HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
April 29, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from ____________ to ______________

Commission file number 001-13958

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

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

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

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

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

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

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

As of April 24, 2013, there were outstanding 455,888,708 shares of Common Stock, $0.01 par value per share, of the registrant.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013
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Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “projects,” and similar references to future per Forward-looking statements are based on our current expectations and assumptions regarding economic, competitive, legislative and other developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They have been made based upon management’s expectations and beliefs concerning future developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the “Company” or “The Hartford”). Future developments may not be in line with management’s expectations or may have unanticipated effects. Actual results could differ materially from expectations, depending on the evolution of various factors, including those set forth in Part I, Item 1A, Risk Factors in The Hartford’s 2012 Form 10-K Annual Report. 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 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 runoff annuity block;
- the future capital self-sufficiency of the Company's Talcott Resolution businesses;
- market risks associated with our business, including changes in interest rates, credit spreads, equity prices, market volatility and foreign exchange rates, and implied volatility levels, as well as continuing uncertainty in key sectors such as the global real estate market;
- the possibility of unfavorable loss development including with respect to long-tailed exposures;
- the possibility of a pandemic, earthquake, or other natural or man-made disaster that may adversely affect our businesses;
- weather and other natural physical events, including the severity and frequency of storms, hail, winter storms, hurricanes and tropical storms, as well as climate change and its potential impact on weather patterns;
- risk associated with the use of analytical models in making decisions in key areas such as underwriting, capital, hedging, reserving, and catastrophe risk management;
- the uncertain effects of emerging claim and coverage issues;
- the Company’s ability to effectively price its property and casualty policies, including its ability to obtain regulatory consents to pricing actions or to non-renewal or withdrawal of certain product lines;
- the impact on our statutory capital of various factors, including many that are outside the Company’s control, which can in turn affect our credit and financial strength ratings, cost of capital, regulatory compliance and other aspects of our business and results;
- risks to our business, financial position, prospects and results associated with negative rating actions or downgrades in the Company’s financial strength and credit ratings or negative rating actions or downgrades relating to our investments;
- the impact on our investment portfolio if our investment portfolio is concentrated in any particular segment of the economy;
- volatility in our 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;
- the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;

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- 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;
- the Company's ability to implement its capital plan; and
- other factors described in such forward-looking statements.

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

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

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the "Company") as of March 31, 2013, and the related condensed consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the three-month periods ended March 31, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2013 (which report includes an explanatory paragraph relating to the Company's change in its method of accounting and reporting for costs associated with acquiring or renewing insurance contracts as required by accounting guidance adopted in 2012), we expressed an unqualified opinion on those consolidated financial statements.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
April 29, 2013

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

(In millions, except for per share data)	Three months ended March 31, 2013	2012
	(Unaudited)	
Revenues		
Earned premiums	$3,252	$3,442
Fee income	707	1,134
Net investment income:		
Securities available-for-sale and other	856	1,070
Equity securities, trading	2,700	2,866
Total net investment income	3,556	3,936
Net realized capital gains (losses):		
Total other-than-temporary impairment (“OTTI”) losses	(33)	(36)
OTTI losses recognized in other comprehensive income (“OCI”)	12	7
Net OTTI losses recognized in earnings	(21)	(29)
Net realized capital gains on business dispositions	1,574	—
Other net realized capital gains (losses)	42	(881)
Total net realized capital gains (losses)	1,595	(910)
Other revenues	68	59
Total revenues	9,178	7,661
Benefits, losses and expenses		
Benefits, losses and loss adjustment expenses	2,665	3,038
Benefits, losses and loss adjustment expenses – returns credited on international variable annuities	2,700	2,864
Amortization of deferred policy acquisition costs and present value of future profits	1,336	321
Insurance operating costs and other expenses	1,032	1,312
Loss on extinguishment of debt	213	—
Reinsurance loss on dispositions	1,574	—
Interest expense	107	124
Total benefits, losses and expenses	9,627	7,659
Income (loss) from continuing operations before income taxes	(449)	2
Income tax benefit	(208)	(95)
Income (loss) from continuing operations, net of tax	(241)	97
Income (loss) from discontinued operations, net of tax	—	(1)
Net income (loss)	$(241)	$96
Preferred stock dividends	10	10
Net income (loss) available to common shareholders	$(251)	$86
Income (loss) from continuing operations, net of tax, available to common shareholders per common share		
Basic	$(0.58)	$0.20
Diluted	$(0.58)	$0.19
Net income (loss) available to common shareholders per common share		
Basic	$(0.58)	$0.20
Diluted	$(0.58)	$0.18

Cash dividends declared per common share	$0.10	$0.10

See Notes to Condensed Consolidated Financial Statements.

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

(In millions)	Three months ended March 31, 2013	2012
	(Unaudited)	
Comprehensive Income (Loss)		
Net income (loss)	$(241)	$96
Other comprehensive income (loss):		
Change in net unrealized gain on securities	(889)	241
Change in OTTI losses recognized in other comprehensive income	15	(8)
Change in net gain (loss) on cash-flow hedging instruments	(108)	(53)
Change in foreign currency translation adjustments	(220)	(136)
Change in pension and other postretirement plan adjustments	8	33
Total other comprehensive income (loss)	(1,194)	77
Total comprehensive income (loss)	$(1,435)	$173

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Balance Sheets

(In millions, except for share and per share data)	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $65,621 and $79,747) (includes variable interest entity assets, at fair value, of $59 and $89)	$69,667	$85,922
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $153 and $163)	982	1,087
Equity securities, trading, at fair value (cost of $23,751 and $26,820)	28,099	28,933
Equity securities, available-for-sale, at fair value (cost of $792 and $866)	862	890
Mortgage loans (net of allowances for loan losses of $68 and $68)	5,229	6,711
Policy loans, at outstanding balance	1,421	1,997
Limited partnerships and other alternative investments (includes variable interest entity assets of $4 and $6)	3,058	3,015
Other investments	1,108	1,114
Short-term investments (includes variable interest entity assets, at fair value, of $10 as of March 31, 2013)	4,412	4,581
Total investments	114,838	134,250
Cash	1,985	2,421
Premiums receivable and agents' balances, net	3,584	3,542
Reinsurance recoverables, net	22,395	4,666
Deferred policy acquisition costs and present value of future profits	2,431	5,725
Deferred income taxes, net	2,667	1,942
Goodwill	498	654
Property and equipment, net	921	977
Other assets	2,551	2,767
Separate account assets	145,151	141,569
Total assets	$297,021	$298,513
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,681	$40,992
Other policyholder funds and benefits payable	41,044	41,979
Other policyholder funds and benefits payable – international variable annuities	28,088	28,922
Unearned premiums	5,307	5,145
Debt	6,327	7,126
Consumer notes	132	161
Other liabilities (includes variable interest entity liabilities of $56 and $89)	8,371	10,172
Separate account liabilities	145,151	141,569
Total liabilities	276,101	276,066
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, $0.01 par value — 50,000,000 shares authorized, 575,000 shares issued, liquidation preference $1,000 per share	556	556
Common stock, $0.01 par value — 1,500,000,000 shares authorized, 469,744,822 shares issued as of March 31, 2013 and December 31, 2012	5	5
Additional paid-in capital	9,993	10,038

Retained earnings	10,449	10,745
Treasury stock, at cost — 34,409,177 and 33,439,044 shares	(1,732)	(1,740)
Accumulated other comprehensive income, net of tax	1,649	2,843
Total stockholders' equity	20,920	22,447
Total liabilities and stockholders' equity	$297,021	$298,513

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity

(In millions, except for share data)	Three months ended March 31, 2013 (Unaudited)	2012
Preferred Stock	$556	$556
Common Stock	5	5
Additional Paid-in Capital, beginning of period	10,038	10,391
Repurchase of warrants	(3)	(300)
Issuance of shares under incentive and stock compensation plans	(42)	(58)
Tax expense on employee stock options and awards	—	(2)
Additional Paid-in Capital, end of period	9,993	10,031
Retained Earnings, beginning of period	10,745	11,001
Net income (loss)	(241)	96
Dividends on preferred stock	(10)	(10)
Dividends declared on common stock	(45)	(45)
Retained Earnings, end of period	10,449	11,042
Treasury Stock, at Cost, beginning of period	(1,740)	(1,718)
Treasury stock acquired	(45)	(42)
Issuance of shares under incentive and stock compensation plans from treasury stock	60	79
Return of shares under incentive and stock compensation plans and other to treasury stock	(7)	(7)
Treasury Stock, at Cost, end of period	(1,732)	(1,688)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	2,843	1,251
Total other comprehensive income	(1,194)	77
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	1,649	1,328
Total Stockholders' Equity	$20,920	$21,274
Preferred Shares Outstanding (in thousands)	575	575
Common Shares Outstanding, at beginning of period (in thousands)	436,306	442,539
Treasury stock acquired	(1,765)	(2,550)
Issuance of shares under incentive and stock compensation plans	1,079	1,202
Return of shares under incentive and stock compensation plans and other to treasury stock	(284)	(326)
Common Shares Outstanding, at end of period	435,336	440,865

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(In millions)	2013	2012
	(Unaudited)	
Operating Activities		
Net income (loss)	$(241)	$96
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	1,336	321
Additions to deferred policy acquisition costs and present value of future profits	(332)	(439)
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	(346)	(624)
Change in reinsurance recoverables	(30)	(14)
Change in receivables and other assets	(123)	(474)
Change in payables and accruals	(84)	1,184
Change in accrued and deferred income taxes	(51)	121
Net realized capital (gains) losses	(1,595)	910
Net receipts (disbursements) from investment contracts related to policyholder funds—international variable annuities	(834)	216
Net (increase) decrease in equity securities, trading	834	(223)
Depreciation and amortization	52	98
Loss on extinguishment of debt	213	—
Reinsurance loss on dispositions	1,574	—
Other operating activities, net	(187)	(32)
Net cash provided by operating activities	186	1,140
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	9,189	14,442
Fixed maturities, fair value option	49	12
Equity securities, available-for-sale	89	59
Mortgage loans	161	112
Partnerships	147	43
Payments for the purchase of:		
Fixed maturities, available-for-sale	(8,770)	(13,048)
Fixed maturities, fair value option	(31)	—
Equity securities, available-for-sale	(46)	(18)
Mortgage loans	(30)	(660)
Partnerships	(164)	(319)
Proceeds from business sold (excluding $485 of non-cash proceeds)	485	—
Derivatives, net	(776)	(2,017)
Change in policy loans, net	(6)	31
Other investing activities, net	10	(4)
Net cash provided by (used for) investing activities	307	(1,367)
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	2,502	3,623
Withdrawals and other deductions from investment and universal life-type contracts	(6,763)	(5,963)
Net transfers from separate accounts related to investment and universal life-type contracts	4,082	2,218
Repayments at maturity or settlement of consumer notes	(29)	(4)

Net increase (decrease) in securities loaned or sold under agreements to repurchase	472	—
Repurchase of warrants	(3)	—
Repayment of long-term debt	(1,018)	—
Proceeds from net issuance of shares under incentive and stock compensation plans, excess tax benefit and other	(5)	(4)
Treasury stock acquired	(35)	(48)
Dividends paid on preferred stock	(11)	(11)
Dividends paid on common stock	(44)	(44)
Net cash used for financing activities	(852)	(233)
Foreign exchange rate effect on cash	(77)	(62)
Net decrease in cash	(436)	(522)
Cash – beginning of period	2,421	2,581
Cash – end of period	$1,985	$2,059
Supplemental Disclosure of Cash Flow Information		
Income taxes paid (received)	$21	$(548)
Interest paid	$85	$89

See Notes to Condensed Consolidated Financial Statements

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

1. Basis of Presentation and Significant Accounting Policies

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

On January 1, 2013, the Company completed the sale of its Retirement Plans business to Massachusetts Mutual Life Insurance Company ("MassMutual") and on January 2, 2013 the Company completed the sale of its Individual Life insurance business to The Prudential Insurance Company of America ("Prudential"), a subsidiary of Prudential Financial, Inc. For further discussion of these and other such transactions, see Note 2 - Business Dispositions of the Notes to Consolidated Financial Statements.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, which differ materially from the accounting practices prescribed by various insurance regulatory authorities. These Condensed Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's 2012 Form 10-K Annual Report. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

The accompanying Condensed Consolidated Financial Statements and Notes as of March 31, 2013, and for the three months ended March 31, 2013 and 2012 are unaudited. These financial statements reflect all adjustments (generally consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The Company's significant accounting policies are summarized in Notes to Consolidated Financial Statements included in the Company's 2012 Form 10-K Annual Report.

Consolidation

The Condensed Consolidated Financial Statements include the accounts of The Hartford Financial Services Group, Inc., companies in which the Company directly or indirectly has a controlling financial interest and those variable interest entities (“VIEs”) in which the Company is required to consolidate. Entities in which the Company has significant influence over the operating and financing decisions but are not required to consolidate are reported using the equity method. Material intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated. For further information on VIEs see Note 6 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Discontinued Operations

The results of operations of a component of the Company that either has been disposed of or is classified as held-for-sale are reported in discontinued operations if the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the Company as a result of the disposal transaction and the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction.

The Company is presenting the operations of certain businesses that meet the criteria for reporting as discontinued operations. Amounts for prior periods have been retrospectively reclassified. For information on the specific businesses and related impacts, see Note 14 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

Use of Estimates

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

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

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

1. Basis of Presentation and Accounting Policies (continued)
Mutual Funds
The Company maintains a retail mutual fund operation whereby the Company provides investment management, administrative and distribution services to The Hartford Mutual Funds, Inc. and The Hartford Mutual Funds II, Inc. (collectively, “mutual funds”). These mutual funds are registered with the Securities and Exchange Commission (“SEC”) under the Investment Company Act of 1940. The mutual funds are owned by the shareholders of those funds and not by the Company. As such, the mutual fund assets and liabilities and related investment returns are not reflected in the Company’s Condensed Consolidated Financial Statements since they are not assets, liabilities and operations of the Company.
Income Taxes

A reconciliation of the tax provision at the U.S. Federal statutory rate to the provision for income taxes is as follows:

	Three Months Ended March 31,	
	2013	2012
Tax expense (benefit) at U.S. Federal statutory rate	$(157)	$1
Tax-exempt interest	(34)	(36)
Dividends-received deduction	(32)	(33)
Valuation allowance	(7)	(20)
Other [1]	22	(7)
Income tax benefit	$(208)	$(95)

[1] Includes a permanent difference of $25 related to non-deductible goodwill for the three months ended March 31, 2013.

The separate account dividends-received deduction (“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 distribution 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 evaluates its DRD computations on a quarterly basis.
The Company’s $48 unrecognized tax benefits were unchanged for the three months ended March 31, 2013. This entire amount, if it were recognized, would affect the effective tax rate in the period it is released.
The Company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years prior to 2007. The audit of the years 2007-2009 commenced during 2010 and is expected to conclude in the second quarter of 2014. The 2010-2011 audit commenced in the fourth quarter of 2012 and is expected to conclude by the end of 2014. Management believes that adequate provision has been made in the financial statements for any potential assessments that may result from tax examinations and other tax-related matters for all open tax years.
The Company 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, relating mostly to foreign net operating losses, was $51 as of March 31, 2013 and $58 as of December 31, 2012. 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, 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 will implement them, if necessary, to realize the deferred tax asset. Future economic conditions and debt market volatility, including increases in interest rates, can adversely impact the Company's tax planning strategies and in particular the Company's ability to utilize tax benefits on previously recognized realized capital losses.

Reclassifications

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

2. Business Dispositions

Sale of Retirement Plans

On January 1, 2013, the Company completed the sale of its Retirement Plans business to MassMutual for a ceding commission of $355. The business sold included products and services provided to corporations pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), and products and services provided to municipalities and not-for-profit organizations under Sections 457 and 403(b) of the Code, collectively referred to as government plans. The sale was structured as a reinsurance transaction and resulted in an after-tax loss of $25 in the first quarter of 2013. The after-tax loss is primarily driven by the reduction in goodwill that is non-deductible for income tax purposes. The Company recognized $634 in reinsurance loss on disposition offset by $634 in net realized capital gains for a $0 impact on income, pre-tax. These amounts are subject to change pending final determination of the value of net assets sold, transaction costs and other adjustments.

Upon closing, in the first quarter of 2013 the Company reinsured $9.2 billion of policyholder liabilities and $26.3 billion of separate account liabilities under an indemnity reinsurance arrangement. The reinsurance transaction does not extinguish the Company's primary liability on the insurance policies issued under the Retirement Plans business. The Company also transferred invested assets with a carrying value of $9.3 billion, net of the ceding commission, to MassMutual and recognized other non-cash decreases in assets totaling $200 relating to deferred acquisition costs, deferred income taxes, goodwill, property and equipment and other assets associated with the disposition. The Company will continue to sell retirement plans during a transition period of 18-24 months and MassMutual will assume all expenses and risk for these sales through the reinsurance agreement.

The Retirement Plans business is included in the Talcott Resolution reporting segment. For the three months ended March 31, 2012, Retirement Plans total revenues were $211 and net income was $18.

Sale of Individual Life

On January 2, 2013 the Company completed the sale of its Individual Life insurance business to Prudential for consideration of $615 consisting primarily of a ceding commission. The business sold included variable universal life, universal life, and term life insurance. The sale was structured as a reinsurance transaction and resulted in a loss on business disposition consisting of a reinsurance loss partially offset by realized capital gains. In 2012, the Company recognized a reinsurance loss on business disposition of $533, pre-tax, which included a goodwill impairment charge of $342 and a loss accrual for premium deficiency of $191. The loss accrual of $191 is included in other liabilities as of December 31, 2012. For additional information, see Note 2 - Business Dispositions and Note 9 - Goodwill and Other Intangible Assets in The Hartford's 2012 Annual Report on Form 10-K . Upon closing, in the first quarter of 2013 the Company recognized an additional $940 in reinsurance loss on disposition offset by $940 in realized capital gains for a $0 impact on income, pre-tax. These amounts are subject to change pending final determination of the value of net assets sold, transaction costs and other adjustments.

Upon closing, in the first quarter of 2013 the Company reinsured $8.7 billion of policyholder liabilities and $5.3 billion of separate account liabilities under indemnity reinsurance arrangements. The reinsurance transaction does not extinguish the Company's primary liability on the insurance policies issued under the Individual Life business. The Company also transferred invested assets with a carrying value of $8.0 billion, exclusive of $1.4 billion of assets supporting the modified coinsurance agreement, net of cash transferred in place of short-term investments, to Prudential and recognized other non-cash decreases in assets totaling $1.8 billion relating to deferred acquisition costs, deferred income taxes, property and equipment and other assets and other non-cash decreases in liabilities totaling $1.5 billion relating to other liabilities including the $191 loss accrual for premium deficiency, associated with the disposition. The Company will continue to sell life insurance products and riders during a transition period of 18-24 months and Prudential will assume all expenses and risk for these sales through the reinsurance agreement.

The Individual Life business is included in the Talcott Resolution reporting segment. For the three months ended March 31, 2012, Individual Life total revenues were $348 and net income was $19.

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

2. Business Dispositions (continued)

Composition of Invested Assets Transferred

The following table presents invested assets transferred by the Company in connection with the sale of the Retirement Plans and Individual Life businesses in January 2013.

	As of Closing Carrying Value
Asset-backed securities ("ABS")	$ 289
Collaterialized debt obligations ("CDOs") [1]	474
Commercial mortgage-backed securities ("CMBS")	949
Corporate	11,651
Foreign government/government agencies	263
States, municipalities and political subdivisions ("Municipal")	900
Residential mortgage-backed securities ("RMBS")	707
U.S. Treasuries	116
Total fixed maturities, available-for-sale ("AFS") at fair value (amortized cost of $13,916) [2]	15,349
Equity securities, AFS, at fair value (cost of $35) [3]	37
Fixed maturities, at fair value using the fair value option ("FVO") [4]	16
Mortgage loans (net of allowances for loan losses of $1)	1,364
Policy loans, at outstanding balance	582
Total invested assets transferred	$ 17,348

[1] The market value includes the fair value of bifurcated embedded derivative features of certain securities. Changes in fair value are recorded in the net realized capital gains (losses).

[2] Includes $14.7 billion and $670 of securities in level 2 and 3 of the fair value hierarchy, respectively.

[3] All equity securities transferred are included in level 2 of the fair value hierarchy.

[4] All FVO securities transferred are included in level 3 of the fair value hierarchy.

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

3. Earnings (Loss) Per Common Share

The following table presents a reconciliation of net income and shares used in calculating basic earnings (loss) per common share to those used in calculating diluted earnings (loss) per common share.

(In millions, except for per share data)	Three months ended March 31, 2013	2012
Earnings		
Income (loss) from continuing operations		
Income (loss) from continuing operations, net of tax	$(241)	$97
Less: Preferred stock dividends	10	10
Income (loss) from continuing operations, net of tax, available to common shareholders	(251)	87
Add: Dilutive effect of preferred stock dividends	—	—
Income (loss) from continuing operations, net of tax, available to common shareholders and assumed conversion of preferred shares	$(251)	$87
Income (loss) from discontinued operations, net of tax	$—	$(1)
Net income (loss)		
Net income (loss)	$(241)	$96
Less: Preferred stock dividends	10	10
Net income (loss) available to common shareholders	(251)	86
Add: Dilutive effect of preferred stock dividends	—	—
Net income (loss) available to common shareholders and assumed conversion of preferred shares	$(251)	$86
Shares		
Weighted average common shares outstanding, basic	436.3	440.7
Dilutive effect of warrants	—	26.4
Dilutive effect of stock compensation plans	—	1.9
Dilutive effect of mandatory convertible preferred shares	—	—
Weighted average shares outstanding and dilutive potential common shares	436.3	469.0
Earnings (loss) per common share		
Basic		
Income (loss) from continuing operations, net of tax, available to common shareholders	$(0.58)	$0.20
Income (loss) from discontinued operations, net of tax	—	—
Net income (loss) available to common shareholders	$(0.58)	$0.20
Diluted		
Income (loss) from continuing operations, net of tax, available to common shareholders	$(0.58)	$0.19
Income (loss) from discontinued operations, net of tax	—	(0.01)
Net income (loss) available to common shareholders	$(0.58)	$0.18

As a result of the losses available to common shareholders for the three months ended March 31, 2013, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of shares for warrants of 31.7 million, stock compensation plans of 3.9 million and mandatory convertible preferred shares, along with the related dividend adjustment, of 21.2 million, would have been antidilutive to the earnings (loss) per share calculations. In the absence of the losses, weighted average common shares outstanding and dilutive potential common shares would have totaled 493.1 million.

For the three months ended March 31, 2012, 20.9 million shares, respectively, for mandatory convertible preferred shares, along with the related dividend adjustment, would have been antidilutive to the earnings per share calculations. Assuming the impact of the mandatory convertible preferred shares was not antidilutive, weighted average common

shares outstanding and dilutive potential common shares would have totaled 489.9 million.
The declaration of a quarterly common stock dividend of $0.10 during the first quarter of 2013 triggered a provision in The Hartford’s Warrant Agreement with The Bank of New York Mellon, relating to warrants to purchase common stock issued in connection with the Company’s participation in the Capital Purchase Program, resulting in an adjustment to the warrant exercise price. The warrant exercise price at March 31, 2013 was $9.579.
In addition, the declaration of a quarterly common stock dividend in the first quarter of 2013 triggered a provision in The Hartford’s Fixed Conversion Rate Agreement, relating to the Company’s mandatory convertible preferred stock, resulting in an adjustment to the minimum conversion rate to 30.1920 from 29.8831 shares of Common Stock per share of Series F Preferred Stock and the maximum conversion rate to 36.8365 from 36.4596 shares of Common Stock per share of Series F Preferred Stock. On April 1, 2013 the mandatory convertible preferred stock converted to 21.2 million shares of common stock.

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

4. Segment Information
The Company currently conducts business principally in six reporting segments, as well as a Corporate category. Historical financial results for the Individual Life and Retirement Plans businesses sold in the first quarter of 2013 have been reported in the Talcott Resolution reporting segment.
The Company's reporting segments, as well as the Corporate category, are as follows:
Property & Casualty Commercial
Property & Casualty Commercial provides workers' compensation, property, automobile, marine, livestock, liability and umbrella coverages primarily throughout the United States ("U.S."), along with a variety of customized insurance products and risk management services including professional liability, fidelity, surety, and specialty casualty coverages.
Consumer Markets
Consumer Markets provides standard automobile, homeowners and home-based business coverages to individuals across the U.S., including a special program designed exclusively for members of AARP. Consumer Markets also operates a member contact center for health insurance products offered through the AARP Health program.
Property & Casualty Other Operations
Property & Casualty Other Operations includes certain property and casualty operations, currently managed by the Company, that have discontinued writing new business and substantially all of the Company's asbestos and environmental exposures.
Group Benefits
Group Benefits provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, and group retiree health.
Mutual Funds
Mutual Funds offers mutual funds for retail accounts such as retirement plans and 529 college savings plans and provides investment-management and administrative services such as product design, implementation and oversight.
Talcott Resolution
Talcott Resolution is comprised of runoff business from the Company's U.S. annuity, international (primarily in Japan and Europe) annuity, and institutional and private-placement life insurance businesses, as well as the Retirement Plans and Individual Life businesses that were sold in the first quarter of 2013. For information regarding the sale of these businesses, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.
Corporate
The Company includes in the Corporate category the Company's debt financing and related interest expense, as well as other capital raising activities; and certain purchase accounting adjustments and other charges not allocated to the segments.
Financial Measures and Other Segment Information
Certain transactions between segments occur during the year that primarily relate to tax settlements, insurance coverage, expense reimbursements, services provided, security transfers and capital contributions. Also, one segment may purchase group annuity contracts from another to fund pension costs and annuities to settle casualty claims. In addition, certain inter-segment transactions occur that relate to interest income on allocated surplus. Consolidated net investment income is unaffected by such transactions.
The following table presents net income (loss) for each reporting segment, as well as the Corporate category.

	Three Months Ended March 31,	
Net income (loss)	2013	2012
Property & Casualty Commercial	$253	$189
Consumer Markets	77	108

Property & Casualty Other Operations	21	27
Group Benefits	42	18
Mutual Funds	18	20
Talcott Resolution	(294)	(170)
Corporate	(358)	(96)
Net income (loss)	$(241)	$96

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4. Segment Information (continued)

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

	Three Months Ended March 31,	
Revenues	2013	2012
Earned premiums, fees, and other considerations		
Property & Casualty Commercial		
Workers' compensation	$733	$733
Property	125	125
Automobile	144	146
Package business	281	292
Liability	138	141
Fidelity and surety	49	52
Professional liability	59	68
Total Property & Casualty Commercial	1,529	1,557
Consumer Markets		
Automobile	619	632
Homeowners	277	277
Total Consumer Markets [1]	896	909
Property & Casualty Other Operations	—	—
Group Benefits		
Group disability	359	443
Group life	426	479
Other	41	50
Total Group Benefits	826	972
Mutual Funds		
Retail	129	123
Annuity and other	35	28
Total Mutual Funds	164	151
Talcott Resolution	541	935
Corporate	3	52
Total earned premiums, fees, and other considerations	3,959	4,576
Net investment income (loss):		
Securities available-for-sale and other	856	1,070
Equity securities, trading	2,700	2,866
Total net investment income	3,556	3,936
Net realized capital gains (losses)	1,595	(910)
Other revenues	68	59
Total revenues	$9,178	$7,661

[1] For the three months ended March 31, 2013 and 2012, AARP members accounted for earned premiums of $662 and $676, respectively.

5. Fair Value Measurements

The following section applies the fair value hierarchy and disclosure requirements for the Company's financial instruments that are carried at fair value. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2 or 3).

