

HARTFORD FINANCIAL SERVICES GROUP INC/DE

Form 10-Q

July 29, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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.  ..

• 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).  ..

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

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

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

As of July 24, 2013, there were outstanding 455,032,974 shares of Common Stock, \$0.01 par value per share, of the registrant.



Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013  
 TABLE OF CONTENTS

Item	Description	Page
<u>Part I. FINANCIAL INFORMATION</u>		
1.	<u>Financial Statements</u>	
	<u>Report of Independent Registered Public Accounting Firm</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Operations — For the Three and Six Months Ended June 30, 2013 and 2012</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Comprehensive Income — For the Three and Six Months Ended June 30, 2013 and 2012</u>	<u>7</u>
	<u>Condensed Consolidated Balance Sheets — As of June 30, 2013 and December 31, 2012</u>	<u>8</u>
	<u>Condensed Consolidated Statements of Changes in Stockholders' Equity — For the Six Months Ended June 30, 2013 and 2012</u>	<u>9</u>
	<u>Condensed Consolidated Statements of Cash Flows — For the Six Months Ended June 30, 2013 and 2012</u>	<u>10</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>11</u>
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>72</u>
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>139</u>
4.	<u>Controls and Procedures</u>	<u>139</u>
<u>Part II. OTHER INFORMATION</u>		
1.	<u>Legal Proceedings</u>	<u>140</u>
1A.	<u>Risk Factors</u>	<u>141</u>
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>141</u>
6.	<u>Exhibits</u>	<u>141</u>
	<u>Signature</u>	<u>142</u>
	<u>Exhibits Index</u>	<u>143</u>



Table of Contents

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 performance.

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 2012 Form 10-K Annual Report; and Part II, Item IA, Risk Factors in The Hartford’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013. 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, a sustained low interest rate environment, higher tax rates, and other potentially adverse developments on financial, commodity and credit markets and consumer spending and investment and the effect of these events on our returns in investment portfolios and our hedging costs associated with our variable annuities business;

the risks, challenges and uncertainties associated with our capital management plan and our strategic realignment to focus on our property and casualty, group benefits and mutual fund businesses, place our Individual Annuity business into run-off and the sales of the Individual Life, Woodbury Financial Services, Retirement Plans, and U.K. variable annuity businesses;

execution risk related to the continued reinvestment of our investment portfolios and refinement of our hedge program for our runoff annuity block;

the future capital self-sufficiency of the Company’s Talcott Resolution businesses;

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 possibility of unfavorable loss development including with respect to long-tailed exposures;

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

- 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;

risk associated with the use of analytical models in making decisions in key areas such as underwriting, capital, hedging, reserving, and catastrophe risk management;

the uncertain effects of emerging claim and coverage issues;

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 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 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 economic value;

- 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;

3

---

Table of Contents

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

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, vests a Financial Services Oversight Council with the power to designate "systemically important" institutions, requires central clearing of, and/or imposes 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 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;

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

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 operational 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 changes in federal or state tax laws;

regulatory requirements that could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests;

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

the impact of any future errors in financial reporting;

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

the Company's ability to implement its capital plan; 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.

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the "Company") as of June 30, 2013, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2013 and 2012 and statements of changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2013 and 2012. 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, 2012, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2013 (which report includes an explanatory paragraph relating to the Company's change in its method of accounting and reporting for costs associated with acquiring or renewing insurance contracts as required by accounting guidance adopted in 2012), we expressed an unqualified opinion on those consolidated financial statements.

DELOITTE & TOUCHE LLP

Hartford, Connecticut

July 29, 2013



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

(In millions, except for per share data)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
	(Unaudited)			
Revenues				
Earned premiums	\$3,293	\$3,400	\$6,545	\$6,842
Fee income	699	1,105	1,398	2,229
Net investment income (loss):				
Securities available-for-sale and other	867	1,094	1,723	2,161
Equity securities, trading	1,189	(1,662)	3,751	1,099
Total net investment income (loss)	2,056	(568)	5,474	3,260
Net realized capital gains (losses):				
Total other-than-temporary impairment (“OTTI”) losses	(17)	(106)	(50)	(142)
OTTI losses recognized in other comprehensive income (“OCI”)	5	8	17	15
Net OTTI losses recognized in earnings	(12)	(98)	(33)	(127)
Net realized capital gains on business dispositions	1	—	1,575	—
Other net realized capital gains (losses)	(637)	665	(584)	(234)
Total net realized capital gains (losses)	(648)	567	958	(361)
Other revenues	65	61	133	120
Total revenues	5,465	4,565	14,508	12,090
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	2,886	3,620	5,550	6,657
Benefits, losses and loss adjustment expenses – returns credited on international variable annuities	1,188	(1,661)	3,750	1,098
Amortization of deferred policy acquisition costs and present value of future profits	391	554	1,727	875
Insurance operating costs and other expenses	1,120	1,301	2,144	2,604
Loss on extinguishment of debt	—	910	213	910
Reinsurance loss on dispositions	—	—	1,574	—
Interest expense	100	115	207	239
Total benefits, losses and expenses	5,685	4,839	15,165	12,383
Loss from continuing operations before income taxes	(220)	(274)	(657)	(293)
Income tax benefit	(156)	(166)	(353)	(245)
Loss from continuing operations, net of tax	(64)	(108)	(304)	(48)
Income (loss) from discontinued operations, net of tax	(126)	7	(127)	43
Net loss	\$(190)	\$(101)	\$(431)	\$(5)
Preferred stock dividends	—	11	10	21
Net loss available to common shareholders	\$(190)	\$(112)	\$(441)	\$(26)
Loss from continuing operations, net of tax, available to common shareholders per common share				
Basic	\$(0.14)	\$(0.27)	\$(0.71)	\$(0.16)
Diluted	\$(0.14)	\$(0.27)	\$(0.71)	\$(0.16)
Net loss available to common shareholders per common share				
Basic	\$(0.42)	\$(0.26)	\$(0.99)	\$(0.06)
Diluted	\$(0.42)	\$(0.26)	\$(0.99)	\$(0.06)

