HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
November 03, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from __________ to __________

Commission File Number: 001-13958

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 27, 2009, there were outstanding 383,008,419 shares of Common Stock, $0.01 par value per share, of the registrant.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009
TABLE OF CONTENTS

Item	Description	Page
	Part I FINANCIAL INFORMATION	
1.	Financial Statements	
	Report of Independent Registered Public Accounting Firm	3
	Condensed Consolidated Statements of Operations For the Three and Nine Months Ended September 30, 2009 and 2008	4
	Condensed Consolidated Balance Sheets As of September 30, 2009 and December 31, 2008	5
	Condensed Consolidated Statements of Changes in Equity For the Nine Months Ended September 30, 2009 and 2008	6
	Condensed Consolidated Statements of Comprehensive Income (Loss) For the Three and Nine Months Ended September 30, 2009 and 2008	7
	Condensed Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2009 and 2008	8
	Notes to Condensed Consolidated Financial Statements	9
2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	56
3.	Quantitative and Qualitative Disclosures About Market Risk	144
4.	Controls and Procedures	144
	Part II OTHER INFORMATION	
1.	Legal Proceedings	145
1A.	Risk Factors	147
2.	Unregistered Sales of Equity Securities and Use of Proceeds	147
6.	Exhibits	147
	Signature	148

Exhibits Index 149

Exhibit 10.01
Exhibit 10.03
Exhibit 15.01
Exhibit 31.01
Exhibit 31.02
Exhibit 32.01
Exhibit 32.02
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the Company) as of September 30, 2009, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2009 and 2008, and changes in equity, and cash flows for the nine-month periods ended September 30, 2009 and 2008. 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, 2008, and the related consolidated statements of operations, changes in stockholders equity, comprehensive loss, and cash flows for the year then ended prior to retrospective adjustment for the adoption of Financial Accounting Standards Board Accounting Standards Codification 810, *Consolidation*, described in Note 1, (not presented herein); and in our report dated February 11, 2009 (which report includes an explanatory paragraph relating to the Company s change in its method of accounting and reporting for the fair value measurement of financial instruments in 2008, and defined benefit pension and other postretirement plans in 2006), we expressed an unqualified opinion on those consolidated financial statements. We also audited the adjustments described in Note 1 that were applied to retrospectively adjust the December 31, 2008 consolidated balance sheet of the Company (not presented herein). In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted condensed consolidated balance sheet as of December 31, 2008.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
November 3, 2009

Table of Contents

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

(In millions, except for per share data)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Unaudited)		(Unaudited)	
Revenues				
Earned premiums	$ 3,499	$ 3,903	$ 10,920	$ 11,637
Fee income	1,140	1,333	3,369	4,056
Net investment income (loss):				
Securities available-for-sale and other	1,049	1,103	2,990	3,526
Equity securities, trading	638	(3,415)	2,437	(5,840)
Total net investment income (loss)	1,687	(2,312)	5,427	(2,314)
Net realized capital losses:				
Total other-than-temporary impairment (OTTI) losses	(760)	(3,077)	(1,546)	(3,545)
OTTI losses recognized in other comprehensive income	224		472	
Net OTTI losses recognized in earnings	(536)	(3,077)	(1,074)	(3,545)
Net realized capital losses, excluding net OTTI losses recognized in earnings	(683)	(372)	(742)	(1,557)
Total net realized capital losses	(1,219)	(3,449)	(1,816)	(5,102)
Other revenues	123	132	361	377
Total revenues	**5,230**	**(393)**	**18,261**	**8,654**
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	3,070	3,994	10,799	10,937
Benefits, losses and loss adjustment expenses returns credited on International variable annuities	638	(3,415)	2,437	(5,840)
Amortization of deferred policy acquisition costs and present value of future profits	687	1,927	3,620	3,201
Insurance operating costs and expenses	945	1,029	2,802	3,026
Interest expense	118	84	357	228
Goodwill impairment			32	
Other expenses	229	171	670	542
Total benefits, losses and expenses	**5,687**	**3,790**	**20,717**	**12,094**
Loss before income taxes	**(457)**	**(4,183)**	**(2,456)**	**(3,440)**
Income tax benefit	(237)	(1,552)	(1,012)	(1,497)
Net loss	**$ (220)**	**$ (2,631)**	**$ (1,444)**	**$ (1,943)**

Preferred stock dividends and accretion of discount		62				65		
Net loss available to common shareholders	**$**	**(282)**	**$**	**(2,631)**	**$**	**(1,509)**	**$**	**(1,943)**
Earnings (Loss) per common share								
Basic	**$**	**(0.79)**	**$**	**(8.74)**	**$**	**(4.52)**	**$**	**(6.29)**
Diluted	**$**	**(0.79)**	**$**	**(8.74)**	**$**	**(4.52)**	**$**	**(6.29)**
Weighted average common shares outstanding		356.1		301.1		334.1		308.8
Weighted average common shares outstanding and dilutive potential common shares		356.1		301.1		334.1		308.8
Cash dividends declared per common share	$	0.05	$	0.53	$	0.15	$	1.59

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(In millions, except for share and per share data)	**September 30, 2009**	**December 31, 2008**
	(Unaudited)	
Assets		
Investments		
Fixed maturities, available-for-sale, at fair value (amortized cost of $74,429 and $78,238)	$ 68,641	$ 65,112
Equity securities, trading, at fair value (cost of $34,760 and $35,278)	33,463	30,820
Equity securities, available-for-sale, at fair value (cost of $1,403 and $1,554)	1,397	1,458
Mortgage loans	6,328	6,469
Policy loans, at outstanding balance	2,209	2,208
Limited partnerships and other alternative investments	1,812	2,295
Other investments	1,679	1,723
Short-term investments	13,910	10,022
Total investments	129,439	120,107
Cash	2,417	1,811
Premiums receivable and agents balances	3,482	3,604
Reinsurance recoverables	5,604	6,357
Deferred policy acquisition costs and present value of future profits	11,040	13,248
Deferred income taxes	3,820	5,239
Goodwill	1,204	1,060
Property and equipment, net	1,032	1,075
Other assets	2,724	4,898
Separate account assets	155,958	130,184
Total assets	**$ 316,720**	**$ 287,583**
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses		
Property and casualty	$ 21,901	$ 21,933
Life	17,950	16,747
Other policyholder funds and benefits payable	47,996	53,753
Other policyholder funds and benefits payable International variable annuities	33,439	30,799
Unearned premiums	5,324	5,379
Short-term debt	342	398
Long-term debt	5,493	5,823
Consumer notes	1,193	1,210
Other liabilities	9,643	11,997
Separate account liabilities	155,958	130,184
Total liabilities	**299,239**	**278,223**
Commitments and Contingencies (Note 9)		
Equity		

Preferred stock, $0.01 par value 50,000,000 shares authorized, 3,400,000 and 6,048,387 shares issued, liquidation preference $1,000 and $0.02 per share	2,940	
Common stock, $0.01 par value 1,500,000,000 and 750,000,000 shares authorized, 410,192,882 and 329,920,310 shares issued	4	3
Additional paid-in capital	8,976	7,569
Retained earnings	10,689	11,336
Treasury stock, at cost 27,162,478 and 29,341,378 shares	(1,936)	(2,120)
Accumulated other comprehensive loss, net of tax	(3,217)	(7,520)
Total stockholders equity	**17,456**	**9,268**
Noncontrolling interest	25	92
Total equity	**17,481**	**9,360**
Total liabilities and equity	**$ 316,720**	**$ 287,583**

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(In millions, except for share data)	Nine Months Ended September 30, 2009	2008
	(Unaudited)	
Preferred Stock		
Balance at beginning of period	$	$
Issuance of shares to U.S. Treasury	2,920	
Accretion of preferred stock discount on issuance to U.S. Treasury	20	
Balance at end of period	2,940	
Common Stock	**4**	**3**
Additional Paid-in Capital		
Balance at beginning of period	7,569	6,627
Issuance of warrants to U.S. Treasury	480	
Issuance of shares under discretionary equity issuance plan	887	
Issuance of shares under incentive and stock compensation plans	(135)	(39)
Reclassification of warrants from other liabilities to equity and extension of warrants term	186	
Tax (expense) benefit on employee stock options and awards	(11)	10
Balance at end of period	8,976	6,598
Retained Earnings		
Balance at beginning of period, before cumulative effect of accounting change, net of tax	11,336	14,686
Cumulative effect of accounting change, net of tax		(3)
Balance at beginning of period, as adjusted	11,336	14,683
Net loss	(1,444)	(1,943)
Cumulative effect of accounting change, net of tax	912	
Accretion of preferred stock discount on issuance to U.S. Treasury	(20)	
Dividends on preferred stock	(45)	
Dividends declared on common stock	(50)	(491)
Balance at end of period	10,689	12,249
Treasury Stock, at Cost		
Balance at beginning of period	(2,120)	(1,254)
Treasury stock acquired		(1,000)
Issuance of shares under incentive and stock compensation plans from treasury stock	187	133
Return of shares under incentive and stock compensation plans to treasury stock	(3)	(17)
Balance at end of period	(1,936)	(2,138)
Accumulated Other Comprehensive Loss, Net of Tax		

Balance at beginning of period		(7,520)		(858)
Cumulative effect of accounting change, net of tax		(912)		
Total other comprehensive income (loss)		5,215		(3,297)
Balance at end of period		(3,217)		(4,155)
Total Stockholders Equity		**17,456**		**12,557**
Noncontrolling Interest (Note 13)				
Balance at beginning of period		92		92
Change in noncontrolling interest ownership		(61)		60
Noncontrolling loss		(6)		(27)
Balance at end of period		25		125
Total Equity	**$**	**17,481**	**$**	**12,682**
Outstanding Preferred Shares (in thousands)				
Balance at beginning of period		6,048		
Conversion of preferred to common shares		(6,048)		
Issuance of shares to U.S. Treasury		3,400		
Balance at end of period		**3,400**		
Outstanding Common Shares (in thousands)				
Balance at beginning of period		300,579		313,842
Treasury stock acquired		(15)		(14,682)
Conversion of preferred to common shares		24,194		
Issuance of shares under discretionary equity issuance plan		56,109		
Issuance of shares under incentive and stock compensation plans		2,353		1,442
Return of shares under incentive and stock compensation plans to treasury stock		(190)		(248)
Balance at end of period		**383,030**		**300,354**

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2009**	**2008**	**2009**	**2008**
	(Unaudited)		(Unaudited)	
Comprehensive Income (Loss)				
Net loss	$ (220)	$ (2,631)	$ (1,444)	$ (1,943)
Other comprehensive income (loss)				
Change in net unrealized loss on securities	3,232	(1,483)	5,572	(3,509)
Change in other-than-temporary impairment losses recognized in other comprehensive income	(51)		(176)	
Change in net gain/loss on cash-flow hedging instruments	99	163	(269)	177
Change in foreign currency translation adjustments	102	(63)	57	11
Amortization of prior service cost and actuarial net losses included in net periodic benefit costs	11	8	31	24
Total other comprehensive income (loss)	3,393	(1,375)	5,215	(3,297)
Total comprehensive income (loss)	**$ 3,173**	**$ (4,006)**	**$ 3,771**	**$ (5,240)**

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(In millions)	Nine Months Ended September 30, 2009	2008
	(Unaudited)	
Operating Activities		
Net loss	$ (1,444)	$ (1,943)
Adjustments to reconcile net loss to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	3,620	3,201
Additions to deferred policy acquisition costs and present value of future profits	(2,155)	(2,837)
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	903	1,689
Change in reinsurance recoverables	152	(19)
Change in receivables and other assets	212	646
Change in payables and accruals	(600)	(673)
Change in accrued and deferred income taxes	(252)	(1,604)
Net realized capital losses	1,816	5,102
Net receipts from investment contracts related to policyholder funds International variable annuities	2,691	1,740
Net increase in equity securities, trading	(2,694)	(1,799)
Depreciation and amortization	360	263
Goodwill impairment	32	
Other operating activities, net	104	(828)
Net cash provided by operating activities	**2,745**	**2,938**
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	41,749	17,523
Equity securities, available-for-sale	598	995
Mortgage loans	480	351
Partnerships	405	130
Payments for the purchase of:		
Fixed maturities, available-for-sale	(42,990)	(19,392)
Equity securities, available-for-sale	(284)	(689)
Mortgage loans	(249)	(1,161)
Partnerships	(228)	(556)
Derivative payments, net	(540)	(57)
Purchase price of businesses acquired	(15)	(94)
Change in policy loans, net	(1)	(98)
Change in payables for collateral under securities lending, net	(2,771)	(339)
Other investing activities, net	25	(662)
Net cash used for investing activities	**(3,821)**	**(4,049)**
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	11,158	15,752
Withdrawals and other deductions from investment and universal life-type contracts	(18,528)	(20,276)
	5,418	5,584

Net transfers from separate accounts related to investment and universal life-type contracts				
Proceeds from issuance of long-term debt				1,487
Repayments at maturity for long-term debt and payments on capital lease obligations		(24)		(462)
Change in short-term debt		(375)		
Net issuance (repayments) at maturity or settlement of consumer notes		(17)		416
Proceeds from issuance of preferred stock and warrants to U.S. Treasury		3,400		
Net proceeds from issuance of shares under discretionary equity issuance plan		887		
Proceeds from net issuance of shares under incentive and stock compensation plans and excess tax benefit		18		34
Treasury stock acquired				(1,000)
Dividends paid on preferred stock		(31)		
Dividends paid on common stock		(129)		(501)
Changes in bank deposits and payments on bank advances		(85)		
Net cash provided by financing activities		**1,692**		**1,034**
Foreign exchange rate effect on cash		(10)		29
Net increase (decrease) in cash		606		(48)
Cash beginning of period		1,811		2,011
Cash end of period	**$**	**2,417**	**$**	**1,963**
Supplemental Disclosure of Cash Flow Information				
Net Cash Paid (Received) During the Period For:				
Income taxes		(392)		232
Interest		303		186

See Notes to Condensed Consolidated Financial Statements.

