HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
October 28, 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 September 30, 2013

or

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

For the transition period from ____________ to ______________

Commission file number 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
(Exact name of registrant as specified in its charter)

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

One Hartford Plaza, Hartford, Connecticut 06155
(Address of principal executive offices) (Zip Code)
(860) 547-5000
(Registrant's telephone number, including area code)

Indicate by check mark:	Yes	No
• whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	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 October 23, 2013, there were outstanding 447,083,233 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 SEPTEMBER 30, 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; and Part II, Item IA, Risk Factors in The Hartford's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013. These important risks and uncertainties include:

- challenges related to the Company’s current operating environment, including continuing uncertainty about the strength and speed of the recovery in the United States and other key economies and the impact of governmental stimulus and austerity initiatives, sovereign credit concerns, a sustained low interest rate environment, higher tax rates, and other potentially adverse developments on financial, commodity and credit markets and consumer spending and investment and the effect of these events on our returns in investment portfolios and our hedging costs associated with our variable annuities business;
- the risks, challenges and uncertainties associated with our capital management plan and our strategic realignment to focus on our property and casualty, group benefits and mutual fund businesses, place our Individual Annuity business into run-off and the sales of the Individual Life, Woodbury Financial Services, Retirement Plans, and U.K. variable annuity businesses;
- the risks, challenges and uncertainties associated with actions beyond the capital management plan and strategic realignment, which may include acquisitions, divestitures or restructurings, and the potential that any such actions may negatively impact our business, financial condition, results of operations and liquidity;
- 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;

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- the subjective determinations that underlie the Company’s evaluation of other-than-temporary impairments on available-for-sale securities;
- losses due to nonperformance or defaults by others;
- the potential for further acceleration of deferred policy acquisition cost amortization;
- the potential for further impairments of our goodwill or the potential for changes in valuation allowances against deferred tax assets;
- the possible occurrence of terrorist attacks and the Company’s ability to contain its exposure, including the effect of the absence or insufficiency of applicable terrorism legislation on coverage;
- the difficulty in predicting the Company’s potential exposure for asbestos and environmental claims;
- the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- the Company’s ability to distribute its products through distribution channels, both current and future;
- the cost and other effects of increased regulation as a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), which, among other effects, vests a Financial Services Oversight Council with the power to designate “systemically important” institutions, requires central clearing of, and/or imposes margin and capital requirements on, derivatives transactions, and created a new “Federal Insurance Office” within the U.S. Department of the Treasury (“Treasury”);
- unfavorable judicial or legislative developments;
- the potential effect of other domestic and foreign regulatory developments, including those that could adversely impact the demand for the Company’s products, operating costs and required capital levels;
- regulatory limitations on the ability of the Company and certain of its subsidiaries to declare and pay dividends;
- the Company’s ability to maintain the availability of its systems and safeguard the security of its data in the event of a disaster, cyber or other information security incident or other unanticipated event;
- the risk that our framework for managing operational risks may not be effective in mitigating material risk and loss to the Company;
- the potential for difficulties arising from outsourcing relationships;
- the impact of changes in federal or state tax laws;
- regulatory requirements that could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests;
- the impact of potential changes in accounting principles and related financial reporting requirements;
- the impact of any future errors in financial reporting;
- the Company’s ability to protect its intellectual property and defend against claims of infringement;
- the Company's ability to implement its capital plan; and
- other factors described in such forward-looking statements.

