HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-Q
July 30, 2014

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 June 30, 2014

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 July 23, 2014, there were outstanding 447,793,984 shares of Common Stock, $0.01 par value per share, of the registrant.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
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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 2013 Form 10-K Annual Report and Part II, IA, Risk Factors in The Hartford's 2014 Form 10-Q. These important risks and uncertainties include:

- challenges related to the Company’s current operating environment, including global political, economic and market conditions, and the effect of financial market disruptions, economic downturns or other potentially adverse macroeconomic developments on the attractiveness of our products, the returns in our investment portfolios and the hedging costs associated with our variable annuities business;
- the risks, challenges and uncertainties associated with the realignment of our business to focus on our property and casualty, group benefits and mutual fund businesses;
- the risks, challenges and uncertainties associated with our capital management plan, expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings;
- execution risk related to the continued reinvestment of our investment portfolios and refinement of our hedge program for our run-off annuity block;
- 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 statutory and U.S. GAAP 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, including reinsurers, sourcing partners, derivative counterparties and other third parties;
- 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 implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and 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;
- unfavorable judicial or legislative developments;
- 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 and similar third-party 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 Company’s ability to protect its intellectual property and defend against claims of infringement; and
- other factors described in such forward-looking statements.

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

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
The Hartford Financial Services Group, Inc.
Hartford, Connecticut

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the "Company") as of June 30, 2014, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014 and 2013 and statements of changes in stockholders' equity, and cash flows for the six-month periods ended June 30, 2014 and 2013. 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, 2013, 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 February 28, 2014, 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, 2013 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
July 30, 2014

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except for per share data)	2014	2013	2014	2013
	(Unaudited)			
Revenues				
Earned premiums	$3,319	$3,294	$6,621	$6,547
Fee income	502	513	998	1,023
Net investment income	768	841	1,592	1,666
Net realized capital gains (losses):				
Total other-than-temporary impairment (“OTTI”) losses	(8)	(17)	(31)	(50)
OTTI losses recognized in other comprehensive income (“OCI”)	1	5	2	17
Net OTTI losses recognized in earnings	(7)	(12)	(29)	(33)
Net realized capital gains on business dispositions	—	1	—	1,575
Other net realized capital gains (losses)	3	32	(10)	123
Total net realized capital gains (losses)	(4)	21	(39)	1,665
Other revenues	31	65	56	133
Total revenues	4,616	4,734	9,228	11,034
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	3,023	2,922	5,599	5,581
Amortization of deferred policy acquisition costs and present value of future profits	372	391	768	820
Insurance operating costs and other expenses	977	1,084	1,913	2,096
Loss on extinguishment of debt	—	—	—	213
Reinsurance loss on dispositions, including reduction in goodwill of $156 for the six months ended June 30, 2013	—	—	—	1,574
Interest expense	94	100	189	207
Total benefits, losses and expenses	4,466	4,497	8,469	10,491
Income from continuing operations before income taxes	150	237	759	543
Income tax expense	—	4	143	67
Income from continuing operations, net of tax	150	233	616	476
Loss from discontinued operations, net of tax	(617)	(423)	(588)	(907)
Net income (loss)	$(467)	$(190)	$28	$(431)
Preferred stock dividends	—	—	—	10
Net income (loss) available to common shareholders	$(467)	$(190)	$28	$(441)
Income (loss) from continuing operations, net of tax, available to common shareholders per common share				
Basic	$0.33	$0.52	$1.37	$1.05
Diluted	$0.32	$0.48	$1.30	$0.97
Net income (loss) available to common shareholders per common share				
Basic	$(1.04)	$(0.42)	$0.06	$(0.99)
Diluted	$(1.00)	$(0.39)	$0.06	$(0.87)
Cash dividends declared per common share	$0.15	$0.10	$0.30	$0.20

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2014	2013	2014	2013
	(Unaudited)			
Comprehensive Income				
Net income (loss)	$(467)	$(190)	$28	$(431)
Other comprehensive income (loss):				
Change in net unrealized gains on securities	569	(1,367)	1,268	(2,256)
Change in OTTI losses recognized in other comprehensive income	3	9	5	24
Change in net gain/loss on cash-flow hedging instruments	20	(132)	33	(240)
Change in foreign currency translation adjustments	(95)	(94)	(78)	(314)
Change in pension and other postretirement plan adjustments	6	9	13	17
Total other comprehensive income (loss)	503	(1,575)	1,241	(2,769)
Total comprehensive income (loss)	$36	$(1,765)	$1,269	$(3,200)

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)	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost of $56,318 and $60,641) (includes variable interest entity assets, at fair value, of $0 and $31)	$60,246	$62,357
Fixed maturities, at fair value using the fair value option (includes variable interest entity assets of $152 and $161)	410	844
Equity securities, trading, at fair value (cost of $11 and $14,504)	12	19,745
Equity securities, available-for-sale, at fair value (cost of $779 and $850)	823	868
Mortgage loans (net of allowances for loan losses of $19 and $67)	5,586	5,598
Policy loans, at outstanding balance	1,420	1,420
Limited partnerships and other alternative investments (includes variable interest entity assets of $3 and $4)	2,902	3,040
Other investments	329	521
Short-term investments (includes variable interest entity assets, at fair value, of $18 and $3)	4,511	4,008
Total investments	76,239	98,401
Cash (includes variable interest entity assets, at fair value, of $14 and $0)	1,512	1,428
Premiums receivable and agents’ balances, net	3,567	3,465
Reinsurance recoverables, net	22,949	23,330
Deferred policy acquisition costs and present value of future profits	2,026	2,161
Deferred income taxes, net	3,036	3,840
Goodwill	498	498
Property and equipment, net	807	877
Other assets	2,556	2,998
Separate account assets	141,523	140,886
Total assets	$254,713	$277,884
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses	$41,682	$41,373
Other policyholder funds and benefits payable	33,475	39,029
Other policyholder funds and benefits payable – international variable annuities	—	19,734
Unearned premiums	5,348	5,225
Short-term debt	289	438
Long-term debt	5,819	6,106
Other liabilities (includes variable interest entity liabilities of $14 and $33)	7,149	6,188
Separate account liabilities	141,523	140,886
Total liabilities	235,285	258,979
Commitments and Contingencies (Note 11)		
Stockholders’ Equity		
Common stock, $0.01 par value — 1,500,000,000 shares authorized, 490,923,222 and 490,923,222 shares issued	5	5
Additional paid-in capital	9,230	9,894
Retained earnings	10,577	10,683
Treasury stock, at cost — 40,172,549 and 37,632,782 shares	(1,546)	(1,598)

Accumulated other comprehensive income (loss), net of tax	1,162	(79)
Total stockholders' equity	19,428	18,905
Total liabilities and stockholders' equity	$254,713	$277,884

See Notes to Condensed Consolidated Financial Statements.

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

(In millions, except for share data)	Six Months Ended June 30, 2014	2013
	(Unaudited)	
Preferred Stock		
Balance, beginning of period	$—	$556
Conversion of shares to common stock	—	(556)
Balance, end of period	$—	$—
Common Stock	5	5
Additional Paid-in Capital, beginning of period	9,894	10,038
Repurchase of warrants	—	(21)
Issuance of shares under incentive and stock compensation plans	1	(29)
Tax benefits on employee stock options and awards	4	—
Conversion of mandatory convertible preferred stock	—	556
Issuance of shares for warrant exercise	(669)	—
Additional Paid-in Capital, end of period	9,230	10,544
Retained Earnings, beginning of period	10,683	10,745
Net income (loss)	28	(431)
Dividends on preferred stock	—	(10)
Dividends declared on common stock	(134)	(91)
Retained Earnings, end of period	10,577	10,213
Treasury Stock, at Cost, beginning of period	(1,598)	(1,740)
Treasury stock acquired	(651)	(145)
Issuance of shares under incentive and stock compensation plans from treasury stock	47	69
Return of shares under incentive and stock compensation plans and other to treasury stock	(13)	(7)
Issuance of shares for warrant exercise	669	—
Treasury Stock, at Cost, end of period	(1,546)	(1,823)
Accumulated Other Comprehensive Income (Loss), net of tax, beginning of period	(79)	2,843
Total other comprehensive income (loss)	1,241	(2,769)
Accumulated Other Comprehensive Income, net of tax, end of period	1,162	74
Total Stockholders' Equity	$19,428	$19,013
Common Shares Outstanding beginning of period (in thousands)	453,290	436,306
Treasury stock acquired	(18,968)	(5,205)
Issuance of shares under incentive and stock compensation plans	1,111	1,236
Return of shares under incentive and stock compensation plans and other to treasury stock	(378)	(285)
Conversion of mandatory convertible preferred shares	—	21,181
Issuance of shares for warrant exercise	15,696	694
Common Shares Outstanding, at end of period	450,751	453,927

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,			
(In millions)	2014		2013	
Operating Activities	(Unaudited)			
Net income (loss)	$28		$(431	)
Adjustments to reconcile net income to net cash provided by operating activities				
Amortization of deferred policy acquisition costs and present value of future profits	768		1,727	
Additions to deferred policy acquisition costs and present value of future profits	(689	)	(668	)
Change in reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	543		(233	)
Change in reinsurance recoverables	(146	)	(327	)
Change in receivables and other assets	352		(796	)
Change in payables and accruals	(1,768	)	607	
Change in accrued and deferred income taxes	971		(316	)
Net realized capital (gains) losses	196		(1,279	)
Net receipts (disbursements) from investment contracts related to policyholder funds—international variable annuities	(3,961	)	(3,907	)
Net (increase) decrease in equity securities, trading	3,961		3,906	
Depreciation and amortization	60		57	
Loss on extinguishment of debt	—		213	
Reinsurance loss on dispositions	—		1,574	
Loss on sale of business	659		102	
Other operating activities, net	(464	)	179	
Net cash provided by operating activities	$510		408	
Investing Activities				
Proceeds from the sale/maturity/prepayment of:				
Fixed maturities, available-for-sale	14,620		17,128	
Fixed maturities, fair value option	299		49	
Equity securities, available-for-sale	166		191	
Mortgage loans	214		263	
Partnerships	319		175	
Payments for the purchase of:				
Fixed maturities, available-for-sale	(12,612	)	(14,746	)
Fixed maturities, fair value option	(246	)	(95	)
Equity securities, available-for-sale	(103	)	(97	)
Mortgage loans	(204	)	(315	)
Partnerships	(130	)	(195	)
Proceeds from business sold	963		485	
Derivatives, net	(40	)	(1,303	)
Change in policy loans, net	3		44	
Additions to property and equipment, net	(14	)	—	
Change in short-term investments, net	(1,501	)	(97	)
Other investing activities, net	(5	)	32	
Net cash provided by investing activities	1,729		1,519	
Financing Activities				
Deposits and other additions to investment and universal life-type contracts	3,785		4,736	
Withdrawals and other deductions from investment and universal life-type contracts	(11,167	)	(13,292	)

Net transfers from separate accounts related to investment and universal life-type contracts	6,233	8,065
Repayments at maturity or settlement of consumer notes	(6)	(51)
Net increase (decrease) in securities loaned or sold under agreements to repurchase	99	(847)
Repurchase of warrants	—	(21)
Repayment of debt	(200)	(1,018)
Proceeds from the issuance of debt	—	295
Proceeds from net issuance of shares under incentive and stock compensation plans, excess tax benefit and other	1	15
Treasury stock acquired	(651)	(145)
Dividends paid on preferred stock	—	(21)
Dividends paid on common stock	(134)	(87)
Net cash used for financing activities	(2,040)	(2,371)
Foreign exchange rate effect on cash	(115)	(134)
Transfer of cash to held for sale	—	(103)
Net increase (decrease) in cash	84	(681)
Cash – beginning of period	1,428	2,421
Cash – end of period	$1,512	$1,740
Supplemental Disclosure of Cash Flow Information		
Income taxes paid (received)	$(79)	$142
Interest paid	$191	$132

See Notes to Condensed Consolidated Financial Statements

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 June 30, 2014, the Company completed the sale of all of the issued and outstanding equity of Hartford Life Insurance KK, a Japanese company ("HLIKK"), to ORIX Life Insurance Corporation, a subsidiary of ORIX Corporation, a Japanese company.

On December 12, 2013, the Company completed the sale of Hartford Life International Limited, a U.K. company ("HLIL"), to Columbia Insurance Company, a Berkshire Hathaway company.

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 transactions, see Note 2 - Business Dispositions of Notes to Condensed 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 2013 Form 10-K Annual Report. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

The accompanying Condensed Consolidated Financial Statements and Notes as of June 30, 2014, and for the three and six months ended June 30, 2014 and 2013 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. In 2014, a subsidiary of the Company changed its method of reporting revenues and expenses. Fee income and directly related expenses previously reported as gross amounts are being reported as a net amount in insurance operating costs and other expenses in the Condensed Consolidated Statements of Operations. This change in the method of reporting revenues and expenses did not have a material impact on the Company’s condensed consolidated results of operations, financial position or liquidity. The Condensed Consolidated Financial Statements have been retrospectively adjusted to conform to the current year presentation.

The Company's significant accounting policies are summarized in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements included in the Company's 2013 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. All 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 presents the operations of businesses that meet these criteria as discontinued operations in the Condensed Consolidated Financial Statements. Accordingly, results of operations for prior periods are 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.

Mutual Funds

The Company maintains a mutual fund operation whereby the Company provides investment management, administrative and distribution services to The Hartford-sponsored mutual funds (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.

Reclassifications

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

Future Adoption of New Accounting Standard

Revenue Recognition

In May 2014, the FASB issued updated guidance for recognizing revenue. The guidance excludes insurance contracts and financial instruments. Revenue is to be recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to be entitled in exchange for those goods or services, and this accounting guidance is similar to current accounting for many transactions. This guidance is effective retrospectively for years beginning after December 15, 2016, with a choice of restating prior periods or recognizing a cumulative effect for contracts in place as of the adoption. Early adoption is not permitted. The Company has not yet determined its method for adoption or estimated the effect of the adoption on the Company’s Consolidated Financial Statements.

Reporting Discontinued Operations

In April 2014, the FASB issued updated guidance on reporting discontinued operations. Under this updated guidance, a discontinued operation will include a disposal of a major part of an entity’s operations and financial results such as a separate major line of business or a separate major geographical area of operations. The guidance raises the threshold to be a major operation but no longer precludes discontinued operations presentation where there is significant continuing involvement or cash flows with a disposed component of an entity. The guidance expands disclosures to include cash flows where there is significant continuing involvement with a discontinued operation and the pre-tax profit or loss of disposal transactions not reported as discontinued operations. The updated guidance is effective prospectively for years beginning on or after December 15, 2014, with early application permitted. The Company will apply the guidance to new disposals and operations newly classified as held for sale beginning first quarter of 2015, with no effect on existing reported discontinued operations. The effect on the Company’s future results of operations or financial condition will depend on the nature of future disposal transactions.

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Tax provision at U.S. Federal statutory rate	$53	$83	$266	$190
Tax-exempt interest	(34)	(35)	(69)	(69)
Dividends received deduction	(26)	(33)	(53)	(65)
Valuation allowance	3	—	3	—
Other [1]	4	(11)	(4)	11
Income tax expense	$—	$4	$143	$67

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

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

The Company and its subsidiaries file income tax returns in the United States ("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 2007-2009 audit, which commenced during 2010, and the 2010-2011 audit, which commenced in the fourth quarter of 2012, are both expected to conclude by the end of 2015. Management believes that adequate provision has been made in the consolidated financial statements for any potential assessments that may result from tax examinations and other tax-related matters for all open tax years.

The Company has recorded a deferred tax asset valuation allowance that is adequate to reduce the total deferred tax asset to an amount that will be more likely than not realized. The deferred tax asset valuation allowance was $206 as of June 30, 2014, attributable predominantly to a $199 valuation allowance recorded in discontinued operations in the second quarter of 2014 with respect to the taxable capital loss on the sale of HLIKK. The deferred tax asset valuation allowance was $4 as of December 31, 2013, attributable to certain U.S. net operating losses. In assessing the need for a valuation allowance, management considered future taxable temporary difference reversals, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in open carry back years, as well as other tax planning strategies. These tax planning strategies include holding a portion of debt securities with market value losses until recovery, altering the level of tax exempt securities, selling appreciated securities to offset capital losses, business considerations such as asset-liability matching, and the sales of certain corporate assets. Management views such tax planning strategies as prudent and feasible, and will implement them, if necessary, to realize the deferred tax asset. Future economic conditions and debt market volatility, including increases in interest rates, can adversely impact the Company's tax planning strategies and in particular the Company's ability to utilize tax benefits on previously recognized realized capital losses.

On July 18, 2014, the Internal Revenue Service issued Internal Revenue Code Section 446 Directive ("the Directive") for the tax treatment of hedging gains and losses related to the hedging of variable annuity guaranteed minimum benefits such as contracts with GMDB and GMWB riders. This directive will accelerate the tax deduction related to previously deferred investment hedging losses. While the acceleration will not have a material effect on the overall consolidated deferred tax asset, it will result in a re-characterization of deferred tax assets due to a decrease in temporary differences for investment-related items and an increase in net operating loss carryovers.

2. Business Dispositions

Sale of Hartford Life Insurance KK

On June 30, 2014, the Company completed the sale of all of the issued and outstanding equity of HLIKK to ORIX Life Insurance Corporation ("Buyer"), a subsidiary of ORIX Corporation, a Japanese company for cash proceeds of $963, subject to certain purchase price adjustments pending final valuation of HLIKK in accordance with the purchase and sale agreement. HLIKK sold variable and fixed annuity policies in Japan from 2001 to 2009 and has been in runoff since 2009. The sale transaction resulted in an after-tax loss on disposition of $659 in the three and six months ended June 30, 2014. The operations of the Company's Japan business meet the criteria for reporting as discontinued operations. For further information regarding discontinued operations, see Note 14 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements. The Company's Japan business was included in the Talcott Resolution reporting segment.

Concurrently with the sale, HLIKK recaptured certain risks that had been reinsured to the Company’s U.S. subsidiaries, Hartford Life and Annuity Insurance Company ("HLAI") and Hartford Life Insurance Company ("HLIC") by terminating intercompany agreements. Upon closing, the Buyer is responsible for all liabilities for the recaptured business. The Company will, however, continue to provide reinsurance for approximately $1.1 billion of Japan 3Win fixed payout annuities.

The following table presents the major classes of assets and liabilities transferred by the Company in connection with the sale of HLIKK on June 30, 2014:

	As of Closing Carrying Value
Assets	
Cash and investments	$18,733
Reinsurance recoverables	$46
Property and equipment, net	$18
Other assets	$988
Liabilities	
Reserve for future policy benefits and unpaid loss and loss adjustment expenses	$320
Other policyholder funds and benefits payable	$2,265
Other policyholder funds and benefits payable - international variable annuities	$16,465
Short-term debt	$247
Other liabilities	$102

Sale of Hartford Life International Limited

On December 12, 2013, the Company completed the sale of HLIL in a cash transaction to Columbia Insurance Company, a Berkshire Hathaway company, for approximately $285. At closing, HLIL’s sole asset was its subsidiary, Hartford Life Limited, a Dublin-based company that sold variable annuities in the U.K. from 2005 to 2009. The sale transaction resulted in an after-tax loss of $102 upon disposition in the three and six months ended June 30, 2013. The operations of the Company's U.K. variable annuity business meet the criteria for reporting as discontinued operations. For further information regarding discontinued operations, see Note 14 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements. The Company's U.K. variable annuities business was included in the Talcott Resolution reporting segment.

Sale of Retirement Plans

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

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 continued to sell retirement plans during the transition period which ended on June 30, 2014. MassMutual has assumed all expenses and risks for these sales through the reinsurance agreement.

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, in 2012.

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, for the six months ended June 30, 2013. In addition, 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 continued to sell life insurance products and riders during the transition period which ended on June 30, 2014. Prudential has assumed all expenses and risk for these sales through the reinsurance agreement.

For additional information regarding business dispositions, see Note 2 - Business Dispositions and Note 9 - Goodwill and Other Intangible Assets in The Hartford's 2013 Annual Report on Form 10-K.

Sale of Catalyst 360

On December 31, 2013, the Company completed the sale of its member contact center for health insurance products offered through the AARP Health Program ("Catalyst 360") to Optum, Inc., a division of UnitedHealth Group. The impact of this transaction was not material to the Company's results of operations, financial position or liquidity. The Company will provide limited transition services for 18-24 months following the sale. Catalyst 360 is included in the Consumer Markets reporting segment.

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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. Diluted potential common shares are included in the calculation of all diluted per share amounts provided there is income from continuing operations, net of tax, available to common shareholders.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except for per share data)	2014	2013	2014	2013
Earnings				
Income from continuing operations				
Income from continuing operations, net of tax	$150	$233	$616	$476
Less: Preferred stock dividends	—	—	—	10
Income from continuing operations, net of tax, available to common shareholders	$150	$233	$616	$466
Add: Dilutive effect of preferred stock dividends	—	—	—	10
Income from continuing operations, net of tax, available to common shareholders and assumed conversion of preferred shares	$150	$233	$616	$476
Loss from discontinued operations, net of tax	$(617)	$(423)	$(588)	$(907)
Net income (loss)				
Net income (loss)	$(467)	$(190)	$28	$(431)
Less: Preferred stock dividends	—	—	—	10
Net income (loss) available to common shareholders	$(467)	$(190)	$28	$(441)
Add: Dilutive effect of preferred stock dividends	—	—	—	10
Net income (loss) available to common shareholders and assumed conversion of preferred shares	$(467)	$(190)	$28	$(431)
Shares				
Weighted average common shares outstanding, basic	450.6	451.4	450.2	443.8
Dilutive effect of warrants	11.0	33.4	16.9	32.6
Dilutive effect of stock compensation plans	6.3	4.2	6.2	4.0
Dilutive effect of mandatory convertible preferred shares	—	—	—	12.4
Weighted average shares outstanding and dilutive potential common shares	467.9	489.0	473.3	492.8
Earnings (loss) per common share				
Basic				
Income from continuing operations, net of tax, available to common shareholders	$0.33	$0.52	$1.37	$1.05
Loss from discontinued operations, net of tax	(1.37)	(0.94)	(1.31)	(2.04)
Net income (loss) available to common shareholders	$(1.04)	$(0.42)	$0.06	$(0.99)
Diluted				
Income from continuing operations, net of tax, available to common shareholders	$0.32	$0.48	$1.30	$0.97
Loss from discontinued operations, net of tax	(1.32)	(0.87)	(1.24)	(1.84)
Net income (loss) available to common shareholders	$(1.00)	$(0.39)	$0.06	$(0.87)

4. Segment Information

The Company currently conducts business principally in six reporting segments, as well as a Corporate category. 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 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 personal umbrella coverages to individuals across the U.S., including a special program designed exclusively for members of AARP. Consumer Markets previously operated a member contact center for health insurance products offered through the AARP Health program ("Catalyst 360"). For further information regarding the sale of Catalyst 360 in 2013, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

Property & Casualty Other Operations

Property & Casualty Other Operations includes certain property and casualty operations, 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 and retirement accounts and provides investment-management and administrative services such as product design, implementation and oversight. This business also includes the runoff of the mutual funds supporting the Company's variable annuity products.

Talcott Resolution

Talcott Resolution is comprised of runoff business from the Company's U.S. annuity, the retained Japan 3Win fixed payout annuity liabilities, institutional and private-placement life insurance businesses. In addition, Talcott Resolution includes the Retirement Plans and Individual Life businesses sold in January 2013 and the Company's discontinued Japan and U.K. annuity businesses. For further, information regarding the sale of these businesses, see Note 2 - Business Dispositions and Note 14 - Discontinued Operations 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, 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 June 30,		Six Months Ended June 30,	
Net income (loss)	2014	2013	2014	2013
Property & Casualty Commercial	$199	$192	$441	$445
Consumer Markets	(30)	15	69	92
Property & Casualty Other Operations	(144)	(71)	(122)	(50)

Group Benefits	55	61	106	103
Mutual Funds	21	20	42	38
Talcott Resolution	(504)	(332)	(359)	(626)
Corporate	(64)	(75)	(149)	(433)
Net income (loss)	$(467)	$(190)	$28	$(431)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Revenues	2014	2013	2014	2013
Earned premiums and fee income				
Property & Casualty Commercial				
Workers' compensation	$734	$741	$1,466	$1,474
Property	137	127	273	252
Automobile	145	144	289	288
Package business	289	285	572	566
Liability	146	141	291	279
Fidelity and surety	52	52	103	101
Professional liability	56	55	106	114
Total Property & Casualty Commercial	1,559	1,545	3,100	3,074
Consumer Markets				
Automobile	650	626	1,286	1,245
Homeowners	296	282	588	559
Total Consumer Markets [1]	946	908	1,874	1,804
Group Benefits				
Group disability	365	370	734	729
Group life	371	428	759	854
Other	41	40	83	81
Total Group Benefits	777	838	1,576	1,664
Mutual Funds				
Retail and Retirement	148	128	286	252
Annuity	35	37	71	73
Total Mutual Funds	183	165	357	325
Talcott Resolution	352	349	705	698
Corporate	4	2	7	5
Total earned premiums and fee income	3,821	3,807	7,619	7,570
Net investment income	768	841	1,592	1,666
Net realized capital gains (losses)	(4)	21	(39)	1,665
Other revenues	31	65	56	133
Total revenues	$4,616	$4,734	$9,228	$11,034

[1] For the three months ended June 30, 2014 and 2013, AARP members accounted for earned premiums of $755 and $714, respectively. For the six months ended June 30, 2014 and 2013, AARP members accounted for earned premiums of $1.5 billion and $1.4 billion, 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 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 $309 and $1.6 billion, respectively, for the three and six months ended June 30, 2014, and $350 and $466 for the three and six months ended June 30, 2013, 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 HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Fair Value Measurements (continued)

	June 30, 2014			
	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")	$2,309	$ —	$2,236	$73
Collateralized debt obligations ("CDOs")	2,434	—	1,822	612
Commercial mortgage-backed securities ("CMBS")	4,696	—	4,225	471
Corporate	28,668	—	27,463	1,205
Foreign government/government agencies	1,707	—	1,652	55
Municipal	12,713	—	12,650	63
Residential mortgage-backed securities ("RMBS")	4,426	—	3,131	1,295
U.S. Treasuries	3,293	297	2,996	—
Total fixed maturities	60,246	297	56,175	3,774
Fixed maturities, FVO	410	—	271	139
Equity securities, trading	12	12	—	—
Equity securities, AFS	823	462	281	80
Derivative assets				
Credit derivatives	34	—	34	—
Equity derivatives	—	—	—	—
Foreign exchange derivatives	(63)	—	(63)	—
Interest rate derivatives	49	—	28	21
Guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	93	—	7	86
Macro hedge program	38	—	—	38
Derivative instruments formerly associated with Japan	73	—	73	—
Other derivative contracts	15	—	—	15
Total derivative assets [1]	239	—	79	160
Short-term investments	4,511	719	3,792	—
Limited partnerships and other alternative investments [2]	720	—	653	67
Reinsurance recoverable for GMWB	31	—	—	31
Modified coinsurance reinsurance contracts	32	—	32	—
Separate account assets [3]	138,696	98,569	39,314	813
Total assets accounted for at fair value on a recurring basis	$205,720	$ 100,059	$100,597	$5,064
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
Guaranteed withdrawal benefits	$2	$ —	$—	$2
Equity linked notes	(22)	—	—	(22)
Total other policyholder funds and benefits payable	(20)	—	—	(20)
Derivative liabilities				
Credit derivatives	(36)	—	(35)	(1)
Equity derivatives	22	—	20	2
Foreign exchange derivatives	(285)	—	(285)	—

Interest rate derivatives	(598)	—	(598)	—
GMWB hedging instruments	(20)	—	(31)	11
Macro hedge program	82	—	—	82
Derivative instruments formerly associated with Japan	14	—	14	—
Total derivative liabilities [4]	(821)	—	(915)	94
Consumer notes [5]	(2)	—	—	(2)
Total liabilities accounted for at fair value on a recurring basis	$(843)	$—	$(915)	$72

	December 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	$2,365	$ —	$2,218	$147
CDOs	2,387	—	1,723	664
CMBS	4,446	—	3,783	663
Corporate	28,490	—	27,216	1,274
Foreign government/government agencies	4,104	—	4,039	65
Municipal	12,173	—	12,104	69
RMBS	4,647	—	3,375	1,272
U.S. Treasuries	3,745	1,311	2,434	—
Total fixed maturities	62,357	1,311	56,892	4,154
Fixed maturities, FVO	844	—	651	193
Equity securities, trading	19,745	12	19,733	—
Equity securities, AFS	868	454	337	77
Derivative assets				
Credit derivatives	25	—	20	5
Equity derivatives	—	—	—	—
Foreign exchange derivatives	14	—	14	—
Interest rate derivatives	(21)	—	(63)	42
GMWB hedging instruments	26	—	(42)	68
Macro hedge program	109	—	—	109
International program hedging instruments	272	—	241	31
Other derivative contracts	17	—	—	17
Total derivative assets [1]	442	—	170	272
Short-term investments	4,008	427	3,581	—
Limited partnerships and other alternative investments [2]	921	—	813	108
Reinsurance recoverable for GMWB	29	—	—	29
Modified coinsurance reinsurance contracts	67	—	67	—
Separate account assets [3]	138,495	99,930	37,828	737
Total assets accounted for at fair value on a recurring basis	$227,776	$ 102,134	$120,072	$5,570

	December 31, 2013			
	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				
Guaranteed withdrawal benefits	$(36)	$—	$—	$(36)
International guaranteed withdrawal benefits	3	—	—	3
International other guaranteed living benefits	3	—	—	3
Equity linked notes	(18)	—	—	(18)
Total other policyholder funds and benefits payable	(48)	—	—	(48)
Derivative liabilities				
Credit derivatives	(12)	—	(9)	(3)
Equity derivatives	19	—	16	3
Foreign exchange derivatives	(388)	—	(388)	—
Interest rate derivatives	(582)	—	(558)	(24)
GMWB hedging instruments	15	—	(63)	78
Macro hedge program	30	—	—	30
International program hedging instruments	(305)	—	(245)	(60)
Total derivative liabilities [4]	(1,223)	—	(1,247)	24
Consumer notes [5]	(2)	—	—	(2)
Total liabilities accounted for at fair value on a recurring basis	$(1,273)	$—	$(1,247)	$(26)

[1] Includes over-the-counter("OTC") and OTC-cleared derivative instruments in a net asset value position after consideration of the impact of collateral posting requirements which may be imposed by agreements, clearing house rules and applicable law. As of June 30, 2014 and December 31, 2013, $203 and $128, respectively, of cash collateral liability was netted against the derivative asset value in the Condensed Consolidated Balance Sheet and is excluded from the table above. See footnote 4 below for derivative liabilities.

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

[3] Approximately $2.8 billion and $2.4 billion of investment sales receivable that are not subject to fair value accounting are excluded as of June 30, 2014 and December 31, 2013, respectively.

[4] Includes OTC and OTC-cleared derivative instruments in a net negative market value position (derivative liability) after consideration of the impact of collateral positing requirements which may be imposed by agreements, clearing house rules and applicable law. In the Level 3 roll-forward table included below in this Note 5, 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 are also two working groups under the Valuation Committee, a Securities Fair Value Working Group (“Securities Working Group”) and a Derivatives Fair Value Working Group ("Derivatives Working Group"), which include the Heads of Investment Operations and Accounting, as well as other investment, operations, accounting and risk management professionals that meet monthly to review market data trends, pricing and trading statistics and results, and any proposed pricing methodology changes described in more detail in the following paragraphs.

The Company also has an enterprise-wide Operational Risk Management function, led by the Chief Operational Risk Officer, which is responsible for establishing, maintaining and communicating the framework, principles and guidelines of the Company's operational risk management program. This includes model risk management which provides an independent review of the suitability, characteristics and reliability of model inputs as well as, an analysis of significant changes to current models.

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, prepayment 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 Securities 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 monitoring 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.

Derivative Instruments, including embedded derivatives within investments

Derivative instruments are fair valued using pricing valuation models for OTC derivatives that utilize independent market data inputs, quoted market prices for exchange-traded and OTC-cleared derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of June 30, 2014 and December 31, 2013, 97% and 97%, respectively, of derivatives, based upon notional values, were priced by valuation models or quoted market prices. The remaining derivatives were priced by broker quotations.

The Derivatives Working Group performs ongoing analysis of the valuations, assumptions and methodologies used to ensure that the prices represent a reasonable estimate of the fair value. 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 any existing deals with a market value greater than $10 and all new deals during the month. In addition, on a daily basis, market valuations are compared to counterparty valuations for OTC derivatives. A model validation review is performed on any new models, which typically includes detailed documentation and validation to a second source. The model validation documentation and results of validation are presented to the Valuation Committee for approval. There is a monthly control to review changes in pricing sources to ensure that new models are not moved to production until formally approved.

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

Limited partnerships and other alternative investments

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

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 and derivative instruments.

- ABS, CDOs, CMBS and RMBS – Primary inputs also include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and, for ABS and RMBS, estimated prepayment rates.
- Corporates, including investment grade private placements – Primary inputs also include observations of credit default swap curves related to the issuer.
- Foreign government/government agencies—Primary inputs also include observations of credit default swap curves related to the issuer and political events in emerging market economies.
- 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 sub-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.

Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value

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

	As of June 30, 2014						
Securities	Unobservable Inputs						
Assets accounted for at fair value on a recurring basis	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum	Maximum	Weighted Average [1]	Impact of Increase in Input on Fair Value [2]
CMBS	$471	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	74 bps	2,418 bps	305 bps	Decrease
Corporate [3]	675	Discounted cash flows	Spread	108 bps	703 bps	251 bps	Decrease
Municipal [3]	31	Discounted cash flows	Spread	181 bps	181 bps	181 bps	Decrease
RMBS	1,295	Discounted cash flows	Spread	49 bps	1,633 bps	178 bps	Decrease
			Constant prepayment rate	— %	10.0 %	3.0 %	Decrease [4]
			Constant default rate	1.0 %	22.0 %	8.0 %	Decrease
			Loss severity	— %	100.0 %	78.0 %	Decrease
	As of December 31, 2013						
CMBS	$663	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	99 bps	3,000 bps	527 bps	Decrease
Corporate [3]	665	Discounted cash flows	Spread	119 bps	5,594 bps	344 bps	Decrease
Municipal [3]	29	Discounted cash flows	Spread	184 bps	184 bps	184 bps	Decrease
RMBS	1,272	Discounted cash flows	Spread	62 bps	1,748 bps	232 bps	Decrease
			Constant prepayment rate	— %	10.0 %	3.0 %	Decrease [4]
			Constant default rate	1.0 %	22.0 %	8.0 %	Decrease
			Loss severity	— %	100.0 %	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 and municipal 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.

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

Freestanding Derivatives	As of June 30, 2014 Unobservable Inputs					
	Fair Value	Predominant Valuation Method	Significant Unobservable Input	Minimum	Maximum	Impact of Increase in Input on Fair Value [1]
Interest rate derivative						
Interest rate swaptions	21	Option model	Interest rate volatility	3.0%	4.0%	Increase
GMWB hedging instruments						
Equity options	33	Option model	Equity volatility	19%	32%	Increase
Customized swaps	64	Discounted cash flows	Equity volatility	10%	50%	Increase
Macro hedge program						
Equity options	120	Option model	Equity volatility	23%	35%	Increase
	As of December 31, 2013					
Interest rate derivative						
Interest rate swaps	(24)	Discounted cash flows	Swap curve beyond 30 years	4.0%	4.0%	Increase
Long interest rate swaptions	42	Option model	Interest rate volatility	1%	1%	Increase
GMWB hedging instruments						
Equity options	72	Option model	Equity volatility	21%	29%	Increase
Customized swaps	74	Discounted cash flows	Equity volatility	10%	50%	Increase
Macro hedge program						
Equity options	139	Option model	Equity volatility	24%	31%	Increase
International program hedging [2]						
Equity options	(35)	Option model	Equity volatility	24%	37%	Increase
Short interest rate swaptions	(13)	Option model	Interest rate volatility	—%	1%	Decrease
Long interest rate swaptions	50	Option model	Interest rate volatility	1%	1%	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. Changes are based on long positions, unless otherwise noted. Changes in fair value will be inversely impacted for short positions.

[2] Level 3 international program hedging instruments excludes those for which the Company based fair value on broker quotations.

Securities and derivatives for which the Company bases fair value on broker quotations predominately include ABS, CDOs, corporate, fixed maturities and FVO. 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 and six months ended June 30, 2014, no significant adjustments were made by the Company to broker prices received.

As of June 30, 2014 and December 31, 2013, excluded from the tables above are limited partnerships and other alternative investments which total $67 and $108, 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 formerly offered certain variable annuity products with GMWB riders. The GMWB provides the policyholder with a guaranteed remaining balance ("GRB") which is generally equal to premiums less withdrawals. If the policyholder's account value is reduced to the specified level through a combination of market declines and withdrawals but the GRB still has value, the Company is obligated to continue to make annuity payments to the policyholder until the GRB is exhausted. Certain contract provisions can increase the GRB at contractholder election or after the passage of time. 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. The notional value of the embedded derivative is the GRB.

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.

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 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 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 GMWB contracts. Fair values for GMWB 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 are 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 requires judgment by the Company in determining its value. Oversight of the Company's valuation policies and processes for product and 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.

Best Estimate
Claim Payments

The Best Estimate Claim Payments are 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 Eurodollar 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. The Company continually monitors policyholder behavior assumptions in response to initiatives intended 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 (commonly referred to as "nonperformance risk"). The Company incorporates a blend of observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. The credit standing adjustment assumption, net of reinsurance, resulted in pre-tax realized gains/(losses) of $2 and $(1), for the three months ended June 30, 2014 and 2013, respectively, and $1 and $(11) for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and December 31, 2013 the credit standing adjustment was $(1).

Margins

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

There were no policyholder assumption updates for the three and six months ended June 30, 2014 and 2013. As of June 30, 2014 and December 31, 2013 the behavior risk margin was $90 and $108, respectively.

In addition to the non-market-based updates described above, the Company recognized non-market-based updates driven by the relative outperformance (underperformance) of the underlying actively managed funds as compared to their respective indices resulting in pre-tax realized gains/(losses) of approximately $7 and $0, for the three months ended June 30, 2014 and 2013, respectively and $20 and $8 for the six months ended June 30, 2014 and 2013.

Significant unobservable inputs used in the fair value measurement of living benefits required to be fair valued and the 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 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 riders is typically different from policyholders that do not utilize these riders.

