

HARTFORD FINANCIAL SERVICES GROUP INC/DE  
Form 10-K  
February 27, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
(Mark One)

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

For the fiscal year ended December 31, 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)

SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT  
(ALL OF WHICH ARE LISTED ON THE NEW YORK STOCK EXCHANGE INC.):

Common Stock, par value \$0.01 per share

Warrants (expiring June 26, 2019)

6.10% Notes due October 1, 2041

7.875% Fixed-to-Floating Rate Junior Subordinated Debentures due 2042

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

None

Indicate by check mark:

Yes No

• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will

not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the shares of Common Stock held by non-affiliates of the registrant as of June 30, 2014 was approximately \$16 billion, based on the closing price of \$35.81 per share of the Common Stock on the New York Stock Exchange on June 30, 2014.

As of February 24, 2015, there were outstanding 420,951,148 shares of Common Stock, \$0.01 par value per share, of the registrant.

**Documents Incorporated by Reference**

Portions of the registrant’s definitive proxy statement for its 2015 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.  
 ANNUAL REPORT ON FORM 10-K  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 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 performance.

Forward-looking statements are based on our current expectations and assumptions regarding economic, competitive, legislative and other developments. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They have been made based upon management’s expectations and beliefs concerning future developments and their potential effect upon The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, the “Company” or “The Hartford”). Future developments may not be in line with management’s expectations or may have unanticipated effects. Actual results could differ materially from expectations, depending on the evolution of various factors, including those set forth in Part I, Item 1A. Risk Factors, in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and those identified from time to time in our other filings with the Securities and Exchange Commission. 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 our capital management plan, expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings;
- financial risk related to the continued reinvestment of our investment portfolios and performance of our hedge program for our runoff annuity block;

market risks associated with our business, including changes in interest rates, credit spreads, equity prices, market volatility and foreign exchange rates, commodities prices 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 United States (“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;

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- 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 limitations on coverage from the federal government under applicable reinsurance terrorism laws;
- 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-K. 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

### Item 1. BUSINESS

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

#### General

The Hartford Financial Services Group, Inc. (together with its subsidiaries, “The Hartford”, the “Company”, “we”, or “our”) is an insurance and financial services company. The Hartford, headquartered in Connecticut, is among the largest providers of property and casualty insurance and group life and disability products to individual and business customers in the United States of America. The Hartford is also a provider of mutual funds to investors and additionally, The Hartford continues to manage life and annuity products previously sold. Hartford Fire Insurance Company, founded in 1810, is the oldest of The Hartford’s subsidiaries. At December 31, 2014, total assets and total stockholders’ equity of The Hartford were \$245 billion and \$18.7 billion, respectively.

#### Organization

The Hartford strives to maintain and enhance its position as a market leader within the financial services industry. The Company sells diverse and innovative products through multiple distribution channels to consumers and businesses. The Company seeks on an ongoing basis to develop and expand its distribution channels, achieving cost efficiencies through economies of scale and improved technology, and capitalizes on its brand name and The Hartford Stag Logo, one of the most recognized symbols in the financial services industry.

In 2012, The Hartford concluded an evaluation of its strategy and business portfolio. The Company is currently focusing on its Property & Casualty, Group Benefits and Mutual Fund businesses. This realignment positions the organization for higher returns on equity, reduced sensitivity to capital markets, a lower cost of capital and increased financial flexibility. As a result, the Company completed the sale of Hartford Life Insurance KK (“HLIKK”) in 2014 and its Retirement Plans, Individual Life and U.K. annuity businesses in 2013. For further discussion of these transactions, see Note 2 - Business Dispositions and Note 19 - Discontinued Operations of Notes to Consolidated Financial Statements. In addition, the Company sold Woodbury Financial Services, Inc. (“Woodbury Financial Services”, “WFS”), an indirect wholly-owned broker-dealer subsidiary, and placed its annuity businesses into runoff in 2012.

As a holding company that is separate and distinct from its subsidiaries, The Hartford Financial Services Group, Inc. has no significant business operations of its own. Therefore, it relies on the dividends from its insurance companies and other subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of The Hartford Financial Services Group, Inc. may be found in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) — Capital Resources and Liquidity.

#### Reporting Segments

The Hartford currently conducts business principally in six reporting segments including Commercial Lines (formerly Property & Casualty Commercial), Personal Lines (formerly 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.

The following discussion describes the principal products and services, marketing and distribution, and competition of The Hartford’s reporting segments. For further discussion of the reporting segments, including financial disclosures of revenues by product line, net income (loss), and assets for each reporting segment, see Note 4 - Segment Information of Notes to Consolidated Financial Statements.

#### Commercial Lines

##### Principal Products and Services

Commercial Lines provides businesses with workers’ compensation, property, automobile, liability, umbrella, marine and livestock coverages under several different products, primarily throughout the United States, within its standard commercial lines, which consists of The Hartford’s small commercial and middle market lines of business. Additionally, a variety of customized insurance products and risk management services including workers’

compensation, automobile, general liability, professional liability, bond, and specialty casualty coverages are offered through the segment's specialty lines.

Standard commercial lines seeks to offer products with coverage options and customized pricing based on the policyholder's individualized risk characteristics. For small businesses, those businesses whose annual payroll is under \$5 and whose revenue and property values are less than \$15 each, property and liability coverages are bundled as part of a single multi-peril package policy marketed under the Spectrum name. The small commercial line of business also provides workers' compensation and automobile coverages. Medium-sized businesses, companies whose payroll, revenue and property values exceed the small business definition, are served within middle market. The middle market line of business provides workers' compensation, property, automobile, liability, umbrella, marine and livestock coverages.



