HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
October 26, 2006

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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, 2006

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.)

Hartford Plaza, Hartford, Connecticut 06115-1900
(Address of principal executive offices)
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
(Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 20, 2006, there were outstanding 316,938,097 shares of Common Stock, $0.01 par value per share, of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the Company) as of September 30, 2006, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2006 and 2005, and changes in stockholders equity, and cash flows for the nine-month periods ended September 30, 2006 and 2005. 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, 2005, and the related consolidated statements of operations, changes in stockholders equity, comprehensive income (loss), and cash flows for the year then ended (not presented herein), and in our report dated February 22, 2006 (which report includes an explanatory paragraph relating to the Company s change in its method of accounting and reporting for certain nontraditional long-duration contracts and for separate accounts in 2004), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
October 26, 2006

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except for per share data)	**2006**	**2005**	**2006**	**2005**
	(Unaudited)		(Unaudited)	
Revenues				
Earned premiums	$3,761	$3,562	$11,288	$10,693
Fee income	1,152	1,029	3,432	2,944
Net investment income				
Securities available-for-sale and other	1,164	1,124	3,449	3,263
Equity securities held for trading	1,185	1,500	669	2,024
Total net investment income	2,349	2,624	4,118	5,287
Other revenues	118	116	356	344
Net realized capital gains (losses)	27	(24)	(273)	105
Total revenues	**7,407**	**7,307**	**18,921**	**19,373**
Benefits, claims and expenses				
Benefits, claims and claim adjustment expenses	4,491	4,769	10,741	11,570
Amortization of deferred policy acquisition costs and present value of future profits	839	821	2,485	2,377
Insurance operating costs and expenses	832	786	2,358	2,301
Interest expense	70	62	207	189
Other expenses	164	173	530	499
Total benefits, claims and expenses	**6,396**	**6,611**	**16,321**	**16,936**
Income before income taxes	**1,011**	**696**	**2,600**	**2,437**
Income tax expense	253	157	638	630
Net income	**$ 758**	**$ 539**	**$ 1,962**	**$ 1,807**
Basic earnings per share				
Net income	**$ 2.45**	**$ 1.80**	**$ 6.41**	**$ 6.08**
Diluted earnings per share				
Net income	**$ 2.39**	**$ 1.76**	**$ 6.25**	**$ 5.94**
Weighted average common shares outstanding	310.0	299.2	306.0	297.1
Weighted average common shares outstanding and dilutive potential common shares	316.7	307.0	314.1	304.1
Cash dividends declared per share	$ 0.40	$ 0.29	$ 1.20	$ 0.87

See Notes to Condensed Consolidated Financial Statements.

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

(In millions, except for share data)	September 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Investments		
Fixed maturities, available-for-sale, at fair value (amortized cost of $77,296 and $74,766)	$ 78,705	$ 76,440
Equity securities, held for trading, at fair value (cost of $23,071 and $19,570)	27,863	24,034
Equity securities, available-for-sale, at fair value (cost of $1,454 and $1,330)	1,594	1,461
Policy loans, at outstanding balance	2,057	2,016
Mortgage loans on real estate	2,742	1,731
Other investments	1,763	1,253
Total investments	114,724	106,935
Cash	1,355	1,273
Premiums receivable and agents balances	3,686	3,734
Reinsurance recoverables	5,037	6,360
Deferred policy acquisition costs and present value of future profits	10,328	9,702
Deferred income taxes	472	675
Goodwill	1,720	1,720
Property and equipment, net	753	683
Other assets	3,818	3,600
Separate account assets	162,901	150,875
Total assets	**$304,794**	**$285,557**
Liabilities		
Reserve for future policy benefits and unpaid claims and claim adjustment expenses		
Property and casualty	$ 21,849	$ 22,266
Life	13,662	12,987
Other policyholder funds and benefits payable	69,296	64,452
Unearned premiums	5,670	5,566
Short-term debt	995	719
Long-term debt	3,081	4,048
Other liabilities	9,607	9,319
Separate account liabilities	162,901	150,875
Total liabilities	**287,061**	**270,232**
Commitments and Contingencies (Note 7)		
Stockholders Equity		

Common stock - 750,000,000 shares authorized, 319,686,997 and 305,188,238 shares issued, $0.01 par value	3	3
Additional paid-in capital	5,912	5,067
Retained earnings	11,800	10,207
Treasury stock, at cost, 3,084,597 and 3,035,916 shares	(46)	(42)
Accumulated other comprehensive income, net of tax	64	90
Total stockholders equity	**17,733**	**15,325**
Total liabilities and stockholders equity	**$304,794**	**$285,557**

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders Equity

	Nine Months Ended September 30,	
(In millions, except for share data)	**2006**	**2005**
	(Unaudited)	
Common Stock and Additional Paid-in Capital		
Balance at beginning of period	$ 5,070	$ 4,570
Issuance of shares from equity unit contracts	690	
Issuance of shares under incentive and stock compensation plans and other	124	318
Tax benefit on employee stock options and awards	31	40
Balance at end of period	5,915	4,928
Retained Earnings		
Balance at beginning of period	10,207	8,283
Net income	1,962	1,807
Dividends declared on common stock	(369)	(259)
Balance at end of period	11,800	9,831
Treasury Stock, at Cost		
Balance at beginning of period	(42)	(40)
Return of shares to treasury stock under incentive and stock compensation plans	(4)	(2)
Balance at end of period	(46)	(42)
Accumulated Other Comprehensive Income, Net of Tax		
Balance at beginning of period	90	1,425
Change in net unrealized gain/loss on securities	14	(862)
Change in net gain/loss on cash-flow hedging instruments	(85)	97
Change in foreign currency translation adjustments	45	(67)
Total other comprehensive loss	(26)	(832)
Balance at end of period	64	593
Total stockholders equity	**$ 17,733**	**$ 15,310**
Outstanding Shares (in thousands)		
Balance at beginning of period	302,152	294,208
Issuance of shares from equity unit contracts	12,132	
Issuance of shares under incentive and stock compensation plans and other	2,367	5,972
Return of shares to treasury stock under incentive and stock compensation plans	(49)	(41)
Balance at end of period	316,602	300,139

Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In millions)	**2006**	**2005**	**2006**	**2005**
	(Unaudited)		(Unaudited)	
Comprehensive Income (Loss)				
Net income	$ 758	$ 539	$1,962	$1,807
Other Comprehensive Income (Loss)				
Change in net unrealized gain/loss on securities	898	(728)	14	(862)
Change in net gain/loss on cash-flow hedging instruments	114	(98)	(85)	97
Change in foreign currency translation adjustments	(24)		45	(67)
Total other comprehensive income (loss)	988	(826)	(26)	(832)
Total comprehensive income (loss)	**$1,746**	**$(287)**	**$1,936**	**$ 975**

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
(In millions)	**2006**	**2005**
	(Unaudited)	
Operating Activities		
Net income	$ 1,962	$ 1,807
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	2,485	2,377
Additions to deferred policy acquisition costs and present value of future profits	(3,060)	(3,096)
Change in:		
Reserve for future policy benefits and unpaid claims and claim adjustment expenses and unearned premiums	400	1,093
Reinsurance recoverables	1,320	(70)
Receivables	38	(20)
Payables and accruals	(682)	(86)
Accrued and deferred income taxes	572	238
Net realized capital (gains) losses	273	(105)
Net increase in equity securities, held for trading	(3,875)	(9,297)
Net receipts from investment contracts credited to policyholder accounts associated with equity securities, held for trading	3,871	9,477
Depreciation and amortization	387	368
Other, net	95	261
Net cash provided by operating activities	**3,786**	**2,947**
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	26,766	29,264
Equity securities, available-for-sale	285	19
Mortgage loans	249	415
Partnerships	117	100
Payments for the purchase of:		
Fixed maturities, available-for-sale	(29,709)	(32,473)
Equity securities, available-for-sale	(482)	(492)
Mortgage loans	(1,257)	(593)
Partnerships	(645)	(232)
Change in policy loans, net	(42)	653
Change in payables for collateral under securities lending, net	420	(268)
Change in all other securities, net	(416)	109
Purchase price adjustment of business acquired		(8)
Additions to property and equipment, net	(116)	(169)

Net cash used for investing activities	**(4,830)**	**(3,675)**
Financing Activities		
Issuance of shares from equity unit contracts	690	
Repayment/maturity of long-term debt	(715)	(250)
Issuance of short-term debt, net of repayments	25	
Net receipts from investment and universal life-type contracts	1,274	1,301
Excess tax benefits on stock-based compensation	31	
Dividends paid	(335)	(258)
Return of shares under incentive and stock compensation plans	(4)	(2)
Proceeds from issuance of shares under incentive and stock compensation plans, net	100	284
Proceeds from issuance of consumer notes	41	
Net cash provided by financing activities	**1,107**	**1,075**
Foreign exchange rate effect on cash	19	(14)
Net increase in cash	82	333
Cash beginning of period	1,273	1,148
Cash end of period	**$ 1,355**	**$ 1,481**
Supplemental Disclosure of Cash Flow Information:		
Net Cash Paid During the Period For:		
Income taxes	$ 25	$ 358
Interest	$ 204	$ 180

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in millions except 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 provides 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).

The condensed consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America, which differ materially from the accounting prescribed by various insurance regulatory authorities.

The accompanying condensed consolidated financial statements and notes as of September 30, 2006, and for the three and nine months ended September 30, 2006 and 2005 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 2005 Form 10-K Annual Report. The results of operations for the interim periods should not be considered indicative of 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 (VIE) in which the Company is the primary beneficiary. 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. All material intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated.

Reclassifications

Certain reclassifications have been made to prior period financial information, including segment disclosures, to conform to the current period presentation.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining property and casualty reserves for unpaid claims and claim adjustment expenses, net of reinsurance; Life deferred policy acquisition costs and present value of future profits associated with variable annuity and other universal life-type contracts; the evaluation of other-than-temporary impairments on investments in available-for-sale securities; the valuation of guaranteed minimum withdrawal benefit derivatives; pension and other postretirement benefit obligations; and contingencies relating to corporate litigation and regulatory matters.

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements included in The Hartford s 2005 Form 10-K Annual Report.

Income Taxes

The effective tax rate for the three months ended September 30, 2006 and 2005 was 25% and 23%, respectively. The effective tax rate for the nine months ended September 30, 2006 and 2005 was 25% and 26%, respectively. The principal causes of the difference between the effective rates and the U.S. statutory rate of 35% were tax-exempt interest earned on invested assets and the separate account dividends-received deduction (DRD).

The separate account DRD is estimated for the current year using information from the most recent year-end, adjusted for equity market performance. The current estimated DRD will be appropriately adjusted as underlying factors change, including known actual 2006 mutual fund distributions and fee income from the Company s variable insurance products. The actual current year DRD can vary from the estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distributions from

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

these mutual funds, appropriate levels of taxable income as well as the utilization of capital loss carry forwards at the mutual fund level. The Company s DRD increased $5 and $27 for the three and nine months ended September 30, 2006 over the respective prior year

1. Basis of Presentation and Accounting Policies (continued)

periods including a tax benefit of $6 for the three and nine months ended September 30, 2006 and $3 in the three and nine months ended September 30, 2005, resulting from true-ups related to prior years tax returns. For the three months ended September 30, 2005, the Company s DRD included an additional tax benefit of $6 related to the 2005 year.

The Company receives a credit against its U.S. tax liability for foreign taxes paid by the Company from its separate account assets. The increased allocation of separate account investments to the international equity markets during 2005 and 2006 has increased the amount of these foreign tax credits (FTC). In the three and nine months ended September 30, 2006, the Company reported a net benefit of $13 for the separate account FTC, comprised of a $7 true up related to a prior year tax return and $6 related to the 2006 year.

Based on current projections, it is management s intent that the undistributed earnings of Hartford Life Insurance, K.K. will be repatriated to the U.S. in the future. Therefore, the Company no longer meets the indefinite reversal criteria of Accounting Principles Board (APB) Opinion No. 23, Accounting for Income Taxes Special Areas , with respect to Hartford Life Insurance, K.K. As a result of this change, the Company has recorded a tax benefit of $4 and $6 for the three and nine months ended September 30, 2006 respectively, due to the expected utilization of foreign tax credits from Hartford Life Insurance, K.K.

Prior to the Tax Reform Act of 1984, the Life Insurance Company Income Tax Act of 1959 permitted the deferral from taxation of a portion of statutory income under certain circumstances. In these situations, the deferred income was accumulated in a Policyholders Surplus Account and would be taxable only under conditions which management considered to be remote; therefore, no federal income taxes have been provided on the balance in this account, which for tax return purposes was $88 as of December 31, 2005. The American Jobs Creation Act of 2004, which was enacted in October 2004, allows distributions to be made from the Policyholders Surplus Account free of tax in 2005 and 2006. The Company has distributed the entire balance in the second quarter of 2006, thereby permanently eliminating the potential tax of $31.

Adoption of New Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaced SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123) and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees . SFAS 123R requires all companies to recognize compensation costs for share-based payments to employees based on the grant-date fair value of the award. In January 2003, the Company began expensing all stock-based compensation awards granted or modified after January 1, 2003 under the fair value recognition provisions of SFAS 123 and therefore the adoption of SFAS 123R did not have a material effect on the Company s financial position or results of operations and is not expected to have a material effect on future operations. The Company adopted SFAS 123R effective January 1, 2006 using the modified prospective method and therefore prior period amounts have not been restated. The Company recognized an immaterial effect of adoption as of January 1, 2006 to reverse expense previously recognized on awards expected to be forfeited, as required under SFAS 123R.

Future Adoption of New Accounting Standards

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). This statement requires an entity to: (a) recognize an asset for the funded status of defined benefit postretirement plans that are overfunded and a liability for plans that are underfunded, measured as of the employer s fiscal year end; and (b) recognize changes in the funded status of defined benefit postretirement plans, other than for the net periodic benefit cost included in net income, in accumulated other comprehensive income. For pension plans the funded status must be based on the projected benefit obligation which includes an assumption for future salary increases. SFAS 158 is effective for public entities with years ending after December 15, 2006, with certain exceptions not applicable to The Hartford, through an adjustment to the ending balance of accumulated other comprehensive income, net of tax.

The Company expects to record an increase in its benefit liability and a corresponding after-tax decrease in the accumulated other comprehensive income component of equity. Based upon actual asset returns and assuming an increase in the discount rate to 5.75%, the increase in the Company s liability as of December 31, 2006 is estimated to result in an after-tax decrease to equity of less than $20. The actual effect will depend on the discount rate, other valuation assumptions and the actual value of plan assets as of December 31, 2006.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance for how errors should be evaluated to assess materiality from a quantitative perspective. SAB 108 permits companies to initially apply its provisions by either restating prior financial statements or recording the cumulative effect of initially applying the approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment to retained earnings. SAB 108 is required to be adopted by December 31, 2006 and is not expected to have an effect on the Company s financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Basis of Presentation and Accounting Policies (continued)

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2 and 3). Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets the Company has the ability to access at the measurement date. Level 2 inputs are observable inputs, other than quoted prices included in Level 1, for the asset or liability. Level 3 inputs are unobservable inputs reflecting the reporting entity s estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Quantitative and qualitative disclosures will focus on the inputs used to measure fair value for both recurring and non-recurring fair value measurements and the effects of the measurements in the financial statements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, with earlier application encouraged only in the initial quarter of an entity s fiscal year. Adoption of this statement is expected to have an impact on the Company s consolidated financial statements; however, the timing for adoption and impact has not yet been determined.

The FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), dated June 2006. The interpretation requires public companies to recognize the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. The amount recognized would be the amount that represents the largest amount of tax benefit that is greater than 50% likely of being ultimately realized. A liability would be recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. FIN 48 will require a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed, or expected to be claimed, in tax returns and disclosure relating to accrued interest and penalties for unrecognized tax benefits. Discussion will also be required for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. FIN 48 is effective for fiscal years beginning after December 15, 2006. Adoption of FIN 48 is not expected to have a material impact on the Company s consolidated financial statements.

2. Earnings Per Share

The following tables present a reconciliation of net income and shares used in calculating basic earnings per share to those used in calculating diluted earnings per share.

	Three Months Ended September 30, 2006			Nine Months Ended September 30, 2006		
	Net Income	**Shares**	**Per Share Amount**	**Net Income**	**Shares**	**Per Share Amount**
Basic Earnings per Share						
Net income available to common shareholders	$758	310.0	$2.45	$1,962	306.0	$6.41
Diluted Earnings per Share						
Stock compensation plans		2.9			2.9	
Equity units		3.8			5.2	
Net income available to common shareholders plus	$ 758	316.7	$2.39	$1,962	314.1	$6.25

assumed conversions

	Three Months Ended September 30, 2005			Nine Months Ended September 30, 2005		
	Net Income	**Shares**	**Per Share Amount**	**Net Income**	**Shares**	**Per Share Amount**
Basic Earnings per Share						
Net income available to common shareholders	$539	299.2	$1.80	$1,807	297.1	$6.08
Diluted Earnings per Share						
Stock compensation plans		3.2			3.2	
Equity units		4.6			3.8	
Net income available to common shareholders plus assumed conversions	$539	307.0	$1.76	$1,807	304.1	$5.94

Basic earnings per share is computed based on the weighted average number of shares outstanding during the year. Diluted earnings per share includes the dilutive effect of stock compensation plans and the Company s equity units, if any, using the treasury stock method. Under the treasury stock method for stock compensation plans, shares are assumed to be issued and then reduced for the number of shares repurchaseable with theoretical proceeds at the average market price for the period. Contingently issuable shares are included for the number of shares issuable assuming the end of the reporting period was the end of the contingency period, if dilutive. Theoretical proceeds include option exercise price payments, unamortized stock compensation expense and tax benefits realized in excess of the tax benefit recognized in net income. The difference between the number of shares assumed issued and number of shares purchased represents the dilutive shares. Under the treasury stock method for the equity units, the number of shares of common stock used in

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Earnings Per Share (continued)

calculating diluted earnings per share is increased by the excess, if any, of the number of shares issuable upon settlement of the purchase contracts, over the number of shares that could be purchased by The Hartford in the market using the proceeds received upon settlement. The number of issuable shares is based on the average market price for the last 20 trading days of the period. The number of shares purchased is based on the average market price during the entire period.

Upon exercise of outstanding options or vesting of other stock compensation plan awards, the additional shares issued and outstanding are included in the calculation of the Company s weighted average shares from the date of exercise or vesting. Similarly, upon settlement of the purchase contracts associated with the Company s equity units, the associated common shares are added to the Company s issued and outstanding shares. During the 20 trading day period ending on the third trading day prior to August 16, 2006, The Hartford s common stock price exceeded $56.875 per share. As a result, on August 16, 2006, the 7% equity unit purchase contracts issued in 2003 were settled, resulting in the issuance of approximately 12.1 million common shares that were added to the Company s issued and outstanding shares and included in the calculation of the Company s weighted average shares for the period the shares were outstanding. Additionally, in connection with the settlement on November 16, 2006 of the 6% equity units issued in 2002, assuming The Hartford s common stock price exceeds $57.645 per share during the 20 trading day period ending on the third trading day period prior to November 16, 2006, and assuming operation of the equity unit purchase contracts in the ordinary course, approximately 5.7 million common shares will be added to the Company s issued and outstanding shares and will be included in the calculation of the Company s weighted average shares for the period the shares are outstanding. For further discussion of the Company s equity units offerings, see Note 14 of Notes to Consolidated Financial Statements included in The Hartford s 2005 Annual Report on Form 10-K.

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 ten operating segments. Additionally, Corporate primarily includes the Company s debt financing and related interest expense, as well as certain capital raising and purchase accounting adjustment activities.

Life

Life is organized into six reportable operating segments: Retail Products Group (Retail), Retirement Plans, Institutional Solutions Group (Institutional), Individual Life, Group Benefits and International.

The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies in Note 1. Life evaluates performance of its segments based on revenues, net income and the segment s return on allocated capital. The Company charges direct operating expenses to the appropriate segment and allocates the majority of indirect expenses to the segments based on an intercompany expense arrangement. Intersegment revenues primarily occur between Life s Other category and the operating segments. These amounts primarily include interest income on allocated surplus, interest charges on excess separate account surplus, the allocation of certain net realized capital gains and losses and the allocation of credit risk charges. For a discussion of segment allocations, see Note 3 of Notes to the Consolidated Financial Statements included in The Hartford s 2005 Form 10-K Annual Report.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information (continued)

The positive (negative) impact, on realized gains and losses in the segments, for allocated realized gains and losses and credit-risk charges were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Retail				
Realized gains (losses)	$ 7	$ 9	$ 24	$ 27
Credit risk charge	(6)	(6)	(19)	(19)
Retirement Plans				
Realized gains (losses)	2	1	7	4
Credit risk charge	(3)	(2)	(7)	(6)
Institutional				
Realized gains (losses)	4	4	12	10
Credit risk charge	(6)	(5)	(17)	(14)
Individual Life				
Realized gains (losses)	3	2	8	8
Credit risk charge	(2)	(2)	(5)	(5)
Group Benefits				
Realized gains (losses)		2	2	7
Credit risk charge	(2)	(2)	(7)	(7)
International				
Realized gains (losses)	1		1	
Credit risk charge	(1)		(2)	
Other				
Realized gains (losses)	(17)	(18)	(54)	(56)
Credit risk charge	20	17	57	51
Total	**$**	**$**	**$**	**$**

Property & Casualty

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines, and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment. For the three months ended September 30, 2006 and 2005, AARP accounted for earned premiums of $624 and $568, respectively, in Personal Lines. For the nine months ended September 30, 2006 and 2005, AARP accounted for earned premiums of $1.8 billion and $1.7 billion, respectively, in Personal Lines.

