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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from ___________ to _____________

Commission file number 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

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

One Hartford Plaza, Hartford, Connecticut 06155

(Address of principal executive offices) (Zip Code)

(860) 547-5000

(Registrant s telephone number, including area code)

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

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

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

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

As of April 26, 2012, there were outstanding 440,865,405 shares of Common Stock, $0.01 par value per share, of the registrant.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

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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 periods.

Forward-looking statements are based on our current expectations and assumptions regarding economic, competitive, legislative and other developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They have been made based upon management s expectations and beliefs concerning future developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the Company or The Hartford). Future developments may not be in line with management s expectations or may have unanticipated effects. Actual results could differ materially from expectations, depending on the evolution of various factors, including those set forth in Part I, Item 1A, Risk Factors in The Hartford s 2011 Form 10-K Annual Report. These important risks and uncertainties include:

- challenges related to the Company s current operating environment, including continuing uncertainty about the strength and speed of the recovery in the United States and other key economies and the impact of governmental stimulus and austerity initiatives, sovereign credit concerns, 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 risks, challenges and uncertainties associated with our March 21, 2012 announcement that we will focus on our Property and Casualty, Group Benefits and Mutual Fund businesses, place our Individual Annuity business into runoff and pursue sales or other strategic alternatives for the Individual Life, Woodbury Financial Services and Retirement Plans businesses and related implementation plans and goals and objectives, as set forth in our Current Report on Form 8-K dated March 21, 2012;

- 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;

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;

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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-Q. Factors or events that could cause the Company s actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

The Hartford Financial Services Group, Inc.

Hartford, Connecticut

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the Company) as of March 31, 2012, and the related condensed consolidated statements of operations, comprehensive income, changes in stockholders equity, and cash flows for the three-month periods ended March 31, 2012 and 2011. 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, 2011, and the related consolidated statements of operations, comprehensive income, changes in stockholders equity, and cash flows for the year then ended prior to retrospective adjustment for the adoption of Accounting Standards Update (ASU) No. 2010-26 *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, (not presented herein); and in our report dated February 24, 2012 (which report includes an explanatory paragraph relating to the Company s change in its method of accounting and reporting for variable interest entities and embedded credit derivatives as required by accounting guidance adopted in 2010, and for other-than-temporary impairments as required by accounting guidance adopted in 2009), 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, 2011 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, 2011.

DELOITTE & TOUCHE LLP

Hartford, Connecticut

May 2, 2012

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
(In millions, except for per share data)	**2012**	**2011 As currently reported, see Note 1**
	(Unaudited)	
Revenues		
Earned premiums	$ 3,442	$ 3,519
Fee income	1,134	1,209
Net investment income:		
Securities available-for-sale and other	1,070	1,108
Equity securities, trading	2,866	803
Total net investment income	3,936	1,911
Net realized capital gains (losses):		
Total other-than-temporary impairment (OTTI) losses	(36)	(119)
OTTI losses recognized in other comprehensive income (OCI)	7	64
Net OTTI losses recognized in earnings	(29)	(55)
Net realized capital losses, excluding net OTTI losses recognized in earnings	(881)	(348)
Total net realized capital losses	(910)	(403)
Other revenues	59	64
Total revenues	**7,661**	**6,300**
Benefits, losses and expenses		
Benefits, losses and loss adjustment expenses	3,038	3,178
Benefits, losses and loss adjustment expenses returns credited on international variable annuities	2,864	803
Amortization of deferred policy acquisition costs and present value of future profits	321	450
Insurance operating costs and other expenses	1,312	1,354
Interest expense	124	128
Total benefits, losses and expenses	**7,659**	**5,913**
Income from continuing operations before income taxes	**2**	**387**
Income tax expense (benefit)	(95)	48
Income from continuing operations, net of tax	**97**	**339**
Income (loss) from discontinued operations, net of tax	(1)	162
Net income	**$ 96**	**$ 501**
Preferred stock dividends	10	10
Net income available to common shareholders	**$ 86**	**$ 491**
Income from continuing operations, net of tax, available to common shareholders per common share		
Basic	**$ 0.20**	**$ 0.74**

Diluted	**$**	**0.19**	**$**	**0.67**
Net income available to common shareholders per common share				
Basic	**$**	**0.20**	**$**	**1.10**
Diluted	**$**	**0.18**	**$**	**0.99**
Cash dividends declared per common share	$	0.10	$	0.10

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended March 31,	
(In millions)	**2012**	**2011 As currently reported, see Note 1**
	(Unaudited)	
Comprehensive Income		
Net income	$ 96	$ 501
Other comprehensive income (loss)		
Change in net unrealized gain / loss on securities	241	322
Change in OTTI losses recognized in other comprehensive income	(8)	5
Change in net gain / loss on cash-flow hedging instruments	(53)	(68)
Change in foreign currency translation adjustments	(136)	(29)
Change in pension and other postretirement plan adjustments	33	22
Total other comprehensive income	77	252
Total comprehensive income	**$ 173**	**$ 753**