Within the specialty lines, a significant portion of the specialty casualty business, including workers' compensation business, is written through large deductible programs where the insured typically provides collateral to support loss payments made within their deductible. The specialty casualty business also provides retrospectively-rated programs where the premiums are adjustable based on loss experience. The captive programs business provides tailored property and casualty programs primarily to customers with common risk characteristics and those seeking a loss sensitive solution. The bond business provides (1) contract surety bonds for general, highway/heavy, trade and specialty contractors; (2) commercial surety required in a variety of businesses and court situations; and (3) fidelity coverage for businesses, financial institutions and public entities. The financial products business provides a suite of management and professional liability insurance products including D&O (directors and officers) and E&O (errors and omissions) liability products.

#### Marketing and Distribution

Standard commercial lines provide insurance products and services through the Company's home office located in Hartford, Connecticut, and multiple domestic regional office locations and insurance centers. The products are marketed nationwide utilizing brokers and independent agents. The current pace of consolidation within the independent agent and broker distribution channel will likely continue such that, in the future a larger proportion of written premium will likely be concentrated among fewer agents and brokers. Additionally the Company offers insurance products to customers of payroll service providers through its relationships with major national payroll companies.

Specialty lines also provide insurance products and services through its home office located in Hartford, Connecticut and multiple domestic office locations. Specialty lines markets its products nationwide utilizing a variety of distribution networks including independent retail agents, brokers and wholesalers.

#### Competition

In the small commercial marketplace, The Hartford competes against a number of large national carriers, as well as regional carriers in certain territories. Competitors include other stock companies, mutual companies and other underwriting organizations. The small commercial market has become increasingly competitive as carriers seek to differentiate themselves through product expansion, price reduction, enhanced service and cutting-edge technology. Larger carriers such as The Hartford have improved their pricing sophistication and ease of doing business with agents through the use of predictive modeling tools and automation which speeds up the process of evaluating a risk and quoting new business.

Written premium growth rates in the small commercial market have slowed in recent years due to the economy and underwriting margins have been pressured by increased competition. A number of companies have sought to grow their business by increasing their underwriting appetite, appointing new agents and expanding business with existing agents. Also, carriers serving middle market-sized accounts are more aggressively competing for small commercial accounts as small commercial business has generally been less price-sensitive.

Middle market business is characterized as "high touch" and involves case-by-case underwriting and pricing decisions. The pricing of middle market accounts is prone to significant variation or cyclical over time, with sensitivity to legislative and macro-economic forces. Additionally, various state legislative reforms in recent years designed to control workers compensation indemnity costs have led to rate reductions in many states. These factors, characterized by highly competitive pricing on new business, have resulted in more new business opportunities in the marketplace as customers shop their policies for a lower price. In the face of this competitive environment, The Hartford continues to maintain a disciplined underwriting approach. To gain a competitive advantage in this environment, carriers are improving automation with agents and brokers, increasing pricing sophistication, and enhancing their product offerings. These enhancements include industry specialization, with The Hartford and other national carriers tailoring products and services to specific industry verticals such as technology, life sciences, construction and renewable energy.

Specialty lines is comprised of a diverse group of businesses that operate independently within their specific industries. These businesses, while somewhat interrelated, have different business models and operating cycles. Specialty lines competes on an account- by-account basis due to the complex nature of each transaction. Competition in this market includes other stock companies, mutual companies, alternative risk sharing groups and other

underwriting organizations. The relatively large size and underwriting capacity of The Hartford provides opportunities not available to smaller companies. Disciplined underwriting and targeted returns are the objectives of specialty lines since premium writings may fluctuate based on the segment's view of perceived market opportunity.

For specialty casualty businesses, written pricing competition continues to be significant, particularly for the larger individual accounts. Carriers are aggressively negotiating renewals with customers by initiating the renewal process well in advance of the policy renewal date, to improve retention, reducing new business opportunities within the marketplace. Within the national account business, as written pricing increases, more insureds may opt for loss-sensitive products in lieu of guaranteed cost policies.

In the bond business, favorable underwriting results over the past couple of years have led to increased competition for market share, setting the stage for potential written price decreases. New public construction activity is slowly rebounding from the historically low levels, resulting in slightly higher demand for contract surety business as compared to previous years.

Carriers writing professional liability business are increasingly focused on profitable private, middle market companies. This trend has continued as the downturn in the economy has led to a significant drop in the number of initial public offerings, and volatility for all public companies. Also, carriers' new business opportunities in the marketplace for directors & officers and errors & omissions insurance have been significantly influenced by customer perceptions of financial strength, as investment portfolio losses have had a negative effect on the financial strength ratings of some insurers.

In the commercial marketplace, the weak economy has prompted carriers to offer differentiated products and services as a means of gaining a competitive advantage. In addition to the initiatives specific to each of The Hartford's commercial lines of business noted above, the Company is leveraging its diverse product, service and distribution capabilities to deliver differentiated value in the market, while simultaneously increasing its ability to access its own diverse customer base for new product sales.

#### Personal Lines

##### Principal Products and Services

Personal Lines provides automobile, homeowners and personal umbrella coverages to individuals across the United States, including a special program designed exclusively for members of AARP ("AARP Program"). The Hartford's auto and homeowners products provide coverage options and customized pricing tailored to a customer's individual risk. The Hartford has individual customer relationships with AARP Program policyholders and, as a group, these customers represent a significant portion of the total Personal Lines' business. Business sold to AARP members, either direct or through independent agents, amounted to earned premiums of \$3.0 billion, \$2.9 billion and \$2.8 billion in 2014, 2013 and 2012, respectively.

During 2014, Personal Lines rolled out its new auto product, Open Road, in 37 states, increasing pricing flexibility and market responsiveness. In addition, Personal Lines continued to roll out its telematics device, TrueLane, to more states, and the device is currently available in 40 states to both direct and independent agent customers. The TrueLane device records the driving data of Personal Lines' customers, who receive a discount of up to 10% for the initial policy term with the potential for additional discounts upon renewal.