Cash dividends declared per common share	\$0.10	\$0.10	\$0.20	\$0.20
------------------------------------------	--------	--------	--------	--------

See Notes to Condensed Consolidated Financial Statements.

6

---

Table of ContentsTHE HARTFORD FINANCIAL SERVICES GROUP, INC.  
Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
	(Unaudited)			
Comprehensive Income (Loss)				
Net income (loss)	\$(190 )	\$(101 )	\$(431 )	\$(5 )
Other comprehensive income (loss):				
Change in net unrealized gain on securities	(1,367 )	747	(2,256 )	988
Change in OTTI losses recognized in other comprehensive income	9	13	24	5
Change in net gain (loss) on cash-flow hedging instruments	(132 )	81	(240 )	28
Change in foreign currency translation adjustments	(94 )	56	(314 )	(80 )
Change in pension and other postretirement plan adjustments	9	31	17	64
Total other comprehensive income (loss)	(1,575 )	928	(2,769 )	1,005
Total comprehensive income (loss)	\$(1,765 )	\$827	\$(3,200 )	\$1,000
See Notes to Condensed Consolidated Financial Statements.				

Table of ContentsTHE HARTFORD FINANCIAL SERVICES GROUP, INC.  
Condensed Consolidated Balance Sheets

(In millions, except for share and per share data)	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$62,840 and \$79,747) (includes variable interest entity assets, at fair value, of \$49 and \$89)	\$64,881	\$85,922
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of \$154 and \$163)	997	1,087
Equity securities, trading, at fair value (cost of \$19,085 and \$26,820)	23,362	28,933
Equity securities, available-for-sale, at fair value (cost of \$801 and \$866) (includes variable interest entity assets of \$1 as of June 30, 2013)	834	890
Mortgage loans (net of allowances for loan losses of \$68 and \$68)	5,411	6,711
Policy loans, at outstanding balance	1,412	1,997
Limited partnerships and other alternative investments (includes variable interest entity assets of \$4 and \$6)	3,101	3,015
Other investments	648	1,114
Short-term investments (includes variable interest entity assets, at fair value, of \$7 as of June 30, 2013)	4,874	4,581
Total investments	105,520	134,250
Cash	1,740	2,421
Premiums receivable and agents' balances, net	3,581	3,542
Reinsurance recoverables, net	22,720	4,666
Deferred policy acquisition costs and present value of future profits	2,472	5,725
Deferred income taxes, net	3,732	1,942
Goodwill	498	654
Property and equipment, net	911	977
Other assets	3,732	2,767
Assets held for sale	1,941	—
Separate account assets	147,986	141,569
Total assets	\$294,833	\$298,513
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	\$41,548	\$40,992
Other policyholder funds and benefits payable	40,597	41,979
Other policyholder funds and benefits payable – international variable annuities	23,351	28,922
Unearned premiums	5,297	5,145
Debt	6,625	7,126
Consumer notes	110	161
Other liabilities (includes variable interest entity liabilities of \$51 and \$89)	8,644	10,172
Liabilities held for sale	1,662	—
Separate account liabilities	147,986	141,569
Total liabilities	275,820	276,066
Commitments and Contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, \$0.01 par value — 50,000,000 shares authorized, 575,000 shares issued as of December 31, 2012, liquidation preference \$1,000 per share	—	556

Edgar Filing: HARTFORD FINANCIAL SERVICES GROUP INC/DE - Form 10-Q

Common stock, \$0.01 par value — 1,500,000,000 shares authorized, 491,619,938 and 469,744,822 shares issued	5	5
Additional paid-in capital	10,544	10,038
Retained earnings	10,213	10,745
Treasury stock, at cost — 37,692,683 and 33,439,044 shares	(1,823	)(1,740 )
Accumulated other comprehensive income, net of tax	74	2,843
Total stockholders' equity	19,013	22,447
Total liabilities and stockholders' equity	\$294,833	\$298,513

See Notes to Condensed Consolidated Financial Statements.