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

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. Transfers of securities among the levels occur at the beginning of the reporting period. As of March 31, 2013 and 2012, the amount of transfers from Level 1 to Level 2 was $115 and $138, respectively, which represented previously on-the-run U.S. Treasury securities that are now off-the-run, and there were no transfers from Level 2 to Level 1. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs. The Company's fixed maturities included in Level 3 are classified as such because these securities are primarily priced by independent brokers and/or within illiquid markets.

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

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

5. Fair Value Measurements (continued)

	March 31, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
ABS	$2,422	$—	$2,147	$275
CDO	2,558	—	1,757	801
CMBS	5,205	—	4,365	840
Corporate	31,468	—	29,746	1,722
Foreign government/government agencies	3,927	—	3,876	51
Municipal	13,238	—	13,087	151
RMBS	6,716	—	5,436	1,280
U.S. Treasuries	4,133	350	3,783	—
Total fixed maturities	69,667	350	64,197	5,120
Fixed maturities, FVO	982	—	766	216
Equity securities, trading	28,099	1,773	26,326	—
Equity securities, AFS	862	340	437	85
Derivative assets				
Credit derivatives	24	—	9	15
Equity derivatives	12	—	—	12
Foreign exchange derivatives	(109)	—	(109)	—
Interest rate derivatives	178	—	175	3
U.S. guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	242	—	17	225
U.S. macro hedge program	208	—	—	208
International program hedging instruments	469	—	407	62
Other derivative contracts	22	—	—	22
Total derivative assets [1]	1,046	—	499	547
Short-term investments	4,412	374	4,038	—
Limited partnerships and other alternative investments [2]	928	—	591	337
Reinsurance recoverable for U.S. GMWB	139	—	—	139
Modified coinsurance reinsurance contracts	5	—	5	—
Separate account assets [3]	140,557	101,725	38,009	823
Total assets accounted for at fair value on a recurring basis	$246,697	$104,562	$134,868	$7,267
Percentage of level to total	100 %	42 %	55 %	3 %
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
U.S guaranteed withdrawal benefits	$(795)	$—	$—	$(795)
International guaranteed withdrawal benefits	(34)	—	—	(34)
International other guaranteed living benefits	4	—	—	4

Equity linked notes	(10)	—	—	(10)
Total other policyholder funds and benefits payable	(835)	—	—	(835)
Derivative liabilities				
Credit derivatives	(1)	—	8	(9)
Equity derivatives	20	—	—	20
Foreign exchange derivatives	(44)	—	(44)	—
Interest rate derivatives	(541)	—	(512)	(29)
U.S. GMWB hedging instruments	104	—	—	104
U.S. macro hedge program	35	—	—	35
International program hedging instruments	(94)	—	13	(107)
Total derivative liabilities [4]	(521)	—	(535)	14
Consumer notes [5]	(2)	—	—	(2)
Total liabilities accounted for at fair value on a recurring basis	$(1,358)	$—	$(535)	$(823)

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5. Fair Value Measurements (continued)

	December 31, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
ABS	$2,763	$—	$2,485	$278
CDOs	3,040	—	2,096	944
CMBS	6,321	—	5,462	859
Corporate	44,049	—	42,048	2,001
Foreign government/government agencies	4,136	—	4,080	56
Municipal	14,361	—	14,134	227
RMBS	7,480	—	6,107	1,373
U.S. Treasuries	3,772	115	3,657	—
Total fixed maturities	85,922	115	80,069	5,738
Fixed maturities, FVO	1,087	8	865	214
Equity securities, trading	28,933	1,847	27,086	—
Equity securities, AFS	890	337	469	84
Derivative assets				
Credit derivatives	(19)	—	(8)	(11)
Equity derivatives	32	—	—	32
Foreign exchange derivatives	104	—	104	—
Interest rate derivatives	235	—	268	(33)
U.S. GMWB hedging instruments	36	—	(53)	89
U.S. macro hedge program	186	—	—	186
International program hedging instruments	448	—	318	130
Other derivative contracts	23	—	—	23
Total derivative assets [1]	1,045	—	629	416
Short-term investments	4,581	342	4,239	—
Limited partnerships and otheralternative investments [2]	907	—	593	314
Reinsurance recoverable for U.S. GMWB	191	—	—	191
Separate account assets [3]	138,509	97,988	39,938	583
Total assets accounted for at fair value on a recurring basis	$262,065	$100,637	$153,888	$7,540
Percentage of level to total	100%	38%	59%	3%

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

5. Fair Value Measurements (continued)

	December 31, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
U.S guaranteed withdrawal benefits	$(1,249)	$—	$—	$(1,249)
International guaranteed withdrawal benefits	(50)	—	—	(50)
International other guaranteed living benefits	2	—	—	2
Equity linked notes	(7)	—	—	(7)
Total other policyholder funds and benefits payable	(1,304)	—	—	(1,304)
Derivative liabilities				
Credit derivatives	(18)	—	(33)	15
Equity derivatives	25	—	—	25
Foreign exchange derivatives	(24)	—	(24)	—
Interest rate derivatives	(517)	—	(518)	1
U.S. GMWB hedging instruments	536	—	106	430
U.S Macro hedge program	100	—	—	100
International program hedging instruments	(279)	—	(217)	(62)
Total derivative liabilities [4]	(177)	—	(686)	509
Consumer notes [5]	(2)	—	—	(2)
Total liabilities accounted for at fair value on a recurring basis	$(1,483)	$—	$(686)	$(797)

[1] Includes over-the-counter derivative instruments in a net asset value position which may require the counterparty to pledge collateral to the Company. As of March 31, 2013 and December 31, 2012, $357 and $160, respectively, of cash collateral liability was netted against the derivative asset value in the Condensed Consolidated Balance Sheet and is excluded from the table above. See footnote 3 below for derivative liabilities.

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

[3] Approximately $4.6 billion and $3.1 billion of investment sales receivable that are not subject to fair value accounting are excluded as of March 31, 2013 and December 31, 2012, respectively.

[4] Includes over-the-counter derivative instruments in a net negative market value position (derivative liability). In the Level 3 roll-forward table included below in this Note 4, the derivative asset and liability are referred to as “freestanding derivatives” and are presented on a net basis.

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

Determination of Fair Values

The valuation methodologies used to determine the fair values of assets and liabilities under the “exit price” notion, reflect market-participant objectives and are based on the application of the fair value hierarchy that prioritizes relevant observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices where available and where prices represent a reasonable estimate of fair value. The Company also determines fair value based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company’s default spreads, liquidity and, where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments listed in the above tables. The fair value process is monitored by the Valuation Committee, which is a cross-functional group of senior management within the Company that meets at least quarterly. The Valuation Committee is co-chaired by the Heads of Investment Operations and Accounting and has representation from various investment sector professionals, accounting, operations, legal, compliance and risk management. The purpose of the committee is to oversee the pricing policy and procedures by ensuring objective and reliable valuation practices and pricing of financial instruments, as well as addressing fair valuation issues and approving changes to valuation methodologies and pricing sources. There is also a Fair Value Working Group ("Working Group") which includes the Heads of Investment Operations and Accounting, as well as other investment, operations, accounting and risk management professionals that meet monthly to review market data trends, pricing and trading statistics and results, and any proposed pricing methodology changes described in more detail in the following paragraphs.

5. Fair Value Measurements (continued)

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

The fair value of AFS securities, fixed maturities, FVO, equity securities, trading, and short-term investments in an active and orderly market (e.g. not distressed or forced liquidation) are determined by management after considering one of three primary sources of information: third-party pricing services, independent broker quotations or pricing matrices. Security pricing is applied using a “waterfall” approach whereby publicly available prices are first sought from third-party pricing services, 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 from recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recently reported trades, the third-party pricing services and independent brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of ABS and RMBS are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Actual prepayment experience may vary from these estimates.

Prices from third-party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

A pricing matrix is used to price private placement securities for which the Company is unable to obtain a price from a third-party pricing service by discounting the expected future cash flows from the security by a developed market discount rate utilizing current credit spreads. Credit spreads are developed each month using market based data for public securities adjusted for credit spread differentials between public and private securities which are obtained from a survey of multiple private placement brokers. The appropriate credit spreads determined through this survey approach are based upon the issuer’s financial strength and term to maturity, utilizing an independent public security index and trade information and adjusting for the non-public nature of the securities.

The Working Group performs ongoing analysis of the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. As a part of this analysis, the Company considers trading volume, new issuance activity and other factors to determine whether the market activity is significantly different than normal activity in an active market, and if so, whether transactions may not be orderly considering the weight of available evidence. If the available evidence indicates that pricing is based upon transactions that are stale or not orderly, the Company places little, if any, weight on the transaction price and will estimate fair value utilizing an internal pricing model. In addition, the Company ensures that prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines that there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly and approved by the Valuation Committee. The Company’s internal pricing model utilizes the Company’s best estimate of expected future cash flows discounted at a rate of return that a market participant would require. The significant inputs to the model include, but are not limited to, current market inputs, such as credit loss assumptions, estimated prepayment speeds and market risk premiums.

The Company conducts other specific activities to monitor controls around pricing. Daily analyses identify price changes over 3-5%, sale trade prices that differ over 3% from the prior day's price and purchase trade prices that differ more than 3% from the current day's price. Weekly analyses identify prices that differ more than 5% from published bond prices of a corporate bond index. Monthly analyses identify price changes over 3%, prices that haven't changed and missing prices. Also on a monthly basis, a second source validation is performed on most sectors. Analyses are conducted by a dedicated pricing unit that follows up with trading and investment sector professionals and challenges prices with vendors when the estimated assumptions used differ from what the Company feels a market participant would use. Any changes from the identified pricing source are verified by further confirmation of assumptions used. Examples of other procedures performed include, but are not limited to, initial and on-going review of third-party pricing services' methodologies, review of pricing statistics and trends and back testing recent trades.

The Company has analyzed the third-party pricing services' valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Most prices provided by third-party pricing services are classified into Level 2 because the inputs used in pricing the securities are market observable. Due to a general lack of transparency in the process that brokers use to develop prices, most valuations that are based on brokers' prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated with observable market data.

5. Fair Value Measurements (continued)

Derivative Instruments, including embedded derivatives within investments

Derivative instruments are fair valued using pricing valuation models that utilize independent market data inputs, quoted market prices for exchange-traded derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of March 31, 2013 and December 31, 2012, 95% and 97%, respectively, of derivatives, based upon notional values, were priced by valuation models or quoted market prices. The remaining derivatives were priced by broker quotations.

The Company performs various controls on derivative valuations which include both quantitative and qualitative analysis. Analyses are conducted by a dedicated derivative pricing team that works directly with investment sector professionals to analyze impacts of changes in the market environment and investigate variances. There is a monthly analysis to identify market value changes greater than pre-defined thresholds, stale prices, missing prices and zero prices. Also on a monthly basis, a second source validation, typically to broker quotations, is performed for certain of the more complex derivatives, as well as for all new deals during the month. A model validation review is performed on any new models, which typically includes detailed documentation and validation to a second source. The model validation documentation and results of validation are presented to the Valuation Committee for approval. There is a monthly control to review changes in pricing sources to ensure that new models are not moved to production until formally approved.

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

Limited partnerships and other alternative investments

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

5. Fair Value Measurements (continued)

Valuation Techniques and Inputs for Investments

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

For most of the Company's debt securities, the following inputs are typically used in the Company's pricing methods: reported trades, benchmark yields, bids and/or estimated cash flows. For securities except U.S. Treasuries, inputs also include issuer spreads, which may consider credit default swaps. Derivative instruments are valued using mid-market inputs that are predominantly observable in the market.

A description of additional inputs used in the Company's Level 2 and Level 3 measurements is listed below:

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

- ABS, CDOs, CMBS and RMBS – Primary inputs also include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and, for ABS and RMBS, estimated prepayment rates.
- Corporates, including investment grade private placements – Primary inputs also include observations of credit default swap curves related to the issuer.
- Foreign government/government agencies—Primary inputs also include observations of credit default swap curves related to the issuer and political events in emerging markets.
- Municipals – Primary inputs also include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.
- Short-term investments – Primary inputs also include material event notices and new issue money market rates.
- Equity securities, trading – Consist of investments in mutual funds. Primary inputs include net asset values obtained from third party pricing services.
- Credit derivatives – Primary inputs include the swap yield curve and credit default swap curves.
- Foreign exchange derivatives – Primary inputs include the swap yield curve, currency spot and forward rates, and cross currency basis curves.
- Interest rate derivatives – Primary input is the swap yield curve.
- Limited partnerships and other alternative investments — Primary inputs include a NAV for investment companies with no redemption restrictions as reported on their U.S. GAAP financial statements.

Level 3	Most of the Company's securities classified as Level 3 include less liquid securities such as lower quality ABS, CMBS, commercial real estate ("CRE") CDOs and RMBS primarily backed by below-prime loans. Securities included in level 3 are primarily valued based on broker prices or broker spreads, without adjustments. Primary inputs for non-broker priced investments, including structured securities, are consistent with the typical inputs used in Level 2 measurements noted above, but are Level 3 due to their less liquid markets. Additionally, certain long-dated securities are priced based on third party pricing services, including municipal securities, foreign government/government agencies, bank loans and below investment grade private placement securities. Primary inputs for these long-dated securities are consistent with the typical inputs used in Level 1 and Level 2 measurements noted above, but include benchmark interest rate or credit spread assumptions that are not observable in the marketplace. Level 3 investments also include certain limited

partnerships and other alternative investments measured at fair value where the Company does not have the ability to redeem the investment in the near-term at the NAV. Also included in Level 3 are certain derivative instruments that either have significant unobservable inputs or are valued based on broker quotations. Significant inputs for these derivative contracts primarily include the typical inputs used in the Level 1 and Level 2 measurements noted above; but also include equity and interest rate volatility and swap yield curves beyond observable limits.

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5. Fair Value Measurements (continued)
Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value
The following table presents information about significant unobservable inputs used in Level 3 assets measured at fair value.

Securities	As of March 31, 2013 Unobservable Inputs									
Assets accounted for at fair value on a recurring basis	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum		Maximum		Weighted Average [1]		Impact of Increase in Input on Fair Value [2]
CMBS	$ 840	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	346	bps	3,250	bps	949	bps	Decrease
Corporate [3]	1,138	Discounted cash flows	Spread	135	bps	4,346	bps	336	bps	Decrease
Municipal	151	Discounted cash flows	Spread	208	bps	270	bps	228	bps	Decrease
RMBS	1,280	Discounted cash flows	Spread	54	bps	1,692	bps	269	bps	Decrease
			Constant prepayment rate	—	%	12.0	%	2.0	%	Decrease [4]
			Constant default rate	1.0	%	24.0	%	8.0	%	Decrease
			Loss severity	—	%	100.0	%	80.0	%	Decrease
	As of December 31, 2012									
CMBS	$ 859	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	320	bps	3,615	bps	1,031	bps	Decrease
Corporate [3]	1,371	Discounted cash flows	Spread	106	bps	900	bps	328	bps	Decrease
Municipal	227	Discounted cash flows	Spread	227	bps	344	bps	258	bps	Decrease
RMBS	1,373	Discounted cash flows	Spread	54	bps	1,689	bps	367	bps	Decrease
			Constant prepayment rate	—	%	12	%	2.0	%	Decrease [4]
			Constant default rate	1.0	%	24	%	8.0	%	Decrease
			Loss severity	—	%	100	%	80.0	%	Decrease

[1] The weighted average is determined based on the fair value of the securities.
[2] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table above.
[3] Level 3 corporate securities excludes those for which the Company bases fair value on broker quotations as discussed below.
[4] Decrease for above market rate coupons and increase for below market rate coupons.

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

5. Fair Value Measurements (continued)

	As of March 31, 2013					
Freestanding Derivatives	Unobservable Inputs					
	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum	Maximum	Impact of Increase in Input on Fair Value [1]
Equity derivatives						
Equity options	$32	Option model	Equity volatility	21%	23%	Increase
Interest rate derivative						
Interest rate swaps	(53)	Discounted cash flows	Swap curve beyond 30 years	3.0%	3.0%	Increase
Long interest rate swaptions	27	Option model	Interest rate volatility	1%	1%	Increase
U.S. GMWB hedging instruments						
Equity options	153	Option model	Equity volatility	21%	29%	Increase
Customized swaps	176	Discounted cash flows	Equity volatility	10%	50%	Increase
U.S. macro hedge program						
Equity options	243	Option model	Equity volatility	20%	29%	Increase
International program hedging						
Equity options	(45)	Option model	Equity volatility	23%	42%	Increase
	As of December 31, 2012					
Equity derivatives						
Equity options	57	Option model	Equity volatility	13%	24%	Increase
Interest rate derivative						
Interest rate swaps	(55)	Discounted cash flows	Swap curve beyond 30 years	2.8%	2.8%	Increase
Long interest rate swaptions	23	Option model	Interest rate volatility	—%	1%	Increase
U.S. GMWB hedging instruments						
Equity options	281	Option model	Equity volatility	10%	31%	Increase
Customized swaps	238	Discounted cash flows	Equity volatility	10%	50%	Increase
U.S. macro hedge program						
Equity options	286	Option model	Equity volatility	24%	43%	Increase
International program hedging						
Equity options	26	Option model	Equity volatility	19%	27%	Increase
	42	Option model	Interest rate volatility	—%	1%	Increase

Long interest rate swaptions

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

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5. Fair Value Measurements (continued)

Securities and derivatives for which the Company bases fair value on broker quotations predominately include ABS, CDOs, corporate, fixed maturities, FVO and certain credit derivatives. Due to the lack of transparency in the process brokers use to develop prices for these investments, the Company does not have access to the significant unobservable inputs brokers use to price these securities and derivatives. The Company believes however, the types of inputs brokers may use would likely be similar to those used to price securities and derivatives for which inputs are available to the Company, and therefore may include, but not be limited to, loss severity rates, constant prepayment rates, constant default rates and counterparty credit spreads. Therefore, similar to non broker priced securities and derivatives, generally, increases in these inputs would cause fair values to decrease. For the three months ended March 31, 2013, no significant adjustments were made by the Company to broker prices received.

As of March 31, 2013 and December 31, 2012, excluded from the tables above are limited partnerships and other alternative investments which total $337 and $314, respectively, of level 3 assets measured at fair value. The predominant valuation method uses a NAV calculated on a monthly basis and represents funds where the Company does not have the ability to redeem the investment in the near-term at that NAV, including an assessment of the investee's liquidity.

Product Derivatives

The Company currently offers and subsequently reinsures certain variable annuity products with GMWB riders in the U.S., and formerly in the U.K. and Japan. The GMWB represents an embedded derivative in the variable annuity contract. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host for measurement purposes. The embedded derivative is carried at fair value, with changes in fair value reported in net realized capital gains and losses. The Company’s GMWB liability is reported in other policyholder funds and benefits payable in the Condensed Consolidated Balance Sheets.

In valuing the embedded derivative, the Company attributes to the derivative a portion of the expected fees to be collected over the expected life of the contract from the contract holder equal to the present value of future GMWB claims (the “Attributed Fees”). The excess of fees collected from the contract holder in the current period over the current period’s Attributed Fees are associated with the host variable annuity contract and reported in fee income.

U.S. GMWB Reinsurance Derivative

The Company has reinsurance arrangements in place to transfer a portion of its risk of loss due to GMWB. These arrangements are recognized as derivatives and carried at fair value in reinsurance recoverables. Changes in the fair value of the reinsurance agreements are reported in net realized capital gains and losses.

The fair value of the U.S. GMWB reinsurance derivative is calculated as an aggregation of the components described in the Living Benefits Required to be Fair Valued discussion below and is modeled using significant unobservable inputs, as well as policyholder behavior inputs, identical to those used in calculating the underlying liability, such as lapses, fund selection, resets and withdrawal utilization and risk margins.

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

Living benefits required to be fair valued include U.S. GMWB, international GMWB and international other guaranteed living benefits. Fair values for GMWB and guaranteed minimum accumulation benefit (“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 Claim Payments; Credit Standing Adjustment; and Margins. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. The Company believes the aggregation of these components, as necessary and as reconciled or calibrated to the market information available to the Company, results in an amount that the Company would be required to transfer or receive, for an asset, to or from market participants in an active liquid market, if one existed, for those market participants to assume the risks associated with the guaranteed minimum benefits and the related reinsurance and customized derivatives. The fair value is likely to materially diverge from the ultimate settlement of the liability as the Company believes settlement will be based on our best estimate assumptions rather than those best estimate assumptions plus risk margins. In the absence of any transfer of the guaranteed benefit liability to a third party, the release of risk margins is likely to be reflected as realized gains in future periods' net income. Each component described below is unobservable in the marketplace and require subjectivity by the Company in determining their value.

Oversight of the Company's valuation policies and processes for product and U.S. GMWB reinsurance derivatives is performed by a multidisciplinary group comprised of finance, actuarial and risk management professionals. This multidisciplinary group reviews and approves changes and enhancements to the Company's valuation model as well as associated controls.

5. Fair Value Measurements (continued)
Best Estimate
Claim Payments
The Best Estimate Claim Payments is calculated based on actuarial and capital market assumptions related to projected cash flows, including the present value of benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior such as lapses, fund selection, resets and withdrawal utilization. For the customized derivatives, policyholder behavior is prescribed in the derivative contract. Because of the dynamic and complex nature of these cash flows, best estimate assumptions and a Monte Carlo stochastic process is used in valuation. The Monte Carlo stochastic process involves the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates and a blend of observable implied index volatility levels. Estimating these cash flows involves numerous estimates and subjective judgments regarding a number of variables –including expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and assumptions about policyholder behavior which emerge over time.
At each valuation date, the Company assumes expected returns based on:

- risk-free rates as represented by the euro dollar futures, LIBOR deposits and swap rates to derive forward curve rates;
- market implied volatility assumptions for each underlying index based primarily on a blend of observed market "implied volatility" data;
- correlations of historical returns across underlying well known market indices based on actual observed returns over the ten years preceding the valuation date; and
- three years of history for fund indexes compared to separate account fund regression.

On a daily basis, the Company updates capital market assumptions used in the GMWB liability model such as interest rates, equity indices and the blend of implied equity index volatilities. The Company monitors various aspects of policyholder behavior and may modify certain of its assumptions, including living benefit lapses and withdrawal rates, if credible emerging data indicates that changes are warranted. In addition, the Company will continue to evaluate policyholder behavior assumptions as we begin to implement initiatives to reduce the size of the variable annuity business. At a minimum, all policyholder behavior assumptions are reviewed and updated, as appropriate, in conjunction with the completion of the Company's comprehensive study to refine its estimate of future gross profits during the third quarter of each year.
Credit Standing Adjustment
This assumption makes an adjustment that market participants would make, in determining fair value, to reflect the risk that guaranteed benefit obligations or the GMWB reinsurance recoverables will not be fulfilled ("nonperformance risk"). The Company incorporates a blend of observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. The credit standing adjustment assumption, net of reinsurance, resulted in pre-tax realized losses of $(10) and $(49), for the three months ended March 31, 2013 and 2012. As of March 31, 2013 and December 31, 2012 the credit standing adjustment was $2 and $12, respectively.
Margins
The behavior risk margin adds a margin that market participants would require, in determining fair value, for the risk that the Company's assumptions about policyholder behavior could differ from actual experience. The behavior risk margin is calculated by taking the difference between adverse policyholder behavior assumptions and best estimate assumptions.
Assumption updates, including policyholder behavior assumptions, affected best estimates and margins for total pre-tax realized losses of $1 and $0 for the three months ended March 31, 2013 and 2012. As of March 31, 2013 and December 31, 2012 the behavior risk margin was $254 and $302, respectively.
In addition to the non-market-based updates described above, the Company recognized non-market-based updates driven by the relative outperformance (underperformance) of the underlying actively managed funds as compared to their respective indices resulting in pre-tax realized gains of approximately $8 and $13, for the three months ended

March 31, 2013 and 2012.

5. Fair Value Measurements (continued)

Significant unobservable inputs used in the fair value measurement of living benefits required to be fair valued and the U.S. GMWB reinsurance derivative are withdrawal utilization and withdrawal rates, lapse rates, reset elections and equity volatility. The following table provides quantitative information about the significant unobservable inputs and is applicable to all of the Living Benefits Required to be Fair Valued and the U.S. GMWB Reinsurance Derivative. Significant increases in any of the significant unobservable inputs, in isolation, will generally have an increase or decrease correlation with the fair value measurement, as shown in the table.

Significant Unobservable Input	Unobservable Inputs (Minimum)	Unobservable Inputs (Maximum)	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization[2]	20%	100%	Increase
Withdrawal Rates [2]	—%	8%	Increase
Lapse Rates [3]	—%	75%	Decrease
Reset Elections [4]	20%	75%	Increase
Equity Volatility [5]	10%	50%	Increase

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

[2] Ranges represent assumed cumulative percentages of policyholders taking withdrawals and the annual amounts withdrawn.

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

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

[5] Range represents implied market volatilities for equity indices based on multiple pricing sources.

Generally a change in withdrawal utilization assumptions would be accompanied by a directionally opposite change in lapse rate assumptions, as the behavior of policyholders that utilize GMWB or GMAB riders is typically different from policyholders that do not utilize these riders.

Separate Account Assets

Separate account assets are primarily invested in mutual funds. Other separate account assets include fixed maturities, limited partnerships, equity securities, short-term investments and derivatives that are valued in the same manner, and using the same pricing sources and inputs, as those investments held by the Company. Separate account assets classified as Level 3 primarily include limited partnerships in which fair value represents the separate account’s share of the fair value of the equity in the investment (“net asset value”) and are classified in level 3 based on the Company’s ability to redeem its investment.

