

HARTFORD FINANCIAL SERVICES GROUP INC/DE

Form 10-K

February 24, 2012

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

(Mark One)

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

For the fiscal year ended December 31, 2011

or

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

For the transition period from _____ to _____

Commission file number 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of incorporation or
organization)*

13-3317783

(I.R.S. Employer Identification No.)

One Hartford Plaza, Hartford, Connecticut 06155

(Address of principal executive offices) (Zip Code)

(860) 547-5000

(Registrant's telephone number, including area code)

**SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT
(ALL OF WHICH ARE LISTED ON THE NEW YORK STOCK EXCHANGE INC.):**

Common Stock, par value \$0.01 per share

Depository shares, representing interests in 7.25% Mandatory Convertible Preferred Stock, Series F, par value \$0.01
per share

Warrants (expiring June 26, 2019)

6.10% Notes due October 1, 2041

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

None

Indicate by check mark:

Yes No

if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

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.

whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the shares of Common Stock held by non-affiliates of the registrant as of June 30, 2011 was approximately \$11.7 billion, based on the closing price of \$26.37 per share of the Common Stock on the New York Stock Exchange on June 30, 2011.

As of February 17, 2012, there were outstanding 440,237,475 shares of Common Stock, \$0.01 par value per share, of the registrant.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for its 2012 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

**THE HARTFORD FINANCIAL SERVICES GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
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Forward-Looking Statements

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

- challenges related to the Company's current operating environment, including continuing uncertainty about the strength and speed of the recovery in the United States and other key economies and the impact of governmental stimulus and austerity initiatives, sovereign credit concerns, including the potential consequences associated with recent and further potential downgrades to the credit ratings of debt issued by the United States government, European sovereigns and other adverse developments on financial, commodity and credit markets and consumer spending and investment, including in respect of Europe, and the effect of these events on our returns in our life and property and casualty investment portfolios and our hedging costs associated with our variable annuities business;
- the potential impact or consequences of our ongoing evaluation of the Company's strategy and business portfolio, which may lead us to pursue one or more transactions or take other actions, including the discontinuance or placing in run-off of certain lines of business and/or the pursuit of strategic acquisitions, divestitures or restructurings, and the potential that any of the foregoing transactions or actions may not be achievable or that the benefits anticipated to be gained thereby may not be obtained;
- the success of our initiatives relating to the realignment of our business, including the continuing realignment of our hedge program for our variable annuity business, and plans to improve the profitability and long-term growth prospects of our key divisions, including through opportunistic acquisitions or divestitures or other actions or initiatives, and the impact of regulatory or other constraints on our ability to complete these initiatives and deploy capital among our businesses as and when planned;
- market risks associated with our business, including changes in interest rates, credit spreads, equity prices, market volatility and foreign exchange rates, and implied volatility levels, as well as continuing uncertainty in key sectors such as the global real estate market;
- the impact on our investment portfolio if our investment portfolio is concentrated in any particular segment of the economy;
- volatility in our earnings and potential material changes to our results resulting from our adjustment of our risk management program to emphasize protection of statutory surplus and cash flows;
- the impact on our statutory capital of various factors, including many that are outside the Company's control, which can in turn affect our credit and financial strength ratings, cost of capital, regulatory compliance and other aspects of our business and results;
- risks to our business, financial position, prospects and results associated with negative rating actions or downgrades in the Company's financial strength and credit ratings or negative rating actions or downgrades relating to our investments;
- the potential for differing interpretations of the methodologies, estimations and assumptions that underlie the valuation of the Company's financial instruments that could result in changes to investment valuations;
- the subjective determinations that underlie the Company's evaluation of other-than-temporary impairments on available-for-sale securities;
- losses due to nonperformance or defaults by others;

the potential for further acceleration of deferred policy acquisition cost amortization;
the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;
the possible occurrence of terrorist attacks and the Company's ability to contain its exposure, including the effect of the absence or insufficiency of applicable terrorism legislation on coverage;
the possibility of unfavorable loss development including with respect to long-tailed exposures;

the difficulty in predicting the Company's potential exposure for asbestos and environmental claims;

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

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

the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses;

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

the Company's ability to distribute its products through distribution channels, both current and future;

the cost and other effects of increased regulation as a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which, among other effects, has resulted in the establishment of a newly created Financial Services Oversight Council with the power to designate systemically important institutions, will require central clearing of, and/or impose new margin and capital requirements on, derivatives transactions, and created a new Federal Insurance Office within the U.S. Department of the Treasury ("Treasury");

unfavorable judicial or legislative developments;

the uncertain effects of emerging claim and coverage issues;

the potential effect of other domestic and foreign regulatory developments, including those that could adversely impact the demand for the Company's products, operating costs and required capital levels, including changes to statutory reserves and/or risk-based capital requirements related to secondary guarantees under universal life and variable annuity products or changes in U.S. federal or other tax laws that affect the relative attractiveness of our investment products;

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

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

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

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

the potential for difficulties arising from outsourcing relationships;

the impact of potential changes in federal or state tax laws, including changes affecting the availability of the separate account dividend received deduction;

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

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

other factors described in such forward-looking statements.

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

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PART I

Item 1. BUSINESS

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

General

The Hartford Financial Services Group, Inc. (together with its subsidiaries, The Hartford, the Company, we, or our) is an insurance and financial services company. The Hartford, headquartered in Connecticut, is among the largest providers of investment products and life, property, and casualty insurance to both individual and business customers in the United States of America. Also, The Hartford continues to administer business previously sold in Japan and the United Kingdom. Hartford Fire Insurance Company, founded in 1810, is the oldest of The Hartford's subsidiaries. At December 31, 2011, total assets and total stockholders' equity of The Hartford were \$304.1 billion and \$22.9 billion, respectively.

Organization

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

The Company is currently focused on a customer-oriented strategy and organized around four divisions: Commercial Markets, Consumer Markets, Wealth Management and Runoff Operations. In the last two years, the Company announced the sales of certain businesses that are not core to its focus and strategy. The Company continues to evaluate its strategy and business portfolio with the goal of delivering shareholder value. As this review is ongoing and no decisions have yet been made, the following discussions of the Company's business and any forward-looking statements contained herein assume a continuation of the Company's current business focus and, as such, are subject to change based on any actions taken as a result of the Company's ongoing review.

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

The Company maintains a retail mutual fund operation whereby the Company, through wholly-owned subsidiaries, provides investment management and administrative services to The Hartford Mutual Funds, Inc. and The Hartford Mutual Funds II, Inc. (collectively, mutual funds), consisting of 57 non-proprietary mutual funds, as of December 31, 2011. The Company charges fees to these mutual funds, which are recorded as revenue by the Company. These mutual funds are registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. The mutual funds are owned by the shareholders of those funds and not by the Company. In the fourth quarter of 2011, the Company entered into a preferred partnership agreement with Wellington Management Company, LLP (Wellington Management) and announced that Wellington Management will serve as the sole sub-advisor for The Hartford's mutual funds, including equity and fixed income funds, pending a fund-by-fund review by The Hartford's mutual funds board of directors. As of December 31, 2011, Wellington Management served as the sub-advisor for 29 of The Hartford's non-proprietary mutual funds and has been the primary manager for the Company's equity funds.

Reporting Segments

The Hartford is organized into four divisions: Commercial Markets, Consumer Markets, Wealth Management and Runoff Operations. In 2011, the Runoff Operations division was formed to reflect the manner in which the Company is currently organized for purposes of making operating decisions and assessing performance. As a result, the Company conducts business principally in nine reporting segments, and segment data for prior reporting periods has been adjusted accordingly. The Hartford includes in its Corporate category the Company's debt financing and related interest expense, as well as other capital raising activities; banking operations; certain fee income and commission

expenses associated with sales of non-proprietary products by broker-dealer subsidiaries; and certain purchase accounting adjustments and other charges not allocated to the reporting segments.

The following discussion describes the principal products and services, marketing and distribution, and competition of Commercial Markets, Consumer Markets and Wealth Management. For further discussion on the reporting segments, including financial disclosures on revenues by product, net income (loss), and assets for each reporting segment, see Note 3 of the Notes to Consolidated Financial Statements.

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Commercial Markets

The Commercial Markets division is organized into two reporting segments; Property & Casualty Commercial and Group Benefits.

Principal Products and Services

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

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

Within the specialty lines, a significant portion of the specialty casualty business, including workers' compensation business, is written through large deductible programs where the insured typically provides collateral to support loss payments made within their deductible. The specialty casualty business also provides retrospectively-rated programs where the premiums are adjustable based on loss experience. Captive and Specialty Programs provide insurance products and services primarily to captive insurance companies, pools and self-insurance groups.

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

In addition to the products and services traditionally offered within each of its lines of business, Commercial Markets offers The Hartford Productivity Advantage (THPA), a single-company solution for leave management, integrating the insurer's short- and long-term group disability and workers' compensation insurance with its leave management administration services.

Marketing and Distribution

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

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

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

The Company is engaged in a nationwide joint sales initiative across standard commercial lines, specialty lines and Group Benefits, facilitating the marketing of both integrated and traditional products and services across commercial

markets.

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Competition

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

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

Middle market business is characterized as "high touch" and involves case-by-case underwriting and pricing decisions. Compared to small commercial lines, the pricing of middle market accounts is prone to more significant variation or cyclicity over time, with more sensitivity to legislative and macro-economic forces. The economic downturn which began in 2008 has driven a reduction in average premium size as shrinking company payrolls, smaller auto fleets, and fewer business locations depress insurance exposures. Additionally, various state legislative reforms in recent years designed to control workers' compensation indemnity costs have led to rate reductions in many states. These factors, characterized by highly competitive pricing on new business, have resulted in more new business opportunities in the marketplace as customers shop their policies for a better price. In the face of this competitive environment, The Hartford continues to maintain a disciplined underwriting approach. To gain a competitive advantage in this environment, carriers are improving automation with agents and brokers, increasing pricing sophistication, and enhancing their product offerings. These enhancements include industry specialization, with The Hartford and other national carriers tailoring products and services to specific industry verticals such as technology, health care and renewable energy.

Specialty lines is comprised of a diverse group of businesses that operate independently within their specific industries. These businesses, while somewhat interrelated, have different business models and operating cycles. Specialty lines competes on an account-by-account basis due to the complex nature of each transaction. Competition in this market includes other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. The relatively large size and underwriting capacity of The Hartford provides opportunities not available to smaller companies. Disciplined underwriting and targeted returns are the objectives of specialty lines since premium writings may fluctuate based on the segment's view of perceived market opportunity.

For specialty casualty businesses, written pricing competition continues to be significant, particularly for the larger individual accounts. Carriers are protecting their in-force casualty business by initiating the renewal process well in advance of the policy renewal date, effectively preventing other carriers from quoting on the business and resulting in fewer new business opportunities within the marketplace. Within the national account business, as the market firms, more insureds may opt for loss-sensitive products in lieu of guaranteed cost policies.

Carriers writing professional liability business are increasingly focused on profitable private, middle market companies. This trend has continued as the downturn in the economy has led to a significant drop in the number of initial public offerings, and volatility for all public companies. Also, carriers' new business opportunities in the marketplace for directors & officers and errors & omissions insurance have been significantly influenced by customer perceptions of financial strength, as investment portfolio losses have had a negative effect on the financial strength ratings of some insurers.

In the surety business, favorable underwriting results over the past couple of years have led to increased competition for market share, setting the stage for potential written price declines and less favorable terms and conditions. Driven by the upheaval in the credit markets, new private construction activity has declined dramatically, resulting in lower demand for contract surety business.