8

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 Accounting Policies

Basis of Presentation

The Hartford Financial Services Group, Inc. is a financial holding company for a group of subsidiaries that provide investment products and life and property and casualty insurance to both individual and business customers in the United States and internationally (collectively, The Hartford or the Company). During the second quarter of 2009, the Company acquired Federal Trust Corporation and became a savings and loan holding company, see Note 16 for further information on the acquisition.

The Condensed Consolidated Financial Statements have been prepared on the basis of accounting principles generally accepted in the United States of America (U.S. GAAP), which differ materially from the accounting practices prescribed by various insurance regulatory authorities.

The accompanying Condensed Consolidated Financial Statements and notes as of September 30, 2009, and for the three and nine months ended September 30, 2009 and 2008 are unaudited. These financial statements reflect all adjustments (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. These Condensed Consolidated Financial Statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in The Hartford s 2008 Form 10-K Annual Report. The results of operations for the interim periods should not be considered indicative of the results to be expected for the full year.

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 in which the Company is the primary beneficiary. The Company determines if it is the primary beneficiary using both qualitative and quantitative analyses. Entities in which The Hartford does not have a controlling financial interest but in which the Company has significant influence over the operating and financing decisions are reported using the equity method. Material intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated.

Use of Estimates

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

The most significant estimates include those used in determining property and casualty reserves, net of reinsurance; life estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts; living benefits required to be fair valued; valuation of investments and derivative instruments; evaluation of other-than-temporary impairments on available-for-sale securities; pension and other postretirement benefit obligations; contingencies relating to corporate litigation and regulatory matters; and goodwill impairment. 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.

Subsequent Events

The Hartford has evaluated events subsequent to September 30, 2009, and through the Condensed Consolidated Financial Statement issuance date of November 3, 2009. The Company has not evaluated subsequent events after that date for presentation in these Condensed Consolidated Financial Statements.

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements included in The Hartford s 2008 Form 10-K Annual Report, which, accordingly, should be read in conjunction with

these accompanying Condensed Consolidated Financial Statements.

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

1. Basis of Presentation and Accounting Policies (continued)

Adoption of New Accounting Standards

Fair Value

In August 2009, the Financial Accounting Standards Board (FASB) updated the accounting standard related to the fair value measurement of liabilities. This update provides guidance on the fair value measurement of liabilities and reaffirms that the fair value measurement of a liability assumes the transfer of a liability to a market participant, that is the liability is presumed to continue and is not settled with the counterparty. This guidance also provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following valuation techniques: a) quoted price of an identical liability when traded as an asset, b) quoted price of a similar liability or of a similar liability when traded as an asset, or c) another valuation technique consistent with the fair value principles within U.S. GAAP such as a market approach or an income approach. The amendments in this guidance also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate adjustment relating to transfer restriction of the liability. This guidance is effective for the first reporting period, including interim periods, beginning after issuance. The Company adopted this guidance as of September 30, 2009, and the adoption did not have an impact on the Company s Condensed Consolidated Financial Statements.

Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB updated the guidance related to the recognition and presentation of other-than-temporary impairments which modifies the recognition of other-than-temporary impairment (impairment) losses for debt securities. This new guidance is also applied to certain equity securities with debt-like characteristics (collectively debt securities). Under the new guidance, a debt security is deemed to be other-than-temporarily impaired if it meets the following conditions: 1) the Company intends to sell or it is more likely than not the Company will be required to sell the security before a recovery in value, or 2) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell or it is more likely than not the Company will be required to sell the security before a recovery in value, a charge is recorded in net realized capital losses equal to the difference between the fair value and amortized cost basis of the security. For those other-than-temporarily impaired debt securities which do not meet the first condition and for which the Company does not expect to recover the entire amortized cost basis, the difference between the security s amortized cost basis and the fair value is separated into the portion representing a credit impairment, which is recorded in net realized capital losses, and the remaining impairment, which is recorded in other comprehensive income (OCI). Generally, the Company determines a security s credit impairment as the difference between its amortized cost basis and its best estimate of expected future cash flows discounted at the security s effective yield prior to impairment. The previous amortized cost basis less the impairment recognized in net realized capital losses becomes the security s new cost basis. The Company accretes the new cost basis to the estimated future cash flows over the expected remaining life of the security by prospectively adjusting the security s yield, if necessary.

The Company evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security s underlying collateral and (e) the payment structure of the security. The Company s best estimate of expected future cash flows used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the security. The Company s best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, current delinquency rates, loan-to-value ratios and the possibility of obligor re-financing. In addition, for securitized debt securities, the Company considers factors including, but not limited to, commercial and residential property value declines that vary by property type and location and average cumulative collateral loss rates that vary

by vintage year. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer and/or underlying collateral such as changes in the projections of the underlying property value estimates.

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

1. Basis of Presentation and Accounting Policies (continued)

This guidance does not impact the evaluation for impairment for equity securities. For those equity securities where the decline in the fair value is deemed to be other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost basis of the security. The previous cost basis less the impairment becomes the security s new cost basis. The Company asserts its intent and ability to retain those equity securities deemed to be temporarily impaired until the price recovers. Once identified, these securities are systematically restricted from trading unless approved by a committee of investment and accounting professionals (the Committee). The Committee will only authorize the sale of these securities based on predefined criteria that relate to events that could not have been reasonably foreseen. Examples of the criteria include, but are not limited to, the deterioration in the issuer s financial condition, security price declines, a change in regulatory requirements or a major business combination or major disposition.

The primary factors considered in evaluating whether an impairment exists for an equity security include, but are not limited to: (a) the length of time and extent to which the fair value has been less than the cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated payments and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.

This guidance also expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. The Company adopted this new guidance for its interim reporting period ending on June 30, 2009 and upon adoption of this guidance, the Company recognized a $912, net of tax and deferred acquisition costs, increase to retained earnings with an offsetting decrease in Accumulated Other Comprehensive Income (AOCI). See the Company s Condensed Consolidated Statements of Operations, Changes in Equity and Comprehensive Income (Loss). See Note 5 for expanded interim disclosures. Disclosures regarding the effect of the adoption of this guidance on income and related per share amounts for interim periods subsequent to adoption have not been made, as it is not practicable to estimate the effect of such amounts.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB updated guidance for noncontrolling interests. A noncontrolling interest refers to the minority interest portion of the equity of a subsidiary that is not attributable directly or indirectly to a parent. This updated guidance establishes accounting and reporting standards that require for-profit entities that prepare consolidated financial statements to: (a) present noncontrolling interests as a component of equity, separate from the parent s equity, (b) separately present the amount of consolidated net income attributable to noncontrolling interests in the income statement, (c) consistently account for changes in a parent s ownership interests in a subsidiary in which the parent entity has a controlling financial interest as equity transactions, (d) require an entity to measure at fair value its remaining interest in a subsidiary that is deconsolidated, and (e) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interests of noncontrolling owners. This guidance applies to all for-profit entities that prepare consolidated financial statements, and affects those for-profit entities that have outstanding noncontrolling interests in one or more subsidiaries or that deconsolidate a subsidiary. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 with earlier adoption prohibited. Upon adoption of this guidance on January 1, 2009, the Company reclassified $92 of noncontrolling interest, recorded in other liabilities, to equity as of January 1, 2008. See the Company s Condensed Consolidated Statements of Changes in Equity. The adoption did not have a material effect on the Company s Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and the adoption did not impact the Company s accounting for separate account assets and liabilities. The FASB has added a topic to the Emerging Issues Task Force (EITF) agenda, Consideration of an Insurer s Accounting for Majority Owned Investments When the Ownership Is Through a Separate Account . In September 2009 the FASB issued for comment, a proposal on this topic in which they clarify that specialized accounting for investments held by a separate account should continue in consolidation. In addition, the proposed amendments would not require an insurer to consolidate a majority owned voting-interest investment held by a separate account if the investment is not or would not be

consolidated in the stand-alone financial statement of the separate account. The Company currently follows this proposed guidance and excludes the noncontrolling interest from its majority owned separate accounts. The resolution of this FASB agenda item will continue to be followed by the Company; however it is not expected to have an impact on the Company s accounting for separate account assets and liabilities.

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

1. Basis of Presentation and Accounting Policies (continued)

Future Adoption of New Accounting Standards

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued updated guidance related to the accounting for transfers of financial assets. These amendments revise derecognition guidance and eliminates the concept of a qualifying special-purpose entities (QSPEs). This guidance is effective for fiscal years and interim periods beginning after November 15, 2009. Early adoption is prohibited. The Company will adopt this guidance on January 1, 2010 and has not yet determined the effect of the adoption on its consolidated financial statements.

Amendments to Consolidation Guidance for Variable Interest Entities

In June 2009, the FASB issued updated guidance which amends the consolidation requirements applicable to variable interest entities (VIE). An entity would consolidate a VIE, as the primary beneficiary, when the entity has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (b) The obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Ongoing reassessment of whether an enterprise is the primary beneficiary of a VIE is required. This updated guidance replaces the quantitative approach previously required for determining the primary beneficiary of a VIE with a qualitative approach, modifies the criteria for determining whether a service provider or decision maker contract is a variable interest, and changes the consideration of removal rights in determining if an entity is a VIE. These changes may cause certain entities to now be considered a VIE. This updated guidance is effective for fiscal years and interim periods beginning after November 15, 2009. Although the Company has not yet determined the effect of the adoption on its consolidated financial statements, a review of the impact to The Hartford is currently being evaluated. The following areas of potential impact are being assessed: The Hartford managed mutual funds (both retail and those within the Company s separate accounts), limited partnership investments, Company sponsored collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) and the Company s contingent capital facility and other similar structures or entities. The Company will adopt this guidance on January 1, 2010.

Income Taxes

The effective tax rate for the three months ended September 30, 2009 and 2008 was 52% and 37%, respectively. The effective tax rate for the nine months ended September 30, 2009 and 2008 was 41% and 44%, respectively. The principal causes of the difference between the effective rate and the U.S. statutory rate of 35% were tax-exempt interest earned on invested assets and the separate account dividends received deduction (DRD) which increased the tax benefit on the pre-tax losses. The effective tax rate for the nine months ended September 30, 2009 also includes a non-deductible expense related to an amount due to Allianz as a result of the issuance of warrants to the U.S. Treasury in connection with the Company s participation in the Capital Purchase Program.

The separate account DRD is estimated for the current year using information from the prior year-end, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received by 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 recorded benefits related to the separate account DRD of $33 and $50 in the three months ended September 30, 2009 and 2008, and $108 and $158 in the nine months ended September 30, 2009 and 2008, respectively. The benefit recorded in the three months ended September 30, 2009 included prior period adjustments of $(6) related to the 2008 tax return and $1 related to the three months ended June 30, 2009.

The Company s unrecognized tax benefits decreased by $8 during the nine months ended September 30, 2009 as a result of the settlement of the 2002-2003 Internal Revenue Service (IRS) audit, bringing the total unrecognized tax benefits to $83 as of September 30, 2009. This entire amount, if it were recognized, would increase the effective tax benefit rate for the applicable periods.

The Company s federal income tax returns are routinely audited by the IRS. During the first quarter of 2009, the Company received notification of the approval by the Joint Committee on Taxation of the results of the 2002 through 2003 examination. As a result, the Company recorded a tax benefit of $7. The 2004 through 2006 examination began during the second quarter of 2008, and is expected to close in early 2010. In addition, the Company is working with the IRS on a possible settlement of a DRD issue related to prior periods which, if settled, may result in the booking of tax benefits. Such benefits are not expected to be material to the statement of operations.

The Company has recorded a deferred tax asset valuation allowance that is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized. In assessing the need for a valuation allowance, management considered future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, and taxable income in prior carry back years, as well as tax planning strategies that include holding debt securities with market value losses until recovery, selling appreciated securities to offset capital losses, and sales of certain corporate assets. Such tax planning strategies are viewed by management as prudent and feasible and will be implemented if necessary to realize the deferred tax asset. However, future realized losses on investment securities could result in the recognition of an additional valuation allowance, if additional tax planning strategies are not available.

Table of Contents

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

2. Earnings (Loss) Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except for per share data)	**2009**	**2008**	**2009**	**2008**
Income (loss)				
Net loss	$ (220)	$ (2,631)	$ (1,444)	$ (1,943)
Less: Preferred stock dividends and accretion of discount	62		65	
Net loss available to common shareholders	**$ (282)**	**$ (2,631)**	**$ (1,509)**	**$ (1,943)**
Common shares				
Basic				
Weighted average common shares outstanding	**356.1**	**301.1**	**334.1**	**308.8**
Diluted				
Weighted average shares outstanding and dilutive potential common shares	**356.1**	**301.1**	**334.1**	**308.8**
Earnings (loss) per common share				
Basic	**$ (0.79)**	**$ (8.74)**	**$ (4.52)**	**$ (6.29)**
Diluted	**$ (0.79)**	**$ (8.74)**	**$ (4.52)**	**$ (6.29)**

As a result of the net loss in the three months ended September 30, 2009 and 2008, the Company is required to use basic weighted average common shares outstanding in the calculation of the three months ended September 30, 2009 and 2008 diluted loss per share, since the inclusion of shares for warrants of 25.3 million and 0, respectively, and stock compensation plans of 1.1 million and 1.0 million, respectively, would have been antidilutive to the earnings per share calculation. In the absence of the net loss, weighted average common shares outstanding and dilutive potential common shares would have totaled 382.5 million and 302.1 million for the three months ended September 30, 2009 and 2008, respectively.

As a result of the net loss in the nine months ended September 30, 2009 and 2008, the Company is required to use basic weighted average common shares outstanding in the calculation of the nine months ended September 30, 2009 and 2008 diluted loss per share, since the inclusion of shares for warrants of 8.7 million and 0, respectively, and stock compensation plans of 0.8 million and 1.5 million, respectively, would have been antidilutive to the earnings per share calculation. In the absence of the net loss, weighted average common shares outstanding and dilutive potential common shares would have totaled 343.6 million and 310.3 million, respectively.