Separate Account Assets

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)
The tables below provide fair value roll-forwards for the three and six months ended June 30, 2014 and 2013, for the financial instruments classified as Level 3.
For the three months ended June 30, 2014

	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 March 31, 2014	$56	$712	$592	$1,243	$ 54	$78	$1,328	$4,063	$206
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	—	—	7	(4)	—	—	9	12	5
Included in OCI [3]	1	8	(2)	4	2	1	(4)	10	—
Purchases	37	—	25	54	3	4	116	239	5
Settlements	(1)	(21)	(47)	(26)	(1)	—	(50)	(146)	(75)
Sales	(18)	—	(16)	(33)	(3)	(1)	(65)	(136)	(2)
Transfers into Level 3 [4]	—	—	5	133	—	—	—	138	—
Transfers out of Level 3 [4]	(2)	(87)	(93)	(166)	—	(19)	(39)	(406)	—
Fair value as of June 30, 2014	$73	$612	$471	$1,205	$ 55	$63	$1,295	$3,774	$139
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$—	$—	$—	$(4)	$ —	$—	$(1)	$(5)	$10

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of March 31, 2014	$ 79	$—	$2	$28	$123	$133	$(5)	$16	$ 297
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	—	(1)	—	(7)	(26)	(15)	12	(1)	(38)
Included in OCI [3]	1	—	—	—	—	—	—	—	—
Purchases	—	—	—	—	—	2	—	—	2
Settlements	—	—	—	—	—	—	(41)	—	(41)
Sales	—	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	—	—	—	34	—	34
Fair value as of June 30, 2014	$ 80	$(1)	$2	$21	$97	$120	$—	$15	$ 254
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$—	$1	$—	$(7)	$(26)	$(15)	$(35)	$(1)	$ (83)

5. Fair Value Measurements (continued)

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of March 31, 2014	$107	$30	$762
Total realized/unrealized gains (losses)			
Included in net income [1], [2], [6]	(8)	(7)	(1)
Included in OCI [3]	—	—	—
Purchases	—	—	136
Settlements	—	8	(1)
Sales	—	—	(78)
Transfers into Level 3 [4]	—	—	3
Transfers out of Level 3 [4]	(32)	—	(8)
Fair value as of June 30, 2014	$67	$31	$813
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$(8)	$(7)	$1

	Other Policyholder Funds and Benefits Payable					
Liabilities	Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of March 31, 2014	$(24)	$2	$2	$(19)	$(39)	$(2)
Transfers to liabilities held for sale	—	—	—	—	—	—
Total realized/unrealized gains (losses)						
Included in net income [1], [2], [6]	55	—	—	(3)	52	—
Included in OCI [3]	—	—	—	—	—	—
Settlements	(29)	(2)	(2)	—	(33)	—
Fair value as of June 30, 2014	$2	$—	$—	$(22)	$(20)	$(2)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$55	$—	$—	$(3)	$52	$—

For the six months ended June 30, 2014

	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, 2014	$147	$664	$663	$1,274	$ 65	$69	$1,272	$4,154	$193
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	—	—	30	(18)	(2)	—	8	18	15
Included in OCI [3]	3	8	(24)	28	7	4	10	36	—
Purchases	37	—	90	91	3	16	263	500	10
Settlements	(2)	(35)	(80)	(25)	(2)	—	(96)	(240)	(75)
Sales	(18)	—	(103)	(111)	(16)	(1)	(107)	(356)	(4)
Transfers into Level 3 [4]	—	72	5	200	—	—	—	277	1
Transfers out of Level 3 [4]	(94)	(97)	(110)	(234)	—	(25)	(55)	(615)	(1)
Fair value as of June 30, 2014	$73	$612	$471	$1,205	$ 55	$63	$1,295	$3,774	$139
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$—	$—	$—	$(21)	$ (2)	$—	$(1)	$(24)	$20

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2014	$77	$2	$3	$18	$146	$139	$(29)	$17	$ 296
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	(2)	3	(1)	(21)	(60)	(25)	28	(2)	(78)
Included in OCI [3]	5	—	—	—	—	—	—	—	—
Purchases	—	(6)	—	—	4	6	9	—	13
Settlements	—	—	—	—	7	—	(41)	—	(34)
Sales	—		—	—	—	—		—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	24	—	—	33	—	57
Fair value as of June 30, 2014	$80	$(1)	$2	$21	$97	$120	$—	$15	$ 254
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$(2)	$—	$—	$(23)	$(76)	$(25)	$(18)	$(1)	$ (143)

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

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2014	$108	$29	$737
Total realized/unrealized gains (losses)			
Included in net income [1], [2], [6]	(5)	(11)	4
Included in OCI [3]	—	—	—
Purchases	30	—	265
Settlements	(24)	13	(1)
Sales	—	—	(163)
Transfers into Level 3 [4]	—	—	4
Transfers out of Level 3 [4]	(42)	—	(33)
Fair value as of June 30, 2014	$67	$31	$813
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$(5)	$(11)	$6

	Other Policyholder Funds and Benefits Payable					
Liabilities	Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of January 1, 2014	$(36)	$3	$3	$(18)	$(48)	$(2)
Transfers to liabilities held for sale	—	—	—	—	—	—
Total realized/unrealized gains (losses)						
Included in net income [1], [2], [6]	91	—	—	(4)	87	—
Included in OCI [3]	—		—	—	—	—
Settlements	(53)	(3)	(3)	—	(59)	—
Fair value as of June 30, 2014	$2	$—	$—	$(22)	$(20)	$(2)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2014 [2] [7]	$91	$—	$—	$(4)	$87	$—

For the three months ended June 30, 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 March 31, 2013	$275	$801	$840	$1,722	$ 51	$151	$1,280	$5,120	$216
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	6	1	(6)	(4)	—	1	—	(2)	(6)
Included in OCI [3]	(11)	73	35	(23)	(8)	(11)	23	78	—
Purchases	37	73	13	67	27	—	98	315	4
Settlements	(2)	(21)	(47)	(10)	(1)	—	(49)	(130)	(1)
Sales	(60)	(15)	(15)	(67)	—	(14)	—	(171)	(3)
Transfers into Level 3 [4]	—	—	8	6	—	—	—	14	1
Transfers out of Level 3 [4]	(13)	—	(10)	(440)	—	—	—	(463)	—
Fair value as of June 30, 2013	$232	$912	$818	$1,251	$ 69	$127	$1,352	$4,761	$211
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$—	$—	$(7)	$(4)	$ —	$—	$—	$(11)	$(7)

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of March 31, 2013	$85	$6	$32	$(26)	$329	$243	$(45)	$22	$561
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	—	(2)	(3)	8	—	(36)	(91)	(2)	(126)
Included in OCI [3]	(2)	—	—	—	—	—	—	—	—
Purchases	12	—	—	—	—	2	(14)	—	(12)
Settlements	—	(2)	—	3	—	—	22	—	23
Sales	—	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	(20)	(20)
Transfers out of Level 3 [4]	—	—	—	—	—	—	85	—	85
Fair value as of June 30, 2013	$95	$2	$29	$(15)	$329	$209	$(43)	$—	$511
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$—	$(2)	$(1)	$2	$—	$(34)	$(113)	$(3)	$(151)

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of March 31, 2013	$337	$139	$823
Total realized/unrealized gains (losses)			
Included in net income [1], [2], [6]	(2)	(32)	1
Included in OCI [3]	—	—	—
Purchases	30	—	4
Settlements	—	6	(1)
Sales	(2)	—	(5)
Transfers into Level 3 [4]	—	—	4
Transfers out of Level 3 [4]	—	—	(6)
Fair value as of June 30, 2013	$363	$113	$820
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$(2)	$(32)	$1

Liabilities	Other Policyholder Funds and Benefits Payable						
	Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Liabilities held for sale	Consumer Notes
Fair value as of March 31, 2013	$(795)	$(34)	$4	$(10)	$(835)	$—	$(2)
Transfers to liabilities held for sale	—	32	—	—	32	(32)	—
Total realized/unrealized gains (losses)							
Included in net income [1], [2], [6]	192	3	—	(2)	193	5	1
Included in OCI [3]	—	—	—	—	—	—	—
Settlements	(29)	—	(1)	—	(30)	(1)	—
Fair value as of June 30, 2013	$(632)	$1	$3	$(12)	$(640)	$(28)	$(1)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$192	$3	$—	$(2)	$193	$5	$1

For the six months ended June 30, 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	(11)	(11)	13	—	1	29	24	9
Included in OCI [3]	14	118	80	(35)	(10)	(10)	43	200	—
Purchases	60	74	13	93	39	6	189	474	10
Settlements	(7)	(45)	(71)	(69)	(2)	—	(90)	(284)	(2)
Sales	(94)	(200)	(76)	(348)	(8)	(53)	(192)	(971)	(21)
Transfers into Level 3 [4]	—	32	34	76	—	—	—	142	2
Transfers out of Level 3 [4]	(22)	—	(10)	(480)	(6)	(44)	—	(562)	(1)
Fair value as of June 30, 2013	$232	$912	$818	$1,251	$ 69	$127	$1,352	$4,761	$211
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$(4)	$(1)	$(9)	$(5)	$ —	$—	$—	$(19)	$29

		Freestanding Derivatives [5]							
Assets (Liabilities)	Equity Securities, AFS	Credit	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Intl. Program Hedging	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2013	$84	$4	$57	$(32)	$519	$286	$68	$23	$ 925
Total realized/unrealized gains (losses)									
Included in net income [1], [2], [6]	(6)	—	(25)	15	(190)	(100)	(175)	(3)	(478)
Included in OCI [3]	7	—	—	—	—	—	—	—	—
Purchases	13	—	—	(3)	—	23	(38)	—	(18)
Settlements	—	(2)	(3)	3	—	—	17	—	15
Sales	(3)	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—	(20)	(20)
Transfers out of Level 3 [4]	—	—	—	2	—	—	85	—	87
Fair value as of June 30, 2013	$95	$2	$29	$(15)	$329	$209	$(43)	$—	$ 511
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$(6)	$—	$(22)	$3	$(185)	$(97)	$(154)	$(4)	$ (459)

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

Assets	Limited Partnerships and Other Alternative Investments	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2013	$314	$191	$583
Total realized/unrealized gains (losses)			
Included in net income [1], [2], [6]	5	(92)	16
Included in OCI [3]	—	—	—
Purchases	90	—	259
Settlements	—	14	(1)
Sales	(23)	—	(31)
Transfers into Level 3 [4]	—	—	4
Transfers out of Level 3 [4]	(23)	—	(10)
Fair value as of June 30, 2013	$363	$113	$820
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$5	$(92)	$16

	Other Policyholder Funds and Benefits Payable						
Liabilities	Guaranteed Withdrawal Benefits	International Guaranteed Living Benefits	International Other Living Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Liabilities held for sale	Consumer Notes
Fair value as of January 1, 2013	$(1,249)	$(50)	$2	$(7)	$(1,304)	$—	$(2)
Transfers to liabilities held for sale	—	43	—	—	43	(43)	—
Total realized/unrealized gains (losses)							
Included in net income [1], [2], [6]	648	8	3	(5)	654	14	1
Included in OCI [3]	—	—	—	—	—	3	—
Settlements	(31)	—	(2)	—	(33)	(2)	—
Fair value as of June 30, 2013	$(632)	$1	$3	$(12)	$(640)	$(28)	$(1)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2013 [2] [7]	$648	$8	$3	$(5)	$654	$14	$1

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

[2] All amounts in these rows are reported in net realized capital gains/(losses), with the exception of International Guaranteed Living Benefits and International Other Living Benefits, which are reported in loss from discontinued operations, net of tax. The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. All amounts within net realized capital gains/(losses) are before income taxes and DAC amortization, and all amounts within loss from discontinued operations, net of tax, are after income taxes and DAC amortization.

[3] All amounts are before income taxes and amortization of DAC.

[4] Transfers in and/or (out) of Level 3 are primarily attributable to the availability of market observable information and the re-evaluation of the observability of pricing inputs.

[5] Derivative instruments are reported in this table on a net basis for asset/(liability) positions and reported in the Condensed Consolidated Balance Sheet in other investments and other liabilities.

[6] Includes both market and non-market impacts in deriving realized and unrealized gains (losses).

[7] Amounts presented are for Level 3 only and therefore may not agree to other disclosures included herein.

Fair Value Option

FVO investments include certain securities that contain an embedded credit derivatives with underlying credit risk primarily related to residential and commercial real estate. Income earned from FVO securities is recorded in net investment income and changes in fair value are recorded in net realized capital gains and losses.

The Company also elected the fair value option for certain investments held within consolidated VIE investment funds. The Company elected the fair value option in order to report investments of consolidated investment companies at fair value with changes in the fair value of these securities recognized in net realized capital gains and losses, which is consistent with accounting requirements for investment companies. The investment funds hold fixed income securities in multiple sectors and the Company has management and control of the funds as well as a significant ownership interest.

The Company previously held fair value option investments in foreign government securities that aligned with the accounting for yen-based fixed annuity liabilities, which are adjusted for changes in foreign-exchange spot rates. These investments were previously held in a U.S. subsidiary and were disposed of as a consequence of the recapture of certain risks by HLIKK. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements. The change in fair value on these investments was previously recorded as a component of net realized capital gains and losses, but has been reclassified to discontinued operations.

The following table presents the changes in fair value of those assets and liabilities accounted for using the fair value option reported in net realized capital gains and losses in the Company’s Condensed Consolidated Statements of Operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Assets				
Fixed maturities, FVO				
Corporate	$2	$(5)	$4	$(14)
CDOs	6	(6)	14	—
Foreign government	1	(4)	2	(5)
RMBS	—	—	1	—
Total realized capital gains (losses)	$9	$(15)	$21	$(19)

The following table presents the fair value of assets and liabilities accounted for using the fair value option included in the Company’s Condensed Consolidated Balance Sheets.

	As of	
	June 30, 2014	December 31, 2013
Assets		
Fixed maturities, FVO		
ABS	$18	$3
CDOs	122	183
CMBS	13	8
Corporate	92	92
Foreign government	28	518
U.S government	—	24
Municipals	3	1
RMBS	134	15
Total fixed maturities, FVO	$410	$844

Financial Instruments Not Carried at Fair Value

The following table presents carrying amounts and fair values of the Company's financial instruments not carried at fair value and not included in the above fair value discussion.

		June 30, 2014		December 31, 2013	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Policy loans	Level 3	$1,420	$1,420	$1,420	$1,480
Mortgage loans	Level 3	5,586	5,745	5,598	5,641
Liabilities					
Other policyholder funds and benefits payable [1]	Level 3	$7,572	$7,789	$9,152	$9,352
Senior notes [2]	Level 2	5,008	5,852	5,206	5,845
Junior subordinated debentures [2]	Level 2	1,100	1,310	1,100	1,271
Revolving Credit Facility	Level 2	—	—	238	238
Consumer notes [3]	Level 3	77	75	82	82

[1] Excludes guarantees on variable annuities, group accident and health and universal life insurance contracts, including corporate owned life insurance.

[2] Included in long-term debt in the Condensed Consolidated Balance Sheets, except for current maturities, which are included in short-term debt.

[3] Excludes amounts carried at fair value and included in disclosures above.

- During the second quarter of 2014, the Company changed the valuation technique used to estimate the fair value of policy loans. The fair value of policy loans was determined using current loan coupon rates which reflect the current rates available under the contracts. As a result, the fair value approximates the carrying value of the policy loans. Prior to the second quarter of 2014, the fair value of policy loans was estimated by utilizing discounted cash flow calculations using U.S. Treasury interest rates based on the loan durations.
- Fair values for mortgage loans were estimated using discounted cash flow calculations based on current lending rates for similar type loans. Current lending rates reflect changes in credit spreads and the remaining terms of the loans.
- Fair values for other policyholder funds and benefits payable, not carried at fair value, are estimated based on the cash surrender values of the underlying policies or by estimating future cash flows discounted at current interest rates adjusted for credit risk.
- Fair values for senior notes and junior subordinated debentures are determined using the market approach based on reported trades, benchmark interest rates and issuer spread for the Company which may consider credit default swaps.
- Fair values for consumer notes were estimated using discounted cash flow calculations using current interest rates adjusted for estimated loan durations.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
6. Investments and Derivative Instruments

Net Realized Capital Gains (Losses)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Before tax)	2014	2013	2014	2013
Gross gains on sales [1]	$122	$207	$305	$1,916
Gross losses on sales	(33)	(117)	(162)	(189)
Net OTTI losses recognized in earnings	(7)	(12)	(29)	(33)
Valuation allowances on mortgage loans	(3)	—	(3)	—
Periodic net coupon settlements on credit derivatives	2	—	1	(4)
Results of variable annuity hedge program				
GMWB derivatives, net	(6)	(31)	9	16
Macro hedge program	(15)	(47)	(25)	(132)
Total results of variable annuity hedge program	(21)	(78)	(16)	(116)
Other, net [2]	(64)	21	(135)	91
Net realized capital gains (losses)	(4)	21	(39)	1,665

[1] Includes $1.5 billion of gains relating to the sales of the Retirement Plans and Individual Life businesses for the six months ended June 30, 2013.

[2] Primarily consists of changes in the value of non-qualifying derivatives, including interest rate derivatives used to manage duration, transactional foreign currency revaluation gains (losses) on the Japan 3Win fixed payout annuity liabilities assumed from HLIKK and gains (losses) on non-qualifying derivatives used to hedge the foreign currency exposure of the 3Win liabilities. Gains (losses) from transactional foreign currency revaluation of the 3Win liabilities were $(18) and $(46), respectively, for the three and six months ended June 30, 2014, and $72 and $189, respectively, for the three and six months ended June 30, 2013. Gains (losses) on instruments used to hedge the foreign currency exposure on the 3Win fixed payout annuities were $13 and $28, respectively, for the three and six months ended June 30, 2014, and $(54) and $(184), respectively, for the three and six months ended June 30, 2013. Also includes $71 of gains relating to the sales of the Retirement Plans and Individual Life businesses for the six months ended June 30, 2013.

Net realized capital gains and losses from investment sales are reported as a component of revenues and are determined on a specific identification basis. Before tax, net gains and losses on sales and impairments previously reported in net unrealized gains or losses in AOCI were $82 and $125, respectively, for the three and six months ended June 30, 2014, and $78 and $1.7 billion for the three and six months ended June 30, 2013, respectively. Proceeds from sales of AFS securities totaled $5.8 billion and $14.3 billion, respectively, for the three and six months ended June 30, 2014, and $10.8 billion and $19.5 billion for the three and six months ended June 30, 2013, respectively.

Other-Than-Temporary Impairment Losses

The following table presents a roll-forward of the Company's cumulative credit impairments on debt securities held.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Before-tax)	2014	2013	2014	2013
Balance as of beginning of period	$(531)	$(906)	$(552)	$(1,013)
Additions for credit impairments recognized on [1]:				
Securities not previously impaired	(1)	(5)	(8)	(13)
Securities previously impaired	(3)	(7)	(14)	(9)
Reductions for credit impairments previously recognized on:				
	40	12	73	126

Securities that matured or were sold during the period				
Securities due to an increase in expected cash flows	7	4	13	7
Balance as of end of period	$(488)	$(902)	$(488)	$(902)

[1] These additions are included in the net OTTI losses recognized in earnings in the Condensed Consolidated Statements of Operations.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
6. Investments and Derivative Instruments (continued)

Available-for-Sale Securities

The following table presents the Company’s AFS securities by type.

	June 30, 2014					December 31, 2013				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]
ABS	$2,313	$36	$(40)	$2,309	$ (1)	$2,404	$25	$(64)	$2,365	$ (2)
CDOs [2]	2,360	118	(47)	2,434	—	2,340	108	(59)	2,387	—
CMBS	4,495	226	(25)	4,696	(6)	4,288	216	(58)	4,446	(6)
Corporate	26,223	2,570	(125)	28,668	(3)	27,013	1,823	(346)	28,490	(7)
Foreign govt./govt. agencies	1,650	79	(22)	1,707	—	4,228	52	(176)	4,104	—
Municipal	11,796	933	(16)	12,713	—	11,932	425	(184)	12,173	—
RMBS	4,324	135	(33)	4,426	(2)	4,639	90	(82)	4,647	(4)
U.S. Treasuries	3,157	146	(10)	3,293	—	3,797	7	(59)	3,745	—
Total fixed maturities, AFS	56,318	4,243	(318)	60,246	(12)	60,641	2,746	(1,028)	62,357	(19)
Equity securities, AFS	779	77	(33)	823	—	850	67	(49)	868	—
Total AFS securities	$57,097	$4,320	$(351)	$61,069	$ (12)	$61,491	$2,813	$(1,077)	$63,225	$ (19)

[1] Represents the amount of cumulative non-credit OTTI losses recognized in OCI on securities that also had credit impairments. These losses are included in gross unrealized losses as of June 30, 2014 and December 31, 2013.

[2] Gross unrealized gains (losses) exclude the change in fair value of bifurcated embedded derivative features of certain securities. Changes in fair value are recorded in net realized capital gains (losses).

The decline in fixed maturities, AFS is primarily due to the sale of HLIKK, a former indirect wholly-owned subsidiary, which was sold on June 30, 2014, as well as the concurrent recapture of certain risks that had been reinsured to the Company's U.S. subsidiaries HLAI and HLIC. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

The following table presents the Company’s fixed maturities, AFS, by contractual maturity year.

	June 30, 2014		December 31, 2013	
Contractual Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$2,125	$2,162	$2,195	$2,228
Over one year through five years	11,279	12,022	11,930	12,470
Over five years through ten years	9,257	9,844	10,814	11,183
Over ten years	20,165	22,353	22,031	22,631
Subtotal	42,826	46,381	46,970	48,512
Mortgage-backed and asset-backed securities	13,492	13,865	13,671	13,845
Total fixed maturities, AFS	$56,318	$60,246	$60,641	$62,357

Estimated maturities may differ from contractual maturities due to security call or prepayment provisions. Due to the potential for variability in payment speeds (i.e. prepayments or extensions), mortgage-backed and asset-backed securities are not categorized by contractual maturity.

Securities Unrealized Loss Aging

The following tables present the Company’s unrealized loss aging for AFS securities by type and length of time the security was in a continuous unrealized loss position.

	June 30, 2014								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$470	$469	$(1)	$559	$520	$(39)	$1,029	$989	$(40)
CDOs [1]	237	236	(1)	1,719	1,676	(46)	1,956	1,912	(47)
CMBS	100	98	(2)	587	564	(23)	687	662	(25)
Corporate	682	673	(9)	1,683	1,567	(116)	2,365	2,240	(125)
Foreign govt./govt. agencies	129	128	(1)	322	301	(21)	451	429	(22)
Municipal	119	118	(1)	490	475	(15)	609	593	(16)
RMBS	285	283	(2)	645	614	(31)	930	897	(33)
U.S. Treasuries	289	288	(1)	492	483	(9)	781	771	(10)
Total fixed maturities, AFS	2,311	2,293	(18)	6,497	6,200	(300)	8,808	8,493	(318)
Equity securities, AFS	52	47	(5)	228	200	(28)	280	247	(33)
Total securities in an unrealized loss position	$2,363	$2,340	$(23)	$6,725	$6,400	$(328)	$9,088	$8,740	$(351)

	December 31, 2013								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$893	$888	$(5)	$477	$418	$(59)	$1,370	$1,306	$(64)
CDOs [1]	137	135	(2)	1,933	1,874	(57)	2,070	2,009	(59)
CMBS	812	788	(24)	610	576	(34)	1,422	1,364	(58)
Corporate	4,922	4,737	(185)	1,225	1,064	(161)	6,147	5,801	(346)
Foreign govt./govt. agencies	2,961	2,868	(93)	343	260	(83)	3,304	3,128	(176)
Municipal	3,150	2,994	(156)	190	162	(28)	3,340	3,156	(184)
RMBS	2,046	2,008	(38)	591	547	(44)	2,637	2,555	(82)
U.S. Treasuries	2,914	2,862	(52)	33	26	(7)	2,947	2,888	(59)
Total fixed maturities, AFS	17,835	17,280	(555)	5,402	4,927	(473)	23,237	22,207	(1,028)
Equity securities, AFS	196	188	(8)	223	182	(41)	419	370	(49)
Total securities in an unrealized loss position	$18,031	$17,468	$(563)	$5,625	$5,109	$(514)	$23,656	$22,577	$(1,077)

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

As of June 30, 2014, AFS securities in an unrealized loss position, consisted of 2,201 securities, primarily in the corporate sector and securities backed by commercial and residential real estate, which are depressed primarily due to an increase in interest rates and wider credit spreads since the securities were purchased. As of June 30, 2014, 94% of these securities were depressed less than 20% of cost or amortized cost. The decrease in unrealized losses during 2014 was primarily attributable to a decrease in interest rates and tighter credit spreads.

Most of the securities depressed for twelve months or more relate to certain floating rate corporate securities with greater than 10 years to maturity concentrated in the financial services sector, structured securities with exposure to commercial and residential real estate, and certain investment grade perpetual preferred securities that contain "debt-like" characteristics that are classified as equity securities, AFS. Corporate financial services and perpetual preferred securities are primarily depressed because the securities have floating-rate coupons and have long-dated maturities or are perpetual. Commercial and residential real estate securities' current market spreads continue to be wider than spreads at the securities' respective purchase dates, even though credit spreads have continued to tighten over the past five years. The Company neither has an intention to sell nor does it expect to be required to sell the securities outlined above.

Mortgage Loans

	June 30, 2014			December 31, 2013		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Total commercial mortgage loans	$5,605	$(19)	$5,586	$5,665	$(67)	$5,598

[1] Amortized cost represents carrying value prior to valuation allowances, if any.

As of June 30, 2014 and December 31, 2013, the carrying value of mortgage loans associated with the valuation allowance was $142 and $191, respectively. Included in the table above are mortgage loans held-for-sale with a carrying value and valuation allowance of $61 and $3, respectively, as of December 31, 2013. The carrying value of these loans is included in mortgage loans in the Company's Condensed Consolidated Balance Sheets. There were no mortgage loans held-for-sale as of June 30, 2014. As of June 30, 2014, loans within the Company's mortgage loan portfolio that have had extensions or restructurings other than what is allowable under the original terms of the contract are immaterial.

The following table presents the activity within the Company's valuation allowance for mortgage loans. These loans have been evaluated both individually and collectively for impairment. Loans evaluated collectively for impairment are immaterial.

	2014	2013
Balance, as of January 1	$(67)	$(68)
(Additions)/Reversals	(3)	(2)
Deductions	51	2
Balance, as of June 30	$(19)	$(68)

The decline in the valuation allowance as compared to December 31, 2013 resulted from the sale of the underlying collateral supporting a commercial mortgage loan. The loan was fully reserved for and the Company did not recover any funds as a result of the sale.

The weighted-average LTV ratio of the Company's commercial mortgage loan portfolio was 58% as of June 30, 2014, while the weighted-average LTV ratio at origination of these loans was 63%. LTV ratios compare the loan amount to the value of the underlying property collateralizing the loan. The loan values are updated no less than annually through property level reviews of the portfolio. Factors considered in the property valuation include, but are not limited to, actual and expected property cash flows, geographic market data and capitalization rates. DSCR compares a property's net operating income to the borrower's principal and interest payments. The weighted average DSCR of the Company's commercial mortgage loan portfolio was 2.44x as of June 30, 2014. The Company held no delinquent commercial mortgage loans as of June 30, 2014.

The following table presents the carrying value of the Company's commercial mortgage loans by LTV and DSCR.

Commercial Mortgage Loans Credit Quality

	June 30, 2014	December 31, 2013
Loan-to-value		

	Carrying Value	Avg. Debt-Service Coverage Ratio	Carrying Value	Avg. Debt-Service Coverage Ratio
Greater than 80%	$64	1.00x	$101	0.99x
65% - 80%	824	1.75x	1,195	1.82x
Less than 65%	4,698	2.59x	4,302	2.53x
Total commercial mortgage loans	$5,586	2.44x	$5,598	2.34x

The following tables present the carrying value of the Company's mortgage loans by region and property type.

Mortgage Loans by Region

	June 30, 2014			December 31, 2013		
	Carrying Value	Percent of Total		Carrying Value	Percent of Total	
East North Central	$181	3.2	%	$187	3.3	%
Middle Atlantic	403	7.2	%	409	7.3	%
Mountain	93	1.7	%	104	1.9	%
New England	382	6.8	%	353	6.3	%
Pacific	1,476	26.4	%	1,587	28.3	%
South Atlantic	1,006	18.0	%	899	16.1	%
West North Central	44	0.8	%	47	0.8	%
West South Central	337	6.0	%	338	6.0	%
Other [1]	1,664	29.9	%	1,674	30.0	%
Total mortgage loans	$5,586	100.0	%	$5,598	100.0	%

[1] Primarily represents loans collateralized by multiple properties in various regions.

Mortgage Loans by Property Type

	June 30, 2014			December 31, 2013		
	Carrying Value	Percent of Total		Carrying Value	Percent of Total	
Commercial						
Agricultural	$62	1.1	%	$125	2.2	%
Industrial	1,687	30.2	%	1,718	30.7	%
Lodging	26	0.5	%	27	0.5	%
Multifamily	1,211	21.7	%	1,155	20.6	%
Office	1,351	24.2	%	1,278	22.8	%
Retail	1,096	19.6	%	1,140	20.4	%
Other	153	2.7	%	155	2.8	%
Total mortgage loans	$5,586	100.0	%	$5,598	100.0	%

Variable Interest Entities

The Company is involved with various special purpose entities and other entities that are deemed to be VIEs primarily as a collateral or investment manager and as an investor through normal investment activities, as well as a means of accessing capital through a contingent capital facility.

A VIE is an entity that either has investors that lack certain essential characteristics of a controlling financial interest or lacks sufficient funds to finance its own activities without financial support provided by other entities.

The Company performs ongoing qualitative assessments of its VIEs to determine whether the Company has a controlling financial interest in the VIE and therefore is the primary beneficiary. The Company is deemed to have a controlling financial interest when it has both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. Based on the Company's assessment, if it determines it is the primary beneficiary, the Company consolidates the VIE in the Company's Condensed Consolidated Financial Statements.

Consolidated VIEs

The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss relating to the VIEs for which the Company is the primary beneficiary. Creditors have no recourse against the Company in the event of default by these VIEs nor does the Company have any implied or unfunded commitments to these VIEs. The Company's financial or other support provided to these VIEs is limited to its collateral or investment management services and original investment.

	June 30, 2014			December 31, 2013		
	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]
CDOs [3]	$14	$14	$—	$31	$33	$—
Investment funds [4]	170	—	179	164	—	173
Limited partnerships and other alternative investments	3	—	3	4	—	4
Total	$187	$14	$182	$199	$33	$177

[1] Included in other liabilities in the Company's Condensed Consolidated Balance Sheets.

[2] The maximum exposure to loss represents the maximum loss amount that the Company could recognize as a reduction in net investment income or as a realized capital loss and is the cost basis of the Company's investment.

[3] Total assets included in fixed maturities, AFS and short-term investments, or cash in the Company's Condensed Consolidated Balance Sheets.

[4] Total assets included in fixed maturities, FVO, short-term investments, and equity, AFS in the Company's Condensed Consolidated Balance Sheets.

CDOs represent structured investment vehicles for which the Company has a controlling financial interest as it provides collateral management services, earns a fee for those services and also holds investments in the securities issued by these vehicles. Investment funds represent wholly-owned fixed income funds for which the Company has management and control of the investments which is the activity that most significantly impacts its economic performance. Limited partnerships represent one hedge fund of funds for which the Company holds a majority interest in the fund as an investment.

Non-Consolidated VIEs

The Company holds a significant variable interest for one VIE for which it is not the primary beneficiary and, therefore, was not consolidated on the Company's Condensed Consolidated Balance Sheets. This VIE represents a contingent capital facility that has been held by the Company since February 2007 and for which the Company has no implied or unfunded commitments. Assets and liabilities recorded for the contingent capital facility were $15 and $16, respectively as of June 30, 2014 and $17 and $19, respectively, as of December 31, 2013. Additionally, the Company has a maximum exposure to loss of $3 and $3, respectively, as of June 30, 2014 and December 31, 2013, which represents the issuance costs that were incurred to establish the facility. The Company does not have a controlling financial interest as it does not manage the assets of the facility nor does it have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the facility, as the asset manager has significant variable interest in the vehicle. The Company's financial or other support provided to the facility is limited to providing ongoing support to cover the facility's operating expenses. For further information on the facility, see Note 15 of Notes to Condensed Consolidated Financial Statements included in The Hartford's 2013 Form 10-K Annual Report.

In addition, the Company, through normal investment activities, makes passive investments in structured securities issued by VIEs for which the Company is not the manager and are included in ABS, CDOs, CMBS and RMBS in the Available-for-Sale Securities table and fixed maturities, FVO, in the Company's Condensed Consolidated Balance Sheets. The Company has not provided financial or other support with respect to these investments other than its original investment. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company’s investment in comparison to the principal amount of the structured securities issued by the VIEs, the level of credit subordination which reduces the Company’s obligation to absorb losses or right to receive benefits and the Company’s inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company’s maximum exposure to loss on these investments is limited to the amount of the Company’s investment.

Repurchase Agreements, Dollar Roll Transactions and Other Collateral Transactions

The Company enters into repurchase agreements and dollar roll transactions to manage liquidity or to earn incremental spread income. A repurchase agreement is a transaction in which one party (transferor) agrees to sell securities to another party (transferee) in return for cash (or securities), with a simultaneous agreement to repurchase the same securities at a specified price at a later date. A dollar roll is a type of repurchase agreement where a mortgage backed security is sold with an agreement to repurchase substantially the same security at a specified time in the future. These transactions are generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value.

As part of repurchase agreements and dollar roll transactions, the Company transfers collateral of U.S. government and government agency securities and receives cash. For the repurchase agreements, the Company obtains cash in an amount equal to at least 95% of the fair value of the securities transferred. The agreements contain contractual provisions that require additional collateral to be transferred when necessary and provide the counterparty the right to sell or re-pledge the securities transferred. The cash received from the repurchase program is typically invested in short-term investments or fixed maturities. Repurchase agreements include master netting provisions that provide the counterparties the right to offset claims and apply securities held by them with respect to their obligations in the event of a default. Although the Company has the contractual right to offset claims, fixed maturities do not meet the specific conditions for net presentation under U.S. GAAP. The Company accounts for the repurchase agreements and dollar roll transactions as collateralized borrowings. The securities transferred under repurchase agreements and dollar roll transactions are included in fixed maturities, AFS with the obligation to repurchase those securities recorded in other liabilities on the Company's Condensed Consolidated Balance Sheets.

The company had no outstanding repurchase agreements as of June 30, 2014 or December 31, 2013. With respect to dollar roll transactions, the Company reported financial collateral pledged with a fair value of $100 in fixed maturities, AFS with a corresponding obligation to repurchase $100 reported in other liabilities, as of June 30, 2014. The Company had no outstanding dollar roll transactions as of December 31, 2013.

The Company is required by law to deposit securities with government agencies in certain states in which it conducts business. As of June 30, 2014 and December 31, 2013, the fair value of securities on deposit was approximately $2.4 billion and $1.9 billion, respectively.

As of December 31, 2013, the Company pledged as collateral $272 in Japan government bonds reported in fixed maturities, AFS, associated with short-term debt of $238. The collateral and short-term debt were related to HLIKK and were transferred to the Buyer as of June 30, 2014.

As of June 30, 2014 and December 31, 2013, the Company has pledged as collateral $34 and $34, respectively, of U.S. government securities and government agency securities or cash for letters of credit.

Refer to Derivative Collateral Arrangements section of this note for disclosure of collateral in support of derivative transactions.

Derivative Instruments

The Company utilizes a variety of OTC, OTC-cleared and exchange traded derivative instruments as a part of its overall risk management strategy as well as to enter into replication transactions. Derivative instruments are used to manage risk associated with interest rate, equity market, credit spread, issuer default, price, and currency exchange rate risk or volatility. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that would be permissible investments under the Company’s investment policies. The Company also may enter into and has previously issued financial instruments and products that either are accounted for as free-standing derivatives, such as certain reinsurance contracts, or may contain features that are deemed to be embedded derivative instruments, such as the GMWB rider included with certain variable annuity products.

Strategies that qualify for hedge accounting

Certain derivatives that the Company enters into satisfy the hedge accounting requirements as outlined in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements, included in The Hartford’s 2013 Form 10-K Annual Report. Typically, these hedge relationships include interest rate and foreign currency swaps where the terms or expected cash flows of the hedged item closely match the terms of the swap. The swaps are typically used to manage interest rate duration of certain fixed maturity securities or liability contracts. The hedge strategies by hedge accounting designation include:

Cash flow hedges

Interest rate swaps are predominantly used to manage portfolio duration and better match cash receipts from assets with cash disbursements required to fund liabilities. These derivatives primarily convert interest receipts on floating-rate fixed maturity securities to fixed rates. The Company also enters into forward starting swap agreements to hedge the interest rate exposure related to the purchase of fixed-rate securities, primarily to hedge interest rate risk inherent in the assumptions used to price certain liabilities.

Foreign currency swaps are used to convert foreign currency-denominated cash flows related to certain investment receipts and liability payments to U.S. dollars in order to reduce cash flow fluctuations due to changes in currency rates.

Fair value hedges

Interest rate swaps are used to hedge the changes in fair value of fixed maturity securities due to fluctuations in interest rates. Foreign currency swaps are used to hedge the changes in fair value of certain foreign currency-denominated fixed rate liabilities that have been issued by Talcott due to changes in foreign currency rates by swapping the fixed foreign payments to floating rate U.S. dollar denominated payments.

Non-qualifying strategies

Derivative relationships that do not qualify for hedge accounting ("non-qualifying strategies") primarily include the hedge program for
the Company's U.S. variable annuity products as well as the hedging and replication strategies that utilize credit default swaps. Prior to
the sale HLIKK on June 30, 2014, the Company also had non-qualifying hedge programs related to the variable annuity and fixed annuity products sold in Japan. In addition, hedges of interest rate and foreign currency risk of certain fixed maturities and liabilities do not qualify for hedge accounting.

The non-qualifying strategies include:

Interest rate swaps, swaptions and futures

The Company uses interest rate swaps, swaptions and futures to manage duration between assets and liabilities in certain investment portfolios. In addition, the Company enters into interest rate swaps to terminate existing swaps, thereby offsetting the changes in value of the original swap. As of June 30, 2014 and December 31, 2013 the notional amount of interest rate swaps in offsetting relationships was $10.8 billion and $6.9 billion, respectively.

Foreign currency swaps and forwards

The Company enters into foreign currency swaps and forwards to convert the foreign currency exposures of certain foreign currency-denominated fixed maturity investments to U.S. dollars.

Japan 3Win fixed payout annuity hedge

The Company formerly offered certain variable annuity products with a guaranteed minimum income benefit ("GMIB") rider through HLIKK, a former indirect wholly-owned subsidiary that was sold on June 30, 2014. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements. The Company will continue to reinsure from HLIKK the Japan 3Win fixed payout annuities. The Company invests in U.S. dollar denominated assets to support the reinsurance liability. The Company entered into pay U.S. dollar, receive yen swap contracts to hedge the currency and yen interest rate exposure between the U.S. dollar denominated assets and the yen denominated fixed liability reinsurance payments.

Credit contracts

Credit default swaps are used to purchase credit protection on an individual entity or referenced index to economically hedge against default risk and credit-related changes in value on fixed maturity securities. Credit default swaps are also used to assume credit risk related to an individual entity or referenced index as a part of replication transactions. These contracts require the Company to pay or receive a periodic fee in exchange for compensation from the counterparty should the referenced security issuers experience a credit event, as defined in the contract. The Company is also exposed to credit risk related to credit derivatives embedded within certain fixed maturity securities which are comprised of structured securities that contain credit derivatives that reference a standard index of corporate securities. In addition, the Company enters into credit default swaps to terminate existing credit default swaps, thereby offsetting the changes in value of the original swap going forward.

Equity index swaps and options

The Company enters into equity index options and futures with the purpose of hedging the impact of an adverse equity market environment on the investment portfolio. In addition, the Company formerly offered certain equity indexed products, a portion of which contain embedded derivatives that require bifurcation. The Company uses equity index swaps and options to economically hedge the equity volatility risk associated with the equity indexed products.

GMWB derivatives, net

The Company formerly offered certain variable annuity products with GMWB riders. The GMWB product is a bifurcated embedded derivative (“GMWB product derivatives”) that has a notional value equal to the guaranteed remaining balance ("GRB"). The Company uses reinsurance contracts to transfer a portion of its risk of loss due to GMWB. The reinsurance contracts covering GMWB (“GMWB reinsurance contracts”) are accounted for as free-standing derivatives with a notional amount equal to the GRB amount.

The Company utilizes derivatives (“GMWB hedging instruments”) as part of an actively managed program designed to hedge a portion of the capital market risk exposures of the non-reinsured GMWB riders due to changes in interest rates, equity market levels, and equity volatility. These derivatives include customized swaps, interest rate swaps and futures, and equity swaps, options and futures, on certain indices including the S&P 500 index, EAFE index and NASDAQ index. The following table presents notional and fair value for GMWB hedging instruments.

	Notional Amount		Fair Value	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Customized swaps	$7,514	$7,839	$64	$74
Equity swaps, options, and futures	4,104	4,237	16	44
Interest rate swaps and futures	3,925	6,615	(7)	(77)
Total	$15,543	$18,691	$73	$41

Macro hedge program

The Company utilizes equity options, swaps and foreign currency options to partially hedge against a decline in the equity markets and the resulting statutory surplus and capital impact primarily arising from the guaranteed minimum death benefit ("GMDB") and GMWB obligations. The following table presents notional and fair value for the macro hedge program.

	Notional Amount		Fair Value	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Equity options and swaps	4,374	9,934	120	139
Foreign currency options	874	—	—	—
Total	$5,248	$9,934	$120	$139

Hedge programs formerly associated with Japan

The Company formerly offered certain fixed annuity contracts and variable annuity products with a GMIB, GMWB or guaranteed minimum accumulation benefit ("GMAB") in Japan through HLIKK, a former indirect wholly-owned subsidiary, and reinsured certain risks to a wholly-owned U.S. subsidiary. HLIKK was sold on June 30, 2014, and concurrent with the sale, HLIKK recaptured certain risks reinsured to the Company’s U.S. subsidiaries, including risks associated with the GMIB as well as the GMWB and GMAB contracts, both of which had been accounted for as bifurcated embedded derivatives ("International program product derivatives"). For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

As of June 30, 2014, by either terminating or offsetting open derivative positions, the U.S. subsidiary effectively terminated the hedge program associated with the currency and interest rate risk associated with the reinsured Japan 3Win fixed annuity product ("Japan fixed annuity hedging instruments") and the hedge program associated with the capital market impacts related to the reinsured guaranteed benefits within the Japan variable annuity contracts ("International program hedging instruments"). For further information on the former Japan fixed annuity hedging instruments and hedge program associated with the Japan variable annuity product, see the Note 6 - Investments and Derivative Instruments of Notes to Consolidated Financial Statements included in The Hartford's 2013 Form 10-K Annual Report. Although the hedge programs have been effectively terminated as of June 30, 2014, derivative positions relating to foreign currency forwards and equity index swaps remain. For the positions that remain, the Company has executed offsetting positions to neutralize exposure (“Derivative instruments formerly associated with Japan"), the majority of which will expire by year-end. The total notional amount of these positions as of June 30, 2014 is $19.9 billion and consists of $9.8 related to long positions and $10.1 related to short positions.

The following table represents notional and fair value amounts that were associated with International program hedging instruments as of December 31, 2013.

	December 31, 2013	
	Notional Amount	Fair Value
Credit derivatives	350	5
Currency forwards [1]	13,410	(60)
Currency options	12,066	(54)
Equity futures	999	—
Equity options	3,051	(30)
Equity swaps	4,269	(119)
Interest rate futures	952	—
Interest rate swaps and swaptions	37,951	225
Total	$ 73,048	$ (33)

[1] As of December 31, 2013 the net notional amount was $(1.8) billion which included $5.8 billion related to long positions and $7.6 billion related to short positions.

Contingent capital facility put option

The Company entered into a put option agreement that provides the Company the right to require a third-party trust to purchase, at any time, The Hartford's junior subordinated notes in a maximum aggregate principal amount of $500. Under the put option agreement, The Hartford will pay premiums on a periodic basis and will reimburse the trust for certain fees and ordinary expenses.

Modified coinsurance reinsurance contracts

As of June 30, 2014 and December 31, 2013 the Company had approximately $1.3 billion of invested assets supporting other policyholder funds and benefits payable reinsured under a modified coinsurance arrangement in connection with the sale of the Individual Life business which was structured as a reinsurance transaction. The assets are primarily held in a trust established by the Company. The Company pays or receives cash quarterly to settle the results of the reinsured business, including the investment results. As a result of this modified coinsurance arrangement, the Company has an embedded derivative that transfers to the reinsurer certain unrealized changes in fair value due to interest rate and credit risks of these assets. The notional amounts of the embedded derivative reinsurance contracts are the invested assets that are carried at fair value supporting the reinsured reserves.

Derivative Balance Sheet Classification

The following table summarizes the balance sheet classification of the Company's derivative related fair value amounts as well as the gross asset and liability fair value amounts. For reporting purposes, the Company has elected to offset the fair value amounts, income accruals, and related cash collateral receivables and payables of OTC derivative instruments executed in a legal entity and with the same counterparty under a master netting agreement, which provides the Company with the legal right of offset. The Company has also elected to offset the fair value amounts, income accruals and related cash collateral receivables and payables of OTC-cleared derivative instruments based on clearing house agreements. The fair value amounts presented below do not include income accruals or related cash collateral receivables and payables, which are netted with derivative fair value amounts to determine balance sheet presentation. Derivative fair value reported as liabilities after taking into account the master netting agreements, is $0.8 billion and $1.3 billion as of June 30, 2014, and December 31, 2013, respectively. Derivatives in the Company's separate accounts, where the associated gains and losses accrue directly to policyholders, are not included. The Company's derivative instruments are held for risk management purposes, unless otherwise noted in the following table. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to quantify the volume of the Company's derivative activity. Notional amounts are not necessarily reflective of credit risk. The tables below exclude investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

	Net Derivatives				Asset Derivatives		Liability Derivatives	
	Notional Amount		Fair Value		Fair Value		Fair Value	
Hedge Designation/ Derivative Type	Jun. 30, 2014	Dec. 31, 2013	Jun. 30, 2014	Dec. 31, 2013	Jun. 30, 2014	Dec. 31, 2013	Jun. 30, 2014	Dec. 31, 2013
Cash flow hedges								
Interest rate swaps	$4,530	$5,026	$(4)	$(92)	$41	$50	$(45)	$(142)
Foreign currency swaps	143	143	(9)	(5)	2	2	(11)	(7)
Total cash flow hedges	4,673	5,169	(13)	(97)	43	52	(56)	(149)
Fair value hedges								
Interest rate swaps	221	1,799	—	(24)	—	3	—	(27)
Total fair value hedges	221	1,799	—	(24)	—	3	—	(27)
Non-qualifying strategies								
Interest rate contracts								
Interest rate swaps and futures	13,638	8,453	(545)	(487)	283	171	(828)	(658)
Foreign exchange contracts								
Foreign currency swaps and forwards	239	258	(13)	(9)	6	6	(19)	(15)
Japan 3Win fixed payout annuity hedge	1,571	1,571	(326)	(354)	—	—	(326)	(354)
Japanese fixed annuity hedging instruments	—	1,436	—	(6)	—	88	—	(94)
Credit contracts								
Credit derivatives that purchase credit protection	639	938	(17)	(15)	—	1	(17)	(16)
Credit derivatives that assume credit risk [1]	1,510	1,886	22	33	25	36	(3)	(3)
Credit derivatives in offsetting positions	5,526	7,764	(4)	(7)	59	76	(63)	(83)
Equity contracts								
Equity index swaps and options	321	358	(2)	(1)	22	19	(24)	(20)
Variable annuity hedge program								
GMWB product derivatives [2]	19,596	21,512	2	(36)	15	—	(13)	(36)
GMWB reinsurance contracts	4,042	4,508	31	29	31	29	—	—
GMWB hedging instruments	15,543	18,691	73	41	227	333	(154)	(292)
Macro hedge program	5,248	9,934	120	139	149	178	(29)	(39)
International program product derivatives [2]	—	366	—	6	—	6	—	—
International program hedging instruments	—	73,048	—	(33)	—	866	—	(899)
Other								
Contingent capital facility put option	500	500	15	17	15	17	—	—
Modified coinsurance reinsurance contracts	1,280	1,250	32	67	32	67	—	—
Derivative instruments formerly associated with Japan [3]	19,904	—	87	—	188	—	(101)	—
Total non-qualifying strategies	89,557	152,473	(525)	(616)	1,052	1,893	(1,577)	(2,509)
Total cash flow hedges, fair value hedges, and non-qualifying strategies	$94,451	$159,441	$(538)	$(737)	$1,095	$1,948	$(1,633)	$(2,685)

Balance Sheet Location								
Fixed maturities, available-for-sale	$475	$473	$3	$(2)	$3	$1	$—	$(3)
Other investments	31,441	53,219	239	442	489	909	(250)	(467)
Other liabilities	37,559	78,055	(821)	(1,223)	525	936	(1,346)	(2,159)
Consumer notes	8	9	(2)	(2)	—	—	(2)	(2)
Reinsurance recoverables	5,322	5,758	63	96	63	96	—	—
Other policyholder funds and benefits payable	19,646	21,927	(20)	(48)	15	6	(35)	(54)
Total derivatives	$94,451	$159,441	$(538)	$(737)	$1,095	$1,948	$(1,633)	$(2,685)

[1] The derivative instruments related to this strategy are held for other investment purposes.

