting segment. For a discussion regarding the results of these evaluations, see Property and Casualty Insurance Product Reserves, Net of Reinsurance within the Critical Accounting Estimates section of the MD&A.

Guaranty Funds and Other Insurance Assessments

As part of its risk management strategy, the Company regularly monitors the financial wherewithal of other insurers and, in particular, activity by insurance regulators and various state guaranty associations relations to troubled insurers. In all states, insurers licensed to transact certain classes of insurance are required to become members of a guaranty fund. In most states, in the event of the insolvency of an insurer writing any such class of insurance in the state, members of the funds are assessed to pay certain claims of the insolvent insurer. A particular state's fund assesses its members based on their respective written premiums in the state for the classes of insurance in which the insolvent insurer was engaged. Assessments are generally limited for any year to one or two percent of the premiums written per year depending on the state. The amount and timing of assessments related to past insolvencies is

unpredictable.

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Citizens Property Insurance Corporation in Florida ("Citizens"), a non-affiliate insurer, provides property insurance to Florida homeowners and businesses that are unable to obtain insurance from other carriers, including for properties deemed to be "high risk." Citizens maintains a Personal Lines account, a Commercial Lines account and a High Risk account. If Citizens incurs a deficit in any of these accounts, Citizens may impose a "regular assessment" on other insurance carriers in the state, such as the Company, to fund the deficits, subject to certain restrictions and subject to approval by the Florida Office of Insurance Regulation. Carriers are then permitted to surcharge policyholders to recover the assessments over the next few years. Citizens may also opt to finance a portion of the deficits through issuing bonds and may impose "emergency assessments" on other insurance carriers to fund the bond repayments. Unlike with regular assessments, however, insurance carriers only serve as a collection agent for emergency assessments and are not required to remit surcharges for emergency assessments to Citizens until they collect surcharges from policyholders. Under U.S. GAAP, the Company is required to accrue for regular assessments in the period the assessments become probable and estimable and the obligating event has occurred. Surcharges to recover the amount of regular assessments may not be recorded as an asset until the related premium is written. Emergency assessments that may be levied by Citizens are not recorded in the income statement.

Operational Risk Management

The Hartford has an Operational Risk Management ("ORM") function whose responsibility is to provide a comprehensive and enterprise-wide view of the Company's operational risk on an aggregate basis. The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This inadequacy or failure may come from internal or external events. It includes legal risk and considers reputational risk as an impact. The Company has developed a library of operational risks which have been classified into the following seven risk categories:

- Internal Fraud
- External Fraud
- Employment Practices & Workplace Safety
- Business Disruption & Systems Failures
- Clients, Products & Business Practice
- Damage to Physical Assets
- Execution, Delivery & Process Management

ORM is led by the Chief Operational Risk Officer ("CORO") who is responsible for establishing, maintaining and communicating the framework, principles and guidelines of The Hartford's operational risk management program. In addition, the CORO also manages business continuity, model risk management and risk assessments. Responsibility for day-to-day management of operational risk lies within each business unit and functional area.

ORM works closely with the Operational Risk Committee ("ORC"), an enterprise wide governance body comprised of senior leaders from functional areas such as ORM, Enterprise Services, Enterprise Operations, Claims, Information Technology, Compliance and Internal Audit. The ORC meets regularly and provides a forum for ensuring the effective management of operational risks across the enterprise. The ORC's responsibilities include reviewing and approving: policies governing operational risk, functional risk tolerances, and risk mitigation strategies. This group also identifies emerging operational risks, prioritizes them, and determines action plans. Individual committees, such as the Enterprise Sourcing Board, Enterprise Privacy and Security Committee, and the Enterprise Health, Environment and Safety Committee focus on specific operational risk issues and report to the ORC.

ORM is responsible for ensuring controls and providing a framework for managing operational risks. ORM has various tools and processes for identifying, monitoring, measuring, prioritizing, and reporting operational risks. ORM uses a centralized Governance, Risk, and Compliance (GRC) system to help manage operational risk across the Company's finance, legal, data security, and information technology functions. The ORM (Archer) Steering Committee manages the direction, strategy and priorities of the initiatives that support governance, risk and compliance.

The Company's business risk assessment process is used to identify operational risks, evaluate controls to mitigate those risks, and monitor control improvements.

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Financial Risk Management

The Company identifies the following categories of financial risk:

- Liquidity Risk
- Interest Rate Risk
- Equity Risk
- Foreign Currency Exchange Risk
- Credit Risk

Financial risks include direct and indirect risks to the Company's financial objectives coming from events that impact market conditions or prices. Financial risk also includes exposure to events that may cause correlated movement in multiple risk factors. The primary source of financial risks are the Company's general account assets and the liabilities which those assets back, together with the guarantees which the company has written over various liability products, particularly its portfolio of variable annuities. The Company assesses its financial risk on a U.S. GAAP, statutory and economic basis. The Hartford has developed a disciplined approach to financial risk management that is well integrated into the Company's underwriting, pricing, hedging, claims, asset and liability management, new product, and capital management processes. Consistent with its risk appetite, the Company establishes financial risk limits to control potential loss. Exposures are actively monitored, and mitigated where appropriate. The Company uses various risk management strategies, including reinsurance and over-the-counter and exchange traded derivatives to transfer risk to well-established and financially secure counterparties. Together, the Company's Chief Market Risk Officer, HIMCO Chief Risk Officer and Head of Asset Liability Management have enterprise responsibility for establishing and maintaining the framework, principles, and guidelines of The Hartford's financial risk management program.