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

5. Fair Value Measurements (continued)
Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)
The tables below provide fair value roll-forwards for the three months ended March 31, 2013 and 2012, for the financial instruments classified as Level 3.
For the three months ended March 31, 2013

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign govt./govt agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2013	$278	$944	$859	$2,001	$ 56	$227	$1,373	$5,738	$214
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	(3)	(12)	(5)	17	—	—	29	26	15
Included in OCI [3]	25	45	45	(12)	(2)	1	20	122	—
Purchases	23	1	—	26	12	6	91	159	6
Settlements	(5)	(24)	(24)	(59)	(1)	—	(41)	(154)	(1)
Sales	(34)	(185)	(61)	(281)	(8)	(39)	(192)	(800)	(18)
Transfers into Level 3 [4]	—	32	26	70	—	—	—	128	1
Transfers out of Level 3 [4]	(9)	—	—	(40)	(6)	(44)	—	(99)	(1)
Fair value as of March 31, 2013	$275	$801	$840	$1,722	$ 51	$151	$1,280	$5,120	$216
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2013 [2] [7]	$(4)	$(2)	$(3)	$(4)	$ —	$—	$—	$(13)	$36

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

5. Fair Value Measurements (continued)

Assets (Liabilities)	Equity Securities, AFS	Freestanding Derivatives [5] Credit	Equity	Interest Rate	U.S. GMWB Hedging	U.S. Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2013	$84	$4	$57	$(32)	$519	$286	$68	$23	$925
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	(6)	2	(22)	7	(190)	(64)	(84)	(1)	(352)
Included in OCI [3]	9	—	—	—	—	—	—	—	—
Purchases	1	—	—	(3)	—	21	(24)	—	(6)
Settlements	—	—	(3)	—	—	—	(5)	—	(8)
Sales	(3)	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	2	—	—	—	—	2
Fair value as of March 31, 2013	$85	$6	$32	$(26)	$329	$243	$(45)	$22	$561
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2013 [2] [7]	$(6)	$2	$(21)	$1	$(185)	$(63)	$(41)	$(1)	$(308)

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for U.S. GMWB	Separate Accounts
Fair value as of January 1, 2013	$314	$191	$583
Total realized/unrealized gains (losses)			
Included in net income [1], [2], [6]	7	(60)	15
Included in OCI [3]	—	—	—
Purchases	60	—	255
Settlements	—	8	—
Sales	(21)	—	(26)
Transfers into Level 3 [4]	—	—	—
Transfers out of Level 3 [4]	(23)	—	(4)
Fair value as of March 31, 2013	$337	$139	$823
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2013 [2] [7]	$7	$(60)	$8

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

5. Fair Value Measurements (continued)

Liabilities	Other Policyholder Funds and Benefits Payable: U.S. Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of January 1, 2013	$(1,249)	$(50)	$2	$(7)	$(1,304)	$(2)
Total realized/unrealized gains (losses)						
Included in net income [1], [2], [6]	456	14	3	(3)	470	—
Included in OCI [3]	—	3	—	—	3	—
Settlements	(2)	(1)	(1)	—	(4)	—
Fair value as of March 31, 2013	$(795)	$(34)	$4	$(10)	$(835)	$(2)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2013 [2] [7]	$456	$14	$3	$(3)	$470	$—

For the three months ended March 31, 2012

Assets	Fixed Maturities, AFS: ABS	CDOs	CMBS	Corporate	Foreign govt./govt. agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2012	$361	$368	$588	$2,255	$ 49	$437	$1,063	$5,121	$495
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	—	2	(5)	(3)	—	—	7	1	27
Included in OCI [3]	9	63	23	10	—	(11)	26	120	—
Purchases	—	—	12	134	7	212	80	445	—
Settlements	(35)	(10)	(32)	(20)	(1)	—	(33)	(131)	—
Sales	(12)	(3)	—	(53)	—	—	(34)	(102)	(14)
Transfers into Level 3 [4]	—	483	450	202	—	—	—	1,135	—
Transfers out of Level 3 [4]	(24)	—	(35)	(531)	—	(13)	—	(603)	—
Fair value as of March 31, 2012	$299	$903	$1,001	$1,994	$ 55	$625	$1,109	$5,986	$508
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2012 [2] [7]	$—	$—	$(5)	$—	$ —	$—	$(6)	$(11)	$18

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

5. Fair Value Measurements (continued)

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	U.S. GMWB Hedging	U.S. Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2012	$93	$(561)	$40	$(58)	$883	$357	$35	$28	$724
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	3	92	(17)	1	(312)	(184)	85	(1)	(336)
Included in OCI [3]	—	—	—	—	—	—	—	—	—
Purchases	2	—	35	—	—	—	(53)	—	(18)
Settlements	—	(5)	(19)	—	—	—	40	—	16
Sales	(9)	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	—	23	—	8	—	31
Fair value as of March 31, 2012	$89	$(474)	$39	$(57)	$594	$173	$115	$27	$417
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2012 [2] [7]	$—	$80	$(5)	$1	$(312)	$(183)	$85	$(1)	$(335)

Assets	Reinsurance Recoverable for U.S. GMWB	Separate Accounts
Fair value as of January 1, 2012	$ 443	$1,031
Total realized/unrealized gains (losses)		
Included in net income [1], [2], [6]	(143)	17
Included in OCI [3]	—	—
Purchases	—	215
Settlements	8	—
Sales	—	(342)
Transfers into Level 3 [4]	—	439
Transfers out of Level 3 [4]	—	(14)
Fair value as of March 31, 2012	$ 308	$1,346
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2012 [2] [7]	$ (143)	$6

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

5. Fair Value Measurements (continued)

Liabilities	Other Policyholder Funds and Benefits Payable: U.S. Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Other Liabilities	Consumer Notes
Fair value as of January 1, 2012	$(2,538)	$(66)	$(5)	$(9)	$(2,618)	$(9)	$(4)
Total realized/unrealized gains (losses)							
Included in net income [1], [2], [6]	896	30	5	(1)	930	(12)	—
Included in OCI [3]	—	1	—	—	1	—	—
Settlements	(41)	(2)	(1)	—	(44)	—	—
Fair value as of March 31, 2012	$(1,683)	$(37)	$(1)	$(10)	$(1,731)	$(21)	$(4)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2012 [2] [7]	$896	$30	$5	$(1)	$930	$(12)	$—

[1] The Company classifies gains and losses on GMWB reinsurance derivatives and Guaranteed Living Benefit embedded derivatives as unrealized gains (losses) for purposes of disclosure in this table because it is impracticable to track on a contract-by-contract basis the realized gains (losses) for these derivatives and embedded derivatives.

[2] All amounts in these rows are reported in net realized capital gains/losses. The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. All amounts are before income taxes and amortization DAC.

[3] All amounts are before income taxes and amortization of DAC.

[4] Transfers in and/or (out) of Level 3 are primarily attributable to the availability of market observable information and the re-evaluation of the observability of pricing inputs.

[5] Derivative instruments are reported in this table on a net basis for asset/(liability) positions and reported in the Condensed Consolidated Balance Sheet in other investments and other liabilities.

[6] Includes both market and non-market impacts in deriving realized and unrealized gains (losses).

[7] Amounts presented are for Level 3 only and therefore may not agree to other disclosures included herein.

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5. Fair Value Measurements (continued)
Fair Value Option
The Company holds fair value option investments that contain an embedded credit derivative with underlying credit risk primarily related to corporate bonds and commercial real estate. Also included are foreign government securities that align with the accounting for yen-based fixed annuity liabilities, which are adjusted for changes in spot rates through realized gains and losses. Similar to other fixed maturities, income earned from these securities is recorded in net investment income. Changes in the fair value of these securities are recorded in net realized capital gains and losses.
The Company elected the fair value option for consolidated VIE investment funds that were established in 2012. The Company elected the fair value option in order to report investments of consolidated investment companies at fair value with changes in the fair value of these securities recognized in net realized capital gains and losses, consistent with Investment Company accounting. The investment funds hold fixed income securities and the Company has management and control of the funds as well as a significant ownership interest.
The following table presents the changes in fair value of those assets and liabilities accounted for using the fair value option reported in net realized capital gains and losses in the Company's Condensed Consolidated Statements of Operations.

	Three months ended March 31,	
	2013	2012
Assets		
Fixed maturities, FVO		
Corporate	$(9)	$1
CDOs	6	19
Foreign government	(49)	(49)
Other liabilities		
Credit-linked notes	—	(12)
Total realized capital gains (losses)	$(52)	$(41)

The following table presents the fair value of assets and liabilities accounted for using the fair value option included in the Company's Condensed Consolidated Balance Sheets.

	As of March 31, 2013	December 31, 2012
Assets		
Fixed maturities, FVO		
CDOs	$209	$205
CMBS	6	5
Corporate	97	140
Foreign government	664	730
U.S government	—	2
Municipals	1	1
RMBS	5	4
Total fixed maturities, FVO	$982	$1,087

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

5. Fair Value Measurements (continued)

Financial Instruments Not Carried at Fair Value

The following table presents carrying amounts and fair values of the Company’s financial instruments not carried at fair value and not included in the above fair value discussion as of March 31, 2013 and December 31, 2012.

		March 31, 2013		December 31, 2012	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Policy loans	Level 3	$1,421	$1,486	$1,997	$2,165
Mortgage loans	Level 3	5,229	5,399	6,711	6,933
Liabilities					
Other policyholder funds and benefits payable [1]	Level 3	$9,425	$9,748	$9,558	$9,910
Senior notes [2]	Level 2	5,227	6,172	5,706	7,071
Junior subordinated debentures [2]	Level 2	1,100	1,316	1,100	1,265
Consumer notes [3]	Level 3	130	131	159	159

[1] Excludes guarantees on variable annuities, group accident and health and universal life insurance contracts, including corporate owned life insurance.
[2] Included in debt in the Condensed Consolidated Balance Sheets.
[3] Excludes amounts carried at fair value and included in disclosures above.

The Company has not made any changes in its valuation methodologies for the following assets and liabilities since December 31, 2012.

- Fair value for policy loans and consumer notes were estimated using discounted cash flow calculations using current interest rates adjusted for estimated loan durations.
- Fair values for mortgage loans were estimated using discounted cash flow calculations based on current lending rates for similar type loans. Current lending rates reflect changes in credit spreads and the remaining terms of the loans.
- Fair values for other policyholder funds and benefits payable, not carried at fair value, are estimated based on the cash surrender values of the underlying policies or by estimating future cash flows discounted at current interest rates adjusted for credit risk.
- Fair values for senior notes and junior subordinated debentures are determined using the market approach based on reported trades, benchmark interest rates and issuer spread for the Company which may consider credit default swaps.
- Fair values for private placement junior subordinated debentures are based primarily on market quotations from independent third party brokers.

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6. Investments and Derivative Instruments

Net Realized Capital Gains (Losses)

	Three Months Ended March 31,	
(Before-tax)	2013	2012
Gross gains on sales [1]	$1,719	$259
Gross losses on sales	(82)	(97)
Net OTTI losses recognized in earnings	(21)	(29)
Valuation allowances on mortgage loans	—	1
Japanese fixed annuity contract hedges, net [2]	3	(20)
Periodic net coupon settlements on credit derivatives/Japan	(6)	(5)
Results of variable annuity hedge program		
GMWB derivatives, net	47	185
U.S. macro hedge program	(85)	(189)
Total U.S. program	(38)	(4)
International program	(192)	(1,219)
Total results of variable annuity hedge program	(230)	(1,223)
Other, net [3]	212	204
Net realized capital gains (losses)	$1,595	$(910)

[1] Includes $1.5 billion of gains relating to the sales of the Retirement Plans and Individual Life businesses for the three months ended March 31, 2013.

[2] Relates to the Japanese fixed annuity product (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 transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, gains and losses on non-qualifying derivatives and Japan 3Win related foreign currency swaps. Includes $71 of gains relating to the sales of the Retirement Plans and Individual Life businesses for the three months ended March 31, 2013.

Net realized capital gains and losses from investment sales, after deducting the life and pension policyholders' share for certain products, are reported as a component of revenues and are determined on a specific identification basis. Gross gains and losses on sales and impairments previously reported as unrealized gains in AOCI were $1.6 billion and $133, respectively, for the three months ended March 31, 2013 and 2012. Proceeds from sales of AFS securities totaled $8.7 billion and $12.7 billion, respectively, for the three months ended March 31, 2013 and 2012.

Other-Than-Temporary Impairment Losses

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

	Three Months Ended March 31,	
(Before-tax)	2013	2012
Balance as of beginning of period	$(1,013)	$(1,676)
Additions for credit impairments recognized on [1]:		
Securities not previously impaired	(8)	(12)
Securities previously impaired	(2)	(5)
Reductions for credit impairments previously recognized on:		
Securities that matured or were sold during the period	114	160

Securities due to an increase in expected cash flows	3	3
Balance as of end of period	$(906)	$(1,530)

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

6. Investments and Derivative Instruments (continued)

Available-for-Sale Securities

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

	March 31, 2013					December 31, 2012				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]
ABS	$2,498	$44	$(120)	$2,422	$ (5)	$2,883	$63	$(183)	$2,763	$ (4)
CDOs [2]	2,623	75	(125)	2,558	(6)	3,170	60	(159)	3,040	(14)
CMBS	4,995	330	(120)	5,205	(14)	6,083	417	(179)	6,321	(11)
Corporate	28,582	3,106	(220)	31,468	(9)	39,694	4,631	(276)	44,049	(19)
Foreign govt./govt. agencies	3,807	192	(72)	3,927	—	3,985	191	(40)	4,136	—
Municipal	12,101	1,155	(18)	13,238	—	13,001	1,379	(19)	14,361	—
RMBS	6,632	188	(104)	6,716	(20)	7,318	295	(133)	7,480	(32)
U.S. Treasuries	4,023	129	(19)	4,133	—	3,613	175	(16)	3,772	—
Total fixed maturities, AFS	65,261	5,219	(798)	69,667	(54)	79,747	7,211	(1,005)	85,922	(80)
Equity securities, AFS	792	114	(44)	862	—	866	81	(57)	890	—
Total AFS securities [3]	$66,053	$5,333	$(842)	$70,529	$ (54)	$80,613	$7,292	$(1,062)	$86,812	$ (80)

[1] Represents the amount of cumulative non-credit OTTI losses recognized in OCI on securities that also had credit impairments. These losses are included in gross unrealized losses as of March 31, 2013 and December 31, 2012.

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

[3] As of December 31, 2012, includes fixed maturities, AFS and equity securities, AFS relating to the sales of the Retirement Plans and Individual Life Businesses; see Note 2 - Business Dispositions of the Notes to Condensed Consolidated Financial Statements for further discussion of this transaction.

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

	March 31, 2013	
Contractual Maturity	Amortized Cost	Fair Value
One year or less	$1,701	$1,726
Over one year through five years	11,966	12,657
Over five years through ten years	11,892	12,933
Over ten years	22,954	25,450
Subtotal	48,513	52,766
Mortgage-backed and asset-backed securities	16,748	16,901
Total fixed maturities, AFS	$65,261	$69,667

Estimated maturities may differ from contractual maturities due to security call or prepayment provisions. Due to the potential for variability in payment speeds (i.e. prepayments or extensions), mortgage-backed and asset-backed securities are not categorized by contractual maturity.

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

6. Investments and Derivative Instruments (continued)
Securities Unrealized Loss Aging
The following tables present the Company's unrealized loss aging for AFS securities by type and length of time the security was in a continuous unrealized loss position.

	March 31, 2013								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$361	$360	$(1)	$716	$597	$(119)	$1,077	$957	$(120)
CDOs [1]	4	3	(1)	2,481	2,342	(124)	2,485	2,345	(125)
CMBS	359	342	(17)	1,064	961	(103)	1,423	1,303	(120)
Corporate	1,815	1,779	(36)	1,569	1,385	(184)	3,384	3,164	(220)
Foreign govt./govt. agencies	982	913	(69)	16	13	(3)	998	926	(72)
Municipal	403	394	(9)	106	97	(9)	509	491	(18)
RMBS	1,863	1,844	(19)	771	686	(85)	2,634	2,530	(104)
U.S. Treasuries	423	404	(19)	—	—	—	423	404	(19)
Total fixed maturities, AFS	6,210	6,039	(171)	6,723	6,081	(627)	12,933	12,120	(798)
Equity securities, AFS	71	69	(2)	260	218	(42)	331	287	(44)
Total securities in an unrealized loss	$6,281	$6,108	$(173)	$6,983	$6,299	$(669)	$13,264	$12,407	$(842)

	December 31, 2012								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$163	$161	$(2)	$886	$705	$(181)	$1,049	$866	$(183)
CDOs [1]	5	4	(1)	2,567	2,389	(158)	2,572	2,393	(159)
CMBS	339	322	(17)	1,248	1,086	(162)	1,587	1,408	(179)
Corporate	1,261	1,218	(43)	1,823	1,590	(233)	3,084	2,808	(276)
Foreign govt./govt. agencies	1,380	1,343	(37)	20	17	(3)	1,400	1,360	(40)
Municipal	271	265	(6)	157	144	(13)	428	409	(19)
RMBS	910	908	(2)	869	738	(131)	1,779	1,646	(133)
U.S. Treasuries	583	567	(16)	—	—	—	583	567	(16)
Total fixed maturities, AFS	4,912	4,788	(124)	7,570	6,669	(881)	12,482	11,457	(1,005)
Equity securities, AFS	69	67	(2)	280	225	(55)	349	292	(57)
Total securities in an unrealized loss	$4,981	$4,855	$(126)	$7,850	$6,894	$(936)	$12,831	$11,749	$(1,062)

[1]

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

As of March 31, 2013, AFS securities in an unrealized loss position, consisted of 1,967 securities, primarily related to corporate securities within the financial services sector, ABS, CMBS, CDOs, and RMBS which have experienced price deterioration. As of March 31, 2013, 90% of these securities were depressed less than 20% of cost or amortized cost. The decrease in unrealized losses during 2013 was primarily attributable to spread tightening in certain sectors partially offset by an increase in interest rates.

6. Investments and Derivative Instruments (continued)

Most of the securities depressed for twelve months or more relate to structured securities with exposure to commercial and residential real estate, as well as certain floating rate corporate securities or securities with greater than 10 years to maturity, concentrated in the financial services sector. Current market spreads continue to be wider than spreads at the security's respective purchase date for structured securities with exposure to commercial and residential real estate largely due to the economic and market uncertainties regarding future performance of commercial and residential real estate. The majority of these securities have a floating-rate coupon referenced to a market index that has declined substantially. In addition, equity securities include investment grade perpetual preferred securities that contain “debt-like” characteristics where the decline in fair value is not attributable to issuer-specific credit deterioration, none of which have, nor are expected to, miss a periodic dividend payment. These securities have been depressed due to the securities’ floating-rate coupon in the current low interest rate environment, general market credit spread widening since the date of purchase and the long-dated nature of the securities. The Company neither has an intention to sell nor does it expect to be required to sell the securities outlined above.

Mortgage Loans

	March 31, 2013			December 31, 2012		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Commercial	$5,297	$(68)	$5,229	$6,779	$(68)	$6,711
Total mortgage loans [2]	$5,297	$(68)	$5,229	$6,779	$(68)	$6,711

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

[2] As of December 31, 2012, includes commercial mortgage loans relating to the sales of the Retirement Plans and Individual Life businesses; see Note 2 - Business Dispositions of the Notes to Condensed Consolidated Financial Statements for further discussion of this transaction.

As of March 31, 2013 and December 31, 2012, the carrying value of mortgage loans associated with the valuation allowance was $307 and $291, respectively. Included in the table above are mortgage loans held-for-sale with a carrying value and valuation allowance of $47 and $3, respectively, as of March 31, 2013 and $47 and $3, respectively, as of December 31, 2012. The carrying value of these loans is included in mortgage loans in the Company’s Condensed Consolidated Balance Sheets. As of March 31, 2013, loans within the Company’s mortgage loan portfolio that have had extensions or restructurings other than what is allowable under the original terms of the contract are immaterial.

The following table presents the activity within the Company’s valuation allowance for mortgage loans. These loans have been evaluated both individually and collectively for impairment. Loans evaluated collectively for impairment are immaterial.

	Three Months Ended March 31,	
	2013	2012
Balance, as of January 1	$(68)	$(102)
(Additions)/Reversals	(2)	1
Deductions	2	13
Balance, as of March 31	$(68)	$(88)

The current weighted-average LTV ratio of the Company’s commercial mortgage loan portfolio was 58% as of March 31, 2013, while the weighted-average LTV ratio at origination of these loans was 63%. LTV ratios compare the loan amount to the value of the underlying property collateralizing the loan. The loan values are updated no less than annually through property level reviews of the portfolio. Factors considered in the property valuation include, but are not limited to, actual and expected property cash flows, geographic market data and capitalization rates. Debt service coverage ratios ("DSCR") compare a property’s net operating income to the borrower’s principal and interest payments. The current weighted average DSCR of the Company’s commercial mortgage loan portfolio was 2.08x as of March 31,

2013. The Company held only one delinquent commercial mortgage loan past due by 90 days or more. The total carrying value and valuation allowance of this loan totaled $0 and $50, respectively, as of March 31, 2013, and is not accruing income.

The following table presents the carrying value of the Company's commercial mortgage loans by LTV and DSCR.

Commercial Mortgage Loans Credit Quality

	March 31, 2013		December 31, 2012	
Loan-to-value	Carrying Value	Avg. Debt-Service Coverage Ratio	Carrying Value	Avg. Debt-Service Coverage Ratio
Greater than 80%	$203	0.97x	$253	0.95x
65% - 80%	1,506	1.94x	2,220	2.12x
Less than 65%	3,520	2.22x	4,238	2.40x
Total commercial mortgage loans	$5,229	2.08x	$6,711	2.24x

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6. Investments and Derivative Instruments (continued)

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

Mortgage Loans by Region

	March 31, 2013			December 31, 2012		
	Carrying Value	Percent of Total		Carrying Value	Percent of Total	
East North Central	$128	2.4	%	$145	2.2	%
Middle Atlantic	315	6.0	%	477	7.1	%
Mountain	78	1.5	%	99	1.5	%
New England	266	5.1	%	350	5.2	%
Pacific	1,510	28.9	%	1,978	29.5	%
South Atlantic	853	16.3	%	1,378	20.5	%
West North Central	16	0.3	%	16	0.2	%
West South Central	336	6.4	%	398	5.9	%
Other [1]	1,727	33.1	%	1,870	27.9	%
Total mortgage loans	$5,229	100.0	%	$6,711	100.0	%

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

Mortgage Loans by Property Type

	March 31, 2013			December 31, 2012		
	Carrying Value	Percent of Total		Carrying Value	Percent of Total	
Commercial						
Agricultural	$129	2.5	%	$142	2.1	%
Industrial	1,659	31.7	%	2,079	30.9	%
Lodging	60	1.1	%	81	1.2	%
Multifamily	911	17.4	%	1,200	17.9	%
Office	1,124	21.5	%	1,510	22.5	%
Retail	1,244	23.8	%	1,460	21.8	%
Other	102	2.0	%	239	3.6	%
Total mortgage loans	$5,229	100.0	%	$6,711	100.0	%

Variable Interest Entities

The Company is involved with various special purpose entities and other entities that are deemed to be VIEs primarily as a collateral manager and as an investor through normal investment activities, as well as a means of accessing capital. A VIE is an entity that either has investors that lack certain essential characteristics of a controlling financial interest or lacks sufficient funds to finance its own activities without financial support provided by other entities.

The Company performs ongoing qualitative assessments of its VIEs to determine whether the Company has a controlling financial interest in the VIE and therefore is the primary beneficiary. The Company is deemed to have a controlling financial interest when it has both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. Based on the Company’s assessment, if it determines it is the primary beneficiary, the Company consolidates the VIE in the Company’s Condensed Consolidated Financial Statements.

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6. Investments and Derivative Instruments (continued)

Consolidated VIEs

The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss relating to the VIEs for which the Company is the primary beneficiary. Creditors have no recourse against the Company in the event of default by these VIEs nor does the Company have any implied or unfunded commitments to these VIEs. The Company's financial or other support provided to these VIEs is limited to its investment management services and original investment.

	March 31, 2013			December 31, 2012		
	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]
CDOs [3]	$59	$55	$7	$89	$88	$7
Investment funds [4]	163	—	164	163	—	162
Limited partnerships	4	1	3	6	1	5
Total	$226	$56	$174	$258	$89	$174

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

[2] The maximum exposure to loss represents the maximum loss amount that the Company could recognize as a reduction in net investment income or as a realized capital loss and is the cost basis of the Company's investment.

[3] Total assets included in fixed maturities, AFS, and fixed maturities, FVO, in the Company's Condensed Consolidated Balance Sheets.

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

CDOs represent structured investment vehicles for which the Company has a controlling financial interest as it provides collateral management services, earns a fee for those services and also holds investments in the securities issued by these vehicles. Investment funds represents wholly-owned fixed income funds established in 2012 for which the Company has exclusive management and control of this investment which is the activity that most significantly impacts its economic performance. Limited partnerships represent one hedge fund for which the Company holds a majority interest in the fund as an investment.

Non-Consolidated VIEs

The Company holds a significant variable interest for one VIE for which it is not the primary beneficiary and, therefore, was not consolidated on the Company's Condensed Consolidated Balance Sheets. This VIE represents a contingent capital facility ("facility") that has been held by the Company since February 2007 for which the Company has no implied or unfunded commitments. Assets and liabilities recorded for the facility were $22 and $21, respectively as of March 31, 2013 and $23 and $23, respectively, as of December 31, 2012. Additionally, the Company has a maximum exposure to loss of $3 and $3, respectively, as of March 31, 2013 and December 31, 2012, which represents the issuance costs that were incurred to establish the facility. The Company does not have a controlling financial interest as it does not manage the assets of the facility nor does it have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the facility, as the asset manager has significant variable interest in the vehicle. The Company's financial or other support provided to the facility is limited to providing ongoing support to cover the facility's operating expenses. For further information on the facility, see Note 15 of the Notes to Consolidated Financial Statements included in The Hartford's 2012 Form 10-K Annual Report. In addition, the Company, through normal investment activities, makes passive investments in structured securities issued by VIEs for which the Company is not the manager which are included in ABS, CDOs, CMBS and RMBS in the Available-for-Sale Securities table and fixed maturities, FVO, in the Company's Condensed Consolidated Balance

Sheets. The Company has not provided financial or other support with respect to these investments other than its original investment. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company's investment in comparison to the principal amount of the structured securities issued by the VIEs, the level of credit subordination which reduces the Company's obligation to absorb losses or right to receive benefits and the Company's inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company's maximum exposure to loss on these investments is limited to the amount of the Company's investment.

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6. Investments and Derivative Instruments (continued)

Repurchase Agreements and Dollar Roll Agreements

The Company enters into repurchase agreements and dollar roll transactions to earn incremental spread income. A repurchase agreement is a transaction in which one party (transferor) agrees to sell securities to another party (transferee) in return for cash (or securities), with a simultaneous agreement to repurchase the same securities at a specified price at a later date. A dollar roll is a type of repurchase transaction where a mortgage backed security is sold with an agreement to repurchase substantially the same security at a specified time in the future. These transactions are generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value.
As part of repurchase agreements and dollar roll transactions, the Company transfers U.S. government and government agency securities and receives cash. For the repurchase agreements, the Company obtains collateral in an amount equal to at least 95% of the fair value of the securities transferred, and the agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received from the repurchase program is typically invested in short-term investments or fixed maturities. The Company accounts for the repurchase agreements and dollar roll transactions as collateralized borrowings. The securities transferred under repurchase agreements and dollar roll transactions are included in fixed maturity, available-for-sale securities with the obligation to repurchase those securities recorded in Other Liabilities on the Company's Condensed Consolidated Balance Sheets. The fair value of the securities transferred was $2.5 billion and $1.9 billion with a corresponding agreement to repurchase $2.5 billion and $1.9 billion as of March 31, 2013 and December 31, 2012, respectively.

The Company's repurchase agreements include master netting provisions that provide the counterparties the right to set off claims and apply securities held by them in respect of their obligations in the event of a default. The Company reported gross amounts of recognized liabilities of $960 and $923 in other liabilities on the Condensed Consolidated Balance sheets as of March 31, 2013 and December 31, 2012, respectively. These amounts represent the Company's obligations to repurchase securities under master netting agreements. The Company reported financial collateral pledged of $960 and $923 in fixed maturities, AFS on the Condensed Consolidated Balance sheets as of March 31, 2013 and December 31, 2012, respectively. The fixed maturities are predominantly U.S. government/government agency securities and are disallowed for offsetting under U.S. GAAP.

Derivative Instruments

The Company utilizes a variety of over-the-counter and exchange traded derivative instruments as a part of its overall risk management strategy, as well as to enter into replication transactions. Derivative instruments are used to manage risk associated with interest rate, equity market, credit spread, issuer default, price, and currency exchange rate risk or volatility. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that would be permissible investments under the Company’s investment policies. The Company also purchases and issues financial instruments and products that either are accounted for as free-standing derivatives, such as certain reinsurance contracts, or may contain features that are deemed to be embedded derivative instruments, such as the GMWB rider included with certain variable annuity products.

Strategies that qualify for hedge accounting

Certain derivatives the Company enters into satisfy the hedge accounting requirements as outlined in Note 1 of the Notes to Consolidated Financial Statements included in The Hartford’s 2012 Form 10-K Annual Report. Typically, these hedge relationships include interest rate and foreign currency swaps where the terms or expected cash flows of the securities closely match the “pay” leg terms of the swap. The swaps are typically used to manage interest rate duration of certain fixed maturity securities, or liability contracts, or convert securities, or liabilities, denominated in a foreign currency to US dollars. The hedge strategies by hedge accounting designation include:

Cash flow hedges

Interest rate swaps are predominantly used to manage portfolio duration and better match cash receipts from assets with cash disbursements required to fund liabilities. These derivatives convert interest receipts on floating-rate fixed maturity securities or interest payments on floating-rate guaranteed investment contracts to fixed rates. The Company also enters into forward starting swap agreements primarily to hedge interest rate risk inherent in the assumptions used to price certain liabilities. During the first quarter of 2013, the Company entered into a treasury lock contract to hedge the interest payments of a fixed rate debt issuance anticipated during second quarter of 2013. Subsequent to March 31, 2013, the fixed rate debt was issued and the treasury lock contract was terminated.