[2] These derivatives are embedded within liabilities and are not held for risk management purposes.

[3] The notional amount consists of $9.8 billion related to long positions and $10.1 billion related to short positions.

Change in Notional Amount

The net decrease in notional amount of derivatives since December 31, 2013 was primarily due to the following:

- The decrease in notional amount related to the international program hedging instruments resulted from the termination of the hedging program associated with the Japan variable annuity product due to the sale of HLIKK. However, as discussed above, a portion of the derivatives associated with the Japan business remain open as of June 30, 2014. For further discussion on the sale, see the Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.
- The decrease in notional amount related to the GMWB hedging instruments primarily resulted from portfolio re-balancing.
- The decrease in notional amount associated with the macro hedge program was primarily driven by the expiration of certain out-of-the-money options.
- These declines in notional amount were partially offset by an increase in notional amount related to non-qualifying interest rate swaps and futures related to duration shortening positions.

Change in Fair Value

The net increase in the total fair value of derivative instruments since December 31, 2013 was primarily related to the following:

- The fair value associated with the international program hedging instruments resulted from the termination of the hedging program associated with the Japan variable annuity product due to the sale of HLIKK. For further discussion on the sale, Sale of Hartford Life Insurance KK section in Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.
- The fair value related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by improving equity markets for the GMWB product and declining interest rates for the hedging derivatives.
- These improvements in fair value were partially offset by a decrease in fair value associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, driven by a decline in interest rates and credit spread tightening during the period.

Offsetting of Derivative Assets/Liabilities

The following tables present the gross fair value amounts, the amounts offset, and net position of derivative instruments eligible for offset in the Company's Condensed Consolidated Balance Sheets. Amounts offset include fair value amounts, income accruals and related cash collateral receivables and payables associated with derivative instruments that are traded under a common master netting agreement, as described above. Also included in the tables are financial collateral receivables and payables, which are contractually permitted to be offset upon an event of default, although are disallowed for offsetting under U.S. GAAP.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
6. Investments and Derivative Instruments (continued)

As of June 30, 2014

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Description						
Other investments	$1,014	$818	$239	$(43)	$85	$111
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount
Description						
Other liabilities	$(1,596)	$(749)	$(821)	$(26)	$(1,005)	$158

As of December 31, 2013

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Description						
Other investments	$1,845	$1,463	$442	$(60)	$242	$140
	Gross Amounts of Recognized	Gross Amounts Offset in the	Derivative Liabilities [3]	Accrued Interest and Cash	Financial Collateral Pledged [4]	Net Amount

	Liabilities	Statement of Financial Position		Collateral Pledged [3]		
Description						
Other liabilities	$(2,626)	$(1,496)	$(1,223)	$93	$(1,204)	$74

[1] Included in other invested assets in the Company's Condensed Consolidated Balance Sheets.

[2] Included in other assets in the Company's Condensed Consolidated Balance Sheets and is limited to the net derivative receivable associated with each counterparty.

[3] Included in other liabilities in the Company's Condensed Consolidated Balance Sheets and is limited to the net derivative payable associated with each counterparty.

[4] Excludes collateral associated with exchange-traded derivative instruments.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current period earnings. All components of each derivative’s gain or loss were included in the assessment of hedge effectiveness.

The following table presents the components of the gain or loss on derivatives that qualify as cash flow hedges:

Derivatives in Cash Flow Hedging Relationships

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)				Net Realized Capital Gains(Losses) Recognized in Income on Derivative (Ineffective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Interest rate swaps	$57	$(178)	$101	$(249)	$—	$(2)	$(1)	$(2)
Foreign currency swaps	(2)	5	(3)	6	—	—	—	—
Total	$55	$(173)	$98	$(243)	$—	$(2)	$(1)	$(2)

Derivatives in Cash Flow Hedging Relationships

		Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended June 30,		Six Months Ended June 30,	
	Location	2014	2013	2014	2013
Interest rate swaps	Net realized capital gain/(loss)	$1	$7	$2	$80
Interest rate swaps	Net investment income	22	25	45	49
Foreign currency swaps	Net realized capital gain/(loss)	—	2	—	(1)
Total		$23	$34	$47	$128

As of June 30, 2014 the before-tax deferred net gains on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are $73. This expectation is based on the anticipated interest payments on hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to interest income over the term of the investment cash flows. The maximum term over which the Company is hedging its exposure to the variability of future cash flows for forecasted transactions, excluding interest payments on existing variable-rate financial instruments, is approximately two years.

During the three months ended June 30, 2014 and June 30, 2013 the Company had no net reclassifications from AOCI to earnings resulting from the discontinuance of cash-flow hedges due to forecasted transactions that were no longer probable of occurring.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current period earnings. The Company includes the gain or loss on the derivative in the same line item as the offsetting loss or gain on the hedged item. All components of each derivative’s gain or loss were included in the assessment of hedge effectiveness.

The Company recognized in income gains (losses) representing the ineffective portion of fair value hedges as follows:

Derivatives in Fair-Value Hedging Relationships

	Gain or (Loss) Recognized in Income [1]							
	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	Derivative	Hedge Item	Derivative	Hedge Item	Derivative	Hedge Item	Derivative	Hedge Item
Interest rate swaps								
Net realized capital gain/(loss)	$(1)	$—	$11	$(16)	$(2)	$—	$11	$(17)
Foreign currency swaps								
Net realized capital gain/(loss)	—	—	—	—	—	—	(2)	2
Benefits, losses and loss adjustment expenses	—	—	—	—	—	—	(1)	1
Total	$(1)	$—	$11	$(16)	$(2)	$—	$8	$(14)

[1] The amounts presented do not include the periodic net coupon settlements of the derivative or the coupon income (expense) related to the hedged item. The net of the amounts presented represents the ineffective portion of the hedge.

Non-qualifying Strategies

For non-qualifying strategies, including embedded derivatives that are required to be bifurcated from their host contracts and accounted for as derivatives, the gain or loss on the derivative is recognized currently in earnings within net realized capital gains (losses). The following table presents the gain or loss recognized in income on non-qualifying strategies:

Derivatives Used in Non-Qualifying Strategies

Gain or (Loss) Recognized within Net Realized Capital Gains and Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest rate contracts				
Interest rate swaps and forwards	$(89)	$(12)	$(145)	$5
Foreign exchange contracts				
Foreign currency swaps and forwards	(5)	7	(4)	8
Japan 3Win fixed payout annuity hedge [1]	13	(54)	28	(184)
Credit contracts				
Credit derivatives that purchase credit protection	(6)	(5)	(10)	(12)
Credit derivatives that assume credit risk	20	(12)	19	2
Equity contracts				
Equity index swaps and options	(1)	(4)	(1)	(24)
Variable annuity hedge program				
GMWB product derivatives	55	192	91	648
GMWB reinsurance contracts	(7)	(32)	(11)	(92)
GMWB hedging instruments	(54)	(191)	(71)	(540)
Macro hedge program	(15)	(47)	(25)	(132)
Other				
Contingent capital facility put option	(2)	(2)	(3)	(4)
Modified coinsurance reinsurance contracts	(16)	49	(35)	54
Total [2]	$(107)	$(111)	$(167)	$(271)

[1] The associated liability is adjusted for changes in foreign exchange spot rates through realized capital gains and was $(18) and $72 for the three months ended June 30, 2014 and 2013, respectively and $(46) and $189, for the six months ended June 30, 2014 and 2013, respectively.

[2] Excludes investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 5 - Fair Value Measurements.

For the three and six months ended June 30, 2014 the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net losses related to interest derivatives, primarily used to manage duration, were due to a decline in U.S. interest rates.
- The loss associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was driven by a decline in interest rates and credit spread tightening during the period. The assets remain on the Company's books and the Company recorded an offsetting gain in AOCI as a result of the increase in market value of the bonds.
- The net loss on the macro hedge program was primarily due to an improvement in domestic equity markets, and lower equity volatility.
- The net gain related to the Japan fixed annuity payout hedge was driven by an appreciation of the Japanese yen in relation to the U.S. dollar.

In addition, for the three and six months ended June 30, 2014, the Company recognized gains of $4 and $11, respectively, due to cash recovered on derivative receivables that were previously written-off related to the bankruptcy of Lehman Brothers Inc. The derivative receivables were the result of the contractual collateral threshold amounts and open collateral calls prior to the bankruptcy filing as well as interest rate and credit spread movements from the date of the last collateral call to the date of the bankruptcy filing.

For the three and six months ended June 30, 2013 the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net loss related to the Japan 3Win fixed payout annuity hedge was primarily due to a depreciation of the Japanese yen in relation to the U.S. dollar.
- For the three months ended June 30, 2013 the net loss related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily a result of an increase in fees for selected GMWB riders, partially offset by gains driven by favorable policyholder behavior. For the six months ended June 30, 2013 the net gain related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by favorable policyholder behavior, partially offset by an increase in interest rates, and an increase in fees for selected GMWB riders.

For additional disclosures regarding contingent credit related features in derivative agreements, see Note 11 - Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements.

Credit Risk Assumed through Credit Derivatives

The Company enters into credit default swaps that assume credit risk of a single entity or referenced index in order to synthetically replicate investment transactions. The Company will receive periodic payments based on an agreed upon rate and notional amount and will only make a payment if there is a credit event. A credit event payment will typically be equal to the notional value of the swap contract less the value of the referenced security issuer’s debt obligation after the occurrence of the credit event. A credit event is generally defined as a default on contractually obligated interest or principal payments or bankruptcy of the referenced entity. The credit default swaps in which the Company assumes credit risk primarily reference investment grade single corporate issuers and baskets, which include standard and customized diversified portfolios of corporate issuers. The diversified portfolios of corporate issuers are established within sector concentration limits and may be divided into tranches that possess different credit ratings.

The following tables present the notional amount, fair value, weighted average years to maturity, underlying referenced credit obligation type and average credit ratings, and offsetting notional amounts and fair value for credit derivatives in which the Company is assuming credit risk as of June 30, 2014 and December 31, 2013.

As of June 30, 2014

				Underlying Referenced Credit Obligation(s) [1]			
Credit Derivative type by derivative risk exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$281	$5	3 years	Corporate Credit/ Foreign Gov.	BBB+	$ 270	$(7)
Below investment grade risk exposure	29	—	3 years	Corporate Credit	BB	4	—
Basket credit default swaps [4]							
Investment grade risk exposure	2,844	47	4 years	Corporate Credit	BBB	2,062	(33)
Below investment grade risk exposure	57	5	5 years	Corporate Credit	B+	—	—
Investment grade risk exposure	558	(6)	6 years	CMBS Credit	AA	273	3
Below investment grade risk exposure	154	(20)	3 years	CMBS Credit	CCC+	154	20
Embedded credit derivatives							
Investment grade risk exposure	350	340	3 years	Corporate Credit	A-	—	—
Total [5]	$4,273	$371				$ 2,763	$(17)

As of December 31, 2013

				Underlying Referenced Credit Obligation(s) [1]			
Credit Derivative type by derivative risk exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 1,259	$8	1 year	Corporate Credit/ Foreign Gov.	A-	$ 1,066	$(9)
Below investment grade risk exposure	24	—	1 year	Corporate Credit	CCC	24	(1)
Basket credit default swaps [4]							
Investment grade risk exposure	3,447	50	3 years	Corporate Credit	BBB	2,270	(35)
Below investment grade risk exposure	166	15	5 years	Corporate Credit	BB-	—	—
Investment grade risk exposure	327	(7)	3 years	CMBS Credit	A	327	7
Below investment grade risk exposure	195	(31)	3 years	CMBS Credit	B-	195	31
Embedded credit derivatives							
Investment grade risk exposure	350	339	3 years	Corporate Credit	BBB+	—	—
Total [5]	$ 5,768	$374				$ 3,882	$(7)

[1] The average credit ratings are based on availability and the midpoint of the applicable ratings among Moody's, S&P, Fitch and Morningstar. If no rating is available from a rating agency, then an internally developed rating is used.

[2] Notional amount is equal to the maximum potential future loss amount. These derivatives are governed by agreements, clearing house rules and applicable law which include collateral posting requirements. There is no additional specific collateral related to these contracts or recourse provisions included in the contracts to offset losses.

[3] The Company has entered into offsetting credit default swaps to terminate certain existing credit default swaps, thereby offsetting the future changes in value of, or losses paid related to, the original swap.

[4] Includes $3.6 billion and $4.1 billion as of June 30, 2014 and December 31, 2013, respectively, of standard market indices of diversified portfolios of corporate issuers referenced through credit default swaps. These swaps are subsequently valued based upon the observable standard market index.

[5] Excludes investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 5 - Fair Value Measurements.

Derivative Collateral Arrangements

The Company enters into various collateral arrangements in connection with its derivative instruments, which require both the pledging and accepting of collateral. As of June 30, 2014 and December 31, 2013 the Company pledged securities collateral associated with derivative instruments with a fair value of $1.0 billion and $1.3 billion, respectively, which have been included in fixed maturities on the Consolidated Balance Sheets. The counterparties have the right to sell or re-pledge these securities. The Company also pledged cash collateral associated with derivative instruments with a fair value of $218 and $347, respectively, as of June 30, 2014 and December 31, 2013 which have been primarily included within other assets on the Company's Condensed Consolidated Balance Sheets. As of June 30, 2014 and December 31, 2013 the Company accepted cash collateral associated with derivative instruments of $238 and $180, respectively, which was invested and recorded in the Consolidated Balance Sheets in fixed maturities and short-term investments with corresponding amounts recorded in other liabilities. The Company also accepted securities collateral as of June 30, 2014 and December 31, 2013 with a fair value of $85 and $243, respectively, of which the Company has the ability to sell or repledge $57 and $191, respectively. As of June 30, 2014 and December 31, 2013 the fair value of repledged securities totaled $0 and $39, respectively, and the Company did not sell any securities. In addition, as of June 30, 2014 and December 31, 2013 non-cash collateral accepted was held in separate custodial accounts and was not included in the Company’s Consolidated Balance Sheets.

7. Reinsurance

The Company cedes insurance to affiliated and unaffiliated insurers to enable the Company to manage capital and risk exposure. Such arrangements do not relieve the Company of its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company's procedures include careful initial selection of its reinsurers, structuring agreements to provide collateral funds where necessary, and regularly monitoring the financial condition and ratings of its reinsurers. The Company entered into two reinsurance transactions in connection with the sales of its Retirement Plans and Individual Life businesses in January 2013. For further discussion of these transactions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

Reinsurance Recoverables

Reinsurance recoverables include balances due from reinsurance companies and are presented net of an allowance for uncollectible reinsurance. Reinsurance recoverables include an estimate of the amount of gross losses and loss adjustment expense reserves that may be ceded under the terms of the reinsurance agreements, including incurred but not reported unpaid losses. The Company’s estimate of losses and loss adjustment expense reserves ceded to reinsurers is based on assumptions that are consistent with those used in establishing the gross reserves for business ceded to the reinsurance contracts. The Company calculates its ceded reinsurance projection based on the terms of any applicable facultative and treaty reinsurance, including an estimate of how incurred but not reported losses will ultimately be ceded by reinsurance agreements. Accordingly, the Company’s estimate of reinsurance recoverables is subject to similar risks and uncertainties as the estimate of the gross reserve for unpaid losses and loss adjustment expenses.
The Company's reinsurance recoverables are summarized as follows:

	As of June 30,	As of December 31,
	2014	2013
Property and Casualty Insurance Products:		
Paid loss and loss adjustment expenses	$158	$138
Unpaid loss and loss adjustment expenses	2,925	2,841
Gross reinsurance recoverable	3,083	2,979
Allowance for uncollectible reinsurance	(248)	(244)
Net reinsurance recoverables	$2,835	$2,735
Life Insurance Products:		
Future policy benefits and unpaid loss and loss adjustment expenses and other policyholder funds and benefits payable		
Sold businesses (MassMutual and Prudential)	$18,884	$19,374
Other reinsurers	1,230	1,221
Net reinsurance recoverables	$20,114	$20,595
Reinsurance recoverables, net	$22,949	$23,330

As of June 30, 2014, the Company has reinsurance recoverables from MassMutual and Prudential of $8.8 billion and $10.1 billion, respectively. These reinsurance recoverables are secured by invested assets held in trust for the benefit of the Company in the event of a default by the reinsurers. As of June 30, 2014, the fair value of assets held in trust securing the reinsurance recoverables from MassMutual and Prudential were $9.8 billion and $8.7 billion, respectively. As of June 30, 2014, the Company has no reinsurance-related concentrations of credit risk greater than 10% of the Company’s consolidated stockholders’ equity.

The allowance for uncollectible reinsurance reflects management's best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers' unwillingness or inability to pay. The Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between reinsurers and cedants and the overall credit quality of the Company's reinsurers. Based on this analysis, the Company may adjust the allowance for uncollectible reinsurance or charge off reinsurer balances that are determined to be uncollectible. Where its contracts permit, the Company secures future claim obligations with various forms of collateral, including irrevocable letters of credit, secured trusts, funds held accounts and group-wide offsets.

Due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables become due, it is possible that future adjustments to the Company's reinsurance recoverables, net of the allowance, could be required, which could have a material adverse effect on the Company's consolidated results of operations or cash flows in a particular quarter or annual period.

Insurance Revenues

The effect of reinsurance on property and casualty premiums written and earned is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Premiums Written	2014	2013	2014	2013
Direct	$2,660	$2,534	$5,377	$5,330
Assumed	62	49	131	111
Ceded	(148)	(82)	(337)	(417)
Net	$2,574	$2,501	$5,171	$5,024
Premiums Earned				
Direct	$2,631	$2,605	$5,237	$5,178
Assumed	64	49	129	109
Ceded	(190)	(201)	(392)	(409)
Net	$2,505	$2,453	$4,974	$4,878

Ceded losses, which reduce losses and loss adjustment expenses incurred, were $231 and $336 for the three and six months ended June 30, 2014, respectively, and $99 and $232 for three and six months ended June 30, 2013, respectively.

The effect of reinsurance on life insurance earned premiums and fee income is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gross earned premiums and fee income	$1,493	$1,559	$3,035	$3,132
Reinsurance assumed	50	65	98	98
Reinsurance ceded	(414)	(437)	(852)	(868)
Net	$1,129	$1,187	$2,281	$2,362

The Company reinsures certain of its risks to other reinsurers under yearly renewable term, coinsurance, and modified coinsurance arrangements, and variations thereto. Yearly renewable term and coinsurance arrangements result in passing all or a portion of the risk to the reinsurer. Generally, the reinsurer receives a proportionate amount of the premiums less an allowance for commissions and expenses and is liable for a corresponding proportionate amount of all benefit payments. Modified coinsurance is similar to coinsurance except that the cash and investments that support the liabilities for contract benefits are not transferred to the assuming company, and settlements are made on a net basis between the companies. Coinsurance with funds withheld is a form of coinsurance except that the investment assets that support the liabilities are withheld by the ceding company.

The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. Insurance recoveries on ceded reinsurance agreements, which reduce death and other benefits, were $212 and $427 for the three and six months ended June 30, 2014, respectively and $234 and $466 for the three and six months ended June 30, 2013, respectively.

In addition, the Company has reinsured a portion of the risk associated with U.S. variable annuities and the associated GMDB and GMWB riders.

Changes in the DAC balance are as follows:

	Six Months Ended June 30,	
	2014	2013
Balance, beginning of period	$2,161	$5,725
Deferred costs	689	668
Amortization — DAC	(796)	(806)
Amortization — Unlock benefit (charge), pre-tax [1]	28	(921)
Amortization — DAC related to business dispositions [2] [3]	—	(2,229)
Adjustments to unrealized gains and losses on securities AFS and other	(56)	121
Effect of currency translation	—	(86)
Balance, end of period	$2,026	$2,472

[1] Includes Unlock charge of $887 related to elimination of future estimated gross profits on the Japan variable annuity block in the first quarter of 2013. As a result of the Japan annuity business sale completed in June 2014, this Unlock charge has been reclassified to discontinued operations. For further information regarding this transaction, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[2] Includes accelerated amortization of $352 and $2,374 recognized upon the sale of the Retirement Plans and Individual Life businesses, respectively, in 2013. For further information, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[3] Includes previously unrealized gains on securities AFS of $148 and $349 recognized upon the sale of the Retirement Plans and Individual Life businesses, respectively, in 2013.

9. Sales Inducements

Changes in sales inducement activity are as follows:

	Six Months Ended June 30,	
	2014	2013
Balance, beginning of period	$149	$325
Sales inducements deferred	—	(3)
Amortization — Unlock benefit (charge) [1]	6	(59)
Amortization charged to income	(13)	(11)
Amortization related to business dispositions [2]	—	(71)
Balance end of period	$142	$181

[1] Includes Unlock charge of $52 in the first quarter of 2013 related to elimination of future estimated gross profits on the Japan variable annuity block. As a result of the Japan annuity business sale completed in June 2014, this Unlock charge has been reclassified to discontinued operations. For further information regarding this transaction, see Note 2 -Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[2] Represents accelerated amortization of $22 and $49 in the first quarter of 2013 recognized upon the sale of the Retirement Plans and Individual Life businesses, respectively. For further information, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

U.S. GMDB, International GMDB/GMIB, and UL Secondary Guarantee Benefits

Changes in the gross U.S. GMDB, International GMDB/GMIB, and UL secondary guarantee benefits are as follows:

	U.S. GMDB	International GMDB/GMIB	UL Secondary Guarantees
Liability balance as of January 1, 2014	$849	$272	$1,802
Incurred	90	28	115
Paid	(57)	(15)	—
Unlock	(24)	(41)	—
Impact of Japan business disposition	—	(254)	—
Currency translation adjustment	—	10	—
Liability balance as of June 30, 2014	$858	$—	$1,917
Reinsurance recoverable asset, as of January 1, 2014	$533	$23	$1,802
Incurred	52	4	115
Paid	(44)	(4)	—
Unlock	(14)	3	—
Impact of Japan business disposition	—	(27)	—
Currency translation adjustment	—	1	—
Reinsurance recoverable asset, as of June 30, 2014	$527	$—	$1,917

	U.S. GMDB	International GMDB/GMIB	UL Secondary Guarantees
Liability balance as of January 1, 2013	$918	$661	$363
Incurred	94	50	183
Paid	(75)	(47)	—
Unlock	(69)	(189)	—
Impact of reinsurance transactions (MassMutual and Prudential)	—	—	1,145
Currency translation adjustment	—	(78)	—
Liability balance as of June 30, 2013	$868	$397	$1,691
Reinsurance recoverable asset, as of January 1, 2013	$608	$36	$21
Incurred	55	5	185
Paid	(54)	(9)	—
Unlock	(39)	(18)	—
Impact of reinsurance transactions (MassMutual and Prudential)	—	—	1,485
Currency translation adjustment	—	(4)	—
Reinsurance recoverable asset, as of June 30, 2013	$570	$10	$1,691

The following table provides details concerning GMDB exposure as of June 30, 2014:
Individual Variable Annuity Account Value by GMDB

Maximum anniversary value ("MAV") [1]	Account Value ("AV") [8]	Net Amount at Risk ("NAR") [9]	Retained Net Amount at Risk ("RNAR") [9]	Weighted Average Attained Age of Annuitant
MAV only	$18,744	$2,728	$463	70
With 5% rollup [2]	1,553	211	59	70
With Earnings Protection Benefit Rider ("EPB") [3]	4,698	634	87	68
With 5% rollup & EPB	573	118	26	71
Total MAV	25,568	3,691	635	
Asset Protection Benefit ("APB") [4]	17,205	215	147	68
Lifetime Income Benefit ("LIB") — Death Benefit [5]	704	7	7	67
Reset [6] (5-7 years)	3,194	53	52	69
Return of Premium ("ROP") [7]/Other	11,679	58	50	68
Subtotal GMDB	58,350	4,024	891	68
Less: General Account Value with GMDB	4,159			
Subtotal Separate Account Liabilities with GMDB	54,191			
Separate Account Liabilities without GMDB	87,332			
Total Separate Account Liabilities	$141,523			

[1] MAV GMDB is the greatest of current AV, net premiums paid and the highest AV on any anniversary before age 80 years (adjusted for withdrawals).

[2] Rollup GMDB is the greatest of the MAV, current AV, net premium paid and premiums (adjusted for withdrawals) accumulated at generally 5% simple interest up to the earlier of age 80 years or 100% of adjusted premiums.

[3] EPB GMDB is the greatest of the MAV, current AV, or contract value plus a percentage of the contract's growth. The contract's growth is AV less premiums net of withdrawals, subject to a cap of 200% of premiums net of withdrawals.

[4] APB GMDB is the greater of current AV or MAV, not to exceed current AV plus 25% times the greater of net premiums and MAV (each adjusted for premiums in the past 12 months).

[5] LIB GMDB is the greatest of current AV, net premiums paid, or for certain contracts a benefit amount that ratchets over time, generally based on market performance.

[6] Reset GMDB is the greatest of current AV, net premiums paid and the most recent five to seven year anniversary AV before age 80 years (adjusted for withdrawals).

[7] ROP GMDB is the greater of current AV or net premiums paid.

[8] AV includes the contract holder's investment in the separate account and the general account.

[9] NAR is defined as the guaranteed benefit in excess of the current AV. RNAR represents NAR reduced for reinsurance. NAR and RNAR are highly sensitive to equity markets movements and increase when equity markets decline.

In the U.S., account balances of contracts with guarantees were invested in variable separate accounts as follows:

Asset type	As of June 30, 2014	As of December 31, 2013
Equity securities (including mutual funds)	$49,929	$52,858
Cash and cash equivalents	4,262	4,605
Total	$54,191	$57,463

As of June 30, 2014 and December 31, 2013, approximately 17% of the equity securities above were invested in fixed income securities through these mutual funds and approximately and 83% were invested in equity securities through these funds.

For further information on guaranteed living benefits that are accounted for at fair value, such as GMWB, see Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

11. Commitments and Contingencies

Litigation

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties discussed below under the caption "Asbestos and Environmental Claims," management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.

The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, and in addition to the matters described below, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, disability, life and inland marine. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims or other allegedly unfair or improper business practices. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in particular quarterly or annual periods.

Apart from the inherent difficulty of predicting litigation outcomes, the Mutual Funds Litigation identified below purports to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel applications of complex legal theories. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company's experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. The matter is in the earliest stages of litigation, with no substantive legal decisions by the court defining the scope of the claims or the potentially available damages; fact discovery is also in its early stages. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any, or predict the timing of the eventual resolution of this matter.

Mutual Funds Litigation — In February 2011, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of New Jersey, alleging that Hartford Investment Financial Services, LLC ("HIFSCO"), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. HIFSCO moved to dismiss and, in September 2011, the motion was granted in part and denied in part, with leave to amend the complaint. In November 2011, plaintiffs filed an amended complaint on behalf of The Hartford Global Health Fund, The Hartford Conservative Allocation Fund, The Hartford Growth Opportunities Fund, The Hartford Inflation Plus Fund, The Hartford Advisors Fund, and The Hartford Capital Appreciation Fund. Plaintiffs seek to rescind the investment management agreements and distribution plans between HIFSCO and these funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received, in addition to lost earnings. HIFSCO filed a partial motion to dismiss the amended complaint and, in December 2012, the court dismissed without prejudice the claims regarding distribution fees and denied the motion with respect to the advisory fees claims. In March 2014, the plaintiffs filed a new complaint that, among other things, added as new plaintiffs The Hartford Floating Rate Fund and The Hartford Small Company Fund and named as a defendant Hartford Funds Management Company, LLC ("HFMC"), an indirect subsidiary of the Company which assumed the role as advisor to the funds as of January 2013. HFMC and HIFSCO dispute the allegations and intend to defend vigorously.

Asbestos and Environmental Claims – As discussed in Note 12, Commitments and Contingencies, of Notes to Condensed Consolidated Financial Statements under the caption “Asbestos and Environmental Claims”, included in the Company’s 2013 Form 10-K Annual Report, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford’s consolidated operating results and liquidity.

Derivative Commitments

Certain of the Company’s derivative agreements contain provisions that are tied to the financial strength ratings of the individual legal entity that entered into the derivative agreement as set by nationally recognized statistical rating agencies. If the legal entity’s financial strength were to fall below certain ratings, the counterparties to the derivative agreements could demand immediate and ongoing full collateralization and in certain instances demand immediate settlement of all outstanding derivative positions traded under each impacted bilateral agreement. The settlement amount is determined by netting the derivative positions transacted under each agreement. If the termination rights were to be exercised by the counterparties, it could impact the legal entity’s ability to conduct hedging activities by increasing the associated costs and decreasing the willingness of counterparties to transact with the legal entity. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position as of June 30, 2014 is $1.0 billion. Of this $1.0 billion the legal entities have posted collateral of $1.2 billion in the normal course of business. In addition, the Company has posted collateral of $44 associated with a customized GMWB derivative. Based on derivative market values as of June 30, 2014 a downgrade of one level below the current financial strength ratings by either Moody’s or S&P could require approximately an additional $4 to be posted as collateral. Based on derivative market values as of June 30, 2014 a downgrade by either Moody’s or S&P of two levels below the legal entities’ current financial strength ratings could require approximately an additional $24 of assets to be posted as collateral. These collateral amounts could change as derivative market values change, as a result of changes in our hedging activities or to the extent changes in contractual terms are negotiated. The nature of the collateral that we would post, if required, would be primarily in the form of U.S. Treasury bills, U.S. Treasury notes and government agency securities.

On March 6, 2014, Moody’s lowered its counterparty credit and insurer financial strength ratings on Hartford Life Insurance Company to Baa2. Given this downgrade action, termination rating triggers of four derivative counterparty relationships were impacted. The counterparties have the right to terminate the relationships and would have to settle the outstanding derivatives as a result of exercising the termination right. The Company has re-negotiated the rating triggers with one counterparty, and is in the process of re-negotiating the rating triggers with the remaining three counterparties which it expects to successfully complete. Accordingly, the Company's hedging programs have not been adversely impacted by the announcement of the downgrade of Hartford Life Insurance Company. As of June 30, 2014 the notional amount and fair value related to these counterparties are $2.6 billion and $(47), respectively.

12. Employee Benefit Plans

Components of Net Periodic Benefit Cost

Net periodic benefit cost includes the following components:

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2014	2013	2014	2013
Service cost	$1	$—	$—	$—
Interest cost	63	59	3	2
Expected return on plan assets	(82)	(78)	(4)	(4)
Amortization of prior service credit	—	—	(1)	(1)
Amortization of actuarial loss	11	15	1	1
Net periodic benefit	$(7)	$(4)	$(1)	$(2)

	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Service cost	$1	$—	$—	$—
Interest cost	127	119	6	5

Expected return on plan assets	(163)	(157)	(8)	(7)
Amortization of prior service credit	—	—	(3)	(3)
Amortization of actuarial loss	22	29	2	1
Net periodic benefit	$(13)	$(9)	$(3)	$(4)

13. Stock Compensation Plans

The Company has four stock-based compensation plans which are described in Note 19 - Stock Compensation Plans of Notes to Consolidated Financial Statements included in The Hartford's 2013 Annual Report on Form 10-K. Shares issued in satisfaction of stock-based compensation may be made available from authorized but unissued shares, shares held by the Company in treasury or from shares purchased in the open market. In 2014 and 2013, the Company issued shares from treasury in satisfaction of stock-based compensation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock-based compensation plans expense	$34	$18	$53	$32
Income tax benefit	(12)	(6)	(19)	(11)
Total stock-based compensation plans expense, after-tax	$22	$12	$34	$21

In the second quarter the Company modified an executive's awards to receive retirement treatment under the Company's 2010 Incentive Stock Plan. The incremental compensation cost resulting from the modifications totaled $16 of which $11 was recognized in the second quarter. The remainder will be recognized over the remaining service period.

The Company did not capitalize any cost of stock-based compensation. As of June 30, 2014, the total compensation cost related to non-vested awards not yet recognized was $127, which is expected to be recognized over a weighted average period of 2.2 years.

14. Discontinued Operations

On June 30, 2014, the Company completed the sale of HLIKK and on December 12, 2013, the Company completed the sale of HLIL. For further information regarding these transactions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

The following table summarizes the amounts related to discontinued operations in the Condensed Consolidated Statements of Operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Earned premiums	$—	$1	$(1)	$—
Fee income	114	$165	239	343
Net investment income:				
Securities available-for-sale and other	6	25	18	56
Equity securities, trading	370	1,188	134	3,888
Total net investment income	376	1,213	152	3,944
Net realized capital losses	(106)	(700)	(157)	(749)
Total revenues	384	679	233	3,538
Benefits, losses and expenses				
Benefits losses and loss adjustment expenses	(21)	(36)	7	(30)
Benefits, losses and loss adjustment expenses - returns credited on international variable annuities	370	1,188	134	3,888
Amortization of DAC	—	—	—	907
Insurance operating costs and other expenses	12	20	23	22
Total benefits, losses and expenses	361	1,172	164	4,787
Income (loss) before income taxes	23	(493)	69	(1,249)
Income tax benefit	(19)	(172)	(2)	(444)
Income (loss) from operations of discontinued operations, net of tax	42	(321)	71	(805)
Net realized loss on disposal, net of tax [1]	(659)	(102)	(659)	(102)
Loss from discontinued operations, net of tax	$(617)	$(423)	$(588)	$(907)

[1] Includes income tax benefits of $241 on the sale of HLIKK and $219 on the sale of HLIL for the three and six months ended June 30, 2014 and June 30, 2013, respectively.

15. Debt

The Company's long-term debt securities are issued by either HFSG Holding Company or HLI, and are unsecured obligations of HFSG Holding Company or HLI, and rank on a parity with all other unsecured and unsubordinated indebtedness of HFSG Holding Company or HLI.

Debt is carried net of discount. Short-term and long-term debt by issuance are as follows:

	As of	
	June 30, 2014	December 31, 2013
Revolving Credit Facility	$—	$238
Senior Notes and Debentures		
4.75% Notes, due 2014	—	200
4.0% Notes, due 2015	289	289
7.3% Notes, due 2015	167	167
5.5% Notes, due 2016	275	275
5.375% Notes, due 2017	415	415
4.0% Notes, due 2017	295	295
6.3% Notes, due 2018	320	320
6.0% Notes, due 2019	413	413
5.5% Notes, due 2020	499	499
5.125% Notes, due 2022	796	796
7.65% Notes, due 2027	80	79
7.375% Notes, due 2031	63	63
5.95% Notes, due 2036	299	298
6.625% Notes, due 2040	295	295
6.1% Notes, due 2041	326	326
6.625% Notes, due 2042	178	178
4.3% Notes, due 2043	298	298
Junior Subordinated Debentures		
7.875% Notes, due 2042	600	600
8.125% Notes, due 2068	500	500
Total Notes and Debentures	$6,108	$6,306
Less: Current maturities	289	200
Long-term Debt	$5,819	$6,106
Total Debt	$6,108	$6,544

Revolving Credit Facilities

The Company has a senior unsecured revolving credit facility (the "Credit Facility") that provides for borrowing capacity up to $1.75 billion (which is available in U.S. dollars, and in Euro, Sterling, Canadian dollars and Japanese Yen) through January 6, 2016. Of the total availability under the Credit Facility, up to $250 is available to support letters of credit issued on behalf of the Company or subsidiaries of the Company. Under the Credit Facility, the Company must maintain a minimum level of consolidated net worth of $14.9 billion. The definition of consolidated net worth under the terms of the Credit Facility, excludes AOCI and includes the Company's outstanding junior subordinated debentures and perpetual preferred securities, net of discount. In addition, the Company's maximum ratio of consolidated total debt to consolidated total capitalization is 35%, and the ratio of consolidated total debt of subsidiaries to consolidated total capitalization is limited to 10%. As of June 30, 2014, the Company was in compliance with all financial covenants under the Credit Facility.

HLIKK previously had four revolving credit facilities in support of operations. These credit facilities were transfered with the sale of HLIKK on June 30, 2014.

16. Equity

In July 2014, the Board of Directors approved a $775 increase in the Company's authorized equity repurchase program that provides the Company with the ability to repurchase $2.775 billion in equity during the period commencing on January 1, 2014 and ending on December 31, 2015.

On July 30, 2014, the Company entered into an accelerated share repurchase agreement (“ASR”) with a major financial institution. Under the terms of the agreement, on July 31, 2014 The Hartford will pay $525 and receive an initial delivery of approximately 11.2 million shares of its common stock. The actual per share purchase price and the total number of shares to be repurchased will be based on the volume weighted average price, or VWAP, of the Company’s common stock during the term of the ASR, less a discount and subject to certain adjustments. Final maturity of the ASR will occur no later than the end of 2014, and may occur earlier at the financial institution's discretion. If the total number of shares to be repurchased is less than the initial delivery, the Company may elect to settle in cash or shares (limited to an established maximum number of shares); and if the total number of shares to be repurchased is greater than the initial delivery, the Company will receive shares in settlement.

During the six months ended June 30, 2014, the Company repurchased 19.0 million common shares for $651. In addition, the Company repurchased 3.9 million common shares, for $140, from July 1, 2014 to July 29, 2014. The warrants outstanding at June 30, 2014 were 11.6 million.

The declaration of a quarterly common stock dividend of $0.15 during the second quarter of 2014 triggered a provision in The Hartford’s Warrant Agreement with The Bank of New York Mellon, relating to warrants to purchase common stock issued in connection with the Company’s participation in the Capital Purchase Program, resulting in an adjustment to the warrant exercise price. The warrant exercise price at June 30, 2014 was $9.451.

17. Restructuring and Other Costs

As a result of a strategic business realignment announced in 2012, the Company is currently focusing on its Property & Casualty, Group Benefits and Mutual Fund businesses. In addition, the Company implemented restructuring activities in 2011 across several areas aimed at reducing overall expense levels. The Company intends to substantially complete the related restructuring activities over the next 12 months. For related discussion of the Company's business disposition transactions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

Termination benefits related to workforce reductions and lease and other contract terminations have been accrued through June 30, 2014. Additional costs, mainly severance benefits and other related costs and professional fees, expected to be incurred subsequent to June 30, 2014, and asset impairment and related charges, will be expensed as appropriate.

In 2013, the Company initiated a plan to consolidate its real estate operations, including the intention to exit certain facilities and relocate employees. The consolidation of real estate is consistent with the Company's strategic business realignment and follows the completion of sales of the Retirement Plans and Individual Life businesses. Asset related charges will be incurred over the remaining estimated useful life of facilities, and relocation and other maintenance charges will be recognized as incurred. The program costs will be recognized in the Corporate category for segment reporting.

Restructuring costs and other costs of approximately $321, pre-tax have been incurred by the Company to date in connection with these activities. As the Company executes on its operational and strategic initiatives, the Company's estimate of and actual costs incurred for restructuring activities may differ from these estimates.

Estimated restructuring and other costs, including costs incurred to date, as of June 30, 2014 are as follows:

Property & Casualty Commercial	$9
Consumer Markets	3
Group Benefits	1
Mutual Funds	4
Talcott Resolution	70
Corporate	287

Total restructuring and other costs, pre-tax	$374

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
17. Restructuring and Other Costs (continued)

Restructuring and other costs, pre-tax incurred in connection with these activities are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Severance benefits and related costs	$3	$7	$6	$20
Professional fees	—	5	1	10
Asset impairment charges	5	7	21	7
Total restructuring and other costs	$8	$19	$28	$37

Restructuring and other costs, included in insurance operating costs and other expenses in the Condensed Consolidated Statements of Operations for each reporting segment, as well as the Corporate category are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Mutual Funds	$—	$1	$—	$2
Talcott Resolution	—	(1)	—	—
Corporate	8	19	28	35
Total restructuring and other costs	$8	$19	$28	$37

Changes in the accrued restructuring liability balance included in other liabilities in the Condensed Consolidated Balance Sheets are as follows:

	Six Months Ended June 30, 2014				
	Severance Benefits and Related Costs	Professional Fees	Asset impairment charges	Other Contract Termination Charges	Total Restructuring and Other Costs
Balance, beginning of period	$22	$—	$—	$6	$28
Accruals/provisions	6	1	21	—	28
Payments/write-offs	(22)	(1)	(21)	(6)	(50)
Balance, end of period	$6	$—	$—	$—	$6

	Six Months Ended June 30, 2013				
	Severance Benefits and Related Costs	Professional Fees	Asset impairment charges	Other Contract Termination Charges	Total Restructuring and Other Costs
Balance, beginning of period	$70	$—	$—	$—	$70
Accruals/provisions	20	10	7	—	37
Payments/write-offs	(37)	(6)	—	—	(43)
Balance, end of period	$53	$4	$7	$—	$64

18. Changes in and Reclassifications From Accumulated Other Comprehensive Income

Changes in AOCI, net of tax and DAC, by component consist of the following:

Three months ended June 30, 2014

	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain (Loss) on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	Total AOCI
Beginning balance	$1,686	$(10)	$121	$108	$(1,246)	$659
OCI before reclassifications	582	4	35	17	13	651
Amounts reclassified from AOCI	(13)	(1)	(15)	(112)	(7)	(148)
Net OCI	569	3	20	(95)	6	503
Ending balance	$2,255	$(7)	$141	$13	$(1,240)	$1,162

Six months ended June 30, 2014

	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain (Loss) on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	Total AOCI
Beginning balance	$987	$(12)	$108	$91	$(1,253)	$(79)
OCI before reclassifications	1,299	7	64	34	27	1,431
Amounts reclassified from AOCI	(31)	(2)	(31)	(112)	(14)	(190)
Net OCI	1,268	5	33	(78)	13	1,241
Ending balance	$2,255	$(7)	$141	$13	$(1,240)	$1,162

Reclassifications from AOCI for the three and six months ended June 30, 2014 consist of the following:

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
18. Changes in and Reclassifications From Accumulated Other Comprehensive Income (continued)

AOCI	Amount Reclassified from AOCI		Affected Line Item in the Condensed Consolidated Statement of Operations
	Three months ended June 30, 2014	Six months ended June 30, 2014	
Net Unrealized Gain on Securities			
Available-for-sale securities	82	125	Net realized capital gains (losses)
	82	125	Total before tax
	29	44	Income tax expense
	$40	$50	Loss from discontinued operations, net of tax
	$13	$31	Net income (loss)
OTTI Losses in OCI			
Other than temporary impairments	$1	$3	Net realized capital gains (losses)
	1	3	Total before tax
	—	1	Income tax expense (benefit)
	$1	$2	Net income (loss)
Net Gains on Cash Flow Hedging Instruments			
Interest rate swaps	$1	$2	Net realized capital gains (losses)
Interest rate swaps	22	45	Net investment income
Foreign currency swaps	—	—	Net realized capital gains (losses)
	23	47	Total before tax
	8	16	Income tax expense
	$15	$31	Net income (loss)
Foreign Currency Translation Adjustments			
Currency translation adjustments [3]	172	172	Net realized capital gains (losses)
	172	172	Total before tax
	60	60	Income tax expense
	$112	$112	Net income (loss)
Pension and Other Postretirement Plan Adjustments			
Amortization of prior service costs	$(1)	$(3)	Insurance operating costs and other expenses
Amortization of actuarial gains (losses)	12	24	Insurance operating costs and other expenses
	11	21	Total before tax
	4	7	Income tax expense
	7	14	Net income (loss)
Total amounts reclassified from AOCI	$148	$190	Net income (loss)

18. Changes in and Reclassifications From Accumulated Other Comprehensive Income (continued)

Three months ended June 30, 2013

	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain (Loss) on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	Total AOCI
Beginning balance	$2,529	$(32)	$320	$186	$(1,354)	$1,649
OCI before reclassifications	(1,314)	14	(110)	(94)	(1)	(1,505)
Amounts reclassified from AOCI	(53)	(5)	(22)	—	10	(70)
Net OCI	(1,367)	9	(132)	(94)	9	(1,575)
Ending balance	$1,162	$(23)	$188	$92	$(1,345)	$74

Six months ended June 30, 2013

	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain (Loss) on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	Total AOCI
Beginning balance	$3,418	$(47)	$428	$406	$(1,362)	$2,843
OCI before reclassifications	(1,154)	38	(157)	(314)	(1)	(1,588)
Amounts reclassified from AOCI	(1,102)	(14)	(83)	—	18	(1,181)
Net OCI	(2,256)	24	(240)	(314)	17	(2,769)
Ending balance	$1,162	$(23)	$188	$92	$(1,345)	$74

Reclassifications from AOCI for the three and six months ended June 30, 2013 consist of the following:

AOCI	Amount Reclassified from AOCI		Affected Line Item in the Condensed Consolidated Statement of Operations
	Three months ended June 30, 2013	Six months ended June 30, 2013	
Net Unrealized Gain on Securities			
Available-for-sale securities [1]	78	1,694	Net realized capital gains (losses)
	78	1,694	Total before tax
	27	593	Income tax expense
	(2)	(1)	Loss from discontinued operations, net of tax
	$53	$1,102	Net income (loss)
OTTI Losses in OCI			
Other than temporary impairments	$8	$21	Net realized capital gains (losses)
	8	21	Total before tax
	3	7	Income tax expense (benefit)
	$5	$14	Net income (loss)
Net Gains on Cash Flow Hedging Instruments			
Interest rate swaps [2]	$7	$80	Net realized capital gains (losses)
Interest rate swaps	25	49	Net investment income
Foreign currency swaps	2	(1)	Net realized capital gains (losses)
	34	128	Total before tax
	12	45	Income tax expense
	$22	$83	Net income (loss)
Pension and Other Postretirement Plan Adjustments			
Amortization of prior service costs	$1	$3	Insurance operating costs and other expenses
Amortization of actuarial gains (losses)	(16)	(30)	Insurance operating costs and other expenses
	(15)	(27)	Total before tax
	(5)	(9)	Income tax expense
	(10)	(18)	Net income (loss)
Total amounts reclassified from AOCI	$70	$1,181	Net income (loss)

[1] The six months ended June 30, 2013 includes $1.5 billion of net unrealized gains on securities relating to the sales of the Retirement Plans and Individual Life businesses.