Through inter-segment arrangements, Specialty Commercial reimburses Business Insurance and Personal Lines for certain losses, including, among other coverages, losses incurred from uncollectible reinsurance. In addition, through a co-participation, the Company retains a portion of the risks ceded under the Company s principal catastrophe reinsurance program and other reinsurance programs. The financial results of this co-participation are recorded in the Specialty Commercial segment. In addition to the co-participation, the amount of premiums ceded to third party reinsurers under these programs are allocated to the operating segments based on the risks written by each operating segment that are subject to the programs.

Earned premiums assumed (ceded) under the inter-segment arrangements and co-participations were as follows:

Net assumed (ceded) earned premiums under inter-segment arrangements and co-participations	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Business Insurance	$(14)	$(19)	$(54)	$(57)
Personal Lines	(4)	(6)	(16)	(18)
Specialty Commercial	18	25	70	75
Total	**$**	**$**	**$**	**$**

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 2005 Form 10-K Annual Report.

The measure 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 the 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 Business Insurance, Personal Lines and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information (continued)

represent premiums earned less incurred claims, claim adjustment expenses and underwriting expenses. The sum of underwriting results, net investment income, net servicing and other income, net realized capital gains and losses, other expenses, and related income taxes is net income (loss).

The following tables present revenues and net income (loss). Underwriting results are presented for the Business Insurance, Personal Lines and Specialty Commercial segments, while net income is presented for each of Life s reportable segments, total Property & Casualty, Ongoing Operations, Other Operations, and Corporate. Segment information for the previous periods have been adjusted to reflect the change in composition of reportable operating segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues				
Life				
Retail	$ 849	$ 810	$ 2,566	$ 2,399
Retirement Plans	131	118	399	348
Institutional	429	358	1,314	997
Individual Life	271	278	817	799
Group Benefits	1,137	1,049	3,398	3,143
International	194	141	558	356
Other	80	62	(52)	275
Total Life segment revenues	3,091	2,816	9,000	8,317
Net investment income on equity securities held for trading [1]	1,185	1,500	669	2,024
Total Life	4,276	4,316	9,669	10,341
Property & Casualty				
Ongoing Operations				
Earned premiums				
Business Insurance	1,292	1,194	3,823	3,541
Personal Lines	952	890	2,810	2,693
Specialty Commercial	388	431	1,170	1,364
Total Ongoing Operations earned premiums	2,632	2,515	7,803	7,598
Other Operations earned premiums		2	2	4
Other revenues [2]	118	115	355	342
Net investment income	359	349	1,081	1,014
Net realized capital gains (losses)	16	2	(8)	50
Total Property & Casualty	3,125	2,983	9,233	9,008
Corporate	6	8	19	24
Total revenues	**$7,407**	**$7,307**	**$18,921**	**$19,373**

[1] Management does not include dividend income and mark-to-market effects of trading securities supporting the international variable annuity business in its segment revenues since corresponding amounts credited to policyholders are included within benefits, claims and claim adjustment expenses.

[2] Represents servicing revenue.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Income (Loss)				
Life				
Retail	$ 184	$ 172	$ 526	$ 447
Retirement Plans	21	20	64	54
Institutional	24	24	75	66
Individual Life	46	45	139	123
Group Benefits	74	68	216	191
International	47	28	145	63
Other	32	(11)	(83)	(31)
Total Life	428	346	1,082	913
Property & Casualty				
Ongoing Operations				
Underwriting results				
Business Insurance	123	125	454	384
Personal Lines	89	71	321	386
Specialty Commercial	41	(143)	45	(98)
Total Ongoing Operations underwriting results	253	53	820	672
Net servicing and other income [1]	15	12	45	40
Net investment income	299	279	886	797
Other expenses	(40)	(50)	(168)	(146)
Net realized capital gains (losses)	11	2	(15)	24
Income tax expense	(163)	(78)	(464)	(413)
Ongoing Operations	375	218	1,104	974
Other Operations	6	15	(83)	45
Total Property & Casualty	381	233	1,021	1,019
Corporate	(51)	(40)	(141)	(125)
Net income	**$ 758**	**$ 539**	**$1,962**	**$1,807**

[1] Net of expenses related to service business.

4. Investments and Derivative Instruments

	September 30, 2006				December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds and Notes								
Asset-backed securities (ABS)	$ 7,627	$ 59	$ (66)	$ 7,620	$ 7,907	$ 60	$ (89)	$ 7,878
Collateralized mortgage obligations (CMOs)								
Agency backed	1,162	18	(7)	1,173	860	3	(6)	857
Non-agency backed	123		(1)	122	133			133
Commercial mortgage-backed securities (CMBS)								
Agency backed	579	12	(1)	590	70	1		71
Non-agency backed	14,337	241	(141)	14,437	12,860	233	(162)	12,931
Corporate	34,360	1,169	(406)	35,123	33,019	1,395	(396)	34,018
Government/Government agencies								
Foreign	1,077	64	(8)	1,133	1,378	96	(7)	1,467
United States	1,345	16	(9)	1,352	877	27	(6)	898
Mortgage-backed securities (MBS)	2,766	6	(55)	2,717	3,914	7	(60)	3,861
States, municipalities and political subdivisions	11,838	540	(24)	12,354	11,641	601	(24)	12,218
Redeemable preferred stock	38	2		40	44	1		45
Short-term	2,044			2,044	2,063			2,063
Total fixed maturities	**$77,296**	**$2,127**	**$(718)**	**$78,705**	**$74,766**	**$2,424**	**$(750)**	**$76,440**

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Investments and Derivative Instruments (continued)

Variable Interest Entities

In September 2006, the Company invested $3 in a newly established ABS collateralized debt obligation (CDO) for which Hartford Investment Management Company (HIMCO), a wholly-owned subsidiary of The Hartford, serves as collateral manager. The CDO issued approximately $1.2 billion of senior and subordinated notes to third party investors and invested the proceeds in ABS and CMBS with an average credit quality of Aa3/A1. The notes are collateralized by the underlying securities held by the CDO. The Company s maximum exposure to loss is limited to its $3 direct investment in the CDO. Investors in the CDO have recourse only to the CDO s assets and not to the general credit of the Company.

Pursuant to the requirements of FASB Interpretation No. 46 (revised), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46R), the Company has concluded that the CDO is a VIE. However, the Company is not the primary beneficiary and, accordingly, is not required to consolidate the VIE. The Company utilized qualitative and quantitative analyses to assess whether it was the primary beneficiary of the VIE.

Derivative Instruments

The Company utilizes a variety of derivative instruments, including swaps, caps, floors, forwards, futures and options through one of four Company-approved objectives: to hedge risk arising from interest rate, equity market, price or currency exchange rate risk or volatility; to manage liquidity; to control transaction costs; or to enter into replication transactions.

On the date the derivative contract is entered into, the Company designates the derivative as (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) a hedge of the variability of cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset or liability (cash flow hedge), (3) a foreign-currency fair value or cash flow hedge (foreign-currency hedge), (4) a hedge of a net investment in a foreign operation (net investment hedge) or (5) held for other investment and risk management purposes, which primarily involve managing asset or liability related risks which do not qualify for hedge accounting.

The Company s derivative transactions are used in strategies permitted under the derivatives use plans filed and/or approved, as applicable, by the State of Connecticut, the State of Illinois and the State of New York insurance departments. The Company does not make a market or trade in these instruments for the express purpose of earning short-term trading profits.

For a detailed discussion of the Company s use of derivative instruments, see Notes 1 and 4 of Notes to Consolidated Financial Statements included in The Hartford s 2005 Form 10-K Annual Report.

Derivative instruments are recorded in the condensed consolidated balance sheets at fair value. Asset and liability values are determined by calculating the net position for each derivative counterparty by legal entity and are presented as follows:

	September 30, 2006		**December 31, 2005**	
	Asset Values	**Liability Values**	**Asset Values**	**Liability Values**
Other investments	$272	$	$181	$
Reinsurance recoverables		26		17
Other policyholder funds and benefits payable	35		8	
Other liabilities		562		450
Total	**$307**	**$588**	**$189**	**$467**

The following table summarizes the notional amount and fair value of derivatives by hedge designation as of September 30, 2006, and December 31, 2005. The notional amount of derivative contracts represents the basis upon

which pay or receive amounts are calculated and are not necessarily reflective of credit risk. The fair value amounts of derivative assets and liabilities are presented on a net basis in the following table.

	September 30, 2006		December 31, 2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Cash flow hedge	$ 7,310	$(331)	$ 7,511	$(260)
Fair value hedge	3,131	4	2,476	(12)
Other investment and risk management activities	67,202	46	55,741	(6)
Total	**$77,643**	**$(281)**	**$65,728**	**$(278)**

The increase in notional amount since December 31, 2005, is primarily due to an increase in derivatives associated with guaranteed minimum withdrawal benefit (GMWB) product sales and additional options purchased to hedge the GMWB, as well as an increase in interest rate swap derivatives used to assist in the matching of duration between certain assets and liabilities. The decrease in net fair value of derivative instruments since December 31, 2005, was primarily related to declines in fair value of derivatives hedging foreign bonds, the Japanese fixed annuity hedging instruments, and derivatives hedging changes in interest rates, partially offset by additional

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Investments and Derivative Instruments (continued)

options purchased to hedge GMWB. Derivatives hedging foreign bonds declined in value primarily as a result of the weakening of the U.S. dollar in comparison to certain foreign currencies while the Japanese fixed annuity hedging instruments and derivatives hedging changes in interest rates declined in value primarily due to rising interest rates. For further discussion on the GMWB product, which is accounted for as an embedded derivative, refer to Note 6 of Notes to Condensed Consolidated Financial Statements.

During the three months ended March 31, 2006, the Company terminated an interest rate swap and an interest rate cap that were used to hedge the Company s $500 fixed rate debt which was callable in October 2006. The positions were terminated due to expected near term interest rate increases. Additionally, during the three months ended June 30, 2006, interest rate swaps and the respective hedged fixed rate debt of $250 matured. The notional and fair value of the contracts terminated during the nine months ended September 30, 2006, were $1.3 billion and $(11), respectively.

For the three and nine months ended September 30, 2006, after-tax net gains (losses) representing the total ineffectiveness of cash flow hedges were $(3) and $(13), respectively. For the three and nine months ended September 30, 2005, after-tax net gains (losses) representing the total ineffectiveness of cash flow hedges were $(5) and $(9), respectively. For the three and nine months ended September 30, 2006, after-tax net gains (losses) representing the total ineffectiveness of fair value hedges were $(1). For the three and nine months ended September 30, 2005, after-tax net gains (losses) representing the total ineffectiveness of fair value hedges were $3.

The total change in value for derivative-based strategies that do not qualify for hedge accounting treatment, including periodic net coupon settlements, are reported in net realized capital gains and losses. For the three and nine months ended September 30, 2006, these strategies resulted in the recognition of after-tax net gains (losses) of $9 and $(73), respectively. Net realized capital gains for the three months ended September 30, 2006, were primarily comprised of gains on derivatives hedging changes in interest rates and, net gains on GMWB related derivatives, partially offset by net losses on the Japanese fixed annuity hedging instruments. The net gains on GWMB related derivatives were primarily driven by net changes in policyholder behavior assumptions made in the third quarter. The net losses on the Japanese fixed annuity hedging instruments were primarily driven by losses due to the weakening of the Yen in comparison to the U.S. dollar, partially offset by gains due to a decline in Japanese interest rates. For the nine months ended September 30, 2006, net realized capital losses were primarily driven by losses on the Japanese fixed annuity hedging instruments due to an increase in Japanese interest rates, GMWB related derivatives primarily driven by liability model refinements and assumption updates reflecting in-force demographics, and derivatives hedging changes in interest rates primarily due to rising interest rates. For the three and nine months ended September 30, 2005, these derivative based strategies resulted in the recognition of after-tax net gains (losses) of $(39) and $(84), respectively, which were predominantly comprised of net losses on the Japanese fixed annuity hedging instruments primarily due to the weakening of the Yen in comparison to the U.S. dollar as well as an increase in interest rates.

As of September 30, 2006, the after-tax deferred net gains (losses) on derivative instruments recorded in accumulated other comprehensive income (loss) (AOCI) that are expected to be reclassified to earnings during the next twelve months are $(7). 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 all forecasted transactions, excluding interest payments on variable-rate debt) is twenty-four months. For the three and nine months ended September 30, 2006, and 2005, the Company had less than $1 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.

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

Life

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

	2006	2005

Balance, January 1	**$8,568**	**$7,438**
Capitalization	1,420	1,564
Amortization Deferred policy acquisition costs and present value of future profits	(913)	(887)
Adjustments to unrealized gains and losses on securities available-for-sale and other	54	239
Effect of currency translation adjustment	(3)	(103)
Balance, September 30	**$9,126**	**$8,251**

Property & Casualty

Changes in deferred policy acquisition costs are as follows:

	2006	**2005**
Balance, January 1	**$ 1,134**	**$ 1,071**
Capitalization	1,640	1,532
Amortization Deferred Policy Acquisition Costs	(1,572)	(1,490)
Balance, September 30	**$ 1,202**	**$ 1,113**

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Many of the variable annuity contracts issued by the Company offer various guaranteed minimum death, withdrawal and income benefits. Guaranteed minimum death and income benefits are offered in various forms as described in the footnotes to the table below. The Company currently reinsures a significant portion of the death benefit guarantees associated with its in-force block of business. Effective April 1, 2006, the Company began reinsuring certain of its death benefit guarantees associated with the inforce block of variable annuity products offered in Japan. Changes in the gross U.S. guaranteed minimum death benefit (GMDB) and Japan GMDB/guaranteed minimum income benefits (GMIB) liability balance sold with annuity products are as follows:

	U.S. GMDB [1]	Japan GMDB/GMIB [1]
Liability balance as of January 1, 2006	**$ 158**	**$ 50**
Incurred	92	24
Paid	(84)	(1)
Currency translation adjustment		
Liability balance as of September 30, 2006	**$ 166**	**$ 73**

[1] The reinsurance recoverable asset related to the U.S. GMDB was $32 as of September 30, 2006. The reinsurance recoverable asset related to the Japan GMDB was $3 as of September 30, 2006.

	U.S. GMDB [1]	Japan GMDB/GMIB
Liability balance as of January 1, 2005	**$ 174**	**$ 28**
Incurred	96	23
Paid	(111)	(1)
Currency translation adjustment		(4)
Liability balance as of September 30, 2005	**$ 159**	**$ 46**

[1]

The reinsurance recoverable asset related to the U.S. GMDB was $42 as of September 30, 2005.

The net GMDB and GMIB liability is established by estimating the expected value of net reinsurance costs and death and income benefits in excess of the projected account balance. The excess death and income benefits and net reinsurance costs are recognized ratably over the accumulation period based on total expected assessments. The GMDB and GMIB liabilities are recorded in Reserve for Future Policy Benefits on the Company s balance sheet. Changes in the GMDB and GMIB liability are recorded in Benefits, Claims and Claim Adjustment Expenses on the Company s 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.

The following table provides details concerning GMDB and GMIB exposure as of September 30, 2006:

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

	Account Value	Net Amount at Risk	Retained Net Amount at Risk	Weighted Average Attained Age of Annuitant
Maximum anniversary value (MAV) [1]				
MAV only	$ 52,640	$ 4,271	$ 431	64
With 5% rollup [2]	3,763	433	82	63
With Earnings Protection Benefit Rider (EPB) [3]	5,382	374	64	61
With 5% rollup & EPB	1,382	135	25	63
Total MAV	63,167	5,213	602	
Asset Protection Benefit (APB) [4]	33,561	59	31	61
Lifetime Income Benefit (LIB) Death Benefit[5]	2,535	3	3	59
Reset [6] (5-7 years)	6,764	319	319	65
Return of Premium [7]/Other	9,583	32	30	53
Subtotal U.S. Guaranteed Minimum Death Benefits	**115,610**	**5,626**	**985**	**62**
Japan Guaranteed Minimum Death and Income Benefit [8]	28,265	113	53	66
Total at September 30, 2006	**$143,875**	**$ 5,739**	**$ 1,038**	

[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 greater of current account value or MAV, net premiums paid, or a benefit amount that rachets 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 75) death benefit and income benefits include a guarantee to return initial investment, which is adjusted for earnings liquidity or a maximum annual withdrawal of 3% of premiums, depending on the product, through a fixed annuity after a minimum deferral period of 10, 15 or 20 years. The guaranteed remaining balance related to the Japan GMIB was $19.4 billion and $15.2 billion as of September 30, 2006 and December 31, 2005, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The Company offers certain variable annuity products with a GMWB rider. The GMWB provides the policyholder with a guaranteed remaining balance (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. However, annual withdrawals that exceed a specific percentage of the premiums paid may reduce the GRB by an amount greater than the withdrawals and may also impact the guaranteed annual withdrawal amount that subsequently applies after the excess annual withdrawals occur. For certain of the withdrawal benefit features, the policyholder also has the option, after a specified time period, to reset the GRB to the then-current account value, if greater. In addition, the Company has introduced features for contracts issued beginning in the fourth quarter of 2005, that allows the policyholder to receive the guaranteed annual withdrawal amount for as long as they are alive. In this new feature, in all cases the contract holder or their beneficiary will receive the GRB and the GRB is reset on an annual basis to the maximum anniversary account value subject to a cap.

The GMWB represents an embedded derivative in the variable annuity contracts that is required to be reported separately from the host variable annuity contract. It is carried at fair value and reported in other policyholder funds. The fair value of the GMWB obligation is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior. Because of the dynamic and complex nature of these cash flows, stochastic techniques under a variety of market return scenarios and other best estimate assumptions are used. Estimating these cash flows involves numerous estimates and subjective judgments including those regarding expected market rates of return, market volatility, correlations of market returns and discount rates. At each valuation date, the Company assumes expected returns based on risk-free rates as represented by the current LIBOR forward curve rates; market volatility assumptions for each underlying index based on a blend of observed market implied volatility data and annualized standard deviations of monthly returns using the most recent 20 years of observed market performance; correlations of market returns across underlying indices based on actual observed market returns and relationships over the ten years preceding the valuation date; 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 markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions. In addition, management regularly evaluates the valuation model, incorporating emerging valuation techniques where appropriate, including drawing on the expertise of market participants and valuation experts.

As of September 30, 2006 and December 31, 2005, the embedded derivative asset recorded for GMWB, before reinsurance or hedging, was $35 and $8, respectively. For the three and nine months ended September 30, 2006, the change in value of the GMWB, before reinsurance and hedging, reported as a realized gain (loss) was $(12) and $83, respectively. Included in the realized gain (loss) were liability model refinements and changes in policyholder behavior assumptions for the three and nine months ended September 30, 2006 of a net $14 and $(4), respectively. For the three and nine months ended September 30, 2005, the change in value of the GMWB, before reinsurance and hedging, reported as a realized gain (loss) was $55 and $11, respectively. There were no benefit payments made for the GMWB during 2006 or 2005.

As of September 30, 2006 and December 31, 2005, $33.4 billion, or 76%, and $26.4 billion, or 69%, respectively, of account value representing substantially all of the contracts written after July 2003, with the GMWB feature, were unreinsured. In order to minimize the volatility associated with the unreinsured GMWB liabilities, the Company has established an alternative risk management strategy. In 2003, the Company began hedging its unreinsured GMWB exposure using interest rate futures and swaps, and Standard and Poor s (S&P) 500 and NASDAQ index options and futures contracts. During 2004, the Company began using Europe, Australasia and Far East (EAFE) Index swaps to hedge GMWB exposure to international equity markets. The total (reinsured and unreinsured) GRB as of September 30, 2006 and December 31, 2005 was $35.8 billion and $31.8 billion, respectively.

A contract is in the money if the contract holder s GRB is greater than the account value. For contracts that were in the money the Company s exposure, as of September 30, 2006 and December 31, 2005, was $12 and $8, respectively.

