HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
April 30, 2009

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

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from __________ to __________

Commission File Number: 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

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

One Hartford Plaza, Hartford, Connecticut 06155

(Address of principal executive offices) (Zip Code)

(860) 547-5000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of April 28, 2009, there were outstanding 325,430,976 shares of Common Stock, $0.01 par value per share, of the registrant.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009
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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the Company) as of March 31, 2009, and the related condensed consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the three-month periods ended March 31, 2009 and 2008. These interim financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2008, and the related consolidated statements of operations, changes in stockholders equity, comprehensive loss, and cash flows for the year then ended prior to retrospective adjustment for the adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, described in Note 1, (not presented herein); and in our report dated February 11, 2009 (which report includes an explanatory paragraph relating to the Company s change in its method of accounting and reporting for the fair value measurement of financial instruments in 2008, and defined benefit pension and other postretirement plans in 2006), we expressed an unqualified opinion on those consolidated financial statements. We also audited the adjustments described in Note 1 that were applied to retrospectively adjust the December 31, 2008 consolidated balance sheet of the Company (not presented herein). In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted condensed consolidated balance sheet as of December 31, 2008.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
April 29, 2009

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

(In millions, except for per share data)	Three Months Ended March 31, 2009	2008
	(Unaudited)	
Revenues		
Earned premiums	$ 3,829	$ 3,843
Fee income	1,167	1,337
Net investment income (loss)		
Securities available-for-sale and other	920	1,193
Equity securities, held for trading	(724)	(3,578)
Total net investment income (loss)	196	(2,385)
Other revenues	118	120
Net realized capital gains (losses)	84	(1,371)
Total revenues	**5,394**	**1,544**
Benefits, losses and expenses		
Benefits, losses and loss adjustment expenses	4,637	3,357
Benefits, losses and loss adjustment expenses returns credited on International variable annuities	(724)	(3,578)
Amortization of deferred policy acquisition costs and present value of future profits	2,259	468
Insurance operating costs and expenses	898	950
Interest expense	120	67
Goodwill impairment	32	
Other expenses	189	189
Total benefits, losses and expenses	**7,411**	**1,453**
Income (loss) before income taxes	**(2,017)**	**91**
Income tax benefit	(808)	(54)
Net income (loss)	**$ (1,209)**	**$ 145**
Earnings (Loss) per share		
Basic	**$ (3.77)**	**$ 0.46**
Diluted	**$ (3.77)**	**$ 0.46**
Weighted average common shares outstanding	320.8	313.8
Weighted average common shares outstanding and dilutive potential common shares	320.8	315.7
Cash dividends declared per share	$ 0.05	$ 0.53

See Notes to Condensed Consolidated Financial Statements.

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

(In millions, except for share and per share data)	March 31, 2009	December 31, 2008
	(Unaudited)	
Assets		
Investments		
Fixed maturities, available-for-sale, at fair value (amortized cost of $76,259 and $78,238)	$ 62,563	$ 65,112
Equity securities, held for trading, at fair value (cost of $32,447 and $35,278)	27,813	30,820
Equity securities, available-for-sale, at fair value (cost of $1,318 and $1,554)	1,080	1,458
Policy loans, at outstanding balance	2,197	2,208
Mortgage loans on real estate	6,389	6,469
Limited partnerships and other alternative investments	1,981	2,295
Other investments	3,121	1,723
Short-term investments	11,189	10,022
Total investments	116,333	120,107
Cash	1,851	1,811
Premiums receivable and agents balances	3,568	3,604
Reinsurance recoverables	6,514	6,357
Deferred policy acquisition costs and present value of future profits	12,077	13,248
Deferred income taxes	6,300	5,239
Goodwill	1,036	1,060
Property and equipment, net	1,062	1,075
Other assets	2,689	4,898
Separate account assets	124,738	130,184
Total assets	**$ 276,168**	**$ 287,583**
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses		
Property and casualty	$ 21,804	$ 21,933
Life	18,562	16,747
Other policyholder funds and benefits payable	52,952	53,753
Other policyholder funds and benefits payable International variable annuities	27,793	30,799
Unearned premiums	5,366	5,379
Short-term debt	419	398
Long-term debt	5,757	5,823
Consumer notes	1,202	1,210
Other liabilities	9,688	11,997
Separate account liabilities	124,738	130,184
Total liabilities	**268,281**	**278,223**

Commitments and Contingencies (Note 9)

Equity		
Preferred stock, $0.01 par value 50,000,000 shares authorized, 0 and 6,048,387 shares issued		
Common stock, $0.01 par value 750,000,000 shares authorized, 354,098,996 and 329,920,310 shares issued	4	3
Additional paid-in capital	7,600	7,569
Retained earnings	10,111	11,336
Treasury stock, at cost 28,664,237 and 29,341,378 shares	(2,054)	(2,120)
Accumulated other comprehensive loss, net of tax	(7,801)	(7,520)
Total stockholders equity	**7,860**	**9,268**
Noncontrolling interest	27	92
Total equity	**7,887**	**9,360**
Total liabilities and equity	**$ 276,168**	**$ 287,583**

See Notes to Condensed Consolidated Financial Statements.