8

---

Table of ContentsTHE HARTFORD FINANCIAL SERVICES GROUP, INC.  
Condensed Consolidated Statements of Changes in Stockholders' Equity

(In millions, except for share data)	Six Months Ended June 30,	
	2013	2012
	(Unaudited)	
Preferred Stock		
Balance at beginning of year	\$556	\$556
Conversion of shares to common stock	(556)	)—
Balance at end of year	\$—	\$556
Common Stock	5	5
Additional Paid-in Capital, beginning of period	10,038	10,391
Repurchase of warrants	(21)	)(300)
Issuance of shares under incentive and stock compensation plans	(29)	)(52)
Tax expense on employee stock options and awards	—	(2)
Conversion of mandatory convertible preferred stock	556	—
Additional Paid-in Capital, end of period	10,544	10,037
Retained Earnings, beginning of period	10,745	11,001
Net income (loss)	(431)	)(5)
Dividends on preferred stock	(10)	)(21)
Dividends declared on common stock	(91)	)(88)
Retained Earnings, end of period	10,213	10,887
Treasury Stock, at Cost, beginning of period	(1,740)	)(1,718)
Treasury stock acquired	(145)	)(149)
Issuance of shares under incentive and stock compensation plans from treasury stock	69	94
Return of shares under incentive and stock compensation plans and other to treasury stock	(7)	)(7)
Treasury Stock, at Cost, end of period	(1,823)	)(1,780)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	2,843	1,251
Total other comprehensive income	(2,769)	)1,005
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	74	2,256
Total Stockholders' Equity	\$19,013	\$21,961
Preferred Shares Outstanding (in thousands)	—	575
Common Shares Outstanding, at beginning of period (in thousands)	436,306	442,539
Treasury stock acquired	(5,205)	)(8,045)
Issuance of shares under incentive and stock compensation plans	1,236	1,435
Return of shares under incentive and stock compensation plans and other to treasury stock	(285)	)(330)
Conversion of mandatory convertible preferred shares	21,181	—
Issuance of shares for warrant exercise	694	—
Common Shares Outstanding, at end of period	453,927	435,599

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

(In millions)	Six Months Ended June 30, 2013    2012 (Unaudited)	
<b>Operating Activities</b>		
Net income (loss)	\$(431 )	\$(5 )
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	1,727	875
Additions to deferred policy acquisition costs and present value of future profits	(668 )	(852 )
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	(233 )	27
Change in reinsurance recoverables	(327 )	(291 )
Change in receivables and other assets	(796 )	(274 )
Change in payables and accruals	607	615
Change in accrued and deferred income taxes	(535 )	(190 )
Net realized capital (gains) losses	(958 )	321
Net receipts (disbursements) from investment contracts related to policyholder funds—international variable annuities	(3,907 )	(1,287 )
Net (increase) decrease in equity securities, trading	3,906	1,284
Depreciation and amortization	57	250
Loss on extinguishment of debt	213	910
Reinsurance loss on dispositions	1,574	—
Other operating activities, net	179	(147 )
Net cash provided by operating activities	408	1,236
<b>Investing Activities</b>		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	19,908	25,121
Fixed maturities, fair value option	49	153
Equity securities, available-for-sale	191	165
Mortgage loans	263	159
Partnerships	175	84
Payments for the purchase of:		
Fixed maturities, available-for-sale	(17,623 )	(24,484 )
Fixed maturities, fair value option	(95 )	—
Equity securities, available-for-sale	(97 )	(55 )
Mortgage loans	(315 )	(1,307 )
Partnerships	(195 )	(588 )
Proceeds from business sold (excluding \$485 of non-cash proceeds)	485	—
Derivatives, net	(1,303 )	(816 )
Change in policy loans, net	44	45
Other investing activities, net	32	(28 )
Net cash provided by (used for) investing activities	1,519	(1,551 )
<b>Financing Activities</b>		
Deposits and other additions to investment and universal life-type contracts	4,736	6,218
Withdrawals and other deductions from investment and universal life-type contracts	(13,292 )	(12,094 )
Net transfers from separate accounts related to investment and universal life-type contracts	8,065	5,058
Repayments at maturity or settlement of consumer notes	(51 )	(60 )
Net increase (decrease) in securities loaned or sold under agreements to repurchase	(847 )	1,560
Repurchase of warrants	(21 )	(300 )

Edgar Filing: HARTFORD FINANCIAL SERVICES GROUP INC/DE - Form 10-Q

Repayment of long-term debt	(1,018 )	(2,133 )
Proceeds from the issuance of long-term debt	295	2,123
Proceeds from net issuance of shares under incentive and stock compensation plans, excess tax benefit and other	15	1
Treasury stock acquired	(145 )	(154 )
Dividends paid on preferred stock	(21 )	(21 )
Dividends paid on common stock	(87 )	(89 )
Net cash provided by (used for) financing activities	(2,371 )	109
Foreign exchange rate effect on cash	(134 )	(37 )
Transfer of cash to held for sale	(103 )	—
Net decrease in cash	(681 )	(243 )
Cash – beginning of period	2,421	2,581
Cash – end of period	\$1,740	\$2,338
Supplemental Disclosure of Cash Flow Information		
Income taxes paid (received)	\$142	\$(446 )
Interest paid	\$132	\$241
See Notes to Condensed Consolidated Financial Statements		



Table of Contents

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 Significant Accounting Policies

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

On January 1, 2013, the Company completed the sale of its Retirement Plans business to Massachusetts Mutual Life Insurance Company ("MassMutual") and on January 2, 2013 the Company completed the sale of its Individual Life insurance business to The Prudential Insurance Company of America ("Prudential"), a subsidiary of Prudential Financial, Inc. For further discussion of these and other such transactions, see Note 2 - Business Dispositions of the Notes to Consolidated Financial Statements.

The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, 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 Company's 2012 Form 10-K Annual Report. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

The accompanying Condensed Consolidated Financial Statements and Notes as of June 30, 2013, and for the three and six months ended June 30, 2013 and 2012 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. The Company's significant accounting policies are summarized in Note 1 - Basis of Presentation and Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2012 Form 10-K Annual Report.