However, the only ways the contract holder can monetize the excess of the GRB over the account value of the contract is upon death or if their account value is reduced to zero through a combination of a series of withdrawals that do not exceed a specific percentage of the premiums paid per year and market declines. If the account value is reduced to zero, the contract holder will receive a period certain annuity equal to the remaining GRB or a period certain plus life contingent annuity. As the amount of the excess of the GRB over the account value can fluctuate with equity market returns on a daily basis the ultimate amount to be paid by the Company, if any, is uncertain and could be significantly more or less than $12.

7. Commitments and Contingencies

Litigation

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending 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 claim and claim 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Commitments and Contingencies (continued)

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 mutual funds 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 that insurers had a duty to protect the public from the dangers of asbestos and in a putative class action filed in West Virginia state court by asbestos plaintiffs alleging 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.

Broker Compensation Litigation On October 14, 2004, the New York Attorney General s Office filed a civil complaint (the NYAG Complaint) against Marsh Inc. and Marsh & McLennan Companies, Inc. (collectively, Marsh) alleging, among other things, 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. The Hartford was not joined as a defendant in the action, which has since settled. Since the filing of the NYAG Complaint, several private actions have been filed against the Company asserting claims arising from the allegations of the NYAG Complaint.

Two securities class actions, now consolidated, have been filed in the United States District Court for the District of Connecticut alleging claims against the Company and certain of its executive officers under Section 10(b) of the Securities Exchange Act and SEC Rule 10b-5. The consolidated amended complaint alleges on behalf of a putative class of shareholders that the Company and the four named individual defendants, as control persons of the Company, failed to disclose to the investing public that The Hartford s business and growth was predicated on the unlawful activity alleged in the NYAG Complaint. The class period alleged is August 6, 2003 through October 13, 2004, the day before the NYAG Complaint was filed. The complaint seeks damages and attorneys fees. Defendants filed a motion to dismiss in June 2005, and, on July 13, 2006, the district court granted the motion. The plaintiffs have noticed an appeal of the dismissal.

Two corporate derivative actions, now consolidated, also have been filed in the same court. The consolidated amended complaint, brought by a shareholder on behalf of the Company against its directors and an executive officer, alleges that the defendants knew adverse non-public information about the activities alleged in the NYAG Complaint and concealed and misappropriated that information to make profitable stock trades, thereby breaching their fiduciary duties, abusing their control, committing gross mismanagement, wasting corporate assets, and unjustly enriching themselves. The complaint seeks damages, injunctive relief, disgorgement, and attorneys fees. Defendants filed a motion to dismiss in May 2005, and the plaintiffs thereafter agreed to stay further proceedings pending resolution of the motion to dismiss the securities class action. All defendants dispute the allegations and intend to defend these actions vigorously.

The Company is also a defendant in a multidistrict litigation in federal district court in New Jersey. There are two consolidated amended complaints filed in the multidistrict litigation, one related to alleged 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 various of its subsidiaries are named in both complaints. The actions assert, on behalf of a class of persons who purchased insurance through the 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 ERISA arising from conduct similar to that alleged in the NYAG Complaint. The class period alleged is 1994 through the date of class certification, which has not yet occurred. The complaints seek treble damages, injunctive and declaratory relief, and attorneys fees. On October 3, 2006, the court denied in part the defendants motions to dismiss the two consolidated amended complaints but found the complaints deficient in other respects and ordered the plaintiffs to file supplemental pleadings. The plaintiffs motions for class certification are pending. The Company also has been named in two similar actions filed in state courts, which the defendants have removed to federal court. Those actions currently are transferred to the court presiding over the multidistrict litigation. In addition, the Company was joined as a defendant in an action by the California Commissioner of Insurance alleging similar conduct by various insurers in connection with the sale of group benefits products. The Commissioner s action asserts claims under California insurance law and seeks injunctive relief only. The Company disputes the allegations in all of these actions and intends to defend the actions vigorously.

Additional complaints may be filed against the Company in various courts alleging claims under federal or state law arising from the conduct alleged in the NYAG Complaint. The Company s ultimate liability, if any, in the pending and possible future suits is highly uncertain and subject to contingencies that are not yet known, such as how many suits will be filed, in which courts they will be lodged, what claims they will assert, what the outcome of investigations by the New York Attorney General s Office and other regulatory

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Commitments and Contingencies (continued)

agencies will be, the success of defenses that the Company may assert, and the amount of recoverable damages if liability is established. In the opinion of management, it is possible that an adverse outcome in one or more of these suits could have a material adverse effect on the Company s consolidated results of operations or cash flows in particular quarterly or annual periods.

Fair Credit Reporting Act Putative Class Action In October 2001, a complaint was filed in the United States District Court for the District of Oregon, on behalf of a putative class of homeowners and automobile policyholders from 1999 to the present, alleging that the Company willfully violated the Fair Credit Reporting Act (FCRA) by failing to send appropriate notices to new customers whose initial rates were higher than they would have been had the customer had a more favorable credit report. In July 2003, the district court granted summary judgment for the Company, holding that FCRA s adverse action notice requirement did not apply to the rate first charged for an initial policy of insurance. The plaintiff appealed and, in August 2005, a panel of the United States Court of Appeals for the Ninth Circuit reversed the district court, holding that the adverse action notice requirement applies to new business and that the Company s notices, even when sent, contained inadequate information. Although no court previously had decided the notice requirements applicable to insurers under FCRA, and the district court had not addressed whether the Company s alleged violations of FCRA were willful because it had agreed with the Company s interpretation of FCRA and found no violation, the Court of Appeals further held, over a dissent by one of the judges, that the Company s failure to send notices conforming to the Court s opinion constituted a willful violation of FCRA as a matter of law. FCRA provides for a statutory penalty of $100 to $1,000 per willful violation. Simultaneously, the Court of Appeals issued decisions in related cases against four other insurers, reversing the district court and holding that those insurers also had violated FCRA in similar ways. On October 3, 2005, the Court of Appeals withdrew its opinion in the Hartford case and issued a revised opinion, which changed certain language of the opinion but not the outcome.

On October 31, 2005, the Company timely filed a petition for rehearing and for rehearing en banc in the Ninth Circuit. While that petition was pending, on January 25, 2006, the Court of Appeals again withdrew its opinion in the Hartford case and issued a second revised opinion. The new opinion vacated the Court s earlier ruling that the Company had willfully violated FCRA as a matter of law and remanded the case to the district court for further proceedings. On February 15, 2006, the Company filed a new petition for rehearing and rehearing en banc, and on April 20, 2006, the Court of Appeals denied the petition. On July 19, 2006, the Company filed a petition for a writ of certiorari in the United States Supreme Court. On September 26, 2006, the Supreme Court granted petitions filed by insurers in two of the related cases, but it has not yet acted on the Company s petition.

On July 25, 2006, the parties entered into a memorandum of understanding setting forth the essential terms of a class settlement in this action, and, on September 8, 2006, the parties executed and filed with the district court a Stipulation of Settlement. On September 11, 2006, the district court preliminarily approved the settlement and scheduled a hearing for final approval of the settlement for February 26, 2007. The settlement is subject to certain contingencies, including final approval by the district court. If the settlement is completed, management expects that the Company s ultimate obligations under the settlement agreement, after consideration of provisions made for this matter, will not have a material adverse effect on the Company s consolidated results of operations or cash flows in any particular quarterly or annual period.

Blanket Casualty Treaty Litigation The Company is engaged in pending litigation in Connecticut Superior Court against certain of its upper-layer reinsurers under its Blanket Casualty Treaty (BCT). The BCT is a multi-layered reinsurance program providing excess-of-loss coverage in various amounts from the 1930s through the 1980s. The upper layers were first placed in 1950, predominantly with London Market reinsurers, including Lloyd s syndicates reinsured by Equitas. The action seeks, among other relief, damages for the reinsurer defendants failure to pay certain billings for asbestos and pollution claims.

In December 2003, the Company entered into a global settlement with MacArthur Company, an asbestos insulation distributor and installer then in bankruptcy, for $1.15 billion. The Company then billed the reinsurer defendants under the BCT for $117 of the settlement amount. After the reinsurers refused to pay the MacArthur billing, the Company amended its complaint to add, among other things, claims related to that billing. Most of the reinsurer defendants

counterclaimed, seeking a declaration that they did not owe reinsurance for the MacArthur settlement.

The litigation concerns under what circumstances losses arising from multiple claims against a single insured may be combined and ceded as a single accident under the BCT so as to reach the upper layers of the program. The BCT contains a unique definition of accident. The application of this definition to the ceded losses is the crux of the dispute.

In April 2005, the Superior Court phased the proceedings, providing for a trial of the MacArthur billing first, in April 2006, with other billings to follow in subsequent trial settings. In September 2005, the London Market reinsurer defendants moved for summary judgment on the MacArthur-related claims. After briefing and oral argument, the Superior Court issued a decision on December 13, 2005, granting the defendants motion. The Company noticed an appeal to the Connecticut Appellate Court; the appeal has since been transferred to the Connecticut Supreme Court. The Company intends to prosecute its appeal vigorously.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Commitments and Contingencies (continued)

On June 15, 2006, the Company announced an agreement with Equitas and all Lloyd s syndicates reinsured by Equitas (collectively, Equitas) that resolved, with minor exception, all of the Company s ceded and assumed domestic reinsurance exposures with Equitas, including the Company s reinsurance recoveries from Equitas under the BCT. Those recoveries consist predominantly of asbestos and pollution losses, including the billing for the MacArthur settlement. The pending litigation and appeal continue with other upper-layer reinsurers under the BCT.

The outcome of the appeal is uncertain. If the decision of the Superior Court is affirmed on appeal, the Company may be unable to collect from the nonsettling reinsurers not only its billing for the MacArthur settlement but also other current and future billings to which the same relevant facts and legal analysis would apply. The Company has considered the risk of non-collection of these recoveries in its allowance for all uncollectible reinsurance recoverables associated with older, long-term casualty liabilities reported in the Other Operations segment. After consideration of this allowance, management expects that a negative outcome in the BCT litigation would not have a material adverse effect on the Company s consolidated results of operations or cash flows in any particular quarterly or annual period.

Asbestos and Environmental Claims As discussed in Note 12, Commitments and Contingencies, of the Notes to Consolidated Financial Statements under the caption Asbestos and Environmental Claims , included in the Company s 2005 Form 10-K Annual Report, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford s consolidated operating results, financial condition and liquidity.

Regulatory Developments

In June 2004, the Company received a subpoena from the New York Attorney General s Office in connection with its inquiry into compensation arrangements between brokers and carriers. In mid-September 2004 and subsequently, the Company has received additional subpoenas from the New York Attorney General s Office, which relate more specifically to possible anti-competitive activity among brokers and insurers. Since the beginning of October 2004, the Company has received subpoenas or other information requests from Attorneys General and regulatory agencies in more than a dozen jurisdictions regarding broker compensation and possible anti-competitive activity. The Company may receive additional subpoenas and other information requests from Attorneys General or other regulatory agencies regarding similar issues. In addition, the Company has received a request for information from the New York Attorney General s Office concerning the Company s compensation arrangements in connection with the administration of workers compensation plans. The Company intends to continue cooperating fully with these investigations, and is conducting an internal review, with the assistance of outside counsel, regarding broker compensation issues in its Property & Casualty and Group Benefits operations.

On October 14, 2004, the New York Attorney General s Office filed a civil complaint against Marsh & McLennan Companies, Inc., and Marsh, Inc. (collectively, Marsh). The complaint alleges, among other things, that certain insurance companies, including the Company, 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. The Company was not joined as a defendant in the action, which has since settled. Although no regulatory action has been initiated against the Company in connection with the allegations described in the civil complaint, it is possible that the New York Attorney General s Office or one or more other regulatory agencies may pursue action against the Company or one or more of its employees in the future. The potential timing of any such action is difficult to predict. If such an action is brought, it could have a material adverse effect on the Company.

On October 29, 2004, the New York Attorney General s Office informed the Company that the Attorney General is conducting an investigation with respect to the timing of the previously disclosed sale by Thomas Marra, a director and executive officer of the Company, of 217,074 shares of the Company s common stock on September 21, 2004. The sale occurred shortly after the issuance of two additional subpoenas dated September 17, 2004 by the New York

Attorney General s Office. The Company has engaged outside counsel to review the circumstances related to the transaction and is fully cooperating with the New York Attorney General s Office. On the basis of the review, the Company has determined that Mr. Marra complied with the Company s applicable internal trading procedures and has found no indication that Mr. Marra was aware of the additional subpoenas at the time of the sale.

There continues to be significant federal and state regulatory activity relating to financial services companies, particularly mutual funds companies. These regulatory inquiries have focused on a number of mutual fund issues, including market timing and late trading, revenue sharing and directed brokerage, fees, transfer agents and other fund service providers, and other mutual-fund related issues. The Company has received requests for information and subpoenas from the SEC, subpoenas from the New York Attorney General s Office, a subpoena from the Connecticut Attorney General s Office, requests for information from the Connecticut Securities and Investments Division of the Department of Banking, and requests for information from the New York Department of Insurance, in each case requesting documentation and other information regarding various mutual fund regulatory issues. The Company continues to cooperate fully with these regulators in these matters.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Commitments and Contingencies (continued)

The SEC s Division of Enforcement and the New York Attorney General s Office are investigating aspects of the Company s variable annuity and mutual fund operations related to market timing. The Company continues to cooperate fully with the SEC and the New York Attorney General s Office in these matters.

The Company s mutual funds are available for purchase by the separate accounts of different variable universal life insurance policies, variable annuity products, and funding agreements, and they are offered directly to certain qualified retirement plans. Although existing products contain transfer restrictions between subaccounts, some products, particularly older variable annuity products, do not contain restrictions on the frequency of transfers. In addition, as a result of the settlement of litigation against the Company with respect to certain owners of older variable annuity contracts, the Company s ability to restrict transfers by these owners has, until recently, been limited. The Company has executed an agreement with the parties to the previously settled litigation which, together with separate agreements between these contract owners and their broker, has resulted in the exchange or surrender of all of the variable annuity contracts that were the subject of the previously settled litigation.

The SEC s Division of Enforcement also is investigating aspects of the Company s variable annuity and mutual fund operations related to directed brokerage and revenue sharing. The Company discontinued the use of directed brokerage in recognition of mutual fund sales in late 2003. The Company continues to cooperate fully with the SEC in these matters.

The Company has received subpoenas from the New York Attorney General s Office and the Connecticut Attorney General s Office requesting information relating to the Company s group annuity products, including single premium group annuities used in terminal and maturity funding programs. These subpoenas seek information about how various group annuity products are sold, how the Company selects mutual funds offered as investment options in certain group annuity products, and how brokers selling the Company s group annuity products are compensated. The Company continues to cooperate fully with these regulators in these matters.

On May 10, 2006, the Company entered into an agreement (the Agreement) with the New York Attorney General s Office and the Connecticut Attorney General s Office to resolve the outstanding investigations by these parties regarding the Company s use of expense reimbursement agreements in its terminal and maturity funding group annuity line of business. Under the terms of the Agreement, the Company will pay $20, of which $16.1 will be paid to certain plan sponsors that purchased terminal or maturity funding annuities between January 1, 1998 and December 31, 2004, with the balance of $3.9 to be divided equally between the states of New York and Connecticut. Also pursuant to the terms of the Agreement, the Company will accept a three-year prohibition on the use of contingent compensation in its terminal and maturity funding group annuity line of business. The costs associated with the settlement had already been accounted for in reserves established by the Company as of March 31, 2006.

To date, neither the SEC s and New York Attorney General s market timing investigation nor the SEC s directed brokerage investigation has resulted in the initiation of any formal action against the Company by these regulators. However, the Company believes that the SEC and the New York Attorney General s Office are likely to take some action against the Company at the conclusion of the respective investigations. The Company is engaged in active discussions with the SEC and the New York Attorney General s Office. The potential timing of any resolution of any of these matters or the initiation of any formal action by any of these regulators in these matters is difficult to predict.

As of March 31, 2006, the Company had recorded aggregate charges of $109, after-tax, to establish a reserve for the market timing, directed brokerage and single premium group annuity matters. The after-tax cost of the single premium group annuity matter settlement was $14. The remaining reserve for the market timing and directed brokerage matters is an estimate; in view of the uncertainties regarding the outcome of these regulatory investigations, as well as the tax-deductibility of payments, it is possible that the ultimate cost to the Company of these matters could exceed the reserve by an amount that would have a material adverse effect on the Company s consolidated results of operations or cash flows in a particular quarterly or annual period.

On May 24, 2005, the Company received a subpoena from the Connecticut Attorney General s Office seeking information about the Company s participation in finite reinsurance transactions in which there was no substantial transfer of risk between the parties. The Company is cooperating fully with the Connecticut Attorney General s Office

in this matter.

On June 23, 2005, the Company received a subpoena from the New York Attorney General s Office requesting information relating to purchases of the Company s variable annuity products, or exchanges of other products for the Company s variable annuity products, by New York residents who were 65 or older at the time of the purchase or exchange. On August 25, 2005, the Company received an additional subpoena from the New York Attorney General s Office requesting information relating to purchases of or exchanges into the Company s variable annuity products by New York residents during the past five years where the purchase or exchange was funded using funds from a tax-qualified plan or where the variable annuity purchased or exchanged for was a sub-account of a tax-qualified plan or was subsequently put into a tax-qualified plan. The Company is cooperating fully with the New York Attorney General s Office in these matters.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Commitments and Contingencies (continued)

On July 14, 2005, the Company received an additional subpoena from the Connecticut Attorney General s Office concerning the Company s structured settlement business. This subpoena requests information about the Company s sale of annuity products for structured settlements, and about the ways in which brokers are compensated in connection with the sale of these products. The Company is cooperating fully with the Connecticut Attorney General s Office in these matters.

The Company has received a request for information from the New York Attorney General s Office about issues relating to the reporting of workers compensation premium. The Company is cooperating fully with the New York Attorney General s Office in this matter.

8. Pension Plans and Postretirement Health Care and Life Insurance Benefit Plans

Components of Net Periodic Benefit Cost

Total net periodic benefit cost for the nine months ended September 30, 2006 and 2005 includes the following components:

	Pension Benefits		Other Postretirement Benefits	
	2006	**2005**	**2006**	**2005**
Service cost	$ 95	$ 87	$ 6	$ 9
Interest cost	145	136	15	20
Expected return on plan assets	(181)	(164)	(7)	(6)
Amortization of prior service cost	(10)	(10)	(17)	(17)
Amortization of unrecognized net losses	66	54		3
Net periodic benefit cost	**$ 115**	**$ 103**	**$ (3)**	**$ 9**

Employer Contributions

In 2006, the Company, at its discretion, made $200 in contributions to the U.S. qualified defined benefit plan. For 2006, the Company does not have a required minimum funding contribution for the U.S. qualified defined benefit plan and the funding requirements for all of the pension plans is expected to be immaterial.

9. Stock Compensation Plans

The Company has two primary stock-based compensation plans which are described below. Shares issued in satisfaction of stock-based compensation may be made available from authorized but unissued shares, shares held by the Company in treasury or from shares purchased in the open market. The Company typically issues new shares in satisfaction of stock-based compensation. The compensation expense recognized for those plans was $45 and $40 for the nine months ended September 30, 2006 and 2005, respectively. The income tax benefit recognized for stock-based compensation plans was $16 and $14 for the nine months ended September 30, 2006 and 2005, respectively. The Company did not capitalize any cost of stock-based compensation. As of September 30, 2006, the total compensation cost related to non-vested awards not yet recognized was $88, which is expected to be recognized over a weighted average period of 2.1 years.

Stock Plan

In 2005, the shareholders of The Hartford approved The Hartford 2005 Incentive Stock Plan (the 2005 Stock Plan), which superseded and replaced The Hartford Incentive Stock Plan and The Hartford Restricted Stock Plan for Non-employee Directors. The terms of the 2005 Stock Plan are substantially similar to the terms of these superseded plans.

The 2005 Stock Plan provides for awards to be granted in the form of non-qualified or incentive stock options qualifying under Section 422 of the Internal Revenue Code, stock appreciation rights, restricted stock units, restricted stock, performance shares, or any combination of the foregoing. The aggregate number of shares of stock which may

be awarded is subject to a maximum limit of seven million shares applicable to all awards for the ten-year period ending May 18, 2015. To the extent that any awards under The Hartford Incentive Stock Plan and The Hartford Restricted Stock Plan for Non-employee Directors are forfeited, terminated, expire unexercised or are settled for cash in lieu of stock, the shares subject to such awards (or the relevant portion thereof) shall be available for awards under the 2005 Stock Plan and shall be added to the total number of shares available under the 2005 Stock Plan. As of December 31, 2005, there were 6,939,733 shares available for future issuance.

The fair values of awards granted under the 2005 Stock Plan are measured as of the grant date and expensed ratably over the awards vesting periods, generally three years. For stock option awards granted or modified in 2006 and later, the Company began expensing awards to retirement-eligible employees hired before January 1, 2002 immediately or over a period shorter than the stated vesting period because the employees receive accelerated vesting upon retirement and therefore the vesting period is considered non-substantive. For the nine months ended September 30, 2005, the Company would have recognized an immaterial increase in net income if it had been

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Stock Compensation Plans (continued)

accelerating expense for all awards to retirement-eligible employees entitled to accelerated vesting. All awards provide for accelerated vesting upon a change in control of the Company as defined in the 2005 Stock Plan.

