HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
April 29, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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.	ý	¨
• 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).	ý	¨

• 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.)	¨	ý

As of April 24, 2013, there were outstanding 455,888,708 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, 2013
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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 per 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. 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 sale of the Individual Life, Woodbury Financial Services and the Retirement Plans 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;
- the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;

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- 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, 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 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.

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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, 2013, and the related condensed consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the three-month periods ended March 31, 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
April 29, 2013

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

(In millions, except for per share data)	Three months ended March 31, 2013	2012
	(Unaudited)	
Revenues		
Earned premiums	$3,252	$3,442
Fee income	707	1,134
Net investment income:		
Securities available-for-sale and other	856	1,070
Equity securities, trading	2,700	2,866
Total net investment income	3,556	3,936
Net realized capital gains (losses):		
Total other-than-temporary impairment (“OTTI”) losses	(33)	(36)
OTTI losses recognized in other comprehensive income (“OCI”)	12	7
Net OTTI losses recognized in earnings	(21)	(29)
Net realized capital gains on business dispositions	1,574	—
Other net realized capital gains (losses)	42	(881)
Total net realized capital gains (losses)	1,595	(910)
Other revenues	68	59
Total revenues	9,178	7,661
Benefits, losses and expenses		
Benefits, losses and loss adjustment expenses	2,665	3,038
Benefits, losses and loss adjustment expenses – returns credited on international variable annuities	2,700	2,864
Amortization of deferred policy acquisition costs and present value of future profits	1,336	321
Insurance operating costs and other expenses	1,032	1,312
Loss on extinguishment of debt	213	—
Reinsurance loss on dispositions	1,574	—
Interest expense	107	124
Total benefits, losses and expenses	9,627	7,659
Income (loss) from continuing operations before income taxes	(449)	2
Income tax benefit	(208)	(95)
Income (loss) from continuing operations, net of tax	(241)	97
Income (loss) from discontinued operations, net of tax	—	(1)
Net income (loss)	$(241)	$96
Preferred stock dividends	10	10
Net income (loss) available to common shareholders	$(251)	$86
Income (loss) from continuing operations, net of tax, available to common shareholders per common share		
Basic	$(0.58)	$0.20
Diluted	$(0.58)	$0.19
Net income (loss) available to common shareholders per common share		
Basic	$(0.58)	$0.20
Diluted	$(0.58)	$0.18

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 (Loss)

(In millions)	Three months ended March 31, 2013	2012
	(Unaudited)	
Comprehensive Income (Loss)		
Net income (loss)	$(241)	$96
Other comprehensive income (loss):		
Change in net unrealized gain on securities	(889)	241
Change in OTTI losses recognized in other comprehensive income	15	(8)
Change in net gain (loss) on cash-flow hedging instruments	(108)	(53)
Change in foreign currency translation adjustments	(220)	(136)
Change in pension and other postretirement plan adjustments	8	33
Total other comprehensive income (loss)	(1,194)	77
Total comprehensive income (loss)	$(1,435)	$173

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, 2013 (Unaudited)	December 31, 2012
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $65,621 and $79,747) (includes variable interest entity assets, at fair value, of $59 and $89)	$69,667	$85,922
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $153 and $163)	982	1,087
Equity securities, trading, at fair value (cost of $23,751 and $26,820)	28,099	28,933
Equity securities, available-for-sale, at fair value (cost of $792 and $866)	862	890
Mortgage loans (net of allowances for loan losses of $68 and $68)	5,229	6,711
Policy loans, at outstanding balance	1,421	1,997
Limited partnerships and other alternative investments (includes variable interest entity assets of $4 and $6)	3,058	3,015
Other investments	1,108	1,114
Short-term investments (includes variable interest entity assets, at fair value, of $10 as of March 31, 2013)	4,412	4,581
Total investments	114,838	134,250
Cash	1,985	2,421
Premiums receivable and agents' balances, net	3,584	3,542
Reinsurance recoverables, net	22,395	4,666
Deferred policy acquisition costs and present value of future profits	2,431	5,725
Deferred income taxes, net	2,667	1,942
Goodwill	498	654
Property and equipment, net	921	977
Other assets	2,551	2,767
Separate account assets	145,151	141,569
Total assets	$297,021	$298,513
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,681	$40,992
Other policyholder funds and benefits payable	41,044	41,979
Other policyholder funds and benefits payable – international variable annuities	28,088	28,922
Unearned premiums	5,307	5,145
Debt	6,327	7,126
Consumer notes	132	161
Other liabilities (includes variable interest entity liabilities of $56 and $89)	8,371	10,172
Separate account liabilities	145,151	141,569
Total liabilities	276,101	276,066
Commitments and Contingencies (Note 11)		
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, 469,744,822 shares issued as of March 31, 2013 and December 31, 2012	5	5
Additional paid-in capital	9,993	10,038