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

In the commercial marketplace, the weak economy has prompted carriers to offer differentiated products and services as a means of gaining a competitive advantage. In addition to the initiatives specific to each of The Hartford's Commercial Markets' lines of business noted above, the Company is leveraging its diverse product, service and distribution capabilities to deliver differentiated value in the market, while simultaneously increasing its ability to access to its own diverse customer base.

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Consumer Markets

The Consumer Markets division constitutes the reporting segment.

Principal Products and Services

Consumer Markets provides standard automobile, homeowners and home-based business coverages to individuals across the United States, including a special program designed exclusively for members of AARP (AARP Program). The Hartford's auto and homeowners products provide coverage options and customized pricing tailored to a customer's individual risk. The Hartford has individual customer relationships with AARP Program policyholders and as a group these customers represent a significant portion of the total Consumer Markets' business. Business sold to AARP members, either direct or through independent agents, amounted to earned premiums of \$2.8 billion, \$2.9 billion and \$2.8 billion in 2011, 2010 and 2009, respectively. Consumer Markets also operates a member contact center for health insurance products offered through the AARP Health program, which is in place through 2018.

Marketing and Distribution

Consumer Markets reaches diverse customers through multiple distribution channels including direct sales to the consumer, brokers and independent agents. In direct sales to the consumer, the Company markets its products through a mix of media, including direct mail and ecommerce marketing, television and advertising, both digitally and in publications. Most of Consumer Markets' direct sales to the consumer are associated with its exclusive licensing arrangement with AARP, which continues until January 1, 2020, to market automobile, homeowners and home-based business insurance products to AARP's nearly 37 million members. This agreement provides Consumer Markets with an important competitive advantage given the number of baby boomers over age 50, many of whom become AARP members during this period.

Consumer Markets is focused on targeting specific customer groups and writing business through partnerships and affinities other than AARP. During 2011, the Company entered into affinity agreements with the American Kennel Club, Sierra Club and the National Wildlife Federation. In addition to selling product through its relationship with AARP and other affinities, beginning in 2012, the Company will market direct to the consumer within select underwriting markets, acquired through partnerships or list acquisitions, and to consumers in geographies where it is especially competitive.

The agency channel provides customized products and services to customers through a network of independent agents in the standard personal lines market. These independent agents are not employees of The Hartford. An important strategic objective of the Company is to develop common products and processes for all of its personal lines business regardless of the distribution channel. During 2011, the Company substantially completed the rollout of its Open Road Advantage product and, as of December 31, 2011, this product was available in 44 states across the Company's distribution channels, including direct and through independent agents. In addition, as of December 31, 2011, the Hartford Home Advantage product was available in 38 states across similar distribution channels as the Open Road Advantage product.

Competition

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

Carriers that distribute products mainly through agents compete by offering agents commissions and additional incentives to attract new business. To distinguish themselves in the marketplace, top tier carriers are offering on-line and self service capabilities to agents and consumers. More agents have been using comparative rater tools that allow the agent to compare premium quotes among several insurance companies. The use of comparative rater tools has further increased price competition. Carriers with more efficient cost structures will have an advantage in competing for new business through price. The use of data mining and predictive modeling is used by more and more carriers to target the most profitable business and carriers have further segmented their pricing plans to expand market share in

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

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Wealth Management

The Wealth Management division consists of the following reporting segments: Individual Annuity, Individual Life, Retirement Plans and Mutual Funds. Wealth Management provides investment products for over 7 million customers and life insurance for approximately 711,000 customers.

In the fourth quarter of 2011, the Company announced that Wellington Management Company, LLP (Wellington Management) will serve as the sole sub-advisor for The Hartford's non-proprietary mutual funds, including equity and fixed income funds, pending a fund-by-fund review by The Hartford's mutual funds board of directors. As of December 31, 2011, Wellington Management served as the sub-advisor for 29 of The Hartford's non-proprietary mutual funds and has been the primary manager for the Company's equity funds.

As part of the Company's strategic decision to focus on its U.S. businesses, the Company suspended all new sales in its Japan and European operations in the second quarter of 2009 and divested its Brazil joint venture, Canadian mutual fund business and its offshore insurance business in 2010. Runoff businesses, including International Annuity, Institutional Annuity and the Private Placement Life Insurance business, previously reported as part of Wealth Management are now included in the Life Other Operations segment of the Runoff Operations division formed in 2011.

Principal Products and Services

Individual Annuity offers individual variable, fixed market value adjusted (fixed MVA), fixed index and single premium immediate annuities in the U.S.

Individual Life sells a variety of life insurance products, including variable universal life, universal life, and term life. Retirement Plans provides products and services to corporations, municipalities, and not-for-profit organizations pursuant to Sections 401(k), 457 and 403(b) of the Internal Revenue Code of 1986, as amended (the Code), respectively.

Mutual Funds offers retail mutual funds, investment-only mutual funds and college savings plans under Section 529 of the Code (collectively referred to as non-proprietary) and proprietary mutual funds.

Marketing and Distribution

Individual Annuity's distribution network includes national and regional broker-dealer organizations, banks and other financial institutions and independent financial advisors. The Company periodically negotiates provisions and terms of its relationships with unaffiliated parties. The Company's primary wholesaler of its individual annuities is Hartford Life Distributors, LLC, and its affiliate, PLANCO, LLC (collectively HLD) which are indirect wholly-owned subsidiaries of Hartford Life, Inc. HLD provides sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States.

Individual Life's distribution network includes national and regional broker-dealer organizations, banks, independent agents, independent life and property-casualty agents, and Woodbury Financial Services, an indirect, wholly-owned subsidiary retail broker-dealer.

Retirement Plans distribution network includes Company employees with extensive retirement experience selling its products and services through national and regional broker-dealer firms, banks and other financial institutions.

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

Competition

Individual Annuity competes with other life insurance companies, as well as certain banks, securities brokerage firms, independent financial advisors, asset managers, and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service. Individual Annuity's annuity deposits continue to decline due to competitive activity and the Company's product and risk decisions. Many competitors have responded to the equity market volatility by increasing the price of their living benefit products and changing the level of the

guarantee offered. Management believes that the most significant industry de-risking changes have occurred. In 2011, the Company continued to enhance its variable annuity product designed to meet customers future income needs while abiding by the risk tolerances of the Company.

Individual Life competes with other life insurance companies in the United States, as well as other financial intermediaries marketing insurance products. Product sales are affected primarily by the availability and price of reinsurance, volatility in the equity markets, breadth and quality of life insurance products being offered, pricing, relationships with third-party distributors, effectiveness of wholesaling support, and the quality of underwriting and customer service. The individual life industry continues to see a distribution shift away from the traditional life insurance sales agents to the consultative financial advisor as the place people go to buy their life insurance. Individual Life's regional sales office system is a differentiator in the market and allows it to compete effectively across multiple distribution outlets.

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Retirement Plans compete with other insurance carriers, large investment brokerage companies and large mutual fund companies. The 401(k), 457, and 403(b) products offer mutual funds wrapped in variable annuities, variable funding agreements, or mutual fund retirement products. Plan sponsors seek a diversity of available funds and favorable fund performance. Consolidation among industry providers has continued as competitors increase scale advantages.

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

Reserves

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

- a liability for unpaid losses, including those that have been incurred but not yet reported, as well as estimates of all expenses associated with processing and settling these claims;

- a liability equal to the balance that accrues to the benefit of the life insurance policyholder as of the consolidated financial statement date, otherwise known as the account value;

- a liability for future policy benefits, representing the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums;

- fair value reserves for living benefits embedded derivative guarantees; and

- death and living benefit reserves which are computed based on a percentage of revenues less actual claim costs.

Further discussion of The Hartford's property and casualty insurance product reserves, including asbestos and environmental claims reserves, may be found in Part II, Item 7, MD&A Critical Accounting Estimates Property and Casualty Insurance Product Reserves, Net of Reinsurance. Additional discussion may be found in the Company's accounting policies for insurance product reserves within Note 11 of the Notes to Consolidated Financial Statements.

Reinsurance

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

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

For life insurance products, The Hartford is involved in both the cession and assumption of insurance with other insurance and reinsurance companies. As of December 31, 2011, 2010 and 2009, the Company's policy for the largest amount of life insurance retained on any one life by any one of its operations was \$10. For the years ended December 31, 2011, 2010 and 2009, the Company did not make any significant changes in the terms under which reinsurance is ceded to other insurers. In addition, the Company has reinsured a portion of the risk associated with U.S. variable annuities and the associated guaranteed minimum death benefit (GMDB) and guaranteed minimum withdrawal benefit (GMWB) riders, Hartford Life Insurance K.K. s (HLIKK), an indirect wholly owned subsidiary, variable annuity contract and rider benefits, and Hartford Life Limited Ireland s (HLL), an indirect wholly owned subsidiary, GMDB and GMWB annuity contract and rider benefits.

For further discussion on reinsurance, see Part II, Item 7, MD&A Enterprise Risk Management. Additional discussion may be found in the Company's accounting policies for reinsurance within Note 6 of the Notes to Consolidated Financial Statements.

Investment Operations

The majority of the Company's investment portfolios are managed by Hartford Investment Management Company (HIMCO). HIMCO manages the portfolios to maximize economic value, while attempting to generate the income necessary to support the Company's various product obligations, within internally established objectives, guidelines and risk tolerances. The portfolio objectives and guidelines are developed based upon the asset/liability profile, including duration, convexity and other characteristics within specified risk tolerances. The risk tolerances considered

include, for example, asset and credit issuer allocation limits, maximum portfolio limits for below investment grade holdings and foreign currency exposure limits. The Company attempts to minimize adverse impacts to the portfolio and the Company's results of operations from changes in economic conditions through asset allocation limits, asset/liability duration matching and through the use of derivatives. For further discussion of HIMCO's portfolio management approach, see Part II, Item 7, MD&A Enterprise Risk Management Credit Risk.

In addition to managing the general account assets of the Company, HIMCO is also a SEC registered investment adviser for third party institutional clients, a sub-advisor for certain mutual funds and serves as the sponsor and collateral manager for capital markets transactions. HIMCO specializes in investment management that incorporates proprietary research and active portfolio management within a disciplined risk framework that seeks to provide value added returns versus peers and benchmarks. As of December 31, 2011 and 2010, the fair value of HIMCO's total assets under management was approximately \$165.0 billion and \$159.7 billion, respectively, of which \$7.1 billion and \$8.7 billion, respectively, were held in HIMCO managed third party accounts.

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Enterprise Risk Management

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

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

Helping management define the Company s overall capacity and appetite for risk by evaluating the risk return profile of the business relative to the Company s strategic intent and financial underpinning;

Assisting management in setting specific risk tolerances and limits that are measurable, actionable, and comply with the Company s overall risk philosophy;

Communicating and monitoring the firm s risk exposures relative to set limits and recommending, or implementing as appropriate, mitigating strategies; and

Providing valuable insight to assist leaders in growing the businesses and achieving optimal risk-adjusted returns within established guidelines.

Enterprise Risk Management Structure and Governance

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

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

The Company also has committees that manage specific risks and recommend risk mitigation strategies to the ERCC. These committees include, the Company and Division Asset Liability Committees, Catastrophe Risk Committee, Emerging Risk Committees, and Operational Risk Committee (ORC).

Risk Management Framework

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

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

1. **Risk Culture and Governance:** The Company has established policies for its major risks and a formal governance structure with leadership oversight and an assignment of accountability and authority. The governance structure starts at the Board and cascades to a central executive risk management committee and then to individual risk committees across the Company. In addition, the Company promotes a strong risk management culture and high expectations around ethical behavior.
2. **Risk Identification and Assessment:** Through its ERM organization, the Company has developed processes for the identification, assessment, and, when appropriate, response to internal and external risks to the

Company's operations and business objectives. Risk identification and prioritization has been established within each area, including processes around emerging risks.