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

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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 September 30, 2013, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2013 and 2012 and statements of changes in stockholders' equity and cash flows for the nine-month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2013 (August 9, 2013 as to the retrospective presentation of discontinued operations and the retrospective adoption of a change in disclosure of offsetting assets and liabilities)(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, the retrospective presentation of discontinued operations, and the retrospective adoption of a change in disclosure of offsetting assets and liabilities), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
October 28, 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 September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
	(Unaudited)			
Revenues				
Earned premiums	$3,337	$3,401	$9,882	$10,243
Fee income	708	1,109	2,106	3,338
Net investment income (loss):				
Securities available-for-sale and other	812	1,028	2,535	3,189
Equity securities, trading	878	635	4,629	1,734
Total net investment income	1,690	1,663	7,164	4,923
Net realized capital gains (losses):				
Total other-than-temporary impairment (“OTTI”) losses	(28)	(59)	(78)	(201)
OTTI losses recognized in other comprehensive income (“OCI”)	2	22	19	37
Net OTTI losses recognized in earnings	(26)	(37)	(59)	(164)
Net realized capital gains on business dispositions	—	—	1,575	—
Other net realized capital gains (losses)	(136)	132	(720)	(102)
Total net realized capital gains (losses)	(162)	95	796	(266)
Other revenues	68	64	201	184
Total revenues	5,641	6,332	20,149	18,422
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	2,739	3,270	8,289	9,927
Benefits, losses and loss adjustment expenses – returns credited on international variable annuities	878	635	4,628	1,733
Amortization of deferred policy acquisition costs and present value of future profits	594	566	2,321	1,441
Insurance operating costs and other expenses	993	1,267	3,137	3,871
Loss on extinguishment of debt	—	—	213	910
Reinsurance loss on dispositions	—	533	1,574	533
Interest expense	94	109	301	348
Total benefits, losses and expenses	5,298	6,380	20,463	18,763
Income (loss) from continuing operations before income taxes	343	(48)	(314)	(341)
Income tax expense (benefit)	45	(41)	(308)	(286)
Income (loss) from continuing operations, net of tax	298	(7)	(6)	(55)
Income (loss) from discontinued operations, net of tax	(5)	20	(132)	63
Net income (loss)	$293	$13	$(138)	$8
Preferred stock dividends	—	10	10	31
Net income (loss) available to common shareholders	$293	$3	$(148)	$(23)
Loss from continuing operations, net of tax, available to common shareholders per common share				
Basic	$0.66	$(0.04)	$(0.04)	$(0.20)
Diluted	$0.61	$(0.04)	$(0.04)	$(0.20)
Net income (loss) available to common shareholders per common share				
Basic	$0.65	$0.01	$(0.33)	$(0.05)
Diluted	$0.60	$0.01	$(0.33)	$(0.05)

Cash dividends declared per common share	$0.15	$0.10	$0.35	$0.30

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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(Unaudited)			
Comprehensive Income (Loss)				
Net income (loss)	$293	$13	$(138)	$8
Other comprehensive income (loss):				
Change in net unrealized gain on securities	(174)	882	(2,430)	1,870
Change in OTTI losses recognized in other comprehensive income	3	35	27	40
Change in net gain (loss) on cash-flow hedging instruments	(21)	(1)	(261)	27
Change in foreign currency translation adjustments	92	88	(222)	8
Change in pension and other postretirement plan adjustments	9	35	26	99
Total other comprehensive income (loss)	(91)	1,039	(2,860)	2,044
Total comprehensive income (loss)	$202	$1,052	$(2,998)	$2,052

See Notes to Condensed Consolidated Financial Statements.

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

(In millions, except for share and per share data)	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $62,227 and $79,747) (includes variable interest entity assets, at fair value, of $33 and $89)	$64,023	$85,922
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $147 and $163)	994	1,087
Equity securities, trading, at fair value (cost of $17,601 and $26,820)	22,343	28,933
Equity securities, available-for-sale, at fair value (cost of $843 and $866) (includes variable interest entity assets of $1 as of September 30, 2013)	862	890
Mortgage loans (net of allowances for loan losses of $67 and $68)	5,575	6,711
Policy loans, at outstanding balance	1,415	1,997
Limited partnerships and other alternative investments (includes variable interest entity assets of $4 and $6)	3,059	3,015
Other investments	647	1,114
Short-term investments (includes variable interest entity assets, at fair value, of $9 as of September 30, 2013)	4,146	4,581
Total investments	103,064	134,250
Cash	1,422	2,421
Premiums receivable and agents’ balances, net	3,673	3,542
Reinsurance recoverables, net	23,115	4,666
Deferred policy acquisition costs and present value of future profits	2,249	5,725
Deferred income taxes, net	3,893	1,942
Goodwill	498	654
Property and equipment, net	895	977
Other assets	3,260	2,767
Assets held for sale	2,002	—
Separate account assets	139,876	141,569
Total assets	$283,947	$298,513
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,545	$40,992
Other policyholder funds and benefits payable	40,101	41,979
Other policyholder funds and benefits payable – international variable annuities	22,332	28,922
Unearned premiums	5,445	5,145
Debt	6,306	7,126
Consumer notes	83	161
Other liabilities (includes variable interest entity liabilities of $36 and $89)	7,608	10,172
Liabilities held for sale	1,723	—
Separate account liabilities	139,876	141,569
Total liabilities	265,019	276,066
Commitments and Contingencies (Note 11)		
Stockholders’ Equity		
Preferred stock, $0.01 par value — 50,000,000 shares authorized, 575,000 shares issued as of December 31, 2012, liquidation preference $1,000 per share	—	556