Stock Option Awards

Under the 2005 Stock Plan, all options granted have an exercise price equal to the market price of the Company s common stock on the date of grant, and an option s maximum term is ten years. Certain options become exercisable over a three year period commencing one year from the date of grant, while certain other options become exercisable at the later of the three years from the date of grant or upon specified market appreciation of the Company s common shares. For any year, no individual employee may receive an award of options for more than 1,000,000 shares. As of December 31, 2005, The Hartford had not issued any incentive stock options under any plans.

For all options granted or modified on or after January 1, 2004, the Company uses a hybrid lattice/Monte-Carlo based option valuation model (the valuation model) that incorporates the possibility of early exercise of options into the valuation. The valuation model also incorporates the Company s historical termination and exercise experience to determine the option value. For these reasons, the Company believes the valuation model provides a fair value that is more representative of actual experience than the value calculated under the Black-Scholes model.

The valuation model incorporates ranges of assumptions for inputs, and therefore, those ranges are disclosed below. The term structure of volatility is constructed utilizing implied volatilities from exchange-traded options on the Company s stock, historical volatility of the Company s stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model, and accommodates variations in employee preference and risk-tolerance by segregating the grantee pool into a series of behavioral cohorts and conducting a fair valuation for each cohort individually. The expected term of options granted is derived from the output of the option valuation model and represents, in a mathematical sense, the period of time that options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Constant Maturity Treasury yield curve in effect at the time of grant.

	Nine Months Ended	
	September 30, 2006	**September 30, 2005**
Expected dividend yield	1.9%	1.9%
Expected annualized spot volatility	20.2% - 32.3%	19.5% - 33.4%
Weighted average annualized volatility	28.9%	29.4%
Risk-free spot rate	4.4% - 4.6%	2.4% - 4.7%
Expected term	7 years	7 years

A summary of the status of non-qualified stock options included in the Company s Stock Plan as of September 30, 2006 and changes during the nine months ended September 30, 2006 is presented below:

(Shares in thousands)	**Number of Options (in thousands)**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at beginning of year	$11,471	$54.16	5.3	
Granted	323	83.11		
Exercised	(1,951)	49.98		
Forfeited	(63)	57.58		
Expired	(47)	54.96		

Outstanding at end of period	9,733	55.94	4.9	$299,874
Exercisable at end of period	8,640	53.88	4.5	$283,977
Weighted average fair value of options granted	$ 27.69			

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2006 and 2005 was $27.69 and $22.89, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2006 and 2005 was $72 and $169, respectively.

Share Awards

Share awards are valued equal to the market price of the Company s common stock on the date of grant, less a discount for those awards that do not provide for dividends during the vesting period. Share awards granted under the 2005 Plan and outstanding include restricted stock units, restricted stock and performance shares. Generally, restricted stock units vest after three years and restricted stock vests in three to five years. Performance shares become payable within a range of 0% to 200% of the number of shares initially granted based upon the attainment of specific performance goals achieved over a specified period, generally three years. The maximum award of restricted stock units, restricted stock or performance shares for any individual employee in any year is 200,000 shares or units.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Stock Compensation Plans (continued)

A summary of the status of the Company s non-vested share awards as of September 30, 2006, and changes during the nine months ended September 30, 2006, is presented below:

Non-vested Shares	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2006	1,080	$ 67.94
Granted	677	83.29
Vested	(31)	55.42
Forfeited	(44)	72.34
Non-vested at September 30, 2006	1,682	$ 74.22

The total fair value of shares vested during the nine months ended September 30, 2006 and 2005 was $3 and $4, respectively. The Company made cash payments in settlement of stock compensation of $36 and $0 during the nine months ended September 30, 2006 and 2005, respectively.

Employee Stock Purchase Plan

In 1996, the Company established The Hartford Employee Stock Purchase Plan (ESPP). Under this plan, eligible employees of The Hartford may purchase common stock of the Company at a 15% discount from the lower of the closing market price at the beginning or end of the quarterly offering period. Employees purchase a variable number of shares of stock through payroll deductions elected as of the beginning of the quarter. The Company may sell up to 5,400,000 shares of stock to eligible employees under the ESPP. As of December 31, 2005, there were 2,254,952 shares available for future issuance. In the nine months ended September 30, 2006 and 2005, 259,603 and 253,797 shares were sold, respectively. The weighted average per share fair value of the discount under the ESPP was $15.97 and $13.45 in the nine months ended September 30, 2006 and 2005, respectively. The fair value is estimated based on the 15% discount off of the beginning stock price plus the value of three-month European call and put options on shares of stock at the beginning stock price calculated using the Black-Scholes model and the following weighted average valuation assumptions:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Dividend yield	1.9%	1.7%
Implied volatility	18.8%	20.6%
Risk-free spot rate	4.6%	2.7%
Expected term	3 months	3 months

Implied volatility was derived from exchange-traded options on the Company s stock. The risk-free rate is based on the U.S. Constant Maturity Treasury yield curve in effect at the time of grant. The total intrinsic value of the discounts at purchase in each of the nine months ended September 30, 2006 and 2005 was $4 and $3. Additionally, during 1997, The Hartford established employee stock purchase plans for certain employees of the Company s international subsidiaries. Under these plans, participants may purchase common stock of The Hartford at a fixed price at the end of a three-year period. The activity under these programs is not material.

10. Debt

In May 2003, The Hartford issued 13.8 million 7% equity units at a price of fifty dollars per unit and received net proceeds of approximately $669. Each equity unit initially consisted of one purchase contract for a certain number of shares of the Company s stock on August 16, 2006 and a 5% ownership interest in one thousand dollars principal amount of senior notes due August 16, 2008. The senior notes had an aggregate principal amount of $690. In May 2006, the senior notes were successfully remarketed on behalf of the holders of the equity units and the interest rate was reset from 2.56% to 5.55%, effective May 16, 2006. The Company did not receive any proceeds from the remarketing. Rather, the remarketing proceeds were utilized to purchase a portfolio of U.S. Treasury securities, which was pledged to the Company as collateral to satisfy the purchase contractholders obligations to purchase the Company s stock. In connection with the remarketing, The Hartford purchased and retired $265 of the senior notes for approximately $265 in cash and recognized an immaterial gain on the early extinguishment. In August 2006, under the forward purchase contracts, the Company issued approximately 12.1 million shares of common stock and received proceeds of approximately $690. The Company used the proceeds to repay commercial paper.

On June 1, 2006, the Company repaid $250 of 2.375% senior notes at maturity.

On July 14, 2006, The Hartford retired its $200 7.625% junior subordinated debentures underlying the trust preferred securities due 2050 issued by Hartford Life Capital II at par.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In September 2002, The Hartford issued 6.6 million 6% equity units at a price of fifty dollars per unit and received net proceeds of $319. Each equity unit initially consisted of one purchase contract for a certain number of shares of the Company s stock on November 16, 2006 and fifty dollars principal amount of senior notes due November 16, 2008. The senior notes had an aggregate principal amount of

10. Debt (continued)

$330. In August 2006, the senior notes were successfully remarketed on behalf of the holders of the equity units and the interest rate was reset from 4.10% to 5.663%, effective August 16, 2006. The Company did not receive any proceeds from the remarketing. Rather, the remarketing proceeds were utilized to purchase a portfolio of U.S. Treasury securities, which was pledged to the Company as collateral to satisfy the purchase contractholders obligations to purchase the Company s stock. Under the forward purchase contracts, assuming The Hartford s common stock price exceeds $57.645 per share during the 20 trading day period ending on the third trading day prior to November 16, 2006, the Company will issue approximately 5.7 million shares of common stock and receive proceeds of approximately $330 on November 16, 2006.

On October 3, 2006, the Company issued $400 of 5.25% senior notes due October 15, 2011, $300 of 5.50% senior notes due October 15, 2016, and $300 of 5.95% senior notes due October 15, 2036, and received total net proceeds of approximately $990.

On October 10, 2006, the Company successfully completed offers to exchange existing senior unsecured notes comprising the $250 of 7.65% notes due 2027 and the $400 of 7.375% notes due 2031 issued by HLI (HLI notes) for up to $650 in new senior unsecured notes of the Company and a cash payment, in order to consolidate debt at the holding company. The new notes have an extended maturity and bear a market interest rate and, together with the cash payment, have a present value not significantly different than the existing notes using the existing notes effective interest rates. On October 10, 2006, the Company issued approximately $409 of 6.1% senior notes due October 1, 2041 and paid cash totaling $85 in exchange for $101 of the 7.65% notes due 2027 and $308 of the 7.375% notes due 2031. Cash paid to holders of HLI notes in connection with the exchange offers will be reflected on our balance sheet as a reduction of long-term debt.

On October 17, 2006, the Company provided irrevocable notice that it will retire its $500 of 7.45% junior subordinated debentures due 2050 underlying the trust preferred securities issued by Hartford Capital III. The Company will redeem the debentures at par on November 17, 2006 and recognize a loss on extinguishment of $17, after-tax, for the write-off of the unamortized issue costs and discount.

Consumer Notes

On September 8, 2006, Hartford Life Insurance Company filed a shelf registration statement with the SEC (Registration Statement No. 333-137215), effective immediately, for the offering and sale of Hartford Life IncomeNotes^{SM} and Hartford Life medium-term notes (collectively called Consumer Notes). There are no limitations on the ability to issue additional indebtedness in the form of Hartford Life IncomeNotes^{SM} and Hartford Life medium-term notes.

Institutional Solutions Group began issuing Consumer Notes through its Retail Investor Notes Program in September 2006. A Consumer Note is an investment product distributed through broker-dealers directly to retail investors as medium-term, publicly traded fixed or floating rate, or a combination of fixed and floating rate, notes. In addition, discount notes, amortizing notes and indexed notes may also be offered and issued. Consumer Notes are part of the Company s spread-based business and proceeds are used to purchase investment products, primarily fixed rate bonds. Proceeds are not used for general operating purposes. Consumer Notes are offered weekly with maturities up to 30 years and varying interest rates and may include a call provision. Certain Consumer Notes may be redeemed by the holder in the event of death. Redemptions are subject to certain limitations, including calendar year aggregate and individual limits equal to the greater of $1 or 1% of the aggregate principal amount of the notes and $250 thousand per individual, respectively. Derivative instruments will be utilized to hedge the Company s exposure to interest rate risk in accordance with Company policy.

As of September 30, 2006, $41 of Consumer Notes had been issued. These notes have interest rates ranging from 5% to 6% for fixed notes and consumer price index plus 2.05% to 2.20% for variable notes. The aggregate maturities of

Consumer Notes are as follows: 2009 $3 and $38 for 2011 and thereafter. The Consumer Notes are reported in other liabilities. For the three and nine months ended September 30, 2006 interest credited to holders of Consumer Notes was immaterial and is included in benefits, claims and claim adjustment expenses.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Sale of Subsidiary

In July 2006, the Company agreed to sell its non-standard auto insurance business, Omni Insurance Group, Inc. (Omni). Under the terms of the agreement, the Company will receive sales proceeds, subject to adjustment, of approximately $100. The Company expects the sale to be completed in the fourth quarter of 2006, pending regulatory approval, and to result in an after-tax gain, primarily due to income tax benefits arising from the transaction. The after-tax gain is not expected to be material to results of operations and the ultimate amount will be based on an audit of the closing date balance sheet. As part of this agreement, the Company continues to be obligated for certain extra contractual liability claims and for claims and expenses arising from all business written in the states of California and New York. Subject to regulatory constraints, the Company intends to cease writing new and renewal non-standard business in California and New York.

In the three and nine month periods ended September 30, 2006, Omni had earned premium of $33 and $108, respectively. As of September 30, 2006, Personal Lines segment assets related to the Omni business being sold included $217 of cash and invested assets, $37 of premiums receivable and $34 of other assets. As of September 30, 2006, Personal Lines segment liabilities of the Omni business being sold included $115 of loss and loss adjustment expense reserves, $42 of unearned premium and $15 of other liabilities. Each of the assets and liabilities of Omni are included in their respective captions in the September 30, 2006 consolidated balance sheet.

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

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the financial condition of The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, The Hartford or the Company) as of September 30, 2006, compared with December 31, 2005, and its results of operations for the three and nine months ended September 30, 2006, compared to the equivalent 2005 periods. This discussion should be read in conjunction with the MD&A in The Hartford s 2005 Form 10-K Annual Report.

Certain of the statements contained herein are forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond the Company s control and have been made based upon management s expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management s expectations or that the effect of future developments on The Hartford will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in Part II, Item 1A, Risk Factors. These factors include: the difficulty in predicting the Company s potential exposure for asbestos and environmental claims; the possible occurrence of terrorist attacks; the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company s statutory capital levels; the inability to effectively mitigate the impact of equity market volatility on the Company s financial position and results of operations arising from obligations under annuity product guarantees; the Company s potential exposure arising out of regulatory proceedings or private claims relating to incentive compensation or payments made to brokers or other producers and alleged anti-competitive conduct; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers and other producers, including changes that have been announced and those which may occur in the future; the possibility of unfavorable loss development; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of domestic and foreign regulatory developments, including those which could increase the Company s business costs and required capital levels; the possibility of general economic and business conditions that are less favorable than anticipated; the Company s ability to distribute its products through distribution channels, both current and future; the uncertain effects of emerging claim and coverage issues; a downgrade in the Company s financial strength or credit ratings; the ability of the Company s subsidiaries to pay dividends to the Company; the Company s ability to adequately price its property and casualty policies; the ability to recover the Company s systems and information in the event of a disaster or other unanticipated event; potential changes in Federal or State tax laws; and other factors described in such forward-looking statements.

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OVERVIEW

The Hartford is a diversified insurance and financial services company with operations dating back to 1810. The Company is headquartered in Connecticut and 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 ten operating segments.

Many of the principal factors that drive the profitability of The Hartford s Life and Property & Casualty operations are separate and distinct. Management considers this diversification to be a strength of The Hartford that distinguishes the Company from its peers. To present its operations in a more meaningful and organized way, management has included separate overviews within the Life and Property & Casualty sections of MD&A. For further overview of Life s profitability and analysis, see page 36. For further overview of Property & Casualty s profitability and analysis, see page 49.

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Regulatory Developments

In June 2004, the Company received a subpoena from the New York Attorney General s Office in connection with its inquiry into compensation arrangements between brokers and carriers. In mid-September 2004 and subsequently, the Company has received additional subpoenas from the New York Attorney General s Office, which relate more specifically to possible anti-competitive activity among brokers and insurers. Since the beginning of October 2004, the Company has received subpoenas or other information requests from Attorneys General and regulatory agencies in more than a dozen jurisdictions regarding broker compensation and possible anti-competitive activity. The Company may receive additional subpoenas and other information requests from Attorneys General or other regulatory agencies regarding similar issues. In addition, the Company has received a request for information from the New York Attorney General s Office concerning the Company s compensation arrangements in connection with the administration of workers compensation plans. The Company intends to continue cooperating fully with these investigations, and is conducting an internal review, with the assistance of outside counsel, regarding broker compensation issues in its Property & Casualty and Group Benefits operations.

On October 14, 2004, the New York Attorney General s Office filed a civil complaint against Marsh & McLennan Companies, Inc., and Marsh, Inc. (collectively, Marsh). The complaint alleges, among other things, that certain insurance companies, including the Company, 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. The Company was not joined as a defendant in the action, which has since settled. Although no regulatory action has been initiated against the Company in connection with the allegations described in the civil complaint, it is possible that the New York Attorney General s Office or one or more other regulatory agencies may pursue action against the Company or one or more of its employees in the future. The potential timing of any such action is difficult to predict. If such an action is brought, it could have a material adverse effect on the Company.

On October 29, 2004, the New York Attorney General s Office informed the Company that the Attorney General is conducting an investigation with respect to the timing of the previously disclosed sale by Thomas Marra, a director and executive officer of the Company, of 217,074 shares of the Company s common stock on September 21, 2004. The sale occurred shortly after the issuance of two additional subpoenas dated September 17, 2004 by the New York Attorney General s Office. The Company has engaged outside counsel to review the circumstances related to the transaction and is fully cooperating with the New York Attorney General s Office. On the basis of the review, the Company has determined that Mr. Marra complied with the Company s applicable internal trading procedures and has found no indication that Mr. Marra was aware of the additional subpoenas at the time of the sale.

There continues to be significant federal and state regulatory activity relating to financial services companies, particularly mutual funds companies. These regulatory inquiries have focused on a number of mutual fund issues, including market timing and late trading, revenue sharing and directed brokerage, fees, transfer agents and other fund service providers, and other mutual-fund related issues. The Company has received requests for information and subpoenas from the SEC, subpoenas from the New York Attorney General s Office, a subpoena from the Connecticut Attorney General s Office, requests for information from the Connecticut Securities and Investments Division of the Department of Banking, and requests for information from the New York Department of Insurance, in each case requesting documentation and other information regarding various mutual fund regulatory issues. The Company continues to cooperate fully with these regulators in these matters.

The SEC s Division of Enforcement and the New York Attorney General s Office are investigating aspects of the Company s variable annuity and mutual fund operations related to market timing. The Company continues to cooperate fully with the SEC and the New York Attorney General s Office in these matters.

The Company s mutual funds are available for purchase by the separate accounts of different variable universal life insurance policies, variable annuity products, and funding agreements, and they are offered directly to certain qualified retirement plans. Although existing products contain transfer restrictions between subaccounts, some products, particularly older variable annuity products, do not contain restrictions on the frequency of transfers. In addition, as a result of the settlement of litigation against the Company with respect to certain owners of older variable annuity contracts, the Company s ability to restrict transfers by these owners has, until recently, been limited. The Company has executed an agreement with the parties to the previously settled litigation which, together with separate

agreements between these contract owners and their broker, has resulted in the exchange or surrender of all of the variable annuity contracts that were the subject of the previously settled litigation.

The SEC s Division of Enforcement also is investigating aspects of the Company s variable annuity and mutual fund operations related to directed brokerage and revenue sharing. The Company discontinued the use of directed brokerage in recognition of mutual fund sales in late 2003. The Company continues to cooperate fully with the SEC in these matters.

The Company has received subpoenas from the New York Attorney General s Office and the Connecticut Attorney General s Office requesting information relating to the Company s group annuity products, including single premium group annuities used in terminal and maturity funding programs. These subpoenas seek information about how various group annuity products are sold, how the Company selects mutual funds offered as investment options in certain group annuity products, and how brokers selling the Company s group annuity products are compensated. The Company continues to cooperate fully with these regulators in these matters.

On May 10, 2006, the Company entered into an agreement (the Agreement) with the New York Attorney General s Office and the Connecticut Attorney General s Office to resolve the outstanding investigations by these parties regarding the Company s use of expense reimbursement agreements in its terminal and maturity funding group annuity line of business. Under the terms of the agreement, the Company will pay $20, of which $16.1 will be paid to certain plan sponsors that purchased terminal or maturity funding annuities between January 1, 1998 and December 31, 2004, with the balance of $3.9 to be divided equally between the states of New York and Connecticut. Also pursuant to the terms of the Agreement, the Company will accept a three-year prohibition on the use of contingent compensation in its terminal and maturity funding group annuity line of business. The costs associated with the settlement had already been accounted for in reserves established by the Company as of March 31, 2006.

To date, neither the SEC s and New York Attorney General s market timing investigation nor the SEC s directed brokerage investigation has resulted in the initiation of any formal action against the Company by these regulators. However, the Company believes that the SEC and the New York Attorney General s Office are likely to take some action against the Company at the conclusion of the respective investigations. The Company is engaged in active discussions with the SEC and the New York Attorney General s Office. The potential timing of any resolution of any of these matters or the initiation of any formal action by any of these regulators in these matters is difficult to predict. As of March 31, 2006, the Company had recorded aggregate charges of $109, after-tax, to establish a reserve for the market timing, directed brokerage and single premium group annuity matters. The after-tax cost of the single premium group annuity matter settlement was $14. The remaining reserve for the market timing and directed brokerage matters is an estimate; in view of the uncertainties regarding the outcome of these regulatory investigations, as well as the tax-deductibility of payments, it is possible that the ultimate cost to the Company of these matters could exceed the reserve by an amount that would have a material adverse effect on the Company s consolidated results of operations or cash flows in a particular quarterly or annual period.

On May 24, 2005, the Company received a subpoena from the Connecticut Attorney General s Office seeking information about the Company s participation in finite reinsurance transactions in which there was no substantial transfer of risk between the parties. The Company is cooperating fully with the Connecticut Attorney General s Office in this matter.