##### Marketing and Distribution

Personal Lines reaches diverse customers through multiple distribution channels including direct sales to the consumer, brokers and independent agents. In direct sales to the consumer, Personal Lines markets its products through a mix of media, including direct mail, digital marketing, television and advertising, both digitally and in publications. More recently, Personal Lines has begun marketing to consumers through online distribution partners who generate leads for the Company. Through the agency channel, Personal Lines provides products and services to customers through a network of independent agents in the standard personal lines market. These independent agents are not employees of the Company.

Most of Personal Lines' sales are associated with its exclusive licensing arrangement with AARP, with the current agreement in place through January 1, 2023, to provide automobile, homeowners and and personal umbrella coverages to AARP's nearly 37 million members, either direct or through independent agents. This agreement provides Personal Lines with an important competitive advantage given the number of "baby boomers" over age 50, many of whom become AARP members. During 2014, the Company expanded its relationship with AARP to provide its industry-leading small business products offered by Commercial Lines to AARP members who are small business owners.

In addition to selling product through its relationship with AARP and through independent agents, Personal Lines markets direct to the consumer within select underwriting markets and where we believe we have a competitive advantage.

##### Competition

The personal lines automobile and homeowners businesses are highly competitive. Personal lines insurance is written by insurance companies of varying sizes that compete on the basis of price, product, service (including claims handling), stability of the insurer and brand recognition. Companies with recognized brands, direct sales capability and economies of scale will have a competitive advantage. In recent years, a number of carriers have increased their advertising in an effort to gain new business and retain profitable business. This has been particularly true of carriers

that sell directly to the consumer. Industry sales of personal lines insurance direct to the consumer have been growing faster than sales through agents, particularly for auto insurance.

Carriers that distribute products mainly through agents compete by offering agents commissions and additional incentives to attract new business. To distinguish themselves in the marketplace, top tier carriers are offering online and self service capabilities to agents and consumers. A large majority of agents have been using “comparative rater” tools that allow the agent to compare premium quotes among several insurance companies. The use of comparative rater tools increases price competition. Carriers with more efficient cost structures will have an advantage in competing for new business through price.

The use of data mining and predictive modeling is used by more and more carriers to target the most profitable business and carriers have further segmented their pricing plans to expand market share in what they believe to be the most profitable segments. Some companies, including The Hartford, have written a greater percentage of their new business in preferred market segments which tend to have better loss experience but also lower average premiums. In addition, a number of companies have invested in telematics — the use of devices in insured vehicles to transmit information about driving behavior such as miles driven, speed, acceleration, deceleration — and are using that information to price the risk and drive favorable risk selection. Also, new auto technology advancements — including lane departure warnings, backup cameras, active collision alerts — are being deployed rapidly and are expected to improve driver safety and reduce the likelihood of vehicle collisions. Such advancements could reduce loss frequency and therefore average premiums resulting in lower industry premiums and increased competition. Companies that are the first to recognize these trends by, for example, introducing vehicle safety discounts or otherwise reflecting these trends in pricing, may enjoy a competitive advantage.

#### Group Benefits

##### Principal Products and Services

Group Benefits provides group life, accident and disability coverage, group retiree health and voluntary benefits to individual members of employer groups, associations, affinity groups and financial institutions. Group Benefits also offers disability underwriting, administration, claims processing and reinsurance to other insurers and self-funded employer plans. In addition, Group Benefits offers a single-company leave management solution, The Hartford Productivity Advantage, which integrates work absence data from the insurer's short-term and long-term group disability and workers' compensation insurance with its leave management administration services.

Group Benefits generally offers term insurance policies, allowing for the adjustment of rates or policy terms in order to minimize the adverse effect of market trends, declining interest rates, and other factors. Policies are typically sold with one, two or three-year rate guarantees depending upon the product and market segment.

##### Marketing and Distribution

The Group Benefits distribution network is managed through a regional sales office system, to distribute its group insurance products and services through a variety of distribution outlets including brokers, consultants, third-party administrators and trade associations.

##### Competition

Group Benefits competes with numerous other insurance companies and other financial intermediaries marketing insurance products. This line of business focuses on both its risk management expertise and economies of scale to derive a competitive advantage. Competitive factors affecting Group Benefits include the variety and quality of products and services offered, the price quoted for coverage and services, the Company's relationships with its third-party distributors and private exchanges, and the quality of customer service. In addition, active price competition continues in the marketplace resulting in multi-year rate guarantees being offered to customers. Top tier carriers in the marketplace also offer on-line and self service capabilities to agents and consumers. The relatively large size and underwriting capacity of the Group Benefits business provides opportunities not available to smaller companies.

#### Mutual Funds

##### Principal Products and Services

Mutual Funds provides investment management, administration, distribution and related services to investors through investment products in both domestic and international markets, and is separated into two distinct asset categories referred to as Mutual Fund funds and Talcott funds. Mutual Fund funds includes equity, fixed income, alternative and asset allocation investment products that are actively sold primarily through retail, bank trust and registered investment advisor channels. Talcott funds represents those assets held in separate accounts supporting legacy runoff Hartford variable insurance products. Wellington Management Company, LLP ("Wellington Management") serves as sole sub-advisor for Mutual Funds.

##### Marketing and Distribution

The Mutual Funds distribution team is organized to sell across a variety of channels including national and regional broker-dealer organizations, independent financial advisors, defined contribution plans, consultants, record keepers,

bank trust groups, and registered investment advisors.

**Competition**

Mutual Funds competes with other mutual fund companies and investment brokerage companies and differentiates itself through fund performance, product innovation and solutions, and service.