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

(In millions, except for share data)	Three Months Ended March 31, 2009	2008
	(Unaudited)	
Preferred Stock	$	$
Common Stock	**4**	**3**
Additional Paid-in Capital		
Balance at beginning of period	7,569	6,627
Issuance of shares under incentive and stock compensation plans	(51)	(50)
Reclassification of warrants from other liabilities to equity	93	
Tax (expense) benefit on employee stock options and awards	(11)	4
Balance at end of period	7,600	6,581
Retained Earnings		
Balance at beginning of period, before cumulative effect of accounting change, net of tax	11,336	14,686
Cumulative effect of accounting change, net of tax		(3)
Balance at beginning of period, as adjusted	11,336	14,683
Net income (loss)	(1,209)	145
Dividends declared on common stock	(16)	(167)
Balance at end of period	10,111	14,661
Treasury Stock, at Cost		
Balance at beginning of period	(2,120)	(1,254)
Issuance of shares under incentive and stock compensation plans from treasury stock	69	87
Return of shares under incentive and stock compensation plans to treasury stock	(3)	(17)
Balance at end of period	(2,054)	(1,184)
Accumulated Other Comprehensive Loss, Net of Tax		
Balance at beginning of period	(7,520)	(858)
Total other comprehensive loss	(281)	(1,367)
Balance at end of period	(7,801)	(2,225)
Total stockholders equity	**7,860**	**17,836**
Noncontrolling interest (Note 13)		
Balance at beginning of period	92	92
Change in noncontrolling interest ownership	(64)	20

Noncontrolling loss		(1)		(23)
Balance at end of period		27		89
Total Equity	**$**	**7,887**	**$**	**17,925**
Outstanding Common Shares (in thousands)				
Balance at beginning of period		300,579		313,842
Treasury stock acquired		(15)		
Conversion of preferred to common shares		24,194		
Issuance of shares under incentive and stock compensation plans		860		930
Return of shares under incentive and stock compensation plans to treasury stock		(183)		(237)
Balance at end of period		**325,435**		**314,535**

Condensed Consolidated Statements of Comprehensive Loss

(In millions)	**Three Months Ended March 31,**			
		2009		**2008**
	(Unaudited)			
Comprehensive Income (Loss)				
Net income (loss)	$	(1,209)	$	145
Other comprehensive income (loss)				
Change in net unrealized loss on securities		(33)		(1,606)
Change in net gain/loss on cash-flow hedging instruments		(48)		90
Change in foreign currency translation adjustments		(209)		142
Amortization of prior service cost and actuarial net losses included in net periodic benefit costs		9		7
Total other comprehensive loss		(281)		(1,367)
Total comprehensive loss	**$**	**(1,490)**	**$**	**(1,222)**

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(In millions)	**2009**	**2008**
	(Unaudited)	
Operating Activities		
Net income (loss)	$ (1,209)	$ 145
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	2,259	468
Additions to deferred policy acquisition costs and present value of future profits	(734)	(956)
Change in:		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	1,700	189
Reinsurance recoverables	(334)	54
Receivables and other assets	(21)	(60)
Payables and accruals	(396)	(525)
Accrued and deferred income taxes	(276)	(154)
Net realized capital (gains) losses	(84)	1,371
Net receipts to investment contracts related to policyholder funds International variable annuities	(387)	(3,175)
Net decrease in equity securities, held for trading	449	3,036
Depreciation and amortization	137	190
Goodwill impairment	32	
Other, net	(126)	(16)
Net cash provided by operating activities	**1,010**	**567**
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	22,195	8,020
Equity securities, available-for-sale	311	48
Mortgage loans	27	118
Partnerships	153	28
Derivatives	610	144
Payments for the purchase of:		
Fixed maturities, available-for-sale	(22,655)	(9,038)
Equity securities, available-for-sale	(207)	(180)
Mortgage loans	(20)	(210)
Partnerships	(81)	(162)
Proceeds from business sold	8	
Purchase price of businesses acquired	(8)	(94)
Change in policy loans, net	11	(57)
Change in payables for collateral under securities lending, net	(1,450)	93
Change in all other securities, net	144	(463)
Additions to property and equipment, net	(49)	(67)

Net cash used for investing activities	**(1,011)**	**(1,820)**
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	2,872	5,707
Withdrawals and other deductions from investment and universal life-type contracts	(4,715)	(6,499)
Net transfers from separate accounts related to investment and universal life-type contracts	2,136	1,677
Issuance of long-term debt		496
Payments on capital lease obligations	(24)	(26)
Change in short-term debt	(21)	
Proceeds from issuance of consumer notes		162
Repayments at maturity of consumer notes	(8)	
Proceeds from issuance of shares under incentive and stock compensation plans	7	19
Excess tax expense on stock-based compensation	(11)	
Return of shares under incentive and stock compensation plans to treasury stock	(3)	(17)
Dividends paid on preferred stock	(8)	
Dividends paid on common stock	(99)	(169)
Net cash provided by financing activities	**126**	**1,350**
Foreign exchange rate effect on cash	(85)	140
Net increase in cash	40	237
Cash beginning of period	1,811	2,011
Cash end of period	**$ 1,851**	**$ 2,248**
Supplemental Disclosure of Cash Flow Information		
Net Cash Paid (Received) During the Period For:		
Income taxes	$ (598)	$
Interest	$ 70	$ 45

See Notes to Condensed Consolidated Financial Statements.

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

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The Hartford Financial Services Group, Inc. is a financial holding company for a group of subsidiaries that provide investment products and life and property and casualty insurance to both individual and business customers in the United States and internationally (collectively, The Hartford or the Company).