3. Risk Appetite and Limits: The Company has a formal risk appetite statement that is approved by the Company's ERCC and reviewed by the Board. Based on its risk appetite, the Company has implemented stated risk tolerances and an associated limit structure for each of its major insurance and financial risks. These formal limits are encapsulated in formal risk policies that are reviewed at least annually by the ERCC.
4. Risk Monitoring, Controls and Communication: The Company monitors its major risks at the enterprise level through a number of enterprise reports, including but not limited to, a monthly risk dashboard, tracking the return on risk-capital across products, and regular stress testing. ERM communicates the Company's risk exposures to senior and executive management and the Board, and reviews key business performance metrics, risk indicators, audit reports, risk/control self assessments and risk event data.

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Risk Exposures and Quantification

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

In order to quantify group capital levels, risk correlations and concentrations, and the potential benefits of risk diversification at an enterprise level, the Company performs stress testing and scenario analysis. The Company uses its Economic Capital Model (ECM) to quantify the value of risk management across the business lines and to advance its risk-based decision-making and optimization across risk and business. The Company also uses the ECM to inform the attribution of risk capital to each line of business. ERM supports the attribution of risk capital by line of business and the analysis of returns on risk capital in conjunction with the Chief Financial Officer.

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

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

Insurance Risk

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

Operational Risk

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

Financial Risk

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

Business Risk

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

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

Regulation

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

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

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

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

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

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

Intellectual Property

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

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

Employees

The Hartford has approximately 24,400 employees as of December 31, 2011.

Available Information

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

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Item 1A. RISK FACTORS

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

Our operating environment remains subject to uncertainty about the timing and strength of an economic recovery. The steps we have taken to realign our businesses and strengthen our capital position may not be adequate to mitigate the financial, competitive and other risks associated with our operating environment, which could adversely affect our business and results of operations.

The decline of certain global economies, including Europe, and the possible contagion effect, cast uncertainty regarding the timing and strength of an economic recovery, which negatively affected our operating environment in 2011. Continued high unemployment, lower family income, lower business investment and lower consumer spending in most geographic markets we serve have adversely affected the demand for financial and insurance products, as well as their profitability in some cases. Our results, financial condition and statutory capital remain sensitive to equity and credit market performance and effects of interest rates and foreign currency, and we expect that market conditions will put pressure on returns in our life and property and casualty investment portfolios and that our hedging costs (in particular with respect to our variable annuities businesses) will remain higher than historical levels. If global economies continue to decline, economic conditions do not broadly improve and real estate valuations do not stabilize and over time increase, we would expect to experience additional realized and unrealized investment losses, particularly in the real estate and financial services sectors. Negative rating agency actions with respect to our investments could also indirectly adversely affect our statutory capital and risk-based capital (RBC) ratios, which could in turn have other negative consequences for our business and results.

The steps we have taken to realign our businesses and strengthen our capital position may not be adequate if economic conditions do not continue to improve in line with our forecasts. These steps include ongoing initiatives, particularly the execution risk relating to the continued repositioning of our investment portfolios and the continuing refinement of our hedge programs for our variable annuity businesses. If our actions are not adequate, our ability to support the scale of our business and to absorb operating losses and liabilities under our customer contracts could be impaired, which would in turn adversely affect our overall competitiveness and the capital position of the Company.

Even if the measures we have taken (or take in the future) are effective to mitigate the risks associated with our current operating environment, they may have unintended consequences. For example, rebalancing our hedging program to protect economic value, while being mindful of statutory surplus, may result in greater earnings volatility under generally accepted accounting principles in the U.S. (U.S. GAAP). We could be required to consider actions to manage our capital position and liquidity or further reduce our exposure to market and financial risks. We may also be forced to sell assets on unfavorable terms that could cause us to incur charges or lose the potential for market upside on those assets in a market recovery. We could also face other pressures, such as employee recruitment and retention issues and potential loss of distribution for our products. Additionally, if there was concern over the Company's capital position that creates an anticipation of the Company issuing additional common stock or equity linked instruments, trading prices for our common stock could decline.

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As a result of our ongoing evaluation of the Company's strategy and business portfolio, we may pursue one or more transactions or take other actions, which may include discontinuance or placing in run-off certain lines of business and/or pursuing strategic acquisitions, divestitures or restructurings, any of which could subject the Company to a number of challenges, uncertainties and risks or negatively impact our business, financial condition, results of operations or liquidity.

As previously announced, we are evaluating our strategy and business portfolio with the goal of delivering greater shareholder value. In particular, we noted that while we recognize there are potential benefits to a separation of our P&C and life companies, there are challenges to successfully executing such a separation.

As a result of these or other evaluations of the Company's strategy and business portfolio, we may pursue one or more transactions or take other actions, which may include discontinuing or placing in run-off certain lines of business and/or pursuing strategic acquisitions, divestitures or restructurings. Because these transactions involve a number of challenges, uncertainties and risks, we may not be able to consummate any such transaction or, if concluded, achieve some or all of the benefits, including in respect of shareholder value, that we expect to derive from it. Pursuit of these initiatives may also, among other things, divert management's attention and resources or result in a loss of employees or clients, surrenders, withdrawals, contract terminations or potential adverse capital or tax impacts. Completion of certain divestitures or restructurings might require consents under the covenants of our indentures (including in respect of allocation of our indebtedness), might require actions to satisfy certain rating agency criteria and could result in our retaining insurance or reinsurance obligations or result in recognition of other contingent liabilities (including in respect of intercompany guarantees). Any such transactions could also involve related financing transactions, including the issuance of equity or equity-related securities that could have a dilutive effect on our shareholders. In addition, the completion of an acquisition may require use of our capital and may involve difficulty integrating acquired businesses into our existing operations. Moreover, completion of an acquisition, divestiture or restructuring may require regulatory approvals or other third-party approvals (including the consents noted above), and these may not be able to be obtained or may involve significant additional cost, time, regulatory capital commitments and other regulatory conditions and obligations. Any such transactions may also be subject to additional significant execution risks, costs and delays. As a result of any of the foregoing, our business, financial condition, results of operations and liquidity could be negatively impacted.

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

One important exposure to equity risk relates to the potential for lower earnings associated with certain of our businesses in Wealth Management and Runoff Operations, such as U.S. and international variable annuities, where fee income is earned based upon the fair value of the assets under management. Should equity markets decline from current levels, assets under management and related fee income will be reduced. Such a decline would also place greater stress on the variable annuities businesses, which requires significant allocated capital due to rating agencies and regulatory requirements, including with respect to stress scenarios. Furthermore, certain of our products offer guaranteed benefits that increase our potential obligation and statutory capital exposure should equity markets continue to decline. Sustained declines in equity markets may result in the need to devote significant additional capital to support these products. We are also exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other post-retirement benefit obligations. Prolonged low interest rates or market returns are likely to have a negative effect on the funded status of these plans.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will increase the net unrealized loss position of our investment portfolio and, if long-term interest rates were to rise dramatically within a six-to-twelve month time period, certain of our Wealth Management businesses might be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate assets in an unrealized loss position. Although our products have features such as surrender charges, market-value adjustments and put options on certain retirement plans, we are subject to

disintermediation risk. An increase in interest rates can also impact our tax planning strategies and in particular our ability to utilize tax benefits to offset certain previously recognized realized capital losses. In a declining rate environment, due to the long-term nature of the liabilities associated with certain of our life businesses, such as structured settlements and guaranteed benefits on variable annuities, sustained declines in long-term interest rates may subject us to reinvestment risks, increased hedging costs, spread compression and capital volatility. Our exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. If issuer credit spreads widen significantly or retain historically wide levels over an extended period of time, additional other-than-temporary impairments and increases in the net unrealized loss position of our investment portfolio will likely result. In addition, losses have also occurred due to the volatility in credit spreads. When credit spreads widen, we incur losses associated with the credit derivatives where the Company assumes exposure. When credit spreads tighten, we incur losses associated with derivatives where the Company has purchased credit protection. If credit spreads tighten significantly, the Company's net investment income associated with new purchases of fixed maturities may be reduced. In addition, a reduction in market liquidity can make it difficult to value certain of our securities when trading becomes less frequent. As such, valuations may include assumptions or estimates that may be more susceptible to significant period-to-period changes, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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

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

Our real estate market exposure includes investments in commercial mortgage-backed securities, residential mortgage-backed securities, commercial real estate collateralized debt obligations, mortgage and real estate partnerships, and mortgage loans. Significant deterioration in the real estate market in the recent past has adversely affected our business and results of operations. Further deterioration in the real estate market, including increases in property vacancy rates, delinquencies and foreclosures, could have a negative impact on property values and sources of refinancing resulting in reduced market liquidity and higher risk premiums. This could result in impairments of real estate backed securities, a reduction in net investment income associated with real estate partnerships, and increases in our valuation allowance for mortgage loans.

Significant declines in equity prices, changes in U.S. interest rates, changes in credit spreads, inflation, the strengthening or weakening of foreign currencies against the U.S. dollar, or global real estate market deterioration, individually or in combination, could have a material adverse effect on our business, financial condition, results of operations and liquidity.

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

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

Our adjustment of our risk management program relating to products we offer with guaranteed benefits to emphasize protection of statutory surplus and cash flows will likely result in greater U.S. GAAP volatility in our earnings and potentially material charges to net income in periods of rising equity market pricing levels.

Some of the products offered by our Wealth Management businesses and previously offered by our Life Other Operations business, especially variable annuities, offer guaranteed benefits which, in the event of a decline in equity markets, would not only result in lower earnings, but will also increase our exposure to liability for benefit claims. We are also subject to equity market volatility related to these benefits, including the guaranteed minimum withdrawal

benefit (GMWB), guaranteed minimum accumulation benefit (GMAB), guaranteed minimum death benefit (GMDB and guaranteed minimum income benefit (GMIB) offered with variable annuity products. We use reinsurance structures and have modified benefit features to mitigate the exposure associated with GMDB. We also use reinsurance in combination with a modification of benefit features and derivative instruments to attempt to minimize the claim exposure and to reduce the volatility of net income associated with the GMWB liability. However, due to the severe economic conditions starting in the fourth quarter of 2008, we have adjusted our risk management program to place greater relative emphasis on the protection of statutory surplus and cash flows. This shift in relative emphasis has resulted in greater U.S. GAAP earnings volatility and, based upon the types of hedging instruments used, can result in potentially material charges to net income in periods of rising equity market pricing levels, lower interest rates, rises in volatility and weakening of the yen against other currencies. While we believe that these actions have improved the efficiency of our risk management related to these benefits, we remain liable for the guaranteed benefits in the event that reinsurers or derivative counterparties are unable or unwilling to pay. We are also subject to the risk that these management procedures prove ineffective or that unanticipated policyholder behavior, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed, which individually or collectively may have a material adverse effect on our business, financial condition, results of operations and liquidity.

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

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

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments, changes in interest rates and foreign currency exchange rates, the impact of internal reinsurance arrangements, and changes to the NAIC RBC formulas. Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing the amount of statutory capital we must hold in order to maintain our current ratings. Also, in extreme scenarios of equity market declines and other capital market volatility, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees increases at a greater than linear rate. This reduces the statutory surplus used in calculating our RBC ratios. When equity markets increase, surplus levels and RBC ratios will generally increase. This may be offset, however, as a result of a number of factors and market conditions, including the level of hedging costs and other risk transfer activities, reserve requirements for death and living benefit guarantees and RBC requirements could also increase, lowering RBC ratios. For example, while our property and casualty companies are expected to generate statutory surplus in 2012, our life companies' statutory surplus is expected to be flat to negative in 2012, as compared to 2011, primarily due to high variable annuity hedge losses compared to fees earned and a depression on statutory earnings in other life businesses due largely to continued low interest rates and high loss cost trends in Group Benefits. Due to these factors, projecting statutory capital and the related RBC ratios is complex. If our statutory capital resources are insufficient to maintain a particular rating by one or more rating agencies, we may seek to raise capital through public or private equity or debt financing. If we were not to raise additional capital, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be downgraded by one or more rating agencies.