On June 23, 2005, the Company received a subpoena from the New York Attorney General s Office requesting information relating to purchases of the Company s variable annuity products, or exchanges of other products for the Company s variable annuity products, by New York residents who were 65 or older at the time of the purchase or exchange. On August 25, 2005, the Company received an additional subpoena from the New York Attorney General s Office requesting information relating to purchases of or exchanges into the Company s variable annuity products by New York residents during the past five years where the purchase or exchange was funded using funds from a tax-qualified plan or where the variable annuity purchased or exchanged for was a sub-account of a tax-qualified plan or was subsequently put into a tax-qualified plan. The Company is cooperating fully with the New York Attorney General s Office in these matters.

On July 14, 2005, the Company received an additional subpoena from the Connecticut Attorney General s Office concerning the Company s structured settlement business. This subpoena requests information about the Company s sale of annuity products for structured settlements, and about the ways in which brokers are compensated in connection with the sale of these products. The Company is cooperating fully with the Connecticut Attorney General s Office in these matters.

The Company has received a request for information from the New York Attorney General s Office about issues relating to the reporting of workers compensation premium. The Company is cooperating fully with the New York Attorney General s Office in this matter.

Broker Compensation

As the Company has disclosed previously, the Company pays brokers and independent agents commissions and other forms of incentive compensation in connection with the sale of many of the Company s insurance products. Since the New York Attorney General s Office filed a civil complaint against Marsh on October 14, 2004, several of the largest national insurance brokers, including Marsh, Aon Corporation and Willis Group Holdings Limited, have announced that they have discontinued the use of contingent compensation arrangements. Other industry participants may make

similar, or different, determinations in the future. In addition, legal, legislative, regulatory, business or other developments may require changes to industry practices relating to incentive compensation. Pursuant to settlement agreements reached with regulators, several insurance companies have agreed to restrictions on the payment of contingent compensation relating to the placement of excess casualty insurance policies. These insurers have agreed that the restrictions may be extended in time, and to other property and casualty lines, if insurers in a given line or segment, that together represent more than 65% of the market share in the insurance line (based upon national gross written premiums) do not pay contingent compensation. These insurers have also agreed to support legislation and regulations to abolish contingent compensation and to require greater disclosure of compensation. At this time, it is not possible to predict the effect of these announced or potential changes on the Company s business or distribution strategies.

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CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company has identified the following estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability: property and casualty reserves for unpaid claims and claim adjustment expenses, net of reinsurance; Life deferred policy acquisition costs and present value of future profits associated with variable annuity and other universal life-type contracts; the evaluation of other-than-temporary impairments on investments in available-for-sale securities; the valuation of guaranteed minimum withdrawal benefit derivatives; pension and other postretirement benefit obligations; and contingencies relating to corporate litigation and regulatory matters. In developing these estimates management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available upon compilation of the financial statements. For a discussion of those critical accounting estimates not disclosed below, see MD&A in The Hartford s 2005 Form 10-K Annual Report.

Life Deferred Policy Acquisition Costs and Present Value of Future Profits Associated with Variable Annuity and Other Universal Life-Type Contracts

Accounting Policy and Assumptions

Life policy acquisition costs include commissions and certain other expenses that vary with and are primarily associated with acquiring business. Present value of future profits is an intangible asset recorded upon applying purchase accounting in an acquisition of a life insurance company. Deferred policy acquisition costs and the present value of future profits intangible asset are amortized in the same way. Both are amortized over the estimated life of the contracts acquired. Within the following discussion, deferred policy acquisition costs and the present value of future profits intangible asset will be referred to as DAC . At September 30, 2006 and December 31, 2005, the carrying value of the Company s Life DAC asset was $9.1 billion and $8.6 billion, respectively. Of those amounts, $4.5 billion and $4.5 billion related to individual variable annuities sold in the U.S., $1.4 billion and $1.2 billion related to individual variable annuities sold in Japan and $2.1 billion and $1.9 billion related to universal life-type contracts sold by Individual Life.

The Company amortizes DAC related to traditional policies (term, whole life and group insurance) over the premium-paying period in proportion to premium income. The Company amortizes DAC related to investment contracts and universal life-type contracts (including individual variable annuities) using the retrospective deposit method. Under the retrospective deposit method, acquisition costs are amortized in proportion to the present value of estimated gross profits (EGPs). For most contracts, the Company evaluates EGPs over a 20 year horizon as estimated profits emerging subsequent to year 20 are immaterial. The Company uses other measures for amortizing DAC, such as gross costs, as a replacement for EGPs when EGPs are expected to be negative for multiple years of the contract s life. The Company also adjusts the DAC balance, through other comprehensive income, by an amount that represents the amortization of DAC that would have been required as a charge or credit to operations had unrealized gains and losses on investments been realized. Actual gross profits, in a given reporting period, that vary from management s initial estimates result in increases or decreases in the rate of amortization, commonly referred to as a true-up , which are recorded in the current period. The true-up recorded for the three months ended September 30, 2006 and 2005 was an increase to amortization of $21 and $0, respectively. The true-up recorded for the nine months ended September 30, 2006 and 2005 was an increase to amortization of $36 and $9, respectively.

Each year, the Company develops future EGPs for the products sold during that year. The EGPs for products sold in a particular year are aggregated into cohorts. Future gross profits are projected for the estimated lives of the contracts, and are, to a large extent, a function of future account value projections for individual variable annuity products and to a lesser extent for variable universal life products. The projection of future account values requires the use of certain assumptions. The assumptions considered to be important in the projection of future account value, and hence the EGPs, include separate account fund performance, which is impacted by separate account fund mix, less fees assessed

against the contract holder s account balance, surrender and lapse rates, interest margin, and mortality. The assumptions are developed as part of an annual process and are dependent upon the Company s current best estimates of future events which are likely to be different for each year s cohort. For example, upon completion of a study during the fourth quarter of 2005, the Company, in developing projected account values and the related EGPs for the 2005 cohorts, used a separate account return assumption of 7.6% (after fund fees, but before mortality and expense charges) for U.S. products and 4.3% (after fund fees, but before mortality and expense charges) for Japanese products. (Although the Company used a separate account return assumption of 4.3% and 5.8% for the 2005 and 2006 cohorts, respectively, based on the relative fund mix of all variable products sold in Japan, the weighted average rate on the entire Japan block is 5.0%.) For prior year cohorts, the Company s separate account return assumption at the time those cohorts account values and related EGPs were projected was 9.0% for U.S. products and ranged from 5.0% to 7.47% for Japanese products. The overall actual return generated by the separate account is dependent on several factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds as well as equity sector weightings. The Company s overall U.S. separate account fund performance has been reasonably correlated to the overall performance of the S&P 500 Index (which closed at 1,336 on September 29, 2006), although no assurance can be provided that this correlation will continue in the future.

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Unlock and Sensitivity Analysis

Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. The estimation process, the underlying assumptions and the resulting EGPs, are evaluated regularly.

The Company s quantitative process to determine the reasonable range of EGPs is performed quarterly and involves the use of internally developed models, which run a large number of stochastically determined scenarios of separate account fund performance. Incorporated in each scenario are the Company s current best estimate assumptions with respect to lapse rates, mortality, and expenses. These scenarios are run for individual variable annuity business in the U.S. and independently for individual variable annuity business in Japan and are used to calculate statistically significant ranges of reasonable EGPs. The statistical ranges produced from the stochastic scenarios are compared to the present value of EGPs used in the respective DAC amortization models. If EGPs used in the DAC amortization model fall outside of the statistical ranges of reasonable EGPs, a revision to the original best estimate assumptions in prior year cohorts used to project account value and the related EGPs in the DAC amortization model would be necessary. A similar approach is used for variable universal life business.

The original best estimate assumptions used to estimate future gross profits have not historically been revised unless the EGPs in the DAC amortization model fell outside of a reasonable range of EGPs. Notwithstanding the statistical ranges described above, future refinements to the estimation process for DAC amortization and modifications of underlying assumptions based on future studies could result in revisions to EGPs. In addition, aside from absolute levels and timing of market performance, additional factors that might influence revisions to previously projected EGPs include the degree of volatility in separate account fund performance and policyholder shifts in asset allocation within the separate account as well as surrenders and lapses. In the event that the Company were to revise its original best estimate assumptions used for prior year cohorts to its current best estimate assumptions, thereby changing its estimate of projected account value and the related EGPs in the DAC amortization model, the cumulative DAC amortization would be adjusted to reflect such changes in the period the revision was determined to be necessary, a process known as unlocking .

As of September 30, 2006, the present value of the EGPs used in the DAC amortization models for variable annuities and variable universal life business fell within the Company s parameters for reasonableness. After considering this quantitative assessment and other factors, the Company did not revise the separate account return assumption, the account value or any other assumptions in those DAC amortization models for 2006 and prior cohorts.

The Company performs analyses with respect to the potential impact of an unlock. To illustrate the effects of an unlock on DAC, unearned revenue liabilities and sales inducement assets, assume the Company had concluded that a revision to previously projected account values and the related EGPs was required as of September 30, 2006. If the Company assumed a separate account return assumption of 7.6% for all U.S. product cohorts and 5.0% for all Japanese product cohorts and used its current best estimate assumptions, including lapse, mortality and expense assumptions, for all products to project account values forward from the current account value to reproject future EGPs, the estimated increase (decrease) to net income for all businesses would be approximately $10-($10) (including a ($30)-($50) impact to U.S. variable annuities). If, instead, the Company assumed a separate account return assumption of 8.6% in the U.S. (6.0% in Japan) or 6.6% in the U.S. (4.0% in Japan), the estimated increase (decrease) to net income for all businesses would have been $25-$35 and ($30)-($40), respectively. If the Company were to unlock, as of September 30, 2006 the future periodic amortization of DAC related to the in-force block of business would likely decrease in the U.S. and increase in Japan.

For the Japan individual variable annuity business, favorable experience in the returns of the underlying funds over the past four quarters has resulted in actual account values and EGPs exceeding the projected account value and EGPs in the DAC amortization model, however the EGP s in the DAC amortization model continue to fall within the Company s parameters. Continued favorable experience on key assumptions for the Japan variable annuity business, which could include increasing fund return performance, decreasing lapses or decreasing mortality, could result in the DAC amortization model EGPs falling outside of the Company s parameters, resulting in a necessary unlock, a decrease to DAC amortization and an increase to the DAC asset. If the Company had unlocked as of September 30, 2006, assuming a separate account return assumption of 5.0% for all Japanese product cohorts and using its current

best estimate assumptions to project account values forward from the current account values to reproject future EGPs, the estimated increase to net income for Japan variable annuities would be approximately $25-35, after-tax.
The impact on guaranteed minimum death and income benefit liabilities, which use EGPs or components of EGPs in their periodic determination, as a result of the hypothetical unlock scenarios described above as of September 30, 2006, is not likely to be material in the U.S., but would result in a decrease to those liabilities, which would result in an increase to net income of $22-$32, in Japan.
The overall recoverability of the DAC asset is dependent on the future profitability of the business. The Company tests the aggregate recoverability of the DAC asset by comparing the amounts deferred to the present value of total EGPs. In addition, the Company routinely stress tests its DAC asset for recoverability against severe declines in its separate account assets, which could occur if the equity markets experienced a significant sell-off, as the majority of policyholders funds in the separate accounts is invested in the equity market. As of September 30, 2006, the Company believed U.S. individual and Japan individual variable annuity separate account

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assets could fall, through a combination of negative market returns, lapses and mortality, by at least 43% and 68%, respectively, before portions of its DAC asset would be unrecoverable.

CONSOLIDATED RESULTS OF OPERATIONS

Operating Summary

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Earned premiums	$3,761	$3,562	6%	$11,288	$10,693	6%
Fee income	1,152	1,029	12%	3,432	2,944	17%
Net investment income						
Securities available-for-sale and other	1,164	1,124	4%	3,449	3,263	6%
Equity securities held for trading [1]	1,185	1,500	(21%)	669	2,024	(67%)
Total net investment income	2,349	2,624	(10%)	4,118	5,287	(22%)
Other revenues	118	116	2%	356	344	3%
Net realized capital gains (losses)	27	(24)	NM	(273)	105	NM
Total revenues	**7,407**	**7,307**	**1%**	**18,921**	**19,373**	**(2%)**
Benefits, claims and claim adjustment expenses [1]	4,491	4,769	(6%)	10,741	11,570	(7%)
Amortization of deferred policy acquisition costs and present value of future profits	839	821	2%	2,485	2,377	5%
Insurance operating costs and expenses	832	786	6%	2,358	2,301	2%
Interest expense	70	62	13%	207	189	10%
Other expenses	164	173	(5%)	530	499	6%
Total benefits, claims and expenses	**6,396**	**6,611**	**(3%)**	**16,321**	**16,936**	**(4%)**
Income before income taxes	**1,011**	**696**	**45%**	**2,600**	**2,437**	**7%**
Income tax expense	253	157	61%	638	630	1%
Net income	**$ 758**	**$ 539**	**41%**	**$ 1,962**	**$ 1,807**	**9%**

[1] Includes dividend income and mark-to-market effects of equity securities held for trading supporting the international variable annuity business, which are classified in

net investment income with corresponding amounts credited to policyholders within benefits, claims and claim adjustment expenses.

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

Three months ended September 30, 2006 compared to the three months ended September 30, 2005

Net income increased $219 primarily due to the following:

Total Property & Casualty net income increased $148 due to a $157 increase in Ongoing Operations net income partially offset by a decrease in Other Operations net income. The increase in Ongoing Operations net income is primarily the result of an increase in underwriting results of $200. The increase in underwriting results is driven by a decrease of $112 in current accident year catastrophe losses and a change from $43 of net unfavorable prior accident year reserve development in 2005 to $28 of net favorable prior accident year reserve development in 2006.

Life s net income increased $82 primarily due to growth in assets under management resulting from market growth and strong sales along with higher earned premiums and tax benefits.

Total revenues increased $100 primarily due to the following:

Earned premium increased $199 as a result of $115 from Property & Casualty operations and $84 from Life operations. Property & Casualty s growth in Business Insurance and Personal Lines earned premium was partially offset by a decrease in Specialty Commercial earned premium. Contributing to the growth in earned premium was a $60 reduction of earned premium in 2005 due to catastrophe treaty reinstatement premium payable to reinsurers as a result of losses from hurricane Katrina and new business premium outpacing non-renewals. The increase in Life earned premiums was primarily related to Group Benefits where the increase was driven by year-to-date sales (excluding buyouts) growth, particularly in group life insurance.

Fee income increased $123 as a result of increases in the Company s Life operation s Retail and International segments. The increase in fee income occurred primarily as the result of growth in average account values.

Net realized capital gains in 2006 compared to losses in 2005.

Partially offsetting the increase in revenues was a decrease of $275 in net investment income primarily due to the Company s equity securities held for trading. The fund performance of assets supporting the Company s Japanese variable annuity business was not as strong in the third quarter of 2006 as compared to the comparable period in 2005 resulting in a decrease in net investment income from equity securities held for trading.

Nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Net income increased $155 primarily due to an increase of $169 in Life s net income primarily due to growth in assets under management resulting from market growth and strong sales along with higher earned premiums and tax benefits. Also contributing to Life s increased net income were the following:

During the first quarter of 2006 and 2005, the Company recorded a $7 after-tax reserve and a $66 after-tax reserve, respectively, for regulatory investigations.

During the second quarter of 2005, the Company recorded an after-tax expense of $24, which was, at the time an estimate of the termination value of a provision of an agreement with a distribution partner of the Company s retail mutual funds. The agreement was ultimately terminated in late 2005.

Property & Casualty net income increased $2, as a result of a $130 increase in Ongoing Operations net income offset by a $128 decrease in Other Operations net income. Ongoing Operations net income increased due to increases in underwriting results and net investment income. Other Operations decrease was primarily a result of prior year reserve development of $243, pre-tax, recorded in the second quarter of 2006, resulting from the agreement with Equitas and the Company s evaluation of the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities.

Total revenues decreased $452 primarily due to the following:

A decrease in net investment income, driven primarily by a $1.4 billion decrease in net investment income on the Company s equity securities held for trading. The fund performance of assets supporting the Company s Japanese variable annuity business was not as strong in the third quarter of 2006 as compared to the comparable period in 2005 resulting in a decrease in net investment income from equity securities held for trading.

Net realized capital losses, primarily due to impairments and the realized loss associated with GMWB derivatives.

Partially offsetting the decrease in total revenues were the following:

Earned premium increased $595 as a result of $392 from Life operations and $203 from Property & Casualty operations. The increase in Life earned premiums was primarily related to Group Benefits where the increase was driven by year-to-date sales (excluding buyouts) growth, particularly in group life insurance. Contributing to the growth in Property & Casualty earned premium was a $60 reduction of earned premium in 2005 due to catastrophe treaty reinstatement premium payable to reinsurers as a result of losses from hurricane Katrina. Growth in Business Insurance and Personal Lines earned premium was partially offset by a decrease in Specialty Commercial earned premium. Apart from the effect of the reinstatement premium in 2005, the growth was primarily driven by new business premium outpacing non-renewals over the last three months of 2005 and first nine months of 2006 and the effect of earned pricing increases in homeowners.

Fee income increased $488 as a result of increases in the Company s Life operation s Retail and International segments. The increase in fee income occurred primarily as the result of growth in average account values.

Income Taxes

The effective tax rate for the three months ended September 30, 2006 and 2005 was 25% and 23%, respectively. The effective tax rate for the nine months ended September 30, 2006 and 2005 was 25% and 26%, respectively. The principal causes of the difference between the effective rates and the U.S. statutory rate of 35% were tax-exempt interest earned on invested assets and the separate account dividends-received deduction (DRD).

The separate account DRD is estimated for the current year using information from the most recent year-end, adjusted for equity market performance. The current estimated DRD will be appropriately adjusted as underlying factors change, including known actual 2006 mutual fund distributions and fee income from the Company s variable insurance products. The actual current year DRD can vary from the estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distributions from these mutual funds, appropriate levels of taxable income as well as the utilization of capital loss carry forwards at the mutual fund level. The Company s DRD increased $5 and $27 for the three and nine months ended September 30, 2006 over the respective prior year periods including a tax benefit of $6 for the three and nine months ended September 30, 2006 and $3 in the three and nine months ended September 30, 2005, resulting from true-ups related to prior years tax returns. For the three months

ended September 30, 2005, the Company s DRD included an additional tax benefit of $6 related to the 2005 year.
The Company receives a credit against its U.S. tax liability for foreign taxes paid by the Company from its separate account assets. The increased allocation of separate account investments to the international equity markets during 2005 and 2006 has increased the amount of these foreign tax credits (FTC). In the three and nine months ended September 30, 2006, the Company reported a net benefit of $13 for the separate account FTC, comprised of a $7 true up related to a prior year tax return and $6 related to the 2006 year.
Based on current projections, it is management s intent that the undistributed earnings of Hartford Life Insurance, K.K. will be repatriated to the U.S. in the future. Therefore, the Company no longer meets the indefinite reversal criteria of Accounting Principles Board Opinion No. 23, Accounting for Income Taxes Special Areas , with respect to Hartford Life Insurance, K.K. As a result of this change, the Company has recorded a tax benefit of $4 and $6 for the three and nine months ended September 30, 2006 respectively, due to the expected utilization of foreign tax credits from Hartford Life Insurance, K.K.

Prior to the Tax Reform Act of 1984, the Life Insurance Company Income Tax Act of 1959 permitted the deferral from taxation of a portion of statutory income under certain circumstances. In these situations, the deferred income was accumulated in a Policyholders Surplus Account and would be taxable only under conditions which management considered to be remote; therefore, no federal income

taxes have been provided on the balance in this account, which for tax return purposes was $88 as of December 31, 2005. The American Jobs Creation Act of 2004, which was enacted in October 2004, allows distributions to be made from the Policyholders Surplus Account free of tax in 2005 and 2006. The Company has distributed the entire balance in the second quarter of 2006, thereby permanently eliminating the potential tax of $31.

Organizational Structure

The Hartford is organized into two major operations: Life and Property & Casualty. Within the Life and Property & Casualty operations, The Hartford conducts business principally in ten operating segments. Additionally, Corporate primarily includes the Company s debt financing and related interest expense, as well as certain capital raising and purchase accounting adjustment activities.

Life is organized into six reportable operating segments: Retail Products Group (Retail), Retirement Plans, Institutional Solutions Group (Institutional), Individual Life, Group Benefits and International.

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines, and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment.

For a further description of each operating segment, see Note 3 of Notes to Consolidated Financial Statements and Item 1, Business in The Hartford s 2005 Form 10-K Annual Report.

Segment Results

The following is a summary of net income for each of Life s reportable segments, total Property & Casualty, Ongoing Operations, Other Operations, and Corporate.