Table of Contents

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

3. Segment Information

The Hartford is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in eleven reporting segments. Corporate primarily includes the Company s debt financing and related interest expense, as well as other capital raising activities, banking operations and certain purchase accounting adjustments.

Life

Life is organized into four groups which are comprised of six reporting segments: The Retail Products Group (Retail) and Individual Life segments make up the Individual Markets Group. The Retirement Plans and Group Benefits segments make up the Employer Markets Group. The International and Institutional Solutions Group (Institutional) segments each make up their own group.

Life charges direct operating expenses to the appropriate segment and allocates the majority of indirect expenses to the segments based on an intercompany expense arrangement. Inter-segment revenues primarily occur between Life s Other category and the reporting segments. These amounts primarily include interest income on allocated surplus and interest charges on excess separate account surplus. In addition, during the first quarter of 2009, Institutional and International entered into a $1.5 billion funding agreement. The resulting interest income and interest expense in International and Institutional, respectively, are eliminated in consolidation.

Property & Casualty

Property & Casualty is organized into five reporting segments: the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial (collectively, Ongoing Operations); and the Other Operations segment. For the three months ended September 30, 2009 and 2008, AARP accounted for earned premiums of $712 and $695, respectively, in Personal Lines. For both the nine months ended September 30, 2009 and 2008, AARP accounted for earned premiums of $2.1 billion in Personal Lines.

Through inter-segment arrangements, Specialty Commercial reimburses Personal Lines, Small Commercial and Middle Market for losses incurred from uncollectible reinsurance and losses incurred under certain liability claims. Earned premiums assumed (ceded) under the inter-segment arrangements were as follows:

Net assumed (ceded) earned premiums under inter-segment arrangements	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Personal Lines	$ (1)	$ (1)	$ (4)	$ (4)
Small Commercial	(6)	(8)	(18)	(23)
Middle Market	(6)	(8)	(17)	(24)
Specialty Commercial	13	17	39	51
Total	**$**	**$**	**$**	**$**

Financial Measures and Other Segment Information

For further discussion of the types of products offered by each segment, see Note 3 of Notes to Consolidated Financial Statements included in The Hartford s 2008 Form 10-K Annual Report.

One of the measures of profit or loss used by The Hartford s management in evaluating the performance of its Life segments is net income. Within Property & Casualty, net income is a measure of profit or loss used in evaluating the performance of Ongoing Operations and the Other Operations segment. Within Ongoing Operations, the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results represent premiums earned less incurred losses, loss adjustment expenses and underwriting expenses. The sum of underwriting results, net servicing income, net investment income, net realized capital gains and losses, other expenses, and related income taxes is net income.

Table of Contents

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

3. Segment Information (continued)

The following table presents revenues by segment.

Revenues	**Three Months Ended September 30, 2009**	**Three Months Ended September 30, 2008**	**Nine Months Ended September 30, 2009**	**Nine Months Ended September 30, 2008**
Life				
Retail	$ 109	$ 435	$ 1,961	$ 1,483
Individual Life	276	119	850	660
Total Individual Markets Group	385	554	2,811	2,143
Retirement Plans	75	1	246	293
Group Benefits	1,142	779	3,509	3,099
Total Employer Markets Group	1,217	780	3,755	3,392
International [1]	109	190	803	603
Institutional	130	(84)	570	692
Other [1]	(15)	(29)	6	28
Total Life segment revenues	1,826	1,411	7,945	6,858
Net investment income (loss) on equity securities, trading [2]	638	(3,415)	2,437	(5,840)
Total Life	**2,464**	**(2,004)**	**10,382**	**1,018**
Property & Casualty				
Ongoing Operations				
Earned premiums				
Personal Lines	988	978	2,952	2,941
Small Commercial	640	678	1,935	2,048
Middle Market	510	569	1,596	1,737
Specialty Commercial	293	342	936	1,038
Ongoing Operations earned premiums	2,431	2,567	7,419	7,764
Net investment income	254	285	678	929
Other revenues [3]	123	132	361	377
Net realized capital losses	(79)	(1,268)	(448)	(1,455)
Total Ongoing Operations	2,729	1,716	8,010	7,615
Other Operations	29	(109)	79	(10)
Total Property & Casualty	**2,758**	**1,607**	**8,089**	**7,605**
Corporate	8	4	(210)	31
Total revenues	**$ 5,230**	**$ (393)**	**$ 18,261**	**$ 8,654**

[1]

Included in International s revenues for the three and nine months ended September 30, 2009 are $19 and $49, respectively, of investment income from an inter-segment funding agreement with Institutional. This investment income is eliminated in Life Other.

[2] *Management does not include net investment income (loss) and the mark-to-market effects of equity securities, trading, supporting the international variable annuity business in its segment revenues since corresponding amounts are credited to policyholders.*

[3] *Represents servicing revenue.*

Table of Contents

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

3. Segment Information (continued)

The following table presents net income (loss) by segment. Underwriting results are presented for the Personal Lines, Small Commercial, Middle Market and Specialty Commercial segments, while net income (loss) is presented for each of Life s reporting segments, total Property & Casualty, Ongoing Operations, Other Operations and Corporate.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Income (Loss)	**2009**	**2008**	**2009**	**2008**
Life				
Retail	$ (172)	$ (822)	$ (724)	$ (729)
Individual Life	4	(102)	2	(52)
Total Individual Markets Group	(168)	(924)	(722)	(781)
Retirement Plans	(34)	(160)	(162)	(134)
Group Benefits	65	(186)	148	(78)
Total Employer Markets Group	31	(346)	(14)	(212)
International [1]	(32)	(107)	(206)	(27)
Institutional [1]	(101)	(393)	(341)	(543)
Other [1]	(53)	(45)	(122)	(73)
Total Life	**(323)**	**(1,815)**	**(1,405)**	**(1,636)**
Property & Casualty				
Ongoing Operations				
Underwriting results				
Personal Lines	(11)	(45)	54	78
Small Commercial	90	82	251	270
Middle Market	61	(37)	186	21
Specialty Commercial	30	(44)	89	13
Total Ongoing Operations underwriting results	170	(44)	580	382
Net servicing income [2]	10	14	25	21
Net investment income	254	285	678	929
Net realized capital losses	(79)	(1,268)	(448)	(1,455)
Other expenses	(47)	(58)	(145)	(180)
Income (loss) before income taxes	308	(1,071)	690	(303)
Income tax expense (benefit)	79	(405)	128	(195)
Ongoing Operations	229	(666)	562	(108)
Other Operations	(39)	(108)	(87)	(91)
Total Property & Casualty	**190**	**(774)**	**475**	**(199)**
Corporate	(87)	(42)	(514)	(108)
Net loss	**$ (220)**	**$ (2,631)**	**$ (1,444)**	**$ (1,943)**

[1] Included in net income (loss) of International and Institutional is investment income and interest expense, respectively, for the three and nine months ended September 30, 2009 of $19 and $49, respectively, on an inter-segment funding agreement. This investment income and interest expense is eliminated in Life Other.

[2] Net of expenses related to service business.

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

4. Fair Value Measurements

The following financial instruments are carried at fair value in the Company s Condensed Consolidated Financial Statements: fixed maturities and equity securities, available-for-sale (AFS), equity securities, trading, short-term investments, freestanding and embedded derivatives, and separate account assets.

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, open-ended mutual funds reported in separate account assets and derivative securities, including futures and certain option contracts.
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 debt securities 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 in the Level 2 category are derivative instruments that are priced using models with significant observable market inputs, including interest rate, foreign currency and certain credit swap contracts and have no significant unobservable market inputs.
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 such as highly structured and/or lower quality asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), commercial real estate (CRE) CDOs, residential mortgage-backed securities (RMBS) primarily backed by below-prime loans, and private placement debt and equity securities. Embedded derivatives, including GMWB liabilities, and complex derivatives securities, including equity derivatives, longer dated interest rate swaps or swaps with optionality and certain complex credit derivatives are also included in Level 3. Because Level 3 fair values, by their nature, contain unobservable market inputs as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the Company s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

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

Table of Contents

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

4. Fair Value Measurements (continued)

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.

	September 30, 2009			
	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	$ 2,540	$	$ 1,966	$ 574
CDOs	2,818		34	2,784
CMBS	9,002		8,544	458
Corporate	34,011		26,874	7,137
Foreign government/government agencies	1,071		1,003	68
RMBS	4,821		3,671	1,150
States, municipalities and political subdivisions	11,815		11,552	263
U.S. Treasuries	2,563	186	2,377	
Total fixed maturities, AFS	68,641	186	56,021	12,434
Equity securities, trading	33,463	2,465	30,998	
Equity securities, AFS	1,397	242	919	236
Other investments				
Variable annuity hedging derivatives	733		(21)	754
Other derivatives [1]	729		681	48
Total other investments	1,462		660	802
Short-term investments	13,910	9,715	4,195	
Reinsurance recoverable for U.S. guaranteed minimum withdrawal benefit (GMWB)	538			538
Separate account assets [2]	144,023	110,064	33,241	718
Total assets accounted for at fair value on a recurring basis	**$ 263,434**	**$ 122,672**	**$ 126,034**	**$ 14,728**
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
Guaranteed living benefits	$ (2,992)	$	$	$ (2,992)
Institutional notes	(7)			(7)

Equity linked notes	(8)			(8)
Total other policyholder funds and benefits payable	(3,007)			(3,007)
Other liabilities [3]				
Variable annuity hedging derivatives	(27)		(44)	17
Other derivative liabilities	(543)		(278)	(265)
Total other liabilities	(570)		(322)	(248)
Consumer notes [4]	(5)			(5)
Total liabilities accounted for at fair value on a recurring basis	**$ (3,582)**	**$**	**$ (322)**	**$ (3,260)**

[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 September 30, 2009, $1.1 billion of cash collateral liability was netted against the derivative asset value in the Condensed Consolidated Balance Sheets and is excluded from the table above. See footnote 3 below for derivative liabilities.

[2] As of September 30, 2009, excludes approximately $12 billion of investment sales receivable net of investment

purchases payable that are not subject to fair value accounting.

[3] *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.*

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

Table of Contents

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

4. Fair Value Measurements (continued)

	December 31, 2008			
	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	$ 65,112	$ 3,541	$ 49,761	$ 11,810
Equity securities, trading	30,820	1,634	29,186	
Equity securities, AFS	1,458	246	671	541
Other investments				
Variable annuity hedging derivatives	600		13	587
Other derivatives [1]	976		1,005	(29)
Total other investments	1,576		1,018	558
Short-term investments	10,022	7,025	2,997	
Reinsurance recoverable for U.S. GMWB	1,302			1,302
Separate account assets [2]	126,777	94,804	31,187	786
Total assets accounted for at fair value on a recurring basis	**$ 237,067**	**$ 107,250**	**$ 114,820**	**$ 14,997**
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
Guaranteed living benefits	$ (6,620)	$	$	$ (6,620)
Institutional notes	(41)			(41)
Equity linked notes	(8)			(8)
Total other policyholder funds and benefits payable	(6,669)			(6,669)
Other liabilities [3]				
Variable annuity hedging derivatives	2,201		14	2,187
Other derivative liabilities	(339)		76	(415)
Total other liabilities	1,862		90	1,772
Consumer notes [4]	(5)			(5)
Total liabilities accounted for at fair value on a recurring basis	**$ (4,812)**	**$**	**$ 90**	**$ (4,902)**

[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 December 31, 2008, $574 of cash collateral liability was netted against the derivative asset value in the Condensed Consolidated Balance Sheets and is excluded from the table above. See footnote 3 below for derivative liabilities.*

[2] *As of December 31, 2008, excludes approximately $3 billion of investment sales receivable net of investment purchases payable that are not subject to fair value accounting.*

[3] *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.

[4] *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 HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Available-for-Sale Securities and Short-term Investments

The fair value of AFS securities and short-term investments in an active and orderly market (e.g. not distressed or forced liquidation) is determined by management after considering one of three primary sources of information: third party pricing services, independent broker quotations or pricing matrices. Security pricing is applied using a waterfall approach whereby 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 three pricing methods include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows and prepayments speeds. 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 recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. 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 securities for which the Company is unable to obtain either a price from a third party pricing service or an independent broker quotation. The pricing matrix used by the Company begins with current spread levels to determine the market price for the security. The credit spreads, as assigned by a knowledgeable private placement broker, incorporate the issuer s credit rating and a risk premium, if warranted, due to the issuer s industry and the security s time to maturity. The issuer-specific yield adjustments, which can be positive or negative, are updated twice per year, as of June 30 and December 31, by the private placement broker and are intended to adjust security prices for issuer-specific factors. The Company assigns a credit rating to these securities based upon an internal analysis of the issuer s financial strength.

The Company performs a monthly analysis of the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. As a part of this analysis, the Company considers trading volume and other factors to determine whether the decline in market activity is significant when compared to 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. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. Examples of 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, back testing recent trades, and monitoring of trading volumes, new issuance activity and other market activities. 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. 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 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. Internal matrix priced securities, primarily consisting of certain private placement debt, are also classified as Level 3 due to significant non-observable inputs.

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

4. Fair Value Measurements (continued)

Derivative Instruments, including Embedded Derivatives within Investments

Freestanding derivative instruments are reported in the Condensed Consolidated Balance Sheets at fair value and are reported in other investments and other liabilities. Embedded derivatives are reported with the host instruments in the Condensed Consolidated Balance Sheets. Derivative instruments are fair valued using pricing valuation models, which utilize market data inputs or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of September 30, 2009, 96% of derivatives, based upon notional values, were priced by valuation models, which utilize independent market data. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. The Company performs a monthly analysis on derivative valuations which includes both quantitative and qualitative analysis. Examples of procedures performed include, but are not limited to, review of pricing statistics and trends, back testing recent trades, analyzing the impacts of changes in the market environment, and review of changes in market value for each derivative including those derivatives priced by brokers.

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.