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#### Talcott Resolution

Talcott Resolution is comprised of the runoff of the Company's U.S. annuity and institutional and private-placement life insurance businesses, and the retained Japan fixed payout annuity liabilities. Talcott Resolution's mission is to pursue opportunities to reduce the size and risk of the annuity book of business while honoring the Company's obligations to its annuity contractholders. Talcott Resolution manages approximately 930 thousand annuity contracts with account value of approximately \$77 billion and private placement life insurance with account value of approximately \$40 billion as of December 31, 2014.

In 2014, the Company completed the sale of its Japan annuity business. The Talcott Resolution business segment includes our Retirement Plans and Individual Life businesses sold in 2013 through reinsurance agreements with the respective buyers. In addition, the Company completed the sale of its U.K. annuity business in 2013. For further discussion of these transactions, see Note 2 - Business Dispositions and Note 19 - Discontinued Operations of Notes to Consolidated Financial Statements.

#### Reserves

The Hartford establishes and carries as liabilities reserves for its insurance products to estimate for the following:

- a liability for unpaid losses, including those that have been incurred but not yet reported, as well as estimates of all expenses associated with processing and settling these claims;
- a liability equal to the balance that accrues to the benefit of the life insurance policyholder as of the consolidated financial statement date, otherwise known as the account value;
- a liability for future policy benefits, representing the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums;
- fair value reserves for living benefits embedded derivative guarantees; and
- death and living benefit reserves which are computed based on a percentage of revenues less actual claim costs.

Further discussion of The Hartford's property and casualty insurance product reserves, including asbestos and environmental claims reserves, may be found in Part II, Item 7, MD&A — Critical Accounting Estimates — Property and Casualty Insurance Product Reserves, Net of Reinsurance. Additional discussion may be found in the Company's accounting policies for insurance product reserves within Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements.

#### Reinsurance

The Hartford cedes insurance to affiliated and unaffiliated insurers for both its property and casualty and life insurance products. Such arrangements do not relieve The Hartford of its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to The Hartford. For further discussion of reinsurance, see Part II, Item 7, MD&A — Enterprise Risk Management and Note 7 - Reinsurance of Notes to Consolidated Financial Statements.

For property and casualty insurance products, reinsurance arrangements are intended to provide greater diversification of business and limit The Hartford's maximum net loss arising from large risks or catastrophes. A major portion of The Hartford's property and casualty insurance product reinsurance is effected under general reinsurance contracts known as treaties, or, in some instances, is negotiated on an individual risk basis, known as facultative reinsurance. The Hartford also has in-force excess of loss contracts with reinsurers that protect it against a specified part or all of a layer of losses over stipulated amounts.

For life insurance products, The Hartford is involved in both the cession and assumption of insurance with other insurance and reinsurance companies. The Company has ceded reinsurance in connection with the sales of its Retirement Plans and Individual Life businesses in 2013. For further discussion of these transactions, see Note 2 - Business Dispositions of Notes to Consolidated Financial Statements. In addition, the Company has reinsured to third parties a portion of the risk associated with U.S. individual variable annuities and the associated guaranteed minimum death benefit ("GMDB") and guaranteed minimum withdrawal benefit ("GMWB") riders.

### Investment Operations

The majority of the Company's investment portfolios are managed by Hartford Investment Management Company ("HIMCO"). HIMCO manages the portfolios to maximize economic value, and generate the income necessary to support the Company's various product obligations, within internally established objectives, guidelines and risk tolerances. The portfolio objectives and guidelines are developed based upon the asset/liability profile, including duration, convexity and other characteristics within specified risk tolerances. The risk tolerances considered include, for example, asset sector, credit issuer allocation limits, maximum portfolio limits for below investment grade holdings and foreign currency exposure limits. The Company attempts to minimize adverse impacts to the portfolio and the Company's results of operations from changes in economic conditions through asset diversification, asset allocation limits, asset/liability duration matching and through the use of derivatives. For further discussion of HIMCO's portfolio management approach, see Part II, Item 7, MD&A — Enterprise Risk Management.

In addition to managing the general account assets of the Company, HIMCO is also a SEC registered investment adviser for a variable insurance trust and third party institutional clients, a sub-advisor for certain mutual funds and serves as the sponsor and collateral manager for capital markets transactions. HIMCO specializes in investment management that incorporates proprietary research and active portfolio management within a disciplined risk framework that seeks to provide value added returns versus peers and benchmarks. As of December 31, 2014 and 2013, the fair value of HIMCO's total assets under management was approximately \$109.5 billion and \$112.6 billion, respectively, of which \$6.2 billion and \$6.1 billion, respectively, were held in HIMCO managed third party accounts.

### 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. ERM plays an integral role at The Hartford by fostering a strong risk management culture and discipline. The mission of ERM is to support the Company in achieving its strategic priorities by:

- Providing a comprehensive view of the risks facing the Company, including risk concentrations and correlations;
- Helping management define the Company's overall capacity and appetite for risk by evaluating the risk/return profile of the business relative to the Company's strategic intent and financial underpinning;
  - Assisting management in setting specific risk tolerances and limits that are measurable, actionable, and comply with the Company's overall risk philosophy;
- Communicating and monitoring the Company's risk exposures relative to set limits and recommending, or implementing as appropriate, mitigating strategies; and
- Providing insight to assist leaders in growing the businesses and achieving optimal risk-adjusted returns within established guidelines.

### Enterprise Risk Management Structure and Governance

At The Hartford, the Board of Directors ("the Board") has ultimate responsibility for risk oversight. It exercises its oversight function through its standing committees, each of which has primary risk oversight responsibility with respect to all matters within the scope of its duties as contemplated by its charter. In addition, the Finance, Investment and Risk Management Committee ("FIRMCo"), which is comprised of all members of the Board, has responsibility for the oversight of the investment, financial, and risk management activities of the Company, except as otherwise provided in the Company Governance Guidelines. The oversight of all risk exposures includes, but is not limited to:

- Market risk, including credit, interest rate, equity market, and foreign exchange;
- Liquidity and capital requirements of the Company;
- Insurance risks, including those arising out of catastrophes and acts of terrorism;
- Cybersecurity risk; and
- Any other risk that poses a material threat to the strategic viability of the Company.