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

The accompanying condensed consolidated financial statements and notes as of March 31, 2009, and for the three months ended March 31, 2009 and 2008 are unaudited. These financial statements reflect all adjustments (consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in The Hartford s 2008 Form 10-K Annual Report. The results of operations for the interim periods should not be considered indicative of the results to be expected for the full year.

Consolidation

The condensed consolidated financial statements include the accounts of The Hartford Financial Services Group, Inc., companies in which the Company directly or indirectly has a controlling financial interest and those variable interest entities in which the Company is the primary beneficiary. The Company determines if it is the primary beneficiary using both qualitative and quantitative analyses. Entities in which The Hartford does not have a controlling financial interest but in which the Company has significant influence over the operating and financing decisions are reported using the equity method. All material intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated.

Use of Estimates

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

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

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements included in The Hartford s 2008 Form 10-K Annual Report.

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

1. Basis of Presentation and Accounting Policies (continued)

Adoption of New Accounting Standards

Fair Value Measurements

In February 2008, the Financial Accounting Standards Board (FASB) issued Financial Statement of Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2) which delays the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157) to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and nonfinancial liabilities. Examples of applicable nonfinancial assets and nonfinancial liabilities to which FSP FAS 157-2 applies include, but are not limited to:

- Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination that are not subsequently remeasured at fair value;

- Reporting units measured at fair value in the goodwill impairment test as described in SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), and nonfinancial assets and nonfinancial liabilities measured at fair value in the SFAS 142 goodwill impairment test, if applicable; and

- Nonfinancial long-lived assets measured at fair value for impairment assessment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

The Company applied the provisions of SFAS 157 to the nonfinancial assets, nonfinancial liabilities and reporting units within the scope of FSP FAS 157-2 on January 1, 2009. The Company s adoption of FAS 157 did not materially impact the fair values of nonfinancial assets, nonfinancial liabilities and reporting units within the scope of this FSP.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands disclosures about an entity s derivative and hedging activities with the intent of providing users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures. The Company adopted SFAS 161 on January 1, 2009. See Note 5 for the expanded disclosures related to derivative instruments and hedging activities.

Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). This statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements . Noncontrolling interest refers to the minority interest portion of the equity of a subsidiary that is not attributable directly or indirectly to a parent. SFAS 160 establishes accounting and reporting standards that require for-profit entities that prepare consolidated financial statements to: (a) present noncontrolling interests as a component of equity, separate from the parent s equity, (b) separately present the amount of consolidated net income attributable to noncontrolling interests in the income statement, (c) consistently account for changes in a parent s ownership interests in a subsidiary in which the parent entity has a controlling financial interest as equity transactions, (d) require an entity to measure at fair value its remaining interest in a subsidiary that is deconsolidated, and (e) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interests of noncontrolling owners. SFAS 160 applies to all for-profit entities that prepare consolidated financial statements, and affects those for-profit entities that have outstanding noncontrolling interests in one or more subsidiaries or that deconsolidate a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 with earlier adoption prohibited. The Company adopted SFAS 160 on January 1, 2009. Upon adoption, the Company reclassified $92 of noncontrolling interest, recorded in other liabilities, to equity as of January 1, 2008. See the Company s Condensed Consolidated Statement of Changes in Equity. The adoption of SFAS 160 did not have a material effect on the Company s Condensed Consolidated Statements of Operations and Comprehensive Loss and the adoption of SFAS 160 did not impact the Company s accounting for separate account assets and liabilities. The FASB has added the following topic to the Emerging Issues Task Force (EITF) agenda, Consideration of an Insurer s Accounting for Majority Owned Investments When the Ownership Is Through a Separate Account . This topic will be discussed at a future EITF meeting. The FASB has expressed three separate views on the treatment of noncontrolling interest in majority owned separate accounts, upon implementation of SFAS 160, all of which are acceptable to the United States Securities and Exchange Commission. The Company follows one of these three acceptable views and currently excludes the noncontrolling interest from its majority owned separate accounts. The resolution of this EITF agenda item on the Company s accounting for separate account assets and liabilities is not known at this time.

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

1. Basis of Presentation and Accounting Policies (continued)

Future Adoption of New Accounting Standards

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). This FSP clarifies that the measurement objective in determining fair value when the volume and level of activity for the asset or liability have significantly decreased, is the price that would be received to sell the asset in an orderly transaction between willing market participants under current market conditions, and not the value in a hypothetical active market. The FSP includes additional factors for determining whether there has been a significant decrease in the volume and level of activity for an asset or liability compared to normal activity for that asset or liability (or similar assets or liabilities) and provides additional guidance in estimating fair value in those instances. The FSP requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. The FSP further requires an entity to disclose any change in valuation techniques, the related inputs, and the effects resulting from the application of the FSP.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). The FSP replaces the existing requirement for debt securities, that in order for an entity to conclude impairment is not other-than-temporary, it must have the intent and ability to hold an impaired security for a period sufficient to allow for recovery in value of the investment. To conclude impairment is not other-than-temporary, the FSP requires management assert that it does not have the intent to sell the security and that it is more likely than not it will not have to sell the security before recovery of its cost basis. The FSP also changes the presentation in the financial statements of non-credit related impairment amounts for instruments within its scope. When the entity asserts it does not have the intent to sell the security and it is more likely than not it will not have to sell the security before recovery of its cost basis, only the credit related impairment losses are to be recorded in earnings; non-credit losses are to be recorded in accumulated other comprehensive income. The FSP also expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities.

FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March, 15, 2009, provided both FSPs are adopted concurrently. The Company will adopt both FSPs for the interim period ending on June 30, 2009. The Company has not yet determined the effect of the adoption of these FSPs on the Company s condensed consolidated financial statements.

Income Taxes

The effective tax rate for the three months ended March 31, 2009 and 2008 was 40% and (59%), respectively. The principal causes of the difference between the effective rate and the U.S. statutory rate of 35% were tax-exempt interest earned on invested assets and the separate account dividends received deduction (DRD). This caused an increase in the tax benefit on the 2009 pre-tax loss, whereas the negative effective tax rate in 2008 is a result of a tax benefit on pre-tax income.

The separate account DRD is estimated for the current year using information from the prior year-end, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distribution from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company s taxable income before the DRD. Given recent financial markets volatility, the Company is reviewing its DRD computations on a quarterly basis. The Company recorded benefits related to the separate account DRD of $38 and $41 in the three months ended March 31, 2009 and 2008, respectively.

The Company s unrecognized tax benefits decreased by $8 during the first three months of 2009 as a result of the settlement of the 2002-2003 Internal Revenue Service (IRS) audit, bringing the total unrecognized tax benefits to $83 as of March 31, 2009. This entire amount, if it were recognized, would increase the effective tax rate for the applicable periods.

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

The Company s deferred tax asset valuation allowance has been determined pursuant to the provisions of FASB SFAS No. 109, Accounting for Income Taxes (SFAS 109), including the Company s estimation of future taxable income, if necessary, and is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized. In assessing the need for a valuation allowance, management considered future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, and taxable income in prior carry back years as defined in SFAS 109, as well as tax planning strategies that include holding debt securities with market value losses until maturity, selling appreciated securities to offset capital losses, and sales of certain corporate assets. Such tax planning strategies are viewed by management as prudent and feasible and will be implemented if necessary to realize the deferred tax asset.

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

2. Earnings (Loss) Per Share

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

	Three Months Ended March 31, 2009			Three Months Ended March 31, 2008		
(Shares in millions)	**Net Loss**	**Shares**	**Per Share Amount**	**Net Income**	**Shares**	**Per Share Amount**
Basic Earnings (Loss) per Share						
Net income (loss) available to common shareholders	$ (1,209)	320.8	$ (3.77)	$ 145	313.8	$ 0.46
Diluted Earnings (Loss) per Share [1]						
Stock compensation plans					1.9	
Net income (loss) available to common shareholders plus assumed conversions	$ (1,209)	320.8	$ (3.77)	$ 145	315.7	$ 0.46

[1] As a result of the net loss in the three months ended March 31, 2009, SFAS No. 128, Earnings per Share (SFAS 128) requires the Company to use basic weighted average common shares outstanding in the calculation of the three months ended March 31, 2009 diluted loss per share, since the inclusion of 0.7 million shares for stock compensation

plans would have been antidilutive to the earnings per share calculation. In the absence of the net loss, weighted average common shares outstanding and dilutive potential common shares would have totaled 321.5 million.

3. Segment Information

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

Life

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

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

Property & Casualty

Property & Casualty is organized into five reporting segments: the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial (collectively, Ongoing Operations); and the Other Operations segment. For the three months ended March 31, 2009 and 2008, AARP accounted for earned premiums of $703 and $687, respectively, in Personal Lines.

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

Net assumed (ceded) earned premiums under inter-segment arrangements	**Three Months Ended March 31, 2009**	**2008**
Personal Lines	$ (1)	$ (1)
Small Commercial	(6)	(8)
Middle Market	(6)	(8)
Specialty Commercial	13	17

Total	**$**	**$**

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

3. Segment Information (continued)

Financial Measures and Other Segment Information

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

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

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

Revenues

	Three Months Ended March 31,	
	2009	**2008**
Life		
Retail	$ 1,205	$ 176
Individual Life	319	256
Total Individual Markets Group	1,524	432
Retirement Plans	91	122
Group Benefits	1,232	1,144
Total Employer Markets Group	1,323	1,266
International [1]	472	147
Institutional	203	304
Other [1]	14	11
Total Life segment revenues	3,536	2,160
Net investment loss on equity securities, held for trading [2]	(724)	(3,578)
Total Life	**2,812**	**(1,418)**
Property & Casualty		
Ongoing Operations		
Earned premiums		
Personal Lines	979	983
Small Commercial	652	687
Middle Market	548	593
Specialty Commercial	332	350
Ongoing Operations earned premiums	2,511	2,613

Net investment income		185		310
Other revenues [3]		118		120
Net realized capital losses		(289)		(134)
Total Ongoing Operations		2,525		2,909
Other Operations		6		38
Total Property & Casualty		**2,531**		**2,947**
Corporate		51		15
Total revenues	**$**	**5,394**	**$**	**1,544**

[1] *Included in International s revenues for the three months ended March 31, 2009 is $11 of investment income from an inter-segment funding agreement for $1.5 billion with Institutional. This investment income is eliminated in Life Other.*