U.S. GMWB Reinsurance Derivative

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 policyholder behavior inputs, identical to those used in calculating the underlying liability, such as lapses, fund selection, resets and withdrawal utilization and risk margins.

Separate Account Assets

Separate account assets are primarily invested in mutual funds but also have investments in fixed maturity and equity securities. The separate account investments are valued in the same manner, and using the same pricing sources and inputs, as the fixed maturity, equity security, and short-term investments of the Company.

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

Fair values for GMWB and guaranteed minimum accumulation benefit (GMAB) contracts and the related reinsurance and customized derivatives that hedge certain equity markets exposure for GMWB contracts are calculated 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; Actively-Managed Volatility Adjustment; Credit Standing Adjustment; Market Illiquidity Premium; and Behavior Risk Margin. 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 each 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, for a liability, 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 of the components described below are unobservable in the marketplace and require subjectivity by the Company in determining their value.

Best Estimate. This component represents the estimated amount for which a financial instrument could be exchanged in a current transaction between knowledgeable, unrelated willing parties using identifiable, measurable and significant inputs.

The Best Estimate is calculated based on actuarial and capital market assumptions related to projected cash flows, including 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 involving the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates and a blend of observable implied index volatility levels were used. Estimating these cash flows involves numerous estimates and subjective judgments including those regarding expected markets rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. At each valuation date, the Company assumes expected returns based on:

risk-free rates as represented by the current LIBOR forward curve rates;

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

4. Fair Value Measurements (continued)

forward market volatility assumptions for each underlying index based primarily on a blend of observed market implied volatility data;

correlations of market returns across underlying indices based on actual observed market returns and relationships over the ten years preceding the valuation date;

three years of history for fund regression; and

current risk-free spot rates as represented by the current LIBOR spot curve to determine the present value of expected future cash flows produced in the stochastic projection process.

As many guaranteed benefit obligations are relatively new in the marketplace, actual policyholder behavior experience is limited. As a result, estimates of future policyholder behavior are subjective and based on analogous internal and external data. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions for this component of the fair value model.

On a daily basis, the Company updates capital market assumptions used in the GMWB liability model such as interest rates, equity indices and a blend of implied equity index volatilities. The Company continually monitors actual policyholder behavior and revises assumptions regarding policyholder behavior as credible trends of policyholder behavior emerge. With the unprecedented market conditions beginning in the third quarter of 2008, the Company, for the first time, was able to observe policyholder behavior on its living benefit products in adverse market conditions. As actual policyholder behavior emerged in this environment, new data suggested that policyholder behavior in declining market scenarios was not as adverse as our prior assumptions. As a result, in the second quarter the Company adjusted the behavior assumptions in the GMWB model. The Company is continually evaluating 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. 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.

Actively-Managed Volatility Adjustment. This component incorporates the basis differential between the observable index implied volatilities used to calculate the Best Estimate component and the actively-managed funds underlying the variable annuity product. The Actively-Managed Volatility Adjustment is calculated using historical fund and weighted index volatilities.

Credit Standing Adjustment. This assumption makes an adjustment that market participants would make to reflect the risk that guaranteed benefit obligations or the GMWB reinsurance recoverables will not be fulfilled (nonperformance risk). As a result of sustained volatility in the Company s credit default spreads, during the first quarter of 2009 the Company changed its estimate of the Credit Standing Adjustment to incorporate observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. Prior to the first quarter of 2009, the Company calculated the Credit Standing Adjustment by using default rates published by rating agencies, adjusted for market recoverability. The changes made in the first quarter of 2009 resulted in a realized gain of $198, before-tax. For the three and nine months ended September 30, 2009, the credit standing adjustment resulted in a pre-tax loss of $70 and pre-tax gain of $163, respectively.

Market Illiquidity Premium. This component makes an adjustment that market participants would require to reflect that guaranteed benefit obligations are illiquid and have no market observable exit prices in the capital markets.

Behavior Risk Margin and Other Policyholder Behavior Assumptions. The behavior risk margin adds a margin that market participants would require 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. During the first half of 2009, the Company revised certain adverse assumptions in the behavior risk margin for withdrawals, lapses and annuitization behavior as emerging policyholder behavior experience suggested the prior adverse policyholder behavior assumptions were no longer representative of an appropriate margin for risk. These changes resulted in a

realized gain of $352, before-tax, in the first quarter of 2009 and a realized gain of $118, before-tax, in the second quarter of 2009.

Table of Contents

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

4. Fair Value Measurements (continued)

In addition to the credit standing update described above, during the third quarter of 2009, the Company recognized non-market-based updates driven by:

- The impact of having lower future expected separate account growth assumption caused by the Company s decision to increase the mortality and expense fees charged to policyholders and mortality assumption updates, resulting in a pre-tax loss of approximately $126; and
- The relative outperformance of the underlying actively managed funds as compared to their respective indices and regression updates, resulting in a pre-tax gain of approximately $165.

For the nine months ended September 30, 2009, the Company recognized non-market-based assumption updates driven by:

- The relative outperformance of the underlying actively managed funds as compared to their respective indices and regression updates, resulting in a pre-tax gain of approximately $528;
- Updates to the behavior risk margin (described above), the third quarter increase in mortality and expense fees (described above) and other policyholder behavior assumption changes made during the nine months ended September 30, 2009, resulting in a pre-tax gain of approximately $306; and
- The credit standing adjustment (described above), resulting in a pre-tax gain of approximately $163.

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

The following tables provide a fair value roll forward for the three and nine months ending September 30, 2009 and 2008, for the financial instruments classified as Level 3.

Table of Contents

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

4. Fair Value Measurements (continued)

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the three months ended September 30, 2009

Asset (Liability)	Fair value as of July 1, 2009	Total realized/unrealized gains (losses) included in: Net income [1], [2]	OCI [3]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [4]	Fair value as of September 30, 2009	Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2009 [2]
Assets							
Fixed maturities, AFS							
ABS	$ 502	$ (32)	$ 122	$ (36)	$ 18	$ 574	$ (32)
CDO	2,562	(218)	436	35	(31)	2,784	(218)
CMBS	198	(117)	171	(5)	211	458	(117)
Corporate	6,530	(6)	587	80	(54)	7,137	(11)
Foreign govt./govt. agencies	68	1	4	(3)	(2)	68	1
RMBS	1,353	(66)	158	(231)	(64)	1,150	(66)
States, municipalities and political subdivisions	214		13	29	7	263	
Fixed maturities, AFS	11,427	(438)	1,491	(131)	85	12,434	(443)
Equity securities, AFS	228	(4)	(5)	1	16	236	
Derivatives [5]							
Variable annuity hedging derivatives	1,135	(441)		77		771	(234)
Other freestanding derivatives	(282)	49	5	11		(217)	54
Total freestanding derivatives	853	(392)	5	88		554	(180)
Reinsurance recoverable for U.S. GMWB [1]	632	(103)		9		538	(103)
Separate accounts [6]	673	40		29	(24)	718	34

Supplemental Asset Information:							
Total freestanding derivatives used to hedge U.S. GMWB including those in Levels 1, 2 and 3	$ 855	$ (478)	$	$ 7	$	$ 384	$ (478)
Liabilities							
Other policyholder funds and benefits payable							
Guaranteed living benefits[1]	$ (3,344)	$ 392	$	$ (40)	$	$ (2,992)	$ 392
Institutional notes	2	(9)				(7)	(9)
Equity linked notes	(6)	(2)				(8)	(2)
Total other policyholder funds and benefits payable	(3,348)	381		(40)		(3,007)	381
Consumer notes	(4)	(1)				(5)	(1)
Supplemental Liability Information							
Net U.S. GMWB (Embedded derivatives, freestanding derivatives including those in Levels 1, 2 and 3 and reinsurance recoverable) [7]	$ (1,802)	$ (198)	$	$ (21)	$	$ (2,021)	$ (198)

[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 columns are reported in net realized capital gains (losses). All amounts are before income taxes and amortization of deferred policy acquisition costs and present value of future profits (collectively referred to as DAC).*

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

[4] *Transfers in and/or (out) of Level 3 are attributable to a change in the availability of market observable information, as well as downgrades of CMBS.*

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

[6] *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.

[7] *The net (loss) on U.S. GMWB since July 1, 2009 was primarily due to losses of $154 resulting from the Company s net market-based dynamic hedging position, of which approximately $97 related to falling long-term risk-free interest rates, and non-market-based assumption updates described above.*

Table of Contents

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

4. Fair Value Measurements (continued)

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2009

Asset (Liability)	Fair value as of January 1, 2009	Total realized/unrealized gains (losses) included in: Net income [1], [2]	OCI [3]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [4]	Fair value as of September 30, 2009	Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2009 [2]
Assets							
Fixed maturities, AFS							
ABS	$ 536	$ (41)	$ 158	$ (35)	$ (44)	$ 574	$ (37)
CDO	2,612	(313)	534	(18)	(31)	2,784	(312)
CMBS	341	(165)	199	(13)	96	458	(143)
Corporate	6,396	(66)	994	278	(465)	7,137	(38)
Foreign govt./govt. agencies	100	1	2	(13)	(22)	68	1
RMBS	1,662	(235)	(86)	(130)	(61)	1,150	(150)
States, municipalities and political subdivisions	163		6	16	78	263	
Fixed maturities, AFS	11,810	(819)	1,807	85	(449)	12,434	(679)
Equity securities, AFS	541	(5)	(6)	(1)	(293)	236	
Derivatives [5]							
Variable annuity hedging derivatives	2,774	(1,534)		(469)		771	(1,276)
Other freestanding derivatives	(281)	44	(5)	31	(6)	(217)	63
Total freestanding derivatives	2,493	(1,490)	(5)	(438)	(6)	554	(1,213)
Reinsurance recoverable for U.S. GMWB [1]	1,302	(788)		24		538	(788)
Separate accounts [6]	786	(82)		139	(125)	718	(39)

Supplemental Asset Information							
Total freestanding derivatives used to hedge U.S. GMWB including those in Levels 1, 2 and 3	$ 2,664	$ (1,878)	$	$ (402)	$	$ 384	$ (1,878)
Liabilities							
Other policyholder funds and benefits payable [1]							
Guaranteed living benefits [8]	$ (6,620)	$ 3,741	$ (3)	$ (110)	$	$ (2,992)	$ 3,741
Institutional notes	(41)	34				(7)	34
Equity linked notes	(8)					(8)	
Total other policyholder funds and benefits payable [1]	(6,669)	3,775	(3)	(110)		(3,007)	3,775
Other derivative liabilities [7]	(163)	70		93			
Consumer notes	(5)					(5)	
Supplemental Liability Information							
Net U.S. GMWB (Embedded derivatives, freestanding derivatives including those in Levels 1, 2 and 3 and reinsurance recoverable) [8]	$ (2,560)	$ 1,017	$	$ (478)	$	$ (2,021)	$ 1,017

[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 columns are reported in net realized capital gains (losses) except for $2, which is reported in benefits, losses and loss adjustment expenses. All amounts are before income taxes and amortization of DAC.*

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

[4] *Transfers in and/or (out) of Level 3 are attributable to a change in the availability of market observable information and re-evaluation of the observability of pricing inputs for individual securities within the respective categories.*

[5] *Derivative instruments are reported in this table on a net basis for asset/(liability) positions and reported in the Condensed*

Consolidated Balance Sheets in other investments and other liabilities.

[6] *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.*

[7] *On March 26, 2009, certain of the Allianz warrants were reclassified to equity, at their current fair value, as shareholder approval of the conversion of these warrants to common shares was received. See Note 13 for further discussion.*

[8] *The net gain on U.S. GMWB since January 1, 2009 was primarily due to the non-market-based assumption updates described above.*

Table of Contents

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

4. Fair Value Measurements (continued)

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the three months ended September 30, 2008

Asset (Liability)	Fair value as of July 1, 2008	Total realized/unrealized gains (losses) included in: Net income [1], [2]	OCI [3]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [4]	Fair value as of September 30, 2008	Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2008 [2]
Assets							
Fixed maturities, AFS	$ 16,512	$ (683)	$ (596)	$ 77	$ 927	$ 16,237	$ (680)
Equity securities, AFS	1,367	(229)	122	(232)	85	1,113	(217)
Derivatives [5]							
Variable annuity hedging derivatives	793	437		9		1,239	394
Other freestanding derivatives	(404)	(174)	(4)	31	2	(549)	(174)
Total freestanding derivatives	389	263	(4)	40	2	690	220
Reinsurance recoverable for U.S. GMWB [1]	250	106		82		438	106
Separate accounts [6]	665	(53)		(25)	426	1,013	(34)
Supplemental Asset Information							
Total freestanding derivatives used to hedge U.S. GMWB including those in Levels 1, 2 and 3	$ 784	$ 475	$	$ (106)	$	$ 1,153	$ 475
Liabilities							
Other policyholder funds and benefits payable							
Guaranteed living benefits [1]	$ (1,703)	$ (710)	$ 2	$ (40)	$	$ (2,451)	$ (710)

Institutional notes	(21)	12				(9)	12
Equity linked notes	(15)	3				(12)	3
Total other policyholder funds and benefits payable	(1,739)	(695)	2	(40)		(2,472)	(695)
Consumer notes	(3)	2		(5)		(6)	2
Supplemental Liability Information							
Net U.S. GMWB (Embedded derivatives, freestanding derivatives including those in Levels 1, 2 and 3 and reinsurance recoverable) [7]	$ (630)	$ (116)	$	$ (60)	$	$ (806)	$ (116)

[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 columns are reported in net realized capital gains/losses except for $2, which is reported in benefits, losses and loss adjustment expenses. All

amounts are before income taxes and amortization of DAC.