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 information on VIEs see Note 6 - Investments and Derivative Instruments of 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. For information on the specific businesses and related impacts, see Note 14 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

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; 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.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 1. Basis of Presentation and Accounting Policies (continued)

## 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.

## 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		Six Months Ended	
	Ended June 30,		June 30,	
	2013	2012	2013	2012
Tax benefit at U.S. Federal statutory rate	\$(77 )	\$(96 )	\$(230 )	\$(103 )
Tax-exempt interest	(35 )	(35 )	(69 )	(71 )
Separate account dividends-received deduction	(33 )	(30 )	(65 )	(63 )
Other [1]	(11 )	(5 )	11	(8 )
Income tax benefit	(156 )	\$(166 )	\$(353 )	\$(245 )

[1] Includes a permanent difference of \$25 related to non-deductible goodwill for the six months ended June 30, 2013.

The separate account dividends-received deduction (“DRD”) is estimated for the current year using information from the most recent return, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments and level of policy owner equity account balances. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received in the mutual funds, amounts of 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 \$48 unrecognized tax benefits were unchanged for the three and six months ended June 30, 2013. This entire amount, if it were recognized, would affect the effective tax rate in the period it is released.

The Company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years prior to 2007. The audit of the years 2007-2009 commenced during 2010 and is expected to conclude in the second quarter of 2014. The 2010-2011 audit commenced in the fourth quarter of 2012 and is expected to conclude by the end of 2014. Management believes that adequate provision has been made in the financial statements for any potential assessments that may result from tax examinations and other tax-related matters for all open tax years.

The Company recorded a deferred tax asset valuation allowance that is adequate to reduce the total deferred tax asset to an amount that will be more likely than not realized. The deferred tax asset valuation allowance was \$5 as of June 30, 2013 and \$58 as of December 31, 2012 relating mostly to foreign net operating losses. In assessing the need for a valuation allowance, management considered future taxable temporary difference 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. These tax planning strategies include holding a portion of debt securities with market value losses until recovery, altering the level of tax exempt securities, selling appreciated securities to offset capital losses, business considerations such as asset-liability matching, and the sales of certain corporate assets.

Management views such tax planning strategies as prudent and feasible, and will implement them, if necessary, to realize the deferred tax asset. Future economic conditions and debt market volatility, including increases in interest rates, can adversely impact the Company's tax planning strategies and in particular the Company's ability to utilize tax benefits on previously recognized realized capital losses.

Reclassifications

Certain reclassifications have been made to prior period financial information to conform to the current year presentation.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Business Dispositions

Sale of Hartford Life International Limited ("HLIL")

On June 27, 2013, the Company announced the signing of a definitive agreement to sell HLIL, an indirect wholly-owned subsidiary, in a cash transaction to Columbia Insurance Company, a Berkshire Hathaway company, for approximately \$285. At closing, HLIL's sole asset will be its subsidiary, Hartford Life Limited, a Dublin-based company that sold variable annuities in the U.K. from 2005 to 2009. The Company's U.K. variable annuities business is included in the Talcott Resolution reporting segment. As the sale transaction is expected to result in a loss upon disposition, the Company recognized an estimated after-tax loss of approximately \$102 for the three and six months ended June 30, 2013 upon signing the agreement. The related loss accrual is included as a reduction of the carrying value of assets held for sale in the Company's Condensed Consolidated Balance Sheets as of June 30, 2013. The purchase price is based on HLIL's financial position as of March 31, 2013. Certain accounting results that occur after March 31, 2013 through the date of the closing of the transaction are passed to the buyer. The transaction, which is subject to customary closing conditions and regulatory approvals, is expected to close by the end of 2013. The operations of the Company's U.K. variable annuity business meet the criteria for reporting as discontinued operations as further discussed in Note 14 - Discontinued Operations.

Sale of Retirement Plans

On January 1, 2013, the Company completed the sale of its Retirement Plans business to MassMutual for a ceding commission of \$355. The business sold included products and services provided to corporations pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), and products and services provided to municipalities and not-for-profit organizations under Sections 457 and 403(b) of the Code, collectively referred to as government plans. The sale was structured as a reinsurance transaction and resulted in an after-tax loss of \$25 for the six months ended June 30, 2013. The after-tax loss is primarily driven by the reduction in goodwill that is non-deductible for income tax purposes. The Company recognized \$634 in reinsurance loss on disposition offset by \$634 in net realized capital gains for a \$0 impact on income, pre-tax. These amounts are subject to change pending final determination of the value of net assets sold, transaction costs and other adjustments.

Upon closing, the Company reinsured \$9.2 billion of policyholder liabilities and \$26.3 billion of separate account liabilities under an indemnity reinsurance arrangement. The reinsurance transaction does not extinguish the Company's primary liability on the insurance policies issued under the Retirement Plans business. The Company also transferred invested assets with a carrying value of \$9.3 billion, net of the ceding commission, to MassMutual and recognized other non-cash decreases in assets totaling \$200 relating to deferred acquisition costs, deferred income taxes, goodwill, property and equipment and other assets associated with the disposition. The Company will continue to sell retirement plans during a transition period of 18-24 months and MassMutual will assume all expenses and risk for these sales through the reinsurance agreement.

The Retirement Plans business is included in the Talcott Resolution reporting segment. For the three and six months ended June 30, 2012, Retirement Plans total revenues were \$188 and \$399, respectively and net income (loss) was (\$2) and \$16, respectively.