[2] The six months ended June 30, 2013 includes $71 of net gains on cash flow hedging instruments relating to the sales of the Retirement Plans and Individual Life businesses.

[3] The six months ended June 30, 2014 amount relates to the sale of the HLIKK variable and fixed annuity business.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The Hartford provides projections and other forward-looking information in the following discussions, which contain many forward-looking statements, particularly relating to the Company’s future financial performance. These forward-looking statements are estimates based on information currently available to the Company, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to the cautionary statements set forth on pages 3 and 4 of this Form 10-Q. Actual results are likely to differ, and in the past have differed, materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each discussion below and in Part I, Item 1A, Risk Factors in The Hartford’s 2013 Form 10-K Annual Report. The Hartford undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise.

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Certain reclassifications have been made to prior year financial information presented in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) to conform to the current year presentation. This discussion should be read in conjunction with MD&A in The Hartford's 2013 Form 10-K Annual Report. The Hartford defines increases or decreases greater than or equal to 200% as “NM” or not meaningful.

THE HARTFORD’S OPERATIONS

Overview

The Hartford is a financial holding company for a group of subsidiaries that provide property and casualty and investment products to both individual and business customers in the United States and continues to administer life and annuity products previously sold.

The Hartford currently conducts business principally in six reporting segments including Property & Casualty Commercial, Consumer Markets, Property & Casualty Other Operations, Group Benefits, Mutual Funds and Talcott Resolution as well as a Corporate category. The Hartford includes in its Corporate category the Company’s debt financing and related interest expense, as well as other capital raising activities; and purchase accounting adjustments related to goodwill and other expenses not allocated to the reporting segments.

On June 30, 2014, the Company completed the sale of all of the issued and outstanding equity of HLIKK to ORIX Life Insurance Corporation, a subsidiary of ORIX Corporation, a Japanese company. HLIKK sold variable and fixed annuity policies in Japan from 2001 to 2009 and has been in runoff since 2009. The Company's Japan business is included in the Talcott Resolution reporting segment.

On December 12, 2013, the Company completed the sale of HLIL, which comprised the Company's U.K. variable annuity business, to Columbia Insurance Company, a Berkshire Hathaway company. On January 1, 2013, the Company completed the sale of its Retirement Plans business to Massachusetts Mutual Life Insurance Company and on January 2, 2013 the Company completed the sale of its Individual Life insurance business to The Prudential Insurance Company of America, a subsidiary of Prudential Financial, Inc.

For further discussion of these transactions, see Note 2 - Business Dispositions, Note 7 - Reinsurance and Note 14 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

The Company derives its revenues principally from: (a) premiums earned for insurance coverages provided to insureds; (b) fee income, including asset management fees, on separate account and mutual fund assets and mortality and expense fees, as well as cost of insurance charges; (c) net investment income; (d) fees earned for services provided to third parties; and (e) net realized capital gains and losses. Premiums charged for insurance coverages are earned principally on a pro rata basis over the terms of the related policies in-force. Asset management fees and mortality and expense fees are primarily generated from separate account assets. Cost of insurance charges are assessed on the net amount at risk for investment-oriented life insurance products.

The profitability of the Company's property and casualty insurance businesses over time is greatly influenced by the Company’s underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance, the size of its in force block, actual mortality and morbidity experience, and its ability to manage its expense ratio which it accomplishes through economies of scale and its management of acquisition costs and other underwriting expenses. Pricing adequacy depends on a number of factors, including the ability to obtain regulatory approval for rate changes, proper evaluation of underwriting risks, the ability to project future loss cost frequency and severity based on historical loss experience adjusted for known trends, the Company’s response to rate actions taken by competitors, and expectations about regulatory and legal developments and expense levels. The Company seeks to price its insurance policies such that insurance premiums and future net investment income earned on premiums received will cover underwriting expenses and the ultimate cost of paying claims reported on the policies and provide for a profit margin. For many of its insurance products, the Company is required to obtain approval for its premium rates from state insurance departments.

The financial results in the Company’s mutual fund and variable annuity businesses depend largely on the amount of the contract holder or shareholder account value or assets under management on which it earns fees and the level of fees charged. Changes in account value or assets under management are driven by two main factors: net flows, and the market return of the funds, which is heavily influenced by the return realized in the equity markets. Net flows are comprised of deposits less surrenders, death benefits, policy charges and annuitizations of investment type contracts, such as variable annuity contracts. In the mutual fund business, net flows are known as net sales. Net sales are comprised of new sales less redemptions by mutual fund customers. The Company uses the average daily value of the S&P 500 Index as an indicator for evaluating market returns of the underlying account portfolios in the United States. Relative financial results of variable products are highly correlated to the growth in account values or assets under management since these products generally earn fee income on a daily basis. Equity market movements could also result in benefits for or charges against deferred acquisition costs.

The profitability of fixed annuities and other “spread-based” products depends largely on the Company’s ability to earn target spreads between earned investment rates on its general account assets and interest credited to policyholders.

The investment return, or yield, on invested assets is an important element of the Company’s earnings since insurance products are priced with the assumption that premiums received can be invested for a period of time before benefits, loss and loss adjustment expenses are paid. Due to the need to maintain sufficient liquidity to satisfy claim obligations, the majority of the Company’s invested assets have been held in available-for-sale securities, including, among other asset classes, corporate bonds, municipal bonds, government debt, short-term debt, mortgage-backed securities and asset-backed securities.

The primary investment objective for the Company is to maximize economic value, consistent with acceptable risk parameters, including the management of credit risk and interest rate sensitivity of invested assets, while generating sufficient after-tax income to meet policyholder and corporate obligations. Investment strategies are developed based on a variety of factors including business needs, regulatory requirements and tax considerations.

For more information on the Company's reporting segments refer to Part I, Item 1, Business - Reporting Segments in The Hartford’s 2013 Form 10-K Annual Report.

Financial Highlights for the Three Months Ended June 30, 2014

- Net loss of $467, or $1.00 per diluted share, compared with $190 net loss, or $0.39 per diluted share, in the comparable prior year period.

- Completed the sale of the Japan annuity business on June 30, 2014 for cash proceeds of $963 resulting in an after-tax loss on disposition of $659 which is included in loss on discontinued operations of $617.

- Share repurchases totaled $352, or approximately 10.2 million common shares, in the quarter.

- Book value per diluted common share excluding AOCI decreased to $39.21, from $40.17 as of the prior quarter end largely as a result of the loss on disposition.

- Net investment income decreased 9% to $768 compared with the comparable prior year period.

- A decline in interest rates and credit spreads tightening in the quarter reduced the annualized investment yield after-tax to 3% while increasing after-tax net unrealized gains in the investment portfolio by $569 in the quarter.

- Property and Casualty written premiums increased 3% over the comparable prior year period, comprised of 2% growth in P&C Commercial and 4% in Consumer Markets.

- Property and Casualty combined ratio, before catastrophes and prior year development, improved 0.9 points to 90.9 from 91.8 in the comparable prior year period.

- Catastrophe losses of $196, before tax, increased from catastrophe losses of $186, before tax, in the comparable prior year period.

- Unfavorable prior year development totaled $249, before tax, including $239 for asbestos and environmental reserve strengthening in the quarter.

- Group Benefits after-tax margin, excluding buyouts and realized capital gains (losses), increased to 6% in the quarter.

- Talcott Resolution after-tax income from continuing operations was $113 in the quarter.

CONSOLIDATED RESULTS OF OPERATIONS

Operating Summary	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	Change		2014	2013	Change	
Earned premiums	$3,319	$3,294	1	%	$6,621	$6,547	1	%
Fee income	502	513	(2	%)	998	1,023	(2	%)
Net investment income	768	841	(9	%)	1,592	1,666	(4	%)
Net realized capital gains (losses) [1]	(4)	21	(119	%)	(39)	1,665	(102	%)
Other revenues	31	65	(52	%)	56	133	(58	%)
Total revenues	4,616	4,734	(2	%)	9,228	11,034	(16	%)
Benefits, losses and loss adjustment expenses	3,023	2,922	3	%	5,599	5,581	—	%
Amortization of deferred policy acquisition costs and present value of future profits (“DAC”)	372	391	(5	%)	768	820	(6	%)
Insurance operating costs and other expenses	977	1,084	(10	%)	1,913	2,096	(9	%)
Loss on extinguishment of debt	—	—	NM		—	213	(100	%)
Reinsurance loss on dispositions, including reduction in goodwill of $156 for the six months ended June 30, 2013	—	—	NM		—	1,574	(100	%)
Interest expense	94	100	(6	%)	189	207	(9	%)
Total benefits, losses and expenses	4,466	4,497	(1	%)	8,469	10,491	(19	%)
Income from continuing operations before income taxes	150	237	(37	%)	759	543	40	%
Income tax expense	—	4	(100	%)	143	67	113	%
Income from continuing operations, net of tax	150	233	(36	%)	616	476	29	%
Loss from discontinued operations, net of tax	(617)	(423)	46	%	(588)	(907)	(35	%)
Net income (loss)	$(467)	$(190)	146	%	$28	$(431)	(106	%)

[1] Includes net realized gains (losses) on business dispositions of $1,575 for the six months ended June 30, 2013.

Three months ended June 30, 2014 compared to the three months ended June 30, 2013

Net loss, compared to the prior year period, increased for the three months ended June 30, 2014 primarily due to the following:

- An increase in the loss from discontinued operations to $617, net of tax, compared to $423, net of tax, for the prior year period, primarily due to the realized capital loss of $659 on the sale of the Japan annuity business in June 2014. The loss from discontinued operations in 2013 includes the realized capital loss of $102 on the sale of HLIL as well as losses from the operations of the Japan and U.K. annuity businesses. For further discussion of the sale of these businesses, see Note 2 - Business Dispositions and Note 14 - Discontinued Operations of Condensed Consolidated Financial Statements.
- Net investment income of $768, before tax, for the three months ended June 30, 2014, decreased compared to the $841, before tax, for the prior year period. The decrease in investment income is primarily due to lower income from fixed maturities and limited partnerships. For further discussion of investment results, see MD&A - Investment Results, Net Investment Income (Loss).
- Prior accident year reserve strengthening of $249, before tax, for the three months ended June 30, 2014, compared to reserve strengthening of $146, before tax, for the prior year period. Reserve strengthenings in 2014 were primarily related to an increase in reserves for asbestos and environmental claims, principally due to a higher than previously estimated number of mesothelioma claim filings and an increase in costs associated with asbestos litigation. Reserve strengthenings in 2013 were primarily related to an increase in net asbestos reserves due to higher claim frequency and severity. For additional information, see MD&A - Critical Accounting Estimates, Reserve Roll Forwards and Development.
- An improvement in current accident year underwriting results before catastrophes in Property & Casualty Commercial Markets and an increase in after-tax margins in Group Benefits partially offset the net loss. Commercial Markets' current accident year underwriting results before catastrophes improved $32 before tax due primarily to improved

results in Small Commercial and Specialty Commercial. For a discussion of the Company's operating results by segment, see the segment sections of MD&A.

- Differences between the Company's effective income tax rate and the U.S. statutory rate of 35% are due primarily to tax-exempt interest earned on invested assets and the dividends received deduction ("DRD"). For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013

Net income for the six months ended June 30, 2014 was an improvement over a net loss in the prior year period primarily due to the following:

- A decrease in the loss from discontinued operations to $588, net of tax, compared to $907, net of tax, for the prior year period, primarily due to the write-off of Japan DAC in 2013 and lower operating losses on Japan operations due to a decrease in hedging losses. The loss from discontinued operations in 2013 included the realized capital loss on the sale of HLIL.
- A $1,575 before tax realized capital gain in 2013 on the disposition of the Individual Life business and a $1,574 before tax reinsurance loss in 2013 consisting of a reduction in goodwill and a loss accrual for premium deficiency related to the disposition of the Individual Life business and losses from the operations of the Retirement Plans and Individual Life businesses sold in the first quarter of 2013. For further discussion of the sale of these businesses, see Note 2 - Business Dispositions of Condensed Consolidated Financial Statements.
- A loss on extinguishment of debt of $213, before tax, for the six months ended June 30, 2013 related to the repurchase of approximately $800 of senior notes at a premium to the face amount of the then outstanding debt. The resulting loss on extinguishment of debt consists of the repurchase premium, the write-off of the unamortized discount and debt issuance and other costs related to the repurchase transaction.
- A $128 before tax improvement in current accident year underwriting results before catastrophes in Property & Casualty. Contributing to the improvement in underwriting results is an increase in earned premiums of 2% or $96, before tax, for the six months ended June 30, 2014, compared to the prior year period, reflecting written premium growth of 2% in P&C Commercial and 5% in Consumer Markets. For a discussion of the Company's operating results by segment, see the segment sections of MD&A.
- Current accident year catastrophe losses of $282, before tax, for the six months ended June 30, 2014, compared to $218, before tax, for the prior year period. The increase in current accident year catastrophe losses was primarily due to an increase in winter storm frequency and severity across various U.S. geographic regions and an increase in the severity of thunderstorm and hail events, partially offset by a decrease in the number and severity of tornadoes.
- Prior accident year reserve strengthening of $209, before tax, for the six months ended June 30, 2014, compared to reserve strengthening of $160, before tax, for the prior year period. Reserve strengthenings in 2014 were primarily related to an increase in reserves for asbestos and environmental claims, principally due to a higher than previously estimated number of mesothelioma claim filings and an increase in costs associated with asbestos litigation. Reserve strengthenings in 2013 were primarily related increased net asbestos reserves due to higher claim frequency and severity.
- Differences between the Company's effective income tax rate and the U.S. statutory rate of 35% are due primarily to tax-exempt interest earned on invested assets and the dividends received deduction ("DRD"). Income tax expense for the six months ended June 30, 2014 increased by $76 from an income tax expense of $67 in the prior year period, primarily due to the $216, before tax, increase in income from continuing operations. The income tax expense in 2014 and 2013 includes separate account DRD benefits of $53 and $65, respectively.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
Net income (loss) by segment	2014	2013	Increase (Decrease) From 2013 to 2014	2014	2013	Increase (Decrease) From 2012 to 2013
Property & Casualty Commercial	$199	$192	$7	$441	$445	$(4)
Consumer Markets	(30)	15	(45)	69	92	(23)
Property & Casualty Other Operations	(144)	(71)	(73)	(122)	(50)	(72)
Group Benefits	55	61	(6)	106	103	3
Mutual Funds	21	20	1	42	38	4
Talcott Resolution	(504)	(332)	(172)	(359)	(626)	267
Corporate	(64)	(75)	11	(149)	(433)	284
Net income (loss)	$(467)	$(190)	$(277)	$28	$(431)	$459

Investment Results

Composition of Invested Assets

	June 30, 2014			December 31, 2013		
	Amount	Percent		Amount	Percent	
Fixed maturities, available-for-sale ("AFS"), at fair value	$60,246	79.1	%	$62,357	79.2	%
Fixed maturities, at fair value using the fair value option ("FVO")	410	0.5	%	844	1.1	%
Equity securities, AFS, at fair value	823	1.1	%	868	1.1	%
Mortgage loans	5,586	7.3	%	5,598	7.1	%
Policy loans, at outstanding balance	1,420	1.9	%	1,420	1.8	%
Limited partnerships and other alternative investments	2,902	3.8	%	3,040	3.9	%
Other investments [1]	329	0.4	%	521	0.7	%
Short-term investments	4,511	5.9	%	4,008	5.1	%
Total investments excluding equity securities, trading	76,227	100	%	78,656	100	%
Equity securities, trading, at fair value [2]	12			19,745		
Total investments	$76,239			$98,401		

[1] Primarily relates to derivative instruments.

[2] As of December 31, 2013, approximately $19.7 billion of equity securities, trading, supported Japan variable annuities. Those equity securities, trading, were invested in mutual funds, which, in turn, invested in the following asset classes as of December 31, 2013, Japan equity 22%, Japan fixed income (primarily government securities) 15%, global equity 22%, global government bonds 40%, and cash and other 1%.

Total investments decreased since December 31, 2013, primarily due to decreases in equity securities, trading and fixed maturities, AFS. The decrease in equity securities, trading and fixed maturities, AFS was primarily due to the sale of HLIKK, a former indirect wholly-owned subsidiary. For further discussion on the sale, see the Sale of Business section in Note 2 - Business Dispositions, of Notes to Condensed Consolidated Financial Statements. The decreases were partially offset by an increase in the fair value of fixed maturities due to a decrease in interest rates and tighter credit spreads.

Net Investment Income (Loss)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
(Before-tax)	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]
Fixed maturities [2]	$601	4.2 %	$645	4.3 %	$1,217	4.2 %	$1,296	4.3 %
Equity securities, AFS	7	3.5 %	8	4.2 %	14	3.4 %	14	3.6 %
Mortgage loans	66	4.7 %	62	4.8 %	132	4.7 %	126	4.9 %
Policy loans	19	5.3 %	22	6.2 %	39	5.5 %	42	6.0 %
Limited partnerships and other alternative investments	53	7.4 %	95	12.6 %	150	10.3 %	161	10.7 %
Other [3]	48		37		91		83	
Investment expense	(26)		(28)		(51)		(56)	
Total securities AFS and other	768	4.3 %	841	4.6 %	1,592	4.4 %	1,666	4.5 %
Total securities, AFS and other excluding limited partnerships and other alternative investments	$715	4.1 %	$746	4.2 %	$1,442	4.2 %	$1,505	4.3 %

[1] Yields calculated using annualized net investment income divided by the monthly average invested assets at cost, amortized cost, or adjusted carrying value, as applicable, excluding repurchase agreement collateral and derivatives book value. Yield calculations for each period exclude assets associated with the dispositions of HLIKK, the Retirement Plans and Individual Life businesses, and the Hartford Life International Limited business, as applicable.

[2] Includes net investment income on short-term investments.

[3] Primarily includes income from derivatives that qualify for hedge accounting and hedge fixed maturities.

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Total net investment income decreased primarily due to lower income from fixed maturities and limited partnerships. The decrease in income related to fixed maturities is a result of a decline in assets levels, primarily in Talcott Resolution, and lower income from repurchase agreements. The decrease in partnership income is primarily related to hedge fund investments, which were impacted by lower returns within certain sectors of the equity market.

The annualized net investment income yield, excluding limited partnerships and other alternative investments, has declined to 4.2% for the six months ended June 30, 2014 versus 4.3% for the comparable period in 2013. The decline was primarily attributable to lower income from repurchase agreements. Refer to Note 6 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements for further discussion of repurchase agreements. The average reinvestment rate, excluding certain treasury securities, for six months ended June 30, 2014, was approximately 3.9% which was slightly below the average yield of sales and maturities for the same period.

Based upon current reinvestment rates, we expect the annualized net investment income yield, excluding limited partnerships and other alternative investments, for 2014, to remain relatively consistent with the current net investment income yield. The estimated impact on net investment income is subject to change as the composition of the portfolio changes through normal portfolio management and trading activities and changes in market conditions.

Net Realized Capital Gains (Losses)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Before-tax)	2014	2013	2014	2013
Gross gains on sales	$122	$207	$305	$1,916
Gross losses on sales	(33)	(117)	(162)	(189)
Net OTTI losses recognized in earnings	(7)	(12)	(29)	(33)
Valuation allowances on mortgage loans	(3)	—	(3)	—
Periodic net coupon settlements on credit derivatives	2	—	1	(4)
Results of variable annuity hedge program				
GMWB derivatives, net	(6)	(31)	9	16
Macro hedge program	(15)	(47)	(25)	(132)
Total results of variable annuity hedge program	(21)	(78)	(16)	(116)
Other, net [1]	(64)	21	(135)	91
Net realized capital gains (losses)	$(4)	$21	$(39)	$1,665

[1] Primarily consists of changes in value of non-qualifying derivatives, including interest rate derivatives used to manage duration, and the Japan 3Win fixed payout annuity hedge.

Details on the Company's net realized capital gains and losses are as follows:

Gross gains and losses on sales

- Gross gains on sales for the three and six months ended June 30, 2014 were primarily due to gains on the sale of corporate securities, CMBS, RMBS, and municipal securities. Gross losses on sales for the three and six months ended June 30, 2014 were due to emerging market securities, primarily within the foreign government and corporate sectors. The sales were primarily a result of duration and liquidity management, as well as tactical changes to the portfolio as a result of changing market conditions.
- Gross gains for three months ended June 30, 2013 were primarily due to gains on the sale of U.S. government agencies, industrial corporate, RMBS, and ABS. Gross losses on sales for the three months ended June 30, 2013 were the result of losses on sales of RMBS and U.S. treasury securities due to rising interest rates. The sales were primarily as a result of normal portfolio and duration management. Gross gains and losses on sales for the six months ended June 30, 2013 were predominately from the sale of the Retirement Plans and Individual Life businesses resulting in a gain of $1.5 billion.

Net OTTI losses

- See Other-Than-Temporary Impairments within the Investment Portfolio Risks and Risk Management section of the MD&A.

Variable annuity hedge program

- For the three and six months ended June 30, 2014 the loss on the macro hedge program was primarily due to losses of $10 and $15, respectively, driven by an improvement in domestic equity markets, and losses of $7 and $16, respectively, driven by decreased equity volatility.
- For the three months ended June 30, 2013 the net loss related to the combined GMWB derivatives, net, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by losses of $39 resulting from an increase in interest rates, and losses of $38 resulting from an increase in fees for selected GMWB riders, partially offset by gains of $57 driven by favorable policyholder behavior. For the six months ended June 30, 2013 the net gain related to the combined GMWB derivatives, net, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by gains of $103 resulting from favorable policyholder behavior, partially offset by losses of $42 from an increase in interest rates, and losses of $39 resulting from an increase in fees for selected GMWB riders.
- For the three and six months ended June 30, 2013 the loss on the macro hedge program was primarily due to losses of $23 and $78, respectively, related to an improvement in domestic equity markets, and losses of $33 and $42, respectively, due to an increase in interest rates.

Other, net

- Other, net loss for the three and six months ended June 30, 2014 was primarily due to losses of $88 and $144, respectively, on interest rate derivatives largely used to manage duration due to a decline in U.S. interest rates.
- Other, net gain for the three months ended June 30, 2013 was primarily due to gains of $49 related to modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, driven by a decline in interest rates. These gains were partially offset by losses of $17 on interest derivatives driven by a decline in interest rates.

- Other, net gain for the six months ended June 30, 2013 was primarily due to gains of $71 on interest derivatives primarily associated with fixed rate bonds sold as part of the Individual Life and Retirement Plans business dispositions. For further information on the business dispositions, see Note 2 of Notes to Condensed Consolidated Financial Statements. Additional gains of $54 were due to modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, driven by a decline in interest rates. These gains were partially offset by losses of $27 related to equity futures and options used to hedge equity market risk in the investment portfolio, driven by an increase in equity markets during the hedged period.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, and in the past have differed, from those estimates.

The Company has identified the following estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability:

- 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 mortgage loans;
- living benefits required to be fair valued (in other policyholder funds and benefits payable);
- 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. In developing these estimates management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available upon compilation of the financial statements.

Property and Casualty Insurance Product Reserves, Net of Reinsurance

Based on the results of the quarterly reserve review process, the Company determines the appropriate reserve adjustments, if any, to record. Recorded reserve estimates are changed after consideration of numerous factors, including but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, adjustments are made more quickly to more mature accident years and less volatile lines of business. Such adjustments of reserves are referred to as “reserve development”. Reserve development that increases previous estimates of ultimate cost is called “reserve strengthening”. Reserve development that decreases previous estimates of ultimate cost is called “reserve releases”. Reserve development can influence the comparability of year over year underwriting results and is set forth in the paragraphs and tables that follow.

Reserve Roll Forwards and Development

A roll-forward of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses for the six months ended June 30, 2014 follows:

Six Months Ended June 30, 2014

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$16,293	$1,864	$3,547	$21,704
Reinsurance and other recoverables	2,442	13	573	3,028
Beginning liabilities for unpaid losses and loss adjustment expenses, net	13,851	1,851	2,974	18,676
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	1,868	1,219	—	3,087
Current accident year catastrophes [3]	95	187	—	282
Prior accident years	5	(37)	241	209
Total provision for unpaid losses and loss adjustment expenses	1,968	1,369	241	3,578
Less: Payments	1,839	1,320	185	3,344
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,980	1,900	3,030	18,910
Reinsurance and other recoverables	2,512	13	606	3,131
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$16,492	$1,913	$3,636	$22,041
Earned premiums	$3,100	$1,874		
Loss and loss expense paid ratio [1]	59.3	70.4		
Loss and loss expense incurred ratio	63.5	73.1		
Prior accident years development (pts) [2]	0.2	(2.0)		

[1] The “loss and loss expense paid ratio” represents the ratio of paid losses and loss adjustment expenses to earned premiums.

[2] “Prior accident years development (pts)” represents the ratio of prior accident years development to earned premiums.

[3] Contributing to the current accident year catastrophes losses were the following events:

Six Months Ended June 30, 2014

Category	Property &	Consumer Markets	Total

	Casualty Commercial		Property and Casualty Insurance
Wind and Hail [1]	$38	$159	$197
Winter Storms [1]	54	17	71
Tornadoes	3	11	14
Total	$95	$187	$282

[1] These amounts represent an aggregation of multiple catastrophes.

Prior accident years development recorded in 2014

Included within prior accident years development for the three and six months ended June 30, 2014 were the following reserve strengthenings (releases):

Three Months Ended June 30, 2014

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Auto liability	$9	$—	$—	$9
Homeowners	—	3	—	3
Professional and general liability	(11)	—	—	(11)
Net asbestos reserves	—	—	212	212
Net environmental reserves	—	—	27	27
Workers' compensation	5	—	—	5
Change in workers' compensation discount, including accretion	7	—	—	7
Catastrophes	(6)	(5)	—	(11)
Other reserve re-estimates, net	8	(1)	1	8
Total prior accident years development	$12	$(3)	$240	$249

Six Months Ended June 30, 2014

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Auto liability	$14	$—	$—	$14
Homeowners	—	(10)	—	(10)
Professional and general liability	(19)	—	—	(19)
Net asbestos reserves	—	—	212	212
Net environmental reserves	—	—	27	27
Workers' compensation	5	—	—	5
Change in workers' compensation discount, including accretion	15	—	—	15
Catastrophes	(18)	(26)	—	(44)
Other reserve re-estimates, net	8	(1)	2	9
Total prior accident years development	$5	$(37)	$241	$209

During the three and six months ended June 30, 2014, the Company's re-estimates of prior accident years reserves included the following significant reserve changes:

- Strengthened reserves in commercial auto liability due to an increased frequency of severe claims spread across several accident years.
- Homeowners reserves emerged favorably in the six-month period for accident year 2013, primarily related to favorable development on fire and water-related claims.
- Released reserves in professional liability for accident years 2013, 2012 and 2010 due to lower frequency of reported claims.
- Released reserves primarily for accident year 2013 catastrophes as fourth quarter catastrophes have developed favorably.
- Refer to the Property & Casualty Other Operations Claims section for discussion on the increase to net asbestos and net environmental reserves.

A roll-forward of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses for the six months ended June 30, 2013 follows:

Six Months Ended June 30, 2013

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$16,020	$1,926	$3,770	$21,716
Reinsurance and other recoverables	2,365	16	646	3,027
Beginning liabilities for unpaid losses and loss adjustment expenses, net	13,655	1,910	3,124	18,689
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	1,934	1,153	—	3,087
Current accident year catastrophes [3]	50	168	—	218
Prior accident years	45	(28)	143	160
Total provision for unpaid losses and loss adjustment expenses	2,029	1,293	143	3,465
Less: Payments	1,975	1,341	166	3,482
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,709	1,862	3,101	18,672
Reinsurance and other recoverables	2,422	13	607	3,042
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$16,131	$1,875	$3,708	$21,714
Earned premiums	$3,074	$1,804		
Loss and loss expense paid ratio [1]	64.2	74.3		
Loss and loss expense incurred ratio	66.0	71.7		
Prior accident years development (pts) [2]	1.5	(1.6)		

[1] The “loss and loss expense paid ratio” represents the ratio of paid losses and loss adjustment expenses to earned premiums.

[2] “Prior accident years development (pts)” represents the ratio of prior accident years development to earned premiums.

[3] Contributing to the current accident year catastrophes losses were the following events:

Six Months Ended June 30, 2013

Category	Property & Casualty Commercial	Consumer Markets	Total Property and Casualty Insurance
Wind and Hail [1]	$31	$92	$123
Tornadoes [1]	12	45	57
Winter Storms [1]	5	17	22
Fire	2	14	16
Total	$50	$168	$218

[1] These amounts represent an aggregation of multiple catastrophes.

Prior accident years development recorded in 2013

Included within prior accident years development for the three and six months ended June 30, 2013 were the following reserve strengthenings (releases):

Three Months Ended June 30, 2013

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Auto liability	$40	$2	$—	$42
Homeowners	—	(2)	—	(2)
Professional and general liability	(40)	—	—	(40)
Net asbestos reserves	—	—	130	130
Net environmental reserves	—	—	10	10
Workers' compensation	1	—	—	1
Workers' compensation - NY 25a Fund for Reopened Cases	80	—	—	80
Change in workers' compensation discount, including accretion	7	—	—	7
Catastrophes	(9)	(31)	—	(40)
Uncollectible reinsurance	(25)	—	—	(25)
Other reserve re-estimates, net	(17)	(1)	1	(17)
Total prior accident years development	$37	$(32)	$141	$146

Six Months Ended June 30, 2013

	Property & Casualty Commercial	Consumer Markets	Property & Casualty Other Operations	Total Property and Casualty Insurance
Auto liability	$55	$2	$—	$57
Homeowners	—	(10)	—	(10)
Professional and general liability	(58)	—	—	(58)
Net asbestos reserves	—	—	130	130
Net environmental reserves	—	—	11	11
Workers' compensation	19	—	—	19
Workers' compensation - NY 25a Fund for Reopened Cases	80	—	—	80
Change in workers' compensation discount, including accretion	15	—	—	15
Catastrophes	(9)	(29)	—	(38)
Uncollectible reinsurance	(25)	—	—	(25)
Other reserve re-estimates, net	(32)	9	2	(21)
Total prior accident years development	$45	$(28)	$143	$160

During the three and six months ended June 30, 2013, the Company's re-estimates of prior accident years reserves included the following significant reserve changes:

- Strengthened reserves in commercial auto liability, primarily related to specialty lines claims in accident years 2010 through 2012, primarily due to higher than expected bodily injury costs driven by the impact of frequency and severity of large loss activity.
- Released reserves in professional liability for accident years 2008 through 2012 due to lower than expected claim severity.
-

Released reserves in package business liability coverages and general liability, primarily for accident years 2006 through 2011. Claim severity emergence for these years was lower than expected and management has placed more weight on the emerged experience.

- Strengthened reserves in workers' compensation related to specialty lines claims for the 2010 and 2011 accident years. A slightly higher than expected large loss frequency has been observed in these accident years.
- Included in the second quarter of 2013 is reserve strengthening related to the closing of the New York Section 25A Fund for Reopened Cases (the "Fund"). These claims were previously funded through assessments and paid by the Fund. The claims will become payable by the Company effective January 1, 2014.
- The Company reviewed its allowance for uncollectible reinsurance in the second quarter of 2013 and reduced its allowance as a result of favorable collections compared to expectations.
- Released reserves for catastrophes primarily related to Storm Sandy.
- Other reserve re-estimates, net includes an $18 recovery related to a class action settlement with American International Group involving prior accident years involuntary workers compensation pool loss and loss adjustment expense.
- Refer to the Property & Casualty Other Operations Claims section for further discussion on net asbestos and net environmental reserves.

Property & Casualty Other Operations Claims

Reserve Activity

Reserves and reserve activity in Property & Casualty Other Operations are categorized and reported as asbestos, environmental, or “all other”. The “all other” category of reserves covers a wide range of insurance and assumed reinsurance coverages, including, but not limited to, potential liability for construction defects, lead paint, silica, pharmaceutical products, molestation and other long-tail liabilities.

The following table presents reserve activity, inclusive of estimates for both reported and incurred but not reported claims, net of reinsurance, categorized by asbestos, environmental and all other claims, for the three and six months ended June 30, 2014.

Property & Casualty Other Operations Losses and Loss Adjustment Expenses

Three Months Ended June 30, 2014	Asbestos	Environmental	All Other [1]	Total
Beginning liability—net [2][3]	$1,647	$263	$945	$2,855
Losses and loss adjustment expenses incurred	212	27	1	240
Less : losses and loss adjustment expenses paid	39	12	14	65
Ending liability – net [2][3]	$1,820 [4]	$278	$932	$3,030

Six Months Ended June 30, 2014	Asbestos	Environmental	All Other [1]	Total
Beginning liability—net [2][3]	$1,714	$270	$990	$2,974
Losses and loss adjustment expenses incurred	212	27	2	241
Less: losses and loss adjustment expenses paid	106	19	60	185
Ending liability – net [2][3]	$1,820 [4]	$278	$932	$3,030

[1] In addition to various insurance and assumed reinsurance exposures, “All Other” includes unallocated loss adjustment expense reserves. “All Other” also includes The Company's allowance for uncollectible reinsurance. When the Company commutes a ceded reinsurance contract or settles a ceded reinsurance dispute, the portion of the allowance for uncollectible reinsurance attributable to that commutation or settlement, if any, is reclassified to the appropriate cause of loss.

[2] Excludes amounts reported in Property & Casualty Commercial and Consumer Markets reporting segments (collectively “Ongoing Operations”) for asbestos and environmental net liabilities of $14 and $6, respectively, as of June 30, 2014. Total net losses and loss adjustment expenses incurred for the three and six months ended June 30, 2014 includes $1 and $5, respectively, related to asbestos and environmental claims. Total net losses and loss adjustment expenses paid for the three and six months ended June 30, 2014 includes $5 and $8, respectively, related to asbestos and environmental claims.

[3] Gross of reinsurance, asbestos and environmental reserves, including liabilities in Ongoing Operations, were $2,334 and $308.

[4] The one year and average three year net paid amounts for asbestos claims, including Ongoing Operations, are $209 and $193, respectively, resulting in a one year net survival ratio of 8.8 and a three year net survival ratio of 9.5. Net survival ratio is the quotient of the net carried reserves divided by the average annual payment amount and is an indication of the number of years that the net carried reserve would last (i.e. survive) if the future annual claim payments were consistent with the calculated historical average.

For paid and incurred losses and loss adjustment expenses reporting, the Company classifies its asbestos and environmental reserves into three categories: Direct, Assumed Reinsurance and London Market. Direct insurance includes primary and excess coverage. Assumed reinsurance includes both “treaty” reinsurance (covering broad categories of claims or blocks of business) and “facultative” reinsurance (covering specific risks or individual policies of primary or excess insurance companies). London Market business includes the business written by one or more of the Company’s subsidiaries in the United Kingdom, which are no longer active in the insurance or reinsurance business. Such business includes both direct insurance and assumed reinsurance.

Of the three categories of claims (Direct, Assumed Reinsurance and London Market), direct policies tend to have the greatest factual development from which to estimate the Company’s exposures.

Assumed reinsurance exposures are inherently less predictable than direct insurance exposures because the Company may not receive notice of a reinsurance claim until the underlying direct insurance claim is mature. This causes a delay in the receipt of information at the reinsurer level and adds to the uncertainty of estimating related reserves. London Market exposures are the most uncertain of the three categories of claims. As a participant in the London Market (comprised of both Lloyd's of London and London Market companies), certain subsidiaries of the Company wrote business on a subscription basis, with those subsidiaries' involvement being limited to a relatively small percentage of a total contract placement. Claims are reported, via a broker, to the “lead” underwriter and, once agreed to, are presented to the following markets for concurrence. This reporting and claim agreement process makes estimating liabilities for this business the most uncertain of the three categories of claims.

The following table sets forth, for the three and six months ended June 30, 2014, paid and incurred loss activity by the three categories of claims for asbestos and environmental.

Paid and Incurred Losses and Loss Adjustment Expenses ("LAE") Development – Asbestos and Environmental

	Asbestos [1]		Environmental [1]	
Three Months Ended June 30, 2014	Paid Losses & LAE	Incurred Losses & LAE	Paid Losses & LAE	Incurred Losses & LAE
Gross				
Direct	$56	$206	$17	$20
Assumed Reinsurance	16	70	5	—
London Market	4	28	1	7
Total	76	304	23	27
Ceded	(37)	(92)	(11)	—
Net	$39	$212	$12	$27

Six Months Ended June 30, 2014	Paid Losses & LAE	Incurred Losses & LAE	Paid Losses & LAE	Incurred Losses & LAE
Gross				
Direct	$113	$206	$21	$20
Assumed Reinsurance	27	70	5	—
London Market	9	28	4	7
Total	149	304	30	27
Ceded	(43)	(92)	(11)	—
Net	$106	$212	$19	$27

[1] Excludes asbestos and environmental paid and incurred loss and LAE reported in Ongoing Operations. Total gross losses and LAE incurred in Ongoing Operations for the three and six months ended June 30, 2014 includes $2 and $8, respectively, related to asbestos and environmental claims. Total gross losses and LAE paid in Ongoing Operations for the three and six months ended June 30, 2014 includes $6 and $11, respectively, related to asbestos and environmental claims.

During the second quarter of 2014, the Company completed its annual ground-up asbestos reserve evaluation. As part of this evaluation, the Company reviewed all of its open direct domestic insurance accounts exposed to asbestos liability, as well as assumed reinsurance accounts and its London Market exposures for both direct insurance and assumed reinsurance. Based on this evaluation, the Company increased its net asbestos reserves by $212. The Company found that estimates for certain direct accounts increased, principally due to a higher than previously estimated number of mesothelioma claim filings and an increase in costs associated with asbestos litigation. The Company also experienced unfavorable development on certain of its assumed reinsurance accounts driven by a variety of account-specific factors, including those experienced by the direct policyholders. The Company currently expects to continue to perform an evaluation of its asbestos liabilities annually.

During the second quarter of 2014, the Company completed its annual ground-up environmental reserve evaluation. As part of this evaluation, the Company reviewed all of its open direct domestic insurance accounts exposed to environmental liability, as well as assumed reinsurance accounts and its London Market exposures for both direct and assumed reinsurance. Based on this evaluation, the Company increased its net environmental reserves by $27. The Company found estimates for certain individual account exposures increased based upon unfavorable litigation results and increased clean-up and expense costs. The Company currently expects to continue to perform a ground-up evaluation of its environmental liabilities annually and regularly evaluate the Company's historical direct net loss and expense paid and reported experience, and net loss and expense paid and reported experience by calendar and/or report year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and reported activity.

The Company divides its gross asbestos and environmental exposures into Direct, Assumed Reinsurance and London Market. Direct asbestos exposures include Major Asbestos Defendants, Non-Major Accounts, and Unallocated Direct Accounts.

- Major Asbestos Defendants represent the “Top 70” accounts in Tillinghast's published Tiers 1 and 2 and Wellington accounts. Major Asbestos Defendants have the fewest number of asbestos accounts and include reserves related to PPG Industries, Inc. (“PPG”). In January 2009, the Company, along with approximately three dozen other insurers, entered into a modified agreement in principle with PPG to resolve the Company's coverage obligations for all its PPG asbestos liabilities. The agreement is contingent on the fulfillment of certain conditions. Major Asbestos Defendants gross asbestos reserves account for approximately 25% of the Company's total Direct gross asbestos reserves as of June 30, 2014.

- Non-Major Accounts are all other open direct asbestos accounts and largely represent smaller and more peripheral defendants. These exposures represent 1,115 accounts and contain approximately 49% of the Company's total Direct gross asbestos reserves as of June 30, 2014.
- Unallocated Direct Accounts includes an estimate of the reserves necessary for asbestos claims related to direct insureds that have not previously tendered asbestos claims to the Company and exposures related to liability claims that may not be subject to an aggregate limit under the applicable policies.

The following table displays gross asbestos and environmental reserves by category as of June 30, 2014.

Summary of Gross A&E Reserves

	Asbestos [1]	Environmental [2]	Total A&E
Gross			
Direct	$ 1,728	$ 229	$ 1,957
Assumed Reinsurance	334	28	362
London Market	272	51	323
Total	2,334	308	2,642
Ceded	(500)	(24)	(524)
Net	$ 1,834	$ 284	$ 2,118

[1] The one year gross paid amount for total asbestos claims is $292, resulting in a one year gross survival ratio of 8.0. The three year average gross
paid amount for total asbestos claims is $255, resulting in a three year gross survival ratio of 9.1.