The Audit Committee is responsible for, among other things, discussing with management policies with respect to risk assessment and risk management.



At the corporate level, the Company's Enterprise Chief Risk Officer ("Chief Risk Officer") leads ERM. The Chief Risk Officer reports directly to the Company's Chief Executive Officer ("CEO"). The Company has established the Enterprise Risk and Capital Committee ("ERCC") that includes the Company's CEO, President, Chief Financial Officer, Chief Investment Officer, Chief Risk Officer, General Counsel and others as deemed necessary by the committee chair. The ERCC oversees the risk profile and risk management practices of the Company. The ERCC also oversees capital management and the allocation of capital to the lines of business. The ERCC is responsible for significant company-wide risk exposures including, but not limited to, financial risk, liquidity and capital requirements, insurance risk, operational risks, and any other risk deemed significant. The ERCC reports to the Board primarily through the FIRMCo and through interactions with the Audit Committee.

The Company also has committees that manage specific risks and recommend risk mitigation strategies to the ERCC. These committees include, but are not limited to, Asset Liability Committees, Catastrophe Risk Committee, Emerging Risk Committees, Model Oversight Committees and Operational Risk Committee.

#### Risk Management Framework

At the Company, risk is managed at multiple levels. The Hartford utilizes three lines of defense in risk management to integrate its risk management strategy and appetite into all areas of the Company. The first line of defense in risk management is generally the responsibility of the lines of business. Senior business leaders are responsible for managing risks specific to their business objectives and business environment. The second line of defense in risk management is generally owned by ERM. ERM has the responsibility to ensure that the Company has insight into its aggregate risk and that risks are managed within the Company's overall risk appetite. Legal and Compliance also commonly act as a second line of defense in risk management. The third line of defense in risk management is owned by Internal Audit. Internal Audit provides independent assurance that each business unit's controls are present, compliant, and effective, informs the risk identification process and provides audit and consultative support to the Company.

The Company's Risk Management Framework consists of five core elements:

1. **Risk Culture and Governance:** The Company has established policies for its major risks and a formal governance structure with leadership oversight and an assignment of accountability and authority. The governance structure starts at the Board and cascades to the ERCC and then to individual risk committees across the Company. In addition, the Company promotes a strong risk management culture and high expectations around ethical behavior.
2. **Risk Identification and Assessment:** Through its ERM organization, the Company has developed processes for the identification, assessment, and, when appropriate, response to internal and external risks to the Company's operations and business objectives. Risk identification and prioritization has been established within each area, including processes around emerging risks.
3. **Risk Appetite, Tolerances, and Limits:** The Company has a formal enterprise risk appetite framework that is approved by the ERCC and reviewed by the Board. The risk appetite framework includes an enterprise risk appetite statement, risk preferences, risk tolerances and enterprise risk limits. Enterprise risk limits which quantify tolerances into specific limits by risk category are defined in underlying enterprise risk policies.
4. **Risk Management and Controls:** While the Company utilizes the committee structure to elevate risk discussions and decision-making, there are a variety of working groups that provide decisioning and management of risk within determined tolerances and limits. ERM and the appropriate governing risk committees regularly monitor the Company's risk exposure as compared to defined limits and tolerances and provides regular reporting to the ERCC.
5. **Risk Reporting and Communication:** The Company monitors its major risks at the enterprise level through a number of enterprise reports, including but not limited to, a monthly risk dashboard, and regular stress testing. ERM communicates the Company's risk exposures to senior and executive management and the Board, and reviews key business performance metrics, risk indicators, audit reports, risk/control self-assessments and risk event data.

#### Risk Exposures and Quantification

The Company quantifies its enterprise insurance and financial risk exposures using multiple lenses including statutory, economic and, where appropriate, U.S. GAAP. ERM leverages various modeling techniques and metrics to provide a view of the Company's risk exposure in both normal and stressed environments.



In order to quantify group capital levels the Company uses an Economic Capital Model (“ECM”) to quantify the value of risk management across the business lines and to advance its risk-based decision-making and optimization across risk and business. The Company also uses the ECM to inform capital attribution. The Company categorizes its main risks as follows in order to achieve a consistent and disciplined approach to quantifying, evaluating, and managing risk:

**Insurance Risk**

**Operational Risk**

**Financial Risk**

Additionally, the Company manages its legal and management risks, across the enterprise. Management risk includes strategic risk, the risk of ineffective or inefficient execution of the Company's strategy, as well as tax risk and reputational risk.

**Insurance Risk**

The Company defines insurance risk as its exposure to loss due to property, liability, mortality, morbidity, disability, longevity and other perils and risks covered under its policies, including adverse development on loss reserves supporting its products and geographic accumulations of loss over time due to property or casualty catastrophes.

**Operational Risk**

The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

**Financial Risk**

Financial risk is broadly defined by the Company to include liquidity, interest rate, equity, foreign exchange, and credit risks, all of which have the potential to materially impact the Company's financial condition. Financial risk also includes exposure to events that may cause correlated movement in the above risk factors.

For further discussion on risk management, see Part II, Item 7, MD&A - Enterprise Risk Management.

**Regulation**

Insurance companies are subject to comprehensive and detailed regulation and supervision throughout the United States. The extent of such regulation varies, but generally has its source in statutes which delegate regulatory, supervisory and administrative powers to state insurance departments. Such powers relate to, among other things, the standards of solvency that must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; establishing premium rates; claim handling and trade practices; restrictions on the size of risks which may be insured under a single policy; deposits of securities for the benefit of policyholders; approval of policy forms; periodic examinations of the affairs of companies; annual and other reports required to be filed on the financial condition of companies or for other purposes; and minimum rates for accumulation of surrender values; and the adequacy of reserves and other necessary provisions for unearned premiums, unpaid losses and loss adjustment expenses and other liabilities, both reported and unreported.