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Balance Sheets

(In millions, except for share and per share data)	**March 31, 2012**	**December 31, 2011 As currently reported, see Note 1**
	(Unaudited)	
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $80,021 and $78,978) (includes variable interest entity assets, at fair value, of $235 and $153)	$ 83,157	$ 81,809
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $339 and $338)	1,291	1,328
Equity securities, trading, at fair value (cost of $30,212 and $32,928)	30,722	30,499
Equity securities, available-for-sale, at fair value (cost of $1,001 and $1,056)	938	921
Mortgage loans (net of allowances for loan losses of $88 and $102)	6,275	5,728
Policy loans, at outstanding balance	1,970	2,001
Limited partnerships and other alternative investments (includes variable interest entity assets of $7 as of March 31, 2012 and December 31,2011)	2,732	2,532
Other investments	1,259	2,394
Short-term investments (includes variable interest entity assets, at fair value, of $10 as of March 31, 2012)	5,256	7,736
Total investments	133,600	134,948
Cash	2,059	2,581
Premiums receivable and agents balances, net	3,565	3,446
Reinsurance recoverables, net	4,559	4,768
Deferred policy acquisition costs and present value of future profits	6,577	6,556
Deferred income taxes, net	2,375	2,131
Goodwill	1,006	1,006
Property and equipment, net	1,017	1,029
Other assets	3,388	2,274
Separate account assets	152,402	143,870
Total assets	**$ 310,548**	**$ 302,609**
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$ 40,532	$ 41,016
Other policyholder funds and benefits payable	44,080	45,612
Other policyholder funds and benefits payable international variable annuities	30,677	30,461
Unearned premiums	5,325	5,222
Long-term debt	6,220	6,216
Consumer notes	310	314
Other liabilities (includes variable interest entity liabilities of $461 and $471)	9,728	8,412
Separate account liabilities	152,402	143,870
Total liabilities	**289,274**	**281,123**
Commitments and Contingencies (Note 9)		
Stockholders Equity		
Preferred stock, $0.01 par value 50,000,000 shares authorized, 575,000 shares issued, liquidation preference $1,000 per share	556	556
Common stock, $0.01 par value 1,500,000,000 shares authorized, 469,746,638 and	5	5

469,750,171 shares issued		
Additional paid-in capital	10,031	10,391
Retained earnings	11,042	11,001
Treasury stock, at cost 28,881,233 and 27,211,115 shares	(1,688)	(1,718)
Accumulated other comprehensive income, net of tax	1,328	1,251
Total stockholders equity	**21,274**	**21,486**
Total liabilities and stockholders equity	**$ 310,548**	**$ 302,609**

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders Equity

(In millions, except for share data)	Three Months Ended March 31, 2012	2011 As currently reported, see Note 1
	(Unaudited)	
Preferred Stock	**$ 556**	**$ 556**
Common Stock	**5**	**5**
Additional Paid-in Capital, beginning of period	10,391	10,448
Repurchase of warrants	(300)	
Issuance of shares under incentive and stock compensation plans	(58)	(47)
Tax expense on employee stock options and awards	(2)	(10)
Additional Paid-in Capital, end of period	**10,031**	**10,391**
Retained Earnings, beginning of period	11,001	10,509
Net income	96	501
Dividends on preferred stock	(10)	(10)
Dividends declared on common stock	(45)	(45)
Retained Earnings, end of period	**11,042**	**10,955**
Treasury Stock, at Cost, beginning of period	(1,718)	(1,774)
Treasury stock acquired	(42)	
Issuance of shares under incentive and stock compensation plans from treasury stock	79	57
Return of shares under incentive and stock compensation plans and other to treasury stock	(7)	(5)
Treasury Stock, at Cost, end of period	**(1,688)**	**(1,722)**
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	1,251	(990)
Total other comprehensive income	77	252
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	**1,328**	**(738)**
Total Stockholders Equity	**$ 21,274**	**$ 19,447**
Preferred Shares Outstanding (in thousands)	**575**	**575**
Common Shares Outstanding, at beginning of period (in thousands)	442,539	444,549
Treasury stock acquired	(2,550)	
Issuance of shares under incentive and stock compensation plans	1,202	727
Return of shares under incentive and stock compensation plans and other to treasury stock	(326)	(168)
Common Shares Outstanding, at end of period	**440,865**	**445,108**