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

[4] *Transfers in and/or (out) of Level 3 are attributable to a change in the availability of market observable information and re-evaluation of the observability of pricing inputs for individual securities within the respective categories.*

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

[6] *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.*

[7] *The net loss on U.S. GMWB was primarily related to market-based hedge ineffectiveness in the third quarter due to extremely volatile capital markets in September.*

Table of Contents

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

4. Fair Value Measurements (continued)

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months ended September 30, 2008

Asset (Liability)	Fair value as of January 1, 2008	Total realized/unrealized gains (losses) included in: Net income [1], [2]	OCI [3]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [4]	Fair value as of September 30, 2008	Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2008 [2]
Assets							
Fixed maturities, AFS	$ 17,996	$ (860)	$ (1,992)	$ 1,355	$ (262)	$ 16,237	$ (824)
Equity securities, AFS	1,339	(230)	(7)	95	(84)	1,113	(228)
Derivatives [5]							
Variable annuity hedging derivatives	673	500		66		1,239	453
Other freestanding derivatives	(419)	(441)	(2)	210	103	(549)	(312)
Total freestanding derivatives	254	59	(2)	276	103	690	141
Reinsurance recoverable for U.S. GMWB [1]	238	108		92		438	108
Separate accounts [6]	701	(109)		(5)	426	1,013	(89)
Supplemental Asset Information							
Total freestanding derivatives used to hedge U.S. GMWB including those in Levels 1, 2 and 3	$ 643	$ 520	$	$ (10)	$	$ 1,153	$ 520
Liabilities							
Other policyholder funds and benefits payable	$ (1,472)	$ (880)	$ 1	$ (100)	$	$ (2,451)	$ (880)

Guaranteed living benefits [1]							
Institutional notes	(24)	15				(9)	15
Equity linked notes	(21)	9				(12)	9
Total other policyholder funds and benefits payable	(1,517)	(856)	1	(100)		(2,472)	(856)
Consumer notes	(5)	4		(5)		(6)	4
Supplemental Liability Information							
Net U.S. GMWB (Embedded derivatives, freestanding derivatives including those in Levels 1, 2 and 3 and reinsurance recoverable) [7]	$ (552)	$ (241)	$	$ (13)	$	$ (806)	$ (241)

[1] The Company classifies the 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 columns are reported in net realized capital gains (losses) except for $3, which is reported in benefits, losses

and loss adjustment expenses. All amounts are before income taxes and amortization of DAC.

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

[4] *Transfers in and/or (out) of Level 3 are attributable to a change in the availability of market observable information and re-evaluation of the observability of pricing inputs for individual securities within the respective categories.*

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

[6] *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.

[7] *The net loss on U.S. GMWB since January 1, 2008 was primarily related to liability model assumption updates for mortality in the first quarter and market-based hedge ineffectiveness in the third quarter due to extremely volatile capital markets in September.*

Table of Contents

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

4. Fair Value Measurements (continued)

Financial Instruments Not Carried at Fair Value

The following include disclosures for other financial instruments not carried at fair value and not included in the above fair value discussion.

The carrying amounts and fair values of the Company s financial instruments not carried at fair value as of September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Policy loans	$ 2,209	$ 2,418	$ 2,208	$ 2,435
Mortgage loans	6,328	5,116	6,469	5,654
Liabilities				
Other policyholder funds and benefits payable [1]	$ 13,121	$ 13,312	$ 14,839	$ 14,576
Commercial paper [2]			374	374
Long-term debt [3]	5,768	6,063	5,755	4,539
Consumer notes [4]	1,188	1,268	1,205	1,188

[1] Excludes guarantees on variable annuities, group accident and health and universal life insurance contracts, including corporate owned life insurance.

[2] Included in short-term debt in the consolidated balance sheets. As of September 30, 2009, the Company has no commercial paper outstanding.

[3] Excludes capital lease obligations of $67 and $68 as of September 30, 2009 and December 31, 2008, respectively, and includes current maturities of long-term debt of $275 and $0 as of September 30, 2009 and December 31, 2008, respectively.

[4] Excludes amounts carried at fair value and included in disclosures above.

As of September 30, 2009, included in other liabilities in the Condensed Consolidated Balance Sheets are carrying amounts of $334 and $119 for deposits and Federal Home Loan Bank advances, respectively, related to Federal Trust Corporation. These carrying amounts approximate fair value.

The Company has not made any changes in its valuation methodologies for the following assets and liabilities since December 31, 2008.

- Fair value for policy loans and consumer notes were estimated using discounted cash flow calculations using current interest rates.
- 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.
- Other policyholder funds and benefits payable, not carried at fair value, is determined by estimating future cash flows, discounted at the current market rate.
- Carrying amounts approximate fair value for commercial paper. As of September 30, 2009, the Company has no outstanding commercial paper.
- Fair value for long-term debt is based primarily on market quotations from independent third party pricing services.

Table of Contents

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

5. Investments and Derivative Instruments

Available-for-Sale Securities

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

	September 30, 2009					December 31, 2008			
	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
ABS	$ 3,130	$ 48	$ (638)	$ 2,540	$ (53)	$ 3,431	$ 6	$ (971)	$ 2,466
CDOs	4,283	30	(1,495)	2,818	(164)	4,655	2	(2,045)	2,612
CMBS	11,692	149	(2,839)	9,002	9	12,973	43	(4,703)	8,313
Corporate	34,224	1,597	(1,810)	34,011	(21)	31,059	623	(4,501)	27,181
Foreign govt./govt. agencies	1,021	63	(13)	1,071	2	2,786	100	(65)	2,821
RMBS	5,807	118	(1,104)	4,821	(135)	6,045	96	(1,033)	5,108
States, municipalities and political subdivisions	11,595	488	(268)	11,815	(1)	11,406	202	(953)	10,655
U.S. Treasuries	2,677	37	(151)	2,563		5,883	112	(39)	5,956
Total fixed maturities	**74,429**	**2,530**	**(8,318)**	**68,641**	**(363)**	**78,238**	**1,184**	**(14,310)**	**65,112**
Equity securities	1,403	268	(274)	1,397		1,554	203	(299)	1,458
Total AFS securities	**$ 75,832**	**$ 2,798**	**$ (8,592)**	**$ 70,038**	**$ (363)**	**$ 79,792**	**$ 1,387**	**$ (14,609)**	**$ 66,570**

[1] Represents the amount of cumulative non-credit OTTI losses recognized in other comprehensive loss on securities that also had a credit impairment. These losses are included in gross unrealized

losses as of September 30, 2009.

The Company participates in securities lending programs to generate additional income. Through these programs, certain domestic fixed income securities are loaned from the Company s portfolio to qualifying third party borrowers in return for collateral in the form of cash or U.S. Treasuries. As of September 30, 2009 and December 31, 2008, under terms of securities lending programs, the fair value of loaned securities was approximately $209 and $2.9 billion, respectively, which was included in fixed maturities in the Condensed Consolidated Balance Sheets. As of September 30, 2009 and December 31, 2008, the Company held collateral associated with the loaned securities in the amount of $213 and $3.0 billion, respectively. The decrease in both the fair value of loaned securities and the associated collateral is attributable to the maturation of the loans in the term lending program throughout 2009.

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

	September 30, 2009	
Maturity	**Amortized Cost**	**Fair Value**
One year or less	$ 1,510	$ 1,546
Over one year through five years	11,465	11,758
Over five years through ten years	13,556	13,653
Over ten years	22,986	22,503
Subtotal	49,517	49,460
Mortgage-backed and asset-backed securities	24,912	19,181
Total fixed maturities	**$ 74,429**	**$ 68,641**

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

Table of Contents

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

5. Investments and Derivative Instruments (continued)

Net Realized Capital Losses

The following table presents the Company s net realized capital losses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Before-tax)	**2009**	**2008**	**2009**	**2008**
Gross gains on sales	$ 205	$ 58	$ 570	$ 226
Gross losses on sales	(104)	(175)	(1,013)	(445)
Net OTTI losses recognized in earnings	(536)	(3,077)	(1,074)	(3,545)
Japanese fixed annuity contract hedges, net [1]	(7)	36	28	13
Periodic net coupon settlements on credit derivatives/Japan	(7)	(6)	(39)	(21)
Fair value measurement transition impact				(650)
Results of variable annuity hedge program				
GMWB derivatives, net	(190)	(133)	1,070	(256)
Macro hedge program	(328)	24	(692)	29
Total results of variable annuity hedge program	(518)	(109)	378	(227)
Other, net [2]	(252)	(176)	(666)	(453)
Net realized capital losses	**$ (1,219)**	**$ (3,449)**	**$ (1,816)**	**$ (5,102)**

[1] Relates to derivative hedging instruments, excluding periodic net coupon settlements, and is net of the Japanese fixed annuity product liability adjustment for changes in the dollar/yen exchange spot rate.

[2] Consists of changes in fair value on non-qualifying derivatives,

hedge ineffectiveness on qualifying derivatives, foreign currency gains and losses related to the internal reinsurance of the Japan variable annuity business, which is offset in AOCI, valuation allowances, a second quarter 2009 loss of approximately $300 related to contingent obligations associated with the Allianz transaction, and other investment gains and losses.

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. Net realized capital losses reported for the three and nine months ended September 30, 2009 related to AFS impairments and net losses on sales were $435 and $1.5 billion, respectively, and were previously reported as unrealized losses in AOCI. Proceeds from sales of AFS securities totaled $6.2 billion and $34.3 billion, respectively, for the three and nine months ended September 30, 2009, and $3.7 billion and $12.4 billion, respectively, for the three and nine months ended September 30, 2008.

Other-Than-Temporary Impairment Losses

The following table presents a roll-forward of the Company s cumulative credit impairments on debt securities held as of September 30, 2009.

	Three Months Ended September 30, 2009	Six Months Ended September 30, 2009
Balance as of beginning of period	$ (1,578)	$ (1,320)
Additions for credit impairments recognized on [1]:		
Securities not previously impaired	(315)	(527)
Securities previously impaired	(180)	(229)
Reductions for credit impairments previously recognized on:		
Securities that matured or were sold during the period	28	28
Securities that the Company intends to sell or more likely than not will be required to sell before recovery		3
Securities due to an increase in expected cash flows	2	2

Balance as of September 30, 2009	**$**	**(2,043)**	**$**	**(2,043)**

[1] Total additions of $495 and $756 for the three and six months ended September 30, 2009, respectively, are included in the net OTTI losses recognized in earnings of $536 and $1.1 billion, respectively, in the Condensed Consolidated Statements of Operations.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)
Security 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.

	September 30, 2009								
	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	$ 245	$ 163	$ (82)	$ 2,019	$ 1,463	$ (556)	$ 2,264	$ 1,626	$ (638)
CDOs	1,787	1,507	(280)	2,479	1,264	(1,215)	4,266	2,771	(1,495)
CMBS	1,770	1,367	(403)	7,151	4,715	(2,436)	8,921	6,082	(2,839)
Corporate	3,713	3,109	(604)	8,221	7,015	(1,206)	11,934	10,124	(1,810)
Foreign govt./govt. agencies	124	118	(6)	70	63	(7)	194	181	(13)
RMBS	340	265	(75)	2,293	1,264	(1,029)	2,633	1,529	(1,104)
States, municipalities and political subdivisions	278	240	(38)	2,097	1,867	(230)	2,375	2,107	(268)
U.S. Treasuries	1,314	1,163	(151)				1,314	1,163	(151)
Total fixed maturities	9,571	7,932	(1,639)	24,330	17,651	(6,679)	33,901	25,583	(8,318)
Equity securities	737	543	(194)	368	288	(80)	1,105	831	(274)
Total securities in an unrealized loss	**$ 10,308**	**$ 8,475**	**$ (1,833)**	**$ 24,698**	**$ 17,939**	**$ (6,759)**	**$ 35,006**	**$ 26,414**	**$ (8,592)**

	December 31, 2008								
	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	$ 1,190	$ 958	$ (232)	$ 2,092	$ 1,353	$ (739)	$ 3,282	$ 2,311	$ (971)
CDOs	688	440	(248)	3,941	2,144	(1,797)	4,629	2,584	(2,045)
CMBS	5,704	4,250	(1,454)	6,647	3,398	(3,249)	12,351	7,648	(4,703)
Corporate	16,604	14,145	(2,459)	7,028	4,986	(2,042)	23,632	19,131	(4,501)
Foreign govt./govt. agencies	1,263	1,211	(52)	43	30	(13)	1,306	1,241	(65)
RMBS	731	546	(185)	2,607	1,759	(848)	3,338	2,305	(1,033)
States, municipalities and political	5,153	4,640	(513)	2,578	2,138	(440)	7,731	6,778	(953)

subdivisions									
U.S. Treasuries	4,120	4,083	(37)	66	64	(2)	4,186	4,147	(39)
Total fixed maturities	35,453	30,273	(5,180)	25,002	15,872	(9,130)	60,455	46,145	(14,310)
Equity securities	1,017	796	(221)	277	199	(78)	1,294	995	(299)
Total securities in an unrealized loss	**$ 36,470**	**$ 31,069**	**$ (5,401)**	**$ 25,279**	**$ 16,071**	**$ (9,208)**	**$ 61,749**	**$ 47,140**	**$ (14,609)**

As of September 30, 2009, AFS securities in an unrealized loss position, comprised of 3,423 securities, primarily related to CMBS, corporate securities primarily within the financial services sector, CDOs and RMBS which have experienced significant price deterioration. The Company neither has an intention to sell nor does it expect to be required to sell the securities outlined above.

Table of Contents

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

5. Investments and Derivative Instruments (continued)

Mortgage Loans

The following table presents the Company s mortgage loans by type.

	September 30, 2009			December 31, 2008		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Agricultural	$ 632	$ (1)	$ 631	$ 646	$ (11)	$ 635
Commercial	5,661	(175)	5,486	5,849	(15)	5,834
Residential [2]	211		211			
Total mortgage loans	**$ 6,504**	**$ (176)**	**$ 6,328**	**$ 6,495**	**$ (26)**	**$ 6,469**

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

[2] *Represents residential mortgage loans held at Federal Trust Corporation, a company The Harford acquired in June 2009. For further information on Federal Trust Corporation, see Note 16 of the Notes to the Condensed Consolidated Financial Statements.*

The Company has a monitoring process that is overseen by a committee of investment and accounting professionals that identifies mortgage loans for impairment. For those mortgage loans that, based upon current information and events, it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement, an impairment is recognized and a valuation allowance is established with an offsetting charge to net realized capital losses.