Liquidity Risk

Liquidity risk is the risk to current or prospective earnings or capital arising from the company's inability or perceived inability to meet its contractual cash obligations at the legal entity level when they come due over given horizons without incurring unacceptable costs and without relying on uncommitted funding sources. Liquidity risk includes the inability to manage unplanned increases or accelerations in cash outflows, decreases or changes in funding sources, and changes in market conditions that affect the ability to liquidate assets quickly to meet obligations with minimal loss in value. Components of liquidity risk include funding risk, transaction risk and market liquidity risk. Funding risk is the gap between sources and uses of cash under normal and stressed conditions taking into consideration structural, regulatory and legal entity constraints. Changes in institution-specific conditions that affect the Company's ability to sell assets or otherwise transact business without incurring a significant loss in value is transaction risk. Changes in general market conditions that affect the institution's ability to sell assets or otherwise transact business without incurring a significant loss in value is market liquidity risk.

The Company has defined ongoing monitoring and reporting requirements to assess liquidity across the enterprise. The Company measures and manages liquidity risk exposures and funding needs within prescribed limits and across legal entities, business lines and currencies, taking into account legal, regulatory and operational limitations to the transferability of liquidity. The Company also monitors internal and external conditions, identifies material risk changes and emerging risks that may impact liquidity. The Company's CFO has primary responsibility for liquidity risk.

For further discussion on liquidity see the section on Capital Resources and Liquidity.

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Interest Rate Risk

Interest rate risk is the risk of financial loss due to adverse changes in the value of assets and liabilities arising from movements in interest rates. Interest rate risk encompasses exposures with respect to changes in the level of interest rates, the shape of the term structure of rates and the volatility of interest rates. Interest rate risk does not include exposure to changes in credit spreads. The Company has exposure to interest rates arising from its fixed maturity securities, interest sensitive liabilities and discount rate assumptions associated with the Company's pension and other post retirement benefit obligations.

An increase in interest rates from current levels is generally a favorable development for the Company. Interest rate increases are expected to provide additional net investment income, reduce the cost of the variable annuity hedging program, limit the potential risk of margin erosion due to minimum guaranteed crediting rates in certain Talcott Resolution products and, if sustained, could reduce the Company's prospective pension expense. Conversely, if long-term interest rates rise dramatically within a six to twelve month time period, certain Talcott Resolution businesses may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders will surrender their contracts in a rising interest rate environment requiring the Company to liquidate assets in an unrealized loss position. In conjunction with the interest rate risk measurement and management techniques, certain of Talcott Resolution's fixed income product offerings have market value adjustment provisions at contract surrender. An increase in interest rates may also impact the Company's tax planning strategies and in particular its ability to utilize tax benefits to offset certain previously recognized realized capital losses.

A decline in interest rates results in certain mortgage-backed and municipal securities being more susceptible to paydowns and prepayments or calls. During such periods, the Company generally will not be able to reinvest the proceeds at comparable yields. Lower interest rates will also likely result in lower net investment income, increased hedging cost associated with variable annuities and, if declines are sustained for a long period of time, it may subject the Company to reinvestment risks, higher pension costs expense and possibly reduced profit margins associated with guaranteed crediting rates on certain Talcott Resolution products. Conversely, the fair value of the investment portfolio will increase when interest rates decline and the Company's interest expense will be lower on its variable rate debt obligations.

The Company manages its exposure to interest rate risk by constructing investment portfolios that maintain asset allocation limits and asset/liability duration matching targets which may include the use of derivatives. The Company analyzes interest rate risk using various models including parametric models and cash flow simulation under various market scenarios of the liabilities and their supporting investment portfolios, which may include derivative instruments. Measures the Company uses to quantify its exposure to interest rate risk inherent in its invested assets and interest rate sensitive liabilities include duration, convexity and key rate duration. Duration is the price sensitivity of a financial instrument or series of cash flows to a parallel change in the underlying yield curve used to value the financial instrument or series of cash flows. For example, a duration of 5 means the price of the security will change by approximately 5% for a 100 basis point change in interest rates. Convexity is used to approximate how the duration of a security changes as interest rates change in a parallel manner. Key rate duration analysis measures the price sensitivity of a security or series of cash flows to each point along the yield curve and enables the Company to estimate the price change of a security assuming non-parallel interest rate movements.