See Notes to Condensed Consolidated Financial Statements.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(In millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011 As currently reported, see Note 1
	(Unaudited)	
Operating Activities		
Net income	$ 96	$ 501
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	321	450
Additions to deferred policy acquisition costs and present value of future profits	(439)	(419)
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	(624)	(39)
Change in reinsurance recoverables	(14)	59
Change in receivables and other assets	(474)	(49)
Change in payables and accruals	1,184	(23)
Change in accrued and deferred income taxes	121	57
Net realized capital (gains) losses	910	176
Net receipts (disbursements) from investment contracts related to policyholder funds international variable annuities	216	(496)
Net (increase) decrease in equity securities, trading	(223)	481
Depreciation and amortization	98	128
Other operating activities, net	(32)	(352)
Net cash provided by operating activities	1,140	474
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	14,442	8,860
Fixed maturities, fair value option	12	
Equity securities, available-for-sale	59	24
Mortgage loans	112	70
Partnerships	43	58
Payments for the purchase of:		
Fixed maturities, available-for-sale	(13,048)	(7,588)
Fixed maturities, fair value option		(531)
Equity securities, available-for-sale	(18)	(25)
Mortgage loans	(660)	(326)
Partnerships	(319)	(55)
Proceeds from business sold		278
Derivatives, net	(2,017)	(465)
Change in policy loans, net	31	
Other investing activities, net	(4)	(46)
Net cash provided by (used for) investing activities	(1,367)	254
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	3,623	3,338
Withdrawals and other deductions from investment and universal life-type contracts	(5,963)	(6,174)
Net transfers from separate accounts related to investment and universal life-type contracts	2,218	2,418
Repayments at maturity or settlement of consumer notes	(4)	

Proceeds from net issuance of shares under incentive and stock compensation plans, excess tax benefit and other	(4)	(2)
Treasury stock acquired	(48)	
Dividends paid on preferred stock	(11)	(11)
Dividends paid on common stock	(44)	(19)
Changes in bank deposits and payments on bank advances		(1)
Net cash used for financing activities	(233)	(451)
Foreign exchange rate effect on cash	(62)	(22)
Net increase (decrease) in cash	(522)	255
Cash beginning of period	2,581	2,062
Cash end of period	$ 2,059	$ 2,317
Supplemental Disclosure of Cash Flow Information		
Income taxes paid (received)	$ (548)	$ 26
Interest paid	$ 89	$ 89

See Notes to Condensed Consolidated Financial Statements

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Basis of Presentation and Accounting Policies

Basis of Presentation

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

On March 21, 2012, the Company announced the completion of its businesses and strategy evaluation. As a result of this review, which was conducted by the Company s management and Board of Directors over the past several quarters, the Company announced that it will focus on its Property and Casualty, Group Benefits and Mutual Fund businesses, place its existing Individual Annuity business into runoff and pursue sales or other strategic alternatives for the Individual Life and Retirement Plans businesses and Woodbury Financial Services, an indirect wholly-owned subsidiary.

On April 26, 2012, the Company announced that it had entered into an agreement to sell its individual annuity new business capabilities to a third party. Effective May 1, 2012, all new annuity policies sold by the Company will be reinsured to a third party. The Company will cease the sale of annuity policies and the reinsurance agreement will terminate as to new business in the second quarter of 2013. The reinsurance agreement has no impact on in-force policies issued on or before April 27, 2012.

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. 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 2011 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.

The accompanying Condensed Consolidated Financial Statements and Notes as of March 31, 2012, and for the three months ended March 31, 2012 and 2011 are unaudited. These financial statements reflect all adjustments (generally consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods.

On January 1, 2012, the Company retrospectively adopted Accounting Standards Update (ASU) No. 2010-26, Financial Services *Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* which clarifies the definition of policy acquisition costs that are eligible for deferral. Previously reported financial information has been revised to reflect the effect of the Company s adoption of this accounting standard. As a result of this accounting change, total stockholders equity as of January 1, 2011, decreased by approximately $1.6 billion, after-tax from $20.3 billion, as previously reported, to $18.7 billion due to a reduction of the Company s deferred acquisition cost asset balance related to certain costs that do not meet the provisions of the revised standard. The effect of adoption of this accounting standard on the Company s Condensed Consolidated Balance Sheet and Condensed Consolidated Statements of Operations was as follows:

	December 31, 2011		
	As previously reported	Effect of change	As currently reported
Deferred policy acquisition costs and present value of future profits	$ 8,744	$ (2,188)	$ 6,556

Deferred income taxes, net	$ 1,398	$ 733	$ 2,131
Other liabilities	$ 8,443	$ (31)	$ 8,412
Retained earnings	$ 12,519	$ (1,518)	$ 11,001
Accumulated other comprehensive income (loss), net of tax	$ 1,157	$ 94	$ 1,251
Total stockholders equity	$ 22,910	$ (1,424)	$ 21,486

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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)

	Three Months Ended March 31, 2011		
	As previously reported	Effect of change	As currently reported
Amortization of deferred policy acquisition costs and present value of future profits	$ 664	$ (214)	$ 450
Insurance operating costs and other expenses	$ 1,125	$ 229	$ 1,354
Income (loss) from continuing operations before income taxes	$ 410	$ (23)	$ 387
Income tax expense (benefit)	$ 59	$ (11)	$ 48
Net income (loss)	$ 511	$ (10)	$ 501
Net income (loss) available to common shareholders	$ 501	$ (10)	$ 491
Income (loss) from continuing operations, net of tax, available to common shareholders per common share			
Basic	$ 0.77	$ (0.03)	$ 0.74
Diluted	$ 0.69	$ (0.02)	$ 0.67
Net income (loss) available to common shareholders per common share			
Basic	$ 1.13	$ (0.03)	$ 1.10
Diluted	$ 1.01	$ (0.02)	$ 0.99

Consolidation

The Condensed Consolidated Financial Statements include the accounts of The Hartford Financial Services Group, Inc., companies in which the Company directly or indirectly has a controlling financial interest and those variable interest entities (VIEs) in which the Company is required to consolidate. Entities in which the Company has significant influence over the operating and financing decisions but are not required to consolidate are reported using the equity method. Material intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated. For further discussions on VIEs see Note 5 of the Notes to Condensed Consolidated Financial Statements.