[2] The one year gross paid amount for total environmental claims is $61, resulting in a one year gross survival ratio of 5.0. The three year average
gross paid amount for total environmental claims is $54, resulting in a three year gross survival ratio of 5.7.

Uncertainties Regarding Adequacy of Asbestos and Environmental Reserves

A number of factors affect the variability of estimates for asbestos and environmental reserves including assumptions with respect to the frequency of claims, the average severity of those claims settled with payment, the dismissal rate of claims with no payment and the expense to indemnity ratio. The uncertainty with respect to the underlying reserve assumptions for asbestos and environmental adds a greater degree of variability to these reserve estimates than reserve estimates for more traditional exposures. While this variability is reflected in part in the size of the range of reserves developed by the Company, that range may still not be indicative of the potential variance between the ultimate outcome and the recorded reserves. The recorded net reserves as of June 30, 2014 of $2.1 billion ($1.83 billion and $284 for asbestos and environmental, respectively) is within an estimated range, unadjusted for covariance, of $1.7 billion to $2.5 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of uncertainties, which are detailed in the Company's 2013 Form 10-K Annual Report. The Company believes that its current asbestos and environmental reserves are appropriate. However, analyses of future developments could cause the Company to change its estimates and ranges of its asbestos and environmental reserves, and the effect of these changes could be material to the Company's consolidated operating results and liquidity.

Consistent with the Company's long-standing reserve practices, the Company will continue to review and monitor its reserves in Property & Casualty Other Operations regularly, including its annual reviews of asbestos liabilities, reinsurance recoverables and the allowance for uncollectible reinsurance, and environmental liabilities, and where future developments indicate, make appropriate adjustments to the reserves. For a discussion of the Company's reserving practices, see the Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance section of the MD&A included in the Company's 2013 Form 10-K Annual Report.

Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity and Other Universal Life-Type Contracts

Estimated gross profits are used in the amortization of: the deferred policy acquisition costs ("DAC") asset, which includes the present value of future profits; sales inducement assets (“SIA”); and unearned revenue reserves (“URR”). Portions of EGPs are also used in the valuation of reserves for death and other insurance benefit features on variable annuity and other universal life type contracts.

The most significant EGP based balances are as follows:

	Talcott Resolution	
	As of June 30, 2014	As of December 31, 2013
DAC [1]	$1,400	$1,552
SIA [1]	$142	$149
URR	$47	$50
Death and Other Insurance Benefit Reserves, net of reinsurance [2]	$331	$565

[1] For additional information on DAC and SIA, see Note 8 - Deferred Policy Acquisition Costs and Present Value of Future Profits and Note 9 - Sales Inducements, respectively, of Notes to Condensed Consolidated Financial Statements.

[2] For additional information on death and other insurance benefit reserves, see Note 10 - Separate Accounts, Death Benefits and Other Insurance Benefit Features of Notes to Condensed Consolidated Financial Statements.

Unlocks

The (charge) benefit to net income (loss) by asset and liability as a result of the Unlocks is as follows:

	Talcott Resolution			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
DAC	$16	$(17)	$28	$(34)
SIA	5	(3)	6	(7)
URR	(2)	1	(2)	3
Death and Other Insurance Benefit Reserves	5	6	11	29
Total (before tax)	$24	$(13)	$43	$(9)
Income tax effect	9	(4)	16	(3)
Total (after-tax)	$15	$(9)	$27	$(6)

The Unlock benefit, after-tax, for the three and six months ended June 30, 2014, was primarily due to actual separate account returns being above our aggregated estimated returns during the period, offset partially by DAC write-offs associated with surrenders from the U.S. Annuity Enhanced Surrender Value program. The Unlock charge, for the three months ended June 30, 2013, was primarily due to DAC write-offs associated with surrenders from the U.S. Annuity Enhanced Surrender Value program. The Unlock charge, after-tax, for the six months ended June 30, 2013, was primarily due to DAC write-offs associated with surrenders from the U.S. Annuity Enhanced Surrender Value program partially offset by actual separate account returns being above our aggregated estimated returns during the period.

An Unlock revises EGPs, on a quarterly basis, to reflect the Company’s current best estimate assumptions and market updates of policyholder account value. Modifications to the Company’s hedging programs may impact EGPs, and correspondingly impact DAC recoverability. After each quarterly Unlock, the Company also tests the aggregate recoverability of DAC by comparing the DAC balance to the present value of future EGPs. The margin between the DAC balance and the present value of future EGPs for U.S. individual variable annuities was 38% as of June 30, 2014. If the margin between the DAC asset and the present value of future EGPs is exhausted, then further reductions in EGPs would cause portions of DAC to be unrecoverable and the DAC asset would be written down to equal future EGPs.

Goodwill Impairment

Goodwill balances are reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event for a potential impairment has occurred. The goodwill impairment test follows a two-step process. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the carrying amount of the reporting unit's goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to that excess.

Management's determination of the fair value of each reporting unit incorporates multiple inputs into discounted cash flow calculations including assumptions that market participants would make in valuing the reporting unit. Assumptions include levels of economic capital, future business growth, earnings projections, assets under management for Mutual Funds, and the weighted average cost of capital used for purposes of discounting. Decreases in the amount of economic capital allocated to a reporting unit, decreases in business growth, decreases in earnings projections and increases in the weighted average cost of capital will all cause a reporting unit's fair value to decrease.

A reporting unit is defined as an operating segment or one level below an operating segment. The Company's reporting units, for which goodwill has been allocated, are equivalent to the Company's operating segments as there is no discrete financial information available for the separate components of the operating segment, all of the components of the segment have similar economic characteristics, and it is the segment level that management reviews. The Group Benefits, Consumer Markets and Mutual Funds operating segments all have equivalent reporting units. Goodwill associated with the June 30, 2000 buyback of Hartford Life, Inc. was allocated to each of Hartford Life's reporting units based on the reporting unit's fair value of in-force business at the time of the buyback. Although this goodwill was allocated to each reporting unit it is held in Corporate for segment reporting.

In 2013, the Company completed the sale of its Retirement Plans business to Mass Mutual. Accordingly, the carrying value of the reporting unit's goodwill of $156 was eliminated and included in reinsurance loss on disposition in the Company's Consolidated Statements of Operations.

The annual goodwill assessment for the Mutual Funds, Group Benefits, and Consumer Markets reporting units was completed during the fourth quarter of 2013, which resulted in no write-downs of goodwill for the year ended December 31, 2013. All reporting units passed the first step of their annual impairment test with a significant margin. The carrying value of goodwill is $498 as of June 30, 2014 and December 31, 2013.

KEY PERFORMANCE MEASURES AND RATIOS

The Company considers several measures and ratios to be the key performance indicators for its businesses. The following discussions include the more significant ratios and measures of profitability for the three and six months ended June 30, 2014 and 2013. Management believes that these ratios and measures are useful in understanding the underlying trends in The Hartford's businesses. However, these key performance indicators should only be used in conjunction with, and not in lieu of, the results presented in the segment discussions that follow in this MD&A. These ratios and measures may not be comparable to other performance measures used by the Company's competitors. For additional information on key performance measures and ratios, see Definitions of Non-GAAP and other measures and ratios within MD&A of The Hartford's 2013 Form 10-K Annual Report.

Definitions of Non-GAAP and other measures and ratios

Account Value

Account value includes policyholders' balances for investment contracts and reserves for future policy benefits for insurance contracts. Account value is a measure used by the Company because a significant portion of the Company's fee income is based upon the level of account value. These revenues increase or decrease with a rise or fall in the amount of account value whether caused by changes in the market or through net flows.

After-tax Margin, excluding buyouts and realized gains (losses)

After-tax margin, excluding buyouts and realized gains (losses), is a non-GAAP financial measure that the Company uses to evaluate, and believes is an important measure of, the Group Benefits segment's operating performance. After-tax margin is the most directly comparable U.S. GAAP measure. The Company believes that after-tax margin, excluding buyouts and realized gains (losses), provides investors with a valuable measure of the performance of Group Benefits because it reveals trends in the business that may be obscured by the effect of buyouts and realized gains (losses). After-tax margin, excluding buyouts and realized gains (losses), should not be considered as a substitute for after-tax margin and does not reflect the overall profitability of Group Benefits. Therefore, the Company believes it is important for investors to evaluate both after-tax margin, excluding buyouts and realized gains (losses), and after-tax margin when reviewing performance. After-tax margin, excluding buyouts and realized gains (losses) is calculated by dividing core earnings excluding buyouts and realized gains (losses) by total core revenues excluding buyouts and realized gains (losses). A reconciliation of after-tax margin to after-tax margin, core earnings excluding buyouts and realized gains (losses) for the three and six months ended June 30, 2014 and 2013 is set forth in the After-tax Margin section within MD&A - Group Benefits.

Assets Under Management

Assets under management ("AUM") include account values and mutual fund assets. AUM is a measure used by the Company because a significant portion of the Company's revenues are based upon asset values. These revenues increase or decrease with a rise or fall in the amount of account value whether caused by changes in the market or through net flows.

Catastrophe ratio

The catastrophe ratio (a component of the loss and loss adjustment expense ratio) represents the ratio of catastrophe losses incurred in the current calendar year (net of reinsurance) to earned premiums and includes catastrophe losses incurred for both the current and prior accident years. A catastrophe is an event that causes $25 or more in industry insured property losses and affects a significant number of property and casualty policyholders and insurers. The catastrophe ratio includes the effect of catastrophe losses, but does not include the effect of reinstatement premiums.

Combined ratio

The combined ratio is the sum of the loss and loss adjustment expense ratio, the expense ratio and the policyholder dividend ratio. This ratio is a relative measurement that describes the related cost of losses and expenses for every $100 of earned premiums. A combined ratio below 100 demonstrates underwriting profit; a combined ratio above 100 demonstrates underwriting losses.

Combined ratio before catastrophes and prior accident year development

The combined ratio before catastrophes and prior accident year development, a non-GAAP financial measure, represents the combined ratio for the current accident year, excluding the impact of catastrophes. Combined ratio is the most directly comparable U.S.GAAP measure. A reconciliation of combined ratio to combined ratio before prior accident year reserve development for the three and six months ended June 30, 2014 and 2013 is set forth in MD&A - Property & Casualty Commercial and Consumer Markets.

Core Earnings

Core earnings, a non-GAAP measure, is an important measure of the Company's operating performance. The Company believes that core earnings provides investors with a valuable measure of the performance of the Company's ongoing businesses because it reveals trends in our insurance and financial services businesses that may be obscured by including the net effect of certain realized capital gains and losses, discontinued operations, loss on extinguishment of debt, gains and losses on business disposition transactions, certain restructuring charges and the impact of Unlocks to DAC, SIA, URR and death and other insurance benefit reserve balances. Some realized capital gains and losses are primarily driven by investment decisions and external economic developments, the nature and timing of which are unrelated to the insurance and underwriting aspects of our business. Accordingly, core earnings excludes the effect of all realized gains and losses (net of tax and the effects of DAC) that tend to be highly variable from period to period based on capital market conditions. The Company believes, however, that some realized capital gains and losses are integrally related to our insurance operations, so core earnings includes net realized gains and losses such as net periodic settlements on credit derivatives. These net realized gains and losses are directly related to an offsetting item included in the income statement such as net investment income. Net income (loss) is the most directly comparable U.S. GAAP measure. Core earnings should not be considered as a substitute for net income (loss) and does not reflect the overall profitability of the Company's business. Therefore, the Company believes that it is useful for investors to evaluate both net income (loss) and core earnings when reviewing the Company's performance.

A reconciliation of net income (loss) to core earnings is set forth below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	$(467)	$(190)	$28	$(431)
Less: Unlock benefit (charge), after-tax	15	(9)	27	(6)
Less: Restructuring and other costs, after-tax	(5)	(12)	(18)	(24)
Less: Loss from discontinued operations, after-tax	(617)	(423)	(588)	(907)
Less: Loss on extinguishment of debt, after-tax	—	—	—	(138)
Less: Net reinsurance loss on dispositions, after-tax	—	1	—	(24)
Less: Net realized capital gains (losses), after-tax and DAC, excluded from core earnings [1]	(4)	22	(38)	47
Core earnings	$144	$231	$645	$621

[1] Excludes net realized gain on dispositions of $1.0 billion, after-tax, for the six months ended June 30, 2013 relating to the sales of the Retirement Plans and Individual Life businesses which are included in net reinsurance loss on dispositions, after-tax.

Current accident year loss and loss adjustment expense ratio before catastrophes

The current accident year loss and loss adjustment expense ratio before catastrophes is a measure of the cost of non-catastrophe claims incurred in the current accident year divided by earned premiums. Management believes that the current accident year loss and loss adjustment expense ratio before catastrophes is a performance measure that is useful to investors as it removes the impact of volatile and unpredictable catastrophe losses and prior accident year reserve development.

Expense ratio

The expense ratio for the underwriting segments of Property & Casualty Commercial and Consumer Markets is the ratio of underwriting expenses, excluding bad debt expense and certain corporate expenses, to earned premiums. Underwriting expenses include the amortization of deferred policy acquisition costs and insurance operating costs and expenses. Deferred policy acquisition costs include commissions, taxes, licenses and fees and other underwriting expenses and are amortized over the policy term.

The expense ratio for Group Benefits is expressed as a ratio of insurance operating costs and other expenses and amortization of deferred policy acquisition costs, to premiums and other considerations, excluding buyout premiums.

Fee Income

Fee income is largely driven from amounts collected as a result of contractually defined percentages of assets under management. These fees are generally collected on a daily basis. Therefore, the growth in assets under management either through positive net flows or net sales, or favorable equity market performance will have a favorable impact on fee income. Conversely, either negative net flows or net sales, or unfavorable equity market performance will reduce fee income.

Full Surrender Rates

Full surrender rates are an internal measure of contract surrenders calculated using annualized full surrenders divided by a two-point average of annuity account values. The full surrender rate represents full contract liquidation and excludes partial withdrawals.

Loss and loss adjustment expense ratio

The loss and loss adjustment expense ratio is a measure of the cost of claims incurred in the calendar year divided by earned premium and includes losses incurred for both the current and prior accident years, as well as the costs of mortality and morbidity and other contractholder benefits to policyholders. Among other factors, the loss and loss adjustment expense ratio needed for the Company to achieve its targeted return on equity fluctuates from year to year based on changes in the expected investment yield over the claim settlement period, the timing of expected claim settlements and the targeted returns set by management based on the competitive environment.

The loss and loss adjustment expense ratio is affected by claim frequency and claim severity, particularly for shorter-tail property lines of business, where the emergence of claim frequency and severity is credible and likely indicative of ultimate losses. Claim frequency represents the percentage change in the average number of reported claims per unit of exposure in the current accident year compared to that of the previous accident year. Claim severity represents the percentage change in the estimated average cost per claim in the current accident year compared to that of the previous accident year. As one of the factors used to determine pricing, the Company’s practice is to first make an overall assumption about claim frequency and severity for a given line of business and then, as part of the ratemaking process, adjust the assumption as appropriate for the particular state, product or coverage.

Loss ratio, excluding buyouts

The loss ratio is utilized for the Group Benefits segment and is expressed as a ratio of benefits, losses and loss adjustment expenses to premiums and other considerations, excluding buyout premiums. Since Group Benefits occasionally buys a block of claims for a stated premium amount, the Company excludes this buyout from the loss ratio used for evaluating the underwriting results of the business as buyouts may distort the loss ratio. Buyout premiums represent takeover of open claim liabilities and other non-recurring premium amounts.

Mutual Fund Assets

Mutual fund assets are owned by the shareholders of those funds and not by the Company and therefore are not reflected in the Company’s consolidated financial statements. Mutual fund assets are a measure used by the Company because a significant portion of the Company’s revenues are based upon asset values. These revenues increase or decrease with a rise or fall in the amount of account value whether caused by changes in the market or through net flows.

New business written premium

New business written premium represents the amount of premiums charged for policies issued to customers who were not insured with the Company in the previous policy term. New business written premium plus renewal policy written premium equals total written premium.

Policies in force

Policies in force represent the number of policies with coverage in effect as of the end of the period. The number of policies in force is a growth measure used for Consumer Markets and standard commercial lines within Property & Casualty Commercial and is affected by both new business growth and policy count retention.

Policy count retention

Policy count retention represents the ratio of the number of policies renewed during the period divided by the number of policies available to renew. The number of policies available to renew represents the number of policies, net of any cancellations, written in the previous policy term. Policy count retention is affected by a number of factors, including the percentage of renewal policy quotes accepted and decisions by the Company to non-renew policies because of specific policy underwriting concerns or because of a decision to reduce premium writings in certain classes of business or states. Policy count retention is also affected by advertising and rate actions taken by competitors.

Policyholder dividend ratio

The policyholder dividend ratio is the ratio of policyholder dividends to earned premium.

Prior accident year loss and loss adjustment expense ratio

The prior year loss and loss adjustment expense ratio represents the increase (decrease) in the estimated cost of settling catastrophe and non-catastrophe claims incurred in prior accident years as recorded in the current calendar year divided by earned premiums.

Reinstatement premiums

Reinstatement premium represents additional ceded premium paid for the reinstatement of the amount of reinsurance coverage that was reduced as a result of a reinsurance loss payment.

Renewal earned price increase (decrease)

Written premiums are earned over the policy term, which is six months for certain personal lines auto business and 12 months for substantially all of the remainder of the Company’s property and casualty business. Because the Company earns premiums over the 6 to 12 month term of the policies, renewal earned price increases (decreases) lag renewal written price increases (decreases) by 6 to 12 months.

Renewal written price increase (decrease)

Renewal written price increase (decrease) represents the combined effect of rate changes, amount of insurance and individual risk pricing decisions per unit of exposure since the prior year. The rate component represents the change in rate filings during the period and the amount of insurance represents the change in the value of the rating base, such as model year/vehicle symbol for auto, building replacement costs for property and wage inflation for workers’ compensation. A number of factors affect renewal written price increases (decreases) including expected loss costs as projected by the Company’s pricing actuaries, rate filings approved by state regulators, risk selection decisions made by the Company’s underwriters and marketplace competition. Renewal written price changes reflect the property and casualty insurance market cycle. Prices tend to increase for a particular line of business when insurance carriers have incurred significant losses in that line of business in the recent past or the industry as a whole commits less of its capital to writing exposures in that line of business. Prices tend to decrease when recent loss experience has been favorable or when competition among insurance carriers increases. Renewal written price statistics are subject to change from period to period, based on a number of factors, including changes in actuarial estimates and the effect of subsequent cancellations and non-renewals on rate achieved, and modifications made to better reflect ultimate pricing achieved.

Return on Assets (“ROA”), core earnings

ROA, core earnings, is a non-GAAP financial measure that the Company uses to evaluate, and believes is an important measure of, certain of the segment’s operating performance. ROA is the most directly comparable U.S. GAAP measure. The Company believes that ROA, core earnings, provides investors with a valuable measure of the performance of certain of the Company’s on-going businesses because it reveals trends in our businesses that may be obscured by the effect of realized gains (losses). ROA, core earnings, should not be considered as a substitute for ROA and does not reflect the overall profitability of our businesses. Therefore, the Company believes it is important for investors to evaluate both ROA, core earnings, and ROA when reviewing the Company’s performance. ROA is calculated by dividing core earnings by a two-point average AUM. A reconciliation of ROA to ROA, core earnings for the three and six months ended June 30, 2014 and 2013 is set forth in the ROA section within MD&A - Mutual Funds.

Underwriting gain (loss)

The Company's management evaluates profitability of the P&C businesses primarily on the basis of underwriting gain (loss). Underwriting gain (loss) is a before tax measure that represents earned premiums less incurred losses, loss adjustment expenses and underwriting expenses. Underwriting gain (loss) is influenced significantly by earned premium growth and the adequacy of the Company's pricing. Underwriting profitability over time is also greatly influenced by the Company's underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio, which it accomplishes through economies of scale and its management of acquisition costs and other underwriting expenses. The Company believes that underwriting gain (loss) provides investors with a valuable measure of before tax profitability derived from underwriting activities, which are managed separately from the Company's investing activities. A reconciliation of underwriting gain (loss) to net income for Property & Casualty Commercial and Consumer Markets is set forth in their respective discussions herein.

Written and earned premiums

Written premium is a statutory accounting financial measure which represents the amount of premiums charged for policies issued, net of reinsurance, during a fiscal period. Earned premium is a U.S. GAAP and statutory measure. Premiums are considered earned and are included in the financial results on a pro rata basis over the policy period. Management believes that written premium is a performance measure that is useful to investors as it reflects current trends in the Company’s sale of property and casualty insurance products. Written and earned premium are recorded net of ceded reinsurance premium.

Traditional life insurance type products, such as those sold by Group Benefits, collect premiums from policyholders in exchange for financial protection for the policyholder from a specified insurable loss, such as death or disability. These premiums together with net investment income earned from the overall investment strategy are used to pay the contractual obligations under these insurance contracts. Two major factors, new sales and persistency, impact premium growth. Sales can increase or decrease in a given year based on a number of factors, including but not limited to, customer demand for the Company’s product offerings, pricing competition, distribution channels and the Company’s reputation and ratings. Persistency refers to the percentage of policies remaining in-force from year-to-year.

PROPERTY & CASUALTY COMMERCIAL

	Three Months Ended June 30,			Six Months Ended June 30,		
Underwriting Summary	2014	2013	Change	2014	2013	Change
Written premiums	$1,571	$1,533	2 %	$3,240	$3,178	2 %
Change in unearned premium reserve	12	(12)	NM	140	104	35 %
Earned premiums	1,559	1,545	1 %	3,100	3,074	1 %
Losses and loss adjustment expenses						
Current accident year before catastrophes	934	966	(3 %)	1,868	1,934	(3 %)
Current accident year catastrophes	35	44	(20 %)	95	50	90 %
Prior accident years	12	37	(68 %)	5	45	(89 %)
Total losses and loss adjustment expenses	981	1,047	(6 %)	1,968	2,029	(3 %)
Amortization of DAC	230	226	2 %	456	453	1 %
Underwriting expenses	254	243	5 %	442	468	(6 %)
Dividends to policyholders	3	4	(25 %)	7	8	(13 %)
Underwriting gain	91	25	NM	227	116	96 %
Net servicing income [1]	6	7	(14 %)	9	13	(31 %)
Net investment income	230	262	(12 %)	486	502	(3 %)
Net realized capital gains (losses)	(24)	(7)	NM	(56)	36	NM
Other expenses	(27)	(30)	10 %	(58)	(58)	— %
Income before income taxes	276	257	7 %	608	609	— %
Income tax expense	77	63	22 %	167	162	3 %
Income from continuing operations, net of tax	199	194	3 %	441	447	(1 %)
Loss from discontinued operations, net of tax	—	(2)	100 %	—	(2)	100 %
Net income	$199	$192	4 %	$441	$445	(1 %)

[1] Includes servicing revenues of $31 and $29 for the three months ended June 31, 2014 and 2013 and $56 and $59 for the six months ended June 31, 2014 and 2013, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
Premium Measures [1]	2014	2013	2014	2013
New business premium	$279	$278	$547	$544
Standard commercial lines policy count retention	83 %	80 %	83 %	81 %
Standard commercial lines renewal written pricing increase	6 %	7 %	6 %	7 %
Standard commercial lines renewal earned pricing increase	7 %	8 %	7 %	8 %
Standard commercial lines policies in-force as of end of period (in thousands)			1,260	1,255

[1] Standard commercial lines consists of small commercial and middle market.

	Three Months Ended June 30,			Six Months Ended June 30,		
Underwriting Ratios	2014	2013	Change	2014	2013	Change
Loss and loss adjustment expense ratio						
Current accident year before catastrophes	59.9	62.5	2.6	60.3	62.9	2.6
Current accident year catastrophes	2.2	2.8	0.6	3.1	1.6	(1.5)
Prior year development	0.8	2.4	1.6	0.2	1.5	1.3
Total loss and loss adjustment expense ratio	62.9	67.8	4.9	63.5	66.0	2.5
Expense ratio	31.0	30.4	(0.6)	29.0	30.0	1.0
Policyholder dividend ratio	0.2	0.3	0.1	0.2	0.3	0.1
Combined ratio	94.2	98.4	4.2	92.7	96.2	3.5

Current accident year catastrophes and prior year development	3.0	5.2	2.2	3.3	3.1	(0.2)
Combined ratio before catastrophes and prior year development	91.1	93.1	2.0	89.5	93.1	3.6

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Overview

Net income for the three months ended June 30, 2014, as compared to the prior year period, increased primarily due to a higher underwriting gain, including a decrease in current accident year catastrophes and a decrease in unfavorable prior accident year development, partially offset by a reduction in net investment income and an increase in net realized capital losses.

Net income for the six months ended June 30, 2014, as compared to the prior year period, decreased primarily due to a change to net realized capital losses, an increase in current accident year catastrophes and a decrease in net investment income, partially offset by an increase in current accident year underwriting results before catastrophes and a reduction in unfavorable prior accident year development. Favorable underwriting expenses, compared to the prior year period, reflect a reduction of $49, before tax, in the Company's estimated liability for NY State Workers' Compensation Board assessments.

Revenues - Earned and Written Premiums

Earned premiums for the three and six months ended June 30, 2014, as compared to the prior year periods, increased reflecting written premium growth over the preceding twelve months.

Written premiums, compared to the prior year period, increased for the three months ended June 30, 2014 in small commercial and middle market, partially offset by a decrease in premiums in specialty commercial. Written premium increases in small commercial were driven primarily by higher renewal premium and new business growth in all lines, particularly workers' compensation. Written premium increases in middle market were driven primarily by higher renewal premium in property, general liability and auto. Written premium decreases in specialty commercial were primarily the result of continued underwriting actions to reposition the business and exit unprofitable programs, partially offset by growth in national accounts. Written premiums, compared to the prior year period, increased for the six months ended June 30, 2014 in small commercial and middle market, partially offset by a decrease in premiums in specialty commercial.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses for the three months ended June 30, 2014, as compared to the prior year period, decreased reflecting lower current accident year losses before catastrophes in specialty commercial and small commercial, a decrease in unfavorable prior accident year development, and a decrease in current accident year catastrophes. Losses and loss adjustment expenses for the six months ended June 30, 2014, as compared to the prior year period, decreased reflecting lower current accident year losses before catastrophes in all three lines of business and a decrease in unfavorable prior accident year development, partially offset by an increase in current accident year catastrophes.

- Favorable current accident year losses and loss adjustment expense ratios before catastrophes for the three months ended June 30, 2014, as compared to the prior year period, were primarily driven by lower loss and loss adjustment expense ratios in workers’ compensation due to favorable frequency and severity trends. The current accident year loss and loss adjustment expense ratio before catastrophes decreased accordingly by 2.6 points to 59.9 in 2014 from 62.5 in 2013.

Favorable current accident year losses and loss adjustment expense ratios before catastrophes for the six months ended June 30, 2014, as compared to the prior year period, were primarily driven by lower loss and loss adjustment expense ratios in workers’ compensation. The current accident year loss and loss adjustment expense ratio before catastrophes decreased accordingly by 2.6 points to 60.3 in 2014 from 62.9 in 2013.

- Current accident year catastrophe losses of $35, before tax, for the three months ended June 30, 2014, compared to $44, before tax, for the three months ended June 30, 2013. Decreased losses for the three months ended June 30, 2014, as compared to the prior year period, were primarily due to a reduction in tornado activity across various U.S. geographic regions.

Current accident year catastrophe losses of $95, before tax, for the six months ended June 30, 2014, compared to $50, before tax, for the six months ended June 30, 2013. Increased losses for the six months ended June 30, 2014 were primarily due to unfavorable winter storm frequency and severity across various U.S. geographic regions. For additional information, see MD&A - Critical Accounting Estimates, Property and Casualty Insurance Product Reserves, Net of Reinsurance.

- Prior accident year reserve strengthening of $12, before tax, for the three months ended June 30, 2014, compared to reserve strengthening of $37, before tax, for the three months ended June 30, 2013. Development for the three months ended June 30, 2014 was primarily due to reserve strengthening related to auto liability, as well as workers' compensation discount accretion, partially offset by reductions in reserves for professional and general liability and prior year catastrophes. Development for the three months ended June 30, 2013 was primarily due to reserve strengthening related to workers' compensation and auto liability, partially offset by reserve releases related to professional and general liability and uncollectible reinsurance.

Prior accident year reserve strengthening of $5, before tax, for the six months ended June 30, 2014, compared to reserve strengthening of $45, before tax, for the six months ended June 30, 2013. Development for the six months ended June 30, 2014 was primarily due to workers' compensation discount accretion, as well as a reserve strengthening related to auto liability, partially offset by reserve releases related to professional and general liability and prior year catastrophes. Development for the six months ended June 30, 2013 was primarily due to reserve strengthening related to workers' compensation and auto liability, partially offset by reserve releases related to professional and general liability and uncollectible reinsurance. For additional information, see MD&A - Critical Accounting Estimates, Reserve Roll-forwards and Development.

Underwriting Ratios

The combined ratio, before catastrophes and prior year development, improved 2.0 points to 91.1 for the three months ended June 30, 2014 from 93.1 for the three months ended June 30, 2013. The improvement primarily reflected a decrease in the current accident year loss and loss adjustment expense ratio before catastrophes. The combined ratio, before catastrophes and prior year development, improved 3.6 points to 89.5 for the six months ended June 30, 2014 from 93.1 for the six months ended June 30, 2013. The improvement primarily reflected a decrease in the current accident year loss and loss adjustment expense ratio before catastrophes and the expense ratio (including a 1.6 points favorable impact related to a reduction in NY State Workers' Compensation Board assessments).

Investment Results

Investment income decreased by $32 and $16 for the three and six months ended June 30, 2014, as compared to the prior year periods. For discussion of consolidated investment results, see MD&A - Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses).

Income Taxes

The effective tax rates in 2014 and 2013 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

CONSUMER MARKETS

	Three Months Ended June 30,			Six Months Ended June 30,		
Underwriting Summary	2014	2013	Change	2014	2013	Change
Written premiums	$1,003	$967	4%	$1,930	$1,845	5%
Change in unearned premium reserve	57	59	(3%)	56	41	37%
Earned premiums	946	908	4%	1,874	1,804	4%
Losses and loss adjustment expenses						
Current accident year before catastrophes	629	585	8%	1,219	1,153	6%
Current accident year catastrophes	161	142	13%	187	168	11%
Prior accident years	(3)	(32)	(91%)	(37)	(28)	32%
Total losses and loss adjustment expenses	787	695	13%	1,369	1,293	6%
Amortization of DAC	86	83	4%	171	166	3%
Underwriting expenses	133	139	(4%)	269	282	(5%)
Underwriting gain (loss)	(60)	(9)	NM	65	63	3%
Net servicing income [1]	—	6	(100%)	—	15	(100%)
Net investment income	31	39	(21%)	66	76	(13%)
Net realized capital gains (losses)	(3)	(3)	—%	(8)	4	NM
Other expenses	(18)	(16)	13%	(26)	(28)	(7%)
Income (loss) before income taxes	(50)	17	NM	97	130	(25)%
Income tax expense (benefit)	(20)	2	NM	28	38	(26)%
Net income (loss)	$(30)	$15	NM	$69	$92	(25)%

[1] Includes servicing revenues of $37 and $75, respectively, for three and six months ended June 30, 2013.

	Three Months Ended June 30,			Six Months Ended June 30,		
Written Premiums	2014	2013	Change	2014	2013	Change
Product Line						
Automobile	680	657	4%	1,340	1,286	4%
Homeowners	323	310	4%	590	559	6%
Total	1,003	967	4%	1,930	1,845	5%
Earned Premiums						
Product Line						
Automobile	650	626	4%	1,286	1,245	3%
Homeowners	296	282	5%	588	559	5%
Total	946	908	4%	1,874	1,804	4%

	Three Months Ended June 30,		Six Months Ended June 30,	
Premium Measures	2014	2013	2014	2013
Policies in-force end of period (in thousands)				
Automobile			2,041	2,020
Homeowners			1,325	1,322
New business written premium				
Automobile	$103	$93	$207	$180
Homeowners	$35	$34	$67	$64
Policy count retention				
Automobile	86%	86%	86%	86%
Homeowners	87%	87%	87%	87%
Renewal written pricing increase				
Automobile	5%	5%	5%	5%
Homeowners	8%	7%	8%	6%
Renewal earned pricing increase				
Automobile	5%	5%	5%	5%
Homeowners	8%	6%	7%	6%

	Three Months Ended June 30,			Six Months Ended June 30,		
Underwriting Ratios	2014	2013	Change	2014	2013	Change
Loss and loss adjustment expense ratio						
Current accident year before catastrophes	66.5	64.4	(2.1)	65.0	63.9	(1.1)
Current accident year catastrophes	17.0	15.6	(1.4)	10.0	9.3	(0.7)
Prior year development	(0.3)	(3.5)	(3.2)	(2.0)	(1.6)	0.4
Total loss and loss adjustment expense ratio	83.2	76.5	(6.7)	73.1	71.7	(1.4)
Expense ratio	23.2	24.4	1.2	23.5	24.8	1.3
Combined ratio	106.3	101.0	(5.3)	96.5	96.5	—
Current accident year catastrophes and prior year development	16.7	12.1	(4.6)	8.0	7.7	(0.3)
Combined ratio before catastrophes and prior year development	89.6	88.9	(0.7)	88.5	88.7	0.2

	Three Months Ended June 30,			Six Months Ended June 30,		
Product Combined Ratios	2014	2013	Change	2014	2013	Change
Automobile	98.7	94.6	(4.1)	95.1	95.3	0.2
Homeowners	123.8	115.0	(8.8)	99.8	99.0	(0.8)

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Overview

Net income (loss), decreased to a net loss for the three months ended June 30, 2014 primarily due to increased underwriting losses driven by higher current accident year catastrophes and lower favorable prior year development. For the six months ended June 30, 2014, underwriting results were nearly flat with the comparable prior year period. Increases in non-catastrophe related losses, primarily due to weather in the first quarter, were almost entirely offset by earned premium growth and lower underwriting expenses.

Revenues - Earned and Written Premiums

Earned premiums increased for the three and six months ended June 30, 2014 reflecting new business written premium growth in auto primarily from AARP and Agency Auto and written and earned renewal pricing increases.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses for the three months ended June 30, 2014, as compared to the prior year period, reflects higher current accident year losses before catastrophes, higher current accident year catastrophes and decreased favorable prior accident years development. Losses and loss adjustment expenses for the six months ended June 30, 2014, as compared to the prior year period, reflects higher current accident year losses before catastrophes and higher current accident year catastrophes partially offset by increased favorable prior accident years development.

- Current accident year losses and loss adjustment expenses before catastrophes increased for the three months ended June 30, 2014, compared to the prior year period, as a result of increased frequency in auto and homeowners related to hail activity and increased homeowners severity from large fire losses. The current accident year loss and loss adjustment expense ratio before catastrophes of 66.5 in 2014 increased 2.1 points from 64.4 in 2013.

Current accident year losses and loss adjustment expenses before catastrophes increased for the six months ended June 30, 2014, compared to the prior year period, as a result of the impact of higher homeowners and auto physical damage claims due to a harsh winter in the first quarter and increased hail frequency in the second quarter. The current accident year loss and loss adjustment expense ratio before catastrophes of 65.0 in 2014 increased 1.1 points from 63.9 in 2013.

- Current accident year catastrophe losses of $161, before tax, for the three months ended June 30, 2014 compared to $142 for the prior year period. Losses for 2014 were primarily driven by multiple wind and hail events across various U.S. geographic regions. Losses for 2013 were primarily driven by multiple wind and hail events across various U.S. geographic regions and increased severity from tornadoes.

Current accident year catastrophe losses of $187, before tax, for the six months ended June 30, 2014 compared with $168 for the prior year period. Losses for 2014 and 2013 were primarily driven by multiple wind and hail events across various U.S. geographic regions partially offset by lower losses from tornadoes and winter storms . For additional information, see MD&A - Critical Accounting Estimates, Property and Casualty Insurance Product Reserves, Net of Reinsurance.

- Prior accident years reserve release of $3, before tax, for the three months ended June 30, 2014 compared to a release of $32, before tax, for the prior year period. Reserve releases for 2013 were related to catastrophes primarily due to Storm Sandy.

Prior accident years reserve release of $37, before tax, for the six months ended June 30, 2014 compared to a release of $28, before tax, for the prior year period. Reserve releases for 2014 were primarily related to favorable development on accident year 2013 fire and water-related homeowners claims, and reserve releases related to fourth quarter 2013 catastrophes. For additional information, see MD&A - Critical Accounting Estimates, Property and Casualty Insurance Product Reserves, Net of Reinsurance.

Underwriting Ratios

The combined ratio, before current accident year catastrophes and prior year development, increased 0.7 points to 89.6 for the three months ended June 30, 2014. The increase primarily reflects an unfavorable increase in the current accident year loss and loss adjustment expense ratio before catastrophes due to increased losses related to hail storms and large fire losses partially offset by higher earned premiums. The combined ratio, before current accident year catastrophes and prior year development, slightly improved by 0.2 points to 88.5 for the six months ended June 30, 2014.

Investment Results

Investment income decreased by $8 and $10 for the three and six months ended June 30, 2014, as compared to the prior year periods. For discussion of consolidated investment results, see MD&A - Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses).

Income Taxes

The effective tax rates in 2014 and 2013 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

PROPERTY & CASUALTY OTHER OPERATIONS

	Three Months Ended June 30,			Six Months Ended June 30,		
Underwriting Summary	2014	2013	Change	2014	2013	Change
Losses and loss adjustment expenses [1]	240	141	70%	241	143	69%
Underwriting expenses	7	7	—%	14	14	—%
Underwriting loss	(247)	(148)	(67%)	(255)	(157)	(62%)
Net servicing expense	—	(1)	100%	—	(1)	100%
Net investment income	31	37	(16%)	66	72	(8%)
Net realized capital gains	2	3	(33%)	2	4	(50%)
Other income	2	—	NM	2	1	100%
Loss before income taxes	(212)	(109)	(94%)	(185)	(81)	(128%)
Income tax benefit	(68)	(38)	(79%)	(63)	(31)	(103%)
Net loss	$(144)	$(71)	(103%)	$(122)	$(50)	(144%)

[1] Consists of prior year loss reserve development.

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Net loss increased for the three and six months ended June 30, 2014, as compared to the prior year periods, primarily due to strengthening of asbestos and environmental reserves. As part of its annual ground-up asbestos and environmental reserve evaluations in the second quarter of 2014, the Company strengthened the asbestos and environmental reserves by $212 and $27, before tax, respectively. In 2013, the Company strengthened its asbestos and environmental reserves by $130 and $10, before tax, respectively. Reserve strengthenings for the three months ended June 30, 2014 were primarily due to a higher than previously estimated number of mesothelioma claim filings and an increase in costs associated with asbestos litigation. Reserve strengthenings for the three months ended June 30, 2013 were primarily related to an increase in net asbestos reserves due to higher claim frequency and severity.

For information on asbestos and environmental reserves, see Property & Casualty Other Operations Claims within the Property and Casualty Insurance Product Reserves, Net of Reinsurance section in Critical Accounting Estimates.

The effective tax rates in 2014 and 2013 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

GROUP BENEFITS

	Three months ended June 30,			Six months ended June 30,		
Operating Summary	2014	2013	Change	2014	2013	Change
Premiums and other considerations [1]	$777	$838	(7)%	$1,576	$1,664	(5)%
Net investment income	95	100	(5)%	191	197	(3)%
Net realized capital gains	6	37	(84)%	14	55	(75)%
Total revenues	878	975	(10)%	1,781	1,916	(7)%
Benefits, losses and loss adjustment expenses	601	635	(5)%	1,198	1,274	(6)%
Amortization of deferred policy acquisition costs	7	8	(13)%	16	16	— %
Insurance operating costs and other expenses	195	248	(21)%	423	488	(13)%
Total benefits, losses and expenses	803	891	(10)%	1,637	1,778	(8)%
Income before income taxes	75	84	(11)%	144	138	4 %
Income tax expense	20	23	(13)%	38	35	9 %
Net income [1]	$55	$61	(10)%	$106	$103	3 %

	Three months ended June 30,			Six months ended June 30,		
Premiums and other considerations	2014	2013	Change	2014	2013	Change
Fully insured – ongoing premiums	$761	$822	(7)%	$1,537	$1,634	(6)%
Buyout premiums	—	1	(100)%	8	1	NM
Other	16	15	7 %	31	29	7 %
Total premiums and other considerations	777	838	(7)%	1,576	1,664	(5)%
Fully insured ongoing sales, excluding buyouts	45	103	(56)%	225	272	(17)%

	Three months ended June 30,			Six months ended June 30,		
Ratios, excluding buyouts	2014	2013	Change	2014	2013	Change
Group disability loss ratio	83.9	%82.7	%(1.2)	83.1	%86.2	%3.1
Group life loss ratio	72.4	%70.8	%(1.6)	70.1	%69.4	%(0.7)
Total loss ratio	77.3	%75.7	%(1.6)	75.9	%76.5	%0.6
Loss ratio, excluding Association - Financial Institutions	77.5	%80.3	%2.8	77.6	%80.9	%3.3
Expense ratio	26.0	%30.6	%4.6	28.0	%30.3	%2.3
Expense ratio, excluding Association - Financial Institutions	25.8	%26.7	%0.9	26.6	%26.7	%0.1

	Three months ended June 30,			Six months ended June 30,		
After-tax margin	2014	2013	Change	2014	2013	Change
After-tax margin (excluding buyouts)	6.3	%6.3	%—	6.0	%5.4	%0.6
Effect of net capital realized gains (losses), net of tax on after-tax margin	0.3	%2.4	%(2.1)	0.5	%1.8	%(1.3)
After-tax margin (excluding buyouts), excluding realized gains (losses)	6.0	%3.9	%2.1	5.5	%3.6	%1.9

[1] Group Benefits has a block of Association - Financial Institutions business that is subject to a profit sharing arrangement with third parties. The Association - Financial Institutions business represented $19 and $71 of premiums and other considerations and $0 and $1 of net income for the three months ended June 30, 2014 and 2013, respectively and $63 and $143 of premiums and other considerations and $2 and $1 of net income for the six months ended June 30, 2014 and 2013, respectively.

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Net income decreased for the three months ended June 30, 2014, as compared to the prior year period, due to lower premiums and other considerations and net realized capital gains partially offset by lower benefits, losses and loss adjustment expenses and insurance operating costs and other expenses. Net income improved slightly for the six months ended June 30, 2014, as compared to the prior year period, primarily due to lower benefits, losses and loss adjustment expenses and insurance operating costs and other expenses partially offset by lower premiums and other considerations and net realized capital gains.

Premiums and other considerations decreased for the three and six months ended June 30, 2014, compared to the prior year periods, due primarily to management actions related to the Association - Financial Institutions block of business.

Insurance operating costs and other expenses decreased for the three and six months ended June 30, 2014, compared to the prior year periods, due primarily to lower profit sharing expense related to the Association - Financial Institutions block of business.

Fully insured ongoing sales, excluding buyouts declined by 56% and 17% for the three and six months ended June 30, 2014, respectively, as compared to prior year periods, primarily due to lower large case sales.

The total loss ratio increased 1.6 points for the three months ended June 30, 2014, as compared to the prior year period. The increase was due to the unfavorable impact of the Association - Financial Institutions block of business and a higher disability loss ratio resulting from lower claim recoveries. Excluding the Association - Financial Institutions block of business, the loss ratio improved 2.8 points as compared to the prior year period, due to favorable life experience partially offset by unfavorable disability results.

The total loss ratio improved 0.6 points for the six months ended June 30, 2014, as compared to the prior year period, due to an improved disability loss ratio offset by the unfavorable impact of the Association - Financial Institutions block of business. Excluding the Association - Financial Institutions block of business, the loss ratio improved 3.3 points due to favorable life experience and favorable disability experience reflecting continued improved long-term disability incidence trends, continued long-term disability claim recoveries and improved long-term disability pricing.