The following table presents the activity within the Company s valuation allowance for mortgage loans for the nine months ended September 30, 2009.

		Valuation Allowance
Balance at December 31, 2008	**$**	**(26)**
Additions		(198)
Deductions		48
Balance at September 30, 2009	**$**	**(176)**

The following tables present the Company s mortgage loans by region and property type.

Mortgage Loans by Region

	September 30, 2009			December 31, 2008		
		Carrying Value	Percent of Total		Carrying Value	Percent of Total
East North Central	$	147	2.3%	$	162	2.5%
Middle Atlantic		744	11.8%		825	12.8%
Mountain		163	2.6%		223	3.4%
New England		468	7.4%		487	7.5%
Pacific		1,482	23.4%		1,495	23.1%
South Atlantic [1]		1,293	20.4%		1,102	17.0%
West North Central		62	1.0%		64	1.0%
West South Central		331	5.2%		333	5.2%
Other [2]		1,638	25.9%		1,778	27.5%
Total mortgage loans	**$**	**6,328**	**100.0%**	**$**	**6,469**	**100.0%**

[1] Includes mortgage loans held at Federal Trust Corporation as of September 30, 2009.

[2] Primarily represents multi-regional properties.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

Mortgage Loans by Property Type

	September 30, 2009		December 31, 2008	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Agricultural	$ 631	10.0%	$ 635	9.8%
Industrial	1,070	16.9%	1,118	17.3%
Lodging	477	7.6%	483	7.5%
Multifamily	949	15.0%	1,131	17.5%
Office	1,798	28.4%	1,885	29.1%
Residential	211	3.3%		
Retail	812	12.8%	858	13.3%
Other	380	6.0%	359	5.5%
Total mortgage loans	**$ 6,328**	**100.0%**	**$ 6,469**	**100.0%**

Variable Interest Entities

The Company is involved with VIEs primarily as a collateral manager and as an investor through normal investment activities. The Company s involvement includes providing investment management and administrative services for a fee and holding ownership or other interests as an investor. The Company also has involvement with VIEs as a means of accessing capital.

The following table presents the carrying value of assets and liabilities and the maximum exposure to loss relating to VIEs for which the Company has concluded that it is the primary beneficiary and therefore are consolidated in the Company s Condensed Consolidated Financial Statements.

	September 30, 2009			December 31, 2008		
	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss
CLOs	$ 238	$ 28	$ 213	$ 339	$ 69	$ 257
Limited partnerships	32	2	30	151	43	108
Other investments	111	21	87	249	59	221
Total	**$ 381**	**$ 51**	**$ 330**	**$ 739**	**$ 171**	**$ 586**

[1] Creditors have no recourse against the Company in the event of default by the VIE. Includes noncontrolling interest in

limited partnerships and other investments of $13 and $82 as of September 30, 2009 and December 31, 2008, respectively, that is reported as a separate component of equity in the Company s Condensed Consolidated Balance Sheets.

[2] *The Company s 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 consolidated assets at cost net of liabilities. The Company has no implied or unfunded commitments to these VIEs.*

During the three months ended September 30, 2009, the Company foreclosed on a mortgage loan investment and assumed a controlling interest in the associated real estate VIE which has the obligation to absorb losses or receive benefits from significant activity, including management and sale of the real estate. Therefore, the Company concluded that it is the primary beneficiary and, accordingly, consolidated the transaction in other investments. Additionally, during the nine months ended September 30, 2009, the Company partially liquidated one limited partnership and liquidated one other investment for which the Company had been the primary beneficiary. As a result of the liquidations, the Company is no longer deemed to be the primary beneficiary and accordingly, these VIEs were deconsolidated.

Table of Contents

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

5. Investments and Derivative Instruments (continued)

The following table presents the carrying value of assets and liabilities and the maximum exposure to loss relating to VIEs for which the Company has a significant involvement with but has concluded that it is not the primary beneficiary and therefore are not consolidated. Each of these investments has been held by the Company for less than three years.

	September 30, 2009			December 31, 2008		
	Assets	Liabilities	Maximum Exposure to Loss	Assets	Liabilities	Maximum Exposure to Loss
CLOs [1]	$ 273	$	$ 289	$ 308	$	$ 349
CDOs [1]	7		10	3		15
Other [2]	38	36	5	42	40	5
Total [3]	**$ 318**	**$ 36**	**$ 304**	**$ 353**	**$ 40**	**$ 369**

[1] Maximum exposure to loss represents the Company s investment in securities issued by CLOs/CDOs at cost.

[2] Maximum exposure to loss represents issuance costs that were incurred to establish the contingent capital facility. For further information on the contingent capital facility, see the Variable Interest Entities section of Note 5 in The Hartford s 2008 Form 10-K Annual Report.

[3] *The Company has no implied or unfunded commitments to these VIEs.*

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 otherwise 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.

The Company designates each derivative instrument as either a cash flow hedging instrument (cash flow hedge), a fair value hedging instrument (fair value hedge), or not qualified as a hedging instrument (non-qualifying strategies).

Cash flow hedges

Interest rate swaps

Interest rate swaps are primarily used to convert interest receipts on floating-rate fixed maturity securities or interest payments on floating-rate guaranteed investment contracts to fixed rates. These derivatives are predominantly used to better match cash receipts from assets with cash disbursements required to fund liabilities.

The Company also enters into forward starting swap agreements to hedge the interest rate exposure related to the purchase of fixed-rate securities or the anticipated future cash flows of floating-rate fixed maturity securities due to changes in interest rates. These derivatives are primarily structured to hedge interest rate risk inherent in the assumptions used to price certain liabilities.

Foreign currency swaps

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

Fair value hedges

Interest rate swaps

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

Foreign currency swaps are used to hedge the changes in fair value of certain foreign 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.

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

5. Investments and Derivative Instruments (continued)

Non-qualifying strategies

Interest rate swaps, caps, floors, and futures

The Company uses interest rate swaps, 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 September 30, 2009 and December 31, 2008, the notional amount of interest rate swaps in offsetting relationships was $7.3 billion and $6.8 billion, respectively.

Foreign currency swap and forwards

The Company enters into foreign currency swaps and forwards to convert the foreign currency exposures to U.S. dollars in certain of its foreign denominated fixed maturity investments. The Company also enters into foreign currency forward contracts that convert Euros to Yen in order to economically hedge the foreign currency risk associated with certain assumed Japanese variable annuity products.

Japan 3Win related foreign currency swaps

During the first quarter of 2009, the Company entered into foreign currency swaps to hedge the foreign currency exposure related to the Japan 3Win product guaranteed minimum income benefit (GMIB) fixed liability payments.

Japanese fixed annuity hedging instruments

The Company enters into currency rate swaps and forwards to mitigate the foreign currency exchange rate and Yen interest rate exposures associated with the Yen denominated individual fixed annuity product.

Credit derivatives that purchase credit protection

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. These contracts require the Company to pay a periodic fee in exchange for compensation from the counterparty should the referenced security issuers experience a credit event, as defined in the contract.

Credit derivatives that assume credit risk

Credit default swaps are used to assume credit risk related to an individual entity, referenced index, or asset pool, as a part of replication transactions. These contracts entitle the Company to receive a periodic fee in exchange for an obligation to compensate the derivative counterparty should the referenced security issuers experience a credit event, as defined in the contract. The Company is also exposed to credit risk due to embedded derivatives associated with credit linked notes.

Credit derivatives in offsetting positions

The Company enters into credit default swaps to terminate existing credit default swaps, thereby offsetting the changes in value of the original swap going forward.

Equity index swaps, options, and futures

The Company offers 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. In addition, the Company is exposed to bifurcated options embedded in certain fixed maturity investments.

Warrants

During the fourth quarter of 2008, the Company issued warrants to purchase the Company s Series C Non-Voting Contingent Convertible Preferred Stock, which were required to be accounted for as a derivative liability at December 31, 2008. See Note 21 of Notes to Consolidated Financial Statements in The Hartford s 2008 Form 10-K Annual Report for a discussion of Allianz SE s investment in The Hartford. As of March 31, 2009, the warrants were no longer required to be accounted for as derivatives and were reclassified to equity.

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

5. Investments and Derivative Instruments (continued)

GMWB product derivatives

The Company offers certain variable annuity products with a GMWB rider in the U.S. and formerly in the U.K. and Japan. The GMWB is a bifurcated embedded derivative that 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 notional value of the embedded derivative is the GRB balance.

GMWB reinsurance contracts

The Company has entered into reinsurance arrangements to offset a portion of its risk exposure to the GMWB for the remaining lives of covered variable annuity contracts. Reinsurance contracts covering GMWB are accounted for as free-standing derivatives. The notional amount of the reinsurance contracts is the GRB amount.

GMWB hedging instruments

The Company enters into derivative contracts to partially hedge exposure to the income volatility associated with the portion of the GMWB liabilities which 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. As of September 30, 2009, the notional amount related to the GMWB hedging instruments is $15.9 billion and consists of $10.9 billion of customized swaps, $1.4 billion of interest rate swaps and futures, and $3.6 billion of equity swaps, options, and futures.

Macro hedge program

The Company utilizes equity options, currency options, and equity futures contracts to partially hedge the statutory reserve impact of equity risk and foreign currency risk arising primarily from guaranteed minimum death benefit (GMDB), GMIB and GMWB obligations against a decline in the equity markets or changes in foreign currency exchange rates. As of September 30, 2009, the notional amount related to the macro hedge program is $18.1 billion and consists of $15.6 billion of equity options, $2.1 billion of currency options, and $0.4 billion of equity futures. The $2.1 billion of currency options include $1.1 billion of short put option contracts, therefore resulting in a net notional amount for the macro hedge program of approximately $17.0 billion.

GMAB product derivatives

The GMAB rider associated with certain of the Company s Japanese variable annuity products is accounted for as a bifurcated embedded derivative. The GMAB provides the policyholder with their initial deposit in a lump sum after a specified waiting period. The notional amount of the embedded derivative is the Yen denominated GRB balance converted to U.S. dollars at the current foreign spot exchange rate as of the reporting period date.

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.

Table of Contents

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

5. Investments and Derivative Instruments (continued)

Derivative Balance Sheet Classification

Derivative instruments are recorded in the Condensed Consolidated Balance Sheets at fair value. 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. 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. Derivatives in the Company s separate accounts are not included because the associated gains and losses accrue directly to policyholders. 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.

	Notional Amount		Net Derivatives Fair Value		Asset Derivatives Fair Value		Liability Derivatives Fair Value	
Hedge Designation/ Derivative Type	**Sep. 30, 2009**	**Dec. 31, 2008**	**Sep. 30, 2009**	**Dec. 31, 2008**	**Sep. 30, 2009**	**Dec. 31, 2008**	**Sep. 30, 2009**	**Dec. 31, 2008**
Cash flow hedges								
Interest rate swaps	$ 11,186	$ 9,030	$ 277	$ 640	$ 365	$ 643	$ (88)	$ (3)
Foreign currency swaps	570	1,210	(3)	(7)	56	154	(59)	(161)
Total cash flow hedges	**11,756**	**10,240**	**274**	**633**	**421**	**797**	**(147)**	**(164)**
Fair value hedges								
Interest rate swaps	1,667	2,138	(41)	(86)	15	41	(56)	(127)
Foreign currency swaps	696	696	(9)	(57)	53	47	(62)	(104)
Total fair value hedges	**2,363**	**2,834**	**(50)**	**(143)**	**68**	**88**	**(118)**	**(231)**
Non-qualifying strategies								
Interest rate contracts								
Interest rate swaps, caps, floors, and futures	8,481	8,156	(91)	(97)	452	931	(543)	(1,028)
Foreign exchange contracts								
Foreign currency swaps and forwards	1,433	1,372	(23)	56	11	68	(34)	(12)
Japan 3Win related foreign currency swaps	2,740		15		36		(21)	
Japanese fixed annuity hedging instruments	2,270	2,334	396	383	396	383		
Credit contracts								
Credit derivatives that purchase credit protection	3,201	3,668	(46)	340	64	361	(110)	(21)
Credit derivatives that assume credit risk [1]	1,162	1,199	(278)	(403)			(278)	(403)
Credit derivatives in offsetting positions	5,144	2,626	(53)	(11)	185	125	(238)	(136)

Equity contracts								
Equity index swaps, options, and futures	225	256	(16)	(16)	3	3	(19)	(19)
Warrants [1]		869		(163)				(163)
Variable annuity hedge program								
GMWB product derivatives [1]	47,899	48,767	(2,995)	(6,620)			(2,995)	(6,620)
GMWB reinsurance contracts	10,593	11,437	538	1,302	538	1,302		
GMWB hedging instruments	15,870	18,620	384	2,664	584	2,697	(200)	(33)
Macro hedge program	18,118	2,188	322	137	513	137	(191)	
Other								
GMAB product derivatives [1]	238	206	3		3			
Contingent capital facility put option	500	500	37	42	37	42		
Total non-qualifying strategies	**117,874**	**102,198**	**(1,807)**	**(2,386)**	**2,822**	**6,049**	**(4,629)**	**(8,435)**
Total cash flow hedges, fair value hedges, and non-qualifying strategies	**$ 131,993**	**$ 115,272**	**$ (1,583)**	**$ (1,896)**	**$ 3,311**	**$ 6,934**	**$ (4,894)**	**$ (8,830)**
Balance Sheet Location								
Fixed maturities, available-for-sale	$ 269	$ 304	$ (8)	$ (3)	$	$	$ (8)	$ (3)
Other investments	47,379	18,667	1,462	1,576	2,192	2,172	(730)	(596)
Other liabilities	25,493	35,763	(570)	1,862	578	3,460	(1,148)	(1,598)
Consumer notes	64	70	(5)	(5)			(5)	(5)
Reinsurance recoverables	10,593	11,437	538	1,302	538	1,302		
Other policyholder funds and benefits payable	48,195	49,031	(3,000)	(6,628)	3		(3,003)	(6,628)
Total Derivatives	**$ 131,993**	**$ 115,272**	**$ (1,583)**	**$ (1,896)**	**$ 3,311**	**$ 6,934**	**$ (4,894)**	**$ (8,830)**

[1] The derivative instruments related to these hedging strategies are held for other investment purposes.