Discontinued Operations

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

The Company is presenting the operations of certain businesses that meet the criteria for reporting as discontinued operations. Amounts for prior periods have been retrospectively reclassified. See Note 12 of the Notes to Condensed Consolidated Financial Statements for information on the specific subsidiaries and related impacts.

Use of Estimates

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

The most significant estimates include those used in determining property and casualty insurance product reserves, net of reinsurance; estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts; evaluation of other-than-temporary impairments on available-for-sale securities and valuation allowances on investments; living benefits required to be fair valued; goodwill impairment; valuation of investments and derivative instruments; 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 Condensed Consolidated Financial Statements.

Mutual Funds

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

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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)

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in The Hartford s 2011 Form 10-K Annual Report, which should be read in conjunction with these accompanying Condensed Consolidated Financial Statements.

Income Taxes

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

	Three Months Ended March 31,	
	2012	**2011**
Tax expense (benefit) at U.S. Federal statutory rate	$ 1	$ 135
Tax-exempt interest	(36)	(37)
Dividends-received deduction	(33)	(37)
Valuation allowance	(20)	(2)
Other	(7)	(11)
Income tax expense (benefit)	**$ (95)**	**$ 48**

The separate account dividends-received deduction (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 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 by the mutual funds, amounts of distribution from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company s taxable income before the DRD. The Company evaluates its DRD computations on a quarterly basis.

The Company s unrecognized tax benefits were unchanged during the three months ended March 31, 2012, remaining at $48 as of March 31, 2012. This entire amount, if it were recognized, would affect the effective tax rate in the period it is released.

The Company s federal income tax returns are routinely audited by the Internal Revenue Service (IRS). Audits have been concluded for all years through 2006. The audit of the years 2007 2009 commenced during 2010 and is expected to conclude by the end of 2012.

The Company has recorded a deferred tax asset valuation allowance that is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized. The deferred tax asset valuation allowance, which related predominantly to foreign net operating losses, was $75 as of March 31, 2012 and $95 as of December 31, 2011. In assessing the need for a valuation allowance, management considered future taxable temporary differences reversals, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in open carry back years, as well as other tax planning strategies.

Included in the Company s March 31, 2012 $2.4 billion net deferred tax asset is $2.9 billion relating to items treated as ordinary for federal income tax purposes, and a $482 net deferred tax liability for items classified as capital in nature. The $482 capital items are comprised of $682 of gross deferred tax assets related to realized capital losses and $1.2 billion of gross deferred tax liabilities related to net unrealized capital gains.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Earnings (Loss) Per Common Share

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

	Three Months Ended March 31,	
(In millions, except for per share data)	**2012**	**2011**
Earnings		
Income from continuing operations		
Income from continuing operations, net of tax	$ 97	$ 339
Less: Preferred stock dividends	10	10
Income from continuing operations, net of tax, available to common shareholders	**87**	**329**
Add: Dilutive effect of preferred stock dividends		10
Income from continuing operations, net of tax, available to common shareholders and assumed conversion of preferred shares	**$ 87**	**$ 339**
Income (loss) from discontinued operations, net of tax	**$ (1)**	**$ 162**
Net income		
Net income	$ 96	$ 501
Less: Preferred stock dividends	10	10
Net income available to common shareholders	**86**	**491**
Add: Dilutive effect of preferred stock dividends		10
Net income available to common shareholders and assumed conversion of preferred shares	**$ 86**	**$ 501**
Shares		
Weighted average common shares outstanding, basic	**440.7**	**444.6**
Dilutive effect of warrants	26.4	41.1
Dilutive effect of stock compensation plans	1.9	1.8
Dilutive effect of mandatory convertible preferred shares		20.7
Weighted average shares outstanding and dilutive potential common shares	**469.0**	**508.2**
Earnings (loss) per common share		
Basic		
Income from continuing operations, net of tax, available to common shareholders	$ 0.20	$ 0.74
Income (loss) from discontinued operations, net of tax		0.36
Net income available to common shareholders	**$ 0.20**	**$ 1.10**

Diluted		
Income from continuing operations, net of tax, available to common shareholders	$ 0.19	$ 0.67
Income (loss) from discontinued operations, net of tax	(0.01)	0.32
Net income available to common shareholders	**$ 0.18**	**$ 0.99**

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Earnings (Loss) Per Common Share (continued)

For the three months ended March 31, 2012, 20.9 million shares for mandatory convertible preferred shares, along with the related dividend adjustment, would have been antidilutive to the earnings per share calculations. Assuming the impact of the mandatory convertible preferred shares was not antidilutive, weighted average common shares outstanding and dilutive potential common shares would have totaled 489.9 million.