The expense ratio improved 4.6 points and 2.3 points for the three and six months ended June 30, 2014, respectively, compared to the prior year periods, primarily due to lower profit sharing expense related to the Association - Financial Institutions block of business.

The after-tax margin, excluding buyouts and net realized capital gains (losses), improved 2.1 points and 1.9 points, respectively, for the three and six months ended June 30, 2014, compared to the prior year periods. The improvement was primarily due to the improved loss ratio excluding the Association - Financial Institutions block of business.

Investment income decreased for the three and six months ended June 30, 2014, compared to the prior year periods. For discussion of consolidated investment results, see MD&A - Investment Results, Investment Income (Loss) and Net Realized Capital Gains (Losses).

The effective tax rates in 2014 and 2013 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

MUTUAL FUNDS

	Three Months Ended June 30,			Six Months Ended June 30,		
Operating Summary	2014	2013 [1]	Change	2014	2013	Change
Fee income and other	183	165	11%	357	325	10%
Total revenues	183	165	11%	357	325	10%
Amortization of DAC	7	10	(30)%	16	19	(16)%
Insurance operating costs and other expenses	144	124	16%	276	247	12%
Total benefits, losses and expenses	151	134	13%	292	266	10%
Income before income taxes	32	31	3%	65	59	10%
Income tax expense	11	11	—%	23	21	10%
Net income	$21	$20	5%	$42	$38	11%
MUTUAL FUNDS AUM by DISTRIBUTION CHANNEL						
Retail Mutual Funds [2]						
AUM, beginning of period	$54,988	$48,186	14%	$53,040	$45,013	18%
Sales	2,698	2,789	(3)%	$5,325	$5,951	(11)%
Redemptions	(2,619)	(4,075)	36%	(5,307)	(7,251)	27%
Net Flows	$79	$(1,286)	106%	$18	$(1,300)	101%
Change in market value and other	635	717	(11)%	2,644	3,904	(32)%
AUM, end of period	$55,702	$47,617	17%	$55,702	$47,617	17%
Retirement Mutual Funds [3]						
AUM, beginning of period	$18,358	$17,622	4%	17,878	16,598	8%
Sales	1,212	937	29%	2,277	1,879	21%
Redemptions	(1,729)	(2,590)	33%	(2,715)	(4,016)	32%
Net Flows	(517)	(1,653)	69%	(438)	(2,137)	80%
Change in market value and other	787	22	NM	1,188	1,530	(22)%
AUM, end of period	$18,628	$15,991	16%	18,628	15,991	16%
Total Mutual Funds						
AUM, beginning of period	$73,346	$65,808	11%	70,918	61,611	15%
Sales	3,910	3,726	5%	7,602	7,830	(3)%
Redemptions [4]	(4,348)	(6,665)	35%	(8,022)	(11,267)	29%
Net Flows	(438)	(2,939)	85%	(420)	(3,437)	88%
Change in market value and other	1,422	739	92%	3,832	5,434	(29)%
AUM, end of period	$74,330	$63,608	17%	74,330	63,608	17%
Average Mutual Funds Assets Under Management	73,838	64,708	14%	72,624	62,610	16%
Annuity Mutual Fund Assets [5]	24,529	25,901	(5)%	24,529	25,901	(5)%
Total Assets Under Management	$98,859	$89,509	10%	$98,859	$89,509	10%
Average Assets Under Management	$98,581	$90,973	8%	97,797	88,578	10%

[1] Retrospectively adjusted to conform to the current year method of reporting revenues and expenses. Fee income and directly related expenses previously reported as gross amounts are being reported as a net amount in insurance operating costs and other expenses. This change in the method of reporting revenues and expenses did not have a material impact on the segment’s operating results.

[2] Includes mutual funds offered within 529 college savings plans.

[3] Includes mutual funds offered within employee directed retirement plans including on-going business related to the Company's Retirement Plans and Individual Life businesses sold in January 2013.

[4] Includes a $0.7 billion liquidation of the Company's target-date funds in the three months ended June 30,2014 and an institutional redemption as well as a portfolio rebalance at a key distributor, together totaling $2.5 billion in the

three months ended June 30, 2013.

[5] Includes Company-sponsored mutual fund assets held in separate accounts supporting variable insurance and investment products.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
MUTUAL FUNDS AUM by ASSET CLASS						
Equity	45,171	36,186	25%	45,171	36,186	25%
Fixed Income	14,942	14,944	—%	14,942	14,944	—%
Multi-Strategy Investments	14,217	12,478	14%	14,217	12,478	14%
Total Mutual Funds AUM, end of period	$74,330	$63,608	17%	$74,330	$63,608	17%
RETURN ON ASSETS						
ROA	8.5	8.8	(3)%	8.6	8.6	—%
Effect of restructuring, net of tax	—	(0.4)	100%	—	(0.5)	100%
Effect of net realized gains, net of tax and DAC	—	0.4	(100)%	—	—	—%
ROA, core earnings	8.5	8.8	(3)%	8.6	9.1	(5)%

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Net income, compared to the prior year period, increased for the three and six months ended June 30, 2014 primarily due to higher AUM, due to favorable market performance, partially offset by net outflows in the Company's Annuity products. Average AUM for the three and six months ended, June 30, 2014 increased 8% and 10%, respectively, compared to average AUM for prior year periods driving higher revenue. Operating expenses were also higher, driven by variable distribution and subadvisory expenses, which tend to vary directly with revenue, combined with higher marketing and proxy-related costs.

Net flows compared to the prior year periods improved for the three and six months ended June 30, 2014. Net flows for the three months ended June 30, 2014 were negative due to the Company’s decision to liquidate its target date funds with approximately $700 in AUM. Total mutual funds sales, compared to the prior year period, increased for the three months ended June 30, 2014 and decreased for the six months ended June 30, 2014. The Mutual Fund business has experienced a decrease in retail mutual funds sales, and an increase in retirement fund sales.

TALCOTT RESOLUTION

	Three Months Ended June 30,			Six Months Ended June 30,		
Operating Summary	2014	2013	Change	2014	2013	Change
Earned premiums, fees and other	$352	$349	1%	$705	$698	1%
Net investment income	376	403	(7%)	776	806	(4%)
Realized capital gains (losses):						
Net realized capital gains on business dispositions	—	1	(100%)	—	1,575	(100%)
Total other-than-temporary impairment (“OTTI”) losses	(3)	—	NM	(7)	—	NM
Other net realized capital gains (losses)	4	(20)	120%	11	77	(86%)
Net realized capital gains (losses)	1	(19)	105%	4	1,652	(100%)
Total revenues	729	733	(1%)	1,485	3,156	(53%)
Benefits, losses and loss adjustment expenses	414	404	2%	823	842	(2%)
Amortization of DAC	42	64	(34%)	109	166	(34%)
Insurance operating costs and other expenses	145	187	(22%)	293	323	(9%)
Reinsurance loss on dispositions	—	—	—%	—	1,505	(100%)
Total benefits, losses and expenses	601	655	(8%)	1,225	2,836	(57%)
Income from continuing operations before income taxes	128	78	64%	260	320	(19%)
Income tax expense (benefit)	15	(11)	NM	31	41	(24%)
Income from continuing operations, net of tax	113	89	27%	$229	$279	(18%)
Loss from discontinued operations, net of tax [1]	(617)	(421)	(47%)	$(588)	$(905)	35%
Net loss	$(504)	$(332)	(52%)	$(359)	$(626)	43%
Assets Under Management (end of period)						
Variable annuity account value	$58,350	$86,500	(33%)			
Fixed Market Value Adjusted annuity and other account value	9,429	14,038	(33%)			
Institutional annuity account value	15,842	17,252	(8%)			
Other account value [2]	108,469	102,719	6%			
Total account value [3]	$192,090	$219,323	(12%)			
U.S. Variable Annuity Account Value						
Account value, beginning of period	$59,547	$65,500	(9%)	$61,812	$64,824	(5%)
Net outflows	(3,056)	(3,728)	18%	(6,006)	(7,035)	15%
Change in market value and other	1,859	807	130%	2,544	4,790	(47)%
Account value, end of period	$58,350	$62,579	(7%)	$58,350	$62,579	(7%)

[1] Represents the loss from operations and sale of HLIKK in 2014 and HLIL in 2013. For additional information, see Note 14 - Discontinued Operations of Notes to Condensed Consolidated Financial Statements.

[2] Other account value includes $54.2 billion, $14.9 billion, and $39.3 billion as of June 30, 2014 and $51.8 billion, $13.2 billion, and $36.1 billion at June 30, 2013 for the Retirement Plans, Individual Life, and Private Placement Life Insurance, respectively. Account values associated with the Retirement Plans, and Individual Life businesses no longer generate asset-based fee income due to the sales of these businesses through reinsurance transaction.

[3] Included in the total account value is approximately $(1.2) billion as of June 30, 2013 related to a Talcott Resolution intra-segment funding agreement which is eliminated in consolidation. Also included in the variable and fixed annuity account values as of June 30, 2013 is account value related to the Japan and UK businesses sold on June 30, 2014, and December 12, 2013; respectively.

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

The increase in net loss for the three months ended June 30, 2014 was primarily driven by the increase in the loss from discontinued operations, net of tax, due to the realized capital loss of $659 on the sale of HLIKK, and lower before tax net investment income. The increase in net loss was offset by gains from the Japan operations, lower realized losses from the U.S. macro hedge program, lower amortization of DAC, and lower insurance operating costs and other, including lower costs associated with the enhanced surrender value program. The decrease in net loss for the six months ended June 30, 2014 was primarily driven by the effect of the write off of Japan DAC in the 2013 period, partially offset by the realized capital loss from the sale of HLIKK in the 2014 period, both of which are included within loss from discontinued operations.

Account values for Talcott Resolution decreased to approximately $192 billion at June 30, 2014 from approximately $219 billion at June 30, 2013 due primarily to the sale of HLIKK, and increased net outflows offset by market value appreciation in variable annuities. For the three months ended June 30, 2014 variable annuity net outflows increased by approximately $672 as compared to the prior year period driven by increased net outflows in Japan variable annuities with an increase in policy surrenders as a result of market appreciation and the expiration of the surrender charge period as the block of business ages.

For the three months ended June 30, 2014 the annualized full surrender rate on U.S. variable annuities declined to 13.9% compared to 17.5% for the three months ended June 30, 2013. This decline is due to the timing of implementation of the 2014 enhanced surrender value program. The 2014 enhanced surrender value program was implemented during the three months ended June 30, 2014, as compared to the previous program, which was active the entire three months ended June 30, 2013.

Contract counts decreased 14% for U.S. variable annuities at June 30, 2014 compared to June 30, 2013. The Company expects annuity account values, and consequently earnings, to decline over time as fee income decreases due to surrenders, or potential transactions with third parties, reducing the size of the related book of business.

The effective tax rates in 2014 and 2013 differ from the U.S. Federal statutory rate of 35% primarily due to permanent differences related to investments in separate account DRD. For further discussion of income taxes, see the Income Taxes section within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

CORPORATE

	Three Months Ended June 30,			Six Months Ended June 30,		
Operating Summary	2014	2013	Change	2014	2013	Change
Fee income [1]	$4	$2	100%	$7	$5	40%
Net investment income	5	—	(100%)	7	13	(46%)
Net realized capital gains (losses)	14	10	40%	5	(86)	(106%)
Total revenues	23	12	92%	19	(68)	(128%)
Insurance operating costs and other expenses [1]	28	33	(15%)	60	75	(20%)
Loss on extinguishment of debt	—	—	—%	—	213	(100%)
Reinsurance loss on disposition	—	—	—%	—	69	(100%)
Interest expense	94	100	(6%)	189	207	(9%)
Total benefits, losses and expenses	122	133	(8%)	249	564	(56%)
Loss from continuing operations before income taxes	(99)	(121)	(18%)	(230)	(632)	(64%)
Income tax benefit	(35)	(46)	(24%)	(81)	(199)	(59%)
Net loss	$(64)	$(75)	(15%)	$(149)	$(433)	(66%)

[1] Fee income includes the income associated with the sales of non-proprietary insurance products in the Company's broker-dealer subsidiaries that has an offsetting commission expense in insurance operating costs and other expenses.

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

Net loss decreased for the three months ended June 30, 2014 compared to the prior year period primarily due to an increase in net investment income, higher net realized capital gains and lower interest expense. Net loss decreased for the six months ended June 30, 2014 compared to the prior period primarily due to decreases in net realized capital losses, loss on extinguishment of debt and reinsurance loss on dispositions in 2013 and lower insurance operating costs and other expenses and interest expense. For discussion of investment results, see MD&A - Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses).

In March 2013, the Company repurchased approximately $800 of senior notes at a premium to the face amount of the then outstanding debt. The resulting loss on extinguishment of debt of $213 consists of the repurchase premium, the write-off of the unamortized discount, and debt issuance and other costs related to the repurchase transaction. The decrease in interest expense for the three and six months ended June 30, 2014 is largely due to this debt repurchase.

In connection with the disposition of the Retirement Plans business in January 2013, the Company also wrote off goodwill of $69 representing all of the goodwill held in Corporate and allocated to Retirement Plans related to the Hartford Life, Inc. buyback in 2000.

For a reconciliation of the tax provision at the U.S. Federal statutory rate of 35% to the provision (benefit) for income taxes, see the Income Taxes section of Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

ENTERPRISE RISK MANAGEMENT

The Company has an enterprise risk management function ("ERM") that is charged with providing analysis of the Company's risks on an individual and aggregated basis and with ensuring that the Company's risks remain within its risk appetite and tolerances. The Company has established the Enterprise Risk and Capital Committee ("ERCC") that includes the Company's CEO, President of the Company, Chief Financial Officer ("CFO"), Chief Investment Officer ("CIO"), Chief Risk Officer, EVP of Human Resources, divisional Presidents and General Counsel. The ERCC is responsible for managing the Company's risks and overseeing the enterprise risk management program.

The Company categorizes its main risks as follows:

- Insurance Risk
- Operational Risk
- Financial Risk

Refer to the MD&A in The Hartford's 2013 Form 10-K Annual Report for an explanation of the Company's Operational Risk.

Insurance Risk Management

The Company categorizes its insurance risks across both property-casualty and life products. The Company establishes risk limits to control potential loss and actively monitors the risk exposures as a percent of statutory surplus. The Company also uses reinsurance to transfer insurance risk to well-established and financially secure reinsurers.

Reinsurance as a Risk Management Strategy

The Company utilizes reinsurance to transfer risk to affiliated and unaffiliated insurers in order to limit its maximum losses and to diversify its exposures and provide statutory surplus relief. Such arrangements do not relieve the Company of its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. Reinsurance is used to manage aggregation of risk as well as to transfer certain risk to reinsurance companies based on specific geographic or risk concentrations.

The Company is a member of and participates in several reinsurance pools and associations. The Company evaluates the financial condition of its reinsurers and concentrations of credit risk. Reinsurance is placed with reinsurers that meet strict financial criteria established by the Company.

Reinsurance for Catastrophes

The Company has several catastrophe reinsurance programs, including reinsurance treaties that cover property and workers' compensation losses aggregating from single catastrophe events. The following table summarizes the primary catastrophe treaty reinsurance coverages that the Company has in place as of July 1, 2014:

Coverage	Treaty term	% of layer(s) reinsurance	Per occurrence limit		Retention
Principal property catastrophe program covering property catastrophe losses from a single event	1/1/2014 to 1/1/2015	90%	$850		$350
Reinsurance with the FHCF covering Florida Personal Lines property catastrophe losses from a single event	6/1/2014 to 6/1/2015	90%	$119	[1]	$43
Workers compensation losses arising from a single catastrophe event [2]	7/1/2014 to 7/1/2015	80%	$350		$100

[1] The per occurrence limit on the FHCF treaty is $119 for the 6/1/2014 to 6/1/2015 treaty year based on the Company's election to purchase the required coverage from FHCF. Coverage is based on the best available information from FHCF, which was updated in January 2014. Updated information will be made available by the CAT fund October of 2014.

[2] In addition, to the limit shown above, the workers compensation reinsurance includes a non-catastrophe, industrial accident layer, 80% of $30 excess a $20 retention.

Reinsurance Recoverables

Reinsurance Security

To manage reinsurer credit risk, a reinsurance security review committee evaluates the credit standing, financial performance, management and operational quality of each potential reinsurer. Through this process, the Company maintains a centralized list of reinsurers approved for participation in reinsurance transactions. Only reinsurers approved through this process are eligible to participate in new reinsurance transactions. The Company's approval designations reflect the differing credit exposure associated with various classes of business. Participation eligibility is categorized based upon the nature of the risk reinsured, including the expected liability payout duration. In addition to defining participation eligibility, the Company regularly monitors credit risk exposure to each reinsurance counterparty and has established limits tiered by counterparty credit rating. For further discussions on how the Company manages and mitigates third party credit risk, refer to the Credit Risk section.

Property and Casualty Insurance Product Reinsurance Recoverable

Property and casualty insurance product reinsurance recoverables represent loss and loss adjustment expense recoverables from a
number of entities, including reinsurers and pools. The components of the gross and net reinsurance recoverable are as follows:

Reinsurance Recoverable	As of June 30, 2014	As of December 31, 2013
Paid loss and loss adjustment expenses	$158	$138
Unpaid loss and loss adjustment expenses	2,925	2,841
Gross reinsurance recoverable	$3,083	$2,979
Less: Allowance for uncollectible reinsurance	(248)	(244)
Net reinsurance recoverable	$2,835	$2,735

Life Insurance Product Reinsurance Recoverable

Life insurance product reinsurance recoverables represent future policy benefits and unpaid loss and loss adjustment expenses and other policyholder funds and benefits payable that are recoverable from a number of reinsurers. The components of the gross and net reinsurance recoverable are as follows:

Reinsurance Recoverable	As of June 30, 2014	As of December 31, 2013
Future policy benefits and unpaid loss and loss adjustment expenses and other policyholder funds and benefits payable	20,114	20,595
Gross reinsurance recoverable [1]	$20,114	$20,595

[1] No allowance for uncollectible reinsurance is required as of period end.

As of June 30, 2014, the Company has reinsurance recoverables from MassMutual and Prudential of $8.8 billion and $10.1 billion, respectively. These reinsurance recoverables are secured by invested assets held in trust for the benefit of the Company in the event of a default by the reinsurers. As of June 30, 2014, the fair value of assets held in trust securing the reinsurance recoverables from MassMutual and Prudential were $9.8 billion and $8.7 billion, respectively. As of June 30, 2014, the Company has no reinsurance-related concentrations of credit risk greater than 10% of the Company’s stockholders’ equity.

For further explanation of the Company's Insurance Risk Management strategy, see MD&A - Enterprise Risk Management - Insurance Risk Management in The Hartford's 2013 Form 10-K Annual Report.

Financial Risk Management

The Company identifies the following categories of financial risk:

- Liquidity Risk

- Interest Rate Risk
- Foreign Currency Exchange Risk
- Equity Risk
- Credit Risk

Financial risks include direct, and indirect risks to the Company's financial objectives coming from events that impact market conditions or prices. Financial risk also includes exposure to events that may cause correlated movement in multiple risk factors. The primary source of financial risks are the Company's general account assets and the liabilities that those assets back, together with the guarantees which the company has written over various liability products, particularly its portfolio of variable annuities. The Company assesses its financial risk on a U.S. GAAP, statutory and economic basis. The Hartford has developed a disciplined approach to financial risk management that is well integrated into the Company's underwriting, pricing, hedging, claims, asset and liability management, new product, and capital management processes. Consistent with its risk appetite, the Company establishes financial risk limits to control potential loss. Exposures are actively monitored, and mitigated where appropriate. The Company uses various risk management strategies, including reinsurance and over-the-counter and exchange traded derivatives with counterparties meeting the appropriate regulatory and due diligence requirements.

Liquidity Risk

Liquidity risk is the risk to current or prospective earnings or capital arising from the Company's inability or perceived inability to meet its contractual cash obligations at the legal entity level when they come due over given time horizons without incurring unacceptable costs and without relying on uncommitted funding sources. Liquidity risk includes the inability to manage unplanned increases or accelerations in cash outflows, decreases or changes in funding sources, and changes in market conditions that affect the ability to liquidate assets quickly to meet obligations with minimal loss in value. Components of liquidity risk include funding risk, company specific liquidity risk and market liquidity risk. Funding risk is the gap between sources and uses of cash under normal and stressed conditions taking into consideration structural, regulatory and legal entity constraints. Changes in institution-specific conditions that affect the Company's ability to sell assets or otherwise transact business without incurring a significant loss in value is company specific liquidity risk. Changes in general market conditions that affect the institution's ability to sell assets or otherwise transact business without incurring a significant loss in value is market liquidity risk.

The Company has defined ongoing monitoring and reporting requirements to assess liquidity across the enterprise. The Company measures and manages liquidity risk exposures and funding needs within prescribed limits and across legal entities, business lines and currencies, taking into account legal, regulatory and operational limitations to the transferability of liquidity. The Company also monitors internal and external conditions, identifies material risk changes and emerging risks that may impact liquidity. The Company's CFO has primary responsibility for liquidity risk.

For further discussion on liquidity see the section on Capital Resources and Liquidity.

Interest Rate Risk

Interest rate risk is the risk of financial loss due to adverse changes in the value of assets and liabilities arising from movements in interest rates. Interest rate risk encompasses exposures with respect to changes in the level of interest rates, the shape of the term structure of rates and the volatility of interest rates. Interest rate risk does not include exposure to changes in credit spreads. The Company has exposure to interest rates arising from its fixed maturity securities, interest sensitive liabilities and discount rate assumptions associated with the Company's pension and other post retirement benefit obligations.

An increase in interest rates from current levels is generally a favorable development for the Company. Interest rate increases are expected to provide additional net investment income, reduce the cost of the variable annuity hedging program, and limit the potential risk of margin erosion due to minimum guaranteed crediting rates in certain Talcott Resolution products. Conversely, a rise in interest rates will reduce the fair value of the investment portfolio and if long-term interest rates rise dramatically within a six to twelve month time period, certain Talcott Resolution businesses may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders will surrender their contracts in a rising interest rate environment requiring the Company to liquidate assets in an unrealized loss position. In conjunction with the interest rate risk measurement and management techniques, certain of Talcott Resolution's fixed income product offerings have market value adjustment provisions at contract surrender. An increase in interest rates may also impact the Company's tax planning strategies and in particular its ability to utilize tax benefits to offset certain previously recognized realized capital losses.

A decline in interest rates results in certain mortgage-backed and municipal securities being more susceptible to paydowns and prepayments or calls. During such periods, the Company generally will not be able to reinvest the proceeds at comparable yields. Lower interest rates will also likely result in lower net investment income, increased hedging cost associated with variable annuities and, if declines are sustained for a long period of time, it may subject the Company to reinvestment risk and possibly reduced profit margins associated with guaranteed crediting rates on certain Talcott Resolution products. Conversely, the fair value of the investment portfolio will increase when interest rates decline and the Company’s interest expense will be lower on its variable rate debt obligations.

The Company manages its exposure to interest rate risk by constructing investment portfolios that maintain asset allocation limits and asset/liability duration matching targets which may include the use of derivatives. The Company analyzes interest rate risk using various models including parametric models and cash flow simulation under various market scenarios of the liabilities and their supporting investment portfolios, which may include derivative instruments. Measures the Company uses to quantify its exposure to interest rate risk inherent in its invested assets and interest rate sensitive liabilities include duration, convexity and key rate duration. Duration is the price sensitivity of a financial instrument or series of cash flows to a parallel change in the underlying yield curve used to value the financial instrument or series of cash flows. For example, a duration of 5 means the price of the security will change by approximately 5% for a 100 basis point change in interest rates. Convexity is used to approximate how the duration of a security changes as interest rates change in a parallel manner. Key rate duration analysis measures the price sensitivity of a security or series of cash flows to each point along the yield curve and enables the Company to estimate the price change of a security assuming non-parallel interest rate movements.

To calculate duration, convexity, and key rate durations, projections of asset and liability cash flows are discounted to a present value using interest rate assumptions. These cash flows are then revalued at alternative interest rate levels to determine the percentage change in fair value due to an incremental change in the entire yield curve for duration and convexity, or a particular point on the yield curve for key rate duration. Cash flows from corporate obligations are assumed to be consistent with the contractual payment streams on a yield to worst basis. Yield to worst is a basis that represents the lowest potential yield that can be received without the issuer actually defaulting. The primary assumptions used in calculating cash flow projections include expected asset payment streams taking into account prepayment speeds, issuer call options and contract holder behavior. Mortgage-backed and asset-backed securities are modeled based on estimates of the rate of future prepayments of principal over the remaining life of the securities. These estimates are developed by incorporating collateral surveillance and anticipated future market dynamics. Actual prepayment experience may vary from these estimates.

The Company is also exposed to interest rate risk based upon the discount rate assumption associated with the Company’s pension and other postretirement benefit obligations. The discount rate assumption is based upon an interest rate yield curve comprised of bonds rated AA with maturities primarily between zero and thirty years. For further discussion of discounting pension and other postretirement benefit obligations, see the Critical Accounting Estimates Section of the MD&A under Pension and Other Postretirement Benefit Obligations and Note 18- Employee Benefit Plans of Notes to Consolidated Financial Statements in The Hartford’s 2013 Form 10-K Annual Report. In addition, management evaluates performance of certain Talcott Resolution products based on net investment spread which is, in part, influenced by changes in interest rates. For further discussion, see the Talcott Resolution section of the MD&A.

Foreign Currency Exchange Risk

Foreign currency exchange risk is defined as the risk of financial loss due to changes in the relative value between currencies. The Company’s foreign currency exchange risk is related to non-U.S. dollar denominated investments, which primarily consist of fixed maturity investments, and a yen denominated 3Win fixed payout annuity that is reinsured from HLIKK, a former indirect wholly-owned subsidiary that was sold on June 30, 2014. For further discussion of the sale, see Note 2 - Business Dispositions. In addition, the Company’s Talcott Resolution operations issued non-U.S. dollar denominated funding agreement liability contracts. A significant portion of the Company’s foreign currency exposure is mitigated through the use of derivatives.

Fixed Maturity Investments

The risk associated with the non-U.S. dollar denominated fixed maturities relates to potential decreases in value and income resulting from unfavorable changes in foreign exchange rates. In order to manage currency exposures, the Company enters into foreign currency swaps to hedge the variability in cash flows as the fair value associated with certain foreign denominated fixed maturities decline. These foreign currency swaps are structured to match the foreign currency cash flows of the hedged foreign denominated securities.

Liabilities

The Company has foreign currency exchange risk associated with the yen denominated Japan 3Win fixed payout annuities reinsured from HLIKK. The Company has entered into pay U.S. dollar, receive yen swap contracts to hedge the currency exposure between the U.S. dollar denominated assets and the yen denominated fixed liability reinsurance payments.

The Company’s Talcott Resolution operations issued non-U.S. dollar denominated funding agreement liability contracts. The Company hedges the foreign currency risk associated with these liability contracts with currency rate swaps.

Variable Product Guarantee Risks and Risk Management

The Company’s variable products are significantly influenced by the U.S. and other equity markets. Increases or declines in equity markets impact certain assets and liabilities related to the Company’s variable products and the Company’s earnings derived from those products. The Company’s variable products include variable annuity contracts and mutual funds.

Generally, declines in equity markets will:

- reduce the value of assets under management and the amount of fee income generated from those assets;
- increase the liability for GMWB benefits resulting in realized capital losses;
- increase the value of derivative assets used to hedge product guarantees resulting in realized capital gains;
- increase the costs of the hedging instruments we use in our hedging program;
- increase the Company’s net amount at risk for GMDB;
- decrease the Company’s projection of future estimated gross profits, resulting in a DAC unlock charge;
- increase the amount of required assets to be held backing variable annuity guarantees to maintain required regulatory reserve levels and targeted risk based capital ratios; and
- decrease the Company’s estimated future gross profits. See Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity Contracts within the Critical Accounting Estimates section of the MD&A for further information.

Generally, increases in equity markets will reduce the value of the hedge derivative assets, resulting in realized capital losses, and will generally have the inverse impact of those listed above. For additional information, see Risk Hedging - Variable Annuity Hedging Program section.

Variable Annuity Guaranteed Benefits

The Company’s variable annuities include GMDB and certain contracts include GMWB features. Declines in the equity markets will increase the Company’s liability for these benefits. A GMWB contract is ‘in the money’ if the contract holder’s guaranteed remaining benefit (“GRB”) becomes greater than the account value.

The net amount at risk (“NAR”) is generally defined as the guaranteed minimum benefit amount in excess of the contract holder’s current account value. Variable annuity account values with guarantee features were $58.4 billion and $81.9 billion (including Japan) as of June 30, 2014 and December 31, 2013, respectively.

The following table summarizes the account values of the Company’s variable annuities with guarantee features and the NAR split between various guarantee features (retained net amount at risk does not take into consideration the effects of the variable annuity hedge programs in place as of each balance sheet date):

Total Variable Annuity Guarantees
As of June 30, 2014

($ in billions)	Account Value	Gross Net Amount at Risk	Retained Net Amount at Risk	% of Contracts In the Money [4]		% In the Money [4] [5]	
U. S. Variable Annuity [1]							
GMDB [2]	$58.4	$4.0	$0.9	14	%	27	%
GMWB	28.2	0.1	0.1	5	%	13	%

Total Variable Annuity Guarantees
As of December 31, 2013

($ in billions)	Account Value	Gross Net Amount at Risk	Retained Net Amount at Risk	% of Contracts In the Money [4]		% In the Money [4] [5]	
U. S. Variable Annuity [1]							
GMDB [2]	$61.8	$4.3	$1.0	16	%	26	%
GMWB	30.3	0.2	0.1	5	%	12	%
Japan Variable Annuity [1] [6]							
GMDB	20.1	0.8	0.6	31	%	8	%
GMIB [3]	18.5	0.1	0.1	20	%	3	%

[1] Policies with a guaranteed living benefit also have a guaranteed death benefit. The net amount at risk (“NAR”) for each benefit is shown; however these benefits are not additive. When a policy terminates due to death, any NAR related to GMWB is released. Similarly, when a policy goes into benefit status on a GMWB, the GMDB NAR is reduced to zero.

[2] Excludes group annuity contracts with GMDBs previously sold by Retirement Plans business. For further discussion of the sale of the Retirement Plans business, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

[3] Includes small amount of GMWB and GMAB.

[4] Excludes contracts that are fully reinsured.

[5] For all contracts that are “in the money”, this represents the percentage by which the average contract was in the money.

[6] On June 30, 2014, the Company completed the sale of the Japan variable annuity business of Hartford Life Insurance KK, ("HLIKK"), an indirect wholly-owned subsidiary. For further information of the sale of the Japan variable annuity business, HLIKK in 2014, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements.

Many policyholders with a GMDB also have a GMWB. Policyholders that have a product that offer both guarantees can only receive the GMDB or GMWB. The GMDB NAR disclosed in the tables above is a point in time measurement and assumes that all participants utilize the GMDB benefit on that measurement date. For additional information on the Company’s GMDB liability, see Note 10 - Separate Accounts, Death Benefits and Other Insurance Benefit Features of Notes to Condensed Consolidated Financial Statements.

The Company expects to incur GMDB payments in the future only if the policyholder has an “in the money” GMDB at their death or their account value is reduced to a specified level, through contractually permitted withdrawals and/or market declines. If the account value is reduced to a specified level, the the contract holder will receive an annuity equal to the guaranteed remaining benefit (“GRB”). For the Company’s “life-time” GMWB products, this annuity can exceed the GRB. As the account value fluctuates with equity market returns on a daily basis and the “life-time” GMWB payments may exceed the GRB, the ultimate amount to be paid by the Company, if any, is uncertain and could be significantly more or less than the Company’s current carried liability. For additional information on the Company’s GMWB liability, see Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

Variable Annuity Market Risk Exposures

The following table summarizes the broad Variable Annuity Guarantees offered by the Company and the market risks to which the guarantee is most exposed from a U.S. GAAP accounting perspective.

Variable Annuity Guarantees [1]	U.S. GAAP Treatment [1]	Primary Market Risk Exposures [1]
U.S. Variable Guarantees		
GMDB	Accumulation of the portion of fees required to cover expected claims, less accumulation of actual claims paid	Equity Market Levels
GMWB	Fair Value	Equity Market Levels / Implied Volatility / Interest Rates
For Life Component of GMWB	Accumulation of the portion of fees required to cover expected claims, less accumulation of actual claims paid	Equity Market Levels

[1] Each of these guarantees and the related U.S. GAAP accounting volatility will also be influenced by actual and estimated policyholder behavior.

Risk Hedging

Variable Annuity Hedging Program

The Company’s variable annuity hedging is primarily focused on reducing the economic exposure to market risks associated with guaranteed benefits that are embedded in our global VA contracts through the use of reinsurance and capital market derivative instruments. The variable annuity hedging also considers the potential impacts on Statutory accounting results.

Reinsurance

The Company uses reinsurance for a portion of contracts with GMWB riders issued prior to the third quarter of 2003 and GMWB risks associated with a block of business sold between the third quarter of 2003 and the second quarter of 2006. The Company also uses reinsurance for a majority of the GMDB issued.

Capital Market Derivatives

GMWB Hedge Program

The Company enters into derivative contracts to hedge market risk exposures associated with the GMWB liabilities that are not reinsured. These derivative contracts include customized swaps, interest rate swaps and futures, and equity swaps, options, and futures, on certain indices including the S&P 500 index, EAFE index, and NASDAQ index. Additionally, the Company holds customized derivative contracts to provide protection from certain capital market risks for the remaining term of specified blocks of non-reinsured GMWB riders. These customized derivative contracts are based on policyholder behavior assumptions specified at the inception of the derivative contracts. The Company retains the risk for differences between assumed and actual policyholder behavior and between the performance of the actively managed funds underlying the separate accounts and their respective indices.

While the Company actively manages this dynamic hedging program, increased U.S. GAAP earnings volatility may result from factors including, but not limited to: policyholder behavior, capital markets, divergence between the performance of the underlying funds and the hedging indices, changes in hedging positions and the relative emphasis placed on various risk management objectives.

Macro Hedge Program

The Company’s macro hedging program uses derivative instruments such as options and futures on equities and interest rates to provide protection against the statutory tail scenario risk arising from U.S., GMWB and GMDB liabilities, on the Company’s statutory surplus. These macro hedges cover some of the residual risks not otherwise covered by specific dynamic hedging programs. Management assesses this residual risk under various scenarios in designing and executing the macro hedge program. The macro hedge program will result in additional U.S. GAAP earnings volatility as changes in the value of the macro hedge derivatives, which are designed to reduce statutory reserve and capital volatility, may not be closely aligned to changes in GAAP liabilities.

Variable Annuity Hedging Program Sensitivities

The underlying guaranteed living benefit liabilities and the related hedge assets within the GMWB (excluding life contingent GMWB contracts) and Macro hedge programs are carried at fair value, with the exception of liabilities within the Macro hedge program.

The following table presents our estimates of the potential instantaneous impacts from sudden market stresses related to equity market prices, interest rates, and implied market volatilities. The sensitivities below represent: (1) the net estimated difference between the change in the fair value of GMWB liabilities and the underlying hedge instruments and (2) the estimated change in fair value of the hedge instruments for the macro program, before the impacts of amortization of DAC, and taxes. As noted above, certain hedge assets are used to hedge liabilities that are not carried at fair value and will not have a liability offset in the U.S. GAAP sensitivity analysis. All sensitivities are measured as of June 30, 2014 and are related to the fair value of liabilities and hedge instruments in place that date for the Company's variable annuity hedge programs. The impacts presented in the table below are estimated individually and measured without consideration of any correlation among market risk factors.

GAAP Sensitivity Analysis (pre Tax/DAC) [1]	As of June 30, 2014 Programs					
	GMWB			Macro [2]		
Equity Market Return	-20%	-10%	10%	-20%	-10%	10%
Potential Net Fair Value Impact	$5	$—	$2	$91	$31	$(20)
Interest Rates	-50 bps	-25 bps	+25 bps	-50 bps	-25 bps	+25 bps
Potential Net Fair Value Impact	$3	$2	$(1)	$15	$7	$(7)
Implied Volatilities	10%	2%	-10%	10%	2%	-10%
Potential Net Fair Value Impact	$30	$6	$(17)	$86	$17	$(80)

[1] These sensitivities are based on the following key market levels as of June 30, 2014: 1) S&P of 1960; 2) 10yr US swap rate of 2.74%; and 3) S&P 10yr volatility of 22.71%

[2] The GAAP sensitivity for US Macro Program reflects additional trades executed in July.

The above sensitivity analysis is an estimate and should not be used to predict the future financial performance of the Company's variable annuity hedge programs. The actual net changes in the fair value liability and the hedging assets illustrated in the above table may vary materially depending on a variety of factors which include but are not limited to:

- The sensitivity analysis is only valid as of the measurement date and assumes instantaneous changes in the capital market factors and no ability to rebalance hedge positions prior to the market changes;
- Changes to the underlying hedging program, policyholder behavior, and variation in underlying fund performance relative to the hedged index, which could materially impact the liability; and
- The impact of elapsed time on liabilities or hedge assets, any non-parallel shifts in capital market factors, or correlated moves across the sensitivities.

Financial Risk on Statutory Capital

Statutory surplus amounts and risk-based capital ("RBC") ratios may increase or decrease in any period depending upon a variety of factors and may be compounded in extreme scenarios or if multiple factors occur at the same time. At times the impact of changes in certain market factors or a combination of multiple factors on RBC ratios can be counterintuitive. Factors include:

- In general, as equity market levels and interest rates decline, the amount and volatility of both our actual potential obligation, as well as the related statutory surplus and capital margin for death and living benefit guarantees associated with U.S. variable annuity contracts can be materially negatively affected, sometimes at a greater than linear rate. Other market factors that can impact statutory surplus, reserve levels and capital margin include differences in performance of variable subaccounts relative to indices and/or realized equity and interest rate volatilities. In addition, as equity market levels increase, generally surplus levels will increase. RBC ratios will also tend to increase when equity markets increase. However, as a result of a number of factors and market conditions, including the level of hedging costs and other risk transfer activities, reserve requirements for death and living benefit guarantees and RBC requirements could increase with rising equity markets, resulting in lower RBC ratios.

Non-market factors, which can also impact the amount and volatility of both our actual potential obligation, as well as the related statutory surplus and capital margin, include actual and estimated policyholder behavior experience as it pertains to lapsation, partial withdrawals, and mortality.

- As the value of certain fixed-income and equity securities in our investment portfolio decreases, due in part to credit spread widening, statutory surplus and RBC ratios may decrease.
- As the value of certain derivative instruments that do not get hedge accounting decreases, statutory surplus and RBC ratios may decrease.

- Our statutory surplus is also impacted by widening credit spreads as a result of the accounting for the assets and liabilities in our fixed market value adjusted ("MVA") annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, we are required to use current crediting rates in the U.S. In many capital market scenarios, current crediting rates in the U.S. are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, such as we have experienced in 2008 and 2009, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. As actual credit spreads are not fully reflected in the current crediting rates in the U.S. the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in reductions in statutory surplus. This has resulted and may continue to result in the need to devote significant additional capital to support the product.
- With respect to our fixed annuity business, sustained low interest rates may result in a reduction in statutory surplus and an increase in NAIC required capital.

Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital we must hold in order to maintain our current ratings.

The Company has reinsured approximately 21% of its risk associated with U.S. GMWB and 78% of its risk associated with the aggregate U.S. GMDB exposure. These reinsurance agreements serve to reduce the Company's exposure to changes in the statutory reserves and the related capital and RBC ratios associated with changes in the capital markets. The Company also continues to explore other solutions for mitigating the capital market risk effect on surplus, such as internal and external reinsurance solutions, modifications to our hedging program, changes in product design and expense management.

Credit Risk

Credit risk is defined as the risk of financial loss due to uncertainty of an obligor’s or counterparty’s ability or willingness to meet its obligations in accordance with contractually agreed upon terms. The majority of the Company’s credit risk is concentrated in its investment holdings but is also present in reinsurance and insurance portfolios. Credit risk is comprised of three major factors: the risk of change in credit quality, or credit migration risk; the risk of default; and the risk of a change in value of a financial instrument due to changes in credit spread that are unrelated to changes in obligor credit quality. A decline in creditworthiness is typically associated with an increase in an investment’s credit spread, potentially resulting in an increase in other-than-temporary impairments and an increased probability of a realized loss upon sale.

The objective of the Company’s enterprise credit risk management strategy is to identify, quantify, and manage credit risk on an aggregate portfolio basis and to limit potential losses in accordance with an established credit risk appetite. The Company manages to its risk appetite by primarily holding a diversified mix of investment grade issuers and counterparties across its investment, reinsurance, and insurance portfolios. Potential losses are also limited within portfolios by diversifying across geographic regions, asset types, and sectors.

The Company manages a credit exposure from its inception to its maturity or sale. Both the investment and reinsurance areas have formulated procedures for counterparty approvals and authorizations. Although approval processes may vary by area and type of credit risk, approval processes establish minimum levels of creditworthiness and financial stability. Eligible credits are subjected to prudent and conservative underwriting reviews. Within the investment portfolio, private securities, such as commercial mortgages, and private placements, must be presented to their respective review committees for approval.

Credit risks are managed on an on-going basis through the use of various processes and analyses. At the investment, reinsurance, and insurance product levels, fundamental credit analyses are performed at the issuer/counterparty level on a regular basis. To provide a holistic review within the investment portfolio, fundamental analyses are supported by credit ratings, assigned by nationally recognized rating agencies or internally assigned, and by quantitative credit analyses. The Company utilizes a credit value at risk ("VaR") to measure default and migration risk on a monthly basis. Issuer and security level risk measures are also utilized. In the event of deterioration in credit quality, the Company maintains watch lists of problem counterparties within the investment and reinsurance portfolios. The watch lists are updated based on regular credit examinations and management reviews. The Company also performs quarterly assessments of probable expected losses in the investment portfolio. The process is conducted on a sector basis and is intended to promptly assess and identify potential problems in the portfolio and to recognize necessary impairments.

Credit risk policies at the enterprise and operation level ensure comprehensive and consistent approaches to quantifying, evaluating, and managing credit risk under expected and stressed conditions. These policies define the scope of the risk, authorities, accountabilities, terms, and limits, and are regularly reviewed and approved by senior management and ERM. Aggregate counterparty credit quality and exposure is monitored on a daily basis utilizing an enterprise-wide credit exposure information system that contains data on issuers, ratings, exposures, and credit limits. Exposures are tracked on a current and potential basis. Credit exposures are reported regularly to the ERCC and to the Finance, Investment and Risk Management Committee (“FIRMCo”). Exposures are aggregated by ultimate parent across investments, reinsurance receivables, insurance products with credit risk, and derivative counterparties. The credit database and reporting system are available to all key credit practitioners in the enterprise.

The Company exercises various and differing methods to mitigate its credit risk exposure within its investment and reinsurance portfolios. Some of the reasons for mitigating credit risk include financial instability or poor credit, avoidance of arbitration or litigation, future uncertainty, and exposure in excess of risk tolerances. Credit risk within the investment portfolio is most commonly mitigated through the use of derivative instruments or asset sales. Counterparty credit risk is mitigated through the practice of entering into contracts only with highly creditworthy institutions and through the practice of holding and posting of collateral. Systemic credit risk is mitigated through the construction of high-quality, diverse portfolios that are subject to regular underwriting of credit risks. For further discussion of the Company’s investment and derivative instruments, see the Portfolio Risks and Risk Management section and Note 6 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial

Statements. Further discussion on managing and mitigating credit risk from the use of reinsurance via an enterprise security review process, see the Reinsurance as a Risk Management Strategy within the Insurance Risk Management section.