Common stock, $0.01 par value — 1,500,000,000 shares authorized, 490,923,222 and 469,744,822 shares issued	5	5
Additional paid-in capital	10,414	10,038
Retained earnings	10,439	10,745
Treasury stock, at cost — 42,430,177 and 33,439,044 shares	(1,913)	(1,740)
Accumulated other comprehensive income (loss), net of tax	(17)	2,843
Total stockholders' equity	18,928	22,447
Total liabilities and stockholders' equity	$283,947	$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)	Nine Months Ended September 30, 2013	2012
	(Unaudited)	
Preferred Stock		
Balance at beginning of year	$556	$556
Conversion of shares to common stock	(556)	—
Balance at end of year	$—	$556
Common Stock	5	5
Additional Paid-in Capital, beginning of period	10,038	10,391
Repurchase of warrants	(33)	(300)
Issuance of shares under incentive and stock compensation plans	(47)	(58)
Tax expense on employee stock options and awards	3	(1)
Conversion of mandatory convertible preferred stock	556	—
Issuance of shares for warrant exercise	(103)	—
Additional Paid-in Capital, end of period	10,414	10,032
Retained Earnings, beginning of period	10,745	11,001
Net income (loss)	(138)	8
Dividends on preferred stock	(10)	(31)
Dividends declared on common stock	(158)	(131)
Retained Earnings, end of period	10,439	10,847
Treasury Stock, at Cost, beginning of period	(1,740)	(1,718)
Treasury stock acquired	(375)	(149)
Issuance of shares under incentive and stock compensation plans from treasury stock	114	121
Return of shares under incentive and stock compensation plans and other to treasury stock	(15)	(7)
Issuance of shares for warrant exercise	103	—
Treasury Stock, at Cost, end of period	(1,913)	(1,753)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	2,843	1,251
Total other comprehensive income	(2,860)	2,044
Accumulated Other Comprehensive Income (Loss), net of tax, end of period	(17)	3,295
Total Stockholders' Equity	$18,928	$22,982
Preferred Shares Outstanding (in thousands)	—	575
Common Shares Outstanding, at beginning of period (in thousands)	436,306	442,539
Treasury stock acquired	(12,680)	(8,045)
Issuance of shares under incentive and stock compensation plans	2,101	1,905
Return of shares under incentive and stock compensation plans and other to treasury stock	(548)	(333)
Conversion of mandatory convertible preferred shares	21,178	—
Issuance of shares for warrant exercise	2,136	—
Common Shares Outstanding, at end of period	448,493	436,066