6. Investments and Derivative Instruments (continued)

Foreign currency swaps are used to convert foreign currency-denominated cash flows related to certain investment receipts and liability payments to U.S. dollars in order to reduce cash flow fluctuations due to changes in currency rates.

Fair value hedges

Interest rate swaps are used to hedge the changes in fair value of certain fixed rate liabilities and fixed maturity securities due to fluctuations in interest rates. Foreign currency swaps are used to hedge the changes in fair value of certain foreign currency-denominated fixed rate liabilities due to changes in foreign currency rates by swapping the fixed foreign payments to floating rate U.S. dollar denominated payments.

Non-qualifying strategies

Derivative relationships that do not qualify for hedge accounting or “non-qualifying strategies” primarily include the hedge programs for our U.S. and international variable annuity products, as well as the hedging and replication strategies through the use of credit default swaps. In addition, hedges of interest rate and foreign currency risk of certain fixed maturities and liabilities do not qualify for hedge accounting. These non-qualifying strategies include:

Interest rate swaps, swaptions, caps, floors, and futures

The Company uses interest rate swaps, swaptions, caps, floors, and futures to manage duration between assets and liabilities in certain investment portfolios. In addition, the Company enters into interest rate swaps to terminate existing swaps, thereby offsetting the changes in value of the original swap. As of March 31, 2013 and December 31, 2012, the notional amount of interest rate swaps in offsetting relationships was $7.5 billion.

Foreign currency swaps and forwards

The Company enters into foreign currency swaps and forwards to convert the foreign currency exposures of certain foreign currency-denominated fixed maturity investments to U.S. dollars.

Japan 3Win foreign currency swaps

Prior to the second quarter of 2009, the Company offered certain variable annuity products with a guaranteed minimum income benefit ("GMIB") rider through a wholly-owned Japanese subsidiary. The GMIB rider is reinsured to a wholly-owned U.S. subsidiary which invests in U.S. dollar denominated assets to support the liability. The U.S. subsidiary entered into pay U.S. dollar, receive yen swap contracts to hedge the currency and yen interest rate exposure between the U.S. dollar denominated assets and the yen denominated fixed liability reinsurance payments.

Japanese fixed annuity hedging instruments

Prior to the second quarter of 2009, the Company offered a yen denominated fixed annuity product through a wholly-owned Japanese subsidiary and reinsured to a wholly-owned U.S. subsidiary. The U.S. subsidiary invests in U.S. dollar denominated securities to support the yen denominated fixed liability payments and entered into currency rate swaps to hedge the foreign currency exchange rate and yen interest rate exposures that exist as a result of U.S. dollar assets backing the yen denominated liability.

Credit derivatives

Credit default swaps are used to purchase credit protection on an individual entity or referenced index to economically hedge against default risk and credit-related changes in value on fixed maturity securities. Credit default swaps are also used to assume credit risk related to an individual entity, referenced index, or asset pool, as a part of replication transactions. These contracts require the Company to pay or receive a periodic fee in exchange for compensation from the counterparty should the referenced security issuers experience a credit event, as defined in the contract. The Company is also exposed to credit risk related to credit derivatives embedded within certain fixed maturity securities. These securities are primarily comprised of structured securities that contain credit derivatives that reference a standard index of corporate securities. In addition, the Company enters into credit default swaps to terminate existing credit default swaps, thereby offsetting the changes in value of the original swap going forward.

6. Investments and Derivative Instruments (continued)

Equity index swaps and options

The Company formerly offered certain equity indexed products, which may contain an embedded derivative that requires bifurcation. The Company enters into S&P index swaps and options to economically hedge the equity volatility risk associated with these embedded derivatives. The Company also enters into equity index options and futures with the purpose of hedging the impact of an adverse equity market environment on the investment portfolio.

U.S. GMWB derivatives, net

The Company formerly offered certain variable annuity products with GMWB riders in the U.S. The GMWB product is a bifurcated embedded derivative ("U.S. GMWB product derivative") that has a notional value equal to the GRB. The Company uses reinsurance contracts to transfer a portion of its risk of loss due to U.S GMWB. The reinsurance contracts covering U.S. GMWB ("U.S. GMWB reinsurance contracts") are accounted for as free-standing derivatives with a notional amount equal to the GRB amount.

The Company utilizes derivatives (" U.S. GMWB hedging derivatives") as part of an actively managed program designed to hedge a portion of the capital market risk exposures of the un-reinsured GMWB due to changes in interest rates, equity market levels, and equity volatility. These derivatives include customized swaps, interest rate swaps and futures, and equity swaps, options, and futures, on certain indices including the S&P 500 index, EAFE index, and NASDAQ index. The following table represents notional and fair value for U.S. GMWB hedging instruments.

The following table represents notional and fair value for U.S. GMWB hedging instruments.

	Notional Amount		Fair Value	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Customized swaps	$7,912	$7,787	$176	$238
Equity swaps, options, and futures	4,903	5,130	139	267
Interest rate swaps and futures	6,405	5,705	31	67
Total	$19,220	$18,622	$346	$572

U.S. macro hedge program

The Company utilizes equity options and futures contracts to partially hedge against a decline in the equity markets and the resulting statutory surplus and capital impact primarily arising from GMDB and GMWB obligations. The following table represents notional and fair value for the U.S. macro hedge program.

	Notional Amount		Fair Value	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Equity futures	$391	$—	$—	$—
Equity options	6,158	7,442	243	286
Total	$6,549	$7,442	$243	$286

International program

The Company formerly offered certain variable annuity products in the U.K. and Japan with GMWB or GMAB riders, which are bifurcated embedded derivatives ("International program product derivatives"). The GMWB provides the policyholder with a GRB if the account value is reduced to zero through a combination of market declines and withdrawals. The GRB is generally equal to premiums less withdrawals. Certain contract provisions can increase the GRB at contractholder election or after the passage of time. The GMAB provides the policyholder with their initial deposit in a lump sum after a specified waiting period. The notional amount of the International program product derivatives are the foreign currency denominated GRBs converted to U.S. dollars at the current foreign spot exchange rate as of the reporting period date.

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6. Investments and Derivative Instruments (continued)

The Company enters into derivative contracts ("International program hedging instruments") to hedge a portion of the capital market risk exposures associated with the guaranteed benefits associated with the international variable annuity contracts. During 2013, the Company expanded its hedging program to effectively eliminate equity and foreign currency exchange risk. The hedging derivatives are comprised of equity futures, options, and swaps and currency forwards and options to partially hedge against a decline in the debt and equity markets or changes in foreign currency exchange rates and the resulting statutory surplus and capital impact primarily arising from GMDB, GMIB and GMWB obligations issued in the U.K. and Japan. The Company also enters into foreign currency denominated interest rate swaps and swaptions to hedge the interest rate exposure related to the potential annuitization of certain benefit obligations. The following table represents notional and fair value for the international program hedging instruments.

	Notional Amount		Fair Value	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Credit derivatives	$350	$350	$28	$28
Currency forwards [1]	9,160	9,327	153	(87)
Currency options	15,462	10,342	9	(24)
Equity futures	2,294	2,332	—	—
Equity options	4,240	3,952	(46)	47
Equity swaps	4,735	2,617	(7)	(12)
Customized swaps	829	899	(20)	(11)
Interest rate futures	486	634	—	—
Interest rate swaps and swaptions	34,567	32,632	258	228
Total	$72,123	$63,085	$375	$169

[1] As of March 31, 2013 and December 31, 2012 net notional amounts are $2.3 billion and $0.1 billion, respectively, which include $5.7 billion and $4.7 billion, respectively, related to long positions and $3.4 billion and $4.6 billion, respectively, related to short positions.

Contingent capital facility put option

The Company entered into a put option agreement that provides the Company the right to require a third-party trust to purchase, at any time, The Hartford's junior subordinated notes in a maximum aggregate principal amount of $500. Under the put option agreement, The Hartford will pay premiums on a periodic basis and will reimburse the trust for certain fees and ordinary expenses.

Modified coinsurance reinsurance contracts

As of March 31, 2013, the Company had approximately $1.3 billion of invested assets supporting other policyholder funds and benefits payable reinsured under a modified coinsurance arrangement in connection with the sale of the Individual Life business structured as a reinsurance transaction. The assets are held in a trust established by the Company. The Company pays or receives cash quarterly to settle the results of the reinsured business, including the investment results. As a result of this modified coinsurance arrangement, the Company has an embedded derivative that transfers to the reinsurer certain unrealized changes in fair value due to interest rate and credit risks of these assets. The notional amounts of the reinsurance contracts are the invested assets supporting the reinsured reserves that are carried at fair value.

Derivative Balance Sheet Classification

The table below summarizes the balance sheet classification of the Company's derivative related fair value amounts, as well as the gross asset and liability fair value amounts. For reporting purposes, the Company offsets the fair value amounts, income accruals, and cash collateral held related to derivative instruments executed in a legal entity and with the same counterparty under a master netting agreement, which provides the Company with the legal right of offset.

The fair value amounts presented below do not include income accruals or cash collateral held amounts, which are netted with derivative fair value amounts to determine balance sheet presentation. Derivative fair value reported as liabilities after taking into account the master netting agreements, is $1.4 billion and $1.5 billion as of March 31, 2013, and December 31, 2012, respectively. Derivatives in the Company's separate accounts where the associated gains and losses accrue directly to policyholders are not included. The Company's derivative instruments are held for risk management purposes, unless otherwise noted in the table below. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to quantify the volume of the Company's derivative activity. Notional amounts are not necessarily reflective of credit risk.

6. Investments and Derivative Instruments (continued)

	Net Derivatives				Asset Derivatives		Liability Derivatives	
	Notional Amount		Fair Value		Fair Value		Fair Value	
Hedge Designation/ Derivative Type	Mar 31, 2013	Dec 31, 2012	Mar 31, 2013	Dec 31, 2012	Mar 31, 2013	Dec 31, 2012	Mar 31, 2013	Dec 31, 2012
Cash flow hedges								
Interest rate swaps	$6,264	$6,063	$200	$271	$204	$271	$(4)	$—
Foreign currency swaps	143	163	(16)	(17)	4	3	(20)	(20)
Total cash flow hedges	6,407	6,226	184	254	208	274	(24)	(20)
Fair value hedges								
Interest rate swaps	1,536	753	(48)	(55)	—	—	(48)	(55)
Foreign currency swaps	40	40	13	16	13	16	—	—
Total fair value hedges	1,576	793	(35)	(39)	13	16	(48)	(55)
Non-qualifying strategies								
Interest rate contracts								
Interest rate swaps, caps, floors, and futures	9,089	17,117	(515)	(497)	431	556	(946)	(1,053)
Foreign exchange contracts								
Foreign currency swaps and forwards	261	355	(12)	(16)	6	5	(18)	(21)
Japan 3Win foreign currency swaps	1,816	1,816	(257)	(127)	—	—	(257)	(127)
Japanese fixed annuity hedging instruments	1,586	1,652	118	224	147	228	(29)	(4)
Credit contracts								
Credit derivatives that purchase credit protection	1,185	1,823	(7)	(8)	5	5	(12)	(13)
Credit derivatives that assume credit risk [1]	2,533	2,745	39	(29)	54	19	(15)	(48)
Credit derivatives in offsetting positions	9,056	9,497	(24)	(32)	81	94	(105)	(126)
Equity contracts								
Equity index swaps and options	972	994	21	47	33	57	(12)	(10)
Variable annuity hedge program								
U.S. GMWB product derivatives [2]	27,695	28,868	(795)	(1,249)	—	—	(795)	(1,249)
U.S. GMWB reinsurance contracts	5,463	5,773	139	191	139	191	—	—
U.S. GMWB hedging instruments	19,220	18,622	346	572	564	743	(218)	(171)
U.S. macro hedge program	6,549	7,442	243	286	309	356	(66)	(70)
International program product derivatives [2]	2,301	2,454	(30)	(48)	—	—	(30)	(48)
International program hedging instruments	72,123	63,085	375	169	975	1,020	(600)	(851)
Other								

Contingent capital facility put option	500	500	22	23	22	23	—	—
Modified coinsurance reinsurance contracts	1,350	—	5	—	5	—	—	—
Total non-qualifying strategies	161,699	162,743	(332)	(494)	2,771	3,297	(3,103)	(3,791)
Total cash flow hedges, fair value hedges, and non-qualifying strategies	$169,682	$169,762	$(183)	$(279)	$2,992	$3,587	$(3,175)	$(3,866)
Balance Sheet Location								
Fixed maturities, available-for-sale	$467	$703	$(15)	$(32)	$—	$—	$(15)	$(32)
Other investments	81,253	54,504	1,046	1,045	1,937	1,581	(891)	(536)
Other liabilities	51,088	77,384	(521)	(177)	911	1,815	(1,432)	(1,992)
Consumer notes	16	26	(2)	(2)	—	—	(2)	(2)
Reinsurance recoverables	6,813	5,773	144	191	144	191	—	—
Other policyholder funds and benefits payable	30,045	31,372	(835)	(1,304)	—	—	(835)	(1,304)
Total derivatives	$169,682	$169,762	$(183)	$(279)	$2,992	$3,587	$(3,175)	$(3,866)

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

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

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

6. Investments and Derivative Instruments (continued)

Change in Notional Amount

The net decrease in notional amount of derivatives since December 31, 2012, was primarily due to the following:

- The decrease in notional amount of non-qualifying interest rate contracts primarily resulted from the termination of interest rate swaptions purchased during the third quarter of 2012 designed to hedge the interest rate risk of the securities being transferred related to the sale of the Retirement Plan business segment.
- The $72.1 billion notional amount related to the international program hedging instruments as of March 31, 2013, consisted of $68.7 billion of long positions and $3.4 billion of offsetting short positions, resulting in a net notional amount of $65.3 billion. The $63.1 billion notional amount as of December 31, 2012, consisted of $58.5 billion of long positions and $4.6 billion of offsetting short positions, resulting in a net notional amount of $53.9 billion. The increase in net notional of $11.4 billion primarily resulted from the Company expanding its hedging program to effectively eliminate equity and foreign currency exchange risk.
- The increase in notional amount of modified coinsurance reinsurance contracts was due to an embedded derivative resulting from the Company entering into a modified coinsurance arrangement in connection with the sale of the Individual Life business.

Change in Fair Value

The net increase in the total fair value of derivative instruments since December 31, 2012, was primarily related to the following:

- The increase in fair value related to the combined U.S. GMWB hedging program, which includes the U.S. GMWB product, reinsurance, and hedging derivatives, was primarily due to favorable policyholder behavior.
- The fair value related to the Japanese fixed annuity hedging instruments and Japan 3Win foreign currency swaps decreased primarily due to a depreciation of the Japanese yen in relation to the U.S. dollar.

Offsetting of Derivative Assets/Liabilities

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

As of March 31, 2013

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Gross Amounts Not Offset in the Statement of Financial Position	
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Other investments	$ 2,848	$ 2,078	$ 1,046	$ (276)	$ 549	$ 221
	Gross Amounts of	Gross Amounts Offset in the	Derivative Liabilities	Accrued Interest and	Financial Collateral	Net Amount

Description	Recognized Liabilities	Statement of Financial Position	[3]	Cash Collateral Pledged [3]	Pledged [4]	
Other liabilities	$(2,323)	$(1,715)	$(521)	$(87)	$(575)	$(33)

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

6. Investments and Derivative Instruments (continued)
As of December 31, 2012

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Gross Amounts Not Offset in the Statement of Financial Position	
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Other investments	$ 3,396	$ 2,503	$ 1,045	$ (152)	$ 759	$ 134
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount
Other liabilities	$ (2,528)	$ (1,895)	$ (177)	$ (456)	$ (541)	$ (92)

[1] Included in other invested assets in the Company's Condensed Consolidated Balance Sheets.
[2] Included in other assets in the Company's Condensed Consolidated Balance Sheets.
[3] Included in other liabilities in the Company's Condensed Consolidated Balance Sheets.
[4] Excludes exchange-traded futures which are settled daily.

Cash Flow Hedges

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

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

Derivatives in Cash Flow Hedging Relationships

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Net Realized Capital Gains(Losses) Recognized in Income on Derivative (Ineffective Portion)	
	Three months ended March 31,		Three months ended March 31,	
	2013	2012	2013	2012
Interest rate swaps	$ (71)	$ (33)	$ —	$ —
Foreign currency swaps	1	(5)	—	—
Total	$ (70)	$ (38)	$ —	$ —

Derivatives in Cash Flow Hedging Relationships

	Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)
	Three months ended March 31,

	Location	2013	2012
Interest rate swaps	Net realized capital gain/(loss)	$ 73	$ 5
Interest rate swaps	Net investment income	24	36
Foreign currency swaps	Net realized capital gain/(loss)	(3)	3
Total		$ 94	$ 44

6. Investments and Derivative Instruments (continued)

As of March 31, 2013, the before-tax deferred net gains on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are $91. This expectation is based on the anticipated interest payments on hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to interest income over the term of the investment cash flows. The maximum term over which the Company is hedging its exposure to the variability of future cash flows (for forecasted transactions, excluding interest payments on existing variable-rate financial instruments) is approximately three years.

During the three months months ended March 31, 2013 and March 31, 2012 , the Company had no net reclassifications from AOCI to earnings resulting from the discontinuance of cash-flow hedges due to forecasted transactions that were no longer probable of occurring.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Company includes the gain or loss on the derivative in the same line item as the offsetting loss or gain on the hedged item. All components of each derivative’s gain or loss were included in the assessment of hedge effectiveness. The Company recognized in income gains (losses) representing the ineffective portion of fair value hedges as follows:

Derivatives in Fair-Value Hedging Relationships

	Gain or (Loss) Recognized in Income [1]			
	Three months ended March 31,			
	2013		2012	
	Derivative	Hedge Item	Derivative	Hedge Item
Interest rate swaps				
Net realized capital gain/(loss)	$6	$(8)	$11	$(10)
Foreign currency swaps				
Net realized capital gain/(loss)	(2)	2	9	(9)
Benefits, losses and loss adjustment expenses	(1)	1	(3)	3
Total	$3	$(5)	$17	$(16)

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

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

6. Investments and Derivative Instruments (continued)
Non-qualifying Strategies
For non-qualifying strategies, including embedded derivatives that are required to be bifurcated from their host contracts and accounted for as derivatives, the gain or loss on the derivative is recognized currently in earnings within net realized capital gains (losses). The following table presents the gain or loss recognized in income on non-qualifying strategies:
Derivatives Used in Non-Qualifying Strategies
Gain or (Loss) Recognized within Net Realized Capital Gains and Losses

	Three months ended March 31,	
	2013	2012
Interest rate contracts		
Interest rate swaps, caps, floors, and forwards	$ 18	$ 2
Foreign exchange contracts		
Foreign currency swaps and forwards	2	(5)
Japan 3Win foreign currency swaps [1]	(130)	(181)
Japanese fixed annuity hedging instruments [2]	(101)	(128)
Credit contracts		
Credit derivatives that purchase credit protection	(9)	(36)
Credit derivatives that assume credit risk	14	149
Equity contracts		
Equity index swaps and options	(20)	(19)
Variable annuity hedge program		
U.S. GMWB product derivatives	456	896
U.S. GMWB reinsurance contracts	(60)	(143)
U.S. GMWB hedging instruments	(349)	(568)
U.S. macro hedge program	(85)	(189)
International program product derivatives	17	35
International program hedging instruments	(209)	(1,254)
Other		
Contingent capital facility put option	(2)	(2)
Modified coinsurance reinsurance contracts	5	—
Total	$ (453)	$ (1,443)

[1] The associated liability is adjusted for changes in spot rates through realized capital gains and was $116 and $118 for the three months ended March 31, 2013 and 2012, respectively.

[2] The associated liability is adjusted for changes in spot rates through realized capital gains and was $151 and $157 for the three months ended March 31, 2013 and 2012, respectively.

For the three months ended March 31, 2013, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net loss associated with the international program hedging instruments was primarily driven by an improvement in global equity markets and depreciation of the Japanese yen in relation to the euro and the U.S. dollar. These losses were partially offset by gains due to a decrease in Japanese interest rates.
- The net loss related to the Japanese fixed annuity hedging instruments and the Japan 3Win foreign currency swaps was primarily due to a depreciation of the Japanese yen in relation to the U.S. dollar.
- The net gain related to the combined U.S. GMWB hedging program, which includes the U.S. GMWB product, reinsurance, and hedging derivatives, was primarily a result of favorable policyholder behavior.
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The net loss on U.S. macro hedge program was primarily due to an improvement in domestic equity markets, the passage of time, and lower equity volatility.

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6. Investments and Derivative Instruments (continued)

For the three months ended March 31, 2012, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net loss associated with the international program hedging instruments was primarily driven by depreciation of the Japanese yen in relation to the euro and the U.S. dollar, and an increase in global and domestic equity markets.
- The net loss on U.S. macro hedge program was primarily driven by an increase in the domestic equity market and lower equity market volatility.
- The net gain related to the combined U.S. GMWB hedging program, which includes the U.S. GMWB product, reinsurance, and hedging derivatives, was primarily a result of a lower equity and interest rate volatility, favorable policyholder behavior, and a general increase in long-term interest rates.
- The net loss related to the Japanese fixed annuity hedging instruments and Japan 3Win foreign currency swaps was primarily due to the U.S. dollar strengthening in comparison to the Japanese yen and strengthening of the currency basis swap spread between the U.S. dollar and Japanese yen.

Refer to Note 9 for additional disclosures regarding contingent credit related features in derivative agreements.

Credit Risk Assumed through Credit Derivatives

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

The following tables present the notional amount, fair value, weighted average years to maturity, underlying referenced credit obligation type and average credit ratings, and offsetting notional amounts and fair value for credit derivatives in which the Company is assuming credit risk as of March 31, 2013 and December 31, 2012.

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

6. Investments and Derivative Instruments (continued)

As of March 31, 2013

Credit Derivative type by derivative risk exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 2,156	$ 15	3 years	Corporate Credit/ Foreign Gov.	A	$ 1,267	$ (20)
Below investment grade risk exposure	131	—	1 year	Corporate Credit	B+	132	(3)
Basket credit default swaps [4]							
Investment grade risk exposure	3,573	22	2 years	Corporate Credit	BBB+	2,604	(15)
Below investment grade risk exposure	326	31	5 years	Corporate Credit	BB	—	—
Investment grade risk exposure	330	(14)	4 years	CMBS Credit	A	330	14
Below investment grade risk exposure	195	(42)	4 years	CMBS Credit	B	195	42
Embedded credit derivatives							
Investment grade risk exposure	350	325	4 years	Corporate Credit	BBB	—	—
Total	$ 7,061	$ 337				$ 4,528	$ 18

As of December 31, 2012

Credit Derivative type by derivative risk exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 2,321	$ 7	3 years	Corporate Credit/ Foreign Gov.	A	$ 1,367	$ (26)
Below investment grade risk exposure	145	(1)	1 year	Corporate Credit	B+	145	(3)
Basket credit default swaps [4]							
Investment grade risk exposure	3,978	7	3 years	Corporate Credit	BBB+	2,712	(13)
Investment grade risk exposure	330	(17)	4 years	CMBS Credit	A	330	17
Below investment grade risk exposure	195	(46)	4 years	CMBS Credit	B+	195	46
Embedded credit derivatives							
Investment grade risk exposure	525	478	4 years	Corporate Credit	BBB-	—	—
Total	$ 7,494	$ 428				$ 4,749	$ 21

[1]

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

[2] Notional amount is equal to the maximum potential future loss amount. These derivatives are written under master netting agreements which include credit support annexes ("CSAs") that provide for collateral postings at the legal entity and counterparty level in accordance with ratings and threshold levels. There is no additional specific collateral related to these contracts or recourse provisions included in the contracts to offset losses.

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

[4] Includes $4.4 billion and $4.5 billion as of March 31, 2013 and December 31, 2012, respectively, of standard market indices of diversified portfolios of corporate issuers referenced through credit default swaps. These swaps are subsequently valued based upon the observable standard market index.

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7. Reinsurance

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

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

	Three Months Ended March 31,	
Premiums Written	2013	2012
Direct	$2,796	$2,713
Assumed	62	57
Ceded	(335)	(221)
Net	$2,523	$2,549
Premiums Earned		
Direct	$2,573	$2,611
Assumed	60	53
Ceded	(208)	(198)
Net	$2,425	$2,466

Ceded losses, which reduce losses and loss adjustment expenses incurred, were $133 and $98 for the three months ended March 31, 2013, and 2012, respectively.

Life insurance fees, earned premiums and other are comprised of the following:

	Three Months Ended March 31,	
	2013	2012
Gross fee income, earned premiums and other	$1,890	$2,202
Reinsurance assumed	33	33
Reinsurance ceded	(392)	(128)
Net fee income, earned premiums and other	$1,531	$2,107

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

The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. Insurance recoveries on ceded reinsurance agreements, which reduce death and other benefits, were $232 and $67 for the three months ended March 31, 2013, and 2012, respectively.

In addition, the Company has reinsured a portion of the risk associated with U.S. variable annuities and the associated GMDB and GMWB riders, and of the risks associated with variable annuity contract and rider benefits issued by

Hartford Life Insurance KK (“HLIKK”), an indirect wholly owned subsidiary.

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7. Reinsurance (continued)

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

The allowance for uncollectible reinsurance was $269 and $268, as of March 31, 2013 and December 31, 2012, respectively. The allowance for uncollectible reinsurance reflects management’s best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers’ unwillingness or inability to pay. The Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between reinsurers and cedants and the overall credit quality of the Company’s reinsurers. Based on this analysis, the Company may adjust the allowance for uncollectible reinsurance or charge off reinsurer balances that are determined to be uncollectible. Where its contracts permit, the Company secures future claim obligations with various forms of collateral, including irrevocable letters of credit, secured trusts, funds held accounts and group-wide offsets.

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

As of March 31, 2013, the Company has reinsurance recoverables from MassMutual and Prudential of $9.2 billion and $9.1 billion, respectively. These reinsurance recoverables are secured by invested assets held in trust for the benefit of the Company in the event of a default by the reinsurers. As of March 31, 2013, the fair value of assets held in trust securing the reinsurance recoverables from MassMutual and Prudential were $8.8 billion and $6.5 billion, respectively, representing net reinsurance recoverables of approximately 2% and 12%, respectively, of the Company's consolidated stockholders' equity. As of March 31, 2013 the Company has no other reinsurance-related concentrations of credit risk greater than 10% of the Company’s consolidated stockholders’ equity.

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

Changes in the DAC balance are as follows:

	Three Months Ended March 31,	
	2013	2012
Balance, beginning of period	$5,725	$6,556
Deferred costs	332	439
Amortization — DAC	(432)	(445)
Amortization — Unlock benefit (charge), pre-tax [1]	(904)	124
Amortization — DAC related to business dispositions [2] [3]	(2,229)	—
Adjustments to unrealized gains and losses on securities AFS and other	25	(21)
Effect of currency translation	(86)	(76)
Balance, end of period	$2,431	$6,577

[1]

Includes Unlock charge of $887 in the three months ended March 31, 2013 related to elimination of future estimated gross profits on the Japan variable annuity block due to the increased costs associated with expanding the Japan variable annuity hedging program.

[2] Includes accelerated amortization of $352 and $2,374 in the three months ended March 31, 2013 recognized upon the sale of the Retirement Plans and Individual Life businesses. For further information, see Note 2 - Business Dispositions of Notes to Consolidated Financial Statements.