As of June 30, 2014, the Company had no exposures to any credit concentration risk of a single issuer or counterparty greater than 10% of the Company's stockholders' equity, other than the U.S. government. For further discussion of concentration of credit risk, see the Concentration of Credit Risk section in Note 6 - Investments and Derivative Instruments of Notes to Consolidated Financial Statements in The Hartford's 2013 Form 10-K Annual Report.

Derivative Instruments

The Company utilizes a variety of over-the-counter ("OTC"), OTC-cleared and exchange-traded derivative instruments as a part of its overall risk management strategy, as well as to enter into replication transactions. Derivative instruments are used to manage risk associated with interest rate, equity market, credit spread, issuer default, price, and currency exchange rate risk or volatility. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that are permissible investments under the Company’s investment policies. For further information on the Company’s use of derivatives, see Note 6 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Derivative activities are monitored and evaluated by the Company’s compliance and risk management teams and reviewed by senior management. In addition, the Company monitors counterparty credit exposure on a monthly basis to ensure compliance with Company policies and statutory limitations. The notional amounts of derivative contracts represent the basis upon which pay or receive amounts are calculated and are not reflective of credit risk. Downgrades to the credit ratings of The Hartford’s insurance operating companies may have adverse implications for its use of derivatives including those used to hedge benefit guarantees of variable annuities. In some cases, downgrades may give derivative counterparties for OTC derivatives the unilateral contractual right to cancel and settle outstanding derivative trades or require additional collateral to be posted. In addition, downgrades may result in counterparties becoming unwilling to engage in additional OTC derivatives or may require collateralization before entering into any new trades. This will restrict the supply of derivative instruments commonly used to hedge variable annuity guarantees, particularly long-dated equity derivatives and interest rate swaps. Under these circumstances, the Company’s operating subsidiaries could conduct hedging activity using a combination of cash and exchange-traded instruments, in addition to using the available OTC derivatives.

The Company uses various derivative counterparties in executing its derivative transactions. The use of counterparties creates credit risk that the counterparty may not perform in accordance with the terms of the derivative transaction. The Company has derivative counterparty exposure policies which limit the Company’s exposure to credit risk. The Company’s policies with respect to derivative counterparty exposure establishes market-based credit limits, favors long-term financial stability and creditworthiness of the counterparty and typically requires credit enhancement/credit risk reducing agreements. The Company minimizes the credit risk of derivative instruments by entering into transactions with high quality counterparties primarily rated A or better, which are monitored and evaluated by the Company’s risk management team and reviewed by senior management. The Company also generally requires that derivative contracts, other than exchange-traded contracts, OTC-cleared swaps, certain forward contracts, and certain embedded and reinsurance derivatives, be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement, which is structured by legal entity and by counterparty and permits right of offset.

The Company has developed credit exposure thresholds which are based upon counterparty ratings. Credit exposures are measured using the market value of the derivatives, resulting in amounts owed to the Company by its counterparties or potential payment obligations from the Company to its counterparties. The Company generally enters into credit support annexes in conjunction with the ISDA agreements, which require daily collateral settlement based upon agreed upon thresholds. For purposes of daily derivative collateral maintenance, credit exposures are generally quantified based on the prior business day’s market value and collateral is pledged to and held by, or on behalf of, the Company to the extent the current value of the derivatives exceed the contractual thresholds. In accordance with industry standard and the contractual agreements, collateral is typically settled on the next business day. The Company has exposure to credit risk for amounts below the exposure thresholds which are uncollateralized, as well as for market fluctuations that may occur between contractual settlement periods of collateral movements.

For the Company’s domestic derivative programs, the maximum uncollateralized threshold for a derivative counterparty for a single legal entity is $10. The Company currently transacts OTC derivatives in five legal entities that have a threshold greater than zero; and therefore the maximum combined threshold for a single counterparty across all legal entities that use derivatives is $50. In addition, the Company may have exposure to multiple counterparties in a single corporate family due to a common credit support provider. As of June 30, 2014 for the Company’s domestic derivative programs, the maximum combined threshold for all counterparties under a single credit support provider across all legal entities that use derivatives is $100. Based on the contractual terms of the collateral agreements, these thresholds may be immediately reduced due to a downgrade in either party's credit rating. For further discussion, see the Derivative Commitments section of Note 11 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

For the six months ended June 30, 2014, the Company has incurred no losses on derivative instruments due to counterparty default.

In addition to counterparty credit risk, the Company may also introduce credit risk through the use of credit default swaps that are entered into to manage credit exposure. Credit default swaps involve a transfer of credit risk of one or many referenced entities from one party to another in exchange for periodic payments. The party that purchases credit protection will make periodic payments based on an agreed upon rate and notional amount, and for certain transactions there will also be an upfront premium payment. The second party, who assumes credit risk, will typically only make a payment if there is a credit event as defined in the contract and such payment will be typically equal to the notional value of the swap contract less the value of the referenced security issuer's debt obligation. A credit event is generally defined as default on contractually obligated interest or principal payments or bankruptcy of the referenced entity.

The Company uses credit derivatives to purchase credit protection and to assume credit risk with respect to a single entity, referenced index, or asset pool. The Company purchases credit protection through credit default swaps to economically hedge and manage credit risk of certain fixed maturity investments across multiple sectors of the investment portfolio. The Company also enters into credit default swaps that assume credit risk as part of replication transactions. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that are permissible investments under the Company's investment policies. These swaps reference investment grade single corporate issuers and baskets, which include customized diversified portfolios of corporate issuers, which are established within sector concentration limits and may be divided into tranches which possess different credit ratings.

Investment Portfolio Risks and Risk Management

Investment Portfolio Composition

The following table presents the Company's fixed maturities, AFS, by credit quality. The average credit ratings referenced below and throughout this section are based on availability and the midpoint of the applicable ratings among Moody's, S&P, Fitch and Morningstar. If no rating is available from a rating agency, then an internally developed rating is used.

Fixed Maturities by Credit Quality

	June 30, 2014				December 31, 2013			
	Amortized Cost	Fair Value	Percent of Total Fair Value		Amortized Cost	Fair Value	Percent of Total Fair Value	
United States Government/Government agencies	$7,295	$7,569	12.5	%	$8,231	$8,208	13.2	%
AAA	6,468	6,731	11.2	%	6,215	6,376	10.2	%
AA	9,754	10,458	17.4	%	12,054	12,273	19.7	%
A	15,088	16,437	27.3	%	14,777	15,498	24.9	%
BBB	14,249	15,402	25.5	%	15,555	16,087	25.7	%
BB & below	3,464	3,649	6.1	%	3,809	3,915	6.3	%
Total fixed maturities, AFS	$56,318	$60,246	100	%	$60,641	$62,357	100	%

The value of securities in the AA category declined as compared to December 31, 2013, primarily due to the sale of Japan Government bonds that were sold as a result of the disposition of HLIKK. The value of securities in the A category increased as a percentage of total as a result of the reduction in the AA rated securities discussed above, and the impact of higher valuations as a result of lower market interest rates and tighter credit spreads. In addition, the value of securities in the BBB and BB & below categories has declined, primarily due to sales of certain emerging market securities. Fixed maturities, FVO, are not included in the above table. For further discussion on fair value option securities, see Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

The following table presents the Company’s AFS securities by type, as well as fixed maturities, FVO.

Securities by Type

	June 30, 2014					December 31, 2013				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Fair Value
ABS										
Consumer loans	$1,903	$ 13	$ (29)	$1,887	3.1 %	$1,982	$ 11	$ (48)	$1,945	3.1 %
Small business	177	12	(11)	178	0.3 %	194	3	(16)	181	0.3 %
Other	233	11	—	244	0.4 %	228	11	—	239	0.4 %
Collateralized debt obligations ("CDOs")										
Collateralized loan obligations (“CLOs”)	1,842	4	(23)	1,823	3.0 %	1,781	3	(34)	1,750	2.8 %
Commercial real estate ("CREs")	135	96	(12)	219	0.4 %	176	88	(16)	248	0.4 %
Other [1]	383	18	(12)	392	0.7 %	383	17	(9)	389	0.6 %
Commercial mortgage-backed securities ("CMBS")										
Agency backed [2]	1,145	45	(3)	1,187	2.0 %	1,068	20	(12)	1,076	1.7 %
Bonds	2,899	151	(11)	3,039	5.0 %	2,836	168	(31)	2,973	4.8 %
Interest only (“IOs”)	451	30	(11)	470	0.8 %	384	28	(15)	397	0.6 %
Corporate										
Basic industry	1,868	133	(7)	1,994	3.3 %	2,085	106	(38)	2,153	3.5 %
Capital goods	1,933	208	(2)	2,139	3.6 %	2,077	161	(14)	2,224	3.6 %
Consumer cyclical	1,652	132	(2)	1,782	3.0 %	1,801	119	(17)	1,903	3.1 %
Consumer non-cyclical	3,466	364	(1)	3,829	6.4 %	3,600	288	(21)	3,867	6.2 %
Energy [3]	3,411	374	(3)	3,782	6.3 %	2,384	174	(17)	2,541	4.1 %
Financial services	5,171	417	(88)	5,500	9.1 %	5,044	287	(145)	5,186	8.3 %
Tech./comm.	3,197	368	(6)	3,559	5.9 %	3,223	223	(28)	3,418	5.5 %
Transportation	891	85	(2)	974	1.6 %	972	65	(13)	1,024	1.6 %
Utilities [3]	4,452	471	(14)	4,909	8.1 %	5,605	386	(51)	5,940	9.5 %
Other	182	18	—	200	0.3 %	222	14	(2)	234	0.4 %
Foreign govt./govt. agencies	1,650	79	(22)	1,707	2.8 %	4,228	52	(176)	4,104	6.6 %
Municipal										
Taxable	1,129	101	(5)	1,225	2.0 %	1,299	32	(67)	1,264	2.0 %
Tax-exempt	10,667	832	(11)	11,488	19.1 %	10,633	393	(117)	10,909	17.5 %
RMBS										

Agency	2,993	103	(7)	3,089	5.1 %	3,366	59	(38)	3,387	5.4 %
Non-agency	120	5	—	125	0.2 %	86	—	—	86	0.1 %
Sub-prime	1,211	27	(26)	1,212	2.0 %	1,187	31	(44)	1,174	1.9 %
U.S. Treasuries	3,157	146	(10)	3,293	5.5 %	3,797	7	(59)	3,745	6.0 %
Fixed maturities, AFS	56,318	4,243	(318)	60,246	100 %	60,641	2,746	(1,028)	62,357	100 %
Equity securities										
Financial services	213	21	(16)	218	26.5 %	233	11	(29)	215	24.8 %
Other	566	56	(17)	605	73.5 %	617	56	(20)	653	75.2 %
Equity securities, AFS	779	77	(33)	823	100 %	850	67	(49)	868	100 %
Total AFS securities	$57,097	$ 4,320	$ (351)	$61,069		$61,491	$ 2,813	$ (1,077)	$63,225	
Fixed maturities, FVO				$410					$844	

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

[2] Includes securities with pools of loans issued by the Small Business Administration which are backed by the full faith and credit of the U.S. government.

[3] Securities with an amortized cost and fair value of $1.0 billion and $1.1 billion, respectively, as of December 31, 2013, were reclassified as of June 30, 2014 from utilities to energy as a result of an update to the Barclays bond index which is the primary component used in determining the classification in the above table.

The decline in the fair value of AFS and FVO securities as compared to December 31, 2013 is primarily attributable to the sale of HLIKK, partially offset by higher valuations as a result of a decrease in interest rates and tighter credit spreads. The holdings reflect tactical changes to the portfolio as a result of changing market conditions, including modest increases in financial services and CMBS sectors while the Company reduced exposure from emerging market securities, primarily within the foreign government and corporate sectors.

The Company previously held foreign government securities accounted for under the FVO in order to align with the accounting for the yen-based fixed annuity liabilities previously reinsured from HLIKK to U.S. subsidiaries, which were adjusted for changes in foreign-exchange spot rates through earnings. For further discussion on fair value option securities, see Note 5 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

Emerging Market Exposure

Early in 2014, emerging market securities were negatively impacted by lower European interest rates, increased political tension in eastern Europe, softer-than-expected economic growth, as well as trade and budget deficits, raising the potential for destabilizing capital outflows and rapid currency depreciation, causing bondholders to demand a higher yield which caused the the fair value of securities held to decline. Credit spreads for emerging market securities have narrowed resulting in higher valuations for securities held; however, we expect continued sensitivity to geopolitical events, the ongoing evolution of Fed policy and other economic factors, including contagion risk.

The Company has limited direct exposure within its investment portfolio to emerging market issuers, totaling only 2% of total invested assets as of June 30, 2014, and is primarily comprised of sovereign and corporate debt issued in US dollars. The Company identifies exposures with the issuers' ultimate parent country of domicile, which may not be the country of the security issuer. The following table presents the Company's exposure to securities within certain emerging markets currently under the greatest stress, defined as countries that have a sovereign S&P credit rating of B- or below; or countries that have had a current account deficit and have an inflation level greater than 5%, for the past six months or more.

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Argentina	$3	$3	$38	$40
Brazil	171	174	274	257
India	57	60	62	62
Indonesia	95	91	107	93
Lebanon	29	29	26	26
South Africa	56	55	65	60
Turkey	64	65	88	79
Ukraine	5	5	50	50
Uruguay	26	27	27	25
Venezuela	5	5	67	60
Other	21	22	—	—
Total	$532	$536	$804	$752

The Company manages the credit risk associated with emerging market securities within the investment portfolio on an on-going basis using macroeconomic analysis and issuer credit analysis subject to diversification and individual credit risk management limits. For additional details regarding the Company's management of credit risk, see the Credit Risk section of this MD&A. Due to increased political tensions in Argentina, Ukraine, and Venezuela, the Company substantially reduced its exposure to these economies during the first quarter of 2014.

In addition, the Company has limited exposure to the Russian Federation, with a total amortized cost and fair value of $66 and $64, respectively, as of June 30, 2014. The exposure is primarily comprised of government and government agency bonds, but also includes corporate bonds.

Financial Services

The Company’s exposure to the financial services sector is predominantly through investment grade banking and insurance institutions. The following table presents the Company’s fixed maturity, AFS and equity, AFS securities in the financial services sector that are included in the Securities by Type table above.

	June 30, 2014			December 31, 2013		
	Amortized Cost	Fair Value	Net Unrealized	Amortized Cost	Fair Value	Net Unrealized
AAA	$39	$41	$ 2	$49	$52	$ 3
AA	494	531	37	468	493	25
A	2,696	2,880	184	2,518	2,616	98
BBB	1,890	1,957	67	1,978	1,952	(26)
BB & below	265	309	44	264	288	24
Total	$5,384	$5,718	$ 334	$5,277	$5,401	$ 124

The overall increase in the financial services sector is primarily due to a modest increase in the allocation to the sector as well as higher valuations as a result of decreasing interest rates and credit spread tightening. Credit spreads for corporate financial services securities have continued to narrow during 2014, consistent with other sectors.

Commercial Real Estate

Commercial real estate market fundamentals including, property prices, financial conditions, transaction volume, and delinquencies, continue to improve. In addition, the availability of credit has increased and there is now less concern about the ability of borrowers to refinance as loans come due.

The following table presents the Company’s exposure to CMBS bonds by current credit quality and vintage year, included in the Securities by Type table above. Credit protection represents the current weighted average percentage of the outstanding capital structure subordinated to the Company’s investment holding that is available to absorb losses before the security incurs the first dollar loss of principal and excludes any equity interest or property value in excess of outstanding debt.

CMBS – Bonds [1]

June 30, 2014

	AAA		AA		A		BBB		BB and Below		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
2003 & Prior	$9	$9	$19	$20	$17	$18	$11	$11	$22	$25	$78	$83
2004	35	35	82	89	19	19	4	4	—	—	140	147
2005	270	286	86	90	94	97	89	90	46	46	585	609
2006	304	324	105	114	114	122	81	85	127	127	731	772
2007	215	230	191	205	78	84	41	41	109	108	634	668
2008	43	48	—	—	—	—	—	—	—	—	43	48
2009	11	12	—	—	—	—	—	—	—	—	11	12
2010	18	20	—	—	—	—	—	—	—	—	18	20
2011	56	62	—	—	—	—	6	6	—	—	62	68
2012	44	45	—	—	14	14	11	11	—	—	69	70
2013	29	29	94	97	71	75	12	13	—	—	206	214
2014	294	299	21	22	7	7	—	—	—	—	322	328
Total	$1,328	$1,399	$598	$637	$414	$436	$255	$261	$304	$306	$2,899	$3,039
Credit protection	32.7%		24.7%		20.2%		24.5%		9.4%		26.1%	

December 31, 2013

	AAA		AA		A		BBB		BB and Below		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
2003 & Prior	$10	$10	$35	$36	$6	$6	$10	$10	$31	$33	$92	$95
2004	79	80	77	83	29	29	13	13	7	12	205	217
2005	307	324	79	82	101	104	71	71	68	75	626	656
2006	336	362	107	116	120	127	102	106	224	238	889	949
2007	188	202	211	218	112	127	—	—	130	125	641	672
2008	43	49	—	—	—	—	—	—	—	—	43	49
2009	11	11	—	—	—	—	—	—	—	—	11	11
2010	18	19	—	—	—	—	—	—	—	—	18	19
2011	63	66	—	—	—	—	6	5	—	—	69	71
2012	35	34	—	—	8	8	11	10	—	—	54	52
2013	30	29	89	86	59	58	10	9	—	—	188	182
Total	$1,120	$1,186	$598	$621	$435	$459	$223	$224	$460	$483	$2,836	$2,973
Credit protection	31.9%		25.9%		19.7%		19.8%		12.2%		24.6%	

[1] The vintage year represents the year the pool of loans was originated.

The Company also has exposure to CRE CDOs with an amortized cost and fair value of $135 and $219, respectively, as of June 30, 2014, and $176 and $248 respectively, as of December 31, 2013. These securities are comprised of diversified pools of commercial mortgage loans or equity positions of other CMBS securitizations. We continue to monitor these investments as economic and market uncertainties regarding future performance impact market liquidity and security premiums.

In addition to CMBS bonds and CRE CDOs, the Company has exposure to commercial mortgage loans as presented in the following table. These loans are collateralized by a variety of commercial properties and are diversified both geographically throughout the United States and by property type. These loans are primarily whole loans, where the Company is the sole lender, or may include participations. Loan participations are loans where the Company has purchased or retained a portion of an outstanding loan or package of loans and participates on a pro-rata basis in collecting interest and principal pursuant to the terms of the participation agreement. In general, A-Note participations have senior payment priority, followed by B-Note participations and then mezzanine loan participations. As of June 30, 2014, loans within the Company's mortgage loan portfolio that have had extensions or restructurings, other than what is allowable under the original terms of the contract, are immaterial.

Commercial Mortgage Loans

	June 30, 2014			December 31, 2013		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Agricultural	$68	$(6)	$62	$132	$(7)	$125
Whole loans	5,345	(13)	5,332	5,223	(10)	5,213
A-Note participations	156	—	156	192	—	192
B-Note participations	17	—	17	99	(50)	49
Mezzanine loans	19	—	19	19	—	19
Total	$5,605	$(19)	$5,586	$5,665	$(67)	$5,598

[1] Amortized cost represents carrying value prior to valuation allowances, if any.

The increase in whole loans is attributable to the increased allocation to this asset class. During 2014, the Company funded $203 of commercial whole loans with a weighted average loan-to-value ("LTV") ratio of 60% and a weighted average yield of 4.13%. The Company continues to originate commercial whole loans within primary markets, office, industrial and multi-family, focusing on loans with strong LTV ratios and high quality property collateral. The decline in the valuation allowance as compared to December 31, 2013 resulted from the sale of the underlying collateral supporting a B-note participation. The loan was fully reserved for and the Company did not recover any funds as a result of the sale. Included in the table above are mortgage loans held-for-sale with a carrying value and valuation allowance of $61 and $3, respectively, as of December 31, 2013. The carrying value of these loans is included in mortgage loans in the Company’s Condensed Consolidated Balance Sheets. There were no mortgage loans held-for-sale as of June 30, 2014.

Municipal Bonds

The following table summarizes the amortized cost, fair value, and weighted average credit quality of the Company's investments in securities backed by states, municipalities and political subdivisions ("municipal bonds").

	June 30, 2014			December 31, 2013		
	Amortized Cost	Market Value	Weighted Average Credit Quality	Amortized Cost	Market Value	Weighted Average Credit Quality
General Obligation	$2,277	$2,484	AA-	$2,358	$2,455	AA
Pre-Refunded [1]	597	630	AAA	567	605	AAA
Revenue						
Transportation	1,715	1,857	A+	1,880	1,879	A
Health Care	1,409	1,524	AA-	1,305	1,335	AA
Water & Sewer	1,201	1,281	AA	1,455	1,476	AA-
Education	1,141	1,229	AA	1,077	1,105	AA
Leasing [2]	814	892	A+	877	897	AA-
Sales Tax	874	949	AA-	793	795	AA-
Power	724	779	A+	706	722	A+
Housing	166	168	AA	177	171	AA
Other	878	920	AA-	737	733	A+
Total Revenue	8,922	9,599	AA-	9,007	9,113	AA-
Total Municipal	$11,796	$12,713	AA-	$11,932	$12,173	AA-

[1] Pre-refunded bonds are bonds for which an irrevocable trust containing sufficient U.S. treasury, agency, or other securities has been established to fund the remaining payments of principal and interest.

[2] Leasing revenue bonds are generally the obligations of a financing authority established by the municipality that leases facilities back to a municipality. The notes are typically secured by lease payments made by the municipality that is leasing the facilities financed by the issue. Lease payments may be subject to annual appropriation by the municipality or the municipality may be obligated to appropriate general tax revenues to make lease payments.

As of June 30, 2014 the largest issuer concentrations were the states of Illinois, California and Massachusetts, which each comprised less than 3% of the municipal bond portfolio and were primarily comprised of general obligation and taxable bonds. As of December 31, 2013, the largest issuer concentrations were the states of Illinois, California and Massachusetts, which each comprised less than 3% of the municipal bond portfolio and were primarily comprised of general obligation and taxable bonds.

Limited Partnerships and Other Alternative Investments

The following table presents the Company's investments in limited partnerships and other alternative investments which include hedge funds, mortgage and real estate funds, mezzanine debt funds, and private equity and other funds. Hedge funds are comprised of approximately half credit and equity related funds and approximately half global macro related funds with a market neutral focus. Mortgage and real estate funds consist of investments in funds whose assets consist of mortgage loans, mortgage loan participations, mezzanine loans or other notes which may be below investment grade, as well as equity real estate and real estate joint ventures. Mezzanine debt funds include investments in funds whose assets consist of subordinated debt that often incorporates equity-based options such as warrants and a limited amount of direct equity investments. Private equity and other funds primarily consist of investments in funds whose assets typically consist of a diversified pool of investments in small to mid-sized non-public businesses with high growth potential.

	June 30, 2014			December 31, 2013		
	Amount	Percent		Amount	Percent	
Hedge funds	$1,135	39.2	%	$1,341	44.1	%
Mortgage and real estate funds	576	19.8	%	534	17.6	%

Mezzanine debt funds	70	2.4	%	82	2.7	%
Private equity and other funds	1,121	38.6	%	1,083	35.6	%
Total	$2,902	100	%	$3,040	100	%

Available-for-Sale Securities — Unrealized Loss Aging

The total gross unrealized losses were $351 as of June 30, 2014, and have decreased $726, or 67%, from December 31, 2013 due to decreases in interest rates and tighter credit spreads. As of June 30, 2014, $304 of the gross unrealized losses were associated with securities depressed less than 20% of cost or amortized cost.

The remaining $47 of gross unrealized losses were associated with securities depressed greater than 20%. The securities depressed more than 20% are primarily floating rate corporate financial services securities and securities with exposure to commercial and residential real estate that have market spreads that continue to be wider than the spreads at the securities' respective purchase dates. Corporate financial securities are primarily depressed because the securities have floating-rate coupons and/or have long-dated maturities. Unrealized losses on securities with exposure to commercial and residential real estate are largely due to the continued market and economic uncertainties surrounding the performance of certain structures or vintages. Based upon the Company's cash flow modeling and current market and collateral performance assumptions, these securities with exposure to commercial and residential real estate have sufficient credit protection levels to receive contractually obligated principal and interest payments.

As part of the Company's ongoing security monitoring process, the Company has reviewed its AFS securities in an unrealized loss position and concluded that these securities are temporarily depressed and are expected to recover in value as the securities approach maturity or as market spreads continue to improve. For these securities in an unrealized loss position where a credit impairment has not been recorded, the Company's best estimate of expected future cash flows are sufficient to recover the amortized cost basis of the security. Furthermore, the Company neither has an intention to sell nor does it expect to be required to sell these securities. For further information regarding the Company's impairment analysis, see Other-Than-Temporary Impairments in the Investment Portfolio Risks and Risk Management section of this MD&A.

The following table presents the Company's unrealized loss aging for AFS securities by length of time the security was in a continuous unrealized loss position.

	June 30, 2014				December 31, 2013			
Consecutive Months	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]
Three months or less	817	$ 1,729	$ 1,714	$ (15)	1,184	$ 10,056	$ 9,939	$ (117)
Greater than three to six months	284	379	375	(4)	349	1,200	1,167	(33)
Greater than six to nine months	129	158	157	(1)	956	6,362	5,988	(374)
Greater than nine to eleven months	99	97	94	(3)	148	413	374	(39)
Twelve months or more	872	6,725	6,400	(328)	578	5,625	5,109	(514)
Total	2,201	$ 9,088	$ 8,740	$ (351)	3,215	$ 23,656	$ 22,577	$ (1,077)

[1] Unrealized losses exclude the fair value of bifurcated embedded derivative features of certain securities as changes in value are recorded in net realized capital gains (losses).

The following tables present the Company's unrealized loss aging for AFS securities continuously depressed over 20% by length of time (included in the table above).

	June 30, 2014				December 31, 2013			
Consecutive Months	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]
Three months or less	43	$ 29	$ 22	$ (7)	63	$ 213	$ 162	$ (51)
Greater than three to six months	22	20	15	(5)	20	177	130	(47)
Greater than six to nine months	10	50	39	(11)	28	449	336	(113)

Greater than nine to eleven months	9	2	1	(1)	10	4	3	(1)
Twelve months or more	57	73	50	(23)	58	132	93	(39)
Total	141	$174	$127	$(47)	179	$975	$724	$(251)

[1] Unrealized losses exclude the fair value of bifurcated embedded derivatives features of certain securities as changes in value are recorded in net realized capital gains (losses).

Other-Than-Temporary Impairments

The following table presents the Company’s impairments recognized in earnings by security type.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
ABS	$—	$—	$—	$4
CRE CDOs	—	—	—	2
CMBS				
Bonds	—	6	—	9
IOs	—	1	—	1
Corporate	4	5	22	10
Equity	—	—	2	6
Municipal	1	—	1	—
RMBS				
Agency	1	—	3	—
Sub-prime	1	—	1	1
Other	—	—	—	—
Total	$7	$12	$29	$33

Three and six months ended June 30, 2014

For the three and six months ended June 30, 2014, impairments recognized in earnings were comprised of credit impairments of $4 and $22, respectively, securities the Company intends to sell of $3 and $5, respectively, and impairments on equity securities of $0 and $2, respectively. The mortgage loan valuation allowance increased $3 for the three months ended June 30, 2014 and decreased $48 for the six months ended June 30, 2014. For further discussion see Commercial Mortgage Loans in the Investment Portfolio Risks and Risk Management section of this MD&A.

For the three and six months ended June 30, 2014, credit impairments were primarily concentrated in corporate securities. The primary driver for the corporate and equity impairments was one issuer that has declared bankruptcy and the Company has determined that it is more-likely-than-not that the issuer will not be able to repay a portion of the principal and interest that are owed to the Company and that the decline in the value of equity issued by the entity is other-than-temporary. Also included in the six months ended June 30, 2014, were private placements that were impaired due to declines in expected cash flows related to the underlying referenced money market interest only strips, as a result of the low interest rate environment. The Company’s determination of expected future cash flows used to calculate the credit loss amount is a quantitative and qualitative process. The Company incorporates its best estimate of future performance using internal assumptions and judgments that are informed by economic and industry specific trends, as well as our expectation with respect to security specific developments. Credit impairments for the three and six months ended June 30, 2014 were primarily identified through a security specific reviews and resulted from changes in the financial condition and near term prospects of certain issuers.

In addition to the credit impairments recognized in earnings, the Company recognized non-credit impairments in other comprehensive income of $1 and $2 for the three and six months ended June 30, 2014, respectively. These non-credit impairments represent the difference between fair value and the Company's best estimate of expected future cash flows discounted at the security's effective yield prior to impairment, rather than at current market implied credit spreads. These non-credit impairments primarily represent increases in market liquidity premiums and credit spread widening that occurred after the securities were purchased, as well as a discount for variable-rate coupons which are paying less than at purchase date. In general, larger liquidity premiums and wider credit spreads are the result of deterioration of the underlying collateral performance of the securities.

Future impairments may develop as the result of changes in intent to sell of specific securities or if actual results underperform current modeling assumptions, which may be the result of, but are not limited to, macroeconomic factors and security-specific performance below current expectations. Ultimate loss formation will be a function of macroeconomic factors and idiosyncratic security-specific performance.

Three and six months ended June 30, 2013

For the three months ended June 30, 2013, the Company recognized credit impairments of $12 in earnings. For the six months ended June 30, 2013, impairments recognized in earnings were comprised of credit impairments of $22, impairments on equity securities of $6, and securities that the Company intends to sell of $5. Credit impairments were primarily concentrated in corporate and fixed-rate CMBS bonds and equity securities. The corporate bonds were impaired due to two issuers that have experienced financial difficulty and either defaulted on a payment of interest or it is more-likely-than-not that the issuer will not be able to repay a portion of the principal and interest that are owed to the Company. The structured securities were impaired primarily due to actual performance or property-specific deterioration of the underlying collateral. Intent-to-sell impairments were primarily related to one ABS collateralized by student loans as market pricing continued to improve and the Company intended to reduce its exposure. The net change to the mortgage loan valuation allowance was $0 for the three and six months ended June 30, 2013.

CAPITAL RESOURCES AND LIQUIDITY

The following section discusses the overall financial strength of The Hartford and its insurance operations including their ability to generate cash flows from each of their business segments, borrow funds at competitive rates and raise new capital to meet operating and growth needs over the next twelve months.

Liquidity Requirements and Sources of Capital

The Hartford Financial Services Group, Inc. (Holding Company)

The liquidity requirements of the holding company of The Hartford Financial Services Group, Inc. (“HFSG Holding Company”) have been and will continue to be met by HFSG Holding Company’s fixed maturities, short-term investments and cash, dividends from its insurance operations, as well as the issuance of common stock, debt or other capital securities and borrowings from its credit facilities, as needed.

As of June 30, 2014, HFSG Holding Company held fixed maturities, short-term investments and cash of $1.3 billion. The Hartford has an intercompany liquidity agreement that allows for short-term advances of funds among the HFSG Holding Company and certain affiliates of up to $2.0 billion for liquidity and other general corporate purposes. The Connecticut Insurance Department granted approval for certain affiliated insurance companies that are parties to the agreement to treat receivables from a parent, including the HFSG Holding Company, as admitted assets for statutory accounting purposes. As of June 30, 2014, there were no amounts outstanding with the HFSG holding company. On April 29, 2013 Hartford Life Insurance Company, a subsidiary of the Company, issued a Revolving Note (the "Note") in the principal amount of $100 to Hartford Life and Accident Insurance Company, a subsidiary of the Company, under the intercompany liquidity agreement. The Note bore interest at 0.92% and matured on April 29, 2014. On May 29, 2013 Hartford Life and Annuity Insurance Company, a subsidiary of the Company, issued a Note in the principal amount of $225 to Hartford Life and Accident Insurance Company, under the intercompany liquidity agreement. The Note bore interest at 1.00% and matured on May 29, 2014. On February 28, 2014, the total outstanding balances on these notes were repaid in full. On July 14, 2014, Hartford Fire Insurance Company ("Hartford Fire"), a subsidiary of the Company borrowed a total of $385 from Hartford Accident and Indemnity Company and Hartford Insurance Company of Illinois, both subsidiaries of the Company, under the intercompany liquidity agreement in the principal amounts of $310 and $75, respectively. Both notes mature on July 13, 2015 and accrue interest at a rate of 0.53% per annum. The effects of these intercompany arrangements were eliminated in consolidation.

Until April 1, 2014, HLAI ceded certain variable annuity contracts and their associated riders as well as certain payout annuities issued by HLAI or assumed by it to White River Life Reinsurance Company ("WRR"), an affiliate captive reinsurer. This arrangement provided the Company with a vehicle to provide more efficient financing of the risk associated with this business with internal funds. The reinsurance arrangement between HLAI and WRR did not impact the Company's reserving methodology or the amount of required regulatory capital associated with the reinsured business. The effects of this intercompany arrangement were eliminated in consolidation.

Pursuant to an intercompany note agreement between WRR and HFSG Holding Company, WRR was able to borrow up to $1 billion from the HFSG Holding Company in order to maintain certain statutory capital levels required by its plan of operations and which could have been used by WRR to settle outstanding intercompany payables with HLAI. WRR had $655 outstanding under the intercompany note agreement as of March 31, 2014. The effects of this intercompany arrangement are eliminated in consolidation. Effective April 1, 2014, the Company recaptured all reinsured risks from WRR to HLAI. On April 30, 2014, the Company dissolved WRR which resulted in WRR paying off the $655 surplus note and returning $367 in capital, all of which was contributed as capital to HLAI to support the recaptured risks. This transaction received required regulatory approvals.

In July 2014, the Board of Directors approved a $775 increase in the Company's authorized equity repurchase program that provides the Company with the ability to repurchase $2.775 billion in equity during the period commencing on January 1, 2014 and ending on December 31, 2015. On July 30, 2014, the Company entered into an accelerated share repurchase agreement (“ASR”) with a major financial institution. Under the terms of the agreement, on July 31, 2014 The Hartford will pay $525 and receive an initial delivery of approximately 11.2 million shares of its common stock. The actual per share purchase price and the total number of shares to be repurchased will be based on the volume weighted average price, or VWAP, of the Company’s common stock during the term of the ASR, less a discount and subject to certain adjustments. Final maturity of the ASR will occur no sooner than September 2, 2014 and no later than December 23, 2014 at the financial institution's discretion.

In July 2014, the Board also authorized the Company to allocate up to $500, including any premium or associated costs, to reduce debt outstanding in addition to repayment of 4% senior notes due March 2015 and 7.3% senior notes due November 2015 upon maturity. The Company expects to complete the $500 debt reduction by the end of 2014.

Expected liquidity requirements of the HFSG Holding Company for the next twelve months include interest on debt of approximately $370 and common stockholder dividends, subject to the discretion of the Board of Directors, of approximately $275.

Equity

During the six months ended June 30, 2014, the Company repurchased 19.0 million common shares for $651, under the equity repurchase program. In addition, the Company repurchased 3.9 million common shares, for $140, from July 1, 2014 to July 29, 2014.

Debt

For additional information regarding debt, see Note 15 - Debt of Notes to Condensed Consolidated Financial Statements.

Dividends

On February 27, 2014, The Hartford's Board of Directors declared a quarterly dividend of $0.15 per common share payable on April 1, 2014 to common shareholders of record as of March 10, 2014.

On May 22, 2014, The Hartford's Board of Directors declared a quarterly dividend of $0.15 per common share payable on July 1, 2014 to common shareholders of record as of June 2, 2014.

On July 30, 2014, The Hartford's Board of Directors declared a quarterly dividend of $0.18 per common share payable on October 1, 2014 to common shareholders of record as of September 2, 2014.

There are no current restrictions on the HFSG Holding Company's ability to pay dividends to its shareholders. For a discussion of restrictions on dividends to the HFSG Holding Company from its insurance subsidiaries, see "Dividends from Insurance Subsidiaries" below. For a discussion of potential restrictions on the HFSG Holding Company's ability to pay dividends, see the risk factor "Our ability to declare and pay dividends is subject to limitations" in Item 1A of Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Pension Plans and Other Postretirement Benefits

While the Company has significant discretion in making voluntary contributions to the U. S. qualified defined benefit pension plan, the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, the Worker, Retiree, and Employer Recovery Act of 2008, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010, the Moving Ahead for Progress in the 21st Century Act of 2012 (MAP-21), and Internal Revenue Code regulations mandate minimum contributions in certain circumstances. The Company does not have a 2014 required minimum funding contribution for the U.S. qualified defined benefit pension plan and the funding requirements for all pension plans are expected to be immaterial. The Company presently anticipates contributing approximately $100 in 2014 to its pension plans, based upon certain economic and business assumptions. These assumptions include, but are not limited to, equity market performance, changes in interest rates and the Company’s other capital requirements.

Dividends from Insurance Subsidiaries

Dividends to the HFSG Holding Company from its insurance subsidiaries are restricted by insurance regulation. The payment of dividends by Connecticut-domiciled insurers is limited under the insurance holding company laws of Connecticut. These laws require notice to and approval by the state insurance commissioner for the declaration or payment of any dividend, which, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of the insurer’s policyholder surplus as of December 31 of the preceding year or (ii) net income (or net gain from operations, if such company is a life insurance company) for the twelve-month period ending on the thirty-first day of December last preceding, in each case determined under statutory insurance accounting principles. In addition, if any dividend of a Connecticut-domiciled insurer exceeds the insurer’s earned surplus, it requires the prior approval of the Connecticut Insurance Commissioner. The insurance holding company laws of the other jurisdictions in which The Hartford’s insurance subsidiaries are incorporated (or deemed commercially domiciled) generally contain similar (although in certain instances somewhat more restrictive) limitations on the payment of dividends. Dividends paid to HFSG Holding Company by its life insurance subsidiaries are further dependent on cash requirements of HLI and other factors. In addition to statutory limitations on paying dividends, the Company also takes other items into consideration when determining dividends from subsidiaries. These considerations include, but are not limited to expected earnings and capitalization of the subsidiary, regulatory capital requirements and liquidity requirements of the individual operating company.

Before considering the transactions discussed below, the Company’s property-casualty insurance subsidiaries are permitted to pay up to a maximum of approximately $1.5 billion in dividends to HFSG Holding Company in 2014 without prior approval from the applicable insurance commissioner and the domestic life insurance subsidiaries' dividend limitation under the holding company laws of Connecticut is $560 in 2014.

For the six months ended June 30, 2014, HFSG Holding Company received $475 in dividends from its property-casualty insurance subsidiaries. The amounts received from its property-casualty insurance subsidiaries included $75 related to funding interest payments on an intercompany note between Hartford Holdings Inc. ("HHI") and Hartford Fire.

On January 30, 2014, The Hartford received approval from the State of Connecticut Insurance Department ("CTDOI") for HLAI and HLIC to dividend approximately $800 of cash and invested assets to HLA and this dividend was paid on February 27, 2014. All of the issued and outstanding equity of HLIC was then distributed from HLA to HLI. As a result, HLA and HLIC have no remaining ordinary dividend capacity for the twelve months following this transaction. Any additional dividends from HLA and HLIC in 2014 would be extraordinary in nature and require prior approval from the CTDOI.

On July 14 and 15, 2014, HFSG Holding Company received approximately $2.0 billion in dividends from Hartford Fire through a series of transactions affecting the property and casualty and life insurance subsidiaries. These dividends consisted of approximately $600 in accelerated ordinary dividends and an extraordinary dividend of approximately $1.4 billion based on approval received from the CTDOI on July 8, 2014. The extraordinary dividend consisted of approximately $900 of proceeds from the sale of HLIKK and approximately $500 from the Company's domestic life insurance subsidiaries based on approval received from the CTDOI on July 8, 2014. This $500 dividend was paid by HLAI to HLIC on July 15, 2014 and then distributed to HLI. HLI then used this dividend and the HLIKK sale proceeds to pay a dividend of $1.4 billion to HHI, its parent. HHI used the $1.4 billion dividend to pay down its obligation under an intercompany note with Hartford Fire. Hartford Fire has no remaining ordinary dividend capacity for the twelve months following this transaction. Any additional dividends from Hartford Fire in 2014 would be extraordinary in nature and require prior approval from the CTDOI. As a result of the accelerated dividend , the Company does not anticipate taking any dividends from from Hartford Fire until the third quarter of 2015.

On February 5, 2013 the Company received approval from the CTDOI for a $1.2 billion extraordinary dividend from its Connecticut domiciled life insurance subsidiaries. This dividend was paid on February 22, 2013.

Other Sources of Capital for the HFSG Holding Company

The Hartford endeavors to maintain a capital structure that provides financial and operational flexibility to its insurance subsidiaries, ratings that support its competitive position in the financial services marketplace (see the “Ratings” section below for further discussion), and shareholder returns. As a result, the Company may from time to time raise capital from the issuance of equity, equity-related debt or other capital securities and is continuously evaluating strategic opportunities. The issuance of common equity, equity-related debt or other capital securities could result in the dilution of shareholder interests or reduced net income due to additional interest expense.

Shelf Registrations

On August 9, 2013, The Hartford filed with the Securities and Exchange Commission (the “SEC”) an automatic shelf registration statement (Registration No. 333-190506) for the potential offering and sale of debt and equity securities. The registration statement allows for the following types of securities to be offered: debt securities, junior subordinated debt securities, preferred stock, common stock, depositary shares, warrants, stock purchase contracts, and stock purchase units. Because The Hartford is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act of 1933, the registration statement went effective immediately upon filing and The Hartford may offer and sell an unlimited amount of securities under the registration statement during its three-year life.

Contingent Capital Facility

The Hartford is party to a put option agreement that provides The Hartford with the right to require the Glen Meadow ABC Trust, a Delaware statutory trust, at any time and from time to time, to purchase The Hartford’s junior subordinated notes in a maximum aggregate principal amount not to exceed $500. Under the Put Option Agreement, The Hartford will pay the Glen Meadow ABC Trust premiums on a periodic basis, calculated with respect to the aggregate principal amount of Notes that The Hartford had the right to put to the Glen Meadow ABC Trust for such period. The Hartford has agreed to reimburse the Glen Meadow ABC Trust for certain fees and ordinary expenses. The Company holds a variable interest in the Glen Meadow ABC Trust where the Company is not the primary beneficiary. As a result, the Company did not consolidate the Glen Meadow ABC Trust. As of June 30, 2014, The Hartford has not exercised its right to require Glen Meadow ABC Trust to purchase the Notes. As a result, the Notes remain a source of capital for the HFSG Holding Company.

Commercial Paper and Revolving Credit Facility

Commercial Paper

While The Hartford’s maximum borrowings available under its commercial paper program are $2.0 billion, the Company is dependent upon market conditions to access short-term financing through the issuance of commercial paper to investors. As of June 30, 2014 there is no commercial paper outstanding.

Revolving Credit Facilities

The Company has a senior unsecured revolving credit facility (the “Credit Facility”) that provides for borrowing capacity up to $1.75 billion (which is available in U.S. dollars, and in Euro, Sterling, Canadian dollars and Japanese Yen) through January 6, 2016. Of the total availability under the Credit Facility, up to $250 is available to support letters of credit issued on behalf of the Company or subsidiaries of the Company. Under the Credit Facility, the Company must maintain a minimum level of consolidated net worth of $14.9 billion. The definition of consolidated net worth under the terms of the Credit Facility, excludes AOCI and includes the Company’s outstanding junior subordinated debentures and perpetual preferred securities, net of discount. In addition, the Company’s maximum ratio of consolidated total debt to consolidated total capitalization is 35%, and the ratio of consolidated total debt of subsidiaries to consolidated total capitalization is limited to 10%. As of June 30, 2014, the Company was in compliance with all financial covenants under the Credit Facility.