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

[3] Represents servicing revenue.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
3. Segment Information (continued)
Net Income (Loss)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Life		
Retail	$ (744)	$ (77)
Individual Life	(18)	20
Total Individual Markets Group	(762)	(57)
Retirement Plans	(88)	(5)
Group Benefits	69	46
Total Employer Markets Group	(19)	41
International [1]	(293)	8
Institutional [1]	(174)	(120)
Other [1]	(10)	(27)
Total Life	**(1,258)**	**(155)**
Property & Casualty		
Ongoing Operations		
Underwriting results		
Personal Lines	75	105
Small Commercial	87	119
Middle Market	69	55
Specialty Commercial	23	39
Total Ongoing Operations underwriting results	254	318
Net servicing income (loss) [2]	8	(1)
Net investment income	185	310
Net realized capital losses	(289)	(134)
Other expenses	(50)	(57)
Income tax (expense) benefit	3	(124)
Ongoing Operations	111	312
Other Operations	1	14
Total Property & Casualty	**112**	**326**
Corporate	(63)	(26)
Net income (loss)	**$ (1,209)**	**$ 145**

[1] Included in net income (loss) for the

three months ended March 31, 2009 of International and Institutional is investment income and interest expense of $11, respectively, on an inter-segment funding agreement for $1.5 billion. This investment income and interest expense is eliminated in Life Other.

[2] *Net of expenses related to service business.*

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

4. Fair Value Measurements

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2 or 3). The following table presents assets and (liabilities) carried at fair value by SFAS 157 Hierarchy Level.

	March 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, available-for-sale	$ 62,563	$ 1,066	$ 50,223	$ 11,274
Equity securities, held for trading	27,813	1,743	26,070	
Equity securities, available-for-sale	1,080	236	334	510
Other investments				
Customized derivatives used to hedge U.S. GMWB	937			937
Other derivatives used to hedge U.S. GMWB	1,249		(67)	1,316
Macro hedge program	175		24	151
Other investments [1]	616		620	(4)
Total other investments	2,977		577	2,400
Short-term investments	11,189	6,969	4,220	
Reinsurance recoverable for U.S. GMWB	1,058			1,058
Separate account assets [2] [3]	119,224	87,230	31,355	639
Total assets accounted for at fair value on a recurring basis	**$ 225,904**	**$ 97,244**	**$ 112,779**	**$ 15,881**
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
U.S. GMWB	$ (5,829)	$	$	$ (5,829)
U.K. GMWB	(70)			(70)
Japan GMWB	(28)			(28)
Japan GMAB	(3)			(3)
Institutional notes	(25)			(25)
Equity linked notes	(5)			(5)
Total other policyholder funds and benefits payable	(5,960)			(5,960)
Other liabilities [4]				
Other derivatives used to hedge U.S. GMWB	136		10	126

Macro hedge program	22			22
Other liabilities	(510)		(134)	(376)
Total other liabilities	(352)		(124)	(228)
Consumer notes [5]	(4)			(4)
Total liabilities accounted for at fair value on a recurring basis	**$ (6,316)**	**$**	**$ (124)**	**$ (6,192)**

[1] Includes over-the-counter derivative instruments in a net asset value position which may require the counterparty to pledge collateral to the Company. As of March 31, 2009, $2,350 of cash collateral liability was netted against the derivative asset value in the condensed consolidated balance sheet and is excluded from the table above. See footnote 4 below for derivative liabilities.

[2] Pursuant to the conditions set forth in the American Institute of Certified Public Accountants (AICPA) Statement of Position No. 03-1 Accounting and Reporting by Insurance Enterprises for Certain

Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1), the value of separate account liabilities is set to equal the fair value for separate account assets.

[3] *Excludes approximately $6 billion of investment sales receivable net of investment purchases payable that are not subject to SFAS 157.*

[4] *Includes over-the-counter derivative instruments in a net negative market value position (derivative liability). In the SFAS 157 Level 3 roll-forward table included below in this Note, the derivative asset and liability are referred to as freestanding derivatives and are presented on a net basis.*

[5] *Represents embedded derivatives associated with non-funding agreement-backed*

consumer equity linked notes.

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

4. Fair Value Measurements (continued)

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the three months ended March 31, 2009.

Asset (Liability)	Fair value as of December 31, 2008	Total Realized/unrealized gains (losses) included in: Net income [1], [2]	AOCI [3]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [4]	Fair value as of March 31, 2009	Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2009 [2]
Assets							
Fixed maturities, available-for-sale	$ 11,810	$ (221)	$ (449)	$ 175	$ (41)	$ 11,274	$ (93)
Equity securities, available-for-sale	541	(1)	(75)	(4)	49	510	(1)
Freestanding derivatives [5]							
Customized derivatives used to hedge U.S. GMWB	941	(4)				937	(4)
Other freestanding derivatives used to hedge U.S. GMWB	1,696	133		(387)		1,442	116
Macro hedge program	137	(21)		57		173	(21)
Other freestanding derivatives	(281)	(90)	(5)	(1)	(3)	(380)	(82)
Total freestanding derivatives	2,493	18	(5)	(331)	(3)	2,172	9
Reinsurance recoverable for U.S. GMWB [1]	1,302	(252)		8		1,058	(252)
Separate accounts [6]	786	(123)		87	(111)	639	(85)

Supplemental Information:

Total freestanding derivatives used to hedge U.S. GMWB including those in Levels 1, 2 and 3 [7]	$ 2,664	$ 118	$	$ (460)	$	$ 2,322	$ 118
Liabilities							
Other policyholder funds and benefits payable accounted for at fair value [1]							
U.S. GMWB	$ (6,526)	$ 728	$	$ (31)	$	$ (5,829)	$ 728
U.K. GMWB	(64)	(4)		(2)		(70)	(4)
Japan GMWB	(30)	(1)	4	(1)		(28)	(1)
Japan GMAB		(2)		(1)		(3)	(2)
Institutional notes	(41)	16				(25)	16
Equity linked notes	(8)	3				(5)	3
Total other policyholder funds and benefits payable accounted for at fair value[1]	(6,669)	740	4	(35)		(5,960)	740
Other Liabilities							
Derivative Liabilities							
Warrants [8]	(163)	70		93			70
Consumer notes	(5)	1				(4)	1
Supplemental Information:							
Net U.S. GMWB (Embedded derivatives, freestanding derivatives including those in Levels 1, 2 and 3 and reinsurance recoverable)[9]	$ (2,560)	$ 594	$	$ (483)	$	$ (2,449)	$ 594