To calculate duration, convexity, and key rate durations, projections of asset and liability cash flows are discounted to a present value using interest rate assumptions. These cash flows are then revalued at alternative interest rate levels to determine the percentage change in fair value due to an incremental change in the entire yield curve for duration and convexity, or a particular point on the yield curve for key rate duration. Cash flows from corporate obligations are assumed to be consistent with the contractual payment streams on a yield to worst basis. Yield to worst is a basis that represents the lowest potential yield that can be received without the issuer actually defaulting. The primary assumptions used in calculating cash flow projections include expected asset payment streams taking into account prepayment speeds, issuer call options and contract holder behavior. Mortgage-backed and asset-backed securities are modeled based on estimates of the rate of future prepayments of principal over the remaining life of the securities. These estimates are developed by incorporating collateral surveillance and anticipated future market dynamics. Actual prepayment experience may vary from these estimates.

The Company is also exposed to interest rate risk based upon the discount rate assumption associated with the Company's pension and other postretirement benefit obligations. The discount rate assumption is based upon an interest rate yield curve comprised of bonds rated Aa with maturities primarily between zero and thirty years. For further discussion of interest rate risk associated with the benefit obligations, see the Critical Accounting Estimates Section of the MD&A under Pension and Other Postretirement Benefit Obligations and Note 18 of the Notes to Consolidated Financial Statements. In addition, management evaluates performance of certain Talcott Resolution products based on net investment spread which is, in part, influenced by changes in interest rates. For further discussion, see the Talcott Resolution section of the MD&A.

The investments and liabilities primarily associated with interest rate risk are included in the following discussion. Certain product liabilities, including those containing GMWB, GMIB, GMAB, or GMDB, expose the Company to interest rate risk but also have significant equity risk. These liabilities are discussed as part of the Equity Risk section below.

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Fixed Maturity Investments

The Company's investment portfolios primarily consist of investment grade fixed maturity securities. The fair value of these investments was $87.0 billion and $83.1 billion at December 31, 2012 and 2011, respectively. The fair value of these and other invested assets fluctuates depending on the interest rate environment and other general economic conditions. The weighted average duration of the portfolio, including fixed maturities, commercial mortgage loans, derivatives, and cash equivalents, was approximately 5.6 and 5.3 years as of December 31, 2012 and 2011, respectively. As of December 31, 2012, the weighted average duration of the portfolio, excluding the Retirement Plans and Individual Life businesses, is approximately 5.4 years.

Liabilities

The Company's investment contracts and certain insurance product liabilities, other than non-guaranteed separate accounts, include asset accumulation vehicles such as fixed annuities, guaranteed investment contracts, other investment and universal life-type contracts and certain insurance products such as long-term disability.

Asset accumulation vehicles primarily require a fixed rate payment, often for a specified period of time, such as fixed rate annuities with a market value adjustment feature. The term to maturity of these contracts generally range from less than one year to ten years. In addition, certain products such as corporate owned life insurance contracts and the general account portion of Talcott Resolutions's variable annuity products, credit interest to policyholders subject to market conditions and minimum interest rate guarantees. The term to maturity of the asset portfolio supporting these products may range from short to intermediate.

While interest rate risk associated with many of these products has been reduced through the use of market value adjustment features and surrender charges, the primary risk associated with these products is that the spread between investment return and credited rate may not be sufficient to earn targeted returns.

The Company also manages the risk of certain insurance liabilities similarly to investment type products due to the relative predictability of the aggregate cash flow payment streams. Products in this category may contain significant reliance upon actuarial (including mortality and morbidity) pricing assumptions and do have some element of cash flow uncertainty. Product examples include structured settlement contracts, on-benefit annuities (i.e., the annuitant is currently receiving benefits thereon) and short-term and long-term disability contracts. The cash outflows associated with these policy liabilities are not interest rate sensitive but do vary based on the timing and amount of benefit payments. The primary risks associated with these products are that the benefits will exceed expected actuarial pricing and/or that the actual timing of the cash flows will differ from those anticipated, or interest rate levels may deviate from those assumed in product pricing, ultimately resulting in an investment return lower than that assumed in pricing. The average duration of the liability cash flow payments can range from less than one year to in excess of fifteen years.

Derivatives

The Company utilizes a variety of derivative instruments to mitigate interest rate risk associated with its investment portfolio. Interest rate swaps are primarily used to convert interest receipts or payments to a fixed or variable rate. The use of such swaps enables the Company to customize contract terms and conditions to desired objectives and manage the interest rate risk profile within established tolerances. Interest rate swaps are also used to hedge the variability in the cash flow of a forecasted purchase or sale of fixed rate securities due to changes in interest rates. Interest rate caps, floors, swaps, swaptions, and futures may be used to manage portfolio duration.

At December 31, 2012 and 2011, notional amounts pertaining to derivatives utilized to manage interest rate risk totaled $23.9 billion and $19.8 billion, respectively ($23.7 billion and $19.5 billion, respectively, related to investments and $0.2 billion and $0.3 billion, respectively, related to Talcott Resolution liabilities). The fair value of these derivatives was $(281) and $(332) as of December 31, 2012 and 2011, respectively.

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Interest Rate Sensitivity

The before-tax change in the net economic value of investment contracts (e.g., fixed annuity contracts) issued by the Company's Talcott Resolution segment, as well as certain insurance product liabilities (e.g.,