Most states have enacted legislation that regulates insurance holding company systems such as The Hartford. This legislation provides that each insurance company in the system is required to register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any entity in its holding company system. In addition, certain of such transactions cannot be consummated without the applicable insurance department's prior approval. In the jurisdictions in which the Company's insurance company subsidiaries are domiciled, the acquisition of more than 10% of The Hartford's outstanding common stock would require the acquiring party to make various regulatory filings.

Certain of the Company's life insurance subsidiaries sold variable life insurance, variable annuity, and some fixed guaranteed products that are “securities” registered with the SEC under the Securities Act of 1933, as amended. Some of the products have separate accounts that are registered as investment companies under the Investment Company Act of 1940, as amended (the “1940 Act”), and/or are regulated by state law. Separate account investment products are also

subject to state insurance regulation. Moreover, each separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund that is also registered as an investment company under the 1940 Act (“Underlying Funds”). The Company offers these Underlying Funds and retail mutual funds that are registered with and regulated by the SEC.

In addition, other subsidiaries of the Company sold and distributed the Company's variable insurance products, Underlying Funds and retail mutual funds as broker-dealers and are subject to regulation promulgated and enforced by the Financial Industry Regulatory Authority ("FINRA"), the SEC and/or in, some instances, state securities administrators. Other entities operate as investment advisers registered with the SEC under the Investment Advisers Act of 1940 and are registered as investment advisers under certain state laws, as applicable. Because federal and state laws and regulations are primarily intended to protect investors in securities markets, they generally grant regulators broad rulemaking and enforcement authority. Some of these regulations include, among other things, regulations impacting sales methods, trading practices, suitability of investments, use and safekeeping of customers' funds, corporate governance, capital, record keeping, and reporting requirements.

The extent of insurance regulation on business outside the United States varies significantly among the countries in which The Hartford operates. Some countries have minimal regulatory requirements, while others regulate insurers extensively. Foreign insurers in certain countries are faced with greater restrictions than domestic competitors domiciled in that particular jurisdiction. The Hartford's international operations are comprised of insurers licensed in their respective countries.

In addition, as described under "Legislative Developments," we are subject to a number of Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") provisions. Failure to comply with federal and state laws and regulations may result in censure, fines, the issuance of cease-and-desist orders or suspension, termination or limitation of the activities of our operations and/or our employees. We cannot predict the impact of these actions on our businesses, results of operations or financial condition.

#### Intellectual Property

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property.

We have a trademark portfolio that we consider important in the marketing of our products and services, including, among others, the trademarks of The Hartford name, the Stag Logo and the combination of these two marks. The duration of trademark registrations may be renewed indefinitely subject to country-specific use and registration requirements. We regard our trademarks as extremely valuable assets in marketing our products and services and vigorously seek to protect them against infringement. In addition, we own a number of patents and patent applications relating to on-line quoting, insurance related processing, insurance telematics, proprietary interface platforms, and other matters, some of which may be important to our business operations. Patents are of varying duration depending on filing date, and will typically expire at the end of their natural term.

#### Employees

The Hartford has approximately 17,500 employees as of December 31, 2014.

#### Available Information

The Company's Internet address is [www.thehartford.com](http://www.thehartford.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available, without charge, on the investor relations section of our website, <http://ir.thehartford.com>, as soon as reasonably practicable after they are filed electronically with the SEC. Reports filed with the SEC may be viewed at [www.sec.gov](http://www.sec.gov) or obtained at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. References in this report to our website address are provided only as a convenience and do not constitute, and should not be viewed as, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

## Item 1A. RISK FACTORS

Investing in The Hartford involves risk. In deciding whether to invest in The Hartford, you should carefully consider the following risk factors, any of which could have an adverse effect on the business, financial condition, results of operations, or liquidity of The Hartford and could also impact the trading price of our securities. The Hartford may also be subject to other risks and uncertainties that are not specifically described below, which may have an adverse effect on the business, financial condition, results of operations, 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 Securities and Exchange Commission (“SEC”). The following risk factors have been organized by category for ease of use, however many of the risks may have impacts in more than one category. These categories, therefore, should be viewed as a starting point for understanding the significant risks facing us and not as a limitation on the potential impact of the matters discussed. Risk factors are not necessarily listed in order of importance.

### Risks Relating to Economic, Market and Political Conditions

Unfavorable conditions in our operating environment, including general economic and global capital market conditions, including financial and capital markets risks, such as changes in interest rates, credit spreads, equity prices, market volatility, foreign exchange rates, commodities prices and real estate market deterioration, may have a material adverse effect on our business, financial condition, results of operations, and liquidity.

The Company’s investment portfolio and insurance liabilities are sensitive to changes in global capital market conditions. Stressed conditions or disruptions in global capital markets can directly impact our business, financial condition, results of operations, and liquidity as well as impact the economic environment. Weak economic conditions, such as high unemployment, low labor force participation, lower family income, higher tax rates, lower business investment and lower consumer spending may have adversely affected or may in the future adversely affect the demand for insurance and financial products, as well as their profitability in some cases. Weak economic conditions are also likely to result in the persistence of a low interest rate environment as well as volatility in other global 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 when 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.

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. New and renewal business for our property and casualty and group benefits products is priced based on prevailing interest rates. As interest rates decline, pricing targets will tend to increase to offset the lower anticipated investment income earned on invested premiums.

Conversely, as interest rates rise, pricing targets will tend to 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. In addition, due to the long-term nature of the liabilities within our Group Benefits and 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 certain products within our Talcott Resolution segment 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 assets 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.