[3] Includes previously unrealized gains on securities AFS of $148 and $349 recognized in the three months ended March 31, 2013 upon the sale of the Retirement Plans and Individual Life businesses, respectively.

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

9. Separate Accounts, Death Benefits and Other Insurance Benefit Features
U.S. GMDB, International GMDB/GMIB, and UL Secondary Guarantee Benefits
Changes in the gross U.S. GMDB, International GMDB/GMIB, and UL secondary guarantee benefits are as follows:

	U.S. GMDB	International GMDB/GMIB	UL Secondary Guarantees
Liability balance as of January 1, 2013	$918	$661	$363
Incurred	46	30	66
Paid	(40)	(32)	—
Unlock	(52)	(113)	—
Impact of reinsurance transaction	—	—	1,145
Currency translation adjustment	—	(54)	—
Liability balance as of March 31, 2013	$872	$492	$1,574
Reinsurance recoverable asset, as of January 1, 2013	$608	$36	$21
Incurred	27	3	68
Paid	(28)	(6)	—
Unlock	(28)	(10)	—
Impact of reinsurance transaction	—	—	1,485
Currency translation adjustment	—	(3)	—
Reinsurance recoverable asset, as of March 31, 2013	$579	$20	$1,574

	U.S. GMDB	International GMDB/GMIB	UL Secondary Guarantees
Liability balance as of January 1, 2012	$1,104	$975	$228
Incurred	56	33	24
Paid	(50)	(53)	—
Unlock	(134)	(139)	11
Currency translation adjustment	—	(61)	—
Liability balance as of March 31, 2012	$976	$755	$263
Reinsurance recoverable asset, as of January 1, 2012	$724	$40	$22
Incurred	35	2	(3)
Paid	(33)	(7)	—
Unlock	(72)	13	—
Currency translation adjustment	—	(3)	—
Reinsurance recoverable asset, as of March 31, 2012	$654	$45	$19

9. Separate Accounts, Death Benefits and Other Insurance Benefit Features (continued)

The following table provides details concerning GMDB and GMIB exposure as of March 31, 2013:

Individual Variable and Group Annuity Account Value by GMDB/GMIB Type

Maximum anniversary value ("MAV") [1]	Account Value ("AV") [8]	Net Amount at Risk ("NAR") [10]	Retained Net Amount at Risk ("RNAR") [10]	Weighted Average Attained Age of Annuitant
MAV only	$19,993	$3,448	$630	69
With 5% rollup [2]	1,597	318	91	69
With Earnings Protection Benefit Rider ("EPB") [3]	5,067	576	81	66
With 5% rollup & EPB	578	118	26	69
Total MAV	27,235	4,460	828	
Asset Protection Benefit ("APB") [4]	20,089	605	401	67
Lifetime Income Benefit ("LIB") — Death Benefit [5]	1,064	17	17	65
Reset [6] (5-7 years)	3,203	104	102	69
Return of Premium ("ROP") [7]/Other	21,912	179	150	66
Subtotal U.S. GMDB	73,503	5,365	1,498	68
Less: General Account Value with U.S. GMDB	7,245			
Subtotal Separate Account Liabilities with GMDB	66,258			
Separate Account Liabilities without U.S. GMDB	78,893			
Total Separate Account Liabilities	$145,151			
Japan GMDB [9], [11]	$26,934	$3,091	$2,467	71
Japan GMIB [9], [11]	$25,129	$1,280	$1,280	70

[1] MAV GMDB is the greatest of current AV, net premiums paid and the highest AV on any anniversary before age 80 years (adjusted for withdrawals).

[2] Rollup GMDB is the greatest of the MAV, current AV, net premium paid and premiums (adjusted for withdrawals) accumulated at generally 5% simple interest up to the earlier of age 80 years or 100% of adjusted premiums.

[3] EPB GMDB is the greatest of the MAV, current AV, or contract value plus a percentage of the contract's growth. The contract's growth is AV less premiums net of withdrawals, subject to a cap of 200% of premiums net of withdrawals.

[4] APB GMDB is the greater of current AV or MAV, not to exceed current AV plus 25% times the greater of net premiums and MAV (each adjusted for premiums in the past 12 months).

[5] LIB GMDB is the greatest of current AV, net premiums paid, or for certain contracts a benefit amount that ratchets over time, generally based on market performance.

[6] Reset GMDB is the greatest of current AV, net premiums paid and the most recent five to seven year anniversary AV before age 80 years (adjusted for withdrawals).

[7] ROP GMDB is the greater of current AV or net premiums paid.

[8] AV includes the contract holder's investment in the separate account and the general account.

[9] GMDB includes a ROP and MAV (before age 80 years) paid in a single lump sum. GMIB is a guarantee to return initial investment, adjusted for earnings liquidity which allows for free withdrawal of earnings, paid through a fixed payout annuity, after a minimum deferral period of 10 years, 15 years or 20 years . The GRB related to the Japan GMIB was $25.5 billion and $28.6 billion as of March 31, 2013 and December 31, 2012, respectively. The GRB related to the Japan GMAB and GMWB was $515 as of March 31, 2013 and $578 as of December 31, 2012. These liabilities are not included in the Separate Account as they are not legally insulated from the general account liabilities of the insurance enterprise. As of March 31, 2013, 52% of the GMDB RNAR and 86% of the GMIB NAR is reinsured to a Hartford affiliate, as a result, the effects of the reinsurance are not reflected in this

disclosure.

[10] NAR is defined as the guaranteed benefit in excess of the current AV. RNAR represents NAR reduced for reinsurance. NAR and RNAR are highly sensitive to equity markets movements and increase when equity markets decline. Additionally Japan’s NAR and RNAR are highly sensitive to currency movements and increase when the Yen strengthens.

[11] Policies with a guaranteed living benefit (GMIB in Japan) also have a guaranteed death benefit. The NAR for each benefit is shown in the table above, however these benefits are not additive. When a policy terminates due to death, any NAR related to GMWB or GMIB is released. Similarly, when a policy goes into benefit status on a GMWB or GMIB, its GMDB NAR is released.

9. Separate Accounts, Death Benefits and Other Insurance Benefit Features (continued)

In the U.S., account balances of contracts with guarantees were invested in variable separate accounts as follows:

Asset type	As of March 31, 2013	As of December 31, 2012
Equity securities (including mutual funds)	$59,493	$58,208
Cash and cash equivalents	6,765	6,940
Total	$66,258	$65,148

As of March 31, 2013 and December 31, 2012, approximately 15% and 16%, respectively, of the equity securities above were invested in fixed income securities through these funds and approximately 85% and 84%, respectively, were invested in equity securities through these funds.

See Note 5 for further information on guaranteed living benefits that are accounted for at fair value, such as GMWB.

10. Sales Inducements

Changes in sales inducement activity are as follows:

	Three Months Ended March 31,	
	2013	2012
Balance, beginning of period	$325	$434
Sales inducements deferred	—	1
Amortization — Unlock benefit (charge) [1]	(56)	5
Amortization charged to income	(11)	(10)
Amortization related to business dispositions [2]	(71)	—
Balance end of period	$187	$430

[1] Includes Unlock charge of $52 in the three months ended March 31, 2013 related to elimination of future estimated gross profits on the Japan variable annuity block due to the increased costs associated with expanding the Japan variable annuity hedging program.

[2] Represents accelerated amortization of $22 and $49 in the three months ended March 31, 2013 recognized upon the sale of the Retirement Plans and Individual Life businesses, respectively. For further information, see Note 2 - Business Dispositions of Notes to Consolidated Financial Statements.

11. Commitments and Contingencies

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, disability, life and inland marine. 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 or other allegedly unfair or improper business practices. 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.

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11. Commitments and Contingencies (continued)

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 substantive legal decisions by the court defining the scope of the claims or the potentially available damages, and fact discovery has not yet begun. 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 Note 12, Commitments and Contingencies, of the Notes to Consolidated Financial Statements under the caption "Asbestos and Environmental Claims", included in the Company's 2012 Form 10-K Annual Report, 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.

Derivative Commitments

Certain of the Company's derivative agreements contain provisions that are tied to the financial strength ratings of the individual legal entity that entered into the derivative agreement as set by nationally recognized statistical rating agencies. If the legal entity's financial strength were to fall below certain ratings, the counterparties to the derivative agreements could demand immediate and ongoing full collateralization and in certain instances demand immediate settlement of all outstanding derivative positions traded under each impacted bilateral agreement. The settlement amount is determined by netting the derivative positions transacted under each agreement. If the termination rights were to be exercised by the counterparties, it could impact the legal entity's ability to conduct hedging activities by increasing the associated costs and decreasing the willingness of counterparties to transact with the legal entity. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position as of March 31, 2013, is $684. Of this $684 the legal entities have posted collateral of $685 in the normal course of business. In addition, the Company has posted collateral of $46 associated with a customized GMWB derivative. Based on derivative market values as of March 31, 2013, a downgrade of one level below the current financial strength ratings by either Moody's or S&P could require approximately an additional $14 to be posted as collateral. Based on derivative market values as of March 31, 2013, a downgrade by either Moody's or S&P of two levels below the legal entities' current financial strength ratings could require approximately an additional $30 of assets to be posted as collateral. These collateral amounts could change as derivative market values change, as a result of changes in our hedging activities or to the extent changes in contractual terms are negotiated. The nature of the collateral that we would post, if required, would be primarily in the form of U.S. Treasury bills and U.S. Treasury notes.

On February 5, 2013 Moody's lowered its counterparty credit and insurer financial strength ratings on Hartford Life and Annuity Insurance Company to Baa2. Given this downgrade action, termination rating triggers of seven derivative counterparty relationships were impacted. The Company has renegotiated the rating triggers with six counterparties, and is in the process of re-negotiating with the remaining counterparty, which it expects to successfully complete. Accordingly, the Company's hedging programs have not been adversely impacted by the announcement of the downgrade of Hartford Life and Annuity Insurance Company. As of March 31, 2013, the notional amount and fair value related to this counterparty is $2.1 billion and $5, respectively, for which the counterparty would owe the Company $5. This counterparty has the right to terminate the relationship and the Company would have to settle the outstanding derivatives prior to termination. Included in one of the six counterparties that the Company has renegotiated ratings triggers with is a customized GMWB derivative for which the Company has posted an additional collateral payment of $46 to prevent its termination following the downgrade action.

12. Employee Benefit Plans

Components of Net Periodic Benefit Cost

Net periodic benefit cost includes the following components:

	Pension Benefits		Other Postretirement Benefits	
	Three months ended March 31,		Three months ended March 31,	
	2013	2012	2013	2012
Service cost	$—	$26	$—	$1
Interest cost	60	63	3	5
Expected return on plan assets	(79)	(78)	(3)	(3)
Amortization of prior service credit	—	(2)	(2)	—
Amortization of actuarial loss	14	53	—	—
Settlements	—	—	—	—
Net periodic benefit cost	$(5)	$62	$(2)	$3

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.

13. Stock Compensation Plans

The Company's stock-based compensation plans include The Hartford 2010 Incentive Stock Plan, The Hartford Employee Stock Purchase Plan and The Hartford Deferred Stock Unit Plan. For a description of these plans, see Note 19 of the Notes to Consolidated Financial Statements included in The Hartford's 2012 Form 10-K Annual Report. Shares issued in satisfaction of stock-based compensation may be made available from authorized but unissued shares, shares held by the Company in treasury or from shares purchased in the open market. The Company typically issues shares from treasury in satisfaction of stock-based compensation.

	Three months ended March 31,	
	2013	2012
Stock-based compensation plans (benefit)/expense	$14	$40
Income tax (benefit)/expense	(5)	(14)
Total stock-based compensation plans (benefit)/expense, net of tax	$9	$26

The Company did not capitalize any cost of stock-based compensation. As of March 31, 2013, the total compensation cost related to non-vested awards not yet recognized was $124, which is expected to be recognized over a weighted average period of 2.2 years.

14. Discontinued Operations

The three months ended March 31, 2012 includes a loss of $1, net of tax, related to the operations of Specialty Risk Services reflected as discontinued operations in the Condensed Consolidated Statements of Operations.

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

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

	Three Months Ended March 31, 2013			Year Ended December 31, 2012		
	Beginning of Period	Business Dispositions [1]	End of Period	Beginning of Period	Business Dispositions [2]	End of Period
Consumer Markets	119	—	119	119	—	119
Mutual Funds	149	—	149	159	(10)	149
Talcott Resolution:						
Individual Life [3]	—	—	—	224	(224)	—
Retirement Plans [3]	87	(87)	—	87	—	87
Total Talcott Resolution	87	(87)	—	311	(224)	87
Corporate [3] [4]	299	(69)	230	417	(118)	299
Total	$654	$(156)	$498	$1,006	$(352)	$654

[1] Represents a reduction in goodwill recognized in connection with the sale of Retirement Plans.
[2] Represents a reduction in goodwill recognized in connection with the sale of WFS and a goodwill impairment recognized in connection with the sale of ILD.
[3] For further information, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.
[4] Carrying value as of March 31, 2013 and December 31, 2012 includes $138 and $92 for the Group Benefits and Mutual Funds reporting units, respectively. Carrying value as of December 31, 2012 also includes $69 for the Retirement Plans reporting unit.

16. Debt
The Hartford's long-term debt securities are issued by either The Hartford Financial Services Group, Inc. ("HFSG Holding Company") or Hartford Life, Inc. ("HLI"), an indirect wholly owned subsidiary, and are unsecured obligations of HFSG Holding Company or HLI and rank on a parity with all other unsecured and unsubordinated indebtedness of HFSG Holding Company or HLI.
On January 31, 2013, the Board of Directors authorized a capital management plan which provides for the repayment of approximately $1.0 billion of debt including repayment of $320 of 4.625% senior notes due in July 2013 and $200 of 4.75% senior notes due in March 2014.
Senior Debt
On March 26, 2013, the Company repurchased principal amounts of approximately $800, plus a payment for unpaid interest on senior notes due through the settlement date. The Company recognized a loss on extinguishment in 2013 of approximately $138, after-tax, representing the excess of the repurchase price over the principal repaid and the write-off of the unamortized discount and debt issuance costs.
On April 18, 2013, the Company issued $300 aggregate principal amount of 4.3% Senior Notes (the "4.3% Notes") due April 15, 2043 for net proceeds of approximately $295, after deducting underwriting discounts and expenses from the offering. The 4.3% Notes bear interest at an annual fixed rate of 4.3% from the date of issuance to, April 15, 2043, payable semi-annually in arrears on April 15 and October 15, commencing October 15, 2013. The Company, at its option, can redeem the 4.3% Notes at any time in whole, or from time to time in part, at a redemption price at a discount rate of US Treasury due November 15, 2042 plus 25 basis points or, if greater, 100% of the principal amount of notes to be redeemed, plus accrued and unpaid interest to the date of redemption.

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16. Debt (continued)

Debt is carried net of discount. The carrying value of the Senior Notes and Debentures and Junior Subordinated Debentures by issuance are as follows:

	As of March 31, 2013	As of December 31, 2012
Senior Notes and Debentures		
4.625% Notes, due 2013	$320	$320
4.75% Notes, due 2014	200	200
4.0% Notes, due 2015	289	300
7.3% Notes, due 2015	167	200
5.5% Notes, due 2016	275	300
5.375% Notes, due 2017	415	499
4.0% Notes, due 2017	295	325
6.3% Notes, due 2018	320	500
6.0% Notes, due 2019	413	500
5.5% Notes, due 2020	499	499
5.125% Notes, due 2022	796	796
7.65% Notes, due 2027	80	149
7.375% Notes, due 2031	63	92
5.95% Notes, due 2036	298	298
6.625% Notes, due 2040	295	299
6.1% Notes, due 2041	325	325
6.625% Notes, due 2042	177	424
Junior Subordinated Debentures		
7.875% Notes, due 2042	600	600
8.125% Notes, due 2068	500	500
Total Debt	6,327	7,126
Less: Current maturities of long-term debt	520	320
Long-term Debt	$5,807	$6,806

Revolving Credit Facility

The Company has a senior unsecured revolving credit facility (the “Credit Facility”) that provides for borrowing capacity up to $1.75 billion (which is available in U.S. dollars, and in Euro, Sterling, Canadian dollars and Japanese Yen) through January 6, 2016. Of the total availability under the Credit Facility, up to $250 is available to support letters of credit issued on behalf of the Company or subsidiaries of the Company. Under the Credit Facility, the Company must maintain a minimum level of consolidated net worth of $14.9 billion. The definition of consolidated net worth under the terms of the Credit Facility, excludes AOCI and includes the Company’s outstanding junior subordinated debentures and perpetual preferred securities, net of discount. In addition, the Company’s maximum ratio of consolidated total debt to consolidated total capitalization is 35%, and the ratio of consolidated total debt of subsidiaries to consolidated total capitalization is limited to 10%. As of March 31, 2013, the Company was in compliance with all financial covenants under the Credit Facility.

17. Equity

During the three months ended March 31, 2013, the Company repurchased 1.8 million common shares, for $45, and 200,000 warrants, for $3 through its equity repurchase program authorized on January 31, 2013. In addition, the Company repurchased 751,000 common shares, for $19, from April 1, 2013 to April 25, 2013. The warrants outstanding at March 31, 2013 were 51.9 million.

The declaration of a quarterly common stock dividend in the first quarter of 2013 triggered a provision in The Hartford’s Fixed Conversion Rate Agreement, relating to the Company’s mandatory convertible preferred stock, resulting in an adjustment to the minimum conversion rate to 30.1920 from 29.8831 shares of Common Stock per share of Series F Preferred Stock and the maximum conversion rate to 36.8365 from 36.4596 shares of Common Stock per share of Series F Preferred Stock. On April 1, 2013 the mandatory convertible preferred stock converted to 21.2 million shares of common stock.

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

18. Restructuring and Other Costs

As a result of a strategic business realignment announced in 2012, the Company is currently focusing on its Property & Casualty, Group Benefits and Mutual Fund businesses. In addition, the Company implemented restructuring activities in 2011 across several areas aimed at reducing overall expense levels. The Company intends to substantially complete the related restructuring activities over the next 12-18 months. For related discussion of the Company's business disposition transactions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

Termination benefits related to workforce reductions and lease and other contract terminations have been accrued through March 31, 2013. Additional costs, mainly severance benefits and other related costs and professional fees, expected to be incurred subsequent to March 31, 2013, and asset impairment charges, if any, will be expensed as appropriate.

Restructuring and other costs are expected to approximate $275, pre-tax. Restructuring costs and other costs of approximately $242, pre-tax have been incurred by the Company to date in connection with these activities. As the Company executes on its operational and strategic initiatives, the Company's estimate of and actual costs incurred for restructuring activities may differ from these estimates.

Estimated restructuring and other costs as of March 31, 2013 are as follows:

Property & Casualty Commercial	$7
Consumer Markets	3
Group Benefits	1
Mutual Funds	4
Talcott Resolutions	72
Corporate	188
Total restructuring and other costs	$275

Restructuring and other costs, pre-tax incurred in connection with these activities are as follows:

	Three months ended March 31,	
	2013	2012
Severance benefits and related costs	$13	$9
Professional fees	5	—
Asset impairment charges	—	—
Other contract termination charges	—	—
Total restructuring and other costs	$18	$9

Restructuring and other costs, included in insurance operating costs and other expenses in the Condensed Consolidated Statements of Operations for each reporting segment, as well as the Corporate category are as follows:

	Three months ended March 31,	
	2013	2012
Property & Casualty Commercial	$—	$—
Consumer Markets	—	—
Group Benefits	—	—
Mutual Funds	1	—
Talcott Resolutions	1	—
Corporate	16	9
Total restructuring and other costs	$18	$9

Changes in the accrued restructuring liability balance included in other liabilities in the Condensed Consolidated Balance Sheets are as follows:

Three months ended March 31, 2013

	Severance Benefits and Related Costs	Professional Fees	Asset impairment charges	Other Contract Termination Charges	Total Restructuring and Other Costs
Balance, beginning of period	$70	$—	$—	$—	$70
Accruals/provisions	13	5	—	—	18
Payments/write-offs	(19)	(3)	—	—	(22)
Balance, end of period	$64	$2	$—	$—	$66

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

19. Changes In and Reclassifications From Accumulated Other Comprehensive Income
Changes in AOCI by component consist of the following:
Three months ended March 31, 2013

	Net Unrealized Gain on Securities [1]	OTTI Losses in OCI [1]	Net Gain (Loss) on Cash Flow Hedging Instruments [1]	Foreign Currency Translation Adjustments [1]	Pension and Other Postretirement Plan Adjustments [1]	Total AOCI [1]
Beginning balance	$3,418	$(47)	$428	$406	$(1,362)	$2,843
OCI before reclassifications	161	23	(47)	(220)	—	(83)
Amounts reclassified from AOCI	(1,050)	(8)	(61)	—	8	(1,111)
Net OCI	(889)	15	(108)	(220)	8	(1,194)
Ending balance	$2,529	$(32)	$320	$186	$(1,354)	$1,649

[1] All amounts are net of tax and DAC.

Reclassifications from AOCI consist of the following:
Three months ended March 31, 2013

AOCI	Amount Reclassified from AOCI	Affected Line Item in the Condensed Consolidated Statement of Operations
Net Unrealized Gain on Securities		
Available-for-sale securities [1]	$1,616	Net realized capital gains (losses)
	1,616	Total before tax
	566	Income tax expense
	$1,050	Net income (loss)
OTTI Losses in OCI		
Other than temporary impairments	$13	Net realized capital gains (losses)
	13	Total before tax
	5	Income tax expense (benefit)
	$8	Net income (loss)
Net Gains on Cash Flow Hedging Instruments		
Interest rate swaps [2]	$73	Net realized capital gains (losses)
Interest rate swaps	24	Net investment income
Foreign currency swaps	(3)	Net realized capital gains (losses)
	94	Total before tax
	33	Income tax expense
	$61	Net income (loss)
Pension and Other Postretirement Plan Adjustments		
Amortization of prior service costs	$2	Insurance operating costs and other expenses
Amortization of actuarial gains (losses)	(14)	Insurance operating costs and other expenses
	(12)	Total before tax
	(4)	Income tax expense
	(8)	Net income (loss)
Total amounts reclassified from AOCI	$1,111	Net income (loss)

[1] Includes $1.5 billion of net unrealized gains on securities relating to the sales of the Retirement Plans and Individual Life businesses.
[2] Includes $71 of net gains on cash flow hedging instruments relating to the sales of the Retirement Plans and Individual Life businesses.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollar amounts in millions except 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 March 31, 2013, compared with March 31, 2012, and its results of operations for the three months ended March 31, 2013, compared to the equivalent 2012 period. This discussion should be read in conjunction with MD&A in The Hartford's 2012 Form 10-K Annual Report.

On January 1, 2013, the Company completed the sale of its Retirement Plans business to Massachusetts Mutual Life Insurance Company ("MassMutual") and on January 2, 2013 the Company completed the sale of its Individual Life insurance business to The Prudential Insurance Company of America ("Prudential"), a subsidiary of Prudential Financial, Inc. For further discussion of these transactions, see Note 2 - Business Dispositions and Note 7 - Reinsurance of Notes to Condensed Consolidated Financial Statements.

Certain reclassifications have been made to prior period financial information to conform to the current period classifications. For further information on discontinued operations, see Note 14 - Discontinued Operations of Notes to Condensed 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

Operating Summary	Three months ended March 31, 2013	2012	Change
Earned premiums	$3,252	$3,442	(6 %)
Fee income	707	1,134	(38 %)
Net investment income:			
Securities available-for-sale and other	856	1,070	(20 %)
Equity securities, trading [1]	2,700	2,866	(6 %)
Total net investment income	3,556	3,936	(10)%
Net realized capital gains (losses) [2]	1,595	(910)	NM
Other revenues	68	59	15 %
Total revenues	9,178	7,661	20 %
Benefits, losses and loss adjustment expenses	2,665	3,038	(12 %)
Benefits, losses and loss adjustment expenses – returns credited on international variable annuities [1]	2,700	2,864	(6 %)
Amortization of deferred policy acquisition costs and present value of future profits (“DAC”)	1,336	321	NM
Insurance operating costs and other expenses	1,032	1,312	(21 %)
Loss on extinguishment of debt	213	—	NM
Reinsurance loss on disposition	1,574	—	NM
Interest expense	107	124	(14 %)
Total benefits, losses and expenses	9,627	7,659	26 %
Income (loss) from continuing operations before income taxes	(449)	2	NM
Income tax benefit	(208)	(95)	(119)%
Income (loss) from continuing operations, net of tax	(241)	97	NM
Income (loss) from discontinued operations, net of tax	—	(1)	100 %
Net income (loss)	$(241)	$96	NM
Supplemental Operating Data			
Income (loss) from continuing operations, net of tax, available to common shareholders per diluted common share	$(0.58)	$0.19	NM
Net income (loss) available to common shareholders per diluted common share	(0.58)	0.18	NM
Total revenues, excluding net investment income on equity securities, trading	6,478	4,795	35 %

Summary of Financial Condition	March 31, 2013	December 31, 2012
Total assets	$297,021	$298,513
Total investments, excluding equity securities, trading	86,739	105,317
Total stockholders’ equity	20,920	22,447

[1] 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.

[2] Includes net realized gains (losses) on business dispositions of $1,574 for the three months ended March 31, 2013.

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	Three months ended March 31,		
Net income (loss) by segment	2013	2012	Increase (Decrease) From 2012 to 2013
Property & Casualty Commercial	$253	$189	$64
Consumer Markets	77	108	(31)
Property & Casualty Other Operations	21	27	(6)
Group Benefits	42	18	24
Mutual Funds	18	20	(2)
Talcott Resolution	(294)	(170)	(124)
Corporate	(358)	(96)	(262)
Total net income (loss)	$(241)	$96	$(337)

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The decrease in net income from 2012 to 2013 was primarily due to the following items:

- A change in the Unlock to a charge of $541, after-tax, in 2013 from a benefit of $214, after-tax, in 2012. The Unlock charge in 2013 was primarily due to Japan hedge cost assumption changes, partially offset by actual separate account returns being above our aggregated estimated returns during the period. The Unlock benefit in 2012 was driven by actual separate account returns being above our aggregated estimated returns. For further discussion see Unlocks within the Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity and Other Universal Life-Type Contracts section in Critical Accounting Estimates.
- A loss on extinguishment of debt of $138, after-tax, in 2013 related to the repurchase of approximately $800 of senior notes at a premium to the face amount of the then outstanding debt. The resulting loss on extinguishment of debt consists of the repurchase premium, the write-off of the unamortized discount, and debt issuance and other costs related to the repurchase transaction.

Partially offsetting the decrease in net income were the following items:

- Net realized capital gains (losses) increased to a gain from a loss in the prior year primarily due to losses on the international variable annuity hedge program in 2012. The losses in 2012 resulted from the weakening of the yen and rising equity markets. 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. For further discussion of the results, see Net Realized Capital Gains (Losses) within Investment Results of Key Performance Measures and Ratios. For information on the related sensitivities of the variable annuity hedging program, see Variable Product Guarantee Risks and Risk Management within Enterprise Risk Management.
- Current accident year catastrophe losses of $21, after-tax, in 2013, compared to $46, after-tax in 2012. Losses in 2013 were primarily due to thunderstorms in the South and Midwest. Losses in 2012 were primarily due to tornadoes and thunderstorms in the Midwest and South.

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

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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-Q. 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 Part I, Item 1A, Risk Factors in The Hartford’s 2012 Form 10-K Annual Report.