Sale of Individual Life

On January 2, 2013, the Company completed the sale of its Individual Life insurance business to Prudential for consideration of \$615 consisting primarily of a ceding commission. The business sold included variable universal life, universal life, and term life insurance. The sale was structured as a reinsurance transaction and resulted in a loss on business disposition consisting of a reinsurance loss partially offset by realized capital gains. In 2012, the Company recognized a reinsurance loss on business disposition of \$533, pre-tax, which included a goodwill impairment charge of \$342 and a loss accrual for premium deficiency of \$191. The loss accrual of \$191 is included in other liabilities as of December 31, 2012. For additional information, see Note 2 - Business Dispositions and Note 9 - Goodwill and Other Intangible Assets in The Hartford's 2012 Annual Report on Form 10-K. Upon closing the Company recognized an additional \$940 in reinsurance loss on disposition offset by \$940 in realized capital gains for a \$0 impact on

income, pre-tax. These amounts are subject to change pending final determination of the value of net assets sold, transaction costs and other adjustments.

Upon closing, the Company reinsured \$8.7 billion of policyholder liabilities and \$5.3 billion of separate account liabilities under indemnity reinsurance arrangements. The reinsurance transaction does not extinguish the Company's primary liability on the insurance policies issued under the Individual Life business. The Company also transferred invested assets with a carrying value of \$8.0 billion, exclusive of \$1.4 billion of assets supporting the modified coinsurance agreement, net of cash transferred in place of short-term investments, to Prudential and recognized other non-cash decreases in assets totaling \$1.8 billion relating to deferred acquisition costs, deferred income taxes, property and equipment and other assets and other non-cash decreases in liabilities totaling \$1.5 billion relating to other liabilities including the \$191 loss accrual for premium deficiency, associated with the disposition. The Company will continue to sell life insurance products and riders during a transition period of 18-24 months and Prudential will assume all expenses and risk for these sales through the reinsurance agreement.

The Individual Life business is included in the Talcott Resolution reporting segment. For the three and six months ended June 30, 2012, Individual Life total revenues were \$366 and \$714, respectively and net income was \$36 and \$55, respectively.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. Business Dispositions (continued)

## Composition of Invested Assets Transferred

The following table presents invested assets transferred by the Company in connection with the sale of the Retirement Plans and Individual Life businesses in January 2013.

	Carrying Value As of Closing
Asset-backed securities ("ABS")	\$ 289
Collateralized debt obligations ("CDOs") [1]	474
Commercial mortgage-backed securities ("CMBS")	949
Corporate	11,651
Foreign government/government agencies	263
States, municipalities and political subdivisions ("Municipal")	900
Residential mortgage-backed securities ("RMBS")	707
U.S. Treasuries	116
Total fixed maturities, available-for-sale ("AFS") at fair value (amortized cost of \$13,916) [2]	15,349
Equity securities, AFS, at fair value (cost of \$35) [3]	37
Fixed maturities, at fair value using the fair value option ("FVO") [4]	16
Mortgage loans (net of allowances for loan losses of \$1)	1,364
Policy loans, at outstanding balance	582
Total invested assets transferred	\$ 17,348

[1] The market value includes the fair value of bifurcated embedded derivative features of certain securities. Changes in fair value are recorded in the net realized capital gains (losses).

[2] Includes \$14.7 billion and \$670 of securities in level 2 and 3 of the fair value hierarchy, respectively.

[3] All equity securities transferred are included in level 2 of the fair value hierarchy.

[4] All FVO securities transferred are included in level 3 of the fair value hierarchy.

## Purchase Agreement with Forethought Financial Group, Inc.

Effective May 1, 2012, all new U.S. annuity policies sold by the Company are reinsured to Forethought Life Insurance Company. The Company ceased the sale of such annuity policies in the second quarter of 2013. The reinsurance agreement has no impact on in-force policies issued on or before April 27, 2012 and the impact of this transaction was not material to the Company's results of operations, financial position or liquidity. On December 31, 2012, the Company completed the sale of its U.S. individual annuity new business capabilities to Forethought Financial Group. The Individual Annuity business is included in the Talcott Resolution reporting segment.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. Earnings (Loss) Per Common Share

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

(In millions, except for per share data)	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2013	2012	2013	2012
Earnings				
Loss from continuing operations				
Loss from continuing operations, net of tax	\$(64 )	\$(108 )	\$(304 )	\$(48 )
Less: Preferred stock dividends	—	11	10	21
Loss from continuing operations, net of tax, available to common shareholders	\$(64 )	\$(119 )	\$(314 )	\$(69 )
Income (loss) from discontinued operations, net of tax	\$(126 )	\$7	\$(127 )	\$43
Net loss				
Net loss	\$(190 )	\$(101 )	\$(431 )	\$(5 )
Less: Preferred stock dividends	—	11	10	21
Net loss available to common shareholders	\$(190 )	\$(112 )	\$(441 )	\$(26 )
Shares				
Weighted average common shares outstanding, basic	451.4	438.2	443.8	439.4
Dilutive effect of warrants	—	—	—	—
Dilutive effect of stock compensation plans	—	—	—	—
Dilutive effect of mandatory convertible preferred shares	—	—	—	—
Weighted average shares outstanding and dilutive potential common shares	451.4	438.2	443.8	439.4
Earnings (loss) per common share				
Basic				
Loss from continuing operations, net of tax, available to common shareholders	\$(0.14 )	\$(0.27 )	\$(0.71 )	\$(0.16 )
Income (loss) from discontinued operations, net of tax	(0.28 )	0.01	(0.28 )	0.10
Net loss available to common shareholders	\$(0.42 )	\$(0.26 )	\$(0.99 )	\$(0.06 )
Diluted				
Loss from continuing operations, net of tax, available to common shareholders	\$(0.14 )	\$(0.27 )	\$(0.71 )	\$(0.16 )
Income (loss) from discontinued operations, net of tax	(0.28 )	0.01	(0.28 )	0.10
Net loss available to common shareholders	\$(0.42 )	\$(0.26 )	\$(0.99 )	\$(0.06 )