Our exposure to credit spreads primarily relates to changes in market price of fixed income instruments associated with changes in credit spreads. If issuer credit spreads widen significantly and retain 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 volatility in credit spreads. When credit spreads widen, we incur losses associated with 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 exposure to commodity prices primarily relates to our investment portfolio. Our investment portfolio includes fixed maturities and equity securities issued by companies and sovereigns that derive a portion of their revenues from commodities, including oil, coal, natural gas, precious and non-precious metals. In periods in which the prices of these and other commodities fall, absent other countervailing changes, decreases in the market value of our investment portfolio will likely result. If these declines in commodities prices are severe and persist over an extended period of time, other-than-temporary impairments may result. 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 hedging targets and statutory and GAAP accounting principles for our guaranteed benefits, rising equity markets and/or rising interest rates may result in statutory or GAAP losses.

Concentration of our investment portfolio in any particular segment of the economy may have adverse effects on our business, financial condition, results of operations and liquidity

The concentration of our investment portfolios in any particular industry, collateral type, group of related industries or geographic sector could have an adverse effect on our investment portfolios and consequently on our business, financial condition, results of operations and liquidity. Events or developments that have a negative impact on any particular industry, group of related industries or geographic region may have a greater adverse effect on our investment portfolio to the extent that the portfolio is concentrated rather than diversified.

#### Risks Relating to Estimates, Assumptions and Valuations

Actual results could materially differ from the analytical models we use to assist our decision making in key areas such as underwriting, capital, hedging, reserving, and catastrophe risks, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We employ various modeling techniques (e.g., scenarios, predictive, stochastic and/or forecasting) to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. We use the modeled outputs and related analyses to assist us in decision-making related to underwriting, pricing, capital allocation, reserving, hedging, reinsurance, and catastrophe risk. Both proprietary and third party models we use incorporate numerous



assumptions and forecasts about the future level and variability of interest rates, capital requirements, loss frequency and severity, currency exchange rates, policyholder behavior, equity markets and inflation, among others. The modeled outputs and related analyses are subject to the inherent limitations of any statistical analysis, including the use of historical internal and industry data and assumptions, which may be stale, incomplete or erroneous. Consequently, actual results may differ materially from our modeled results. The profitability and financial condition of the Company substantially depends on the extent to which our actual experience is consistent with assumptions we use in our models and ultimate model outputs. If, based upon these models or other factors, we misprice our products or our estimates of the risks we are exposed to prove to be materially inaccurate, our business, financial condition, results of operations or liquidity may be adversely affected.

Our valuations of many of our financial instruments include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our business, results of operations, financial condition and liquidity.

The following financial instruments are carried at fair value in the Company's consolidated financial statements: fixed maturities, equity securities, freestanding and embedded derivatives, certain hedge fund investments, and separate account assets. The determination of fair values is made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption, including periods of significantly increasing/decreasing interest rates, rapidly widening/narrowing credit spreads or illiquidity, it may be difficult to value certain of our securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the financial environment. In such cases, securities may require more subjectivity and management judgment in determining their fair values and those fair values may differ materially from the value at which the investments may be ultimately sold. Further, rapidly changing or unprecedented credit and equity market conditions could materially impact the valuation of securities and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Evaluation of available-for-sale securities for other-than-temporary impairment involves subjective determinations and could materially impact our business, financial condition, results of operations and liquidity.

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether a credit and/or non-credit impairment exists and whether an impairment should be recognized in current period earnings or in other comprehensive income. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or future recovery prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. For securitized financial assets with contractual cash flows, the Company uses its best estimate of cash flows over the life of the security to determine if a security is other-than-temporarily-impaired. In addition, estimating future cash flows involves incorporating information received from third-party sources and making internal assumptions and judgments regarding the future performance of the underlying collateral and assessing the probability that an adverse change in future cash flows has occurred. The determination of the amount of other-than-temporary impairments is based upon our quarterly evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

Additionally, our management considers a wide range of factors about the security issuer and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Impairment losses in earnings could materially adversely affect our results of operations and financial condition.

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. variable annuity products 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 and the life contingent portion of guaranteed minimum withdrawal benefits ("GMWB") 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 separate account fund

returns are most likely to impact the EGP, along with 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.

If our businesses do not perform well, we may be required to establish a valuation allowance against the deferred income tax asset or to recognize an impairment of our goodwill, which could have a material adverse effect on our results of operations and financial condition.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the business, including the ability to generate capital gains to offset previously recognized capital losses, from a variety of sources and tax planning strategies. If based on available information, it is more likely than not that we are unable to recognize a full tax benefit on deferred tax assets, then a valuation allowance will be established with a corresponding charge to net income (loss). Charges to increase our valuation allowance could have a material adverse effect on our results of operations and financial condition.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the "reporting unit" to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The fair value of the reporting unit is impacted by the performance of the business and could be adversely impacted by any efforts made by the Company to limit risk. If it is determined that the goodwill has been impaired, the Company must write down the goodwill by the amount of the impairment, with a corresponding charge to net income (loss). These write downs could have a material adverse effect on our results of operations or financial condition.

It is difficult for us to predict our potential exposure for asbestos and environmental claims, and our ultimate liability may exceed our currently recorded reserves, which may have a material adverse effect on our business, financial condition, results of operations and liquidity.

We continue to receive asbestos and environmental claims. Significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses for both environmental and particularly asbestos claims. For some asbestos and environmental claims, we believe that the actuarial tools and other techniques we employ to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for our asbestos and environmental exposures. Accordingly, the degree of variability of reserve estimates for these longer-tailed exposures is significantly greater than for other more traditional exposures. It is also not possible to predict changes in the legal and legislative environment and their effect on the future development of asbestos and environmental claims. 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 for both environmental and particularly asbestos claims, the ultimate liabilities may exceed the currently recorded reserves. Increases in reserves would be recognized as an expense during the periods in which these determinations are made, thereby adversely affecting our results of operations for the related periods. Depending on the scale of any changes in these estimated losses, such determinations could have a material adverse effect on our business, financial condition, results of operations and liquidity.