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
(In millions)	2013	2012
Operating Activities	(Unaudited)	
Net income (loss)	$(138)	$8
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	2,321	1,441
Additions to deferred policy acquisition costs and present value of future profits	(1,003)	(1,251)
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	(104)	153
Change in reinsurance recoverables	(405)	(332)
Change in receivables and other assets	(664)	(442)
Change in payables and accruals	572	778
Change in accrued and deferred income taxes	(755)	(263)
Net realized capital (gains) losses	(796)	202
Net receipts (disbursements) from investment contracts related to policyholder funds—international variable annuities	(4,858)	(523)
Net (increase) decrease in equity securities, trading	4,858	519
Depreciation and amortization	140	366
Loss on extinguishment of debt	213	910
Reinsurance loss on dispositions	1,574	533
Other operating activities, net	(52)	113
Net cash provided by operating activities	903	2,212
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	25,906	35,928
Fixed maturities, fair value option	60	191
Equity securities, available-for-sale	196	213
Mortgage loans	349	332
Partnerships	200	124
Payments for the purchase of:		
Fixed maturities, available-for-sale	(22,857)	(34,556)
Fixed maturities, fair value option	(95)	(182)
Equity securities, available-for-sale	(144)	(74)
Mortgage loans	(575)	(1,467)
Partnerships	(192)	(728)
Proceeds from business sold (excluding $485 of non-cash proceeds)	485	—
Derivatives, net	(1,690)	(1,593)
Change in policy loans, net	44	1
Other investing activities, net	1	(51)
Net cash provided by (used for) investing activities	1,688	(1,862)
Financing Activities		
Deposits and other additions to investment and universal life-type contracts	7,186	8,907
Withdrawals and other deductions from investment and universal life-type contracts	(20,179)	(18,373)
Net transfers from separate accounts related to investment and universal life-type contracts	12,242	8,406
Repayments at maturity or settlement of consumer notes	(78)	(124)

Net increase (decrease) in securities loaned or sold under agreements to repurchase	(1,036)	1,585
Repurchase of warrants	(33)	(300)
Repayment of debt	(1,338)	(2,133)
Proceeds from the issuance of debt	295	2,123
Proceeds from net issuance of shares under incentive and stock compensation plans, excess tax benefit and other	17	10
Treasury stock acquired	(375)	(154)
Dividends paid on preferred stock	(21)	(32)
Dividends paid on common stock	(134)	(132)
Net cash provided by (used for) financing activities	(3,454)	(217)
Foreign exchange rate effect on cash	(21)	(9)
Transfer of cash to held for sale	(115)	—
Net decrease in cash	(999)	124
Cash – beginning of period	2,421	2,581
Cash – end of period	$1,422	$2,705
Supplemental Disclosure of Cash Flow Information		
Income taxes paid (received)	$140	$(448)
Interest paid	$293	$314
Supplemental Disclosure of Non-Cash Investing Activity		
Conversion of fixed maturities, available-for-sale to equity securities, available-for-sale	$—	$67

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 September 30, 2013, and for the three and nine months ended September 30, 2013 and 2012 are unaudited. These financial statements reflect all adjustments (generally consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The Company's significant accounting policies are summarized in Note 1 - Basis of Presentation and Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2012 Form 10-K Annual Report.

Consolidation

The Condensed Consolidated Financial Statements include the accounts of The Hartford Financial Services Group, Inc., companies in which the Company directly or indirectly has a controlling financial interest and those variable interest entities (“VIEs”) in which the Company is required to consolidate. Entities in which the Company has significant influence over the operating and financing decisions but are not required to consolidate are reported using the equity method. Material intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated. For further information on VIEs see Note 6 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Discontinued Operations

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

The Company is presenting the operations of certain businesses that meet the criteria for reporting as discontinued operations. Amounts for prior periods have been retrospectively reclassified. For information on the specific businesses and related impacts, see Note 14 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

Use of Estimates

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

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

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

1. Basis of Presentation and Accounting Policies (continued)

Mutual Funds

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

Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Tax benefit at U.S. Federal statutory rate	$120	$(17)	$(110)	$(119)
Tax-exempt interest	(34)	(35)	(103)	(106)
Dividends received deduction	(36)	(28)	(101)	(91)
Other [1]	(5)	39	6	30
Income tax expense (benefit)	$45	$(41)	$(308)	$(286)

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

The separate account dividends-received deduction (“DRD”) is estimated for the current year using information from the most recent return, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments and level of policy owner equity account balances. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received in the mutual funds, amounts of distribution from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company’s taxable income before the DRD. The Company evaluates its DRD computations on a quarterly basis.

The Company’s $48 unrecognized tax benefits were unchanged for the three and nine months ended September 30, 2013. This entire amount, if it were recognized, would affect the effective tax rate in the period it is released.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions as applicable. 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 half of 2014. The 2010-2011 audit commenced in the fourth quarter of 2012 and is expected to conclude by the end of 2014. Management believes that adequate provision has been made in the financial statements for any potential assessments that may result from tax examinations and other tax-related matters for all open tax years.