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 Condensed 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. During the three months ended March 31, 2013, the Company repurchased 1.8 million common shares, for $45, and 200,000 warrants, for $3 under the equity repurchase program. In addition, the Company repurchased 751,000 common shares, for $19, from April 1, 2013 to April 25, 2013. On March 26, 2013, the Company repurchased principal amounts of approximately $800, plus a payment for unpaid interest on senior notes due through the settlement date. The Company recognized a loss on extinguishment in three months ended March 31, 2013 of approximately $138, after-tax, representing the excess of the repurchase price over the principal repaid and the write-off of the unamortized discount and debt issuance costs. On April 15, 2013, the Company issued $300 aggregate principal amount of 4.3% Senior Notes (the "4.3% Notes") due April 15, 2043. For additional information regarding debt, see Note 16 - Debt of Notes to Condensed Consolidated Financial Statements.

Slow economic and employment expansion may adversely impact the performance of the Company'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 Company's businesses 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 businesses. 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. For the full year 2013, we estimate that reinvesting at lower rates will negatively impact annual net investment income, in comparison to the prior year, by approximately $10-15mm, after-tax.

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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 flat to 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 for full year 2013 as compared to 2012 due to anticipated margin expansion across all businesses as expected earned pricing increases outpace loss costs.

Consumer Markets

The Company expects written premiums to be flat to slightly higher in 2013 compared to 2012, with growth in both AARP Direct and in business sold through independent agents to AARP members. In 2013, management expects an increase in new business and improvement in premium retention driven by the effect of renewal written price increases on retained business. 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 flat for full year 2013 as compared to 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 for full year 2013 as compared to 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 Company'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;
- valuation allowance on deferred tax assets; and
- contingencies relating to corporate litigation and regulatory matters.

Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the Condensed Consolidated Financial Statements. 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

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.

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Reserve Roll Forwards and Development

A roll-forward follows of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses for the three months ended March 31, 2013:

Three Months Ended March 31, 2013

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$16,020	$1,926	$3,770	$21,716
Reinsurance and other recoverables	2,365	16	646	3,027
Beginning liabilities for unpaid losses and loss adjustment expenses, net	13,655	1,910	3,124	18,689
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	968	568	—	1,536
Current accident year catastrophes [3]	6	26	—	32
Prior accident years	8	4	2	14
Total provision for unpaid losses and loss adjustment expenses	982	598	2	1,582
Less: Payments	989	653	89	1,731
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,648	1,855	3,037	18,540
Reinsurance and other recoverables	2,387	8	615	3,010
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$16,035	$1,863	$3,652	$21,550
Earned premiums	$1,529	$896		
Loss and loss expense paid ratio [1]	64.6	72.8		
Loss and loss expense incurred ratio	64.2	66.7		
Prior accident years development (pts) [2]	0.5	0.4		

[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.

[3] Contributing to the current accident year catastrophes losses were the following events:

Three Months Ended March 31, 2013

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Thunderstorms [1]	$3	$20	$—	$23
Winter Storm	3	6	—	9
Total	$6	$26	$—	$32

[1] These amounts represent an aggregation of multiple catastrophes.

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Prior accident years development recorded in 2013
Included within prior accident years development for the three months ended March 31, 2013 were the following reserve strengthenings (releases):

Three Months Ended March 31, 2013

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Auto liability	$15	$—	$—	$15
Homeowners	—	(8)	—	(8)
Professional liability	1	—	—	1
Package business	(11)	—	—	(11)
Workers' compensation	18	—	—	18
General liability	(19)	—	—	(19)
Fidelity and surety	(5)	—	—	(5)
Commercial property	(4)	—	—	(4)
Net asbestos reserves	—	—	—	—
Net environmental reserves	—	—	1	1
Change in workers' compensation discount, including accretion	8	—	—	8
Catastrophes	—	2	—	2
Other reserve re-estimates, net	5	10	1	16
Total prior accident years development	$8	$4	$2	$14

During the three months ended March 31, 2013, the Company's re-estimates of prior accident years reserves included the following significant reserve changes:

- Strengthened reserves in commercial auto liability, primarily related to specialty program lines claims in accident years 2010 and 2011. Higher than expected bodily injury severity, driven by large loss activity, has been observed for these accident years.
- 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.
- Strengthened reserves in workers' compensation related to specialty captive lines claims for the 2010 and 2011 accident years. Higher than expected loss frequency has been observed in these accident years.
- 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 three months ended March 31, 2012:

Three Months Ended March 31, 2012

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
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	1,027	574	—	1,601
Current accident year catastrophes [3]	32	39	—	71
Prior accident years	20	(55)	6	(29)
Total provision for unpaid losses and loss adjustment expenses	1,079	558	6	1,643
Less: Payments	1,031	656	104	1,791
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,142	1,954	3,273	18,369
Reinsurance and other recoverables	2,366	8	681	3,055
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$15,508	$1,962	$3,954	$21,424
Earned premiums	$1,557	$909		
Loss and loss expense paid ratio [1]	66.2	72.2		
Loss and loss expense incurred ratio	69.3	61.4		
Prior accident years development (pts) [2]	1.3	(6.1)		

[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.

[3] Contributing to the current accident year catastrophes losses were the following events:

Three Months Ended March 31, 2012

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Tornadoes [1]	$32	$39	$—	$71
Total	$32	$39	$—	$71

[1] These amounts represent an aggregation of multiple catastrophes.

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Prior accident years development recorded in 2012

Included within prior accident years development for the three months ended March 31, 2012 were the following reserve strengthenings (releases):

Three Months Ended March 31, 2012

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Auto liability	$12	$(30)	$—	$(18)
Homeowners	—	(5)	—	(5)
Professional liability	9	—	—	9
Package business	(16)	—	—	(16)
Workers' compensation	8	—	—	8
General liability	(16)	—	—	(16)
Fidelity and surety	1	—	—	1
Commercial property	(10)	—	—	(10)
Net environmental reserves	—	—	5	5
Change in workers' compensation discount, including accretion	29	—	—	29
Catastrophes	3	(14)	—	(11)
Other reserve re-estimates, net	—	(6)	1	(5)
Total prior accident years development	$20	$(55)	$6	$(29)

During the three months ended March 31, 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 2010. As these accident years matured, favorable bodily injury severity trends were observed and management placed more weight on the emerged experience.
- Strengthened reserves for commercial auto liability claims, primarily for accident year 2011. Higher than expected bodily injury severity, driven by large loss activity, had been observed for these accident years.
- Released reserves in package business liability coverages and general liability, primarily for accident years 2006 through 2010. Claim severity emergence for these years was lower than expected and management placed more weight on the emerged experience.
- Released reserves in commercial property for accident year 2011. Loss emergence for this accident year was favorable to expectations.
- 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.
- Refer to the Property & Casualty Other Operations Claims section for further discussion on net asbestos and net environmental reserves

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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, categorized by asbestos, environmental and all other claims, for the three months ended March 31, 2013.

Property & Casualty Other Operations Losses and Loss Adjustment Expenses

Three Months Ended March 31, 2013	Asbestos		Environmental	All Other [1]	Total
Beginning liability—net [2][3]	$1,776		$290	$1,058	$3,124
Losses and loss adjustment expenses incurred	—		1	1	2
Less : losses and loss adjustment expenses paid	54		5	30	89
Ending liability – net [2][3]	$1,722	[4]	$286	$1,029	$3,037

[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 $14 and $7, respectively, as of March 31, 2013 and $15 and 7, respectively, as of December 31, 2012; total net losses and loss adjustment expenses incurred for the three months ended March 31, 2013 includes $1 related to asbestos and environmental claims, and total net losses and loss adjustment expenses paid for the three months ended March 31, 2013 includes $2 related to asbestos and environmental claims.

[3] Gross of reinsurance, asbestos and environmental reserves, including liabilities in Ongoing Operations, were $2,226 and $330, respectively, as of March 31, 2013.

[4] The one year and average three year net paid amounts for asbestos claims, including Ongoing Operations, are $176 and $219, respectively, resulting in a one year net survival ratio of 9.8 and a three year net survival ratio of 7.9. 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.

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.

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The following table sets forth, for the three ended March 31, 2013, 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

Three Months Ended March 31, 2013	Asbestos [1] Paid Losses & LAE	Asbestos [1] Incurred Losses & LAE	Environmental [1] Paid Losses & LAE	Environmental [1] Incurred Losses & LAE
Gross				
Direct	$44	$—	$5	$1
Assumed Reinsurance	19	—	—	—
London Market	3	—	—	—
Total	66	—	5	1
Ceded	(12)	—	—	—
Net	$54	$—	$5	$1

[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 three months ended March 31, 2013 includes $1 related to asbestos and environmental claims. Total gross losses and LAE paid in Ongoing Operations for the three months ended March 31, 2013 includes $2 related to asbestos and environmental claims.

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 March 31, 2013 of $2.03 billion ($1.74 billion and $293 for asbestos and environmental, respectively) is 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 the Company's 2012 Form 10-K Annual Report. 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. The Company will complete its annual ground-up asbestos and environmental reserve studies during the second quarter of 2013. For a discussion of the Company's reserving practices, see the Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance section of the MD&A included in the Company's 2012 Form 10-K Annual Report.

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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"). The most significant EGP based balances are as follows:

	Talcott Resolution	
	As of March 31, 2013	As of December 31, 2012
DAC [1]	$1,818	$5,112
SIA [1]	$187	$325
URR [2]	$69	$1,880
Death and Other Insurance Benefit Reserves [3]	$1,364	$1,942

[1] For additional information on DAC and SIA, see Note 8 - Deferred Policy Acquisition Costs and Present Value of Future Profits and Note 10 - Sales Inducements, respectively, of Notes to Condensed Consolidated Financial Statements.

[2] Unearned revenue reserves associated with the Retirement Plans and Individual Life businesses are no longer included in EGP based balances due to the sales of these business in January 2013. As of December 31, 2012, URR includes approximately $1.8 billion related to the Retirement Plans and Individual Life businesses. For additional information regarding business dispositions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[3] Universal life ("UL") secondary guarantee benefits associated with the Retirement Plans and Individual Life businesses are no longer considered EGP based balances as the sales of these businesses were structured as reinsurance transactions. As of December 31, 2012, death and other insurance benefit reserves includes $363 of UL secondary guarantee benefits. For additional information on death and other insurance benefit reserves, see Note 9 - Separate Accounts, Death Benefits and Other Insurance Benefit Features of Notes to Condensed Consolidated Financial Statements.

Unlocks

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

	Talcott Resolution	
	Three Months Ended March 31,	
	2013	2012
DAC	$(904)	$124
SIA	(56)	5
URR	2	(2)
Death and Other Insurance Benefit Reserves	126	203
Total (pre-tax)	$(832)	$330
Income tax effect	(291)	116
Total (after-tax)	$(541)	$214

The Unlock charge, after-tax for the three months ended March 31, 2013 was primarily due to Japan hedge cost assumption changes of $577 ($887 pre-tax), partially offset by actual separate account returns being above our aggregated estimated returns during the period. The Unlock benefit for the three months ended March 31, 2012 was driven by actual separate account returns being above our aggregated estimated returns during the period.

The after-tax (charge) benefit related to assumption changes and market performance is as follows:

	Talcott Resolution		
	Three Months Ended March 31, 2013		
	U.S. Annuity	International Annuity	Total
Assumption changes	$(33)	$(651)	$(684)
Market performance and other attributes [1]	36	107	143

Total	$3	$(544)	$(541)

[1] Other attributes include non-market components such as lapses.

The International Annuity Unlock charge was driven by assumption changes related to the elimination of future estimated gross profits on the Japan variable annuity block due to the increased costs associated with expanding the Japan variable annuity hedging program. In addition, market performance was partially offset by lapses due to the implementation of the U.S. Annuity Enhanced Surrender Value initiative . Consequently, the International Annuity DAC balance has been fully amortized as of March 31, 2013.

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An Unlock revises EGPs, on a quarterly basis, to reflect the Company’s current best estimate assumptions and market updates of policyholder account value. 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. individual variable annuities was 35% as of March 31, 2013.

Goodwill Impairment

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

	As of March 31, 2013			As of December 31, 2012		
	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 [2]	149	92	241	149	92	241
Talcott Resolution:						
Retirement Plans [1] [2]	—	—	—	87	69	156
Total	$268	$230	$498	$355	$299	$654

[1] For further information, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[2] For further information, see Note 15 - Goodwill of Notes to Condensed Consolidated Financial Statements.

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.

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.

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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 manage 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 - Segment Information of Notes to Condensed 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. The fees earned on variable universal life products are subsequently ceded through third-party reinsurance agreements. 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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KEY PERFORMANCE MEASURES AND RATIOS

The Company considers several measures and ratios to be the key performance indicators for its businesses. The following discussions include the more significant ratios and measures of profitability for the three months ended March 31, 2013 and 2012. Management believes that these ratios and measures are useful in understanding the underlying trends in The Hartford's businesses. However, these key performance indicators should only be used in conjunction with, and not in lieu of, the results presented in the segment discussions that follow in this MD&A. These ratios and measures may not be comparable to other performance measures used by the Company's competitors. For additional information on key performance measures and ratios, see Definitions of Non-GAAP and other measures and ratios within MD&A of The Hartford's 2012 Form 10-K Annual Report.

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 three months ended March 31, 2013 and 2012 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 financial 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. A reconciliation of combined ratio to combined ratio before prior accident year reserve development for the three months ended March 31, 2013 and 2012 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 (loss) to core earnings for the three months ended March 31, 2013 and 2012 is set forth below.

	Three months ended March 31,	
	2013	2012
Net income (loss)	$(241)	$96
Less: Unlock impacts on net income (loss)	(541)	214
Less: Restructuring and other costs, after tax	(12)	(6)
Less: Loss from discontinued operations, after tax	—	(1)
Less: Loss on extinguishment of debt, after tax	(138)	—
Less: Net reinsurance loss on dispositions, after tax	(25)	—
Less: Net realized capital gains (losses), after tax and DAC, excluded from core earnings [1]	19	(537)
Core earnings	$456	$426

[1] Excludes net realized gain on dispositions of $1.0 billion, after tax, relating to the sales of the Retirement Plans and Individual Life businesses which are included in loss on dispositions, net, after tax.

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.

Full Surrender Rates

Full surrender rates are an internal measure of contract surrenders calculated using annualized full surrenders divided by a two-point average of annuity account values. The full surrender rate represents full contract liquidation and excludes partial withdrawals.

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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.

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.

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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 three months ended March 31, 2013 and 2012 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. 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

	March 31, 2013		December 31, 2012	
	Amount	Percent	Amount	Percent
Fixed maturities, available-for-sale ("AFS"), at fair value	$69,667	80.4 %	$85,922	81.6 %
Fixed maturities, at fair value using the fair value option ("FVO")	982	1.1 %	1,087	1.0 %
Equity securities, AFS, at fair value	862	1.0 %	890	0.8 %
Mortgage loans	5,229	6.0 %	6,711	6.4 %
Policy loans, at outstanding balance	1,421	1.6 %	1,997	1.9 %
Limited partnerships and other alternative investments	3,058	3.5 %	3,015	2.9 %
Other investments [1]	1,108	1.3 %	1,114	1.1 %
Short-term investments	4,412	5.1 %	4,581	4.3 %
Total investments excluding equity securities, trading	86,739	100 %	105,317	100 %
Equity securities, trading, at fair value [2]	28,099		28,933	
Total investments [3]	$114,838		$134,250	

[1] Primarily relates to derivative instruments.

[2] As of March 31, 2013 and December 31, 2012, approximately $26.3 billion and $27.1 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 March 31, 2013 and December 31, 2012, respectively, Japan equity 20% and 21%, Japan fixed income (primarily government securities) 15% and 15%, global equity 22% and 20%, global government bonds 43% and 43%, and cash and other 0% and 1%.

Total investments decreased since December 31, 2012, due to the sale of the Retirement Plans and Individual Life businesses resulting in the transfer of invested assets with a carrying value of $17.3 billion in January 2013. Refer to Note 2 - Business Dispositions of the Notes to Condensed Consolidated Financial Statements for further discussion of this transaction. The remaining decrease in total invested assets is primarily due to a decrease in fixed maturities, AFS, equity securities, trading, short-term investments, and mortgage loans. The decrease in fixed maturities, AFS was largely the result of a decline in valuations due to an increase in interest rates. The decline in equity securities, trading was primarily due to variable annuity policy surrenders as well as the depreciation of the Japanese yen as compared to the U.S. dollar. The decrease 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.

Net Investment Income (Loss)

	Three Months Ended March 31,			
	2013		2012	
(Before-tax)	Amount	Yield [1]	Amount	Yield [1]
Fixed maturities [2]	$671	4.0 %	$858	4.2 %
Equity securities, AFS	6	2.9 %	10	3.9 %
Mortgage loans	65	5.0 %	79	5.3 %
Policy loans	20	5.2 %	30	6.1 %
Limited partnerships and other alternative investments	66	8.8 %	52	8.0 %
Other [3]	57		69	
Investment expense	(29)		(28)	
Total securities AFS and other	856	4.3 %	1,070	4.3 %
Equity securities, trading	2,700		2,866	
Total net investment income (loss)	$3,556		$3,936	
Total securities, AFS and other excluding limited partnerships and other alternative investments	$790	4.1 %	$1,018	4.2 %

[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, or adjusted carrying value, as applicable, excluding equity securities, trading, repurchase agreement and dollar roll collateral, and consolidated variable interest entity non-controlling interests. Yield calculations for the three months ended March 31, 2013 exclude assets transfered due to the sale of the Retirement Plans and Individual Life businesses.

[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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Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Total net investment income declined primarily due to a decrease in asset levels as a result of the sale of the Retirement Plans and Individual Life businesses in January 2013. Refer to Note 2 - Business Dispositions of the Notes to Condensed Consolidated Financial Statements for further discussion of this transaction. In addition, net investment income decreased as a result of equity securities, trading, resulting from deteriorations in market performance of the underlying investment funds supporting the Japanese variable annuity product. Annualized investment yield excluding limited partnerships and other alternative investments declined to 4.1% in the first quarter of 2013 compared to 4.2% in the first quarter of 2012, primarily resulting from the impact of the assets transferred as part of the disposed businesses.

The annualized net investment income yield, excluding partnerships and other alternative investments, has declined to 4.1% or approximately 20 basis points in the first quarter of 2013 versus the fourth quarter of 2012. The invested assets transferred associated with the divested Individual Life and Retirement Plans businesses had a carrying value of $17.3 billion and an average book yield, including the impact of associated derivatives, of approximately 5.0% and represent the vast majority of the estimated change in the sequential quarter net investment income yield. The average investment rate in the first quarter of 2013 was approximately 3.3%, excluding treasury securities and mortgage backed securities related to the dollar roll strategy (for further discussion on dollar roll strategy see Note 6 - Investments and Derivative Investments of Notes to Condensed Consolidated Financial Statements), which compares to the average yield of sales and maturities during the first quarter of 2013 of 3.5%. We currently expect the annualized net investment income yield excluding limited partnerships and other alternative investments to decline slightly from the first quarter as the Company maintains a greater level of short-term and treasury security balances due to the anticipated collateral needs associated with an increased level of variable annuity hedging activity and a modest shortening of the portfolio duration in anticipation of rising interest rates. For the full year 2013, we estimate that reinvesting at lower rates will negatively impact annual net investment income in relation to prior year by approximately $10 to $15, after-tax. The estimated impact on net investment income is subject to change as the composition of the portfolio changes through normal portfolio management and trading activities and changes in market conditions.

Net Realized Capital Gains (Losses)

	Three Months Ended March 31,	
(Before-tax)	2013	2012
Gross gains on sales	$1,719	$259
Gross losses on sales	(82)	(97)
Net OTTI losses recognized in earnings	(21)	(29)
Valuation allowances on mortgage loans	—	1
Japanese fixed annuity contract hedges, net [1]	3	(20)
Periodic net coupon settlements on credit derivatives/Japan	(6)	(5)
Results of variable annuity hedge program		
GMWB derivatives, net	47	185
U.S. macro hedge program	(85)	(189)
Total U.S. program	(38)	(4)
International program	(192)	(1,219)
Total results of variable annuity hedge program	(230)	(1,223)
Other, net [2]	212	204
Net realized capital gains (losses)	$1,595	$(910)

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

[2]

Primarily consists of transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, gains and losses on non-qualifying derivatives 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 three months ended March 31, 2013 were predominately from the sale of the Retirement Plans and Individual Life businesses resulting in a gain of $1.5 billion. The remaining gains and losses on sales were primarily due to the sales of investment grade corporate securities, mortgage backed securities and tax exempt municipal bonds. The sales were primarily as a result of normal portfolio management and to increase exposures to select financials where we see relative value and to add a modest amount of emerging market securities that provide attractive risk-adjusted returns.

- Gross gains and losses on sales for three months ended March 31, 2012 were predominately from sales of investment grade corporate securities, U.S. Treasuries and municipals bonds due to tactical repositioning of the portfolio.

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Net OTTI losses

- For further information, see Other-Than-Temporary Impairments within the Investment Portfolio Risks and Risk Management section of the MD&A.

Variable annuity hedge program

- For the three months ended March 31, 2013, the gain on U.S. GMWB related derivatives, net, was primarily driven by gains of $46 on favorable policyholder behavior.
- For the three months ended March 31, 2013, the loss on the U.S. macro hedge program was primarily due to losses of approximately $56 related to an improvement in domestic equity markets, losses of approximately $15 related to the passage of time, and losses of approximately $15 due to lower equity volatility.
- For the three months ended March 31, 2013, the loss associated with the international program was primarily driven by losses of approximately $227 due to an improvement in global equity markets, and losses of approximately $69 due to a depreciation of the Japanese yen. These losses were partially offset by gains of approximately $71 due to a decrease in Japanese interest rates.
- The gain on U.S. GMWB related derivatives, net, for the three months ended March 31, 2012 was primarily due to lower equity and interest rate volatility of $107, favorable policyholder behavior which resulted in a gain of $57, and a general increase in long-term interest rates of $37. The loss on U.S. macro hedge program for the three months ended March 31, 2012 was primarily driven by an increase in the domestic equity market and lower equity market volatility. The loss associated with the international program for the three months ended March 31, 2012 was primarily driven by depreciation of the Japanese yen in relation to the euro and the U.S. dollar of approximately ($619), and an improvement in global and domestic equity markets resulting in a loss of approximately ($583).

Other, net

- Other, net gain for the three months ended March 31, 2013, was primarily due to gains of $141 on transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, due to depreciation of the Japanese yen versus the U.S. dollar. Additional gains of $86 on interest derivatives were primarily associated with fixed rate bonds sold as part of the Individual Life and Retirement Plans business dispositions. For further information on the business dispositions, see Note 2.
- Other, net gain for the three months ended March 31, 2012 was primarily due to gains of $189 on transactional foreign currency re-valuation associated with the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, due to depreciation of the Japanese yen versus the U.S. dollar. Additional gains of $126 were related to credit derivatives driven by credit spread tightening. These gains were partially offset by losses of ($63) on Japan 3Win foreign currency swaps primarily driven by a strengthening of the currency basis swap spread between U.S. dollar and Japanese yen.

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PROPERTY & CASUALTY COMMERCIAL

	Three months ended March 31,		
Underwriting Summary	2013	2012	Change
Written premiums	$1,645	$1,687	(2 %)
Change in unearned premium reserve	116	130	(11 %)
Earned premiums	1,529	1,557	(2 %)
Losses and loss adjustment expenses			
Current accident year before catastrophes	968	1,027	(6 %)
Current accident year catastrophes	6	32	(81 %)
Prior accident years	8	20	(60 %)
Total losses and loss adjustment expenses	982	1,079	(9 %)
Amortization of DAC	227	231	(2 %)
Underwriting expenses	225	245	(8 %)
Dividends to policyholders	4	(2)	NM
Underwriting gain	91	4	NM
Net servicing income	6	4	50 %
Net investment income	240	235	2 %
Net realized capital gains	43	43	— %
Other expenses	(28)	(30)	7 %
Income from continuing operations before income taxes	352	256	38 %
Income tax expense	99	66	50 %
Income from continuing operations, net of tax	253	190	33 %
Income (loss) from discontinued operations, net of tax [1]	—	(1)	— %
Net income	$253	$189	34 %

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

	Three months ended March 31,	
Premium Measures [1]	2013	2012
New business premium	$266	$268
Standard commercial lines policy count retention	82 %	83 %
Standard commercial lines renewal written pricing increase	9 %	7 %
Standard commercial lines renewal earned pricing increase	8 %	4 %
Standard commercial lines policies in-force as of end of period	1,259,867	1,261,154

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

	Three months ended March 31,		
Ratios	2013	2012	Change
Loss and loss adjustment expense ratio			
Current accident year before catastrophes	63.3	66.0	2.7
Current accident year catastrophes	0.4	2.1	1.7
Prior accident years	0.5	1.3	0.8
Total loss and loss adjustment expense ratio	64.2	69.3	5.1
Expense ratio	29.6	30.6	1.0
Policyholder dividend ratio	0.3	(0.1)	(0.4)
Combined ratio	94.0	99.7	5.7

Catastrophe ratio				
Current accident year	0.4	2.1	1.7	
Prior accident years	—	0.2	0.2	
Total catastrophe ratio	0.4	2.2	1.8	
Combined ratio before catastrophes	93.7	97.5	3.8	
Non-catastrophe prior year development	0.5	1.1	0.6	
Combined ratio before catastrophes and prior accident year development	93.1	96.4	3.3	
Other revenues [1]	$30	$22	36	%

[1] Represents servicing revenues.

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The three months ended March 31, 2013 compared to the three months ended March 31, 2012
Net income, as compared to the prior year period, increased for the three months ended March 31, 2013 primarily due to improvements in underwriting results driven by lower current accident year losses, including catastrophes.
Current accident year catastrophe losses for the three months ended March 31, 2013 of $6, pre-tax, primarily included thunderstorms in the Midwest and South and winter storms in the South. For the three months ended March 31, 2012, current accident year catastrophe losses of $32, pre-tax, primarily included thunderstorms and tornadoes in the Midwest and South.
Unfavorable prior year development, as compared to the prior year period, declined for the three months ended March 31, 2013. 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.
Earned premiums, as compared to the prior year period, decreased for the three months ended March 31, 2013 primarily due to decreases in the worker's compensation business in middle market partially offset by increases in the worker's compensation business in small commercial. The decrease in middle market was driven by lower policy count retention and policies-in-force. The increase in small commercial was driven by increased audit premiums and earned pricing partially offset by lower policy count retention.
Current accident year loss and loss adjustment expenses before catastrophes, as compared to the prior year period, decreased for the three months ended March 31, 2013 primarily driven by lower loss and loss adjustment expense ratios in worker's compensation and professional liability and lower non catastrophe losses in package business, partially offset by higher non-catastrophe property losses in commercial property.
Net realized capital gains, as compared to the prior year period, remained flat for the three months ended March 31, 2013. For additional information, see the Investment Results section within Key Performance Measures and Ratios.
The effective tax rates in 2013 and 2012 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of the Notes to Condensed Consolidated Financial Statements.