As a result of the losses available to common shareholders for the three months ended June 30, 2013, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share since the inclusion of shares for warrants of 33.4 million and stock compensation plans of 4.2 million would have been antidilutive to the earnings (loss) per share calculations. In the absence of the losses, weighted average common shares outstanding and dilutive potential common shares would have totaled 489.0 million.

As a result of the losses available to common shareholders for the six months ended June 30, 2013, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of shares for warrants of 32.6 million and stock compensation plans of 4.0 million would have been antidilutive to the earnings (loss) per share calculations. In the absence of the losses, weighted average common shares outstanding and dilutive potential common shares would have totaled 480.4 million.

As a result of the losses available to common shareholders for the three months ended June 30, 2012, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share,



since the inclusion of shares for warrants of 25.1 million, stock compensation plans of 1.5 million and mandatory convertible preferred shares, along with the related dividend adjustment, of 21.0 million, would have been antidilutive to the earnings (loss) per share calculations. In the absence of the losses, weighted average common shares outstanding and dilutive potential common shares would have totaled 485.8 million.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

As a result of the losses available to common shareholders for the six months ended June 30, 2012, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of shares for warrants of 25.7 million, stock compensation plans of 1.8 million and mandatory convertible preferred shares, along with the related dividend adjustment, of 21.0 million, would have been antidilutive to the earnings (loss) per share calculations. In the absence of the losses, weighted average common shares outstanding and dilutive potential common shares would have totaled 487.9 million.

The declaration of a quarterly common stock dividend of 0.10 during the first and second quarter of 2013 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. The warrant exercise price at June 30, 2013, March 31, 2013, December 31, 2012 was \$9.563, \$9.579 and \$9.599, respectively.

The declaration of a quarterly common stock dividend in the first quarter of 2013 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 30.1920 from 29.8831 shares of Common Stock per share of Series F Preferred Stock and the maximum conversion rate to 36.8365 from 36.4596 shares of Common Stock per share of Series F Preferred Stock. On April 1, 2013 the mandatory convertible preferred stock converted to 21.2 million shares of common stock at the conversion rate of 36.8365.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information

The Company currently conducts business principally in six reporting segments, as well as a Corporate category. Historical financial results for the Individual Life and Retirement Plans businesses sold in the first quarter of 2013 have been reported in the Talcott Resolution reporting segment.

The Company's reporting segments, as well as the Corporate category, are as follows:

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.

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.

Property & Casualty Other Operations

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

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.

Mutual Funds

Mutual Funds offers mutual funds for retail accounts such as retirement plans and 529 college savings plans and provides investment-management and administrative services such as product design, implementation and oversight.

Talcott Resolution

Talcott Resolution is comprised of runoff business from the Company's U.S. annuity, international (primarily in Japan) annuity, institutional and private-placement life insurance businesses, as well as the Retirement Plans and Individual Life businesses that were sold in the first quarter of 2013 and the Company's discontinued U.K. variable annuity business. For information regarding the sale of the Retirement Plans and Individual Life businesses and the discontinued U.K variable annuity business, see Note 2 - Business Dispositions and Note 14 - Discontinued Operations, respectively, of Notes to Condensed Consolidated Financial Statements.

Corporate

The Company includes in the Corporate category the Company's debt financing and related interest expense, as well as other capital raising activities; 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		Six Months Ended	
	Ended June 30,		June 30,	
	2013	2012	2013	2012
Net income (loss)				

Edgar Filing: HARTFORD FINANCIAL SERVICES GROUP INC/DE - Form 10-Q

Property & Casualty Commercial	\$192	\$149	\$445	\$338
Consumer Markets	15	(50 )	92	58
Property & Casualty Other Operations	(71 )	(15 )	(50 )	12
Group Benefits	61	35	103	53
Mutual Funds	20	18	38	38
Talcott Resolution	(332 )	440	(626 )	270
Corporate	(75 )	(678 )	(433 )	(774 )
Net loss	\$(190 )	\$(101 )	\$(431 )	\$(5 )