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

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

may adversely affect us.

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

Our credit ratings also affect our cost of capital. A downgrade or a potential downgrade of our credit ratings could make it more difficult or costly to refinance maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the financial strength ratings of our principal insurance subsidiaries. Downgrades could begin to trigger potentially material collateral calls on certain of our derivative instruments and counterparty rights to terminate derivative relationships, both of which could limit our ability to purchase additional derivative instruments. These events could materially adversely affect our business, financial condition, results of operations and liquidity.

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

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

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

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

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

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

the length of time and the extent to which the fair value has been less than cost or amortized cost;

changes in the financial condition, credit rating and near-term prospects of the issuer;

whether the issuer is current on contractually obligated interest and principal payments;

changes in the financial condition of the security's underlying collateral;

the payment structure of the security;

the potential for impairments in an entire industry sector or sub-sector;

the potential for impairments in certain economically depressed geographic locations;

the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources;

unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities;

for mortgage-backed and asset-backed securities, commercial and residential property value declines that vary by property type and location and average cumulative collateral loss rates that vary by vintage year;

other subjective factors, including concentrations and information obtained from regulators and rating agencies;

our intent to sell a debt or an equity security with debt-like characteristics (collectively, debt security) or whether it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery; and

our intent and ability to retain an equity security without debt-like characteristics for a period of time sufficient to allow for the recovery of its value.

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

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

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

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

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

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

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

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

utilization, surrenders, and annuitization, hedging costs or costs to employ other risk mitigating techniques prove to be inaccurate or if significant or sustained equity market declines occur, we could be required to accelerate the amortization of DAC related to variable annuity and variable universal life contracts, and increase reserves for GMDB and GMIB which would result in a charge to net income. Such adjustments could have a material adverse effect on our results of operations and financial condition.

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

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the reporting unit to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The fair value of the reporting unit is impacted by the performance of the business and could be adversely impacted by any efforts made by the Company to limit risk. If it is determined that the goodwill has been impaired, the Company must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. These write downs could have a material adverse effect on our results of operations or financial condition.

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

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

The occurrence of one or more terrorist attacks in the geographic areas we serve could result in substantially higher claims under our insurance policies than we have anticipated. Private sector catastrophe reinsurance is extremely limited and generally unavailable for terrorism losses caused by attacks with nuclear, biological, chemical or radiological weapons. Reinsurance coverage from the federal government under the Terrorism Risk Insurance Program Reauthorization Act of 2007 is also limited. Accordingly, the effects of a terrorist attack in the geographic areas we serve may result in claims and related losses for which we do not have adequate reinsurance. This would likely cause us to increase our reserves, adversely affect our results during the period or periods affected and, could adversely affect our business, financial condition, results of operations and liquidity. Further, the continued threat of terrorism and the occurrence of terrorist attacks, as well as heightened security measures and military action in response to these threats and attacks or other geopolitical or military crises, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in our investment portfolio as well as those in our separate accounts. The continued threat of terrorism also could result in increased reinsurance prices and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. Terrorist attacks also could disrupt our operations centers in the U.S. or abroad. As a result, it is possible that any, or a combination of all, of these factors may have a material adverse effect on our business, financial condition, results of operations and liquidity.

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

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

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

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

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

Our insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, severe winter weather, fires, tornadoes, explosions, pandemics and other natural or man-made disasters. The geographic distribution of our business subjects us to catastrophe exposure for natural events occurring in a number of areas, including, but not limited to, hurricanes in Florida, the Gulf Coast, the Northeast and the Atlantic coast regions of the United States, tornadoes in the Midwest and Southeast, and earthquakes in California and the New Madrid region of the United States. We expect that increases in the values and concentrations of insured property in these areas will continue to increase the severity of catastrophic events in the future. Starting in 2004 and 2005, third-party catastrophe loss models for hurricane loss events have incorporated medium-term forecasts of increased hurricane frequency and severity reflecting the potential influence of multi-decadal climate patterns within the Atlantic. In addition, changing climate conditions across longer time scales, including the potential risk of broader climate change, may be increasing, or may in the future increase, the severity of certain natural catastrophe losses across various geographic regions. In addition, changing climate conditions, primarily rising global temperatures, may be increasing, or may in the future increase, the frequency and severity of natural catastrophes such as hurricanes. Potential examples of the impact of climate change on catastrophe exposure include, but are not limited to the following: an increase in the frequency or severity of wind and thunderstorm and tornado/hailstorm events due to increased convection in the atmosphere, more frequent brush fires in certain geographies due to prolonged periods of drought, higher incidence of deluge flooding, and the potential for an increase in severity of the largest hurricane events due to higher sea surface temperatures. Our operations are also exposed to risk of loss from catastrophes associated with pandemics and other events that could significantly increase our mortality and morbidity exposures. Policyholders may be unable to meet their obligations to pay premiums on our insurance policies or make deposits on our investment products.

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

We may incur losses due to our reinsurers unwillingness or inability to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance may not be sufficient to protect us against

losses.

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

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

The insurance industry is highly competitive. Our competitors include other insurers and, because many of our products include an investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. These competitors compete with us for producers such as brokers and independent agents and for our employees. Larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. These highly competitive pressures could result in increased pricing pressures on a number of our products and services and may harm our ability to maintain or increase our profitability. Because of the highly competitive nature of the insurance industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressure will not have a material adverse effect on our business, results of operations and financial condition.

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

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

The impact of regulatory initiatives, including the enactment of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), could have a material adverse impact on our business, financial condition, results of operations and liquidity.

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

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

Certain provisions of the Dodd-Frank Act will require central clearing of, and/or impose new margin and capital requirements on, derivatives transactions, which we expect will increase the costs of our hedging program. Other provisions in the Dodd-Frank Act that may impact us include: a new Federal Insurance Office within Treasury; discretionary authority for the SEC to impose a harmonized standard of care for investment advisers and broker-dealers who provide personalized advice about securities to retail customers; possible adverse impact on the pricing and liquidity of the securities in which we invest resulting from the proprietary trading and market making limitation of the Volcker Rule; possible prohibition of certain asset-backed securities transactions that could adversely

impact our ability to offer insurance-linked securities; and enhancements to corporate governance, especially regarding risk management.

In particular, the Dodd-Frank Act vests a newly created Financial Services Oversight Council (FSOC) with the power to designate systemically important institutions, which will be subject to special regulatory supervision and other provisions intended to prevent, or mitigate the impact of, future disruptions in the U.S. financial system. Systemically important institutions are limited to large bank holding companies and nonbank financial companies that are so important that their potential failure could pose a threat to the financial stability of the United States. The FSOC released a second notice of proposed rulemaking setting forth the process they propose to follow when designating systemically important nonbank financial companies in October 2011, but has not yet released a final rule or indicated when the FSOC will begin designating systemically important nonbank financial companies.

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

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

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

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

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

Potential changes in domestic and foreign regulation may increase our business costs and required capital levels, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We are subject to extensive U.S. and non-U.S. laws and regulations that are complex, subject to change and often conflicting in their approach or intended outcomes. Compliance with these laws and regulations is costly and can affect our strategy, as well as the demand for and profitability of the products we offer.

State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled, licensed or authorized to conduct business. U.S. state laws grant insurance regulatory authorities broad administrative powers with respect to, among other things:

licensing companies and agents to transact business;

calculating the value of assets to determine compliance with statutory requirements;

mandating certain insurance benefits;

regulating certain premium rates;

reviewing and approving policy forms;

regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;

protecting privacy;

establishing statutory capital and reserve requirements and solvency standards;

fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;

approving changes in control of insurance companies;

approving acquisitions, divestitures and similar transactions;

restricting the payment of dividends to the parent company and other transactions between affiliates;

establishing assessments and surcharges for guaranty funds, second-injury funds and other mandatory pooling arrangements;

requiring insurers to dividend any excess profits to policy holders; and

regulating the types, amounts and valuation of investments.

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Because these laws and regulations are complex and sometimes inexact, there is also a risk that any particular regulator's or enforcement authority's interpretation of a legal, accounting, or reserving issue may change over time to our detriment, or expose us to different or additional regulatory risks. For example, certain of our domestic life insurance subsidiaries use the NAIC's Model Regulation entitled "Valuation of Life Insurance Policies," commonly known as Regulation XXX, in setting statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees. In addition, Actuarial Guideline 38 (AG38 or AXXX) clarifies the application of Regulation XXX with respect to universal life insurance policies with secondary guarantees, i.e., a guaranteed death benefit for a specified period of time, often for life. Virtually all of our in force universal life insurance products are now affected by Regulation XXX and AXXX. The application of these regulations and guidelines by insurers involves interpretations and judgments that may not be consistent with the opinion of state insurance departments. We cannot provide assurance that such differences of opinion will not result in regulatory, tax or other challenges to the actions we have taken to date. The result of those potential challenges could require us to increase statutory reserves or incur higher operating and/or tax costs. Moreover, it is possible that the reinsurance and capital management actions we have taken to mitigate the impact of Regulation XXX and AXXX on our universal life insurance business may face regulatory, rating agency or other challenges. Furthermore, we may be unable to continue to implement actions to mitigate the impact of these regulations on future sales of term life insurance and universal life policies, resulting in lower returns on such products than we currently anticipate or reduce our sales of these products.

Furthermore, our international operations are subject to regulation in the relevant jurisdictions in which they operate (primarily the Japan Financial Services Agency and the United Kingdom Financial Services Authority), which in many ways is similar to the state regulation outlined above, with similar related restrictions and obligations. Our asset management businesses are also subject to extensive regulation in the various jurisdictions where they operate.

In addition, future regulatory initiatives could be adopted at the federal or state level that could impact the profitability of our businesses.

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

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

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

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

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

In addition, if any dividend of a Connecticut-domiciled insurer exceeds the insurer's earned surplus, it requires the prior approval of the Connecticut Insurance Commissioner.

The insurance holding company laws of the other jurisdictions in which our insurance subsidiaries are incorporated, or deemed commercially domiciled, generally contain similar, and in some instances more restrictive, limitations on the payment of dividends. Dividends paid to us by our insurance subsidiaries are further dependent on their cash

requirements. For further discussion on dividends from insurance subsidiaries, see Part II, Item 7, MD&A Capital Resources & Liquidity.

Our rights to participate in any distribution of the assets of any of our subsidiaries, for example, upon their liquidation or reorganization, and the ability of holders of our common stock to benefit indirectly from a distribution, are subject to the prior claims of creditors of the applicable subsidiary, except to the extent that we may be a creditor of that subsidiary. Claims on these subsidiaries by persons other than us include, as of December, 2011, claims by policyholders for benefits payable amounting to \$117.1 billion, claims by separate account holders of \$143.9 billion, and other liabilities including claims of trade creditors, claims from guaranty associations and claims from holders of debt obligations, amounting to \$13.0 billion.

Holders of our capital stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Moreover, our common stockholders are subject to the prior dividend rights of any holders of our preferred stock or depositary shares representing such preferred stock then outstanding. As of December 31, 2011, there were 575,000 shares of our Series F Preferred Stock issued and outstanding. Under the terms of the Series F Preferred Stock, our ability to declare and pay dividends on or repurchase our common stock will be subject to restrictions in the event we fail to declare and pay (or set aside for payment) full dividends on the Series F Preferred Stock.