[1] The Company classifies all the gains and losses on GMWB reinsurance derivatives and GMWB embedded derivatives as unrealized gains/losses for purposes of

disclosure in this table because it is impracticable to track on a contract-by-contract basis the realized gains/losses for these derivatives and embedded derivatives.

[2] *All amounts in these columns are reported in net realized capital gains/losses except for $1 for the three months ended March 31, 2009, which is reported in benefits, losses and loss adjustment expenses. All amounts are before income taxes and amortization of deferred policy acquisition costs and present value of future profits (DAC).*

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

4. Fair Value Measurements (continued)

[3] *AOCI refers to Accumulated other comprehensive income in the condensed consolidated statement of comprehensive loss. All amounts are before income taxes and amortization of DAC.*

[4] *Transfers in and/or (out) of Level 3 during the three months ended March 31, 2009 are attributable to a change in the availability of market observable information for individual securities within the respective categories.*

[5] *The freestanding derivatives, excluding reinsurance derivatives instruments, are reported in this table on a net basis for asset/(liability) positions and reported in the condensed consolidated balance sheet in other investments and other*

liabilities.

[6] *The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company.*

[7] *The Purchases, issuances, and settlements primarily relates to the receipt of cash on futures and option contracts classified as Level 1 and interest rate, currency and credit default swaps classified as Level 2.*

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

[9] *The net gain on U.S. GMWB since December 31, 2008 was primarily related to liability*

model assumption updates for withdrawals, lapses and credit standing, which totaled $550, pre-tax, and $219, after-tax and DAC amortization.

During the first quarter of 2009, the Company updated the following assumptions used in its estimates of fair value for living benefit obligations and related uncollateralized reinsurance recoverable assets:

Credit Standing Adjustment. This assumption makes an adjustment that market participants would make to reflect the risk that guaranteed benefit obligations or the GMWB reinsurance recoverables will not be fulfilled (nonperformance risk). As a result of sustained volatility in the Company s credit default spreads, the Company changed its estimate of the Credit Standing Adjustment to incorporate observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. Prior to the first quarter of 2009, the Company calculated the Credit Standing Adjustment by using default rates provided by rating agencies, adjusted for market recoverability. The changes made in the first quarter of 2009, resulted in a realized gain of $383, before-tax, for U.S. GMWB liabilities and a realized loss of $185, before-tax, for uncollateralized reinsurance recoverable assets.

Behavior Risk Margin and Other Policyholder Behavior Assumptions. The behavior risk margin adds a margin that market participants would require for the risk that the Company s assumptions about policyholder behavior could differ from actual experience. The behavior risk margin is calculated by taking the difference between adverse policyholder behavior assumptions and best estimate assumptions. During the first quarter of 2009, the Company revised certain adverse assumptions in the behavior risk margin for withdrawals, lapses and annuitization behavior as emerging policyholder behavior experience suggested the prior adverse policyholder behavior assumptions were no longer representative of an appropriate margin for risk. These changes, as well as other policyholder behavior assumption updates, resulted in a realized gain of $352, before-tax.

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

4. Fair Value Measurements (continued)

Assets (Liabilities) Carried at Fair Value by SFAS 157 Hierarchy Level

	December 31, 2008			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, available-for-sale	$ 65,112	$ 3,541	$ 49,761	$ 11,810
Equity securities, held for trading	30,820	1,634	29,186	
Equity securities, available-for-sale	1,458	246	671	541
Other investments				
Other derivatives used to hedge U.S. GMWB	600		13	587
Other investments [1]	976		1,005	(29)
Total other investments	1,576		1,018	558
Short-term investments	10,022	7,025	2,997	
Reinsurance recoverables for U.S. GMWB	1,302			1,302
Separate account assets [2] [3]	126,777	94,804	31,187	786
Total assets accounted for at fair value on a recurring basis	**$ 237,067**	**$ 107,250**	**$ 114,820**	**$ 14,997**
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
U.S. GMWB	$ (6,526)	$	$	$ (6,526)
U.K. GMWB	(64)			(64)
Japan GMAB	(30)			(30)
Institutional notes	(41)			(41)
Equity linked notes	(8)			(8)
Total other policyholder funds and benefits payable	(6,669)			(6,669)
Other liabilities [4]				
Customized derivatives used to hedge U.S. GMWB	941			941
Other derivatives used to hedge U.S. GMWB	1,123		14	1,109
Macro hedge program	137			137
Other liabilities	(339)		76	(415)
Total other liabilities	1,862		90	1,772

Consumer notes [5]	(5)			(5)
Total liabilities accounted for at fair value on a recurring basis	**$ (4,812)**	**$**	**$ 90**	**$ (4,902)**

[1] Includes over-the-counter derivative instruments in a net asset value position which may require the counterparty to pledge collateral to the Company. As of December 31, 2008, $574 of cash collateral liability was netted against the derivative asset value in the condensed consolidated balance sheet and is excluded from the table above. See footnote 4 below for derivative liabilities.