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CONSUMER MARKETS

	Three months ended March 31,			
Operating Summary	2013	2012	Change	
Written premiums	$878	$861	2	%
Change in unearned premium reserve	(18	)(48	)(63	)%
Earned premiums	896	909	(1	%)
Losses and loss adjustment expenses				
Current accident year before catastrophes	568	574	(1	%)
Current accident year catastrophes	26	39	(33	%)
Prior accident years	4	(55	) NM	
Total losses and loss adjustment expenses	598	558	7	%
Amortization of DAC	83	83	—	%
Underwriting expenses	143	150	(5	%)
Underwriting results	72	118	(39	)%
Net servicing income	9	6	50	%
Net investment income	37	43	(14	%)
Net realized capital gains	7	7	—	%
Other expenses	(12	)(15	) 20	%
Income before income taxes	113	159	(29	)%
Income tax expense	36	51	(29	)%
Net income	$77	$108	(29	)%
Written Premiums				
Product Line				
Automobile	$629	$620	1	%
Homeowners	249	241	3	%
Total	$878	$861	2	%
Earned Premiums				
Product Line				
Automobile	$619	$632	(2	%)
Homeowners	277	277	—	%
Total	$896	$909	(1	%)

	Three months ended March 31,			
Premium Measures	2013		2012	
Policies in-force end of period				
Automobile	2,018,628		2,065,317	
Homeowners	1,322,290		1,330,117	
Total policies in-force end of period	3,340,918		3,395,434	
New business written premium				
Automobile	$87		$86	
Homeowners	$30		$25	
Policy count retention				
Automobile	86	%	84	%
Homeowners	87	%	85	%
Renewal written pricing increase				
Automobile	5	%	4	%
Homeowners	6	%	6	%
Renewal earned pricing increase				

Automobile	5	%	4	%
Homeowners	6	%	7	%

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	Three months ended March 31,		
Ratios and Supplemental Data	2013	2012	Change
Loss and loss adjustment expense ratio			
Current accident year before catastrophes	63.4	63.1	(0.3)
Current accident year catastrophes	2.9	4.3	1.4
Prior accident years	0.4	(6.1)	(6.5)
Total loss and loss adjustment expense ratio	66.7	61.4	(5.3)
Expense ratio	25.2	25.6	0.4
Combined ratio	92.0	87.0	(5.0)
Catastrophe ratio			
Current year	2.9	4.3	1.4
Prior years	0.2	(1.5)	(1.7)
Total catastrophe ratio	3.1	2.8	(0.3)
Combined ratio before catastrophes	88.8	84.3	(4.5)
Non-catastrophe prior year development	0.2	(4.5)	(4.7)
Combined ratio before catastrophes and prior accident years development	88.6	88.8	0.2
Other revenues [1]	$38	$37	3%
Product Line Combined Ratios			
Automobile	96.0	88.4	(7.6)
Homeowners	82.7	83.8	1.1
Total	92.0	87.0	(5.0)

[1] Represents servicing revenues.

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Net income decreased relative to the comparable prior period, primarily due to slightly unfavorable prior accident year reserve development in the current period, as compared to favorable prior accident year reserve development in 2012.

Current accident year catastrophe losses for 2013 were $26, pre-tax. In 2013, catastrophes primarily included tornadoes and thunderstorms in the Southeast and a blizzard in the Texas panhandle. In 2012, catastrophes losses of $39, pre-tax, primarily included losses from tornadoes and thunderstorms in the Midwest and South.

Unfavorable prior year development of $4, pre-tax, in 2013 compared with favorable prior year development of $55, pre-tax, in 2012. The development in 2012 was the result of 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 remained flat for homeowners, as a decline in renewal earned premium in auto more than offset an increase in new business earned premium. Compared to the first quarter of 2012, the number of policies in-force decreased for both auto and home, driven by non-renewals, though was up slightly compared to the fourth quarter of 2012 as renewal retention has improved. Policy count retention for auto and home increased reflecting improved price competitiveness as well as changes in underwriting practices and service operations.

Auto and home new business written premium increased primarily due to competitive new business pricing in AARP Direct and an increase in the sale of the AARP auto product through independent agents. The lower homeowners renewal earned pricing in 2013 was primarily due to lower rate increases taken in 2012. 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. The overall current accident year loss and loss adjustment expense ratio before catastrophes increased primarily due to an increase in auto. The increase for auto was primarily due to an increase in loss adjustment expenses as the effect of earned pricing increases was offset by modestly higher loss costs for liability and physical damage coverages. The current accident year loss and loss adjustment expense ratio before catastrophes for home was flat year over year as the effect of earned pricing increases was offset by an increase in loss adjustment expenses and higher severity on weather and non-weather related water claims.

The effective tax rates in 2013 and 2012 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Policies of the Notes to Condensed Consolidated Financial Statements.

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PROPERTY & CASUALTY OTHER OPERATIONS

	Three months ended March 31,		
Underwriting Summary	2013	2012	Change
Written premiums	$—	$1	— %
Change in unearned premium reserve	—	1	— %
Earned premiums	—	—	— %
Losses and loss adjustment expenses			
Prior accident years	2	6	(67 %)
Total losses and loss adjustment expenses	2	6	(67 %)
Underwriting expenses	7	8	(13 %)
Underwriting losses	(9)	(14)	(36 %)
Net investment income	35	39	(10 %)
Net realized capital gains	1	11	(91 %)
Other income	1	—	— %
Income before income taxes	28	36	(22 %)
Income tax expense	7	9	(22 %)
Net income	$21	$27	(22 %)

The three months ended March 31, 2013 compared to the three months ended March 31, 2012

The net income, as compared to the prior year period, decreased for the three months ended March 31, 2013 primarily due to a decrease in net realized capital gains.

The annual reviews of asbestos and environmental liabilities occur in the second quarter of the year. 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.

The effective tax rates in 2013 and 2012 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Policies of the Notes to Condensed Consolidated Financial Statements.

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GROUP BENEFITS

	Three months ended March 31,			
Operating Summary	2013	2012	Change	
Premiums and other considerations	$826	$972	(15	%)
Net investment income	97	99	(2	%)
Net realized capital gains	18	20	(10	%)
Total revenues	941	1,091	(14	%)
Benefits, losses and loss adjustment expenses	639	807	(21	%)
Amortization of DAC	8	8	—	%
Insurance operating costs and other expenses	240	258	(7	%)
Total benefits, losses and expenses	887	1,073	(17	%)
Income before income taxes	54	18	NM	
Income tax expense	12	—	—	%
Net income	$42	$18	133	%
Premiums and other considerations				
Fully insured – ongoing premiums	$812	$954	(15	%)
Buyout premiums	—	3	(100	%)
Other	14	15	(7	%)
Total premiums and other considerations	$826	$972	(15	%)
Fully insured ongoing sales, excluding buyouts	$169	$228	(26	%)
Ratios, excluding buyouts				
Loss ratio	77.4	%83.0	%5.6	
Loss ratio, excluding financial institutions	81.5	%87.4	%5.9	
Expense ratio	30.0	%27.5	%(2.5)	
Expense ratio, excluding financial institutions	26.6	%24.2	%(2.4)	
After-tax margin				
After-tax margin, excluding buyouts	4.5	%1.7	%2.8	
Effect of net realized gains, net of tax on after-tax margin	1.3	%1.2	%0.1	
After-tax margin, excluding buyouts and realized gains	3.2	%0.5	%2.7	

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Net income increased relative to the comparable prior year period primarily due to a decrease in benefits, losses and loss adjustment expenses and insurance operating costs and other expenses offset by a decrease in premiums and other considerations. The decrease in premiums was driven by the Company's continued pricing discipline on new sales and renewals to improve profitability, the loss of our largest account due to pricing and other considerations, and management actions within our Association business.

The improvement in the loss ratio was primarily due to favorable long term disability recoveries in 2013 and unfavorable long term disability severity recorded in 2012. Insurance operating costs and other expenses declined, as compared to prior year, due to lower commission payments as a result of overall lower premium.

The increase in Group Benefits' after-tax margin, excluding buyouts and realized gains, was primarily due to lower benefits, losses and loss adjustment expenses and lower insurance operating costs and other expenses. This was offset by the impact of lower premiums and other considerations.

The effective tax rates in 2013 and 2012 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of the Notes to Condensed Consolidated Financial Statements.

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MUTUAL FUNDS

	Three Months Ended Three Months Ended March 31,		
Operating Summary	2013	2012	Change
Fee income and other	$164	$151	9 %
Net investment loss	—	(1)	— %
Net realized capital gains	—	1	— %
Total revenues	164	151	9 %
Amortization of DAC	9	9	— %
Insurance operating costs and other expenses	127	111	14 %
Total benefits, losses and expenses	136	120	13 %
Income before income taxes	28	31	(10)%
Income tax expense	10	11	(9)%
Net income	$18	$20	(10)%
Assets Under Management by Distribution Channel			
RETAIL MUTUAL FUNDS [1]			
AUM, beginning of period	$45,013	$41,785	8 %
Sales	3,162	2,210	43 %
Redemptions	(3,176)	(3,069)	3 %
Net Flows	$(14)	$(859)	(98)%
Change in market value and other	3,187	4,389	(27)%
AUM, end of period	$48,186	$45,315	6 %
DEFINED CONTRIBUTION INVESTMENT ONLY MUTUAL FUNDS [2]			
AUM, beginning of period	$16,598	$16,140	3 %
Sales	942	856	10 %
Redemptions [3]	(1,426)	(1,157)	23 %
Net Flows	(484)	(301)	61 %
Change in market value and other	1,508	2,106	(28)%
AUM, end of period	$17,622	$17,945	(2)%
TOTAL MUTUAL FUNDS			
AUM, beginning of period	$61,611	$57,925	6 %
Sales	4,104	3,066	34 %
Redemptions [3]	(4,602)	(4,226)	9 %
Net Flows	(498)	(1,160)	(57)%
Change in market value and other	4,695	6,495	(28)%
AUM, end of period	$65,808	$63,260	4 %
ANNUITY MUTUAL FUND ASSETS [4]	26,628	29,145	(9)%
TOTAL ASSETS UNDER MANAGEMENT	$92,436	$92,405	— %
AVERAGE ASSETS UNDER MANAGEMENT	$90,042	$88,972	1 %

[1] Includes mutual funds offered within 529 college savings plans previously categorized as Other.

[2] Includes mutual funds offered within employee directed retirement plans including on-going business related to the Company's Retirement Plans and Individual Life businesses sold in January 2013.

[3] A planned redemption of approximately $1.4 billion occurred in April 2013.

[4] Includes Company-sponsored mutual fund assets held in separate accounts supporting variable insurance and investment products.

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	Three Months Ended March 31,		
Mutual Funds Assets Under Management by Asset Class	2013	2012	Change
Equity	38,453	39,501	(3)%
Fixed Income	15,213	13,321	14%
Multi-Strategy Investments	12,142	10,438	16%
Total Mutual Funds Assets Under Management	$65,808	$63,260	4%
Return on Assets			
ROA	8.0	9.0	(11)%
Effect of restructuring, net of tax [tbd]	(0.4)	—	—%
Effect of net realized gains, net of tax and DAC [tbd]	(0.5)	—	—%
ROA, core earnings	8.9	9.0	(1)%

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Net income, as compared to the prior period, decreased for the three months ended March 31, 2013 primarily due to higher distribution expenses combined with certain restructuring costs partially offset by increased fee income driven by higher average assets under management. The increase in average AUM during the three months ended March 31, 2013 reflects a lower rate of net outflows during the period combined with market appreciation as compared with the three months ended March 31, 2012.

The effective tax rates in 2013 and 2012 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Policies of Notes to Condensed Consolidated Financial Statements.

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TALCOTT RESOLUTION

	Three Months Ended March 31,		
Operating Summary	2013	2012	Change
Earned premiums, fees and other	$541	$935	(42)%
Net investment income:			
Securities available-for-sale and other	434	661	(34)%
Equity securities trading [2]	2,700	2,866	(6%)
Total net investment income	3,134	3,527	(11)%
Realized capital gains (losses):			
Net realized capital gains on business dispositions	1,574	—	NM
Other net realized capital gains (losses)	48	(1,007)	NM
Net realized capital gains (losses)	1,622	(1,007)	NM
Total revenues [1]	5,297	3,455	53%
Benefits, losses and loss adjustment expenses	444	588	(24)%
Benefits, losses and loss adjustment expenses – returns credited on international variable annuities [2]	2,700	2,864	(6%)
Amortization of DAC	1,009	(10)	NM
Insurance operating costs and other expenses	152	363	(58)%
Reinsurance loss on dispositions	1,505	—	NM
Total benefits, losses and expenses	5,810	3,805	53%
Loss from continuing operations, before income taxes	(513)	(350)	47%
Income tax benefit	(219)	(180)	22%
Net loss [1]	$(294)	$(170)	73%
Assets Under Management			
Variable annuity account value	$94,164	$103,627	(9)%
Fixed Market Value Adjusted annuity and other account value	14,374	15,976	(10)%
Institutional annuity account values [3]	17,586	18,622	(6)%
Other account value [4]	102,780	106,913	(4)%
Total account value [3]	227,733	243,826	(7)%
Variable Annuities - Account Value Roll Forward			
Account value, beginning of period	$94,371	$99,922	(6)%
Net flows	(4,300)	(3,146)	37%
Change in market value and other	6,510	8,797	(26)%
Effect of currency translation	(2,417)	(1,946)	24%
Account value, end of period	$94,164	$103,627	(9)%

[1] For the three months ended March 31, 2012 includes Retirement Plans total revenues of $211 and net income of $18 and Individual Life total revenues of $348 and net income of $19.

[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] Included in the balance is approximately $(1.2) billion as of March 31, 2013 and $(1.3) billion as of March 31, 2012 related to an intra-segment funding agreement which is eliminated in consolidation.

[4] Other account value includes $51.8 billion, $13.2 billion, and $37.8 billion as of March 31, 2013 and $57.2 billion, $12.9 billion, and $36.8 billion at March 31, 2012 for the Retirement Plans, Individual Life, and Private Placement Life Insurance businesses, respectively. Account values associated with the Retirement Plans and Individual Life businesses no longer generate asset-based fee income as the sales of these businesses were structured as reinsurance transactions.

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The Talcott Resolution Operating Summary 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 Notes to Condensed Consolidated Financial Statements.

The three months ended March 31, 2013 compared to the three months ended March 31, 2012

Net loss, as compared to the prior year period, increased for the three months ended March 31, 2013 primarily due to an Unlock charge compared to the Unlock benefit in the prior period. The Unlock charge for the three months ended March 31, 2013 was driven by assumption changes related to the elimination of future estimated gross profits on the Japan variable annuity block based on increased costs associated with expanding the Japan variable annuity hedging program. This was partially offset by net realized capital gains as compared to net realized capital losses in the prior period due to the decrease in losses in the variable annuity hedge program.

The net increase in realized capital gains, excluding the gain on business dispositions which was primarily offset by the reinsurance loss on disposition, was primarily due to a decrease in losses in the variable annuity hedge program as compared to the prior period. Variable annuity hedge program losses for the three months ended March 31, 2013 were $230 including international losses of $192, compared to losses of $1,223, including international losses of $1,219 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.

The 2013 and 2012 effective tax rates differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in separate account DRD. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

Account values for Talcott Resolution decreased to approximately $228 billion at March 31, 2013 from approximately $244 billion at March 31, 2012 due primarily to increased net outflows, decreased market value and increased currency translation expenses in variable annuities. For the three months ended March 31, 2013 variable annuity net outflows increased by approximately $1.2 billion as compared to the prior year period, which includes approximately $570 of net outflows in U.S. Annuity due to the Enhanced Surrender Value initiative. As of March 31, 2013, the variable annuity account value remained approximately flat as compared to December 31, 2012.

For the three months ended March 31, 2013 the annualized full surrender rate on U.S. variable annuities rose to 14.5% compared to 9.6% for the three months ended March 31, 2012 and the annualized full surrender rate on Japan variable annuities rose to 9.6% for the three months ended March 31, 2013 compared to 2.8% for the three months ended March 31, 2012. 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.

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CORPORATE

Operating Summary	Three Months Ended March 31, 2013	2012	Change
Fee income [1]	$3	$52	(94%)
Net investment income	13	(6)	NM
Net realized capital gains (losses)	(96)	15	NM
Total revenues	(80)	61	NM
Insurance operating costs and other expenses [1]	42	85	(51%)
Loss on extinguishment of debt	213	—	—%
Reinsurance loss on disposition	69	—	—%
Interest expense	107	124	(14%)
Total benefits, losses and expenses	431	209	106%
Loss from continuing operations before income taxes	(511)	(148)	NM
Income tax benefit	(153)	(52)	194%
Loss from continuing operations, net of tax	(358)	(96)	NM
Net loss	$(358)	$(96)	NM

[1] Fee income in the three months ended March 31, 2012 represents 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. As WFS was sold in November 2012, fee income and insurance operating costs and other expenses decreased accordingly in the three months ended March 31, 2013.

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

The net loss increased for the three months ended March 31, 2013 primarily due to a loss on extinguishment of debt. In March 2013, the Company repurchased approximately $800 of senior notes at a premium to the face amount of the then outstanding debt. The resulting loss on extinguishment of debt consists of the repurchase premium, the write-off of the unamortized discount, and debt issuance and other costs related to the repurchase transaction.

In connection with the disposition of the Retirement Plans business in January 2013, the Company also wrote off goodwill of $69 representing all of the goodwill held in Corporate and allocated to Retirement Plans related to the Hartford Life, Inc. buyback in 2000.

In addition, the net loss for the three months ended March 31, 2013 increased due to a decrease in net realized capital gains and increased insurance operating costs and other expenses. The net increase in insurance operating costs and expenses primarily reflects increased restructuring costs related to the Company's implementation of its strategic initiatives. For additional information on net realized capital gains (losses), see MD&A – Investment Results within Key Performance Measures and Ratios. For additional information on restructuring activities, see Note 18 - Restructuring and Other Costs of Notes to Condensed Consolidated Financial Statements .

For a reconciliation of the tax provision at the U.S. Federal statutory rate of 35% to the provision (benefit) for income taxes, see the Income Taxes section of Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements for a reconciliation of the effective tax rate.

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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

Refer to the MD&A in The Hartford’s 2012 Form 10-K Annual Report for an explanation of the Company’s Operational Risk.

Insurance Risk Management

The Company categorizes its insurance risks across both property-casualty and life products. 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.

Reinsurance as a Risk Management Strategy

The Company utilizes reinsurance to transfer risk to affiliated and unaffiliated insurers in order to limit its maximum losses and to diversify its exposures and provide statutory surplus relief. Such arrangements do not relieve the Company of its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. 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.

The Company is a member of and participates in several reinsurance pools and associations. The Company evaluates the financial condition of its reinsurers and concentrations of credit risk. Reinsurance is placed with reinsurers that meet strict financial criteria established by the Company. In the first quarter of 2013, the Company entered into two reinsurance transactions upon completion of the sales of its Retirement Plans and Individual Life businesses. For further discussion of these transactions see Note 2 - Business Dispositions and Note 7 - Reinsurance of Notes to Condensed Consolidated Financial Statements.

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 April 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.

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Reinsurance Recoverables

Reinsurance recoverables represent loss and loss adjustment expenses recoverable from a number of entities, including reinsurers and pools.

The components of the gross and net reinsurance recoverable for property-casualty insurance products are as follows:

	As of March 31, 2013	As of December 31, 2012
Gross reinsurance recoverable	3,026	3,022
Less: allowance for uncollectible reinsurance	(269)	(268)
Net reinsurance recoverable	$2,757	$2,754

The components of the gross and net reinsurance recoverable for life insurance products are as follows:

	As of March 31, 2013	As of December 31, 2012
Gross reinsurance recoverable	19,638	1,912
Less: allowance for uncollectible reinsurance	—	—
Net reinsurance recoverable	$19,638	$1,912

As of March 31, 2013, the Company has reinsurance recoverables from MassMutual and Prudential of $9.2 billion and $9.1 billion, respectively. These reinsurance recoverables are secured by invested assets held in trust for the benefit of the Company in the event of a default by the reinsurers. As of March 31, 2013, the fair value of assets held in trust securing the reinsurance recoverables from MassMutual and Prudential were $8.8 billion and $6.5 billion, respectively, representing net reinsurance recoverables of 2% and 12%, respectively, of the Company's consolidated stockholders' equity. As of March 31, 2013 the Company has no other reinsurance-related concentrations of credit risk greater than 10% of the Company’s stockholders’ equity.

For further explanation of the Company's Insurance Risk Management strategy, see MD&A - Enterprise Risk Management - Insurance Risk Management in The Hartford's 2012 Form 10-K Annual Report.

Financial Risk Management

The Company identifies the following categories of financial risk:

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

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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, company specific liquidity 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 company specific liquidity 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.
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, 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 costs 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.

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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 The Hartford's 2012 Form 10-K Annual Report. In addition, management evaluates performance of certain Wealth Management and Life Other Operations products based on net investment spread which is, in part, influenced by changes in interest rates. For further discussion, see the Individual Life, Retirement Plans, and Life Other Operations sections of the MD&A.

Foreign Currency Exchange Risk

Foreign currency exchange risk is defined as the risk of financial loss due to changes in the relative value between currencies. The Company's foreign currency exchange risk is related to non-U.S. dollar denominated liability contracts, including its GMDB, GMAB, GMWB and GMIB benefits associated with its Japanese and U.K. variable annuities, the investment in and net income of the Japanese and U.K. operations, non-U.S. dollar denominated investments, which primarily consist of fixed maturity investments, and a yen denominated individual fixed annuity product. In addition, the Company's Life Other Operations issued non-U.S. dollar denominated funding agreement liability contracts. A portion of the Company's foreign currency exposure is mitigated through the use of derivatives.

Liabilities

The Company manages the market risk, including foreign currency exchange risk, associated with the guaranteed benefits related to the Japanese and U.K. variable annuities through its comprehensive International Hedge Program. For more information on the International Hedge Program, including the foreign currency exchange risk sensitivity analysis, see the Variable Product Guarantee Risks and Risk Management section.

The yen denominated individual fixed annuity product was written by Hartford Life Insurance K.K. ("HLIKK"), a wholly-owned Japanese subsidiary of Hartford Life, Inc. ("HLI"), and subsequently reinsured to Hartford Life Insurance Company, a U.S. dollar based wholly-owned indirect subsidiary of HLI. During 2009, the Company suspended new sales of the Japan business and has subsequently confirmed that it is closed to new business. The underlying investment involves investing in U.S. securities markets, which offer favorable credit spreads. The yen denominated fixed annuity product ("yen fixed annuities") is recorded in the consolidated balance sheets with invested assets denominated in dollars while policyholder liabilities are denominated in yen and converted to U.S. dollars based upon the December 31 yen to U.S. dollar spot rate. The difference between U.S. dollar denominated investments and yen denominated liabilities exposes the Company to currency risk. The Company manages this currency risk associated with the yen fixed annuities primarily with pay variable U.S. dollar and receive fixed yen currency swaps.

The Company's Wealth Management operations issued non-U.S. dollar denominated funding agreement liability contracts. The Company hedges the foreign currency risk associated with these liability contracts with currency rate swaps.

Fixed Maturity Investments

The risk associated with the non-U.S. dollar denominated fixed maturities relates to potential decreases in value and income resulting from unfavorable changes in foreign exchange rates. In order to manage currency exposures, the

Company enters into foreign currency swaps to hedge the variability in cash flows as the fair value associated with certain foreign denominated fixed maturities decline. These foreign currency swaps are structured to match the foreign currency cash flows of the hedged foreign denominated securities.

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Equity Risk

Variable Product Guarantee Risks and Risk Management

The Company's variable products are significantly influenced by the U.S., Japanese, and other equity markets. Increases or declines in equity markets impact certain assets and liabilities related to the Company's variable products and the Company's earnings derived from those products. The Company's variable products include variable annuity contracts and mutual funds.

Generally, declines in equity markets will:

- reduce the value of assets under management and the amount of fee income generated from those assets;
- reduce the value of equity securities trading supporting the international variable annuities, the related policyholder funds and benefits payable, and the amount of fee income generated from those variable annuities;
- increase the liability for GMWB benefits resulting in realized capital losses;
- increase the value of derivative assets used to hedge product guarantees resulting in realized capital gains;
- increase the costs of the hedging instruments we use in our hedging program;
- increase the Company's net amount at risk for GMDB and GMIB benefits;
- decrease the Company's actual gross profits, resulting in increased DAC amortization;
- increase the amount of required assets to be held backing variable annuity guarantees to maintain required regulatory reserve levels and targeted risk based capital ratios; and
- decrease the Company's estimated future gross profits. See Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity and Other Universal Life-Type Contracts within the Critical Accounting Estimates section of the MD&A for further information.

Generally, increases in equity markets will reduce the value of the dynamic hedge program and macro hedge derivative assets, resulting in realized capital losses, and will generally have the inverse impact of those listed above. For additional information, see Risk Hedging - Variable Annuity Hedging Program section.

Variable Annuity Guaranteed Benefits

The majority of the Company's U.S., Japan, and U.K. variable annuities include optional living benefit and guaranteed minimum death benefit features. The net amount at risk ("NAR") is generally defined as the guaranteed minimum benefit amount in excess of the contractholder's current account value. Variable annuity account values with guarantee features were $94.2 billion and $94.4 billion as of March 31, 2013 and December 31, 2012, respectively.

The following table summarizes the account values of the Company's U.S., Japan and U.K. variable annuities with guarantee features and the NAR split between various guarantee features (retained net amount at risk does not take into consideration the effects of the variable annuity hedge programs currently in place):

Total Variable Annuity Guarantees

As of March 31, 2013

($ in billions)	Account Value	Gross Net Amount at Risk	Retained Net Amount at Risk	% of Contracts In the Money [4]	% In the Money [4] [5]
U. S. Variable Annuity [1]					
GMDB [2]	$65.5	$5.3	$1.5	29%	16%
GMWB	34.1	0.4	0.3	13%	9%
Japan Variable Annuity [1]					
GMDB	26.9	3.1	2.5	72%	12%
GMIB [3]	25.1	1.3	1.3	65%	7%
U.K. Variable Annuity [1]					
GMDB	1.8	—	—	100%	2%
GMWB	1.7	—	—	10%	8%

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Total Variable Annuity Guarantees
As of December 31, 2012

($ in billions)	Account Value	Gross Net Amount at Risk	Retained Net Amount at Risk	% of Contracts In the Money [4]	% In the Money [4] [5]
U. S. Variable Annuity [1]					
GMDB [2]	$64.8	$6.6	$2.2	48 %	13 %
GMWB	34.2	0.7	0.5	23 %	9 %
Japan Variable Annuity [1]					
GMDB	27.7	5.7	4.8	97 %	16 %
GMIB [3]	26.0	3.3	3.3	97 %	12 %
UK Variable Annuity [1]					
GMDB	1.9	—	—	100 %	2 %
GMWB	1.7	—	—	24 %	7 %

[1] Policies with a guaranteed living benefit (a GMWB in the US or UK, or a GMIB in Japan) also have a guaranteed death benefit. The net amount at risk ("NAR") for each benefit is shown; however these benefits are not additive. When a policy terminates due to death, any NAR related to GMWB or GMIB is released. Similarly, when a policy goes into benefit status on a GMWB or, by contract, the GMDB NAR is reduced to zero. When a policy goes into benefit status on a GMIB, its GMDB NAR is released

[2] Excludes group annuity contracts with GMDB benefits.

[3] Includes small amount of GMWB and GMAB

[4] Excludes reinsured contracts.

[5] For all contracts that are "in the money", this represents the percentage by which the average contract was in the money.

Many policyholders with a GMDB also have a GMWB in the U.S. or GMIB in Japan. Policyholders that have a product that offer both guarantees can only receive the GMDB or the GMIB benefit in Japan or the GMDB or GMWB in the U.S. The GMDB NAR disclosed in the tables above is a point in time measurement and assumes that all participants utilize the GMDB benefit on that measurement date. For additional information on the Company's GMDB liability, see Note 9 - Separate Accounts, Death Benefits and Other Insurance Benefit Features of Notes to Condensed Consolidated Financial Statements.