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

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

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

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

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

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

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

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

Moreover, our systems may be subject to a computer virus or other malicious code, unauthorized access, a cyber-attack or other computer related violation. Such an event could compromise our confidential information as well as that of our clients and third parties with whom we interact, impede or interrupt our business operations and may result in other negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation and reputational damage.

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to utilize such capabilities in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect confidential information. Furthermore, certain of our businesses are subject to compliance with regulations enacted by U.S. federal and state governments, the European Union, Japan or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy of the information of clients, employees or others. A misuse or mishandling of confidential or proprietary information being sent to or received from an employee or third party could result in legal liability, regulatory action and reputational harm.

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

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

Our business performance is highly dependent on our ability to manage risks that arise from a large number of day-to-day business activities, including insurance underwriting, claims processing, servicing, investment, financial and tax reporting, compliance with regulatory requirements and other activities, many of which are very complex and for some of which we rely on third parties. We seek to monitor and control our exposure to risks arising out of these activities through a risk control framework encompassing a variety of reporting systems, internal controls, management review processes and other mechanisms. We cannot be completely confident that these processes and procedures will effectively control all known risks or effectively identify unforeseen risks, or that our employees and third-party agents will effectively implement them. Management of business risks can fail for a number of reasons, including design failure, systems failure, failures to perform, cyber security attacks or unlawful activities on the part of employees or third parties. In the event that our controls are not effective or not properly implemented, we could suffer financial or other loss, disruption of our businesses, regulatory sanctions or damage to our reputation. Losses resulting from these failures can vary significantly in size, scope and scale and may have material adverse effects on our financial condition or results of operations.

If we experience difficulties arising from outsourcing relationships, our ability to conduct business may be compromised.

We outsource certain technology and business functions to third parties and expect to do so selectively in the future. If we do not effectively develop and implement our outsourcing strategy, third-party providers do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, inability to meet obligations, including, but not limited to, policyholder obligations, increased costs and a loss of business that may have a material adverse effect on our results of operations. For other risks associated with our outsourcing of certain functions, see the risk factor, If we are unable to maintain the availability of our systems and safeguard the security of our data due to the occurrence of disasters or a cyber or other information security incident, our ability to conduct business may be compromised, we may incur substantial costs and suffer other negative consequences, all of which may have a material adverse effect on our business, financial condition, results of operation and liquidity.

Potential changes in federal or state tax laws, including changes impacting the availability of the separate account dividend received deduction, could adversely affect our business, financial condition, results of operations and liquidity.

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

Due in large part to the recent financial crisis that has affected many governments, there is an increasing risk that federal and/or state tax legislation could be enacted that would result in higher taxes on insurance companies and/or their policyholders. For example, on February 13, 2012, the Obama Administration released its FY 2013, Budget of the United States Government that includes proposals which, if enacted, would adversely affect the Company's sale of variable annuities and variable life products and its profits on corporate owned life insurance policies. Although the specific form of any such potential legislation is uncertain, it could include lessening or eliminating some or all of the tax advantages currently benefiting the Company or its policyholders including, but not limited to, those mentioned above. This could occur in the context of deficit reduction or other tax reforms. The effects of any such changes could have a material adverse effect on our profitability and financial condition, and could result in materially lower product

sales, lapses of policies currently held, and/or our incurrence of materially higher corporate taxes.

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As of December 31, 2011, The Hartford owned building space of approximately 2.9 million square feet, of which approximately 2.6 million square feet comprised its Hartford, Connecticut location and other properties within the greater Hartford, Connecticut area. In addition, as of December 31, 2011, The Hartford leased approximately 3.2 million square feet, throughout the United States of America, and approximately 68 thousand square feet, in other countries. All of the properties owned or leased are used by one or more of all nine reporting segments, depending on the location. For more information on reporting segments, see Part I, Item 1, Business of The Hartford Reporting Segments. The Company believes its properties and facilities are suitable and adequate for current operations.

Table of Contents**Item 3. LEGAL PROCEEDINGS****Litigation**

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

The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, and in addition to the matters described below, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, life and inland marine; improper sales practices in connection with the sale of life insurance and other investment products; and improper fee arrangements in connection with investment products. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in particular quarterly or annual periods. Apart from the inherent difficulty of predicting litigation outcomes, particularly those that will be decided by a jury, the matters specifically identified below purport to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel and complex legal theories and damages models. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company's experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. Most are in the earliest stages of litigation, with few or no substantive legal decisions by the court defining the scope of the claims, the class (if any), or the potentially available damages. In many, the Company has not yet answered the complaint or asserted its defenses, and fact discovery is still in progress or has not yet begun. Accordingly, unless otherwise specified below, management cannot reasonably estimate the possible loss or range of loss, if any, or predict the timing of the eventual resolution of these matters.

Broker Compensation Litigation Following the New York Attorney General's filing of a civil complaint against Marsh & McLennan Companies, Inc., and Marsh, Inc. (collectively, Marsh) in October 2004 alleging that certain insurance companies, including The Hartford, participated with Marsh in arrangements to submit inflated bids for business insurance and paid contingent commissions to ensure that Marsh would direct business to them, private plaintiffs brought several lawsuits against the Company predicated on the allegations in the Marsh complaint, to which the Company was not party. Among these is a multidistrict litigation in the United States District Court for the District of New Jersey. Two consolidated amended complaints were filed in the multidistrict litigation, one related to conduct in connection with the sale of property-casualty insurance and the other related to alleged conduct in connection with the sale of group benefits products. The Company and various of its subsidiaries are named in both complaints. The complaints assert, on behalf of a putative class of persons who purchased insurance through broker defendants, claims under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state law, and in the case of the group benefits complaint, claims under the Employee Retirement Income Security Act of 1974 (ERISA). The claims are predicated upon allegedly undisclosed or otherwise improper payments of contingent commissions to the broker defendants to steer business to the insurance company defendants. The district court dismissed the Sherman Act and RICO claims in both complaints for failure to state a claim and has granted the defendants' motions for

summary judgment on the ERISA claims in the group-benefits products complaint. The district court further declined to exercise supplemental jurisdiction over the state law claims and dismissed those claims without prejudice. The plaintiffs appealed the dismissal of the claims in both consolidated amended complaints, except the ERISA claims. In August 2010, the United States Court of Appeals for the Third Circuit affirmed the dismissal of the Sherman Act and RICO claims against the Company. The Third Circuit vacated the dismissal of the Sherman Act and RICO claims against some defendants in the property casualty insurance case and vacated the dismissal of the state-law claims as to all defendants in light of the reinstatement of the federal claims. In September 2010, the district court entered final judgment for the defendants in the group benefits case. In March 2011, the Company reached an agreement in principle to settle on a class basis the property casualty insurance case for an immaterial amount. The settlement was preliminarily approved by the court in June 2011, and is contingent upon final court approval.

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Investment and Savings Plan ERISA and Shareholder Securities Class Action Litigation In November and December 2008, following a decline in the share price of the Company's common stock, seven putative class action lawsuits were filed in the United States District Court for the District of Connecticut on behalf of certain participants in the Company's Investment and Savings Plan (the Plan), which offers the Company's common stock as one of many investment options. These lawsuits have been consolidated, and a consolidated amended class-action complaint was filed on March 23, 2009, alleging that the Company and certain of its officers and employees violated ERISA by allowing the Plan's participants to invest in the Company's common stock and by failing to disclose to the Plan's participants information about the Company's financial condition. The lawsuit seeks restitution or damages for losses arising from the investment of the Plan's assets in the Company's common stock during the period from December 10, 2007 to the present. In January 2010, the district court denied the Company's motion to dismiss the consolidated amended complaint. In February 2011, the parties reached an agreement in principle to settle on a class basis for an immaterial amount. The settlement was preliminarily approved by the court in January 2012, and is contingent upon final court approval.

Mutual Funds Litigation In October 2010, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of Delaware, alleging that Hartford Investment Financial Services, LLC (HIFSCO), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. In February 2011, a nearly identical derivative action was brought against HIFSCO in the United States District Court for the District of New Jersey on behalf of six additional Hartford retail mutual funds. Both actions were assigned to the Honorable Renee Marie Bumb, a judge in the District of New Jersey who was sitting by designation with respect to the Delaware action. Plaintiffs in each action seek to rescind the investment management agreements and distribution plans between HIFSCO and the Hartford mutual funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received. In addition, plaintiffs in the New Jersey action seek recovery of lost earnings. HIFSCO moved to dismiss both actions and, in September 2011, the motions to dismiss were granted in part and denied in part, with leave to amend the complaints. In November 2011, a stipulation of voluntary dismissal was filed in the Delaware action and plaintiffs in the New Jersey action filed an amended complaint on behalf of six Hartford mutual funds, seeking the same relief as in their original complaint. HIFSCO disputes the allegations and has filed a partial motion to dismiss.

Asbestos and Environmental Claims As discussed in Part II, Item 7, MD&A Critical Accounting Estimates Property and Casualty Insurance Product Reserves, Net of Reinsurance Reserving for Asbestos and Environmental Claims within Property & Casualty Other Operations, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford's consolidated operating results, financial condition and liquidity.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****Item 5. MARKET FOR THE HARTFORD S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

	1 st Qtr.	2 nd Qtr.	3 rd Qtr.	4 th Qtr.
2011				
Common Stock Price				
High	\$ 30.80	\$ 28.97	\$ 27.05	\$ 20.27
Low	\$ 24.75	\$ 23.81	\$ 15.82	\$ 14.92
Dividends Declared	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
2010				
Common Stock Price				
High	\$ 28.58	\$ 29.64	\$ 24.12	\$ 27.43
Low	\$ 22.34	\$ 22.13	\$ 19.09	\$ 22.26
Dividends Declared	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05

On February 23, 2012, The Hartford's Board of Directors declared a quarterly dividend of \$0.10 per common share payable on April 2, 2012 to common shareholders of record as of March 5, 2012.

As of February 17, 2012, the Company had approximately 269,700 shareholders. The closing price of The Hartford's common stock on the NYSE on February 17, 2012 was \$21.65.

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

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

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

Purchases of Equity Securities by the Issuer

The following table summarizes the Company's repurchases of its common stock for the three months ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
October 1, 2011 – October 31, 2011	8,014[1]	\$ 18.36		\$ 500

November 1, 2011	November 30, 2011	12,649[1]	\$ 19.25		\$ 500
December 1, 2011	December 31, 2011	3,226,945	\$ 15.93	3,225,000	\$ 449
Total		3,247,608	\$ 15.95	3,225,000	N/A

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

On July 27, 2011 the Company's Board of Directors authorized a \$500 stock repurchase program. The Company's repurchase authorization, which expires on August 5, 2014, permits purchases of common stock, as well as warrants or other derivative securities. Repurchases may be made in the open market, through derivative, accelerated share repurchase and other privately negotiated transactions, and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The timing of any future repurchases will be dependent upon several factors, including the market price of the Company's securities, the Company's capital position, consideration of the effect of any repurchases on the Company's financial strength or credit ratings, and other corporate considerations. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. The Hartford has repurchased \$94 of its common stock under this program through February 17, 2012.