Net Income (Loss)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Life						
Retail	$184	$172	7%	$ 526	$ 447	18%
Retirement Plans	21	20	5%	64	54	19%
Institutional	24	24		75	66	14%
Individual Life	46	45	2%	139	123	13%
Group Benefits	74	68	9%	216	191	13%
International	47	28	68%	145	63	130%
Other	32	(11)	NM	(83)	(31)	(168%)
Total Life	428	346	24%	1,082	913	19%
Property & Casualty						
Ongoing Operations	375	218	72%	1,104	974	13%
Other Operations	6	15	(60%)	(83)	45	NM
Total Property & Casualty	381	233	64%	1,021	1,019	
Corporate	(51)	(40)	(28%)	(141)	(125)	(13%)
Total net income	**$758**	**$539**	**41%**	**$1,962**	**$1,807**	**9%**

Net income is the measure of profit or loss used in evaluating the performance of Total Life, Total Property & Casualty and the Ongoing Operations and Other Operations segments. Within Ongoing Operations, the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial are evaluated by The Hartford s

management primarily based upon underwriting results. Underwriting results represent premiums earned less incurred claims, claim adjustment expenses and underwriting expenses. The sum of underwriting results, net investment income, net servicing and other income, net realized capital gains and losses, other expenses, and related income taxes is net income (loss). The following is a summary of Ongoing Operations underwriting results by segment.

Underwriting Results (before-tax)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Business Insurance	$123	$ 125	(2%)	$454	$384	18%
Personal Lines	89	71	25%	321	386	(17%)
Specialty Commercial	41	(143)	NM	45	(98)	NM

Outlook

The Hartford provides projections and other forward-looking information in the Outlook section of each segment discussion within MD&A. The Outlook sections contain many forward-looking statements, particularly relating to the Company s future financial performance. These forward-looking statements are estimates based on information currently available to the Company, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to the precautionary statements set forth in the introduction to MD&A above. Actual results are likely to differ materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each Outlook section and in Item 1A, Risk Factors.

LIFE

Executive Overview

Life is organized into six reportable operating segments: Retail Products Group (Retail), Retirement Plans, Institutional Solutions Group (Institutional), Individual Life, Group Benefits and International. The Company provides investment and retirement products, such as variable and fixed annuities, mutual funds and retirement plan services and other institutional investment products, such as structured settlements; individual and private-placement life insurance (PPLI) and products including variable universal life, universal life, interest sensitive whole life and term life; and group benefit products, such as group life and group disability insurance.

The following provides a summary of the significant factors used by management to assess the performance of the business. For a complete discussion of these factors see MD&A in The Hartford s 2005 Form 10-K Annual Report.

Performance Measures

Fee Income

Fee income is largely driven from amounts collected as a result of contractually defined percentages of assets under management on investment and universal life type contracts. Therefore, the growth in assets under management either through positive net flows or net sales and favorable equity market performance will have a favorable impact on fee income. Conversely, negative net flows or net sales and unfavorable equity market performance will reduce fee income.

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	As of and For the Three Months Ended September 30,		As of and For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Product/Key Indicator Information				
U.S. Variable Annuities				
Account value, beginning of period	$106,224	$ 99,747	$105,314	$ 99,617
Net flows	(988)	(348)	(2,454)	(1)
Change in market value and other	3,253	4,193	5,629	3,976
Account value, end of period	$108,489	$103,592	$108,489	$103,592
Retail Mutual Funds				
Assets under management, beginning of period	$ 32,611	$ 25,958	$ 29,063	$ 25,240
Net sales	1,195	73	4,112	776
Change in market value and other	914	1,491	1,545	1,506
Assets under management, end of period	$ 34,720	$ 27,522	$ 34,720	$ 27,522
Retirement Plans				
Account value, beginning of period	$ 20,740	$ 17,592	$ 19,317	$ 16,493
Net flows	442	200	1,837	1,226
Change in market value and other	513	673	541	746
Account value, end of period	$ 21,695	$ 18,465	$ 21,695	$ 18,465
Individual Life Insurance				
Variable universal life account value, end of period	$ 6,242	$ 5,700	$ 6,242	$ 5,700
Total life insurance inforce	$160,010	$147,278	$160,010	$147,278
S&P 500 Index				
Period end closing value	1,336	1,229	1,336	1,229
Daily average value	1,288	1,224	1,284	1,200
Japan Annuities				
Account value, beginning of period	$ 28,990	$ 19,726	$ 26,104	$ 14,631
Net flows	877	2,704	3,675	8,815

Change in market value and other	74	869	162	(147)
Account value, end of period	$ 29,941	$ 23,299	$ 29,941	$ 23,299

The increase in U.S. variable annuity account values from September 30, 2005 to September 30, 2006 can be attributed to market growth over the past four quarters. Net flows for the U.S. variable annuity business are negative and have decreased from prior year levels resulting from higher surrenders and lower sales due to increased competition.

Mutual Fund net sales increased substantially over the prior year period as a result of focused wholesaling efforts and favorable fund and equity market performance both contributing to sales and deposits.

The increase in Retirement Plan account values from September 30, 2005 to September 30, 2006 can be mainly attributed to positive net flows over the past four quarters and market appreciation.

Individual Life account value increased from September 30, 2005 due primarily to premiums and deposits. Life insurance inforce increased from September 30, 2005 due to business growth.

Japan annuity account values as of September 30, 2006 continue to grow as a result of positive net flows and fund performance, offset by a decline due to the effects of currency translation. However, Japan net flows have decreased due to increased competition.

Net Investment Income and Interest Credited

Certain investment type contracts such as fixed annuities and other spread-based contracts generate deposits that the Company collects and invests to earn investment income. These investment type contracts use this investment income to credit the contract holder an amount of interest specified in the respective contract; therefore, management evaluates performance of these products based on the spread between net investment income and interest credited. Net investment income and interest credited can be volatile period over period, which can have a significant positive or negative effect on the operating results of each segment. The volatile nature of net investment income is driven primarily by prepayments on securities and earnings on partnership investments. The volatile nature in Other is due to mark-to-market effects of trading securities supporting the international variable annuity business, which are classified in net investment income with corresponding amounts credited to policyholders. In addition, insurance type contracts such as those sold by Group Benefits (discussed below) collect and invest premiums for protection from losses specified in the particular insurance contract and those sold by Institutional collect and invest premiums for certain life contingent benefits. Group Benefits does not record interest credited since the interest component of reserve changes are recorded within benefits, claims and claim adjustment expenses.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Investment Income				
Retail	$ 208	$ 229	$ 639	$ 709
Retirement Plans	82	78	242	231
Institutional	256	207	729	581
Individual Life	81	77	240	226
Group Benefits	106	99	310	297
International	32	19	91	49
Other	1,222	1,562	777	2,164
Total net Investment Income	**$1,987**	**$2,271**	**$3,028**	**$4,257**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Interest Credited on General Account Assets				
Retail	$ 158	$ 177	$ 481	$ 546
Retirement Plans	52	50	154	146
Institutional	135	99	377	273
Individual Life	59	57	175	167
International	6	3	16	10
Other	1,209	1,526	751	2,216
Total interest credited on general account assets	**$1,619**	**$1,912**	**$1,954**	**$3,358**

Net investment income and interest credited in Other decreased for the three and nine months ended September 30, 2006 due to a decrease in the mark-to-market effects of trading account securities supporting the Japanese variable annuity business.

Net investment income and interest credited on general account assets in Retail declined for the three and nine months ended September 30, 2006 due to lower assets under management as a result of surrenders on market value adjusted (MVA) fixed annuity products at the end of their guarantee period. Also contributing to the decline in assets under management were transfers within variable annuity products from the general account option to separate account funds.

Net investment income and interest credited on general account assets in Institutional increased as a result of sales in the Company s funding agreement backed Investor Notes program.

Premiums

As discussed above, traditional insurance type products collect premiums from policyholders in exchange for financial protection of the policyholder from a specified insurable loss, such as death or disability. Sales are one indicator of future premium growth.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005

Group Benefits				
Total premiums and other considerations	$1,032	$950	$3,092	$2,846
Fully insured ongoing sales (excluding buyouts)	$ 175	$157	$ 750	$ 643

Earned premiums and other considerations include $0 and $1 and $5 and $26 in buyout premiums for the three and nine months ended September 30, 2006 and 2005, respectively. The increase in premiums and other considerations for Group Benefits in 2006 compared to 2005 was driven by sales growth of 17%.

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Expenses

There are three major categories for expenses: benefits and claims, insurance operating costs and expenses, and amortization of deferred policy acquisition costs and the present value of future profits.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Retail				
General insurance expense ratio (individual annuity)	18.1 bps	16.8 bps	17.1 bps	17.7 bps
DAC amortization ratio (individual annuity)	50.1%	48.5%	50.4%	48.9%
Individual Life				
Death benefits	$ 62	$ 54	$ 194	$ 183
Insurance expenses, net of deferrals	44	43	132	125
Group Benefits				
Total benefits, claims and claim adjustment expenses	$ 745	$ 688	$2,252	$2,106
Loss ratio (excluding buyout premiums)	72.2%	72.4%	72.8%	73.8%
Insurance expenses, net of deferrals	$ 281	$ 258	$ 819	$ 752
Expense ratio (excluding buyout premiums)	28.2%	28.0%	27.5%	27.4%

Individual annuity s expense ratio increased for the three months ended September 30, 2006 primarily due to higher technology and service costs. Asset growth for the nine months ended September 30, 2006 decreased individual annuity s expense ratio to a level lower than prior year periods. Management expects the 2006 full year ratio to be between 17-18 bps.

The ratio of individual annuity DAC amortization over income before taxes and DAC amortization, while relatively stable was influenced by true-ups recorded in the respective periods as actual gross profits emerged.

Individual Life death benefits increased for the three months ended September 30, 2006 primarily due to unusually favorable mortality experience in the third quarter of 2005, and increased 6% for the nine months ended September 30, 2006 primarily due to a larger insurance inforce.

The Group Benefits loss ratio, excluding buyouts, for the three and nine months ended September 30, 2006 was relatively stable. Movements in the loss ratio were caused by period over period minor fluctuations in mortality and morbidity experience.

Profitability

Management evaluates the rates of return various businesses can provide as a way of determining where additional capital can be invested to increase net income and shareholder returns. Specifically, because of the importance of its individual annuity products, the Company uses return on assets for the individual annuity business for evaluating profitability. In Group Benefits, after-tax margin is a key indicator of overall profitability.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Ratios				
Retail				

Individual annuity return on assets (ROA)	58.0 bps	56.7 bps	55.3 bps	52.0 bps
Group Benefits				
After-tax margin (excluding buyouts)	7.2%	7.2%	7.0%	6.8%

Individual annuity s ROA increased for the three and nine months ended September 30, 2006 compared to the prior year periods. In particular, variable annuity fees and the DRD and other tax benefits each increased for the three and nine months ended September 30, 2006 compared to the prior year period. The increase in the ROA pertaining to fees can be attributed to the increase in account values and resulting increased fees including GMWB rider fees. Additionally, general insurance expenses were also favorable as a percentage of total assets.

The improvement in the Group Benefits after-tax margin for the nine months ended September 30, 2006 was primarily due to an improvement in the expense ratio excluding the financial institution business. (Financial institution business is experience rated. Under the terms of this business, loss experience will inversely affect the commission expenses incurred.)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	Change	2006	2005	Change
Operating Summary						
Earned premiums	$1,129	$1,045	8%	$3,483	$ 3,091	13%
Fee income	1,149	1,026	12%	3,423	2,936	17%
Net investment income						
Securities available-for-sale and other	802	771	4%	2,359	2,233	6%
Equity securities held for trading [1]	1,185	1,500	(21%)	669	2,024	(67%)
Total net investment income	1,987	2,271	(13%)	3,028	4,257	(29%)
Net realized capital (losses) gains	11	(26)	NM	(265)	57	NM
Total revenues	**4,276**	**4,316**	**(1%)**	**9,669**	**10,341**	**(6%)**
Benefits, claims and claim adjustment expenses [1]	2,738	2,926	(6%)	5,384	6,421	(16%)
Amortization of deferred policy acquisition costs and present value of future profits	308	321	(4%)	913	887	3%
Insurance operating costs and other expenses	681	621	10%	1,975	1,837	8%
Total benefits, claims and expenses	**3,727**	**3,868**	**(4%)**	**8,272**	**9,145**	**(10%)**
Income before income tax expense	**549**	**448**	**23%**	**1,397**	**1,196**	**17%**
Income tax expense	121	102	19%	315	283	11%
Net income	**$ 428**	**$ 346**	**24%**	**$1,082**	**$ 913**	**19%**

[1] Includes investment income and mark-to-market effects of equity securities held for trading supporting the international variable annuity business, which are classified in

net investment income with corresponding amounts credited to policyholders within benefits, claims and claim adjustment expenses.

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

The change in Life s net income was due to the following:

Net income increased primarily due to growth in assets under management resulting from market growth and sales, along with higher earned premiums in Group Benefits.

Net realized capital gains occurred in the third quarter of 2006 compared to net realized capital losses in the prior year period due to realized gains from the Japan fixed annuity contract hedges due to movements in interest rates and net realized gains on GMWB derivatives, primarily driven by net changes in policyholder behavior assumptions made in the third quarter, partially offset by losses on non-qualifying derivatives due to rising interest rates in 2006 and other than temporary impairments. Net realized capital losses occurred in the first nine months of 2006 compared to net realized capital gains in the prior year period due to increased other-than-temporary impairments (see the Other-Than-Temporary Impairments discussion within Investment Results for more information on the increase in impairments), realized losses associated with GMWB derivatives, primarily driven by liability modeling refinements and assumption updates reflecting in-force demographics, losses on non-qualifying derivatives and net losses on sales of investments, both due to rising interest rates in 2006.

During the first quarter of 2006 and 2005, the Company recorded a $7 after-tax reserve and a $66 after-tax reserve, respectively for regulatory investigations.

During the first quarter of 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance (leveraged COLI) policies in the early to mid-1990s. The Company ceased offering this product in 1996. Based on the favorable outcome of these cases, together with the Company s current assessment of the few remaining leveraged COLI cases, the Company reduced its estimate of the ultimate cost of these cases during the three months ended March 31, 2006. This reserve reduction, recorded in insurance operating costs and other expenses, resulted in an after-tax benefit of $34 in the three months ended March 31, 2006.

During the second quarter of 2005, the Company recorded an after-tax expense of $24, which was, at the time, an estimate of the termination value of a provision of an agreement with a distribution partner of the Company s retail mutual funds. The agreement was ultimately terminated in late 2005.

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RETAIL

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	Change	2006	2005	Change
Operating Summary						
Fee income	$663	$594	12%	$ 1,981	$ 1,717	15%
Earned premiums	(23)	(15)	(53%)	(58)	(35)	(66%)
Net investment income	208	229	(9%)	639	709	(10%)
Net realized capital gains	1	2	(50%)	4	8	(50%)
Total revenues	**849**	**810**	**(5%)**	**2,566**	**2,399**	**7%**
Benefits, claims and claim adjustment expenses	197	218	(10%)	611	689	(11%)
Insurance operating costs and other expenses	245	199	23%	729	621	17%
Amortization of deferred policy acquisition costs and present value of future profits	201	187	7%	607	546	11%
Total benefits, claims and expenses	**643**	**604**	**6%**	**1,947**	**1,856**	**5%**
Income before income tax expense	**206**	**206**		**619**	**543**	**14%**
Income tax expense	22	34	(35%)	93	96	(3%)
Net income	**$184**	**$172**	**7%**	**$ 526**	**$ 447**	**18%**
Assets Under Management						
Individual variable annuity account values				$108,489	$103,592	5%
Individual fixed annuity and other account values				9,888	10,323	(4%)
Other retail products account values				454	286	59%
Total account values [1]				**118,831**	**114,201**	**4%**
Retail mutual fund assets under management				34,720	27,522	26%
Other mutual fund assets under management				1,314	901	46%
				36,034	**28,423**	**27%**

Total mutual fund assets under management			
Total assets under management	**$154,865**	**$142,624**	**9%**

[1] Includes policyholder balances for investment contracts and reserves for future policy benefits for insurance contracts.

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

Net income in the Retail segment for the three and nine months ended September 30, 2006 increased primarily due to certain tax benefits recorded in the three months ended September 30, 2006 and improved fee income for the nine months ended September 30, 2006. Higher fee income was driven by higher assets under management resulting primarily from market growth. A more expanded discussion of earnings can be found below:

The increase in fee income in the variable annuity business for the three and nine months ended September 30, 2006 occurred primarily as the result of growth in average account values. The year-over-year increase in average account values can be attributed to market appreciation of $8.2 billion over the past four quarters. Variable annuity had net outflows of $2.5 billion for the nine months ended September 30, 2006 compared to net outflows of $1 for the prior year period. Net outflows from additional surrender activity were due to increased sales competition, particularly from competitors offering variable annuity products with guaranteed living benefits.

Mutual fund fee income increased 21% and 25% for the three and nine months ended September 30, 2006, respectively, due to increased assets under management driven by market appreciation of $2.6 billion and net sales of $4.7 billion during the past four quarters. Net sales grew to $4.1 billion for the nine months ended September 30, 2006 compared to $776 for the prior year period. This increase was primarily attributable to focused wholesaling efforts.

Despite stable general account investment spread over the past four quarters, net investment income has steadily declined for the three and nine months ended September 30, 2006 due to variable annuity transfers from the fixed account to the separate account combined with surrenders in the fixed MVA contracts. Despite these outflows, a more favorable interest rate environment throughout 2006 has resulted in increased sales and a lower surrender rate resulting in net outflows for the nine months ended September 30, 2006 decreasing $1.1 billion compared to the same prior year period. Benefits, claims and claim adjustment expenses have decreased for the three and nine months ended September 30, 2006 due to a decline in interest credited also due to a decline in fixed annuity account values.

Insurance operating costs and other expenses increased for the three and nine months ended September 30, 2006 primarily due to an increase in mutual fund commissions due to significant growth in sales. In addition, variable annuity asset based commissions increased due to 5% growth in assets under management, as well as an increase in the number of contracts reaching anniversaries when trail commission payments begin. During the second quarter of 2005, the Company recorded an after-tax expense of $24, which was, at the time, an estimate of the termination value of a provision of an agreement with a distribution partner of the Company s retail mutual funds. The agreement was ultimately terminated in late 2005.

Higher amortization of DAC resulted from higher actual gross profits due to the positive earnings drivers discussed above. The DAC amortization rate as a percentage of pre-tax, pre-amortization profits remained fairly stable.

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The effective tax rate decreased for the three and nine months ended September 30, 2006 compared to the prior period due to an increase in the net foreign tax credit estimate from $2 in 2005 to $12 in 2006 as well as an increase in the DRD. The DRD increased $4 and $23 for the three and nine months ended September 30, 2006 over the respective prior year periods, resulting from true-ups related to prior years tax returns. For the three months ended September 30, 2005, the Company s DRD also included a tax benefit of $4 related to the 2005 year.

Outlook

Management believes the market for retirement products continues to expand as individuals increasingly save and plan for retirement. Demographic trends suggest that as the baby boom generation matures, a significant portion of the United States population will allocate a greater percentage of their disposable incomes to saving for their retirement years due to uncertainty surrounding the Social Security system and increases in average life expectancy. Competition has increased substantially in the variable annuities market with most major variable annuity writers now offering living benefits such as GMWB riders. The Company s strategy in 2006 revolves around introducing new products and continually evaluating the portfolio of products currently offered.

With increased competition in the variable annuity market combined with surrender activity on the aging block of business, net outflows continue to be above the levels experienced in 2005. As of September 30, 2006, sales of $9.8 billion were above expectations made by management at December 31, 2005; however, the increase was largely offset by an increase in surrender activity as discussed above, leaving management s expectations of net outflows for 2006 largely unchanged. Actual results will be largely dependent on the Company s ability to attract new customers and to retain contract holder s account values in existing or new product offerings as they reach the end of the surrender charge period of their contract.

Based on the results to date, management s current full year projections are as follows.

- Variable annuity sales of $11.7 billion to $12.0 billion
- Fixed annuity sales of $925 to $1.0 billion
- Retail mutual fund sales of $10.3 billion to $10.8 billion
- Variable annuity outflows of $3.3 billion to $3.6 billion
- Fixed annuity outflows of $450 to $550
- Retail mutual fund net sales of $5.0 billion to $5.4 billion
- Individual annuity return on assets of 54 to 55 basis points
- Retail mutual fund return on assets of 18 to 20 basis points

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RETIREMENT PLANS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	Change	2006	2005	Change
Operating Summary						
Fee income	$ 48	$ 40	20%	$ 139	$ 111	25%
Earned premiums	1	1		17	8	113%
Net investment income	82	78	5%	242	231	5%
Net realized capital gains (losses)		(1)	100%	1	(2)	NM
Total revenues	**131**	**118**	**11%**	**399**	**348**	**15%**
Benefits, claims and claim adjustment expenses	61	57	7%	189	172	10%
Insurance operating costs and other expenses	36	32	13%	102	88	16%
Amortization of deferred policy acquisition costs	6	5	20%	22	17	29%
Total benefits, claims and expenses	**103**	**94**	**10%**	**313**	**277**	**13%**
Income before income taxes	**28**	**24**	**17%**	**86**	**71**	**21%**
Income tax expense	7	4	75%	22	17	29%
Net income	**$ 21**	**$ 20**	**5%**	**$ 64**	**$ 54**	**19%**
Assets Under Management						
Governmental account values				$10,691	$10,162	5%
401(k) account values				11,004	8,303	33%
Total account values [1]				**21,695**	**18,465**	**17%**
Governmental mutual fund assets under management [2]					147	(100%)
401(k) mutual fund assets under management				1,036	872	19%
Total mutual fund assets under management				**1,036**	**1,019**	**2%**
Total assets under management				**$22,731**	**$19,484**	**17%**

[1] Includes policyholder balances for investment contracts and reserves for future policy benefits for insurance contracts

[2] Government Mutual Fund assets declined to zero due to a large case surrender in 2005 and the remaining business being transferred to the Institutional segment.