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

5. Investments and Derivative Instruments (continued)

Change in Notional Amount

The notional amount of derivatives increased since December 31, 2008, primarily related to derivatives associated with the macro hedge program, while GMWB related derivatives decreased, as a result of the Company rebalancing its risk management strategy to place a greater relative emphasis on the protection of statutory surplus. Approximately $1.1 billion of the $15.9 billion increase in the macro hedge notional amount represents short put option contracts therefore resulting in a net increase in notional of approximately $14.8 billion.

Change in Fair Value

The increase in the total fair value of derivative instruments since December 31, 2008, was primarily related to a net increase in fair value of all GMWB related derivatives, partially offset by a decline in fair value of interest rate derivatives and credit derivatives.

The net improvement in the fair value of all GMWB related derivatives is primarily due to lower implied market volatility and a general increase in long-term interest rates, partially offset by rising equity markets. Additional improvements in GMWB product derivatives beyond market impacts include the relative outperformance of the underlying actively managed funds as compared to their respective indices, liability model assumption updates, and changes in credit standing. For more information on the policyholder behavior and liability model assumption updates, refer to Note 4.

The fair value of interest rate derivatives used in cash flow hedge relationships declined due to rising long-term interest rates.

The fair value related to credit derivatives that economically hedge fixed maturity securities decreased as a result of credit spreads tightening. This decline was partially offset by an increase in the fair value related to credit derivatives that assume credit risk as a part of replication transactions.

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 earnings. All components of each derivative s gain or loss were included in the assessment of hedge effectiveness.

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

Derivatives in Cash Flow Hedging Relationships

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)				**Net Realized Capital Gains (Losses) Recognized in Income on Derivative (Ineffective Portion)**			
	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Interest rate swaps	$ 156	$ 99	$ (310)	$ 77	$	$	$ (2)	$ 4
Foreign currency swaps	(23)	129	(160)	95	17		56	(1)
Total	**$ 133**	**$ 228**	**$ (470)**	**$ 172**	**$ 17**	**$**	**$54**	**$ 3**

Derivatives in Cash Flow Hedging Relationships

Gain (Loss) Reclassified from AOCI

		into Income (Effective Portion)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2009	2008	2009	2008
Interest rate swaps	Net realized capital gains	$	$	$ 11	$
Interest rate swaps	Net investment income (loss)	13	(5)	33	(18)
Foreign currency swaps	Net realized capital losses	(31)	(19)	(102)	(82)
Foreign currency swaps	Net investment income	1		2	
Total		**$ (17)**	**$ (24)**	**$ (56)**	**$ (100)**

Table of Contents

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

5. Investments and Derivative Instruments (continued)

As of September 30, 2009, 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 $45. 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 four years.

For the three months ended September 30, 2009 and 2008, 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. For the nine months ended September 30, 2009 and 2008, the Company had $1 and $(4), respectively, before-tax, of 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 all fair value hedges as follows:

Derivatives in Fair Value Hedging Relationships

	Gain (Loss) Recognized in Income [1]							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
	Derivative	Hedged Item	Derivative	Hedged Item	Derivative	Hedged Item	Derivative	Hedged Item
Interest rate swaps								
Net realized capital gains (losses)	$ (15)	$ 15	$ (13)	$ 12	$ 51	$ (47)	$ (12)	$ 9
Benefits, losses and loss adjustment expenses	9	(9)	(11)	12	(33)	35	(12)	15
Foreign currency swaps								
Net realized capital gains (losses)	(1)	1	(74)	74	46	(46)	(50)	50
Benefits, losses and loss adjustment expenses	2	(2)	25	(25)	2	(2)	5	(5)
Total	**$ (5)**	**$ 5**	**$ (73)**	**$ 73**	**$ 66**	**$ (60)**	**$ (69)**	**$ 69**

[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.

39

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

5. 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 or losses. The following table presents the gain or loss recognized in income on non-qualifying strategies:

Non-qualifying Strategies
Gain (Loss) Recognized within Net Realized Capital Gains (Losses)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Interest rate contracts				
Interest rate swaps, caps, floors, and forwards	$ 3	$ (8)	$ 23	$ 14
Foreign exchange contracts				
Foreign currency swaps and forwards	(23)	48	(64)	20
Japan 3Win related foreign currency swaps [1]	128		18	
Japanese fixed annuity hedging instruments [2]	178	28	60	69
Credit contracts				
Credit derivatives that purchase credit protection	(103)	15	(493)	104
Credit derivatives that assume credit risk	51	(163)	128	(535)
Equity contracts				
Equity index swaps, options, and futures	3	1	(2)	1
Warrants			70	
Variable annuity hedge program				
GMWB product derivatives	391	(714)	3,736	(1,620)
GMWB reinsurance contracts	(103)	106	(788)	218
GMWB hedging instruments	(478)	475	(1,878)	520
Macro hedge program	(328)	24	(692)	29
Other				
GMAB product derivatives	1	4	5	(19)
Contingent capital facility put option	(1)	(1)	(6)	(4)
Total	**$ (281)**	**$ (185)**	**$ 117**	**$ (1,203)**

[1] The associated liability is adjusted for changes in dollar/yen exchange spot rates through realized capital gains and losses and was $(150) for the three

months ended September 30, 2009 and $(10) for the nine months ended September 30, 2009.

[2] *The associated liability is adjusted for changes in dollar/yen exchange spot rates through realized capital gains and losses and was $(176) and $0 for the three months ended September 30, 2009 and 2008, respectively, and $(25) and $(82) for the nine months ended September 30, 2009 and 2008, respectively.*

The net realized capital loss for the three months ended and the net realized capital gain for the nine months ended September 30, 2009, related to derivatives used in non-qualifying strategies was primarily due to the following:

The net loss on all GMWB related derivatives for the three months ended September 30, 2009, was primarily due to a general decrease in long-term interest rates, higher implied market volatility, and rising equity markets. Additional losses in the GMWB product derivatives beyond market impacts include liability model assumption updates and changes in credit standing, partially offset by gains due to the relative outperformance of the underlying actively managed funds as compared to their respective indices. The net gain for the nine months ended September 30, 2009, was primarily due to lower implied market volatility and a general increase in long-term interest rates, partially offset by rising equity markets. Additional gains on GMWB product derivatives beyond market impacts include the relative outperformance of the underlying actively managed funds as compared to their respective indices, liability model assumption updates, and changes in credit standing. For more information on the policyholder behavior and liability model assumption updates, refer to Note 4.

The net loss on the macro hedge program was primarily the result of an increase in the equity markets and the impact of trading activity.

The net gain on the Japanese fixed annuity and Japan 3Win hedging instruments for the three months ended September 30, 2009, was primarily due to weakening of the U.S. dollar against the Japanese Yen.

The net loss on credit derivatives that purchase credit protection to economically hedge fixed maturity securities and the net gain on credit derivatives that assume credit risk as a part of replication transactions resulted from credit spreads tightening.

40

Table of Contents

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

5. Investments and Derivative Instruments (continued)

For the three and nine months ended September 30, 2008, the net realized capital loss related to derivatives used in non-qualifying strategies was primarily due to the following:

The net losses on GMWB related derivatives were primarily related to liability model assumption updates for mortality in the first quarter and market-based hedge ineffectiveness in the third quarter due to extremely volatile capital markets.

The losses on credit derivatives that assume credit risk and the gains on credit derivatives that purchase credit protection were a result of credit spreads widening.

The gains on the Japanese fixed annuity hedging instruments for nine months ended September 30, 2008, were primarily due to the Japanese yen strengthening against the U.S. dollar.

For the three and nine months ended September 30, 2008, the Company has incurred losses of $(46) on derivative instruments due to counterparty default related to the bankruptcy of Lehman Brothers Inc. These losses were a result of the contractual collateral threshold amounts and open collateral calls in excess of such amounts immediately prior to the bankruptcy filing, as well as interest rate and credit spread movements from the date of the last collateral call to the date of the bankruptcy filing.

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 from 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. 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 trades ranging from baskets of up to five corporate issuers to standard and customized diversified portfolios of corporate issuers. The diversified portfolios of corporate issuers are established within sector concentration limits and are typically divided into tranches that possess different credit ratings.

The following tables present the notional amount, fair value, weighted average years to maturity, underlying referenced credit obligation type and average credit ratings, and offsetting notional amounts and fair value for credit derivatives in which the Company is assuming credit risk as of September 30, 2009 and December 31, 2008.

As of September 30, 2009

Credit Derivative type by derivative risk exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Underlying Referenced Credit Obligation(s) [1] Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 698	$ 10	5 years	Corporate Credit/ Foreign Gov.	A+	$ 673	$ (46)
Below investment grade risk exposure	156	(8)			B+	81	(12)

				4 years	Corporate Credit				
Basket credit default swaps [4]									
Investment grade risk exposure		1,393	14	4 years	Corporate Credit	BBB+		1,268	(17)
Investment grade risk exposure		525	(139)	7 years	CMBS Credit	A-		525	139
Below investment grade risk exposure		875	(265)	5 years	Corporate Credit	BBB		25	1
Credit linked notes									
Investment grade risk exposure		87	79	2 years	Corporate Credit	BBB+			
Total	**$**	**3,734**	**$ (309)**				**$**	**2,572**	**$ 65**

41

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

As of December 31, 2008

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	$ 60	$ (1)	4 years	Corporate Credit	A-	$ 35	$ (9)
Below investment grade risk exposure	82	(19)	4 years	Corporate Credit	B-		
Basket credit default swaps [4]							
Investment grade risk exposure	1,778	(235)	5 years	Corporate Credit	A-	1,003	21
Investment grade risk exposure	275	(92)	8 years	CMBS Credit	AAA	275	92
Below investment grade risk exposure	200	(166)	6 years	Corporate Credit	BB+		
Credit linked notes							
Investment grade risk exposure	117	106	2 years	Corporate Credit	BBB+		
Total	**$ 2,512**	**$ (407)**				**$ 1,313**	**$ 104**

[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. There is no 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 $2.5 billion and $1.9 billion as of September 30, 2009 and December 31, 2008, 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. Also includes $325 as of September 30, 2009 and December 31, 2008, of customized diversified portfolios of corporate issuers referenced through credit default swaps.

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

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

Changes in deferred policy acquisition costs and present value of future profits by Life and Property & Casualty were as follows:

Life

Unlock Results

During the second quarter of 2009, the Company revised its estimation of future gross profits using a Reversion to Mean (RTM) estimation technique to estimate future separate account returns. RTM is an estimation technique commonly used by insurance entities to project future separate account returns. Through this estimation technique, the Company s DAC model will be adjusted to reflect actual account values at the end of each quarter and through a consideration of recent returns, we will adjust future projected returns over a five year period so that the account value returns to the long-term expected rate of return, providing that those projected returns for the next five years do not exceed certain caps or floors. This will result in a DAC Unlock , described below, each quarter. However, benefits and assessments used in the determination of death benefits and other insurance benefit reserves, on variable annuity and universal life contracts which are in addition to the account value liability representing the policyholders funds, will be derived from a set of stochastic scenarios that have been calibrated to our RTM separate account returns. Refer to Note 7 for further information on death benefits and other insurance benefit reserves. In addition, at a minimum, annually during third quarter, the Company completes non-market related assumptions studies and incorporates the results of those studies into its projection of future gross profits.

The policy related in-force or account values at September 30, 2009 were used to project future gross profits using the RTM separate account return estimate. During the third quarter of 2009, the Company recorded an Unlock benefit of $63. This Unlock benefit included the effect of strong equity market returns generating an Unlock benefit of $228, offset by changes in non-market related assumptions generating an Unlock charge of $165. The Unlock benefit resulting from equity market growth was less than that recorded in the second quarter of 2009 despite comparable returns of the S&P 500. This decline was primarily due to actual Company separate account returns earning less than in the second quarter and, as equity markets rise, a slower decline in expected death benefits as policyholders become less in-the-money . Unlock charges from non-market assumption changes were primarily driven by the Company s estimate of higher assumed macro hedge program costs in 2010. Other significant assumption changes included decreases in mortality, increases in credit loss estimates and declines in net investment spread. The Company is continually evaluating various aspects of policyholder behavior and may modify certain of its assumptions, including living benefit lapses and withdrawal rates, if credible emerging data indicates that changes are warranted. The following table displays the components, by segment, of the Company s third quarter Unlock.

Segment **After-tax (Charge) Benefit**	**DAC**	**Unearned Revenue Reserves**	**Death and Other Insurance Benefit Reserves [1]**	**Sales Inducement Assets**	**Total**
Retail	$ 14	$ (13)	$ 77	$ (9)	$ 69
Retirement Plans	(1)		1		
Individual Life	(27)	7	(4)		(24)
Institutional	(1)				(1)
International	3		17	(2)	18
Corporate	1				1
Total	**$ (11)**	**$ (6)**	**$ 91**	**$ (11)**	**$ 63**

[1] As a result of the Unlock, reserves, in Retail, decreased $223, pre-tax, offset by a decrease of $105, pre-tax, in reinsurance recoverables. In International, reserves decreased $21, pre-tax, and increased $1, pre-tax, in reinsurance recoverables.

Table of Contents

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

6. Deferred Policy Acquisition Costs and Present Value of Future Profits (continued)

The after-tax impact on the Company s assets and liabilities as a result of our Unlocks for the nine months ended September 30, 2009 was:

Segment After-tax (Charge) Benefit	DAC	Unearned Revenue Reserves	Death and Other Insurance Benefit Reserves [1]	Sales Inducement Assets	Total [2]
Retail	$ (489)	$ 18	$ (153)	$ (39)	$ (663)
Retirement Plans	(54)		(1)	(1)	(56)
Individual Life	(91)	47	(4)		(48)
Institutional	(1)				(1)
International [3]	(96)	6	(199)	(11)	(300)
Corporate	(3)				(3)
Total	**$ (734)**	**$ 71**	**$ (357)**	**$ (51)**	**$ (1,071)**

[1] As a result of the Unlock, reserves, in Retail, increased $518, pre-tax, offset by an increase of $281, pre-tax, in reinsurance recoverables. In International, reserves increased $339, pre-tax, offset by an increase of $30, pre-tax, in reinsurance recoverables.