The declaration of a quarterly common stock dividend of $0.10 during the first quarter of 2012 triggered a provision in The Hartford s Warrant Agreement with The Bank of New York Mellon, relating to warrants to purchase common stock issued in connection with the Company s participation in the Capital Purchase Program, resulting in an adjustment to the warrant exercise price to $9.676 from $9.699.

In addition, the declaration also triggered a provision in The Hartford s Fixed Conversion Rate Agreement, relating to the Company s mandatory convertible preferred stock, resulting in an adjustment to the minimum conversion rate to 29.8831 from 29.536 shares of Common Stock per share of Series F Preferred Stock and the maximum conversion rate to 36.4596 from 36.036 shares of Common Stock per share of Series F Preferred Stock.

On March 30, 2012 the Company entered into an agreement with Allianz and repurchased the outstanding Series B and Series C warrants. As a result, Allianz no longer holds potentially dilutive outstanding warrants.

3. Segment Information

The Company is organized into four divisions: Commercial Markets, Consumer Markets, Wealth Management and Runoff Operations and conducts business principally in nine reporting segments, as well as the Corporate category. Starting in the second quarter of 2012, financial results for the Individual Annuity segment, which consists of U.S. variable, fixed and fixed indexed annuities, will be reported in the Life Other Operations segment. The Company s reporting segments as of March 31, 2012 are as follows:

Commercial Markets

Property & Casualty Commercial

Property & Casualty Commercial provides workers compensation, property, automobile, marine, livestock, liability and umbrella coverages primarily throughout the United States (U.S.), along with a variety of customized insurance products and risk management services including professional liability, fidelity, surety, and specialty casualty coverages.

Group Benefits

Group Benefits provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, and group retiree health.

Consumer Markets

Consumer Markets provides standard automobile, homeowners and home-based business coverages to individuals across the U.S., including a special program designed exclusively for members of AARP. Consumer Markets also operates a member contact center for health insurance products offered through the AARP Health program.

Wealth Management

Individual Annuity

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

Individual Life

Individual Life sells a variety of life insurance products, including variable universal life, universal life, and term life.

Retirement Plans

Retirement Plans provides products and services to corporations pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code), and products and services to municipalities and not-for-profit organizations under Sections 457 and 403(b) of the Code, collectively referred to as government plans.

Mutual Funds

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 supporting insurance products issued by The Hartford.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information (continued)

Runoff Operations

Life Other Operations

Life Other Operations encompasses the administration of investment retirement savings and other insurance and savings products to individuals and groups outside of the U.S., primarily in Japan and Europe, as well as institutional annuity products and private placement life insurance.

Property & Casualty Other Operations

Property & Casualty Other Operations includes the Company s management of certain property and casualty operations that have discontinued writing new business and substantially all of the Company s asbestos and environmental exposures.

Corporate

The Company includes in the 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 segments.

Financial Measures and Other Segment Information

Certain transactions between segments occur during the year that primarily relate to tax settlements, insurance coverage, expense reimbursements, services provided, security transfers and capital contributions. Also, one segment may purchase group annuity contracts from another to fund pension costs and annuities to settle casualty claims. In addition, certain inter-segment transactions occur that relate to interest income on allocated surplus. Consolidated net investment income is unaffected by such transactions.

The following table presents net income (loss) for each reporting segment, as well as the Corporate category.

	Three Months Ended March 31,	
Net income (loss)	**2012**	**2011**
Property & Casualty Commercial	$ 189	$ 323
Group Benefits	18	11
Consumer Markets	108	108
Individual Annuity	198	143
Individual Life	19	18
Retirement Plans	18	5
Mutual Funds	20	28
Life Other Operations	(405)	(70)
Property & Casualty Other Operations	27	21
Corporate	(96)	(86)

Net income	**$ 96**	**$ 501**

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information (continued)

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

	Three Months Ended March 31,	
Revenues	**2012**	**2011**
Earned premiums, fees, and other considerations		
Property & Casualty Commercial		
Workers compensation	$ 733	$ 665
Property	125	135
Automobile	146	146
Package business	292	283
Liability	141	135
Fidelity and surety	52	55
Professional liability	68	79
Total Property & Casualty Commercial	1,557	1,498
Group Benefits		
Group disability	443	477
Group life and accident	479	517
Other	50	50
Total Group Benefits	972	1,044
Consumer Markets		
Automobile	632	672
Homeowners	277	284
Total Consumer Markets [1]	909	956
Individual Annuity		
Variable annuity	349	436
Fixed / MVA and other annuity	19	4
Total Individual Annuity	368	440
Individual Life		
Variable life	87	90
Universal life	126	106
Term / Other life	14	13
Total Individual Life	227	209
Retirement Plans		
401(k)	84	84
Government plans	12	13