Retained earnings	10,449	10,745
Treasury stock, at cost — 34,409,177 and 33,439,044 shares	(1,732)	(1,740)
Accumulated other comprehensive income, net of tax	1,649	2,843
Total stockholders' equity	20,920	22,447
Total liabilities and stockholders' equity	$297,021	$298,513

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, 2013 (Unaudited)	2012
Preferred Stock	$556	$556
Common Stock	5	5
Additional Paid-in Capital, beginning of period	10,038	10,391
Repurchase of warrants	(3)	(300)
Issuance of shares under incentive and stock compensation plans	(42)	(58)
Tax expense on employee stock options and awards	—	(2)
Additional Paid-in Capital, end of period	9,993	10,031
Retained Earnings, beginning of period	10,745	11,001
Net income (loss)	(241)	96
Dividends on preferred stock	(10)	(10)
Dividends declared on common stock	(45)	(45)
Retained Earnings, end of period	10,449	11,042
Treasury Stock, at Cost, beginning of period	(1,740)	(1,718)
Treasury stock acquired	(45)	(42)
Issuance of shares under incentive and stock compensation plans from treasury stock	60	79
Return of shares under incentive and stock compensation plans and other to treasury stock	(7)	(7)
Treasury Stock, at Cost, end of period	(1,732)	(1,688)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	2,843	1,251
Total other comprehensive income	(1,194)	77
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	1,649	1,328
Total Stockholders' Equity	$20,920	$21,274
Preferred Shares Outstanding (in thousands)	575	575
Common Shares Outstanding, at beginning of period (in thousands)	436,306	442,539
Treasury stock acquired	(1,765)	(2,550)
Issuance of shares under incentive and stock compensation plans	1,079	1,202
Return of shares under incentive and stock compensation plans and other to treasury stock	(284)	(326)
Common Shares Outstanding, at end of period	435,336	440,865

See Notes to Condensed Consolidated Financial Statements.

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

(In millions)	Three Months Ended March 31, 2013	2012
	(Unaudited)	
Operating Activities		
Net income (loss)	$(241)	$96
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	1,336	321
Additions to deferred policy acquisition costs and present value of future profits	(332)	(439)
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	(346)	(624)
Change in reinsurance recoverables	(30)	(14)
Change in receivables and other assets	(123)	(474)
Change in payables and accruals	(84)	1,184
Change in accrued and deferred income taxes	(51)	121
Net realized capital (gains) losses	(1,595)	910
Net receipts (disbursements) from investment contracts related to policyholder funds—international variable annuities	(834)	216
Net (increase) decrease in equity securities, trading	834	(223)
Depreciation and amortization	52	98
Loss on extinguishment of debt	213	—
Reinsurance loss on dispositions	1,574	—
Other operating activities, net	(187)	(32)
Net cash provided by operating activities	186	1,140
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	9,189	14,442
Fixed maturities, fair value option	49	12
Equity securities, available-for-sale	89	59
Mortgage loans	161	112
Partnerships	147	43
Payments for the purchase of:		
Fixed maturities, available-for-sale	(8,770)	(13,048)
Fixed maturities, fair value option	(31)	—
Equity securities, available-for-sale	(46)	(18)
Mortgage loans	(30)	(660)
Partnerships	(164)	(319)
Proceeds from business sold (excluding $485 of non-cash proceeds)	485	—
Derivatives, net	(776)	(2,017)
Change in policy loans, net	(6)	31
Other investing activities, net	10	(4)
Net cash provided by (used for) investing activities	307	(1,367)
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	2,502	3,623
Withdrawals and other deductions from investment and universal life-type contracts	(6,763)	(5,963)
Net transfers from separate accounts related to investment and universal life-type contracts	4,082	2,218
Repayments at maturity or settlement of consumer notes	(29)	(4)

Net increase (decrease) in securities loaned or sold under agreements to repurchase	472	—
Repurchase of warrants	(3)	—
Repayment of long-term debt	(1,018)	—
Proceeds from net issuance of shares under incentive and stock compensation plans, excess tax benefit and other	(5)	(4)
Treasury stock acquired	(35)	(48)
Dividends paid on preferred stock	(11)	(11)
Dividends paid on common stock	(44)	(44)
Net cash used for financing activities	(852)	(233)
Foreign exchange rate effect on cash	(77)	(62)
Net decrease in cash	(436)	(522)
Cash – beginning of period	2,421	2,581
Cash – end of period	$1,985	$2,059
Supplemental Disclosure of Cash Flow Information		
Income taxes paid (received)	$21	$(548)
Interest paid	$85	$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 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 March 31, 2013, and for the three months ended March 31, 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 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.