Table of Contents**Total Return to Shareholders**

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

Annual Return Percentage

Company/Index	For the Years Ended				
	2007	2008	2009	2010	2011
The Hartford Financial Services Group, Inc.	(4.55%)	(79.99%)	43.91%	14.89%	(37.55%)
S&P 500 Index	5.49%	(37.00%)	26.46%	15.06%	2.11%
S&P Insurance Composite Index	(6.31%)	(58.14%)	13.90%	15.80%	(8.28%)

Cumulative Five-Year Total Return

Company/Index	Base	For the Years Ended				
	Period	2007	2008	2009	2010	2011
The Hartford Financial Services Group, Inc.	\$ 100	95.45	19.10	27.48	31.57	19.72
S&P 500 Index	\$ 100	105.49	66.46	84.05	96.71	98.76
S&P Insurance Composite Index	\$ 100	93.69	39.22	44.67	51.72	47.44

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

	2011	2010	2009	2008	2007
Income Statement Data					
Earned premiums	\$ 14,088	\$ 14,055	\$ 14,424	\$ 15,503	\$ 15,619
Fee income	4,750	4,748	4,547	5,103	5,408
Net investment income (loss):					
Securities available-for-sale and other	4,272	4,364	4,017	4,327	5,203
Equity securities, trading	(1,359)	(774)	3,188	(10,340)	145
Total net investment income (loss)	2,913	3,590	7,205	(6,013)	5,348
Net realized capital losses:					
Total other-than-temporary impairment (OTTI) losses	(263)	(852)	(2,191)	(3,964)	(483)
OTTI losses recognized in other comprehensive income	89	418	683		
Net OTTI losses recognized in earnings	(174)	(434)	(1,508)	(3,964)	(483)
Net realized capital losses, excluding net OTTI losses recognized in earnings	29	(177)	(496)	(1,941)	(512)
Total net realized capital gains (losses)	(145)	(611)	(2,004)	(5,905)	(995)
Other revenues	253	267	261	249	243
Total revenues	21,859	22,049	24,433	8,937	25,623
Benefits, losses and loss adjustment expenses	14,625	13,025	13,831	14,088	13,919
Benefits, losses and loss adjustment expenses returns credited on international variable annuities	(1,359)	(774)	3,188	(10,340)	145
Amortization of deferred policy acquisition costs and present value of future profits	3,427	2,527	4,257	4,260	2,982
Insurance operating costs and other expenses	4,398	4,407	4,370	4,448	4,357
Interest expense	508	508	476	343	263
Goodwill impairment	30		32	745	
Total benefits, losses and expenses	21,629	19,693	26,154	13,544	21,666
Income (loss) from continuing operations before income taxes	230	2,356	(1,721)	(4,607)	3,957
Income tax expense (benefit)	(346)	612	(838)	(1,848)	1,040

Income (loss) from continuing operations, net of tax	576	1,744	(883)	(2,759)	2,917
Income (loss) from discontinued operations, net of tax	86	(64)	(4)	10	32
Net income (loss)	662	1,680	(887)	(2,749)	2,949
Preferred stock dividends and accretion of discount	42	515	127	8	
Net income (loss) available to common shareholders	\$ 620	\$ 1,165	\$ (1,014)	\$ (2,757)	\$ 2,949

Balance Sheet Data

Separate account assets	\$ 143,870	\$ 159,742	\$ 150,394	\$ 130,184	\$ 199,946
Total assets	304,064	318,346	307,717	287,583	360,361
Total debt (including capital lease obligations)	6,216	6,607	5,839	6,221	4,507
Separate account liabilities	143,870	159,742	150,394	130,184	199,946
Common equity, excluding AOCI	21,197	20,756	18,217	16,788	20,062
Preferred Stock	556	556	2,960		
AOCI, net of tax	1,157	(1,001)	(3,312)	(7,520)	(858)
Total stockholders equity	22,910	20,311	17,865	9,268	19,204

Income (loss) from continuing operations, net of tax, available to common shareholders per common share

Basic	\$ 1.20	\$ 2.85	\$ (2.92)	\$ (9.02)	\$ 9.22
Diluted	1.12	2.62	(2.92)	(9.02)	9.14

Net income (loss) available to common shareholders per common share

Basic	\$ 1.39	\$ 2.70	\$ (2.93)	\$ (8.99)	\$ 9.32
Diluted	1.30	2.49	(2.93)	(8.99)	9.24
Cash dividends declared per common share	0.40	0.20	0.20	1.91	2.03

Other Data

Total revenues, excluding net investment income on equity securities, trading	\$ 23,218	\$ 22,823	\$ 21,245	\$ 19,277	\$ 25,478
Unlock benefit (charge), after-tax	\$ (530)	\$ 111	\$ (1,034)	\$ (932)	\$ 213
Total investments, excluding equity securities, trading	\$ 104,449	\$ 98,175	\$ 93,235	\$ 89,287	\$ 94,904

Table of Contents**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS***(Dollar amounts in millions, except for per share data, unless otherwise stated)*

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the financial condition of The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, The Hartford or the Company) as of December 31, 2011, compared with December 31, 2010, and its results of operations for each of the three years in the period ended December 31, 2011. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes beginning on page F-1. The Hartford made changes to its reporting segments in 2011 to reflect the manner in which the Company is currently organized for purposes of making operating decisions and assessing performance. Accordingly, segment data for prior reporting periods has been adjusted to reflect the new segment reporting, see Note 3 of the Notes to Consolidated Financial Statement for further discussion. Additionally, certain reclassifications have been made to prior year financial information to conform to the current year presentation.

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Table of Contents**CONSOLIDATED RESULTS OF OPERATIONS**

				Increase (Decrease) From	Increase (Decrease) From
<i>Net income (loss) by segment</i>	2011	2010	2009	2010 to 2011	2009 to 2010
Property & Casualty Commercial	\$ 528	\$ 995	\$ 899	\$ (467)	\$ 96
Group Benefits	90	185	193	(95)	(8)
Commercial Markets	618	1,180	1,092	(562)	88
Consumer Markets	5	143	140	(138)	3
Individual Annuity	(14)	527	(444)	(541)	971
Individual Life	133	229	15	(96)	214
Retirement Plans	15	47	(222)	(32)	269
Mutual Funds	98	132	34	(34)	98
Wealth Management	232	935	(617)	(703)	1,552
Life Other Operations	358	(90)	(698)	448	608
Property & Casualty Other Operations	(117)	(53)	(78)	(64)	25
Corporate	(434)	(435)	(726)	1	291
Total net income (loss)	\$ 662	\$ 1,680	\$ (887)	\$ (1,018)	\$ 2,567

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

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

An Unlock charge of \$530, after-tax, in 2011 compared to an Unlock benefit of \$111, after-tax, in 2010. The charge in 2011 was primarily driven by assumption changes which reduced expected future gross profits including additional costs associated with implementing the Japan hedging strategy and the U.S. variable annuity macro hedge program, as well as actual separate account returns below our aggregated estimated return. The Unlock benefit for 2010 was attributable to actual separate account returns being above our aggregated estimated return and the impact of assumption updates primarily related to decreasing lapse and withdrawal rates and lower hedge costs. For further discussion of Unlocks see the Critical Accounting Estimates within the MD&A.

Current accident year catastrophe losses of \$484, after-tax, in 2011 compared to \$294, after-tax, in 2010. The losses in 2011 primarily relate to more severe tornadoes and wind storms in the Midwest and Southeast, Hurricane Irene, and winter storms in the Northeast and Midwest. The losses in 2010 include severe windstorm events, including a hail storm in Arizona, tornadoes and hail in the Midwest, Plains States and the Southeast and winter storms in the Mid-Atlantic and Northeast.

The Company recorded reserve strengthening of \$31, after-tax, in 2011, compared to reserve releases of \$294, after-tax, in 2010, in its property and casualty insurance prior accident years development, excluding asbestos and environmental reserves. For additional information regarding prior accident years development, see Critical Accounting Estimates within the MD&A.

An asbestos reserve strengthening of \$189, after-tax, in 2011, compared to \$110, after-tax, in 2010 resulting from the Company's annual review of its asbestos liabilities in Property & Casualty Other Operations. The reserve

strengthening in 2011 was primarily driven by higher frequency and severity of mesothelioma claims, particularly against certain smaller, more peripheral insureds, while the reserve strengthening in 2010 was primarily driven by increases in claim severity and expenses. For further information, see Property & Casualty Other Operations Claims within the Property and Casualty Insurance Product Reserves, Net of Reinsurance section in Critical Accounting Estimates.

A \$73, after-tax, charge in the second quarter of 2011 related to the write-off of capitalized costs associated with a policy administration software project that was discontinued.

Partially offsetting these decreases in net income were following items:

Income (loss) from discontinued operations, net of tax, increased due to a realized gain on the sale of Specialty Risk Services of \$150, after-tax, in the first quarter of 2011, which was partially offset by a loss of \$74, after-tax, from the disposition of Federal Trust Corporation in the second quarter of 2011. In 2010, loss from discontinued operations, net of tax, primarily relates to goodwill impairment on Federal Trust Corporation of approximately \$100, after-tax, recorded in the second quarter of 2010.

The first quarter of 2010 includes an accrual for a litigation settlement of \$73, before-tax, for a class action lawsuit related to structured settlements.

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Income tax expense (benefit) in 2010 includes a valuation allowance expense of \$87 compared to a benefit of \$78 in 2011. See Note 13 of the Notes to Consolidated Financial Statements for a reconciliation of the tax provision at the U.S. Federal statutory rate to the provision for income taxes.

In the second quarter of 2011, the Company recorded a \$52 income tax benefit related to a resolution of a tax matter with the IRS for the computation of dividends received deduction (DRD) for years 1998, 2000 and 2001. For additional information see Note 13 of the Notes to Consolidated Financial Statements.

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

Year ended December 31, 2010 compared to the year ended December 31, 2009

The change from net loss in 2009 to net income in 2010 was primarily due to the following items:

An Unlock benefit of \$111, after-tax, in 2010 compared to an Unlock charge of \$1.0 billion, after-tax, in 2009.

The Unlock benefit for 2010 was attributable to actual separate account returns being above our aggregated estimated return and the impact of assumption updates primarily related to decreasing lapse and withdrawal rates, partially offset by hedging, annuitization estimates on Japan products, and long-term expected rate of return updates. The Unlock charge for 2009 was primarily driven by actual separate account returns being significantly below our aggregated estimated return for the first quarter of 2009, partially offset by actual returns being greater than our aggregated estimated return for the remainder of 2009. For further discussion of Unlocks see the Critical Accounting Estimates within the MD&A.

Net realized capital losses decreased primarily due to lower impairment losses, lower valuation allowances on mortgage loans, and net gains on sales in 2010 compared to net losses on sales in 2009. These changes were partially offset by losses on the variable annuity hedge program in 2010 compared to gains in 2009. For further discussion, see Net Realized Capital Gains (Losses) within Investment Results of Key Performance Measures and Ratios of this MD&A.

Partially offsetting these changes in net income (loss) were the following items:

An asbestos reserve strengthening of \$110, after-tax, in 2010, compared to \$90, after-tax, in 2009 resulting from the Company's annual review of its asbestos liabilities within Property & Casualty Other Operations. The reserve strengthening in 2010 and 2009 was primarily driven by increases in claim severity and expenses, particularly attributed to litigation in certain jurisdictions, and, to a lesser extent, development on primarily peripheral accounts. For further information, see Property & Casualty Other Operations Claims within the Property and Casualty Insurance Product Reserves, Net of Reinsurance section in Critical Accounting Estimates.

Current accident year catastrophe losses of \$294, after-tax, in 2010 compared to \$199, after-tax, in 2009. The losses in 2010, primarily relate to severe windstorm events, particularly from hail in the Midwest, Plains States and the Southeast and from winter storms in the Mid-Atlantic and Northeast. The losses in 2009, primarily relate to ice storms, windstorms, and tornadoes across many states.

The first quarter of 2010 includes an accrual for a litigation settlement of \$73, before-tax, for a class action lawsuit related to structured settlements.

The loss from discontinued operations, net of tax, increased in 2010 primarily due to a goodwill impairment on Federal Trust Corporation of approximately \$100, after-tax, partially offset by a net realized capital gain of \$41, after-tax, on the sale of the Hartford Investments Canada Corporation (HICC).