Total Retirement Plans	96	97
Mutual Funds		
Non-Proprietary	136	162
Proprietary	15	16
Total Mutual Funds	151	178
Life Other Operations	244	254
Property & Casualty Other Operations		
Corporate	52	52
Total earned premiums, fees, and other considerations	4,576	4,728
Net investment income:		
Securities available-for-sale and other	1,070	1,108
Equity securities, trading	2,866	803
Total net investment income	3,936	1,911
Net realized capital losses	(910)	(403)
Other revenues	59	64
Total revenues	**$ 7,661**	**$ 6,300**

[1] For the three months ended March 31, 2012 and 2011, AARP members accounted for earned premiums of $676 and $698, respectively.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements

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

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

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 1 securities include highly liquid U.S. Treasuries, money market funds and exchange traded equity securities, open-ended mutual funds reported in separate account assets and derivative securities.

Level 2 Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most fixed maturities and preferred stocks, including those reported in separate account assets, are model priced by vendors using observable inputs and are classified within Level 2.

Level 3 Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities, guaranteed product embedded and reinsurance derivatives and other complex derivative securities. Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the Company s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

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

	March 31, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
ABS	$ 3,087	$	$ 2,788	$ 299
CDOs	3,043		2,140	903
CMBS	6,774		5,773	1,001
Corporate	43,329		41,335	1,994
Foreign government/government agencies	3,352		3,297	55
States, municipalities and political subdivisions (Municipal)	13,838		13,213	625
RMBS	6,595		5,486	1,109
U.S. Treasuries	3,139	802	2,337	
Total fixed maturities	83,157	802	76,369	5,986
Fixed maturities, FVO	1,291		783	508
Equity securities, trading	30,722	2,041	28,681	
Equity securities, AFS	938	369	480	89
Derivative assets				
Credit derivatives	5		(17)	22
Equity derivatives	10			10
Foreign exchange derivatives	370		370	
Interest rate derivatives			42	(42)
U.S. guaranteed minimum withdrawal benefit (GMWB) hedging instruments	421		(13)	434
U.S. macro hedge program	133			133
International program hedging instruments	227		94	133
Other derivative contracts	27			27
Total derivative assets [1]	1,193		476	717
Short-term investments	5,256	727	4,529	
Reinsurance recoverable for U.S. GMWB	308			308

Separate account assets [2]	148,127	109,213	37,568	1,346
Total assets accounted for at fair value on a recurring basis	**$ 270,992**	**$ 113,152**	**$ 148,886**	**$ 8,954**
Percentage of level to total	**100%**	**42%**	**55%**	**3%**
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
U.S guaranteed withdrawal benefits	$ (1,683)	$	$	$ (1,683)
International guaranteed withdrawal benefits	(37)			(37)
International other guaranteed living benefits	(1)			(1)
Equity linked notes	(10)			(10)
Total other policyholder funds and benefits payable	(1,731)			(1,731)
Derivative liabilities				
Credit derivatives	(522)		(26)	(496)
Equity derivatives	29			29
Foreign exchange derivatives	54		54	
Interest rate derivatives	(447)		(432)	(15)
U.S. GMWB hedging instruments	104		(56)	160
U.S. macro hedge program	40			40
International program hedging instruments	(26)		(8)	(18)
Total derivative liabilities [3]	(768)		(468)	(300)
Other Liabilities	(21)			(21)
Consumer notes [4]	(4)			(4)
Total liabilities accounted for at fair value on a recurring basis	**$ (2,524)**	**$**	**$ (468)**	**$ (2,056)**

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

	December 31, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
ABS	$ 3,153	$	$ 2,792	$ 361
CDOs	2,487		2,119	368
CMBS	6,951		6,363	588
Corporate	44,011		41,756	2,255
Foreign government/government agencies	2,161		2,112	49
States, municipalities and political subdivisions (Municipal)	13,260		12,823	437
RMBS	5,757		4,694	1,063
U.S. Treasuries	4,029	750	3,279	
Total fixed maturities	81,809	750	75,938	5,121
Fixed maturities, FVO	1,328		833	495
Equity securities, trading	30,499	1,967	28,532	
Equity securities, AFS	921	352	476	93
Derivative assets				
Credit derivatives	(24)		(11)	(13)
Equity derivatives	31			31
Foreign exchange derivatives	519		519	
Interest rate derivatives	195		147	48
U.S. GMWB hedging instruments	494		11	483
U.S. macro hedge program	357			357
International program hedging instruments	731		692	39
Other derivative contracts	28			28
Total derivative assets [1]	2,331		1,358	973
Short-term investments	7,736	750	6,986	
Reinsurance recoverable for U.S. GMWB	443			443
Separate account assets [2]	139,432	101,644	36,757	1,031
Total assets accounted for at fair value on a recurring basis	**$ 264,499**	**$ 105,463**	**$ 150,880**	**$ 8,156**
Percentage of level to total	**100%**	**40%**	**57%**	**3%**