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 Ended March 31,	
	2013	2012
Tax expense (benefit) at U.S. Federal statutory rate	$(157)	$1
Tax-exempt interest	(34)	(36)
Dividends-received deduction	(32)	(33)
Valuation allowance	(7)	(20)
Other [1]	22	(7)
Income tax benefit	$(208)	$(95)

[1] Includes a permanent difference of $25 related to non-deductible goodwill for the three months ended March 31, 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 months ended March 31, 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, relating mostly to foreign net operating losses, was $51 as of March 31, 2013 and $58 as of December 31, 2012. 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.

2. Business Dispositions

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 in the first quarter of 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, in the first quarter of 2013 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 months ended March 31, 2012, Retirement Plans total revenues were $211 and net income was $18.

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, in the first quarter of 2013 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, in the first quarter of 2013 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 months ended March 31, 2012, Individual Life total revenues were $348 and net income was $19.

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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.

	As of Closing Carrying Value
Asset-backed securities ("ABS")	$ 289
Collaterialized 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.

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3. 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)	2013	2012
Earnings		
Income (loss) from continuing operations		
Income (loss) from continuing operations, net of tax	$(241)	$97
Less: Preferred stock dividends	10	10
Income (loss) from continuing operations, net of tax, available to common shareholders	(251)	87
Add: Dilutive effect of preferred stock dividends	—	—
Income (loss) from continuing operations, net of tax, available to common shareholders and assumed conversion of preferred shares	$(251)	$87
Income (loss) from discontinued operations, net of tax	$—	$(1)
Net income (loss)		
Net income (loss)	$(241)	$96
Less: Preferred stock dividends	10	10
Net income (loss) available to common shareholders	(251)	86
Add: Dilutive effect of preferred stock dividends	—	—
Net income (loss) available to common shareholders and assumed conversion of preferred shares	$(251)	$86
Shares		
Weighted average common shares outstanding, basic	436.3	440.7
Dilutive effect of warrants	—	26.4
Dilutive effect of stock compensation plans	—	1.9
Dilutive effect of mandatory convertible preferred shares	—	—
Weighted average shares outstanding and dilutive potential common shares	436.3	469.0
Earnings (loss) per common share		
Basic		
Income (loss) from continuing operations, net of tax, available to common shareholders	$(0.58)	$0.20
Income (loss) from discontinued operations, net of tax	—	—
Net income (loss) available to common shareholders	$(0.58)	$0.20
Diluted		
Income (loss) from continuing operations, net of tax, available to common shareholders	$(0.58)	$0.19
Income (loss) from discontinued operations, net of tax	—	(0.01)
Net income (loss) available to common shareholders	$(0.58)	$0.18

As a result of the losses available to common shareholders for the three months ended March 31, 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 31.7 million, stock compensation plans of 3.9 million and mandatory convertible preferred shares, along with the related dividend adjustment, of 21.2 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 493.1 million.

For the three months ended March 31, 2012, 20.9 million shares, respectively, 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 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 March 31, 2013 was $9.579.
In addition, 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.

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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 and Europe) annuity, and 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. For information regarding the sale of these businesses, see Note 2 - Business Dispositions 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 Ended March 31,	
Net income (loss)	2013	2012
Property & Casualty Commercial	$253	$189
Consumer Markets	77	108

Property & Casualty Other Operations	21	27
Group Benefits	42	18
Mutual Funds	18	20
Talcott Resolution	(294)	(170)
Corporate	(358)	(96)
Net income (loss)	$(241)	$96

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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 March 31,	
Revenues	2013	2012
Earned premiums, fees, and other considerations		
Property & Casualty Commercial		
Workers' compensation	$733	$733
Property	125	125
Automobile	144	146
Package business	281	292
Liability	138	141
Fidelity and surety	49	52
Professional liability	59	68
Total Property & Casualty Commercial	1,529	1,557
Consumer Markets		
Automobile	619	632
Homeowners	277	277
Total Consumer Markets [1]	896	909
Property & Casualty Other Operations	—	—
Group Benefits		
Group disability	359	443
Group life	426	479
Other	41	50
Total Group Benefits	826	972
Mutual Funds		
Retail	129	123
Annuity and other	35	28
Total Mutual Funds	164	151
Talcott Resolution	541	935
Corporate	3	52
Total earned premiums, fees, and other considerations	3,959	4,576
Net investment income (loss):		
Securities available-for-sale and other	856	1,070
Equity securities, trading	2,700	2,866
Total net investment income	3,556	3,936
Net realized capital gains (losses)	1,595	(910)
Other revenues	68	59
Total revenues	$9,178	$7,661

[1] For the three months ended March 31, 2013 and 2012, AARP members accounted for earned premiums of $662 and $676, respectively.