17

---

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. Segment Information (continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Earned premiums, fees, and other considerations				
Property & Casualty Commercial				
Workers' compensation	\$741	\$737	\$1,474	\$1,470
Property	127	126	252	251
Automobile	144	146	288	292
Package business	285	289	566	581
Liability	141	136	279	277
Fidelity and surety	52	51	101	103
Professional liability	55	67	114	135
Total Property & Casualty Commercial	1,545	1,552	3,074	3,109
Consumer Markets				
Automobile	626	630	1,245	1,262
Homeowners	282	274	559	551
Total Consumer Markets [1]	908	904	1,804	1,813
Property & Casualty Other Operations	—	(2)	—	(2)
Group Benefits				
Group disability	370	439	729	882
Group life	428	478	854	957
Other	40	49	81	99
Total Group Benefits	838	966	1,664	1,938
Mutual Funds				
Retail	132	120	261	243
Annuity and other	38	28	73	56
Total Mutual Funds	170	148	334	299
Talcott Resolution	529	892	1,062	1,817
Corporate	2	45	5	97
Total earned premiums, fees, and other considerations	3,992	4,505	7,943	9,071
Net investment income (loss):				
Securities available-for-sale and other	867	1,094	1,723	2,161
Equity securities, trading	1,189	(1,662)	3,751	1,099
Total net investment income	2,056	(568)	5,474	3,260
Net realized capital gains (losses)	(648)	567	958	(361)
Other revenues	65	61	133	120
Total revenues	\$5,465	\$4,565	\$14,508	\$12,090

For the three months ended June 30, 2013 and 2012, AARP members accounted for earned premiums of \$714 and [1]\$694, respectively. For the six months ended June 30, 2013 and 2012, AARP members accounted for earned premiums of \$1.4 billion and \$1.4 billion, respectively.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements

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. Also included are limited partnerships and other alternative assets measured at fair value where an investment can be redeemed, or substantially redeemed, at the NAV at the measurement date or in the near-term, not to exceed 90 days.

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, as well as limited partnerships and other alternative investments carried at fair value that cannot be redeemed in the near-term at the NAV. 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. The amount of transfers from Level 1 to Level 2 was \$350 and \$466, respectively, for the three and six months ended June 30, 2013, and \$781 and \$919 for the three and six months ended June 30, 2012, which represented previously on-the-run U.S. Treasury securities that are now off-the-run, and there were no transfers from Level 2 to Level 1. 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.

The following tables present assets and (liabilities) carried at fair value by hierarchy level. 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.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

	June 30, 2013				
	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					
Asset-backed-securities ("ABS")	\$2,453	\$—	\$2,221	\$232	
Collateralized debt obligations ("CDOs")	2,623	—	1,711	912	
Commercial mortgage-backed securities ("CMBS")	4,733	—	3,915	818	
Corporate	29,666	—	28,415	1,251	
Foreign government/government agencies	3,825	—	3,756	69	
Municipal	12,569	—	12,442	127	
Residential mortgage-backed securities ("RMBS")	5,167	—	3,815	1,352	
U.S. Treasuries	3,845	443	3,402	—	
Total fixed maturities	64,881	443	59,677	4,761	
Fixed maturities, FVO	997	1	785	211	
Equity securities, trading	23,362	11	23,351	—	
Equity securities, AFS	834	359	380	95	
Derivative assets					
Credit derivatives	13	—	10	3	
Equity derivatives	11	—	2	9	
Foreign exchange derivatives	42	—	42	—	
Interest rate derivatives	(4	) —	(10	) 6	
U.S. guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	138	—	(10	) 148	
U.S. macro hedge program	137	—	1	136	
International program hedging instruments	257	—	208	49	
Other derivative contracts	—	—	—	—	
Total derivative assets [1]	594	—	243	351	
Short-term investments	4,872	350	4,522	—	
Limited partnerships and other alternative investments [2]	1,018	—	655	363	
Reinsurance recoverable for U.S. GMWB	113	—	—	113	
Modified coinsurance reinsurance contracts	54	—	54	—	
Separate account assets [3]	137,451	98,826	37,805	820	
Assets held for sale	2,111	1,665	446	—	
Total assets accounted for at fair value on a recurring basis	\$236,287	\$101,655	\$127,918	\$6,714	
Percentage of level to total	100	%43	%54	%3	%
Liabilities accounted for at fair value on a recurring basis					
Other policyholder funds and benefits payable					
U.S. guaranteed withdrawal benefits	\$(632	) \$—	\$—	\$(632	)
International guaranteed withdrawal benefits	1	—	—	1	

Edgar Filing: HARTFORD FINANCIAL SERVICES GROUP INC/DE - Form 10-Q

International other guaranteed living benefits	3	—	—	3	
Equity linked notes	(12	) —	—	(12	)
Total other policyholder funds and benefits payable	(640	) —	—	(640	)
Derivative liabilities					
Credit derivatives	(9	) —	(8	) (1	)
Equity derivatives	20	—	—	20	
Foreign exchange derivatives	(303	) —	(303	) —	
Interest rate derivatives	(539	) —	(518	) (21	)
U.S. GMWB hedging instruments	118	—	(63	) 181	
U.S. macro hedge program	73	—	—	73	
International program hedging instruments	(292	) —	(200	) (92	)
Total derivative liabilities [4]	(932	) —	(1,092	) 160	
Consumer notes [5]	(1	) —	—	(1	)
Liabilities held for sale	(28	) —	—	(28	)
Total liabilities accounted for at fair value on a recurring basis	\$ (1,601	) \$ —	\$ (1,092	) \$ (509	)