Income tax expense (benefit) in 2010 includes a valuation allowance expense of \$87 compared to an expense of \$30 in 2009. In addition, 2009 included nondeductible costs associated with warrants of \$78. See Note 13 of the Notes to Consolidated Financial Statements for a reconciliation of the tax provision at the U.S. Federal statutory rate to the provision for income taxes.

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

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Income Taxes

The effective tax rates for 2011, 2010 and 2009 were (150%), 26%, and 49%, respectively. The differences between the effective rate and the U.S. statutory rate of 35% for 2011, 2010 and 2009 were due principally to tax-exempt interest earned on invested assets and the DRD. These items decreased tax expense on the 2011 and 2010 pre-tax income and increased the tax benefit on the 2009 pre-tax loss. The 2011 effective tax rate also includes a deferred tax asset valuation allowance decrease, and the 2010 and 2009 effective tax rates include a deferred tax asset valuation allowance increase. The 2009 effective tax rate also includes the tax effect of non-deductible costs associated with warrants.

The separate account DRD is estimated for the current year using information from the most recent return, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments and level of policy owner equity account balances. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received in the mutual funds, amounts of distributions from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company's taxable income before the DRD. The Company recorded benefits of \$201, \$145 and \$181 related to the DRD in the years ended December 31, 2011, 2010 and 2009, respectively. These amounts included benefits (charges) related to prior years' tax returns of \$3, \$(3) and \$29 in 2011, 2010 and 2009, respectively.

In Revenue Ruling 2007-61, issued on September 25, 2007, the IRS announced its intention to issue regulations with respect to certain computational aspects of the DRD on separate account assets held in connection with variable annuity contracts. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54, issued in August 2007 that purported to change accepted industry and IRS interpretations of the statutes governing these computational questions. No regulations have been issued to date. Any regulations that the IRS may ultimately propose for issuance in this area will be subject to public notice and comment, at which time insurance companies and other members of the public will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. As a result, the ultimate timing and substance of any such regulations are unknown, but they could result in the elimination of some or all of the separate account DRD tax benefit that the Company receives. Management believes that it is highly likely that any such regulations would apply prospectively only.

The Company receives a foreign tax credit for foreign taxes paid including payments from its separate account assets. This credit reduces the Company's U.S. tax liability. The separate account foreign tax credit is estimated for the current year using information from the most recent filed return, adjusted for the change in the allocation of separate account investments to the international equity markets during the current year. The actual current year foreign tax credit can vary from the estimates due to actual foreign tax credits passed through from the mutual funds. The Company recorded benefits of \$11, \$4 and \$16 related to the separate account foreign tax credit in the years ended December 31, 2011, 2010 and 2009, respectively. These amounts included benefits (charges) related to prior years' tax returns of \$2, \$(4) and \$3 in 2011, 2010 and 2009, respectively.

The Company's unrecognized tax benefits were unchanged during 2011 and 2010, remaining at \$48 as of December 31, 2011, 2010 and 2009. This entire amount, if it were recognized, would affect the effective tax rate in the period it is released.

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OUTLOOKS

The Hartford provides projections and other forward-looking information in the following discussions, which contain many forward-looking statements, particularly relating to the Company's future financial performance. These forward-looking statements are estimates based on information currently available to the Company, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to the precautionary statements set forth on page 3 of this Form 10-K and the risk factors set forth under Item 1A and other similar information contained in this Form 10-K and in other filings made from time to time by the Company with the SEC. Actual results are likely to differ, and in the past have differed, materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each discussion below and in Item 1A, Risk Factors.

Overview

As previously announced, we are evaluating our strategy and business portfolio with the goal of delivering shareholder value. As this review is ongoing and no decisions have yet been made, the following discussion of our outlooks and the forward-looking statements contained therein assume a continuation of our current business focus and, as such, are subject to change based on any actions taken as a result of our ongoing review.

The Hartford focuses on growing its three customer-oriented divisions, Commercial Markets, Consumer Markets, and Wealth Management, through enhanced product development, leveraging synergies of the divisions' product offerings to meet customer needs, and increased efficiencies throughout the organization. Slow economic and employment expansion may adversely impact the performance of The Hartford's insurance protection businesses where insureds may change their level of insurance, and asset accumulation businesses may see customers changing their level of savings based on anticipated economic conditions. In addition, the performance of The Hartford's divisions is subject to uncertainty due to capital market conditions, which impact the earnings of its asset management businesses and valuations and earnings in its investment portfolio. The current and future interest rate environment also affects the performance of the Company's divisions. A sustained low interest rate environment would result in lower net investment income, lower estimated gross profits on certain Wealth Management products, lower margins and increased pension expense.

Commercial Markets

Commercial Markets focuses on growth through market-differentiated products and services while maintaining a disciplined underwriting approach. In Property & Casualty Commercial, improving market conditions are expected to continue, which should enable the Company to achieve price increases, while a slowly recovering economy is anticipated to drive an increase in insurance exposures. As such, the Company expects low to mid single-digit written premium growth in 2012. This growth reflects the combination of our current market position, a broadening of underwriting expertise focused on selected industries, a leveraging of the payroll model, and numerous initiatives launched in the past several years. More specifically, this growth is anticipated to be driven by continued momentum in small commercial, including programs aimed at growing total policy counts, the rollout of new product enhancements and the continued expansion of ease of doing business technology, while management expects middle market and specialty growth to be tempered as a result of pricing actions taken to restore returns to adequate levels. The Property & Casualty Commercial combined ratio before catastrophes and prior accident year development is expected to remain in the mid to upper 90s for 2012 as compared to the 97.2% achieved in 2011. Earned price increases are expected to flow through the book, while loss costs are not expected to change dramatically. In Group Benefits, premiums are expected to decline in 2012, as compared to 2011, reflecting the competitive environment coupled with pricing actions implemented with the goal of improving profitability. Over time, 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 expand. The Company believes that this combined with the significant number of employees who currently do not have coverage or adequate levels of coverage, creates continued opportunities for our products and services. The Company expects Group Benefits' loss ratio in 2012 to improve from the 2011 loss ratio of 79.5% as a result of the pricing actions taken, given the expectation of persistent elevated disability incidence.

Consumer Markets

The Company expects written premium to decline in 2012, compared to 2011, including a decrease in both AARP direct and Agency business. Despite an improvement in policy retention in 2011 and an expected further increase in new business in 2012, management expects that non-renewed premium will exceed new business in 2012 resulting in an overall decline in written premium. In 2012, management expects that policy retention will improve but continue to be affected by the impact of renewal written pricing increases in a price sensitive market. Within the Agency channel, policy retention will also be affected by continued pricing and underwriting actions to improve profitability, including efforts to reposition the book into more mature, preferred market business. The Company expects new business to increase in 2012, primarily driven by AARP member business, both direct and through independent agents, as well as new business from affinities other than AARP and other targeted consumer direct marketing. New business is expected to benefit from the introduction of the Open Road Advantage auto product and the Hartford Home Advantage product. As of January 2012, the Open Road Advantage auto product was available in 44 states and the Hartford Home Advantage product was available in 38 states. Management expects that the combined ratio before catastrophes and prior accident year development will be flat to slightly lower in 2012, as compared to 2011, as an improvement in the current accident year loss and loss adjustment expense ratio before catastrophes will be largely offset by an expected increase in the underwriting expense ratio. For both auto and home, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to improve in 2012, driven by earned pricing increases and lower claim frequency, partially offset by an expected modest increase in average claim severity. While management expects that industry non-catastrophe claim frequency will be relatively flat to slightly increasing in 2012, management expects The Hartford will have slightly lower claim frequency given its continued shift to a more preferred book of business.

Table of Contents***Wealth Management***

Wealth Management currently focuses on driving profitable growth through innovation, product diversification and multichannel distribution. Additionally, management is focused on improving profit margins and generating statutory surplus in each of its operating segments. Individual Annuity continues to build out a portfolio of solutions to meet the needs of consumers planning for and living in retirement. In 2011, several of these solutions were incorporated in the Personal Retirement Manager II (PRM II). While initial indicators of sales activity have improved, the product's ultimate success in contributing to Individual Annuity growth will depend on, among other things, our ability to market and distribute the product through new and existing distribution channels and market receptivity to the new product features. Further, Individual Annuity diversified its suite of product solutions through the introduction of a new fixed indexed annuity product. In addition, the Individual Annuity hedge program may contribute to earnings volatility since the program generates mark to market gains and losses, while not all the underlying liabilities being hedged are marked to market. Individual Life continues to differentiate itself through the creative offering of riders. The recently launched LongevityAccess rider, which allows policyholders to begin taking income from a policy at age 90, in tandem with the increasingly popular LifeAccess rider, which allows policyholders to take distributions from their policies in cases of chronic illness, gives The Hartford an ability to help people protect against premature death, outliving one's assets, or deteriorating health. In addition to building out distribution through property & casualty agents, the Company continues to expand its distribution into career life insurance professionals through the Monarch program. The Retirement Plans business continues to experience strong sales. In addition to our core 401(k) market, we have seen growth in larger (\$5-\$25) corporate plans. The property & casualty channel will become an increasingly important area of focus for us given our conviction that this channel is underpenetrated and well suited for this business. In the fourth quarter, we introduced The Hartford Lifetime Income product, a patented income solution delivered through 401(k) plans, which provides a guaranteed paycheck for life and has been a major catalyst for growth in this business. Our Mutual Fund business has been offering new funds to improve our participation in asset classes where we see potential growth opportunities. In addition, the Company announced in the fourth quarter of 2011 that Wellington Management Company, LLP (Wellington Management) will serve as the sole sub-advisor for The Hartford's mutual funds, including equity and fixed income funds, pending a fund-by-fund review by The Hartford's mutual funds board of directors.

Runoff Operations

In the fourth quarter of 2011, The Hartford established a new Runoff Operations division consisting of Life Other Operations and Property & Casualty Other Operations in order to better differentiate between our ongoing and runoff businesses. The objective of the Runoff Operations division is to focus on managing profitability, improving capital efficiency and effectiveness, and limiting and managing risk associated with the businesses residing in the division. Life Other Operations consists of the Hartford's international variable annuity business, institutional annuities business and Private Placement Life Insurance business. The international variable annuity business within Life Other Operations will continue to be a significant driver of earnings and earnings variability as a result of the hedge program associated with the Company's international annuities. This hedge program generates mark to market gains and losses while the underlying liabilities being hedged are primarily not marked to market resulting in unpredictable earnings volatility period to period. Property & Casualty Other Operations, is focused on managing our asbestos environmental and other legacy liabilities. The results of the annual ground up study of asbestos reserves and the annual environmental reserve update will be the primary driver impacting the results for this business.

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CRITICAL ACCOUNTING ESTIMATES

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

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

- property and casualty insurance product reserves, net of reinsurance;
- estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts;
- evaluation of other-than-temporary impairments on available-for-sale securities and valuation allowances on mortgage loans;
- living benefits required to be fair valued (in other policyholder funds and benefits payable);
- goodwill impairment;
- valuation of investments and derivative instruments;
- pension and other postretirement benefit obligations;
- valuation allowance on deferred tax assets; and
- contingencies relating to corporate litigation and regulatory matters.

Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the Consolidated Financial Statements. In developing these estimates management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available upon compilation of the financial statements.

Property and Casualty Insurance Product Reserves, Net of Reinsurance

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

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

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

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

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

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

The Company provides an allowance for uncollectible reinsurance, reflecting management's best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers' unwillingness or inability to pay. The Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between reinsurers and cedants and the overall credit quality of the Company's reinsurers. Where its contracts permit, the Company secures future claim obligations with various forms of collateral, including irrevocable letters of credit, secured trusts, funds held accounts and group-wide offsets. The allowance for uncollectible reinsurance was \$290 as of December 31, 2011, including \$83 related to Property & Casualty Commercial and \$207 related to Property & Casualty Other Operations.