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. As of March 31, 2013 and 2012, the amount of transfers from Level 1 to Level 2 was $115 and $138, respectively, 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. The following tables present assets and (liabilities) carried at fair value by hierarchy level.

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

5. Fair Value Measurements (continued)

	March 31, 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				
ABS	$2,422	$—	$2,147	$275
CDO	2,558	—	1,757	801
CMBS	5,205	—	4,365	840
Corporate	31,468	—	29,746	1,722
Foreign government/government agencies	3,927	—	3,876	51
Municipal	13,238	—	13,087	151
RMBS	6,716	—	5,436	1,280
U.S. Treasuries	4,133	350	3,783	—
Total fixed maturities	69,667	350	64,197	5,120
Fixed maturities, FVO	982	—	766	216
Equity securities, trading	28,099	1,773	26,326	—
Equity securities, AFS	862	340	437	85
Derivative assets				
Credit derivatives	24	—	9	15
Equity derivatives	12	—	—	12
Foreign exchange derivatives	(109)	—	(109)	—
Interest rate derivatives	178	—	175	3
U.S. guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	242	—	17	225
U.S. macro hedge program	208	—	—	208
International program hedging instruments	469	—	407	62
Other derivative contracts	22	—	—	22
Total derivative assets [1]	1,046	—	499	547
Short-term investments	4,412	374	4,038	—
Limited partnerships and other alternative investments [2]	928	—	591	337
Reinsurance recoverable for U.S. GMWB	139	—	—	139
Modified coinsurance reinsurance contracts	5	—	5	—
Separate account assets [3]	140,557	101,725	38,009	823
Total assets accounted for at fair value on a recurring basis	$246,697	$104,562	$134,868	$7,267
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	$(795)	$—	$—	$(795)
International guaranteed withdrawal benefits	(34)	—	—	(34)
International other guaranteed living benefits	4	—	—	4

Equity linked notes	(10)	—	—	(10)
Total other policyholder funds and benefits payable	(835)	—	—	(835)
Derivative liabilities				
Credit derivatives	(1)	—	8	(9)
Equity derivatives	20	—	—	20
Foreign exchange derivatives	(44)	—	(44)	—
Interest rate derivatives	(541)	—	(512)	(29)
U.S. GMWB hedging instruments	104	—	—	104
U.S. macro hedge program	35	—	—	35
International program hedging instruments	(94)	—	13	(107)
Total derivative liabilities [4]	(521)	—	(535)	14
Consumer notes [5]	(2)	—	—	(2)
Total liabilities accounted for at fair value on a recurring basis	$(1,358)	$—	$(535)	$(823)

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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 otheralternative 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%

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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)

[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, 2013 and December 31, 2012, $357 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 3 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 $4.6 billion and $3.1 billion of investment sales receivable that are not subject to fair value accounting are excluded as of March 31, 2013 and December 31, 2012, respectively.

[4] 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.

[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. 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.

5. Fair Value Measurements (continued)

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.

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 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.

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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5. 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 March 31, 2013 and December 31, 2012, 95% 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 may be required and the notice period 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.

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:

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

- 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.

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.

Securities	As of March 31, 2013 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	$840	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	346	bps	3,250	bps	949	bps	Decrease
Corporate [3]	1,138	Discounted cash flows	Spread	135	bps	4,346	bps	336	bps	Decrease
Municipal	151	Discounted cash flows	Spread	208	bps	270	bps	228	bps	Decrease
RMBS	1,280	Discounted cash flows	Spread	54	bps	1,692	bps	269	bps	Decrease
			Constant prepayment rate	—	%	12.0	%	2.0	%	Decrease [4]
			Constant default rate	1.0	%	24.0	%	8.0	%	Decrease
			Loss severity	—	%	100.0	%	80.0	%	Decrease
	As of December 31, 2012									
CMBS	$859	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	320	bps	3,615	bps	1,031	bps	Decrease
Corporate [3]	1,371	Discounted cash flows	Spread	106	bps	900	bps	328	bps	Decrease
Municipal	227	Discounted cash flows	Spread	227	bps	344	bps	258	bps	Decrease
RMBS	1,373	Discounted cash flows	Spread	54	bps	1,689	bps	367	bps	Decrease
			Constant prepayment rate	—	%	12	%	2.0	%	Decrease [4]
			Constant default rate	1.0	%	24	%	8.0	%	Decrease
			Loss severity	—	%	100	%	80.0	%	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.