20

---



Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

	December 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	\$2,763	\$—	\$2,485	\$278
CDOs	3,040	—	2,096	944
CMBS	6,321	—	5,462	859
Corporate	44,049	—	42,048	2,001
Foreign government/government agencies	4,136	—	4,080	56
Municipal	14,361	—	14,134	227
RMBS	7,480	—	6,107	1,373
U.S. Treasuries	3,772	115	3,657	—
Total fixed maturities	85,922	115	80,069	5,738
Fixed maturities, FVO	1,087	8	865	214
Equity securities, trading	28,933	1,847	27,086	—
Equity securities, AFS	890	337	469	84
Derivative assets				
Credit derivatives	(19	) —	(8	) (11
Equity derivatives	32	—	—	32
Foreign exchange derivatives	104	—	104	—
Interest rate derivatives	235	—	268	(33
U.S. GMWB hedging instruments	36	—	(53	) 89
U.S. macro hedge program	186	—	—	186
International program hedging instruments	448	—	318	130
Other derivative contracts	23	—	—	23
Total derivative assets [1]	1,045	—	629	416
Short-term investments	4,581	342	4,239	—
Limited partnerships and other alternative investments [2]	907	—	593	314
Reinsurance recoverable for U.S. GMWB	191	—	—	191
Separate account assets [3]	138,509	97,988	39,938	583
Total assets accounted for at fair value on a recurring basis	\$262,065	\$100,637	\$153,888	\$7,540
Percentage of level to total	100	%38	%59	%3

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

	December 31, 2012			
	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	\$(1,249	)\$—	\$—	\$(1,249 )
International guaranteed withdrawal benefits	(50	)—	—	(50 )
International other guaranteed living benefits	2	—	—	2
Equity linked notes	(7	)—	—	(7 )
Total other policyholder funds and benefits payable	(1,304	)—	—	(1,304 )
Derivative liabilities				
Credit derivatives	(18	)—	(33	)15
Equity derivatives	25	—	—	25
Foreign exchange derivatives	(24	)—	(24	)—
Interest rate derivatives	(517	)—	(518	)1
U.S. GMWB hedging instruments	536	—	106	430
U.S Macro hedge program	100	—	—	100
International program hedging instruments	(279	)—	(217	)(62 )
Total derivative liabilities [4]	(177	)—	(686	)509
Consumer notes [5]	(2	)—	—	(2 )
Total liabilities accounted for at fair value on a recurring basis	\$(1,483	)\$—	\$(686	)\$(797 )

Includes over-the-counter("OTC") and OTC-cleared derivative instruments in a net asset value position after consideration of the impact of collateral posting requirements which may be imposed by agreements, clearing [1]house rules and applicable law. As of June 30, 2013 and December 31, 2012, \$88 and \$160, 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 4 below for derivative liabilities.

[2] Represents hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value.

[3] Approximately \$10.5 billion and \$3.1 billion of investment sales receivable that are not subject to fair value accounting are excluded as of June 30, 2013 and December 31, 2012, respectively.

Includes OTC and OTC-cleared derivative instruments in a net negative market value position (derivative liability).

[4] 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.

[5] 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.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

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. 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.

## AFS 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. Typical inputs used by these pricing methods include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows, prepayments speeds and default rates. 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.

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. 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 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 and missing prices. Also on a monthly basis, a second source validation is performed 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.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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.

**Derivative Instruments, including embedded derivatives within investments**

Derivative instruments are fair valued using pricing valuation models for OTC and OTC-cleared derivatives 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 June 30, 2013 and December 31, 2012, 97% and 97%, respectively, 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.

**Limited partnerships and other alternative investments**

Limited partnerships and other alternative investments include hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value. These funds are fair valued using the net asset value per share or equivalent ("NAV"), as a practical expedient, calculated on a monthly basis and is the amount at which a unit or shareholder may redeem their investment, if redemption is allowed. Certain impediments to redemption include, but are not limited to the following: 1) redemption notice periods vary and may be as long as 90 days, 2) redemption may be restricted (e.g. only be allowed on a quarter-end), 3) a holding period referred to as a lock-up may be imposed whereby an investor must hold their investment for a specified period of time before they can make a notice for redemption, 4) gating provisions may limit all redemptions in a given period to a percentage of the entities' equity interests, or may only allow an investor to redeem a portion of their investment at one time and 5) early redemption penalties may be imposed that are expressed as a percentage of the amount redeemed. The Company will assess impediments to redemption and current market conditions that will restrict the redemption at the end of the notice period. Any funds that are subject to significant liquidity restrictions are reported in Level 3; all others will be classified as Level 2.

Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Fair Value Measurements (continued)

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. Certain limited partnerships and other alternative investments are measured at fair value using a NAV as a practical expedient. 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:

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, as well as certain limited partnerships and other alternative investments and derivative instruments.

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 – Primary inputs include the swap yield curve and credit default swap curves.

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

Interest rate derivatives – Primary input is the swap yield curve.

Limited partnerships and other alternative investments — Primary inputs include a NAV for investment companies with no redemption restrictions as reported on their U.S. GAAP financial statements.

Level 3 Most of the Company's securities classified as Level 3 include less liquid securities such as lower quality ABS, CMBS, commercial real estate ("CRE") CDOs and 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. Level 3 investments also include certain limited

partnerships and other alternative investments measured at fair value where the Company does not have the ability to redeem the investment in the near-term at the NAV. 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; but also include equity and interest rate volatility and swap yield curves beyond observable limits.



Table of Contents

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Fair Value Measurements (continued)

## Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value

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

		As of June 30, 2013					
Securities		Unobservable Inputs					
Assets							
accounted for at fair value on a recurring basis	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum	Maximum	Weighted Average [1]	Impact of Increase in Input on Fair Value [2]
CMBS	\$818	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	60	bps3,302	bps826	bpsDecrease
Corporate [3]	683	Discounted cash flows	Spread	180	bps4,653	bps422	