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

Net income in Retirement Plans increased due to higher earnings in the 401(k) business. Net income for the Government business was relatively stable.

Fee income for 401(k) increased 28%, or $8 and 37%, or $28, for the three and nine months ended September 30, 2006, respectively, due to the growth in average account values. This growth is primarily driven by positive net flows of $2.0 billion over the past four quarters resulting from strong sales and increased ongoing deposits. Total 401(k) deposits increased by 14% and 25% for the three and nine months ended September 30, 2006, respectively. The increase in average account values can also be attributed to market appreciation of $699 over the past four quarters.

General account spread remained stable for the three and nine months ended September 30, 2006 compared to the respective prior year periods. Overall, net investment income and the associated interest credited within benefits, claims and claim adjustment expenses each increased as a result of the growth in general account assets under management. Additionally, benefits, claims and claim adjustment expenses increased for the nine months ended September 30, 2006 compared to the respective prior year period due to a large case annuitization in the 401(k) business which also resulted in an increase in premiums of $12 for the nine months ended September 30, 2006.

Insurance operating costs and other expenses increased for the three and nine months ended September 30, 2006 primarily driven by the 401(k) business. The additional costs can be attributed to greater assets under management resulting in higher trail commissions and maintenance expenses.

Higher amortization of DAC resulted from higher actual gross profits due to positive earnings drivers combined with a higher amortization rate for the nine months ended September 30, 2006 compared to the respective prior year period.

Outlook

The future profitability of this segment will depend on Life s ability to increase assets under management across all businesses and maintain its investment spread earnings on the general account products sold largely in the Government business. As the baby boom generation approaches retirement, management believes these individuals will contribute more of their income to retirement plans due to the uncertainty of the Social Security system and the

increase in average life expectancy. Management s expectations remain largely unchanged for Retirement Plans sales and net flows throughout 2006. Disciplined expense management will continue to be a focus; however, as Life looks to expand its reach in this market, additional investments in service and technology will occur.

Based on the results to date, management s current full year projections are as follows:

Sales and deposits of $5.1 billion to $5.3 billion

Net flows of $2.3 billion to $2.5 billion

Return on assets of 40 to 42 basis points

INSTITUTIONAL

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Operating Summary						
Fee income	$ 32	$ 26	23%	$ 87	$ 96	(9%)
Earned premiums	143	126	13%	502	323	55%
Net investment income	256	207	24%	729	581	25%
Net realized capital losses	(2)	(1)	(100%)	(4)	(3)	(33%)
Total revenues	**429**	**358**	**20%**	**1,314**	**997**	**32%**
Benefits, claims and claim adjustment expenses	375	300	25%	1,137	841	35%
Insurance operating costs and other expenses	18	15	20%	53	42	26%
Amortization of deferred policy acquisition costs	6	9	(33%)	22	23	(4%)
Total benefits, claims and expenses	**399**	**324**	**23%**	**1,212**	**906**	**34%**
Income before income taxes	**30**	**34**	**(12%)**	**102**	**91**	**12%**
Income tax expense	6	10	(40%)	27	25	8%
Net income	**$ 24**	**$ 24**		**$ 75**	**$ 66**	**14%**
Assets Under Management						
Institutional Investment Product account values [1]]				$21,010	$17,174	22%
Private Placement Life Insurance account values				25,125	23,538	7%
Mutual fund assets under management [2]				2,204	1,324	66%
Total assets under management				**$48,339**	**$42,036**	**15%**

[1] Institutional investment

product account values include transfers from Retirement Plans of $413 during the three months ended March 31, 2006 and from Retail of $350 during the three months ended September 30, 2006.

[2] *Mutual fund assets under management include transfers from Retirement Plans of $178 during the three months ended March 31, 2006.*

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

Net income was flat for the three months ended and increased for the nine months ended September 30, 2006 compared to the respective prior year periods. The income for the nine months ended September 30, 2006 was primarily driven by earnings in institutional investment products (IIP), while private placement life insurance (PPLI) net income was relatively flat. A more expanded discussion of earnings growth can be found below.

Total revenues increased in IIP as a result of higher assets under management, driven by positive net flows of $2.0 billion during the past four quarters. Net flows for IIP were strong primarily as a result of the Company s funding agreement backed Investor Notes program. Investor Notes sales for the four quarters ended September 30, 2006 were $1.3 billion.

General account spread is the main driver of net income for IIP. Spread income declined for the three months ended September 30, 2006 compared to the respective prior period as a result of investment income. For the three months ended September 30, 2006 and 2005, income related to partnership investments was $2 and $3 after-tax, respectively. An increase in spread income for the nine months ended September 30, 2006 compared to the respective prior period was driven by higher assets under management noted above along with favorable investment results. For the nine months ended September 30, 2006 and 2005, income related to partnership investments was $9 and $4 after-tax, respectively.

IIP had less favorable mortality experience on structured settlement and terminal funding contracts for both the three months and nine months ended September 30, 2006 compared to the respective prior period.

For the nine months ended September 30, 2006, earned premiums increased as a result of two large terminal funding cases that were sold during the period. This increase in earned premiums was offset by a corresponding increase in benefits, claims and claim adjustment expenses.

Outlook

The future net income of this segment will depend on the ability to increase assets under management across all businesses and maintain its investment spread earnings on the products sold largely in the IIP business. The IIP markets are highly competitive from a pricing perspective, and a small number of cases often account for a significant

portion of sales, therefore the Company may not be able to sustain the level of assets under management growth.

As the baby boom generation approaches retirement, management believes these individuals will seek investment and insurance vehicles that will give them steady streams of income throughout retirement. In 2006, IIP launched products that deal specifically with longevity risk. Longevity risk is defined as the likelihood of an individual outliving their assets. IIP is also designing innovative solutions for corporation s defined benefit liabilities.

Based on the results to date, management s current full year projections are as follows:

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Sales and deposits of $4.9 billion to $5.3 billion
Net flows of $2.3 billion to $2.5 billion
Return on assets of 20 to 22 basis points

INDIVIDUAL LIFE

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Operating Summary						
Fee income	$200	$207	(3%)	$ 610	$ 593	3%
Earned premiums	(11)	(8)	(38%)	(36)	(23)	(57%)
Net investment income	81	77	5%	240	226	6%
Net realized capital gains	1	2	(50%)	3	3	
Total revenues	**271**	**278**	**(3%)**	**817**	**799**	**2%**
Benefits, claims and claim adjustment expenses	124	112	11%	375	352	7%
Insurance operating costs and other expenses	44	43	2%	132	125	6%
Amortization of deferred policy acquisition costs and present value of future profits	38	59	(36%)	110	144	(24%)
Total benefits, claims and expenses	**206**	**214**	**(4%)**	**617**	**621**	**(1%)**
Income before income taxes	**65**	**64**	**2%**	**200**	**178**	**12%**
Income tax expense	19	19		61	55	11%
Net income	**$ 46**	**$ 45**	**2%**	**$ 139**	**$ 123**	**13%**
Account Values						
Variable universal life insurance				$ 6,242	$ 5,700	10%
Universal life/interest sensitive whole life				3,932	3,599	9%
Modified guaranteed life and other				703	716	(2%)
Total account values				**$ 10,877**	**$ 10,015**	**9%**
Life Insurance Inforce						
Variable universal life insurance				$ 73,126	$ 70,569	4%
Universal life/interest sensitive whole life				44,069	40,694	8%

Modified guaranteed life and other	42,815	36,015	19%
Total life insurance inforce	**$160,010**	**$147,278**	**9%**

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

Net income increased for the three months ended September 30, 2006 due primarily to growth in life insurance inforce and account values, partially offset by unusually favorable mortality in the third quarter of 2005. Net income increased for the nine months ended September 30, 2006 due primarily to growth in life insurance inforce and account values, and revisions to net DAC amortization of $7 after-tax, partially offset by less favorable mortality experience. The following factors contributed to the earnings results:

Cost of insurance charges, the largest component of fee income, increased $7 and $22 for the three and nine months ended September 30, 2006, driven by growth in the variable universal, universal, and interest-sensitive whole life insurance inforce. Variable fee income increased, consistent with the growth in the variable universal life insurance account value. Other fee income, another component of total fee income, decreased $15 and $10 for the three and nine months ended September 30, 2006, due primarily to lower amortization of deferred revenues consistent with the mix of products and the level and mix of product profitability. In total, fee income decreased for the three months ended and increased for the nine months ended September 30, 2006.

Amortization of DAC decreased for the three and nine months ended September 30, 2006, which includes $13 of revisions (reflected in the first half of 2006) to estimates made at December 31, 2005 and March 31, 2006. Excluding these revisions, the amortization of DAC decreased $21 for both the three and nine months ended September 30, 2006, consistent with the mix of products and the level and mix of product profitability.

Net investment income increased primarily due to increased general account assets from sales growth.

Earned premiums, which include premiums for ceded reinsurance, decreased primarily due to increased ceded reinsurance premiums for the three and nine months ended September 30, 2006.

Benefits, claims and claim adjustment expenses increased $12 and $23 for the three and nine months ended September 30, 2006 respectively, consistent with the growth in account values and life insurance inforce, and also reflect favorable mortality experience in the third quarter of 2005, the lowest level of mortality since fourth quarter 2003.

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Outlook

Following first half 2006 sales of $127, Individual Life sales were $68 in third quarter and $195 year to date in 2006, an increase of 10% and 18% over the comparable periods in 2005. In the first nine months of 2006, sales results were strong across distribution channels and products. Individual Life continues to focus on its core distribution model of sales through financial advisors, while also pursuing growth opportunities through other distribution sources such as independent life professionals. Variable universal life mix remains strong at 40% of total sales in 2006. Overall, product sales were enhanced by new product launches in each quarter. In the first quarter of 2006, Individual Life introduced a new variable life product that blends the benefits of universal life insurance and variable annuities and in the second quarter launched Hartford Term, which has additional term insurance durations and new competitive features. In late June 2006, Individual Life launched a flexible premium last survivor variable universal life product. In early October 2006, Individual Life introduced a new product rider to its existing Stag Whole Life product for the employer market.

Variable universal life sales and account values remain sensitive to equity market levels and returns. Individual Life continues to face uncertainty surrounding estate tax legislation, aggressive competition from other life insurance providers, reduced availability and higher price of reinsurance, and the current regulatory environment related to reserving for universal life products with no-lapse guarantees, which may negatively affect Individual Life s future earnings.

Based on the results to date, management s current full year projections are as follows:

Sales increase of 13% to 15%

Life insurance inforce increase of 8% to 10%

Net income growth of 9% to 10%

GROUP BENEFITS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Operating Summary						
Earned premiums and other	$1,032	$ 950	9%	$3,092	$2,846	9%
Net investment income	106	99	7%	310	297	4%
Net realized capital losses	(1)			(4)		
Total revenues	**1,137**	**1,049**	**8%**	**3,398**	**3,143**	**8%**
Benefits, claims and claim adjustment expenses	745	688	8%	2,252	2,106	7%
Insurance operating costs and other expenses	281	258	9%	819	752	**9%**
Amortization of deferred policy acquisition costs	10	8	25%	30	22	36%
Total benefits, claims and expenses	**1,036**	**954**	**9%**	**3,101**	**2,880**	**8%**
Income before income taxes	**101**	**95**	**6%**	**297**	**263**	**13%**
Income tax expense	27	27		81	72	13%
Net income	**$ 74**	**$ 68**	**9%**	**$ 216**	**$ 191**	**13%**

Earned premiums and other						
Fully insured ongoing premiums	$1,022	$ 940	9%	$3,059	$2,792	10%
Buyout premiums		1	(100%)	5	26	(81%)
Other	10	9	11%	28	28	
Total earned premiums and other	**$1,032**	**$ 950**	**9%**	**$3,092**	**$2,846**	**9%**

Group Benefits has a block of financial institution business that is experience rated. Under the terms of this business, the loss experience will inversely affect the commission expenses incurred.

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

Net income increased for the three and nine months ended September 30, 2006, primarily due to higher earned premiums and a lower expense ratio excluding the financial institution business. The results for the three and nine months ended September 30, 2005 included a $4 after-tax provision for Hurricane Katrina. The following factors contributed to the earnings increase:

Earned premiums increased driven by year-to-date sales (excluding buyouts) growth of 17%, particularly in group life insurance.

The loss ratio (defined as benefits, claims and claim adjustment expenses as a percentage of premiums and other considerations excluding buyouts) was 72.2% for the three months ended September 30, 2006, down from 72.4% in the prior year period. For the nine months ended September 30, 2006, the loss ratio was 72.8%, down from 73.8% in the prior year period. Excluding financial institutions, the loss ratio was 77.5% for the three months ended September 30, 2006 as compared to 77.1% in the prior year period. For the nine months ended September 30, 2006, the loss ratio excluding financial institutions was 77.8% as compared to 77.7% in the prior year period.

The expense ratio was 28.2% for the three months ended September 30, 2006 as compared to 28.0% in the prior year period. For the nine months ended September 30, 2006, the expense ratio was 27.5% compared to 27.4% in the prior year period. Excluding financial institutions, the expense ratio for the three months ended September 30, 2006 was 22.9%, down from 23.8% in the prior

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year period. For the nine months ended September 30, 2006, the expense ratio excluding financial institutions was 22.6% as compared to 23.9% for the prior year period. The decline in expense ratio excluding financial institutions for both the three and nine month periods ended September 30, 2006 was due to growth in premiums outpacing growth in expenses.

Outlook

The increased scale of the group life and disability operations and the expanded distribution network for its products and services has generated strong premium and sales growth in 2006. Fully insured ongoing premiums for the nine months ended September 30, 2006 was $3,059, a 10% increase over the prior year. Sales for the nine months ended September 30, 2006 were $750 (excluding buyout premiums and premium equivalents) representing an increase of 17% over the prior year. Management is expecting a decline in sales for the fourth quarter of 2006 compared to the fourth quarter of 2005 due to unusually strong sales in the fourth quarter 2005. Management is committed to selling competitively priced products that meet the Company s internal rate of return guidelines and sales may be negatively affected by the competitive pricing environment in the marketplace. Although sales may fluctuate from quarter to quarter, the Company has experienced consistent premium growth which results from the combination of sales, renewal pricing and persistency.

Despite the current market conditions, including rising medical costs, the changing regulatory environment and cost containment pressure on employers, the Company continues to leverage its strength in claim practices risk management, service and distribution, enabling the Company to capitalize on market opportunities. Additionally, employees continue to look to the workplace for a broader and ever expanding array of insurance products. As employers design benefit strategies to attract and retain employees, while attempting to control their benefit costs, management believes that the need for the Company s products will continue to expand. This combined with the significant number of employees who currently do not have coverage or adequate levels of coverage, creates opportunities for our products and services.

Based on the results to date, management s current full year projections are as follows:

Sales (excluding buyout premiums and premium equivalents) growth of 9% to 11%

Fully insured ongoing premiums (excluding buyout premiums and premium equivalents) growth of 8% to 10%

Loss ratio (excluding buyout premiums) between 72% and 74%

Expense ratio (excluding buyout premiums) between 27% and 29%

Net income growth of 6% to 8%

INTERNATIONAL

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Operating Summary						
Fee income	$181	$129	40%	$ 519	$ 329	58%
Earned premiums	(3)			(6)		
Net investment income	32	19	68%	91	49	86%
Net realized capital losses	(16)	(7)	(129%)	(46)	(22)	(109%)
Total revenues	**194**	**141**	**38%**	**558**	**356**	**57%**
Benefits, claims and claim adjustment expenses	11	12	(8%)	35	32	9%
Insurance operating costs and other expenses	55	43	28%	149	121	23%
Amortization of deferred policy acquisition costs	54	42	29%	151	105	44%

Total benefits, claims and expenses	**120**	**97**	**24%**	**335**	**258**	**30%**
Income before income taxes	**74**	**44**	**68%**	**223**	**98**	**128%**
Income tax expense	27	16	69%	78	35	123%
Net income	**$ 47**	**$ 28**	**68%**	**$ 145**	**$ 63**	**130%**
Assets Under Management						
Japan variable annuity assets under management				$28,265	$21,892	29%
Japan MVA fixed annuity assets under management				1,676	1,407	19%
Total assets under management				**$29,941**	**$23,299**	**29%**

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

Net income in International increased for the three and nine months ended September 30, 2006, principally driven by higher fee income in Japan, which was derived from an increase in assets under management. A more expanded discussion of earnings growth can be found below:

Fee income increased $52 or 40%, and $190 or 58%, for the three and nine months ended September 30, 2006, respectively. As of September 30, 2006, Japan s variable annuity assets under management were $28.3 billion, a 29% increase from the prior year period. The increase in assets under management was driven by positive net flows of $5.4 billion and market appreciation of $1.9

billion, partially offset by ($922) of foreign currency exchange over the past four quarters. The amount of variable annuity sales has declined for the three and nine months ended September 30, 2006, by 58% and 44%, respectively, compared to the prior year periods primarily due to increased competition and changes in key distribution relationships.

Also contributing to the higher fee income was increased surrender activity as customers surrendered policies in order to take advantage of significant appreciation in their account balances. For the three and nine months ended September 30, 2006, surrender fees increased by $2 and $20, respectively, from the prior year periods.

The increase in fixed annuity assets under management can be attributed to positive net flows of $305 over the past four quarters.

Further contributing to higher net income in the three and nine months ended September 30, 2006 was a cumulative benefit of $2 and $6, respectively, due to a change in the effective tax rate on Japan earnings resulting from a change in management s intent under APB 23. For a further discussion of this change, see Note 1 of Notes to Condensed Consolidated Financial Statements and Other section of Management s Discussion and Analysis.

Partially offsetting the positive earnings drivers discussed above were the following items:

DAC amortization was higher due to higher actual gross profits consistent with growth in the Japan operation.

Insurance operating costs and other expenses increased for the three and nine months ended September 30, 2006 by 28% and 23%, respectively. These increases are due to higher maintenance costs and asset-based commissions resulting from the growth in the Japan operation.

Outlook

Management continues to be optimistic about growth potential of the retirement savings market in Japan. Several trends such as an aging population, longer life expectancies, declining birth rate leading to a smaller number of younger workers to support each retiree, and under funded pension systems have resulted in greater need for an individual to plan and adequately fund retirement savings.

Profitability depends on the account values of our customers, which are affected by equity, bond and currency markets. Periods of favorable market performance will increase assets under management and thus increase fee income earned on those assets. In addition, higher account value levels will generally reduce certain costs for individual annuities to the Company, such as guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB). Expense management is also an important component of product profitability.

Competition has continued to increase substantially in the Japanese market with the most significant competition the result of the strengthening of domestic competitors. This competition has resulted in changes in key distribution relationships that have negatively impacted current year sales and most likely will negatively impact future sales. The Company continues to focus efforts on strengthening wholesaling and servicing efforts and distribution relationships. The Company launched its new variable annuity product in the third quarter of 2006 and is currently monitoring its progress. The success of the Company s enhanced product offering will ultimately be based on customer acceptance in an increasingly competitive environment.

Based upon results to date, along with the items discussed above, management has revised its expectations for 2006 Japan annuity sales, net inflows and estimated return on assets from those previously disclosed. Full year projections for Japan are now as follows (using ¥118/$1 exchange rate for the fourth quarter):

Variable annuity sales of ¥640 billion to ¥700 billion ($5.6 billion to $6.0 billion)

Fixed annuity sales of ¥32 billion to ¥36 billion ($280 to $320)

Variable annuity net inflows of ¥470 billion to ¥520 billion ($4.0 billion to $4.5 billion)

Return on assets of 70 to 74 basis points, which includes higher than expected surrender fees that may not continue in the future and the cumulative tax benefit discussed above.