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

5. Fair Value Measurements (continued)

Freestanding Derivatives	As of March 31, 2013 Unobservable Inputs					
	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum	Maximum	Impact of Increase in Input on Fair Value [1]
Equity derivatives						
Equity options	$32	Option model	Equity volatility	21%	23%	Increase
Interest rate derivative						
Interest rate swaps	(53)	Discounted cash flows	Swap curve beyond 30 years	3.0%	3.0%	Increase
Long interest rate swaptions	27	Option model	Interest rate volatility	1%	1%	Increase
U.S. GMWB hedging instruments						
Equity options	153	Option model	Equity volatility	21%	29%	Increase
Customized swaps	176	Discounted cash flows	Equity volatility	10%	50%	Increase
U.S. macro hedge program						
Equity options	243	Option model	Equity volatility	20%	29%	Increase
International program hedging						
Equity options	(45)	Option model	Equity volatility	23%	42%	Increase
	As of December 31, 2012					
Equity derivatives						
Equity options	57	Option model	Equity volatility	13%	24%	Increase
Interest rate derivative						
Interest rate swaps	(55)	Discounted cash flows	Swap curve beyond 30 years	2.8%	2.8%	Increase
Long interest rate swaptions	23	Option model	Interest rate volatility	—%	1%	Increase
U.S. GMWB hedging instruments						
Equity options	281	Option model	Equity volatility	10%	31%	Increase
Customized swaps	238	Discounted cash flows	Equity volatility	10%	50%	Increase
U.S. macro hedge program						
Equity options	286	Option model	Equity volatility	24%	43%	Increase
International program hedging						
Equity options	26	Option model	Equity volatility	19%	27%	Increase
	42	Option model	Interest rate volatility	—%	1%	Increase

Long interest rate swaptions

[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.

5. 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, 2013, no significant adjustments were made by the Company to broker prices received.

As of March 31, 2013 and December 31, 2012, excluded from the tables above are limited partnerships and other alternative investments which total $337 and $314, respectively, of level 3 assets measured at fair value. The predominant valuation method uses a NAV calculated on a monthly basis and represents funds where the Company does not have the ability to redeem the investment in the near-term at that NAV, including an assessment of the investee's liquidity.

Product Derivatives

The Company currently offers and subsequently reinsures 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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5. 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. In addition, the Company will continue to evaluate policyholder behavior assumptions as we begin to implement initiatives to reduce the size of the variable annuity business. 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 losses of $(10) and $(49), for the three months ended March 31, 2013 and 2012. As of March 31, 2013 and December 31, 2012 the credit standing adjustment was $2 and $12, 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.
Assumption updates, including policyholder behavior assumptions, affected best estimates and margins for total pre-tax realized losses of $1 and $0 for the three months ended March 31, 2013 and 2012. As of March 31, 2013 and December 31, 2012 the behavior risk margin was $254 and $302, 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 of approximately $8 and $13, for the three months ended

March 31, 2013 and 2012.

5. 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	Unobservable Inputs (Minimum)	Unobservable Inputs (Maximum)	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization[2]	20%	100%	Increase
Withdrawal Rates [2]	—%	8%	Increase
Lapse Rates [3]	—%	75%	Decrease
Reset Elections [4]	20%	75%	Increase
Equity Volatility [5]	10%	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.

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

5. Fair Value Measurements (continued)
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, 2013 and 2012, for the financial instruments classified as Level 3.
For the three months ended March 31, 2013

	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, 2013	$278	$944	$859	$2,001	$ 56	$227	$1,373	$5,738	$214
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	(3)	(12)	(5)	17	—	—	29	26	15
Included in OCI [3]	25	45	45	(12)	(2)	1	20	122	—
Purchases	23	1	—	26	12	6	91	159	6
Settlements	(5)	(24)	(24)	(59)	(1)	—	(41)	(154)	(1)
Sales	(34)	(185)	(61)	(281)	(8)	(39)	(192)	(800)	(18)
Transfers into Level 3 [4]	—	32	26	70	—	—	—	128	