[2] Pursuant to the conditions set forth in SOP 03-1, the value of separate account liabilities is set to equal the fair value for separate account assets.

[3] Excludes approximately $3 billion of investment sales receivable net of investment purchases payable that are not

subject to SFAS 157.

[4] *Includes over-the-counter derivative instruments in a net negative market value position (derivative liability). In the SFAS 157 Level 3 roll-forward table included below in this Note, the derivative asset and liability are referred to as freestanding derivatives and are presented on a net basis.*

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

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

4. Fair Value Measurements (continued)

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the three months ended March 31, 2008.

Asset (Liability)	SFAS 157 Fair value as of January 1, 2008	Total Realized/unrealized gains (losses) included in: Net income [1], [2]	AOCI [3]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [4]	Fair value as of March 31, 2008	Changes in unrealized gains (losses) included in net income related to financial instruments still held at March 31, 2008 [2]
Assets							
Fixed maturities	$ 17,996	$ (103)	$ (1,110)	$ 973	$ (1,309)	$ 16,447	$ (78)
Equity securities, available-for-sale	1,339	(5)	(119)	91	(21)	1,285	(4)
Freestanding derivatives [5]							
Customized derivatives used to hedge U.S. GMWB	91	53				144	53
Other freestanding derivatives used to hedge U.S. GMWB	564	209		54		827	197
Macro hedge program	18	9				27	9
Other freestanding derivatives	(419)	(192)	3	167	107	(334)	(80)
Total freestanding derivatives	254	79	3	221	107	664	179
Reinsurance recoverable for U.S. GMWB [1] [6]	238	48		5		291	48
Separate accounts [7]	701	(78)		77	(120)	580	(72)
Supplemental Information:							
Total freestanding derivatives used to	$ 643	$ 334	$	$ 94	$	$ 1,071	$ 334

hedge U.S. GMWB including those in Levels 1, 2 and 3 [8]							
Liabilities							
Other policyholder funds and benefits payable accounted for at fair value [1]							
U.S. GMWB	$ (1,433)	$ (493)	$	$ (23)	$	$ (1,949)	$ (493)
U.K. GMWB	(17)					(17)	
Japan GMAB	(22)	(4)		(1)		(27)	(4)
Institutional notes	(24)	(26)				(50)	(26)
Equity linked notes	(21)	6				(15)	6
Total other policyholder funds and benefits payable accounted for at fair value [1]	(1,517)	(517)		(24)		(2,058)	(517)
Consumer notes	(5)	1				(4)	1
Supplemental Information:							
Net U.S. GMWB (Embedded derivatives, freestanding derivatives including those in Levels 1, 2 and 3 and reinsurance recoverable) [9]	$ (552)	$ (111)	$	$ 76	$	$ (587)	$ (111)

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

gains/losses for these derivatives and embedded derivatives.

[2] *All amounts in these columns are reported in net realized capital gains/losses except for $1 for the three months ended March 31, 2008, which is reported in benefits, losses and loss adjustment expenses. All amounts are before income taxes and amortization of DAC.*

[3] *AOCI refers to Accumulated other comprehensive income in the consolidated statement of comprehensive loss. All amounts are before income taxes and amortization of DAC.*

[4] *Transfers in and/or (out) of Level 3 during the three months ended March 31, 2008 are attributable to a change in the availability of market observable information for individual securities within the respective categories.*

[5] *The freestanding derivatives, excluding reinsurance*

derivatives instruments, are reported in this table on a net basis for asset/(liability) positions and reported in the condensed consolidated balance sheet in other investments and other liabilities.

[6] *The January 1, 2008 fair value of $238 includes the pre-SFAS 157 fair value of $128 and transitional adjustment of $110.*

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

4. Fair Value Measurements (continued)

[7] The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company.

[8] The Purchases, issuances, and settlements primarily relates to the receipt of cash on futures and option contracts classified as Level 1 and interest rate, currency and credit default swaps classified as Level 2.

[9] The net loss on U.S. GMWB since January 1, 2008 was primarily related to liability model assumption updates for mortality in the first quarter of 2008.

Fair Value of Significant Asset Sectors within the SFAS 157 Level 3 Securities Classification

	March 31, 2009		December 31, 2008	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
ABS				
Below Prime	$ 1,261	10.7%	$ 1,643	13.3%

Collateralized Loan Obligations (CLOs)	2,043	17.3%	2,131	17.3%
Other	567	4.8%	560	4.5%
Corporate				
Matrix priced private placements	4,679	39.7%	4,641	37.6%
Other	1,918	16.3%	1,755	14.2%
Commercial mortgage-backed securities (CMBS)	549	4.7%	802	6.5%
Preferred stock	330	2.8%	337	2.7%
Other	437	3.7%	482	3.9%
Total Level 3 securities	**$ 11,784**	**100.0%**	**$ 12,351**	**100.0%**

ABS below prime primarily represents sub-prime and Alt-A securities which are classified as Level 3 due to the lack of liquidity in the market.

ABS CLOs represent senior secured bank loan CLOs which are primarily priced by independent brokers.

ABS Other primarily represents broker priced securities.

Corporate-matrix priced represents private placement securities that are thinly traded and priced using a pricing matrix which includes significant non-observable inputs.

Corporate-Other primarily represents broker-priced public securities and private placement securities qualified for sale under rule 144A, and long dated fixed maturities where the term of significant inputs may not be sufficient to be deemed observable.