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OTHER

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	Change	2006	2005	Change
Operating Summary						
Fee income	$ 15	$ 21	(29%)	$ 59	$ 62	(5%)
Net investment income						
Securities available-for sale and other	37	62	(42%)	108	140	(24%)
Equity securities held for trading	1,185	1,500	(21%)	669	2,024	(67%)
Total net investment income	1,222	1,562	(22%)	777	2,164	(64%)
Net realized capital (losses) gains	28	(21)	NM	(219)	73	NM
Total revenues	**1,265**	**1,562**	(19%)	**617**	**2,299**	(73%)
Benefits, claims and claim adjustment expenses	1,225	1,539	(20%)	785	2,229	(65%)
Insurance operating costs and other expenses	2	31	(94%)	(9)	88	NM
Amortization of deferred policy acquisition costs	(7)	11	NM	(29)	30	NM
Total benefits, claims and expenses	**1,220**	**1,581**	(23%)	**747**	**2,347**	(68%)
Loss before income tax benefit	**45**	**(19)**	NM	**(130)**	**(48)**	(171%)
Income tax benefit	13	(8)	NM	(47)	(17)	(176%)
Net income (loss)	**$ 32**	**$ (11)**	NM	**$ (83)**	**$ (31)**	(168%)

Three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

The change in Other s net income was due to the following:

Net realized capital gains occurred in the third quarter of 2006 compared to net realized capital losses in the prior year period due to realized gains from the Japan fixed annuity contract hedges due to movements in interest rates and net realized gains on GMWB derivatives, primarily driven by net changes in policyholder behavior assumptions made in the third quarter, partially offset by losses on non-qualifying derivatives due to rising interest rates in 2006 and other than temporary impairments. Net realized capital losses occurred in the first nine months of 2006 compared to net realized capital gains in the prior year period due to increased other-than-temporary impairments (see the Other-Than-Temporary Impairments discussion within Investment Results for more information on the increase in impairments), realized losses associated with GMWB derivatives, primarily driven by liability modeling refinements and assumption updates reflecting in-force demographics, losses on non-qualifying derivatives and net losses on sales of investments, both due to rising interest rates in 2006.

During the first quarter of 2006 and 2005, the Company recorded a $7 after-tax reserve and a $66 after-tax reserve, respectively for regulatory investigations.

During the first quarter of 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance (leveraged COLI) policies in the early to mid-1990s. The Company ceased offering this product in 1996. Based on the favorable outcome of these cases, together with the Company s current assessment of the few remaining leveraged COLI cases, the Company reduced its estimate of the ultimate cost of these cases during the three months ended March 31, 2006. This reserve reduction, recorded in insurance operating costs and other expenses, resulted in an after-tax benefit of $34 in the three months ended March 31, 2006.

Also contributing to the insurance operating costs and other expenses decreases for the three and nine months ended September 30, 2006 was a lower level of dividends to leveraged COLI policyholders.

During the second quarter of 2006, the Company concluded that it no longer met the indefinite reversal criteria of APB Opinion No. 23 with respect to undistributed earnings associated with Hartford Life K.K. The impact in Other, due to losses on Japan activities reported in Other, was a tax benefit of $2 and $0 for the three and nine months ended September 30, 2006, respectively.

PROPERTY & CASUALTY

Executive Overview

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment.

Property & Casualty provides a number of coverages, as well as insurance related services, to businesses throughout the United States, including workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock, bond, professional liability and directors and officers liability coverages. Property & Casualty also provides automobile, homeowners and home-based business coverage to individuals throughout the United States as well as insurance-related services to businesses.

Property & Casualty derives its revenues principally from premiums earned for insurance coverages provided to insureds, investment income, and, to a lesser extent, from fees earned for services provided to third parties and net realized capital gains and losses. Premiums charged for insurance coverages are earned principally on a pro rata basis over the terms of the related policies in force.

Service fees principally include revenues from third party claims administration services provided by Specialty Risk Services and revenues from member contact center services provided through AARP s Health Care Options program.

Total Property & Casualty Financial Highlights

The following discusses Property & Casualty financial highlights for the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005.

Premium revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Earned Premiums	**$2,632**	**$2,517**	**$7,805**	**$7,602**

Earned premiums grew $115, or 5%, for the three months ended September 30, 2006 and $203, or 3%, for the nine months ended September 30, 2006. Contributing to the growth in earned premium was a $60 reduction of earned premium in 2005 due to catastrophe treaty reinstatement premium payable to reinsurers as a result of losses from hurricane Katrina. Before reinstatement premium in 2005, earned premiums grew $55, or 2% for the quarter and $143, or 2%, for the nine month period. Growth in Business Insurance and Personal Lines earned premium was partially offset by a decrease in Specialty Commercial earned premium. For the three and nine months ended September 30, 2006, earned premiums grew $98 and $282, respectively, in Business Insurance and grew $62 and $117, respectively, in Personal Lines. Apart from the effect of the reinstatement premium in 2005, the growth was primarily driven by new business premium outpacing non-renewals over the last three months of 2005 and first nine months of 2006 and the effect of earned pricing increases in homeowners, partially offset by the effect of higher property catastrophe treaty reinsurance costs. Specialty Commercial earned premiums decreased by $43 for the three months ended September 30, 2006 and by $194 for the nine months ended September 30, 2006, primarily driven by decreases in casualty and other premiums and, for the nine month period, decreases in property, partially offset by increases in professional liability and bond. Specialty casualty earned premium decreased by $55 and $201, respectively, for the three and nine month periods due, in large part, to the non-renewal of a single captive insurance program that accounted for earned premium of $62 and $230, respectively, in the three and nine months ended September 30, 2005.

Net income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Underwriting results	**191**	**$**	**$ 471**	**481**
Net servicing and other income [1]	15	12	45	40
Net investment income	359	349	1,081	1,014
Other expenses	(40)	(53)	(168)	(152)
Net realized capital gains (losses)	16	2	(8)	50
Income tax expense	(160)	(77)	(400)	(414)
Net income	**$ 381**	**$233**	**$1,021**	**$1,019**

[1] Net of expenses related to service business.

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005

Net income increased by $148, or 64%, for the three months ended September 30, 2006, primarily due to an increase in underwriting results.

Underwriting results increased by $191 for the three months ended September 30, 2006, due primarily to a $111 decrease in current accident year catastrophe losses and a $64 decrease in net unfavorable prior accident year reserve development. The $111 decrease in current accident year catastrophe losses was largely due to $140 of losses in 2005 related to hurricanes Katrina and Rita. The $64 decrease in net unfavorable prior accident year reserve development was primarily due to $45 of net strengthening of workers compensation reserves in 2005 and a $35 release of catastrophe reserves in 2006 for the 2005 and 2004 hurricanes. See the Reserves section for further discussion of prior accident year reserve development in 2006. Before catastrophes and prior accident year development, underwriting results increased by $16, due primarily to $60 of catastrophe treaty reinstatement premium recorded as a reduction of earned premium in 2005, partially offset by higher current accident year losses for auto liability and workers compensation claims and higher non-catastrophe property loss costs. During the third quarter of 2005, the Company reduced current accident year loss and loss adjustment expense ratios for Personal Lines auto liability claims and Business Insurance workers compensation claims, resulting in an improvement in underwriting results, of which $48 related to the first six months of 2005.

Net investment income increased by $10, or 3%, for the three months ended September 30, 2006, primarily as a result of a larger investment base due to increased cash flows from underwriting, partially offset by lower income from partnerships and unfavorable market value adjustments for certain hedge fund investments.

Net realized capital gains increased by $14 in 2006, primarily due to increased net gains on the sales of fixed maturity investments in 2006 as well as net gains on non-qualifying derivatives in 2006 compared to net losses in 2005.

Other expenses decreased by $13 in 2006, primarily due to a decrease in legal expenses.

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005

Net income was relatively flat at $1,021 for the nine months ended September 30, 2006, primarily due to an increase in net investment income, largely offset by a change from net realized capital gains in 2005 to net realized capital losses in 2006.

Underwriting results decreased by $10, or 2%, for the nine months ended September 30, 2006 as a $140 increase in net unfavorable prior accident year reserve development was offset by a $68 decrease in current accident year catastrophe losses and a $62 increase in underwriting results before catastrophes and prior accident year development. The $140 increase in net unfavorable prior accident year reserve development was due to $301 of net reserve strengthening in 2006 compared to $161 of net reserve strengthening in 2005. Prior accident year reserves were strengthened by $301 in 2006, primarily due to $243 of prior accident year development, resulting from an agreement with Equitas and the Company s evaluation of the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities reported in the Other Operations segment. Prior accident year reserves were strengthened by $161 in 2005, including an $85 increase in assumed reinsurance reserves and a net $45 increase in workers compensation reserves. See the Reserves section for further discussion of prior accident year reserve development in 2006. The $68 decrease in current accident year catastrophe losses was largely due to $140 of losses in 2005 related to hurricanes Katrina and Rita, partially offset by an increase in non-hurricane catastrophe losses in 2006. Before catastrophes and prior accident year development, underwriting results increased by $62, due primarily to the favorable impact of changes in the expected assessments from Citizens, $60 of catastrophe treaty reinstatement premium payable to reinsurers in 2005 and earned premium growth in 2006, partially offset by an increase in non-catastrophe property loss costs. The nine months ended September 30, 2006 benefited from a $41 reduction of estimated Citizens assessments related to the 2005 Florida hurricanes and the nine months ended September 30, 2005 included a charge of $15 for assessments related to the 2004 Florida hurricanes.

Net investment income increased by $67, or 7%, for the nine months ended September 30, 2006, primarily as a result of a larger investment base due to increased cash flows from underwriting, partially offset by lower income from investments in partnerships and unfavorable market value adjustments for certain hedge fund investments.

The $16 increase in other expenses was primarily due to favorable bad debt expense in 2005.

Net realized capital losses were $8 in 2006 compared to net realized gains of $50 in 2005. Net realized capital losses in 2006 were primarily due to lower gains on sales of fixed maturity investments and a greater level of impairments of fixed maturity investments (see the Other-Than-Temporary Impairments discussion within Investment Results for more information on the increase in impairments).

Key Performance Ratios and Measures

The Company considers several measures and ratios to be the key performance indicators for the property and casualty underwriting businesses. For a detailed discussion of the Company s key performance and profitability ratios and measures, see the Property & Casualty Executive Overview section of the MD&A included in The Hartford s 2005 Form 10-K Annual Report. The following table and the segment discussions include the more significant ratios and measures of profitability for the three and nine months ended September 30, 2006 and 2005. Management believes that these ratios and measures are useful in understanding the underlying trends in The Hartford s property and casualty insurance underwriting business. However, these key performance indicators should only be used in conjunction with, and not in lieu of, underwriting income for the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial and net income for the Property & Casualty business as a whole, Ongoing Operations and Other Operations. These ratios and measures may not be comparable to other performance measures

used by the Company s competitors.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Ongoing Operations earned premium growth				
Business Insurance	8%	9%	8%	12%
Personal Lines	7%	3%	4%	5%
Specialty Commercial	(10%)	(16%)	(14%)	9%
Ongoing Operations combined ratio				
Combined ratio before catastrophes and prior accident year development	89.6	89.8	87.9	88.4
Catastrophe ratio				
Current year	1.9	6.4	2.1	3.1
Prior years	(1.5)	(0.3)	(0.9)	0.2
Total catastrophe ratio	0.4	6.2	1.1	3.2
Non-catastrophe prior accident year development	0.4	2.0	0.4	(0.5)
Combined ratio	90.4	97.9	89.5	91.2
Other Operations net income (loss)	$ 6	$ 15	$ (83)	$ 45
Total Property & Casualty measures of net investment income:				
Investment yield, after-tax	3.9%	4.2%	4.0%	4.1%
Average invested assets at cost	$27,593	$25,250	$26,976	$24,865

For the three and nine months ended September 30, 2006 compared to the three and nine months ended September 30, 2005

Ongoing Operations earned premium growth:

The lower growth rate in Business Insurance for both the three and nine months ended September 30, 2006 was primarily attributable to a decrease in new business written premium, lower earned pricing increases in small commercial, earned pricing decreases in middle market and higher property catastrophe treaty reinsurance costs, partially offset by an increase in renewal retention before the effect of written pricing changes.

The increased rate of growth in Personal Lines for the three months ended September 30, 2006 was primarily due to $28 of catastrophe treaty reinstatement premium payable to reinsurers recorded as a reduction of earned premium in 2005. Before the effect of reinstatement premium, Personal Lines earned premiums grew 4% for the three months period and 3% for the nine month period. Apart from the change in reinstatement premium, the increase in the growth rate for the three month period was due to a significant increase in new business written premium in auto

and homeowners as well as an increase in renewal retention for homeowners, largely offset by the effect of unfavorable changes in earned pricing and the effect of higher property catastrophe treaty reinsurance costs. The lower growth rate in the nine months ended September 30, 2006 was primarily due to the effect of unfavorable changes in earned pricing, partially offset by an increase in new business written premium and an increase in homeowners renewal retention. During the three and nine months ended September 30, 2006, there was a decline in earned pricing increases in homeowners and a change from slight earned pricing increases for auto in 2005 to slight earned pricing decreases in auto in 2006.

The decline in Specialty Commercial earned premium in both the three and nine month period primarily resulted from a decrease in earned premium from a single captive insured program within specialty casualty that expired in 2005, $18 of catastrophe treaty reinstatement premium payable to reinsurers in 2005 and, for the nine month period, a decrease in specialty property earned premium. Property earned premium decreased in the nine month period as a result of a decline in new business and a strategic decision not to renew certain accounts with properties in catastrophe-prone areas. Specialty Commercial earned premium decreased by a higher percentage in the third quarter of 2005 than in the third quarter of 2006, primarily because of the Company s exit from the multi-peril crop insurance business in the fourth quarter of 2004.

Ongoing Operations combined ratio:

For the three months ended September 30, 2006, the combined ratio before catastrophes and prior accident year development decreased by 0.2 points, to 89.6, primarily because the 2005 ratio had been increased by the effect of $60 of catastrophe treaty reinstatement premiums payable to reinsurers in 2005. Partially offsetting the effect of the 2005 catastrophe treaty reinstatement premium were higher current accident year losses for auto liability and workers compensation claims and higher non-catastrophe property loss costs. During the third quarter of 2005, the Company reduced its estimate of current accident year loss and loss adjustment expenses for Personal Lines auto liability claims and Business Insurance workers compensation claims, resulting in a reduction in loss and loss adjustment expenses, of which $48 related to the first six months of 2005.

For the nine months ended September 30, 2006, the combined ratio before catastrophes and prior accident year development decreased by 0.5 points, to 87.9. Before catastrophes and prior accident year development, underwriting results increased by $62, primarily due to the favorable impacts of changes in the expected assessments from Citizens in 2006 and $60 of catastrophe treaty reinstatement premium payable to reinsurers in 2005, partially offset by an increase in non-catastrophe property loss costs. The nine months ended September 30, 2006 benefited from a $41 reduction of estimated Citizens assessments related to the 2005 Florida hurricanes and the nine months ended September 30, 2005 included a charge of $15 for assessments related to the 2004 Florida hurricanes.

The decrease in the current accident year catastrophe ratio in both the three and nine month periods was primarily due to $140 of net losses incurred in 2005 for hurricanes Katrina and Rita, partially offset by an increase in non-hurricane catastrophe losses. Catastrophe losses in nine months ended September 30, 2006 included tornadoes and hail storms in the Midwest and windstorms in Texas and on the East coast.

For both the three and nine month periods ended September 30, 2006, net prior accident year reserve development for Ongoing Operations was favorable due, in part, to catastrophe reserve releases related to the 2005 and 2004 hurricanes. Net prior accident year development was unfavorable in the three months ended September 30, 2005, due primarily to a net strengthening of workers compensation reserves. For the nine months ended September 30, 2005, net reserve development was favorable as a release of reserves for allocated loss adjustment expenses more than offset the net increase in workers compensation reserves. See the Reserves section for a discussion of net favorable prior accident year reserve development for Ongoing Operations in 2006, including favorable development on catastrophe loss reserves.

Other Operations net income:

Other Operations reported net income of $6 for the three months ended September 30, 2006, down $9 from the comparable prior year period. The decrease in net income was largely due to a $7 increase in prior accident year development and a $10 decrease in net investment income, partially offset by an increase in net realized capital gains. The third quarter of 2006 included $43 of environmental reserve strengthening as a result of the Company s environmental reserve evaluation in the quarter compared to environmental reserve strengthening of $37 in the third quarter of 2005. Other Operations reported a net loss of $83 for the nine months ended September 30, 2006 compared to net income of $45 for the nine months ended September 30, 2005. The change from net income to a net loss was primarily due to a $158 increase in net reserve strengthening and a decrease in both net investment income and net realized capital gains. The increase in net reserve strengthening for the nine month period was primarily due to unfavorable prior accident year reserve development of $243 in 2006, resulting from the agreement with Equitas and the Company s evaluation of the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities.

Investment yield and average invested assets:

For both the three and nine-month periods, the investment yield decreased from 2005 to 2006, primarily because of lower investment income on partnerships and other investments, despite an increase in the average weighted yield on new fixed maturity purchases.

The average annual invested assets at cost increased as a result of net underwriting cash inflows and investment income.

Reserves

Reserving for property and casualty losses is an estimation process. As additional experience and other relevant claim data become available, reserve levels are adjusted accordingly. Such adjustments of reserves related to claims incurred in prior years are a natural occurrence in the loss reserving process and are referred to as reserve development . Reserve development that increases previous estimates of ultimate cost is called reserve strengthening . Reserve development that decreases previous estimates of ultimate cost is called reserve releases . Reserve development can influence the comparability of year over year underwriting results and is set forth in the paragraphs and tables that follow. The prior accident year development in the following table represents the ratio of reserve development to earned premiums. For a detailed discussion of the Company s reserve policies, see Notes 1, 11 and 12 of Notes to Consolidated Financial Statements and the Critical Accounting Estimates section of the MD&A included in The Hartford s 2005 Form 10-K Annual Report.

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Based on the results of the quarterly reserve review process, the Company determines the appropriate reserve adjustments, if any, to record. Recorded reserve estimates are changed after consideration of numerous factors, including but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to more mature accident years and less volatile lines of business. For information regarding reserving for asbestos and environmental claims within Other Operations, refer to the Other Operations segment discussion.

As part of its quarterly reserve review process, the Company is closely monitoring reported loss development in certain lines where the recent emergence of paid losses and case reserves could indicate a trend that may eventually lead the Company to change its estimate of ultimate losses in those lines. If, and when, the emergence of reported losses is determined to be a trend that changes the Company s estimate of ultimate losses, prior accident year reserves would be adjusted in the period the change in estimate is made. For example, for Personal Lines auto liability claims, the Company s estimates of ultimate losses include assumptions about frequency and severity trends. These assumptions are updated each quarter as the Company s actuaries complete a review of reserves. During 2005 and 2006, these updates resulted in improvements in estimates of both frequency and severity trends and, as a result, the Company released reserves in the first and second quarter of 2006. If new information continues to indicate that the assumptions made in the prior reserve review are too high, prior accident years may develop favorably and current accident year loss ratios may be reduced.

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A rollforward follows of Property & Casualty liabilities for unpaid claims and claim adjustment expenses by segment for the three and the nine months ended September 30, 2006:

	Three Months Ended September 30, 2006					
	Business Insurance	**Personal Lines**	**Specialty Commercial**	**Ongoing Operations**	**Other Operations**	**Total P&C**
Beginning liabilities for unpaid claims and claim adjustment expenses-gross	**$7,310**	**$2,071**	**$6,126**	**$15,507**	**$6,263**	**$21,770**
Reinsurance and other recoverables	590	209	2,061	2,860	1,461	4,321
Beginning liabilities for unpaid claims and claim adjustment expenses-net	**6,720**	**1,862**	**4,065**	**12,647**	**4,802**	**17,449**
Add provision for unpaid claims and claim adjustment expenses						
Current year	821	655	247	1,723		1,723
Prior year	(20)	(7)	(1)	(28)	58	30
Total provision for unpaid claims and claim adjustment expenses	801	648	246	1,695	58	1,753
Less payments	(527)	(600)	(166)	(1,293)	(151)	(1,444)
Ending liabilities for unpaid claims and claim adjustment expenses-net	**6,994**	**1,910**	**4,145**	**13,049**	**4,709**	**17,758**
Reinsurance and other recoverables	570	183	1,992	2,745	1,346	4,091
Ending liabilities for unpaid claims and claim adjustment expenses-gross	**$7,564**	**$2,093**	**$6,137**	**$15,794**	**$6,055**	**$21,849**
Earned premiums	$1,292	$ 952	$ 388	$ 2,632	$	2,632
Loss and loss expense paid ratio [1]	40.7	63.0	43.2	49.1		
Loss and loss expense incurred ratio	62.0	67.9	63.5	64.4		
Prior accident year development (pts.)	(1.5)	(0.7)	(0.5)	(1.1)		

[1] *The loss and loss expense paid ratio represents the ratio of paid claims and claim adjustment expenses to earned premiums.*

Nine Months Ended September 30, 2006	
Business	**Personal**