The Company expects to incur these payments in the future only if the policyholder has an "in the money" GMWB at their death or their account value is reduced to a specified level, through contractually permitted withdrawals and/or market declines. If the account value is reduced to the specified level, the contract holder will receive an annuity equal to the guaranteed remaining benefit ("GRB"). For the Company's "life-time" GMWB products, this annuity can continue beyond the GRB. As the account value fluctuates with equity market returns on a daily basis and the "life-time" GMWB payments can exceed the GRB, the ultimate amount to be paid by the Company, if any, is uncertain and could be significantly more or less than the Company's current carried liability. For additional information on the Company's GMWB liability, see Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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For GMIB contracts, in general, the policyholder has the right to elect to annuitize benefits, beginning (for certain products) on the tenth or fifteenth anniversary year of contract commencement, receive lump sum payment of the then current account value, or remain in the variable sub-account. For GMIB contracts, if the policyholder makes the election, the policyholder is entitled to receive the original investment value over a 10- to 15- year annuitization period. A small percentage of the contracts will first become eligible to elect annuitization beginning in 2013. The remainder of the contracts will first become eligible to elect annuitization from 2014 to 2022. Because policyholders have various contractual rights to defer their annuitization election, the period over which annuitization election can take place is subject to policyholder behavior and therefore indeterminate. In addition, upon annuitization the contractholder surrenders access to the account value and the account value is transferred to the Company’s general account where it is invested and the additional investment proceeds are used towards payment of the original investment value. If the original investment value exceeds the account value upon annuitization then the contract is “in the money”. As of March 31, 2013, 86% of retained NAR is reinsured to an affiliate of The Hartford. For additional information on the Company’s GMIB liability, see Note 9 - Separate Accounts, Death Benefits and Other Insurance Benefit Features of Notes to Condensed Consolidated Financial Statements.
The following table represents the timing of account values eligible for annuitization under the Japan GMIB as well as the NAR. The account values reflect 100% annuitization at the earliest point allowed by the contract and no adjustments for future market returns and policyholder behaviors. Future market returns, changes in the value of the Japanese yen and policyholder behaviors will impact account values eligible for annuitization in the years presented.

	As of March 31, 2013	
	GMIB [1]	
($ in billions)	Account Value	Net Amount at Risk
2013	$0.3	$—
2014	4.0	—
2015	6.8	0.2
2016	2.3	0.2
2017	2.6	0.3
2018 & beyond [2]	6.4	0.4
Total	$22.4	$1.1

[1] Excludes certain non-GMIB living benefits of $2.7 billion of account value and $0.2 billion of NAR.
[2] In 2018 & beyond, $2.4 billion of the $6.4 billion is primarily associated with account value that is eligible in 2021.

Variable Annuity Market Risk Exposures
The following table summarizes the broad Variable Annuity Guarantees offered by the Company and the market risks to which the guarantee is most exposed from a U.S. GAAP accounting perspective.

Variable Annuity Guarantees [1]	U.S. GAAP Treatment [1]	Primary Market Risk Exposures [1]
U.S. Variable Guarantees		
GMDB	Accumulation of the portion of fees required to cover expected claims, less accumulation of actual claims paid	Equity Market Levels
GMWB	Fair Value	Equity Market Levels / Implied Volatility / Interest Rates
For Life Component of GMWB	Accumulation of the portion of fees required to cover expected claims, less accumulation of actual claims paid	Equity Market Levels
International Variable Guarantees		
GMDB & GMIB		

	Accumulation of the portion of fees required to cover expected claims, less accumulation of actual claims paid	Equity Market Levels / Interest Rates / Foreign Currency
GMWB	Fair Value	Equity Market Levels / Implied Volatility / Interest Rates / Foreign Currency
GMAB	Fair Value	Equity Market Levels / Implied Volatility / Interest Rates / Foreign Currency

[1] Each of these guarantees and the related U.S. GAAP accounting volatility will also be influenced by actual and estimated policyholder behavior.

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Risk Hedging

Variable Annuity Hedging Program

The Company's variable annuity hedging is primarily focused on reducing the economic exposure to market risks associated with guaranteed benefits that are embedded in our global VA contracts through the use of reinsurance and capital market derivative instruments. The variable annuity hedging also considers the potential impacts on Statutory accounting results.

Reinsurance

The Company uses reinsurance for a portion of contracts with GMWB riders issued prior to the third quarter of 2003 and GMWB risks associated with a block of business sold between the third quarter of 2003 and the second quarter of 2006. The Company also uses reinsurance for a majority of the GMDB issued in the U.S. and a portion of the GMDB issued in Japan.

Capital Market Derivatives

GMWB Hedge Program

The Company enters into derivative contracts to hedge market risk exposures associated with the GMWB liabilities that are not reinsured. These derivative contracts include customized swaps, interest rate swaps and futures, and equity swaps, options, and futures, on certain indices including the S&P 500 index, EAFE index, and NASDAQ index. Additionally, the Company holds customized derivative contracts to provide protection from certain capital market risks for the remaining term of specified blocks of non-reinsured GMWB riders. These customized derivative contracts are based on policyholder behavior assumptions specified at the inception of the derivative contracts. The Company retains the risk for differences between assumed and actual policyholder behavior and between the performance of the actively managed funds underlying the separate accounts and their respective indices.

While the Company actively manages this dynamic hedging program, increased U.S. GAAP earnings volatility may result from factors including, but not limited to: policyholder behavior, capital markets, divergence between the performance of the underlying funds and the hedging indices, changes in hedging positions and the relative emphasis placed on various risk management objectives.

Macro Hedge Program

The Company's macro hedging program uses derivative instruments such as options and futures on equities and interest rates to provide protection against the statutory tail scenario risk arising from U.S., GMWB and GMDB liabilities, on the Company's statutory surplus. These macro hedges cover some of the residual risks not otherwise covered by specific dynamic hedging programs. Management assesses this residual risk under various scenarios in designing and executing the macro hedge program. The macro hedge program will result in additional U.S. GAAP earnings volatility as changes in the value of the macro hedge derivatives, which are designed to reduce statutory reserve and capital volatility, may not be closely aligned to changes in U.S. GAAP liabilities.

International Hedge Programs

The Company enters into derivative contracts to hedge market risk exposures associated with the guaranteed benefits which are embedded in the international variable annuity contracts. These derivative contracts include foreign currency forwards and options, interest rate swaps, swaptions and futures, and equity swaps, options, and futures on certain broadly traded global equity indices including the S&P500 index, Nikkei 225 index, Topix index, FTSE 100 index, Euro Stoxx 50 and DAX 30 index.

While the Company actively manages these dynamic hedging programs, increased U.S. GAAP earnings volatility may result from factors including, but not limited to: focus on reducing the economic exposure to market risks associated with guaranteed benefits, capital markets, changes in hedging positions and the relative emphasis placed on various risk management objectives.

Variable Annuity Hedging Program Sensitivities

The following table presents the accounting treatment of the underlying guaranteed living benefits and the related hedge assets by hedge program.

U.S. Programs		International Programs
GMWB	Macro	Japan/UK

Hedge Assets	Liabilities	Hedge Assets	Liabilities	Hedge Assets	Liabilities [1]
Fair Value	Fair Value	Fair Value	Not Fair Value	Fair Value	Not Fair Value

[1] The liabilities for international variable annuity are primarily not measured on a fair value basis. However there is an immaterial portion of the international variable annuity with a GMWB or GMAB which is measured on a fair value basis.

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The following table presents our estimates of the potential instantaneous impacts from sudden market stresses related to equity market prices, interest rates, implied market volatilities, and foreign currency exchange rates. The sensitivities below represent: (1) the net estimated difference between the change in the fair value of GMWB liabilities and the underlying hedge instruments and (2) the estimated change in fair value of the hedge instruments for the macro and international hedge programs, before the impacts of amortization of DAC, and taxes. As noted in the table above, certain hedge assets are used to hedge liabilities that are not carried at fair value and will not have a liability offset in the U.S. GAAP sensitivity analysis. All sensitivities are measured as of April 8, 2013, and are related to the fair value of liabilities and hedge instruments in place as of April 8, 2013 for the Company's variable annuity hedge programs. The impacts presented in the table below are estimated individually and measured without consideration of any correlation among market risk factors.

As of April 8, 2013

U.S. GAAP Sensitivity Analysis (pre Tax/DAC) [1]	U.S. Programs						International Programs		
	GMWB			Macro			Japan/UK		
Equity Market Return	-20%	-10%	+10%	-20%	-10%	+10%	-20%	-10%	+10%
Potential Net Fair Value Impact	$(228)	$(95)	$64	$289	$87	$(69)	$904	$456	$(489)
Interest Rates	-50 bps	-25 bps	+25 bps	-50 bps	-25 bps	+25 bps	-50 bps	-25 bps	+25 bps
Potential Net Fair Value Impact	$(87)	$(40)	$35	$26	$13	$(12)	$170	$67	$(58)
Implied Volatilities	+10%	+2%	-10%	+10%	+2%	-10%	+10%	+2%	-10%
Potential Net Fair Value Impact	$(446)	$(84)	$366	$92	$18	$(87)	$58	$6	$(25)
Yen Strengthens +/ Weakens -	+20%	+10%	-10%	+20%	+10%	-10%	+20%	+10%	-10%
Potential Net Fair Value Impact	N/A	N/A	N/A	N/A	N/A	N/A	$1,415	$533	$(437)

[1] These sensitivities are based on full implementation of the expanded Japan variable annuity hedging program.

The above sensitivity analysis is an estimate and should not be used to predict the future financial performance of the Company's variable annuity hedge programs. The actual net changes in the fair value liability and the hedging assets illustrated in the above table may vary materially depending on a variety of factors which include but are not limited to:

- The sensitivity analysis is only valid as of the measurement date and assumes instantaneous changes in the capital market factors and no ability to rebalance hedge positions prior to the market changes;
- Changes to the underlying hedging program, policyholder behavior, and variation in underlying fund performance relative to the hedged index, which could materially impact the liability; and
- The impact of elapsed time on liabilities or hedge assets, any non-parallel shifts in capital market factors, or correlated moves across the sensitivities.

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Financial Risk on Statutory Capital

Statutory surplus amounts and risk-based capital ("RBC") ratios may increase or decrease in any period depending upon a variety of factors and may be compounded in extreme scenarios or if multiple factors occur at the same time. At times the impact of changes in certain market factors or a combination of multiple factors on RBC ratios can be counterintuitive. Factors include:

- In general, as equity market levels and interest rates decline, the amount and volatility of both our actual potential obligation, as well as the related statutory surplus and capital margin for death and living benefit guarantees associated with U.S. variable annuity contracts can be materially negatively affected, sometimes at a greater than linear rate. Other market factors that can impact statutory surplus, reserve levels and capital margin include differences in performance of variable subaccounts relative to indices and/or realized equity and interest rate volatilities. In addition, as equity market levels increase, generally surplus levels will increase. RBC ratios will also tend to increase when equity markets increase. 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 increase with rising equity markets, resulting in lower RBC ratios. Non-market factors, which can also impact the amount and volatility of both our actual potential obligation, as well as the related statutory surplus and capital margin, include actual and estimated policyholder behavior experience as it pertains to lapsation, partial withdrawals, and mortality.
- Similarly, for guaranteed benefits (GMDB, GMIB, and GMWB) reinsured from our international operations to our U.S. insurance subsidiaries, the amount and volatility of both our actual potential obligation, as well as the related statutory surplus and capital margin can be materially affected by a variety of factors, both market and non-market. Market factors include declines in various equity market indices and interest rates, changes in value of the yen versus other global currencies, difference in the performance of variable subaccounts relative to indices, and increases in realized equity, interest rate, and currency volatilities. Non-market factors include actual and estimated policyholder behavior experience as it pertains to lapsation, withdrawals, mortality, and annuitization. Risk mitigation activities, such as hedging, may also result in material and sometimes counterintuitive impacts on statutory surplus and capital margin. Notably, as changes in these market and non-market factors occur, both our potential obligation and the related statutory reserves and/or required capital can increase or decrease at a greater than linear rate.
- As the value of certain fixed-income and equity securities in our investment portfolio decreases, due in part to credit spread widening, statutory surplus and RBC ratios may decrease.
- As the value of certain derivative instruments that do not get hedge accounting decreases, statutory surplus and RBC ratios may decrease.
- The life insurance subsidiaries' exposure to foreign currency exchange risk exists with respect to non-U.S. dollar denominated assets and liabilities. Assets and liabilities denominated in foreign currencies are accounted for at their U.S. dollar equivalent values using exchange rates at the balance sheet date. As foreign currency exchange rates vary in comparison to the U.S. dollar, the remeasured value of those non-dollar denominated assets or liabilities will also vary, causing an increase or decrease to statutory surplus.
- Our statutory surplus is also impacted by widening credit spreads as a result of the accounting for the assets and liabilities in 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 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, such as we have experienced, 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 the 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 product.

- With respect to our fixed annuity business, sustained low interest rates may result in a reduction in statutory surplus and an increase in National Association of Insurance Commissioners ("NAIC") required capital.

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 or decreasing the amount of statutory capital we must hold in order to maintain our current ratings.

The Company has reinsured approximately 19% of its risk associated with U.S. GMWB and 72% of its risk associated with the aggregate U.S. GMDB exposure. These reinsurance agreements serve to reduce the Company's exposure to changes in the statutory reserves and the related capital and RBC ratios associated with changes in the capital markets. The Company also continues to explore other solutions for mitigating the capital market risk effect on surplus, such as internal and external reinsurance solutions, modifications to our hedging program, changes in product design, increasing pricing and expense management.

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Credit Risk

Credit risk is defined as the risk of financial loss due to uncertainty of obligor’s or counterparty’s ability or willingness to meet its obligations in accordance with agreed upon terms. The majority of the Company’s credit risk is concentrated in its investment holdings but is also present in reinsurance and insurance portfolios. Credit risk is comprised of three major factors: the risk of change in credit quality, or credit migration risk; the risk of default; and the risk of a change in value of a financial instrument due to changes in credit spread that are unrelated to changes in obligor credit quality. A decline in creditworthiness is typically associated with an increase in an investment’s credit spread, potentially resulting in an increase in other-than-temporary impairments and an increased probability of a realized loss upon sale.

The objective of the Company’s enterprise credit risk management strategy is to identify, quantify, and manage credit risk on an aggregate portfolio basis and to limit potential losses in accordance with an established credit risk appetite. The Company manages to its risk appetite by primarily holding a diversified mix of investment grade issuers and counterparties across its investment, reinsurance, and insurance portfolios. Potential losses are also limited within portfolios by diversifying across geographic regions, asset types, and sectors.

The Company manages a credit exposure from its inception to its maturity or sale. Both the investment and reinsurance areas have formulated procedures for counterparty approvals and authorizations. Although approval processes may vary by area and type of credit risk, approval processes establish minimum levels of creditworthiness and financial stability. Eligible credits are subjected to prudent and conservative underwriting reviews. Within the investment portfolio, private securities, such as commercial mortgages, and private placements, must be presented to their respective review committees for approval.

Credit risks are managed on an on-going basis through the use of various processes and analyses. At the investment, reinsurance, and insurance product levels, fundamental credit analyses are performed at the issuer/counterparty level on a regular basis. To provide a holistic review within the investment portfolio, fundamental analyses are supported by credit ratings, assigned by nationally recognized rating agencies or internally assigned, and by quantitative credit analyses. The Company utilizes a credit value at risk ("VaR") to measure default and migration risk on a monthly basis. Issuer and security level risk measures are also utilized. In the event of deterioration in credit quality, the Company maintains watch lists of problem counterparties within the investment and reinsurance portfolios. The watch lists are updated based on regular credit examinations and management reviews. The Company also performs quarterly assessments of probable expected losses in the investment portfolio. The process is conducted on a sector basis and is intended to promptly assess and identify potential problems in the portfolio and to recognize necessary impairments.

Credit risk policies at the enterprise and operation level ensure comprehensive and consistent approaches to quantifying, evaluating, and managing credit risk under expected and stressed conditions. These policies define the scope of the risk, authorities, accountabilities, terms, and limits, and are regularly reviewed and approved by senior management and ERM. Aggregate counterparty credit quality and exposure is monitored on a daily basis utilizing an enterprise-wide credit exposure information system that contains data on issuers, ratings, exposures, and credit limits. Exposures are tracked on a current and potential basis. Credit exposures are reported regularly to the ERCC and to the Finance, Investment and Risk Management Committee (“FIRMCo”). Exposures are aggregated by ultimate parent across investments, reinsurance receivables, insurance products with credit risk, and derivative counterparties. The credit database and reporting system are available to all key credit practitioners in the enterprise.

The Company exercises various and differing methods to mitigate its credit risk exposure within its investment and reinsurance portfolios. Some of the reasons for mitigating credit risk include financial instability or poor credit, avoidance of arbitration or litigation, future uncertainty, and exposure in excess of risk tolerances. Credit risk within the investment portfolio is most commonly mitigated through the use of derivative instruments or asset sales. Counterparty credit risk is mitigated through the practice of entering into contracts only with highly creditworthy institutions and through the practice of holding and posting of collateral. Systemic credit risk is mitigated through the construction of high-quality, diverse portfolios that are subject to regular underwriting of credit risks. For further discussion of the Company’s investment and derivative instruments, see the Investment Management section and Note 6 of the Notes to Condensed Consolidated Financial Statements. Further discussion on managing and mitigating credit risk from the use of reinsurance via an enterprise security review process, see the Reinsurance section.

As of March 31, 2013, the Company's exposure to a credit concentration risk of a single issuer greater than 10% of the Company's stockholders' equity, other than the U.S. government and certain U.S. government securities, was the Government of Japan and Prudential. The Government of Japan securities represented $2.6 billion, or 12% of stockholders' equity, and 3% of total invested assets excluding equity securities, trading. The net reinsurance recoverable from Prudential of $2.6 billion represented 12% of stockholders' equity. For further discussion of reinsurance recoverables, see Note 7 - Reinsurance of Notes to Condensed Consolidated Financial Statements. For further discussion of concentration of credit risk, see the Concentration of Credit Risk section in Note 6 of the Notes to Consolidated Financial Statements in The Hartford's 2012 Form 10-K Annual Report.

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Derivative Instruments

The Company utilizes a variety of over-the-counter ("OTC") and exchange traded derivative instruments as a part of its overall risk management strategy, as well as to enter into replication transactions. Derivative instruments are used to manage risk associated with interest rate, equity market, credit spread, issuer default, price, and currency exchange rate risk or volatility. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that would otherwise be permissible investments under the Company's investment policies. For further information on the Company's use of derivatives, see Note 6 of the Notes to Condensed Consolidated Financial Statements.

Derivative activities are monitored and evaluated by the Company's compliance and risk management teams and reviewed by senior management. In addition, the Company monitors counterparty credit exposure on a monthly basis to ensure compliance with Company policies and statutory limitations. The notional amounts of derivative contracts represent the basis upon which pay or receive amounts are calculated and are not reflective of credit risk. Downgrades to the credit ratings of The Hartford's insurance operating companies may have adverse implications for its use of derivatives including those used to hedge benefit guarantees of variable annuities. In some cases, downgrades may give derivative counterparties the unilateral contractual right to cancel and settle outstanding derivative trades or require additional collateral to be posted. In addition, downgrades may result in counterparties becoming unwilling to engage in additional OTC derivatives or may require collateralization before entering into any new trades. This will restrict the supply of derivative instruments commonly used to hedge variable annuity guarantees, particularly long-dated equity derivatives and interest rate swaps. Under these circumstances, the Company's operating subsidiaries could conduct hedging activity using a combination of cash and exchange-traded instruments, in addition to using the available OTC derivatives.

The Company uses various derivative counterparties in executing its derivative transactions. The use of counterparties creates credit risk that the counterparty may not perform in accordance with the terms of the derivative transaction. The Company has derivative counterparty exposure policies which limit the Company's exposure to credit risk. The Company's policies with respect to derivative counterparty exposure establishes market-based credit limits, favors long-term financial stability and creditworthiness of the counterparty and typically requires credit enhancement/credit risk reducing agreements. The Company minimizes the credit risk of derivative instruments by entering into transactions with high quality counterparties primarily rated A or better, which are monitored and evaluated by the Company's risk management team and reviewed by senior management. The Company also generally requires that derivative contracts, other than exchange traded contracts, certain forward contracts, and certain embedded and reinsurance derivatives, be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement, which is structured by legal entity and by counterparty and permits right of offset.

The Company has developed credit exposure thresholds which are based upon counterparty ratings. Credit exposures are measured using the market value of the derivatives, resulting in amounts owed to the Company by its counterparties or potential payment obligations from the Company to its counterparties. For purposes of daily derivative collateral maintenance, credit exposures are generally quantified based on the prior business day's market value and collateral is pledged to and held by, or on behalf of, the Company to the extent the current value of the derivatives exceed the contractual thresholds. In accordance with industry standard and the contractual agreements, collateral is typically settled on the next business day. The Company has exposure to credit risk for amounts below the exposure thresholds which are uncollateralized, as well as for market fluctuations that may occur between contractual settlement periods of collateral movements.

For the Company's domestic derivative programs, the maximum uncollateralized threshold for a derivative counterparty for a single legal entity is $10. The Company currently transacts OTC derivatives in five legal entities that have a threshold greater than zero; and therefore the maximum combined threshold for a single counterparty across all legal entities that use derivatives is $50. In addition, the Company may have exposure to multiple counterparties in a single corporate family due to a common credit support provider. As of March 31, 2013, for the Company's domestic derivative programs, the maximum combined threshold for all counterparties under a single credit support provider across all legal entities that use derivatives is $100. Based on the contractual terms of the collateral agreements, these thresholds may be immediately reduced due to a downgrade in either party's credit rating.

Beginning in the fourth quarter of 2011, the Company began hedging its Japan exposures within the legal entity HLIKK. The counterparty credit exposures at HLIKK generally follow the maximum uncollateralized threshold of the domestic program, however, for one counterparty, maximum uncollateralized exposure is higher. This counterparty maintains credit ratings of A3 or better, and the Company actively monitors its credit standing. For further discussion, see the Derivative Commitments section of Note 11 of the Notes to Condensed Consolidated Financial Statements. For the three months ended March 31, 2013, the Company has incurred no losses on derivative instruments due to counterparty default.

In addition to counterparty credit risk, the Company may also introduce credit risk through the use of credit default swaps that are entered into to manage credit exposure. Credit default swaps involve a transfer of credit risk of one or many referenced entities from one party to another in exchange for periodic payments. The party that purchases credit protection will make periodic payments based on an agreed upon rate and notional amount, and for certain transactions there will also be an upfront premium payment. The second party, who assumes credit risk, will typically only make a payment if there is a credit event as defined in the contract and such payment will be typically equal to the notional value of the swap contract less the value of the referenced security issuer's debt obligation. A credit event is generally defined as default on contractually obligated interest or principal payments or bankruptcy of the referenced entity.

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The Company uses credit derivatives to purchase credit protection and to assume credit risk with respect to a single entity, referenced index, or asset pool. The Company purchases credit protection through credit default swaps to economically hedge and manage credit risk of certain fixed maturity investments across multiple sectors of the investment portfolio. The Company also enters into credit default swaps that assume credit risk as part of replication transactions. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that would be permissible investments under the Company’s investment policies. These swaps reference investment grade single corporate issuers and baskets, which include customized diversified portfolios of corporate issuers, which are established within sector concentration limits and may be divided into tranches which possess different credit ratings.

Investment Portfolio Risks and Risk Management

Investment Portfolio Composition

The following table presents the Company’s fixed maturities, AFS, by credit quality. The average credit ratings referenced below and throughout this section are based on availability and the midpoint of the applicable ratings among Moody’s, S&P, Fitch and Morningstar. If no rating is available from a rating agency, then an internally developed rating is used.

Fixed Maturities by Credit Quality

	March 31, 2013				December 31, 2012			
	Amortized Cost	Fair Value	Percent of Total Fair Value		Amortized Cost	Fair Value	Percent of Total Fair Value	
United States Government/Government agencies	$10,261	$10,563	15.2	%	$10,481	$10,975	12.8	%
AAA	6,868	7,265	10.4	%	8,646	9,220	10.7	%
AA	12,887	13,877	19.9	%	14,939	16,104	18.7	%
A	15,442	17,007	24.4	%	20,396	22,650	26.4	%
BBB	15,860	17,079	24.5	%	20,833	22,689	26.4	%
BB & below	3,943	3,876	5.6	%	4,452	4,284	5.0	%
Total fixed maturities	$65,261	$69,667	100	%	$79,747	$85,922	100.0	%

The movement in the overall credit quality of the Company’s portfolio was primarily attributable to the sale of the Retirement Plans and Individual Life businesses in January 2013. Refer to Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements for further discussion of this transaction. Excluding the impact of the sales, the composition of the invested asset credit quality remained relatively consistent as compared to December 31, 2012. Fixed maturities, FVO, are not included in the above table. For further discussion on fair value option securities, see Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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The following table presents the Company’s AFS securities by type, as well as fixed maturities, FVO.

Securities by Type

	March 31, 2013					December 31, 2012				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Fair Value
Asset-backed securities (“ABS”)										
Consumer loans	$1,981	$ 22	$ (71)	$1,932	2.8%	$2,234	$ 29	$ (116)	$2,147	2.5%
Small business	282	8	(49)	241	0.3%	336	7	(67)	276	0.3%
Other	235	14	—	249	0.4%	313	27	—	340	0.4%
Collateralized debt obligations ("CDOs")										
Collateralized loan obligations (“CLOs”)	1,843	4	(51)	1,796	2.6%	2,197	—	(68)	2,129	2.5%
Commercial real estate ("CREs")	397	55	(63)	389	0.6%	420	44	(80)	384	0.4%
Other [1]	383	16	(11)	373	0.5%	553	16	(11)	527	0.6%
Commercial mortgage-backed securities ("CMBS")										
Agency backed [2]	881	60	(2)	939	1.3%	962	79	—	1,041	1.2%
Bonds	3,731	238	(101)	3,868	5.6%	4,535	293	(160)	4,668	5.4%
Interest only (“IOs”)	383	32	(17)	398	0.6%	586	45	(19)	612	0.7%
Corporate										
Basic industry	2,688	212	(10)	2,890	4.1%	3,741	369	(6)	4,104	4.8%
Capital goods	2,199	273	(2)	2,470	3.5%	3,109	389	(2)	3,496	4.1%
Consumer cyclical	1,720	193	(4)	1,909	2.7%	2,423	266	(5)	2,684	3.1%
Consumer non-cyclical	3,763	475	(6)	4,232	6.1%	5,927	759	(7)	6,679	7.8%
Energy	2,458	306	(4)	2,760	4.0%	3,816	499	(3)	4,312	5.0%
Financial services	5,940	441	(159)	6,222	8.9%	7,230	604	(211)	7,623	8.9%
Tech./comm.	2,947	367	(16)	3,298	4.7%	3,971	526	(16)	4,481	5.2%
Transportation	1,005	111	(2)	1,114	1.6%	1,393	163	(2)	1,554	1.8%
Utilities	5,640	707	(17)	6,330	9.1%	7,792	1,017	(24)	8,785	10.2%
Other	222	21	—	243	0.3%	292	39	—	331	0.4%
Foreign govt./govt. agencies	3,807	192	(72)	3,927	5.6%	3,985	191	(40)	4,136	4.8%
Municipal										
Taxable	1,449	129	(11)	1,567	2.2%	2,235	246	(15)	2,466	2.9%
Tax-exempt	10,652	1,026	(7)	11,671	16.9%	10,766	1,133	(4)	11,895	13.9%

Residential mortgage-backed securities ("RMBS")													
Agency	5,357	152	(18	)	5,491	7.9	%	5,906	259	(3	)	6,162	7.2	%
Non-agency	—	—	—		—	—	%	—	—	—		—	—	%
Alt-A	1	—	—		1	—	%	38	—	(1	)	37	—	%
Sub-prime	1,274	36	(86	)	1,224	1.8	%	1,374	36	(129	)	1,281	1.5	%
U.S. Treasuries	4,023	129	(19	)	4,133	5.9	%	3,613	175	(16	)	3,772	4.4	%
Fixed maturities, AFS	65,261	5,219	(798	)	69,667	100	%	79,747	7,211	(1,005	)	85,922	100	%
Equity securities													