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

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

The following table shows loss and loss adjustment expense reserves by line of business as of December 31, 2011, net of reinsurance:

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Reserve Line of Business				
Commercial property	\$ 187	\$	\$	\$ 187
Homeowners		467		467
Auto physical damage	16	29		45
Auto liability	564	1,523		2,087
Package business	1,282			1,282
Workers' compensation	7,471			7,471
General liability	2,641	31		2,672
Professional liability	702			702
Fidelity and surety	210			210
Assumed reinsurance			349	349
All other non-A&E			810	810
A&E	21	2	2,212	2,235
Total reserves-net	13,094	2,052	3,371	18,517
Reinsurance and other recoverables	2,343	9	681	3,033
Total reserves-gross	\$ 15,437	\$ 2,061	\$ 4,052	\$ 21,550

Reserving Methodology

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

How reserves are set

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

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

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

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

As of December 31, 2011 and 2010, net property and casualty insurance product reserves for losses and loss adjustment expenses reported under accounting principles generally accepted in the United States of America (U.S. GAAP) were approximately equal to net reserves reported on a statutory basis. Under U.S. GAAP, liabilities for unpaid losses for permanently disabled workers' compensation claimants are discounted at rates that are no higher than risk-free interest rates and which generally exceed the statutory discount rates set by regulators, such that workers' compensation reserves for statutory reporting are higher than the reserves for U.S. GAAP reporting. Largely offsetting the effect of the difference in discounting is that a portion of the U.S. GAAP provision for uncollectible reinsurance is not recognized under statutory accounting. Most of the Company's property and casualty insurance product reserves are not discounted. However, the Company has discounted liabilities funded through structured settlements and has discounted certain reserves for indemnity payments due to permanently disabled claimants under workers' compensation policies.

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

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

be used to supplement internal data in making severity estimates.

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

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

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

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

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

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

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

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

The final step in the reserve review process involves a comprehensive review by senior reserving actuaries who apply their judgment and, in concert with senior management, determine the appropriate level of reserves based on the information that has been accumulated. Numerous factors are considered in this process including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, pertinent trends observed over the recent past, the level of volatility within a particular line of business, and the improvement or deterioration of actuarial indications in the current period as compared to the prior periods. Total recorded net reserves, excluding asbestos and environmental, were 1.8% higher than the actuarial indication of the reserves as of December 31, 2011.

See the Reserve Development section for a discussion of changes to reserve estimates recorded in 2011.

Current trends contributing to reserve uncertainty

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

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

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

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

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

Impact of changes in key assumptions on reserve volatility

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

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

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

Recorded reserves for auto liability, net of reinsurance, are \$2.1 billion across all lines, \$1.5 billion of which is in Consumer Markets. Personal auto liability reserves are shorter-tailed than other lines of business (such as workers compensation) and, therefore, less volatile. However, the size of the reserve base means that future changes in estimates could be material to the Company's results of operations in any given period. The key indicator for Consumer Markets auto liability is the annual loss cost trend, particularly the severity trend component of loss costs. A 2.5 point change in annual severity for the two most recent accident years would change the estimated net reserve need by \$80, in either direction. A 2.5 point change in annual severity is within the Company's historical variation.

Recorded reserves for workers compensation, net of reinsurance, are \$7.5 billion. Loss development patterns are a key indicator for this line of business, particularly for more mature accident years. Historically, loss development patterns have been impacted by, among other things, medical cost inflation. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 3%, the estimated net reserve need would change by \$400, in either direction. A 3% change in reported loss development patterns is within the Company's historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Recorded reserves for general liability, net of reinsurance, are \$2.7 billion. Loss development patterns are a key indicator for this line of business, particularly for more mature accident years. Historically, loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g., construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 9%, the estimated net reserve need would change by \$200, in either direction. A 9% change in reported loss

development patterns is within the Company's historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Similar to general liability, assumed casualty reinsurance is affected by reported loss development patterns. In addition to the items identified above that would affect both direct and reinsurance liability claim development patterns, there is also an impact to reporting patterns for any changes in claim notification from ceding companies to the reinsurer. Recorded net reserves for HartRe assumed reinsurance business, excluding asbestos and environmental liabilities, within Property & Casualty Other Operations were \$349 as of December 31, 2011. If the reported loss development patterns underlying the Company's net reserves for HartRe assumed casualty reinsurance change by 5%, the estimated net reserve need would change by approximately \$95, in either direction. A 5% change in reported loss development patterns is within the Company's historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

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

How A&E reserves are set

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

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

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

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

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

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

Uncertainties Regarding Adequacy of Asbestos and Environmental Reserves

A number of factors affect the variability of estimates for asbestos and environmental reserves including assumptions with respect to the frequency of claims, the average severity of those claims settled with payment, the dismissal rate of claims with no payment and the expense to indemnity ratio. The uncertainty with respect to the underlying reserve assumptions for asbestos and environmental adds a greater degree of variability to these reserve estimates than reserve estimates for more traditional exposures. While this variability is reflected in part in the size of the range of reserves developed by the Company, that range may still not be indicative of the potential variance between the ultimate outcome and the recorded reserves. The recorded net reserves as of December 31, 2011 of \$2.24 billion (\$1.90 billion and \$328 for asbestos and environmental, respectively) is within an estimated range, unadjusted for covariance, of \$1.75 billion to \$2.59 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of uncertainties, which are detailed in Note 12 of Notes to Consolidated Financial Statements. The Company believes that its current asbestos and environmental reserves are appropriate. However, analyses of future developments could cause the Company to change its estimates and ranges of its asbestos and environmental reserves, and the effect of these changes could be material to the Company's consolidated operating results, financial condition and liquidity. Consistent with the Company's long-standing reserving practices, the Company will continue to review and monitor its reserves in the Property & Casualty Other Operations segment regularly and, where future developments indicate, make appropriate adjustments to the reserves.

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

In the opinion of management, based upon the known facts and current law, the reserves recorded for the Company's property and casualty businesses at December 31, 2011 represent the Company's best estimate of its ultimate liability for losses and loss adjustment expenses related to losses covered by policies written by the Company. However, because of the significant uncertainties surrounding reserves, and particularly asbestos exposures, it is possible that management's estimate of the ultimate liabilities for these claims may change and that the required adjustment to recorded reserves could exceed the currently recorded reserves by an amount that could be material to the Company's results of operations, financial condition and liquidity.

Reserve Roll-forwards and Development

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

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

For the year ended December 31, 2011

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	\$ 14,727	\$ 2,177	\$ 4,121	\$ 21,025
Reinsurance and other recoverables	2,361	17	699	3,077
Beginning liabilities for unpaid losses and loss adjustment expenses, net	12,366	2,160	3,422	17,948
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	4,139	2,536		6,675
Current accident year catastrophes	320	425		745
Prior accident years	125	(75)	317	367
Total provision for unpaid losses and loss adjustment expenses	4,584	2,886	317	7,787
Payments	(3,856)	(2,994)	(368)	(7,218)
Ending liabilities for unpaid losses and loss adjustment	13,094	2,052	3,371	18,517

expenses, net

Reinsurance and other recoverables	2,343	9	681	3,033
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Ending liabilities for unpaid losses and loss adjustment

expenses, gross	\$ 15,437	\$ 2,061	\$ 4,052	\$ 21,550
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Earned premiums	\$ 6,127	\$ 3,747		
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Loss and loss expense paid ratio [1]	62.9	79.9		
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Loss and loss expense incurred ratio	74.8	77.0		
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Prior accident years development (pts) [2]	2.0	(2.0)		
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[1] *The loss and loss expense paid ratio represents the ratio of paid losses and loss adjustment expenses to earned premiums.*

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

Table of Contents**Prior accident years development recorded in 2011**

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

For the year ended December 31, 2011

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

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

Released reserves for personal auto liability claims, primarily for accident years 2006 through 2010. Favorable trends in reported severity have persisted or improved over this time period. As these accident years develop, the uncertainty around the ultimate losses is reduced and management places more weight on the emerged experience.

Strengthened reserves in professional liability for accident years 2007 through 2008, primarily in the directors and officers (D&O) line of business. Detailed reviews of claims involving the sub-prime mortgage market collapse, and shareholder class action lawsuits, resulted in a higher estimate of future claim costs for these exposures.

Released reserves in package business liability coverages and general liability, in accident years 2005 through 2009. As these accident years developed, claim severity has emerged lower than expected.

Strengthened reserves in workers compensation in accident years 2008 through 2010. Accident year 2010 loss costs trends were higher than expected as an increase in frequency outpaced a moderation of severity trends.

Strengthening in accident years 2009 and 2008 was the result of higher than expected loss emergence for these years. Strengthening in more recent years is partially offset by releases in accident years 2007 and prior. Severity emergence in these older accident years continues to be favorable.

Strengthened prior year catastrophe reserves, primarily related to a severe wind and hail storm in Arizona during the fourth quarter of 2010. Severity of property damage associated with this event increased more than expected.

Refer to the Property & Casualty Other Operations Claims section for discussion concerning the Company's annual evaluations of net environmental and net asbestos reserves, and related reinsurance.

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

For the year ended December 31, 2010

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

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

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

Prior accident years development recorded in 2010

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

For the year ended December 31, 2010

**Property
&**

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

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

Released reserves for commercial auto liability claims as the Company lowered its reserve estimate to recognize a lower severity trend during 2009 that continued into 2010 on larger claims in accident years 2002 to 2009. In addition, reserves were released for personal auto liability claims for accident years 2004 to 2009, as favorable trends in reported severity have persisted, most notably for accident years 2008 and 2009. As these accident years develop, the uncertainty around the ultimate losses is reduced and management places more weight on the emerged experience.

Released reserves for professional liability claims, primarily related to D&O claims in accident years 2004 to 2008. For these accident years, reported losses for claims under D&O policies have emerged favorably to initial expectations due to lower than expected claim severity.

Released reserves for workers compensation business, primarily related to accident years 2006 and 2007.

Management updated reviews of state reforms affecting these accident years and determined impacts to be more favorable than previously estimated.

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Released reserves for general liability claims, primarily related to accident years 2005 through 2008. The Company observed that claim emergence for these accident years continued to be lower than anticipated and believed this would continue, and therefore reduced its reserve estimate in response. Partially offsetting this release was strengthening on loss adjustment expense reserves during the second quarter of 2010 due to higher than expected allocated loss expenses for claims in accident years 2000 and prior.

Released reserves for package business claims, primarily related to accident years 2005 through 2009. The Company observed that claim emergence within the liability portion of the package coverage for these accident years continued to be lower than anticipated and believed this lower level of claim activity would continue, and therefore reduced its reserve estimate in response.

Strengthened reserves for homeowners claims, as the Company observed a lengthening of the claim reporting period for homeowners claims which resulted in increasing management's estimate of the ultimate cost to settle these claims. The Company also began spending more on independent adjuster fees to better assess property damages.

The Company reviewed its allowance for uncollectible reinsurance in the second quarter of 2010 and reduced its allowance, in part, by a reduction in gross ceded loss recoverables.

Refer to the Property & Casualty Other Operations Claims section for discussion concerning the Company's annual evaluations of net environmental and net asbestos reserves, and related reinsurance.

A roll-forward follows of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses for the year ended December 31, 2009:

For the year ended December 31, 2009

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	\$ 15,273	\$ 2,083	\$ 4,577	\$ 21,933
Reinsurance and other recoverables	2,742	46	798	3,586