The Company recorded a deferred tax asset valuation allowance that is adequate to reduce the total deferred tax asset to an amount that will be more likely than not realized. The deferred tax asset valuation allowance was $5, attributable to U.S. net operating losses, as of September 30, 2013 and $58, attributable mostly to foreign net operating losses, 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.

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2. Business Dispositions

Sale of Hartford Life International Limited ("HLIL")

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

Sale of Retirement Plans

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

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

The Retirement Plans business is included in the Talcott Resolution reporting segment. For the three and nine months ended September 30, 2012, Retirement Plans total revenues were $193 and $592, respectively and net income (loss) was ($7) and $9, respectively.

Sale of Individual Life

On January 2, 2013, the Company completed the sale of its Individual Life insurance business to Prudential for consideration of $615 consisting primarily of a ceding commission. The business sold included variable universal life, universal life, and term life insurance. The sale was structured as a reinsurance transaction and resulted in a loss on business disposition consisting of a reinsurance loss partially offset by realized capital gains. 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 for the three and nine months ended September 30, 2012. The loss accrual of $191 is included in other liabilities as of December 31, 2012. For additional information, see Note 2 - Business Dispositions and Note 9 - Goodwill and Other Intangible Assets in The Hartford's 2012 Annual Report on Form 10-K . Upon closing the Company recognized an additional $940 in reinsurance loss on disposition offset by

$940 in realized capital gains for a $0 impact on income, pre-tax. These amounts are subject to change pending final determination of the value of net assets sold, transaction costs and other adjustments.

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

The Individual Life business is included in the Talcott Resolution reporting segment. For the three and nine months ended September 30, 2012, Individual Life total revenues were $325 and $1,039, respectively and net loss was $(259) and $(204), respectively.

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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.

	Carrying Value As of Closing
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.

Purchase Agreement with Forethought Financial Group, Inc.
Effective May 1, 2012, all new U.S. annuity policies sold by the Company are reinsured to Forethought Life Insurance Company. The Company ceased the sale of such annuity policies in the second quarter of 2013. The reinsurance agreement has no impact on in-force policies issued on or before April 27, 2012 and the impact of this transaction was not material to the Company's results of operations, financial position or liquidity. On December 31, 2012, the Company completed the sale of its U.S. individual annuity new business capabilities to Forethought Financial Group. The Individual Annuity business is included in the Talcott Resolution reporting segment.
Sale of Catalyst 360
In October 2013, the Company signed an agreement to sell its member contact center for health insurance products offered through the AARP Health Program ("Catalyst 360") to Optum, Inc., a division of UnitedHealth Group. This agreement is expected to result in an immaterial gain and to close by the end of 2013. The Company will provide limited transition services for 18-24 months. Catalyst 360 is included in the Consumer Markets reporting segment.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except for per share data)	2013	2012	2013	2012
Earnings				
Income (loss) from continuing operations				
Income (loss) from continuing operations, net of tax	$298	$(7)	$(6)	$(55)
Less: Preferred stock dividends	—	10	10	31
Income (loss) from continuing operations, net of tax, available to common shareholders	$298	$(17)	$(16)	$(86)
Income (loss) from discontinued operations, net of tax	$(5)	$20	$(132)	$63
Net income (loss)				
Net income (loss)	$293	$13	$(138)	$8
Less: Preferred stock dividends	—	10	10	31
Net income (loss) available to common shareholders	$293	$3	$(148)	$(23)
Shares				
Weighted average common shares outstanding, basic	452.1	435.8	446.6	438.2
Dilutive effect of warrants	33.9	23.8	—	—
Dilutive effect of stock compensation plans	4.6	2.1	—	—
Weighted average shares outstanding and dilutive potential common shares	490.6	461.7	446.6	438.2
Earnings (loss) per common share				
Basic				
Income (loss) from continuing operations, net of tax, available to common shareholders	$0.66	$(0.04)	$(0.04)	$(0.20)
Income (loss) from discontinued operations, net of tax	(0.01)	0.05	(0.29)	0.15
Net income (loss) available to common shareholders	$0.65	$0.01	$(0.33)	$(0.05)
Diluted				
Income (loss) from continuing operations, net of tax, available to common shareholders	$0.61	$(0.04)	$(0.04)	$(0.20)
Income (loss) from discontinued operations, net of tax	(0.01)	0.05	(0.29)	0.15
Net income (loss) available to common shareholders	$0.60	$0.01	$(0.33)	$(0.05)