[2] The most significant contributor to the Unlock amounts recorded during the first quarter of 2009 were as

a result of actual separate account returns from the period ending October 1, 2008 to March 31, 2009 being significantly below our aggregated estimated return while the opposite was true for the second and third quarters of 2009.

[3] Includes $(49) related to DAC recoverability impairment associated with the decision to suspend sales in the U.K. variable annuity business.

The after-tax impact on the Company s assets and liabilities as a result of the Unlock during the third quarter 2008 was as follows:

Segment **After-tax (charge) benefit**	**DAC**	**Unearned Revenue Reserves**	**Death and Other Insurance Benefit Reserves [1]**	**Sales Inducement Assets**	**Total**
Retail	$ (648)	$ 18	$ (75)	$ (27)	$ (732)
Retirement Plans	(49)				(49)
Individual Life	(29)	(12)	(3)		(44)
International	(23)	(1)	(90)	(2)	(116)
Corporate	9				9
Total	**$ (740)**	**$ 5**	**$ (168)**	**$ (29)**	**$ (932)**

[1] As a result of the Unlock, death benefit reserves, in Retail,

increased $389, pre-tax, offset by an increase of $273, pre-tax, in reinsurance recoverables. In International, death benefit reserves increased $164, pre-tax, offset by an increase of $25, pre-tax, in reinsurance recoverables.

Changes in Life s deferred policy acquisition costs and present value of future profits were as follows:

	2009	2008
Balance, January 1	**$ 11,988**	**$ 10,514**
Deferred costs	604	1,238
Amortization Deferred policy acquisition costs and present value of future profits [1]	(975)	(481)
Amortization Unlock, pre-tax	(1,089)	(1,153)
Adjustments to unrealized gains and losses on securities, available-for-sale and other [2]	(692)	820
Effect of currency translation adjustment	27	74
Effect of new accounting guidance for investments other-than-temporarily impaired [3]	(78)	
Balance, September 30	**$ 9,785**	**$ 11,012**

[1] *The increase in amortization from the prior year period is due to lower actual gross profits in 2008 resulting from increased realized capital losses primarily from the adoption of new accounting guidance for fair value at the beginning of the first quarter of 2008.*

[2] *The adjustment reflects the effect of credit spreads tightening, resulting in unrealized gains on securities in*

2009.

[3] *The effect of adopting new accounting guidance for investments other-than-temporarily impaired resulted in an increase to retained earnings and as a result a DAC charge of $78. In addition, an offsetting amount was recorded in unrealized losses as unrealized losses increased upon adoption of new accounting guidance for investments other-than-temporarily impaired.*

Property & Casualty	**2009**	**2008**
Balance, January 1	**$ 1,260**	**$ 1,228**
Deferred costs	1,551	1,599
Amortization — Deferred policy acquisition costs	(1,556)	(1,567)
Balance, September 30	**$ 1,255**	**$ 1,260**

Table of Contents

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

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

The Company records the variable portion of individual variable annuities, 401(k), institutional, 403(b)/457, private placement life and variable life insurance products within separate account assets and liabilities. Separate account assets are reported at fair value. Separate account liabilities are set equal to separate account assets. Separate account assets are segregated from other investments. Investment income and gains and losses from those separate account assets, which accrue directly to, and whereby investment risk is borne by the policyholder, are offset by the related liability changes within the same line item in the Condensed Consolidated Statements of Operations. The fees earned for administrative and contract holder maintenance services performed for these separate accounts are included in fee income. For the three and nine months ended September 30, 2009 and 2008, there were no gains or losses on transfers of assets from the general account to the separate account.

Many of the variable annuity and universal life (UL) contracts issued by the Company offer death benefits and other insurance benefit features including GMDB, GMIB, and UL secondary guarantee benefits. UL secondary guarantee benefits ensure that the policy will not terminate, and will continue to provide a death benefit, even if there is insufficient policy value to cover the monthly deductions and charges. GMDBs and GMIBs are offered in various forms as described in further detail throughout this Note 7. These death benefits and other insurance benefit features, on variable annuity and universal life contracts, require an additional liability be held above the account value liability representing the policyholders funds. The Company reinsures a portion of the GMDBs and UL secondary guarantees associated with its in-force block of business. Changes in the gross U.S. GMDB, Japan GMDB/GMIB, and UL secondary guarantee benefits sold with variable annuity and UL products are as follows:

	U.S. GMDB [1]	Japan GMDB/GMIB [1]	UL Secondary Guarantees [1]
Liability balance as of January 1, 2009	**$ 870**	**$ 229**	**$ 40**
Incurred	243	62	21
Paid	(387)	(89)	
Unlock	519	327	5
Currency translation adjustment		62	
Liability balance as of September 30, 2009	**$ 1,245**	**$ 591**	**$ 66**

[1] The reinsurance recoverable asset related to the U.S. GMDB was $802 as of September 30, 2009. The reinsurance recoverable asset related to the Japan GMDB was $42 as of September 30, 2009. The reinsurance

recoverable asset related to the UL secondary guarantees was $20 as of September 30, 2009.

	U.S. GMDB [1]		Japan GMDB/GMIB [1]		UL Secondary Guarantees [1]	
Liability balance as of January 1, 2008	**$**	**529**	**$**	**42**	**$**	**19**
Incurred		127		21		16
Paid		(127)		(19)		
Unlock		389		164		
Currency translation adjustment				4		
Liability balance as of September 30, 2008	**$**	**918**	**$**	**212**	**$**	**35**

[1] The reinsurance recoverable asset related to the U.S. GMDB was $613 as of September 30, 2008. The reinsurance recoverable asset related to the Japan GMDB was $34 as of September 30, 2008. The reinsurance recoverable asset related to the UL secondary guarantees was $14 as of September 30, 2008.

The net death benefits and other insurance benefit reserves are established by estimating the expected value of net reinsurance costs and death benefits and other insurance benefits in excess of the projected account balance. The additional death benefits and other insurance benefits and net reinsurance costs are recognized ratably over the accumulation period based on total expected assessments. The death benefits and other insurance benefit reserves are recorded in reserve for future policy benefits in the Company s Condensed Consolidated Balance Sheets. Changes in the death benefits and other insurance benefit reserves are recorded in benefits, losses and loss adjustment expenses in the Company s Condensed Consolidated Statements of Operations. In a manner consistent with the Company s

accounting policy for deferred acquisition costs, the Company regularly evaluates estimates used and adjusts the additional liability balances, with a related charge or credit to benefit expense if actual experience or other evidence suggests that earlier assumptions should be revised.

Table of Contents

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

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

The following table provides details concerning GMDB and GMIB exposure as of September 30, 2009:

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

Maximum anniversary value (MAV) [1]	**Account Value**	**Net Amount at Risk [9]**	**Retained Net Amount at Risk [9]**	**Weighted Average Attained Age of Annuitant**
MAV only	$ 27,380	$ 9,565	$ 2,929	66
With 5% rollup [2]	1,991	802	306	66
With Earnings Protection Benefit Rider (EPB) [3]	5,880	1,490	159	63
With 5% rollup & EPB	784	257	51	66
Total MAV	36,035	12,114	3,445	
Asset Protection Benefit (APB) [4]	28,303	6,480	4,158	64
Lifetime Income Benefit (LIB) [5]	1,299	260	260	62
Reset [6] (5-7 years)	3,715	604	604	67
Return of Premium [7]/Other	20,724	1,898	1,751	64
Subtotal U.S. GMDB [10]	**90,076**	**$ 21,356**	**$ 10,218**	**65**
Less: General Account Value Subject to U.S. GMDB	6,858			
Subtotal Separate Account Liabilities Subject to U.S. GMDB	**83,218**			
Separate Account Liabilities Not Subject to U.S. GMDB	72,740			
Total Separate Account Liabilities	**155,958**			
Japan Guaranteed Minimum Death and Living Benefit [8]	**$ 31,698**	**$ 6,995**	**$ 5,804**	**67**

[1] MAV: the death benefit is the greatest of current account value, net premiums paid and the highest account value on any anniversary before age 80 (adjusted for withdrawals).

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

[3] *EPB: the death benefit is the greatest of the MAV, current account value, or contract value plus a percentage of the contract s growth. The contract s growth is account value less premiums net of withdrawals, subject to a cap of 200% of premiums net of withdrawals.*

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

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

[6] *Reset: the death benefit is the greatest of current account value, net premiums paid and the most recent five to seven year anniversary account value before age 80 (adjusted for withdrawals).*

[7] *Return of premium: the death benefit is the greater of current account value and net premiums paid.*

[8] *Death benefits include a Return of Premium and MAV (before age 80) paid in a single lump sum. The income benefit is a guarantee to return initial investment, adjusted for earnings*

liquidity, paid through a fixed annuity, after a minimum deferral period of 10, 15 or 20 years. An accumulation benefit is a guarantee to return initial investment, along with a premium based on an agreed-upon interest rate, paid through a fixed annuity or lump sum, after a deferral period of 10 years. A withdrawal benefit allows for an agreed-upon percentage of the investment to be withdrawn each period until the investment value is reached. Guaranteed income, accumulation and withdrawal benefits are considered a living benefit. The guaranteed remaining balance related to the Japan GMIB was $30.0 billion and $30.6 billion as of September 30, 2009 and December 31, 2008, respectively. The guaranteed remaining balance related

to the Japan GMAB and GMWB was $680.3 and $567.1 as of September 30, 2009 and December 31, 2008. These liabilities are not included in the Separate Account as they are not legally insulated from the general account liabilities of the insurance enterprise.

[9] Net amount at risk is defined as the guaranteed benefit in excess of the current account value. Retained net amount at risk is net amount at risk reduced by that amount which has been reinsured to third parties. Net amount at risk and retained net amount at risk are highly sensitive to equity markets movements for example, as equity market declines, net amount at risk and retained net amount at risk will generally increase.

[10] Account value includes the

contractholder s investment in the separate account and the general account.

Table of Contents

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

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

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

Asset type	As of September 30, 2009	As of December 31, 2008
Equity securities (including mutual funds)	$ 73,808	$ 63,114
Cash and cash equivalents	9,410	10,174
Total	**$ 83,218**	**$ 73,288**

As of September 30, 2009 and December 31, 2008, 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.

See Note 4 for a description of the Company s guaranteed living benefits that are accounted for at fair value.

8. Sales Inducements

The Company currently offers enhanced crediting rates or bonus payments to contract holders on certain of its individual and group annuity products. The expense associated with offering a bonus is deferred and amortized over the life of the related contract in a pattern consistent with the amortization of deferred policy acquisition costs. Consistent with the Company s Unlocks in the nine months ended September 30, 2009, the Company unlocked the amortization of the sales inducement asset. See Note 6 for more information concerning the Unlocks.

Changes in deferred sales inducement activity were as follows for the nine months ended September 30:

	2009	2008
Balance, January 1	**$ 553**	**$ 467**
Sales inducements deferred	48	128
Amortization	(94)	13
Amortization Unlock	(73)	(43)
Balance, September 30	**$ 434**	**$ 565**

9. 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, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, life and inland marine; improper sales practices in connection with the sale of life insurance and other investment products; and improper fee arrangements in connection with investment products and structured settlements. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. Like many other insurers, The Hartford also has been joined in

actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company s consolidated results of operations or cash flows in particular quarterly or annual periods.

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

9. Commitments and Contingencies (continued)

Broker Compensation Litigation Following the New York Attorney General s filing of a civil complaint against Marsh & McLennan Companies, Inc., and Marsh, Inc. (collectively, Marsh) in October 2004 alleging that certain insurance companies, including The Hartford, participated with Marsh in arrangements to submit inflated bids for business insurance and paid contingent commissions to ensure that Marsh would direct business to them, private plaintiffs brought several lawsuits against the Company predicated on the allegations in the Marsh complaint, to which the Company was not party. Among these is a multidistrict litigation in the United States District Court for the District of New Jersey. There are two consolidated amended complaints filed in the multidistrict litigation, one related to conduct in connection with the sale of property-casualty insurance and the other related to alleged conduct in connection with the sale of group benefits products. The Company and several of its subsidiaries are named in both complaints. The complaints assert, on behalf of a putative class of persons who purchased insurance through broker defendants, claims under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state law, and in the case of the group benefits complaint, claims under the Employee Retirement Income Security Act of 1974 (ERISA). The claims are predicated upon allegedly undisclosed or otherwise improper payments of contingent commissions to the broker defendants to steer business to the insurance company defendants. The district court has dismissed the Sherman Act and RICO claims in both complaints for failure to state a claim and has granted the defendants motions for summary judgment on the ERISA claims in the group-benefits products complaint. The district court further has declined to exercise supplemental jurisdiction over the state law claims, has dismissed those state law claims without prejudice, and has closed both cases. The plaintiffs have appealed the dismissal of the claims in both consolidated amended complaints, except the ERISA claims.

The Company is also a defendant in two consolidated securities actions and two consolidated derivative actions filed in the United States District Court for the District of Connecticut. The consolidated securities actions assert claims on behalf of a putative class of shareholders alleging that the Company and certain of its executive officers violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 by failing to disclose to the investing public that The Hartford s business and growth was predicated on the unlawful activity alleged in the New York Attorney General s complaint against Marsh. The consolidated derivative actions, brought by shareholders on behalf of the Company against its directors and an additional executive officer, allege that the defendants knew adverse non-public information about the activities alleged in the Marsh complaint and concealed and misappropriated that information to make profitable stock trades in violation of their duties to the Company. In July 2006, the district court granted defendants motion to dismiss the consolidated securities actions,