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

	December 31, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
U.S guaranteed withdrawal benefits	$ (2,538)	$	$	$ (2,538)
International guaranteed withdrawal benefits	(66)			(66)
International other guaranteed living benefits	(5)			(5)
Equity linked notes	(9)			(9)
Total other policyholder funds and benefits payable	(2,618)			(2,618)
Derivative liabilities				
Credit derivatives	(573)		(25)	(548)
Equity derivatives	9			9
Foreign exchange derivatives	134		134	
Interest rate derivatives	(527)		(421)	(106)
U.S. GMWB hedging instruments	400			400
International program hedging instruments	19		23	(4)
Total derivative liabilities [3]	(538)		(289)	(249)
Other Liabilities	(9)			(9)
Consumer notes [4]	(4)			(4)
Total liabilities accounted for at fair value on a recurring basis	**$ (3,169)**	**$**	**$ (289)**	**$ (2,880)**

[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, 2012 and December 31, 2011, $97 and $1.4 billion, respectively, of cash collateral liability was netted against the derivative asset value in the Condensed Consolidated Balance Sheet and is excluded from the table above. See footnote 3 below for derivative liabilities.*

[2] *Approximately $4.3 billion and $4.0 billion of investment sales receivable that are not subject to fair value accounting are excluded as of March 31, 2012 and December 31, 2011, respectively.*

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

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

Determination of Fair Values

The valuation methodologies used to determine the fair values of assets and liabilities under the exit price notion, reflect market-participant objectives and are based on the application of the fair value hierarchy that prioritizes relevant observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices where available and where prices represent a reasonable estimate of fair value. The Company also determines fair value based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company s default spreads, liquidity and, where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments listed in the above tables.

The fair value process is monitored by the Valuation Committee, which is a cross-functional group of senior management within the Company that meets at least quarterly. The Valuation Committee is co-chaired by the Heads of Investment Operations and Accounting and has representation from various investment sector professionals, accounting, operations, legal, compliance and risk management. The purpose of the committee is to oversee the pricing policy and procedures by ensuring objective and reliable valuation practices and pricing of financial instruments, as well as addressing fair valuation issues and approving changes to valuation methodologies and pricing sources. There is also a Fair Value Working Group (Working Group) which includes the Heads of Investment Operations and Accounting, as well as other investment, operations, accounting and risk management professionals that meet monthly to review market data trends, pricing and trading statistics and results, and any proposed pricing methodology changes described in more detail in the following paragraphs.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Available-for-Sale Securities, Fixed Maturities, FVO, Equity Securities, Trading, and Short-term Investments

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

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

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

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

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

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Derivative Instruments, including embedded derivatives within investments

Derivative instruments are fair valued using pricing valuation models that utilize independent market data inputs, quoted market prices for exchange-traded derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of both March 31, 2012 and December 31, 2011, 98% of derivatives, based upon notional values, were priced by valuation models or quoted market prices. The remaining derivatives were priced by broker quotations.

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

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

Valuation Techniques and Inputs for Investments

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

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

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

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

ABS, CDOs, CMBS and RMBS Primary inputs also include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and, for ABS and RMBS, estimated prepayment rates.

Corporates, including investment grade private placements Primary inputs also include observations of credit default swap curves related to the issuer.

Foreign government/government agencies Primary inputs also include observations of credit default swap curves related to the issuer and political events in emerging markets.

Municipals Primary inputs also include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

Short-term investments Primary inputs also include material event notices and new issue money market rates.

Equity securities, trading Consist of investments in mutual funds. Primary inputs include net asset values obtained from third party pricing services.

Credit derivatives Significant inputs primarily include the swap yield curve and credit curves.

Foreign exchange derivatives Significant inputs primarily include the swap yield curve, currency spot and forward rates, and cross currency basis curves.

Interest rate derivatives Significant input is primarily the swap yield curve.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

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

Significant Unobservable Inputs for Level 3 Assets Measured at Fair Values

The following table presents information about significant unobservable inputs used in Level 3 assets measured at fair value.

Securities Assets accounted for at fair value on a recurring basis	Fair Value	Predominant Valuation Method	As of March 31, 2012 Significant Unobservable Input	Range of Values Unobservable Inputs (Weighted Average) [1]	Impact of Increase in Input on Fair Value [2]
CMBS	$ 1,001	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	317 3,771 bps (1,087 bps)	Decrease
Corporate	1,204[3]	Discounted cash flows	Spread	87 800 bps (342 bps)	Decrease
Municipal	625	Discounted cash flows	Treasury yield beyond 30 years	3.3% (3.3%)	Decrease
RMBS	1,109	Discounted cash flows	Spread	60 1,976 bps (691 bps)	Decrease
			Constant prepayment rate	0% 12% (2%)	Decrease [4]
			Constant default rate	1% 28% (8%)	Decrease
			Loss severity	45% 100% (75%)	Decrease