As a result of the losses available to common shareholders for the nine months ended September 30, 2013, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of shares for warrants of 33.0 million, stock compensation plans of 4.2 million, and mandatory convertible preferred shares, along with the related dividend adjustment, of 8.3 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 492.1 million.
For the three months ended September 30, 2012, mandatory convertible preferred shares, along with the related dividend adjustment, of 21.0 million, 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 482.7 million for the three months ended September 30, 2012.

As a result of the losses available to common shareholders for the nine months ended September 30, 2012, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of shares for warrants of 25.1 million, stock compensation plans of 1.9 million and mandatory convertible preferred shares, along with the related dividend adjustment, of 20.9 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 486.1 million.

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

The declaration of a quarterly common stock dividend of $0.10 during the first and second quarter and $0.15 during the third 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 September 30, 2013, June 30, 2013, March 31, 2013 was $9.531, $9.563 and $9.579, respectively.

The declaration of a quarterly common stock dividend in the first quarter of 2013 triggered a provision in The Hartford’s Fixed Conversion Rate Agreement, relating to the Company’s mandatory convertible preferred stock, resulting in an adjustment to the minimum conversion rate to 30.1920 from 29.8831 shares of Common Stock per share of Series F Preferred Stock and the maximum conversion rate to 36.8365 from 36.4596 shares of Common Stock per share of Series F Preferred Stock. On April 1, 2013 the mandatory convertible preferred stock converted to 21.2 million shares of common stock at the conversion rate of 36.8365.

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

4. Segment Information

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

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

Property & Casualty Commercial

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

Consumer Markets

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

Property & Casualty Other Operations

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

Group Benefits

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

Mutual Funds

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

Talcott Resolution

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

Corporate

The Company includes in the Corporate category the Company’s debt financing and related interest expense, as well as other capital raising activities; and certain purchase accounting adjustments and other charges not allocated to the segments.

Financial Measures and Other Segment Information

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

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

	Three Months Ended September 30,	Nine Months Ended September 30,

Net income (loss)	2013	2012	2013	2012
Property & Casualty Commercial	$174	$164	$619	$502
Consumer Markets	68	94	160	152
Property & Casualty Other Operations	22	24	(28)	36
Group Benefits	31	30	134	83
Mutual Funds	19	18	57	56
Talcott Resolution	7	(121)	(619)	149
Corporate	(28)	(196)	(461)	(970)
Net income (loss)	$293	$13	$(138)	$8

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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 September 30,		Nine Months Ended September 30,	
Revenues	2013	2012	2013	2012
Earned premiums, fees, and other considerations				
Property & Casualty Commercial				
Workers’ compensation	$751	$762	$2,225	$2,232
Property	132	127	384	378
Automobile	146	148	434	440
Package business	285	290	851	871
Liability	142	142	421	419
Fidelity and surety	51	53	152	156
Professional liability	56	60	170	195
Total Property & Casualty Commercial	1,563	1,582	4,637	4,691
Consumer Markets				
Automobile	637	632	1,882	1,894
Homeowners	288	280	847	831
Total Consumer Markets [1]	925	912	2,729	2,725
Property & Casualty Other Operations	—	—	—	(2)
Group Benefits				
Group disability	357	426	1,086	1,308
Group life	435	468	1,289	1,425
Other	39	47	120	146
Total Group Benefits	831	941	2,495	2,879
Mutual Funds				
Retail	131	120	392	363
Annuity and other	40	28	113	84
Total Mutual Funds	171	148	505	447
Talcott Resolution	553	882	1,615	2,699
Corporate	2	45	7	142
Total earned premiums, fees, and other considerations	4,045	4,510	11,988	13,581
Net investment income (loss):				
Securities available-for-sale and other	812	1,028	2,535	3,189
Equity securities, trading	878	635	4,629	1,734
Total net investment income	1,690	1,663	7,164	4,923
Net realized capital gains (losses)	(162)	95	796	(266)
Other revenues	68	64	201	184
Total revenues	$5,641	$6,332	$20,149	$18,422