HLIKK previously had four revolving credit facilities in support of operations. These credit facilities were transfered with the sale of HLIKK on June 30, 2014.

Derivative Commitments

Certain of the Company’s derivative agreements contain provisions that are tied to the financial strength ratings of the individual legal entity that entered into the derivative agreement as set by nationally recognized statistical rating agencies. If the legal entity’s financial strength were to fall below certain ratings, the counterparties to the derivative agreements could demand immediate and ongoing full collateralization and in certain instances demand immediate settlement of all outstanding derivative positions traded under each impacted bilateral agreement. The settlement amount is determined by netting the derivative positions transacted under each agreement. If the termination rights were to be exercised by the counterparties, it could impact the legal entity’s ability to conduct hedging activities by increasing the associated costs and decreasing the willingness of counterparties to transact with the legal entity. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position as of June 30, 2014 is $1.0 billion. Of this $1.0 billion the legal entities have posted collateral of $1.2 billion in the normal course of business. In addition, the Company has posted collateral of $44 associated with a customized GMWB derivative. Based on derivative market values as of June 30, 2014 a downgrade of one level below the current financial strength ratings by either Moody’s or S&P could require approximately an additional $4 to be posted as collateral. Based on derivative market values as of June 30, 2014 a downgrade by either Moody’s or S&P of two levels below the legal entities’ current financial strength ratings could require approximately an additional $24 of assets to be posted as collateral. These collateral amounts could change as derivative market values change, as a result of changes in our hedging activities or to the extent changes in contractual terms are negotiated. The nature of the collateral that we would post, if required, would be primarily in the form of U.S. Treasury bills, U.S. Treasury notes and government agency securities.

As of June 30, 2014, the aggregate notional amount and fair value of derivative relationships that could be subject to immediate termination in the event of rating agency downgrades to either BBB+ or Baa1 was $398 and $(6), respectively.

On March 6, 2014, Moody’s lowered its counterparty credit and insurer financial strength ratings on Hartford Life Insurance Company to Baa2. Given this downgrade action, termination rating triggers of four derivative counterparty relationships were impacted. The counterparties have the right to terminate the relationships and would have to settle the outstanding derivatives as a result of exercising the termination right. The Company has re-negotiated the rating triggers with one counterparty, and is in the process of re-negotiating the rating triggers with the remaining three counterparties which it expects to successfully complete. Accordingly, the Company's hedging programs have not been adversely impacted by the announcement of the downgrade of Hartford Life Insurance Company. As of June 30, 2014 the notional amount and fair value related to these counterparties are $2.6 billion and $(47), respectively.

Insurance Operations

Current and expected patterns of claim frequency and severity or surrenders may change from period to period but continue to be within historical norms and, therefore, the Company’s insurance operations’ current liquidity position is considered to be sufficient to meet anticipated demands over the next twelve months, including any obligations related to the Company’s restructuring activities. For a discussion and tabular presentation of the Company’s current contractual obligations by period, refer to Off-Balance Sheet Arrangements and Aggregate Contractual Obligations within the Capital Resources and Liquidity section of the MD&A included in The Hartford’s 2013 Form 10-K Annual Report.

The principal sources of operating funds are premiums, fees earned from assets under management and investment income, while investing cash flows originate from maturities and sales of invested assets. The primary uses of funds are to pay claims, claim adjustment expenses, commissions and other underwriting expenses, to purchase new investments and to make dividend payments to the HFSG Holding Company.

The Company’s insurance operations consist of property and casualty insurance products (collectively referred to as “Property & Casualty Operations”) and life insurance and legacy annuity products (collectively referred to as “Life Operations”).

Property & Casualty Operations

Property & Casualty Operations holds fixed maturity securities including a significant short-term investment position (securities with maturities of one year or less at the time of purchase) to meet liquidity needs.

As of June 30, 2014 Property & Casualty Operations' fixed maturities, short-term investments, and cash are summarized as follows:

Fixed maturities	$25,399
Short-term investments	1,299
Cash	178
Less: Derivative collateral	199
Total	$26,677

Liquidity requirements that are unable to be funded by Property & Casualty Operation's short-term investments would be satisfied with current operating funds, including premiums received or through the sale of invested assets. A sale of invested assets could result in significant realized losses.

Life Operations

Life Operations' total general account contractholder obligations are supported by $46 billion of cash and total general account invested assets, excluding equity securities, trading, which includes a significant short-term investment position to meet liquidity needs.

As of June 30, 2014 Life Operations' fixed maturities, short-term investments, and cash are summarized as follows:

Fixed maturities	$34,443
Short-term investments	2,741
Cash	1,330
Less: Derivative collateral	1,060
Total	$37,454

Capital resources available to fund liquidity upon contractholder surrender are a function of the legal entity in which the liquidity requirement resides. Generally, obligations of Group Benefits will be funded by Hartford Life and Accident Insurance Company. Obligations of Talcott Resolution will generally be funded by Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company. Contractholder obligations of the former Retirement Plans business were funded by Hartford Life Insurance Company and of the former Individual Life business were funded by both Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company. See Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements as to the sale of the Retirement Plans and Individual Life businesses and related transfer of invested assets in January 2013.

HLIC, an indirect wholly-owned subsidiary, became a member of the Federal Home Loan Bank of Boston ("FHLBB") in May 2011. Membership allows HLIC access to collateralized advances, which may be used to support various spread-based businesses and enhance liquidity management. The Connecticut Department of Insurance ("CTDOI") will permit HLIC to pledge up to $1.25 billion in qualifying assets to secure FHLBB advances for 2014. The amount of advances that can be taken are dependent on the asset types pledged to secure the advances. The pledge limit is recalculated annually based on statutory admitted assets and capital and surplus. HLIC would need to seek the prior approval of the CTDOI if there were a desire to exceed these limits. As of June 30, 2014, HLIC had no advances outstanding under the FHLBB facility.

Contractholder Obligations	June 30, 2014
Total Life contractholder obligations	$194,716
Less: Separate account assets [1]	141,523
General account contractholder obligations	$53,193
Composition of General Account Contractholder Obligations	
Contracts without a surrender provision and/or fixed payout dates [2]	$22,325
U.S. Fixed MVA annuities and Other [3]	9,429
Guaranteed investment contracts ("GIC") [4]	30
Other [5]	21,409
General account contractholder obligations	$53,193

[1] In the event customers elect to surrender separate account assets or international statutory separate accounts, Life Operations will use the proceeds from the sale of the assets to fund the surrender, and Life Operations' liquidity position will not be impacted. In many instances Life Operations will receive a percentage of the surrender amount as compensation for early surrender (surrender charge), increasing Life Operations' liquidity position. In addition, a surrender of variable annuity separate account or general account assets (see below) will decrease Life Operations' obligation for payments on guaranteed living and death benefits.

[2] Relates to contracts such as payout annuities or institutional notes, other than guaranteed investment products with an MVA feature (discussed below) or surrenders of term life, group benefit contracts or death and living benefit reserves for which surrenders will have no current effect on Life Operations' liquidity requirements.

[3] Relates to annuities that are recorded in the general account (under U.S. GAAP), although these annuities are held in a statutory separate account, as the contractholders are subject to the Company's credit risk. In the statutory separate account, Life Operations is required to maintain invested assets with a fair value greater than or equal to the MVA surrender value of the Fixed MVA contract. In the event assets decline in value at a greater rate than the MVA surrender value of the Fixed MVA contract, Life Operations is required to contribute additional capital to the statutory separate account. Life Operations will fund these required contributions with operating cash flows or short-term investments. In the event that operating cash flows or short-term investments are not sufficient to fund required contributions, the Company may have to sell other invested assets at a loss, potentially resulting in a decrease in statutory surplus. As the fair value of invested assets in the statutory separate account are generally equal to the MVA surrender value of the Fixed MVA contract, surrender of Fixed MVA annuities will have an insignificant impact on the liquidity requirements of Life Operations.

[4] GICs are subject to discontinuance provisions which allow the policyholders to terminate their contracts prior to scheduled maturity at the lesser of the book value or market value. Generally, the market value adjustment reflects changes in interest rates and credit spreads. As a result, the market value adjustment feature in the GIC serves to protect the Company from interest rate risks and limit Life Operations' liquidity requirements in the event of a surrender.

[5] Surrenders of, or policy loans taken from, as applicable, these general account liabilities, which include the general account option for Talcott Resolution's individual variable annuities and the variable life contracts of the former Individual Life business, the general account option for annuities of the former Retirement Plans business and universal life contracts sold by the former Individual Life business, may be funded through operating cash flows of Life Operations, available short-term investments, or Life Operations may be required to sell fixed maturity investments to fund the surrender payment. Sales of fixed maturity investments could result in the recognition of realized losses and insufficient proceeds to fully fund the surrender amount. In this circumstance, Life Operations may need to take other actions, including enforcing certain contract provisions which could restrict surrenders and/or slow or defer payouts. See Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements as to the sale of the Retirement Plans and Individual Life businesses and related transfer of invested assets in January 2013.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Due to the sale of HLIKK the Company's life, annuity and disability total obligations were reduced by approximately 5.6%, or $18 billion. Excluding the sale of HLIKK, there have been no material changes to the Company's aggregate contractual obligations since the filing of the Company's 2013 Form 10-K Annual Report. There have been no material changes to the Company's off-balance sheet arrangements since the filing of the Company's 2013 Form 10-K Annual Report.

Capitalization

The capital structure of The Hartford as of June 30, 2014 and December 31, 2013 consisted of debt and stockholders' equity, summarized as follows:

	June 30, 2014	December 31, 2013	Change
Short-term debt (includes current maturities of long-term debt)	$289	$200	45 %
Short-term due on revolving credit facility	—	238	(100)%
Long-term debt	5,819	6,106	(5)%
Total debt [1]	6,108	6,544	(7)%
Stockholders' equity excluding accumulated other comprehensive income (loss), net of tax ("AOCI")	18,266	18,984	(4)%
AOCI, net of tax	1,162	(79)	NM
Total stockholders' equity	$19,428	$18,905	3 %

Total capitalization including AOCI	$25,536	$25,449	— %
Debt to stockholders' equity	31 %	35 %	
Debt to capitalization	24 %	26 %	

[1] Total debt of the Company excludes $77 and $84 of consumer notes as of June 30, 2014 and December 31, 2013, respectively.

The Hartford's total capitalization increased $0.1 billion, or 0.3%, from December 31, 2013 to June 30, 2014 primarily due to an increase in AOCI, net of tax. AOCI, net of tax, increased from December 31, 2013 to June 30, 2014 primarily due to net unrealized capital gains from securities.

For additional information on AOCI, net of tax, and unrealized capital gains from securities, see Note 18 - Changes in and Reclassifications From Accumulated Other Comprehensive Income of Notes to Condensed Consolidated Financial Statements and Note 6 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Cash Flows

	Six Months Ended June 30,	
	2014	2013
Net cash provided by operating activities	$510	$408
Net cash provided by used for investing activities	$1,729	$1,519
Net cash used for financing activities	$(2,040)	$(2,371)
Cash – end of period	$1,512	$1,740

Cash provided by operating activities increased in 2014 primarily due to a decrease in loss and loss adjustment expenses.

Cash provided by investing activities in 2014 primarily relates to net proceeds from available for sale securities of $2.1 billion, proceeds from business sold of $963, offset by change in short-term investments of $1.5 billion. Cash provided by investing activities in 2013 primarily relates to net proceeds from available for sale securities of $2.4 billion, proceeds from businesses sold of $485, offset by net purchases of derivatives of $1.3 billion.

Cash used for financing activities in 2014 consists primarily of $1.1 billion related to net activity for investments and universal life products, repayment of debt of $200, and acquisition of treasury stock of $651. Cash used for financing activities in 2013 consists primarily of repurchases of long-term debt of $1.0 billion, and net decreases in securities loaned or sold of $847.

Operating cash flows for the six months ended June 30, 2014 and 2013 have been adequate to meet liquidity requirements. On June 30, 2014, the Company completed the sale of its Japan annuity business. The operations of this business are reported as discontinued operations and are primarily in Net cash provided by operating activities. For further information regarding these transactions, see Note 2 - Business Dispositions of Notes to Condensed Consolidated Financial Statements. The sale of this business is not expected to have a material impact on the liquidity of the Company.

Equity Markets

For a discussion of the potential impact of the equity markets on capital and liquidity, see the Enterprise Risk Management section of the MD&A.

Ratings

Ratings impact the Company’s cost of borrowing and its ability to access financing and are an important factor in establishing competitive position in the insurance and financial services marketplace. There can be no assurance that the Company’s ratings will continue for any given period of time or that they will not be changed. In the event the Company’s ratings are downgraded, the Company’s cost of borrowing and ability to access financing, as well as the level of revenues or the persistency of its business may be adversely impacted.

On March 6, 2014, Moody’s Investors Service (“Moody’s) affirmed the debt ratings of The Hartford Financial Services Group, Inc. and the insurance financial strength ratings of its property and casualty subsidiaries and Hartford Life and Accident Insurance Company. The outlook on these entities was changed to positive from stable. Moody’s downgraded the insurance financial strength rating of Hartford Life Insurance Company to Baa2 from A3. Moody’s affirmed the insurance financial strength rating of Hartford Life and Annuity Insurance Company. The outlook for Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company is stable.

On April 3, 2014, A.M. Best revised the outlook to positive from stable and affirmed the issuer credit ratings and debt ratings of The Hartford Financial Services Group, Inc. and the financial strength ratings and issuer credit ratings of the property and casualty subsidiaries. A.M. Best upgraded the financial strength rating of Hartford Life and Accident Insurance Company to A from A- and affirmed the ratings of Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company. The outlook for Hartford Life and Accident Insurance Company, Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company is stable.

On April 15, 2014 Standard & Poor’s (“S&P”) raised its long-term financial strength rating and counterparty credit ratings on Hartford Life and Accident Insurance Company to A from A-. At the same time S&P raised the rating on Hartford Life Inc. to BBB from BBB-. The outlook for Hartford Life and Accident Insurance Company and Hartford Life, Inc. is stable.

On April 22, 2014, Fitch upgraded the insurer financial strength rating of Hartford Life and Accident Insurance Company to A from A- with a stable outlook. Fitch downgraded the insurer financial strength rating of Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company to BBB+ from A- with a stable outlook.

On July 28, 2014 Fitch Ratings announced it plans to withdraw the ratings on Hartford Financial Services Group, Inc. and its subsidiaries on or about August 28, 2014, for commercial reasons.

The following table summarizes The Hartford's significant member companies' financial strength ratings from the major independent rating organizations as of July 23, 2014.

Insurance Financial Strength Ratings:	A.M. Best	Fitch	Standard & Poor's	Moody's
Hartford Fire Insurance Company	A	A+	A	A2
Hartford Life Insurance Company	A-	BBB+	BBB+	Baa2
Hartford Life and Accident Insurance Company	A	A	A	A3
Hartford Life and Annuity Insurance Company	A-	BBB+	BBB+	Baa2
Other Ratings:				
The Hartford Financial Services Group, Inc.:				
Senior debt	bbb+	BBB	BBB	Baa3
Commercial paper	AMB-2	F2	A-2	P-3

These ratings are not a recommendation to buy or hold any of The Hartford's securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

The agencies consider many factors in determining the final rating of an insurance company. One consideration is the relative level of statutory surplus necessary to support the business written. Statutory surplus represents the capital of the insurance company reported in accordance with accounting practices prescribed by the applicable state insurance department.

Statutory Surplus

The table below sets forth statutory surplus for the Company's insurance companies as of June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
U.S. life insurance subsidiaries, includes domestic captive insurance subsidiaries [1]	$7,011	$6,639
Property and casualty insurance subsidiaries	8,069	8,022
Total	$15,080	$14,661

[1] Subsequent to June 30, 2014, the U.S. life insurance subsidiaries paid $500 of dividends to HLI.

Statutory capital and surplus for the U.S. life insurance subsidiaries, including domestic captive insurance subsidiaries, increased by $372, primarily due to variable annuity surplus impacts of $247, change in deferred income tax of $151, change in unrealized gains from other invested assets carrying values of $129, and partially offset by the decreases in other surplus changes of $155. Effective April 30, 2014, the last domestic captive ceased operations.

Statutory capital and surplus for property and casualty increased by $47, primarily due to net income of $472, capital contributions of $5, and unrealized gains of $8, and a decrease of statutory nonadmitted assets of $40, partially offset by dividends to HFSG Holding Company of $400, and a reduction of deferred tax assets of $78. Both net income and dividends are net of interest payments and dividends, respectively, on an intercompany note between Hartford Holdings, Inc. and Hartford Fire Insurance Company.

The Company held regulatory capital and surplus for its former operations in Japan until the sale of those operations on June 30, 2014. Under the accounting practices and procedures governed by Japanese regulatory authorities, the Company's statutory capital and surplus was $1.2 billion as of December 31, 2013.

Contingencies

Legal Proceedings – For a discussion regarding contingencies related to The Hartford's legal proceedings, please see the information contained under "Litigation" in Note 11 of the Notes to Condensed Consolidated Financial Statements and Part II, Item 1 Legal Proceedings, which are incorporated herein by reference.

Legislative Developments

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act")

Since it was enacted in 2010, the Dodd-Frank act has resulted in significant changes to the regulation of the financial services industry, including changes to the rules governing derivatives, restrictions on proprietary trading by certain entities, the creation of a Federal Insurance Office within the U.S. Treasury, and enhancements to corporate governance rules, among other things. The Dodd-Frank Act requires significant rulemaking across numerous agencies within the federal government. Rulemaking, and implementation of newly-adopted rules, is ongoing and may affect our operations and governance in ways that could adversely affect our financial condition and results of operations.

Patient Protection and Affordable Care Act of 2010 (the "Affordable Care Act")

On March 23, 2010, the President signed the Affordable Care Act. Implementation of the Affordable Care Act will impact The Hartford in the same way it impacts other large employers. The Hartford’s core business does not involve the issuance of health insurance. We do not issue any products that insure customers under the Affordable Care Act’s individual mandate. It is too early to tell how the Affordable Care Act will impact The Hartford’s businesses as key aspects of the law are still not fully implemented. For example, private exchanges may provide The Hartford additional opportunities to market our group benefit products and services. Similarly, access to medical care and medical costs are a substantial component of both disability and workers compensation products offered by The Hartford. We are currently analyzing how the Affordable Care Act may impact consumer, broker and medical provider behavior.

Terrorism Risk Insurance Program Reauthorization Act of 2007 (“TRIPRA”)

On December 26, 2007, the President signed TRIPRA extending the Terrorism Risk Insurance Act of 2002 (“TRIA”) through the end of 2014. The Company's principal reinsurance protection against large-scale terrorist attacks is the coverage currently provided through TRIPRA, as private sector catastrophe reinsurance is extremely limited and generally unavailable for terrorism losses caused by attacks with nuclear, biological, chemical or radiological weapons. TRIPRA is due to expire at the end of 2014 unless Congress takes legislative action to reauthorize it. If Congress fails to act, the Company may be required to take actions to reduce its exposure to terrorism risks, which could negatively impact its business. Even if Congress extends TRIPRA beyond 2014, it could make changes that would negatively impact the Company. For example, legislation passed by the Senate Banking Committee on June 3, 2014 would extend TRIA for seven years, but would also raise the co-share for insurers and reduce the total amount of losses covered by the federal government. For additional information on TRIPRA see “Terrorism” under the Insurance Risk Management section of the MD&A.

Budget of the United States Government

On March 4, 2014, the Obama Administration released its “Fiscal Year 2015, Budget of the U.S. Government” (the “Budget”). Although the Administration has not released proposed statutory language, the Budget includes proposals that, if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts, which are eligible for the dividends received deduction (“DRD”). The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between the Company's actual tax expense and expected amount determined using the federal statutory tax rate of 35%. If this proposal were enacted, the Company's actual tax expense could increase, reducing earnings.

IMPACT OF NEW ACCOUNTING STANDARDS

For a discussion of accounting standards, see Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements included in The Hartford's 2013 Form 10-K Annual Report and Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in the Financial Risk Management section of Management's Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Company's principal executive officer and its principal financial officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) have concluded that the Company's disclosure controls and procedures are effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e) as of June 30, 2014.

Changes in internal control over financial reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's current fiscal quarter
that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Litigation

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties discussed below under the caption “Asbestos and Environmental Claims,” management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.

The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, and in addition to the matters described below, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, disability, life and inland marine. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims or other allegedly unfair or improper business practices. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company’s results of operations or cash flows in particular quarterly or annual periods.

Apart from the inherent difficulty of predicting litigation outcomes, the Mutual Funds Litigation identified below purports to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel applications of complex legal theories. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company’s experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. The matter is in the earliest stages of litigation, with no substantive legal decisions by the court defining the scope of the claims or the potentially available damages; fact discovery is also in its early stages. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any, or predict the timing of the eventual resolution of this matter.

Mutual Funds Litigation — In February 2011, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of New Jersey, alleging that Hartford Investment Financial Services, LLC (“HIFSCO”), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. HIFSCO moved to dismiss and, in September 2011, the motion was granted in part and denied in part, with leave to amend the complaint. In November 2011, plaintiffs filed an amended complaint on behalf of The Hartford Global Health Fund, The Hartford Conservative Allocation Fund, The Hartford Growth Opportunities Fund, The Hartford Inflation Plus Fund, The Hartford Advisors Fund, and The Hartford Capital Appreciation Fund. Plaintiffs seek to rescind the investment management agreements and distribution plans between HIFSCO and these funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received, in addition to lost earnings. HIFSCO filed a partial motion to dismiss the amended complaint and, in December 2012, the court dismissed without prejudice the claims regarding distribution fees and denied the motion with respect to the advisory fees claims. In March 2014, the plaintiffs filed a new complaint that, among other things, added as new plaintiffs The Hartford Floating Rate Fund and The Hartford Small Company Fund and named as a defendant Hartford Funds Management Company, LLC (“HFMC”), an indirect subsidiary of the Company which assumed the role as advisor to the funds as of January 2013. HFMC and HIFSCO dispute the allegations and intend to defend vigorously.

Asbestos and Environmental Claims – As discussed in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance - Property & Casualty Other Operations Claims, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford's consolidated operating results and liquidity.

Item 1A. RISK FACTORS

Investing in The Hartford involves risk. In deciding whether to invest in The Hartford, you should carefully consider the risk factors disclosed below and in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2013, any of which could have a significant or material adverse effect on the business, financial condition, operating results or liquidity of The Hartford. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the SEC.

The changes to the risk factors noted below are principally due to the Company's sale of all of the issued and outstanding equity of Hartford Life Insurance KK on June 30, 2014 and updates to the Company's capital management plan.

Risks Relating to Economic, Market and Political Conditions

Unfavorable conditions in our operating environment, including general economic and global capital market conditions, and financial and capital markets risks, including changes in interest rates, credit spreads, equity prices, market volatility, foreign exchange rates and real estate market deterioration, may have a material adverse effect on our business, financial condition, results of operations, and liquidity.

Despite the rise in U.S. equity markets in 2013 and 2014, there continues to be uncertainty regarding the timing and strength of an economic recovery, which may adversely affect our business, financial condition, results of operations and liquidity. Weak economic conditions, such as continued high unemployment, low labor force participation, lower family income, higher tax rates, including on small business owners, lower business investment and lower consumer spending have adversely affected or may in the future adversely affect the demand for financial and insurance products, as well as their profitability in some cases. These weak economic conditions are also likely to result in the persistence of a sustained low interest rate environment as well as volatility in other capital market conditions, which will continue to pressure our investment results.

One important exposure to equity risk relates to the potential for lower earnings associated with our operations in Mutual Funds and Talcott Resolution, such as U.S. variable annuities, where fee income is earned based upon the fair value of the assets under management. Should equity markets decline from current levels, assets under management and related fee income will be reduced. Certain of our products have guaranteed benefits that increase our potential obligation and statutory capital exposure should equity markets decline. Sustained declines in equity markets may result in the need to utilize significant additional capital to support these products and adversely affect our ability to support our other businesses.

While interest rates in recent periods continue to be near historically low levels, recent increases in market rates have marginally reduced our reinvestment risk. However, further reductions in market rates or a sustained low interest rate environment would pressure our net investment income and could result in lower margins and lower estimated gross profits on certain products. In addition, due to the long-term nature of the liabilities within our Talcott Resolution operations, such as structured settlements and guaranteed benefits on variable annuities, sustained declines in long-term interest rates subjects us to reinvestment risks, increased hedging costs, spread compression and capital volatility. A rise in interest rates, in the absence of other countervailing changes, will reduce the market value of our investment portfolio and, if long-term interest rates were to rise dramatically within a six-to-twelve month time period, certain products within our Talcott Resolution division might be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate in an unrealized loss position. An increase in interest rates can also impact our tax planning strategies and in particular our ability to utilize tax benefits to offset certain previously recognized realized capital losses. Assets supporting the liabilities within our property & casualty and group benefits businesses are largely invested in fixed income securities. Changes in interest rates will affect the value of these assets and expose the company to reinvestment risk and disintermediation risk if cash flows differ materially from our projections. Additionally, new and renewal business for these products is priced based on prevailing interest rates. As interest rates decline, pricing targets will increase to offset the lower anticipated investment income earned on invested premiums. Conversely, as interest rates rise, pricing targets will decrease to reflect higher anticipated investment income. Such changes in pricing may affect our competitiveness in the marketplace, and in turn, written premium and earnings margin achieved.

Our exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. If issuer credit spreads widen significantly and retain historically wide levels over an extended period of time, other-than-temporary impairments and decreases in the market value of our investment portfolio will likely result. In addition, losses may also occur due to the volatility in credit spreads. When credit spreads widen, we incur losses associated with the credit derivatives where the Company assumes exposure. When credit spreads tighten, we incur losses associated with derivatives where the Company has purchased credit protection. If credit spreads tighten significantly, the Company's net investment income associated with new purchases of fixed maturities may be reduced. In addition, a reduction in market liquidity can make it difficult to value certain of our securities when trading becomes less frequent. As such, valuations may include assumptions or estimates that may be more susceptible to significant period-to-period changes, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our statutory surplus is also affected by widening credit spreads as a result of the accounting for the assets and liabilities on our fixed market value adjusted ("MVA") annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities we are required to use current crediting rates in the U.S.. In many capital market scenarios, current crediting rates in the U.S. are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. As actual credit spreads are not fully reflected in current crediting rates in the U.S., the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in reductions in statutory surplus. This has resulted in the past and may result in the future in the need to devote significant additional capital to support the fixed MVA product.

Our real estate market exposure includes investments in commercial mortgage-backed securities, residential mortgage-backed securities, commercial real estate collateralized debt obligations, mortgage and real estate partnerships, and mortgage loans. Deterioration in the real estate market has adversely affected our business, financial condition, results of operations and liquidity in the past. While the real estate market has shown signs of improvement, deteriorating fundamentals (including increases in property vacancy rates, delinquencies and foreclosures) could cause a decline in market values, which would have a negative impact on sources of refinancing, resulting in reduced market liquidity and higher risk premiums. This could result in reductions in market value and impairments of real estate backed securities, a reduction in net investment income associated with real estate partnerships, and increases in our valuation allowance for mortgage loans.

Significant declines in equity prices, changes in U.S. interest rates, changes in credit spreads, inflation, the strengthening or weakening of foreign currencies against the U.S. dollar or real estate market deterioration, individually or in combination, could have a material adverse effect on our business, financial condition, results of operations or liquidity. Our hedging assets seek to reduce the net economic sensitivity of our potential obligations from guaranteed benefits to equity market and interest rate fluctuations. Because of the accounting asymmetries between our economic targets and statutory and GAAP accounting, rising equity markets or rising interest rates may result in statutory or GAAP losses.

Risks Relating to Estimates, Assumptions and Valuations

If assumptions used in estimating future gross profits differ from actual experience, we may be required to accelerate the amortization of DAC and increase reserves for guaranteed minimum death and income benefits, which could have a material adverse effect on our results of operations and financial condition.

The Company deferred acquisition costs associated with the prior sales of its variable annuity products. Deferred acquisition costs for the U.S. block are amortized over the expected life of the contracts. The remaining deferred but not yet amortized cost is referred to as the Deferred Acquisition Cost ("DAC") asset. We amortize these costs in proportion to the present value of estimated gross profits ("EGPs"). The Company evaluates the EGPs compared to the DAC asset to determine if an impairment exists. The Company also establishes reserves for GMDB using components of EGPs. The projection of EGPs, or components of EGPs, requires the use of certain assumptions, principally related to separate account fund returns, surrender and lapse rates, interest margin (including impairments), mortality, benefit utilization, annuitization and hedging costs. Of these factors, we anticipate that changes in investment returns are most likely to impact the rate of amortization of such costs. However, other factors such as those the Company might employ to reduce risk, such as the cost of hedging or other risk mitigating techniques, as well as the effect of increased surrenders, could also significantly reduce estimates of future gross profits. Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. If our assumptions regarding policyholder behavior, including lapse rates, benefit utilization, surrenders, and annuitization, hedging costs or costs to employ other risk mitigating techniques prove to be inaccurate or if significant or sustained equity market declines occur, we could be required to accelerate the amortization of DAC related to variable annuity contracts, and increase reserves for GMDB, which would result in a charge to net income. Such adjustments could have a material adverse effect on our results of operations and financial condition.

Financial Strength, Credit and Counterparty Risks

The amount of statutory capital that we have, and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements, can vary significantly from time to time and is sensitive to a number of factors outside of our control, including equity market, credit market and interest rate conditions, changes in policyholder behavior, changes in rating agency models, and changes in regulations.

We conduct the vast majority of our business through licensed insurance company subsidiaries. Accounting standards and statutory capital and reserve requirements for these entities are prescribed by the applicable insurance regulators and the National Association of Insurance Commissioners (“NAIC”). Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital (“RBC”) formulas for both life and property and casualty companies. The RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain death benefits or certain living benefits. The RBC formula for property and casualty companies adjusts statutory surplus levels for certain underwriting, asset, credit and off-balance sheet risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments, changes in interest rates, the impact of internal reinsurance arrangements, and changes to the NAIC RBC formulas. Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing the amount of statutory capital we must hold in order to maintain our current ratings. Also, in extreme scenarios of equity market declines and other capital market volatility, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees increases at a greater than linear rate. This reduces the statutory surplus used in calculating our RBC ratios. When equity markets increase, surplus levels and RBC ratios would generally be expected to increase. However, as a result of a number of factors and market conditions, including the level of hedging costs and other risk transfer activities, reserve requirements for death and living benefit guarantees and increases in RBC requirements, surplus and RBC ratios may not increase when equity markets increase. Due to these factors, projecting statutory capital and the related RBC ratios is complex. If our statutory capital resources are insufficient to maintain a particular rating by one or more rating agencies, we may seek to raise capital through public or private equity or debt financing. If we were not to raise additional capital, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be downgraded by one or more rating agencies.

Losses due to nonperformance or defaults by others, including issuers of investment securities mortgage loans or reinsurance and derivative instrument counterparties, could have a material adverse effect on the value of our investments, business, financial condition, results of operations and liquidity.

Issuers or borrowers whose securities or loans we hold, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, government intervention or other reasons. Such defaults could have a material adverse effect on the value of our investments, business, financial condition, results of operations and liquidity. Additionally, the underlying assets supporting our structured securities or loans may deteriorate causing these securities or loans to incur losses.

Our investment portfolio includes securities backed by real estate assets, the value of which may be adversely impacted if conditions in the real estate market significantly deteriorate, including declines in property values and increases in vacancy rates, delinquencies and foreclosures, ultimately resulting in a reduction in expected future cash flows for certain securities.

The Company also has exposure to foreign-based issuers of securities and providers of reinsurance. These foreign issuers include European issuers as well as certain emerging market issuers. Despite the recent stabilization in the European market, there are still fundamental structural issues that remain and may result in the re-emergence of fiscal and economic issues. In addition, there has been recent volatility within certain emerging market countries spurred by concerns over the U.S. Federal Reserve tapering its monetary stimulus, an economic slowdown in China, and the devaluation of certain currencies. Further details of the European and certain emerging market private and sovereign issuers held within the investment portfolio can be found in Part II, Item 7, MD&A - Enterprise Risk Management - Investment Portfolio Risks and Risk Management in The Hartford’s 2013 Annual Report on Form 10-K. The Company's European based reinsurance arrangements are further described in Part II, Item 7, MD&A - Enterprise Risk Management - Investment Portfolio Risks and Risk Management in The Hartford’s 2013 Annual Report on Form 10-K.

Property value declines and loss rates that exceed our current estimates, as outlined in Part II, Item 7, MD&A - Enterprise Risk Management - Other-Than-Temporary Impairments, or a worsening of global economic conditions could have a material adverse effect on our business, financial condition, results of operations and liquidity.

To the extent the investment portfolio is not adequately diversified, concentrations of credit risk may exist which could negatively impact the Company if significant adverse events or developments occur in any particular industry, group of related industries or geographic regions. The Company's investment portfolio is not exposed to any credit concentration risk of a single issuer greater than 10% of the Company's stockholders' equity other than U.S. government and U.S. government agencies backed by the full faith and credit of the U.S. government. However, if issuers of securities or loans we hold are acquired, merge or otherwise consolidate with other issuers of securities or loans held by the Company, our investment portfolio's credit concentration risk to issuers could increase above the 10% threshold, for a period of time, until the Company is able to sell securities to get back in compliance with the established investment credit policies. For discussion of the Company's exposure to credit concentration risk of reinsurers, see the risk factor, "We may incur losses due to our reinsurers' unwillingness or inability to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance may not be sufficient to protect us against losses."

Our ability to declare and pay dividends is subject to limitations.

The payment of future dividends on our capital stock is subject to the discretion of our board of directors, which considers, among other factors, our operating results, overall financial condition, credit-risk considerations and capital requirements, as well as general business and market conditions.

Moreover, as a holding company that is separate and distinct from our insurance subsidiaries, we have no significant business operations of our own. Therefore, we rely on dividends from our insurance company subsidiaries and other subsidiaries as the principal source of cash flow to meet our obligations. These obligations include payments on our debt securities and the payment of dividends on our capital stock. The Connecticut insurance holding company laws limit the payment of dividends by Connecticut-domiciled insurers and require notice to and approval by the state insurance commissioner for the declaration or payment of dividends above certain levels. The insurance holding company laws of the other jurisdictions in which our insurance subsidiaries are incorporated, or deemed commercially domiciled, generally contain similar, and in some instances more restrictive, limitations on the payment of dividends. Dividends paid to us by our insurance subsidiaries are further dependent on their cash requirements. For further discussion on dividends from insurance subsidiaries, see Part II, Item 7, MD&A - Capital Resources & Liquidity.

Our rights to participate in any distribution of the assets of any of our subsidiaries, for example, upon their liquidation or reorganization, and the ability of holders of our common stock to benefit indirectly from a distribution, are subject to the prior claims of creditors of the applicable subsidiary, except to the extent that we may be a creditor of that subsidiary. Holders of our capital stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Moreover, our common stockholders are subject to the prior dividend rights of any holders of our preferred stock or depositary shares representing such preferred stock then outstanding. The terms of our outstanding junior subordinated debt securities prohibit us from declaring or paying any dividends or distributions on our capital stock or purchasing, acquiring, or making a liquidation payment on such stock, if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing.

Insurance and Product-Related Risks

Our adjustment of our risk management program relating to products we offered with guaranteed benefits to emphasize protection of economic value will likely result in greater statutory and U.S. GAAP volatility in our earnings and potentially material charges to net income (loss).

Some of the in-force business within our Talcott Resolution operations, especially variable annuities, offer guaranteed benefits which, in the event of a decline in equity markets, would not only result in lower earnings, but will also increase our exposure to liability for benefit claims. We are also subject to equity market volatility related to these benefits, including the GMWB and GMDB associated with in-force variable annuities. We use reinsurance structures and have modified benefit features to mitigate the exposure associated with GMDB. We also use reinsurance in combination with a modification of benefit features and derivative instruments to attempt to minimize the claim exposure and to reduce the volatility of net income associated with the GMWB liability. However, due to the severe economic conditions experienced in recent years, we adjusted our risk management program to place greater relative emphasis on the protection of economic value. This shift in relative emphasis has resulted in greater statutory and U.S.

GAAP earnings volatility and, based upon the types of hedging instruments used, can result in potentially material charges to net income (loss) in periods of rising equity market pricing levels, higher interest rates and declines in volatility. While we believe that these actions have improved the efficiency of our risk management related to these benefits, we remain liable for the guaranteed benefits in the event that reinsurers or derivative counterparties are unable or unwilling to pay and, in turn, may need additional capital to support in-force business. We are also subject to the risk that these management procedures prove ineffective or that unanticipated policyholder behavior, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed, which individually or collectively may have a material adverse effect on our business, financial condition, results of operations and liquidity.

Regulatory and Legal Risks

Potential changes in regulation may increase our business costs and required capital levels, which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

We are subject to extensive laws and regulations that are complex, subject to change and often conflicting in their approach or intended outcomes. Compliance with these laws and regulations is costly and can affect our strategy, as well as the demand for and profitability of the products we offer.

State insurance laws regulate most aspects of our insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled, licensed or authorized to conduct business. These regulatory regimes are generally designed to protect the interests of policyholders rather than insurers, their shareholders and other investors. U.S. state laws grant insurance regulatory authorities broad administrative powers with respect to, among other things, licensing and authorization for lines of business, statutory capital and reserve requirements, limitations on the types and amounts of certain investments, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurer's business.

In addition, future regulatory initiatives could be adopted at the federal or state level that could impact the profitability of our businesses. For example, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the U.S. insurance solvency regulation framework, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and reinsurance. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs or increased statutory capital and reserve requirements.

Further, because these laws and regulations are complex and sometimes inexact, there is also a risk that our business may not fully comply with a particular regulator's or enforcement authority's interpretation of a legal, accounting, or reserving issue or that such regulator’s or enforcement authority’s interpretation may change over time to our detriment, or expose us to different or additional regulatory risks. The application of these regulations and guidelines by insurers involves interpretations and judgments that may not be consistent with the opinion of state insurance departments. We cannot provide assurance that such differences of opinion will not result in regulatory, tax or other challenges to the actions we have taken to date. The result of those potential challenges could require us to increase levels of statutory capital and reserves or incur higher operating and/or tax costs.

In addition, our international operations are subject to regulation in the relevant jurisdictions in which they operate which in many ways is similar to the state regulation outlined above, with similar related restrictions and obligations. Our asset management businesses are also subject to extensive regulation in the various jurisdictions where they operate. These laws and regulations are primarily intended to protect investors in the securities markets or investment advisory clients and generally grant supervisory authorities broad administrative powers. Compliance with these laws and regulations is costly, time consuming and personnel intensive, and may have an adverse effect on our business, financial condition, results of operations and liquidity. See the risk factor, “The impact of regulatory initiatives, including the enactment of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, could have a material adverse impact on our business, financial condition, results of operations and liquidity.”

Other Operational Risks

The success of the realignment of our businesses, our capital management plan, expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings, are subject to material challenges, uncertainties and risks which could adversely affect our business, financial condition, results of operations and liquidity.

The success of the realignment of our businesses and our capital management plan remain subject to material challenges, uncertainties and risks. We may not achieve all of the benefits we expect to derive from our plan to repurchase our equity and reduce our debt over the course of 2014 and 2015 and our decision to focus on our Property and Casualty, Group Benefits and Mutual Fund businesses, place our Individual Annuity business into runoff and sell the Individual Life, Retirement Plans, and Japan annuity businesses. Our capital management plan is subject to execution risks, including, among others, risks related to market fluctuations and investor interest and potential legal constraints that could delay execution at an otherwise optimal time. There can be no assurance that we will in fact complete our capital management plan over the planned time frame or at all. Further, while the Company continues to actively consider alternatives for reducing the size and risk of the U.S. variable annuity book, opportunities to do so may be limited and any initiatives pursued, which may include divestitures, may not achieve the anticipated benefits and may negatively impact our statutory capital, net income, core earnings or shareholders' equity. Initiatives to reduce expenses so that our ongoing businesses remain or become cost efficient may not be successful and we may not be able to reduce Corporate and shared services expenses in the manner and on the schedule we currently anticipate. We may take further actions beyond the capital management plan and business realignment, which may include acquisitions, divestitures or restructurings that may involve additional uncertainties and risks that negatively impact our business, financial condition, results of operations and liquidity.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

The following table summarizes the Company’s repurchases of its common stock for the three months ended June 30, 2014:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1] (in millions)
April 1, 2014 - April 30, 2014	8,677,618	$34.59	8,677,554	$1,400
May 1, 2014 - May 31, 2014	1,490,558	$34.22	1,469,600	$1,350
June 1, 2014 - June 30, 2014	—	$—	—	$1,350
Total	10,168,176	$34.54	10,147,154	

[1] In July 2014, the Board of Directors approved an increase in the Company's authorized equity repurchase program that provides the Company with the ability to repurchase $2.775 billion in equity during the period commencing on January 1, 2014 and ending on December 31, 2015. The Company’s repurchase authorization, which expires on December 31, 2015, permits purchases of common stock, as well as warrants or other derivative securities. Repurchases may be made in the open market, through derivative, accelerated share repurchase and other privately negotiated transactions, and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The timing of any future repurchases will be dependent upon several factors, including the market price of the Company’s securities, the Company’s capital position, consideration of the effect of any repurchases on the Company’s financial strength or credit ratings, and other corporate considerations. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

Item 6. EXHIBITS

See Exhibits Index on page 152.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

The Hartford Financial Services Group, Inc.
(Registrant)

Date: July 30, 2014

/s/ Scott R. Lewis
Scott R. Lewis
Senior Vice President and Controller
(Chief accounting officer and duly
authorized signatory)

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
FOR THE QUARTER ENDED JUNE 30, 2014
FORM 10-Q
EXHIBITS INDEX

Exhibit No.	Description	Form	File No.	Exhibit No	Filing Date
3.02	Amended and Restated By-Laws of The Hartford Financial Services Group, Inc. (“The Hartford”), effective amended on June 9, 2014.	8-K	001-13958	3.1	06/08/14
10.01	Stock Purchase Agreement by and among Hartford Life, Inc., ORIX Life Insurance Corporation and ORIX Corporation, dated April 28, 2014.	8-K	001-13958	2.1	04/28/14
*10.02	The Hartford 2014 Incentive Stock Plan, effective May 21, 2014	S-8	333-197671	4.03	7/28/2014
*10.03	Form of Key Executive Employment Protection Agreement between The Hartford and Key Executive Officer, effective as of June 9, 2014.**				
*10.04	Form of Transition Agreement between The Hartford and Key Executive Officer, effective as of June 9, 2014.**				
*10.05	The Hartford 2014 Incentive Stock Plan Forms for Individual Award Agreements.**				
*10.06	The Hartford 2014 Incentive Stock Plan Forms for Non-Employee Directors.**				
*10.07	Summary of Annual Executive Bonus Program.**				
15.01	Deloitte & Touche LLP Letter of Awareness.**				
31.01	Certification of Christopher J. Swift pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**				
31.02	Certification of Beth A. Bombara pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**				
32.01	Certification of Christopher J. Swift pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**				
32.02	Certification of Beth A. Bombara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**				
101.INS	XBRL Instance Document.**				
101.SCH	XBRL Taxonomy Extension Schema.**				

101.CAL	XBRL Taxonomy Extension Calculation Linkbase.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase.**
101.LAB	XBRL Taxonomy Extension Label Linkbase.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.**

* Management contract, compensatory plan or arrangement.

** Filed with the Securities and Exchange Commission as an exhibit to this report.