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

Freestanding Derivatives	**As of March 31, 2012**					
	Fair Value	**Predominant Valuation Method**	**Significant Unobservable Input**	**Range of Values Unobservable Inputs**		**Impact of Increase in Input on Fair Value [1]**
Equity derivatives						
Equity options	$ 39	Option model	Equity volatility	13%	24%	Increase
Interest rate derivative						
Interest rate swaps	(93)	Discounted cash flows	Swap curve beyond 30 years	3.0%	3.1%	Increase
Long interest rate swaptions	36	Option model	Interest rate volatility	25%	32%	Increase
U.S. GMWB hedging instruments						
Equity options	355	Option model	Equity volatility	24%	32%	Increase
Customized swaps	239	Discounted cash flows	Equity volatility	10%	50%	Increase
U.S. macro hedge program						
Equity options	173	Option model	Equity volatility	22%	31%	Increase
International program hedging						
Equity options	141	Option model	Equity volatility	20%	28%	Increase
Short interest rate swaptions	(26)	Option model	Interest rate volatility	22%	25%	Decrease

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

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Securities and derivatives for which the Company bases fair value on broker quotations predominately include ABS, CDOs, corporate, fixed maturities, FVO and certain credit derivatives. Due to the lack of transparency in the process brokers use to develop prices for these investments, the Company does not have access to the significant unobservable inputs brokers use to price these securities and derivatives. The Company believes however, the types of inputs brokers may use would likely be similar to those used to price securities and derivatives for which inputs are available to the Company, and therefore may include, but not be limited to, loss severity rates, constant prepayment rates, constant default rates and counterparty credit spreads. Therefore, similar to non broker priced securities and derivatives, generally, increases in these inputs would cause fair values to decrease. For the three months ended March 31, 2012, no significant adjustments were made by the Company to broker prices received.

Product Derivatives

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

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

U.S. GMWB Reinsurance Derivative

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

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

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

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

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

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Best Estimate

Claim Payments

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

At each valuation date, the Company assumes expected returns based on:

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

On a daily basis, the Company updates capital market assumptions used in the GMWB liability model such as interest rates, equity indices and the blend of implied equity index volatilities. The Company monitors various aspects of policyholder behavior and may modify certain of its assumptions, including living benefit lapses and withdrawal rates, if credible emerging data indicates that changes are warranted. At a minimum, all policyholder behavior assumptions are reviewed and updated, as appropriate, in conjunction with the completion of the Company s comprehensive study to refine its estimate of future gross profits during the third quarter of each year.

Credit Standing Adjustment

This assumption makes an adjustment that market participants would make, in determining fair value, to reflect the risk that guaranteed benefit obligations or the GMWB reinsurance recoverables will not be fulfilled (nonperformance risk). The Company incorporates a blend of observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. The credit standing adjustment assumption, net of reinsurance, resulted in pre-tax realized gains (losses) of $(49) and ($1), for the three months ended March 31, 2012 and 2011. As of March 31, 2012 and December 31, 2011 the credit standing adjustment was $31 and $80, respectively.

Margins

The behavior risk margin adds a margin that market participants would require, in determining fair value, for the risk that the Company s assumptions about policyholder behavior could differ from actual experience. The behavior risk margin is calculated by taking the difference between adverse policyholder behavior assumptions and best estimate assumptions.

There were no policyholder behavior assumption updates for the three months ended March 31, 2012 and 2011. As of March 31, 2012 and December 31, 2011 the behavior risk margin was $355 and $419, respectively.

In addition to the non-market-based updates described above, the Company recognized non-market-based updates driven by the relative outperformance (underperformance) of the underlying actively managed funds as compared to their respective indices resulting in pre-tax realized gains (losses) of approximately $13 and $25, for the three months ended March 31, 2012 and 2011, respectively.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

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

Significant Unobservable Input	Range of Values-Unobservable Inputs	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization[2]	20% to 100%	Increase
Withdrawal Rates [2]	0% to 8%	Increase
Lapse Rates [3]	0% to 75%	Decrease
Reset Elections [4]	20% to 75%	Increase
Equity Volatility [5]	10% to 50%	Increase

[1] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table.
[2] Ranges represent assumed cumulative percentages of policyholders taking withdrawals and the annual amounts withdrawn.
[3] Range represents assumed annual percentages of full surrender of the underlying variable annuity contracts across all policy durations for in force business.
[4] Range represents assumed cumulative percentages of policyholders that would elect to reset their guaranteed benefit base.
[5] Range represents implied market volatilities for equity indices based on multiple pricing sources.

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

Separate Account Assets

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

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

The tables below provide fair value roll-forwards for the three months ended March 31, 2012 and 2011, for the financial instruments classified as Level 3.

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the three months from January 1, 2012 to March 31, 2012.

	Fixed Maturities, AFS								
Assets	**ABS**	**CDOs**	**CMBS**	**Corporate**	**Foreign govt./govt. agencies**	**Municipal**	**RMBS**	**Total Fixed Maturities, AFS**	**Fixed Maturities, FVO**
Fair value as of January 1, 2012	$ 361	$ 368	$ 588	$ 2,255	$ 49	$ 437	$ 1,063	$ 5,121	$ 495
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]		2	(5)	(3)					