CMBS primarily represents CMBS bonds and commercial real estate collateralized debt obligations (CRE CDOs), which were either fair valued by the Company or by independent brokers due to the illiquidity of this sector.

Preferred stock primarily represents lower quality preferred securities that are less liquid due to market conditions.

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

4. Fair Value Measurements (continued)

The following table summarizes the notional amount and fair value of freestanding derivatives in other investments, reinsurance recoverables, embedded derivatives in other policyholder funds and benefits payable and consumer notes as of March 31, 2009 and December 31, 2008. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and are not necessarily reflective of credit risk. The fair value amounts of derivative assets and liabilities are presented on a net basis in the following table.

	March 31, 2009		December 31, 2008	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Reinsurance recoverables for U.S. GMWB [1]	$ 11,115	$ 1,058	$ 11,437	$ 1,302
Customized derivatives used to hedge U.S. GMWB[2]	9,341	937	10,464	941
Freestanding derivatives used to hedge U.S. GMWB[3]	7,232	1,385	8,156	1,723
U.S. GMWB [1]	46,137	(5,829)	46,734	(6,526)
U.K. GMWB	1,905	(70)	1,672	(64)
Japan GMWB	383	(28)	361	(30)
Japan GMAB	205	(3)	206	
Macro hedge program [3] [4]	7,102	197	2,188	137
Consumer Notes	64	(4)	70	(5)
Equity Linked Notes	55	(5)	55	(8)
Total	**$ 83,539**	**$ (2,362)**	**$ 81,343**	**$ (2,530)**

[1] The decline in fair value for U.S. GMWB and Reinsurance recoverables for U.S. GMWB was primarily related to model assumption updates for withdrawals, lapses and credit standing.

[2] The decrease in notional amount of customized derivatives used to hedge U.S. GMWB was

primarily due to current market conditions causing policyholder account values to decrease. The notional amount on these customized derivatives is the policyholder account value.

[3] *The increase in notional amount and fair value of the macro hedge program and the related decrease in notional and fair value of freestanding derivatives used to hedge U.S. GMWB are primarily due to the rebalancing of the Company s risk management program to place a greater relative emphasis on protection of statutory surplus.*

[4] *The notional amount as of March 31, 2009, includes approximately $1.0 billion of short put option contracts, therefore resulting in a net notional*

amount of
approximately
$6.1 billion.

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

5. Investments and Derivative Instruments

	March 31, 2009				December 31, 2008			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds and Notes								
ABS	$ 8,528	$ 14	$ (2,938)	$ 5,604	$ 8,863	$ 13	$ (2,608)	$ 6,268
CMBS								
Agency backed	339	24		363	433	16		449
Non-agency backed	13,923	35	(6,010)	7,948	14,303	29	(6,005)	8,327
CMOs								
Agency backed	732	60	(7)	785	849	46	(8)	887
Non-agency backed	381		(133)	248	413	1	(124)	290
Corporate	31,621	480	(4,750)	27,351	31,059	623	(4,501)	27,181
Government/Government agencies								
Foreign	862	26	(35)	853	2,786	100	(65)	2,821
United States	5,732	76	(118)	5,690	5,883	112	(39)	5,956
MBS	2,402	69	(3)	2,468	2,243	42	(7)	2,278
States, municipalities and political subdivisions	11,739	247	(733)	11,253	11,406	202	(953)	10,655
Fixed maturities	**76,259**	**1,031**	**(14,727)**	**62,563**	**78,238**	**1,184**	**(14,310)**	**65,112**
Equity securities, available-for-sale	1,318	212	(450)	1,080	1,554	203	(299)	1,458
Total securities, available-for-sale	**$ 77,577**	**$ 1,243**	**$ (15,177)**	**$ 63,643**	**$ 79,792**	**$ 1,387**	**$ (14,609)**	**$ 66,570**

Securities Lending

The Company participates in securities lending programs to generate additional income, whereby certain domestic fixed income securities are loaned from the Company s portfolio to qualifying third party borrowers, in return for collateral in the form of cash or U.S. government securities. Borrowers of these securities provide collateral of 102% of the market value of the loaned securities at the time of the loan and can return the securities to the Company for cash at varying maturity dates. As of March 31, 2009 and December 31, 2008, under terms of securities lending programs, the fair value of loaned securities was approximately $1.5 billion and $2.9 billion, respectively, which was included in fixed maturities in the condensed consolidated balance sheets. As of March 31, 2009 and December 31, 2008, the Company held collateral associated with the loaned securities in the amount of $1.5 billion and $3.0 billion, respectively.

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

5. Investments and Derivative Instruments (continued)

Security Unrealized Loss Aging

As part of the Company s ongoing security monitoring process by a committee of investment and accounting professionals, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired. For further discussion regarding the Company s other-than-temporary impairment policy, see the Investments section of Note 1 in The Hartford s 2008 Form 10-K Annual Report. Due to the issuers continued satisfaction of the securities obligations in accordance with their contractual terms and the expectation that they will continue to do so, management s intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value which includes the evaluation of the fundamentals of the issuers financial condition and other objective evidence, the Company believes that the prices of the securities in the sectors identified in the tables below were temporarily depressed as of March 31, 2009 and December 31, 2008.

The following tables present the Company s unrealized loss aging for total fixed maturity and equity securities classified as available-for-sale, by investment type and length of time the security was in a continuous unrealized loss position.