[1] For the three months ended September 30, 2013 and 2012, AARP members accounted for earned premiums of $729 and $706, respectively. For the nine months ended September 30, 2013 and 2012, AARP members accounted for earned premiums of $2.1 billion.

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 exchange-traded derivative instruments.
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 instruments, as well as limited partnerships and other alternative investments carried at fair value that cannot be redeemed in the near-term at the NAV. Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the Company's best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. Transfers of securities among the levels occur at the beginning of the reporting period. The amount of transfers from Level 1 to Level 2 was $443 and $909, respectively, for the three and nine months ended September 30, 2013, and $1,080 and $1,999 for the three and nine months ended September 30, 2012, which represented previously on-the-run U.S. Treasury securities that are now off-the-run, and there were no transfers from Level 2 to Level 1. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs. The Company's fixed maturities included in Level 3 are classified as such because these securities are primarily priced by independent brokers and/or within illiquid markets.

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

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

5. Fair Value Measurements (continued)

	September 30, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
Asset-backed-securities ("ABS")	$2,362	$—	$2,156	$206
Collateralized debt obligations ("CDOs")	2,550	—	1,752	798
Commercial mortgage-backed securities ("CMBS")	4,489	—	3,698	791
Corporate	28,770	—	27,490	1,280
Foreign government/government agencies	3,968	—	3,895	73
Municipal	12,543	—	12,410	133
Residential mortgage-backed securities ("RMBS")	5,086	—	3,740	1,346
U.S. Treasuries	4,255	370	3,885	—
Total fixed maturities	64,023	370	59,026	4,627
Fixed maturities, FVO	994	—	783	211
Equity securities, trading	22,343	11	22,332	—
Equity securities, AFS	862	407	366	89
Derivative assets				
Credit derivatives	28	—	9	19
Equity derivatives	6	—	(1)	7
Foreign exchange derivatives	(51)	—	(51)	—
Interest rate derivatives	5	—	(33)	38
U.S. guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	79	—	(18)	97
U.S. macro hedge program	160	—	—	160
International program hedging instruments	314	—	257	57
Other derivative contracts	19	—	—	19
Total derivative assets [1]	560	—	163	397
Short-term investments	4,146	546	3,600	—
Limited partnerships and other alternative investments [2]	996	—	660	336
Reinsurance recoverable for U.S. GMWB	46	—	—	46
Modified coinsurance reinsurance contracts	60	—	60	—
Separate account assets [3]	136,459	98,161	37,563	735
Assets held for sale	2,203	1,732	471	—
Total assets accounted for at fair value on a recurring basis	$232,692	$101,227	$125,024	$6,441
Percentage of level to total	100%	44%	54%	3%
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
U.S guaranteed withdrawal benefits	$(210)	$—	$—	$(210)
International guaranteed withdrawal benefits	1	—	—	1

International other guaranteed living benefits	3	—	—	3
Equity linked notes	(13)	—	—	(13)
Total other policyholder funds and benefits payable	(219)	—	—	(219)
Derivative liabilities				
Credit derivatives	(27)	—	(11)	(16)
Equity derivatives	16	—	—	16
Foreign exchange derivatives	(212)	—	(212)	—
Interest rate derivatives	(578)	—	(552)	(26)
U.S. GMWB hedging instruments	79	—	(43)	122
U.S. macro hedge program	21	—	—	21
International program hedging instruments	(403)	—	(245)	(158)
Total derivative liabilities [4]	(1,104)	—	(1,063)	(41)
Consumer notes [5]	(1)	—	—	(1)
Liabilities held for sale	(31)	—	—	(31)
Total liabilities accounted for at fair value on a recurring basis	$(1,355)	$—	$(1,063)	$(292)

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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	