#### 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.

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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, admissibility of deferred tax assets 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.

Downgrades in our financial strength or credit ratings, which may make our products less attractive, could increase our cost of capital and inhibit our ability to refinance our debt, which would have a material adverse effect on our business, financial condition, results of operations and liquidity.

Financial strength and credit ratings are important in establishing the competitive position of insurance companies. Rating agencies assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating agency (including its assessment of the strategic importance of the rated company to the insurance group), general economic conditions, and circumstances outside the rated company's control. In addition, rating agencies may employ different models and formulas to assess the financial strength of a rated company, and from time to time rating agencies have altered these models. Changes to the models, general economic conditions, or other circumstances outside our control could impact a rating agency's judgment of its internal rating and the publicly issued rating it assigns us. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which may adversely affect us.

Our financial strength ratings, which are intended to measure our ability to meet policyholder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. A downgrade or a potential downgrade in the rating of our financial strength or of one of our principal insurance subsidiaries could affect our competitive position and reduce future sales of our products.

Our credit ratings also affect our cost of capital. A downgrade or a potential downgrade of our credit ratings could make it more difficult or costly to refinance maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the financial strength ratings of our principal insurance subsidiaries.

Downgrades could begin to trigger potentially material collateral calls on certain of our derivative instruments and counterparty rights to terminate derivative relationships, both of which could limit our ability to purchase additional derivative instruments. These events could materially adversely affect our business, financial condition, results of operations and liquidity. For a further discussion of potential impacts of ratings downgrades on derivative instruments, including potential collateral calls, see the "Capital Resources and Liquidity - Derivative Commitments" section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 and certain emerging market issuers. Despite 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 potential for rising U.S. interest rates, slowing global growth, lower prices for oil and other commodities, 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. 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.

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."

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. As an insurer, we frequently use reinsurance to reduce the effect of losses that may arise from catastrophes, transfer other risks that can cause unfavorable results of operations, or effect the sale of one line of business to an independent company. Under these reinsurance arrangements, other insurers assume a portion of our losses and related expenses; however, we remain liable as the direct insurer on all risks reinsured. Consequently, ceded reinsurance arrangements do not eliminate our obligation to pay claims, and we are subject to our reinsurers' credit risk with respect to our ability to recover amounts due from them. Although we regularly evaluate the financial condition of our reinsurers to minimize our exposure to significant losses from reinsurer insolvencies, our reinsurers may become financially unsound or dispute their contractual obligations. The inability or unwillingness of any reinsurer to meet its financial obligations to us could have a material adverse effect on our results of operations. This risk may be magnified by a concentration of reinsurance-related credit risk resulting from the sale of the Company's Individual Life business. Further details of such concentration can be found in Part II, Item 7, MD&A - Reinsurance as a Risk Management Strategy - Life Insurance Product Reinsurance Recoverable.

In addition, market conditions beyond our control determine the availability and cost of the reinsurance we are able to purchase. Reinsurance pricing changes significantly over time, and no assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms as are currently available. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our net liability exposure, reduce the amount of business we write, or develop to the extent possible other alternatives to reinsurance. Further, due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables will be 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 quarterly or annual period.



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.

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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 business, financial condition, results of operations and liquidity may be materially adversely affected by unfavorable loss development.

Our success, in part, depends upon our ability to accurately assess the risks associated with the coverage provided to policyholders that we insure. We establish loss reserves to cover our estimated liability for the payment of all unpaid losses and loss expenses incurred with respect to premiums earned on the policies that we write. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate settlement and administration of claims will cost, less what has been paid to date. These estimates are based upon actuarial and statistical projections and on our assessment of currently available data, as well as estimates of claims severity and frequency, legal theories of liability and other factors. Loss reserve estimates are refined periodically as experience develops and claims are reported and settled. Establishing an appropriate level of loss reserves is an inherently uncertain process. Because of this uncertainty, it is possible that our reserves at any given time will prove inadequate. Furthermore, since estimates of aggregate loss costs for prior accident years are used in pricing our insurance products, we could later determine that our products were not priced adequately to cover actual losses and related loss expenses in order to generate a profit. To the extent we determine that losses and related loss expenses are emerging unfavorably to our initial expectations, we will be required to increase reserves. Increases in reserves would be recognized as an expense during the period or periods in which these determinations are made, thereby adversely affecting our results of operations for the related period or periods. Depending on any changes in these estimated losses, such determinations could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We are particularly vulnerable to losses from catastrophes, both natural and man-made, which could materially and adversely affect our business, financial condition, results of operations and liquidity.

Our insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various unpredictable natural events, including, among others, earthquakes, hurricanes, hailstorms, severe winter weather, wind storms, fires, tornadoes, and pandemics. Catastrophes can also be man-made, such as terrorist attacks, cyber-attacks, explosions or infrastructure failures.

The geographic distribution of our business subjects us to catastrophe exposure for events occurring in a number of areas, including, but not limited to, hurricanes in Florida, the Gulf Coast, the Northeast and the Atlantic coast regions of the United States, tornadoes in the Midwest and Southeast, earthquakes in California and the New Madrid region of

the United States, and the spread of disease. We expect that increases in the values and concentrations of insured employees and property in these areas will continue to increase the severity of catastrophic events in the future. In addition, changing climate conditions across longer time scales, including the potential risk of broader climate change, may be increasing, or may in the future increase, the severity of certain natural catastrophe losses across various geographic regions. Potential examples of the impact of climate change on catastrophe exposure include, but are not limited to the following: an increase in the frequency or severity of wind and thunderstorm and tornado/hailstorm events due to increased convection in the atmosphere, more frequent brush fires in certain geographies due to prolonged periods of drought, higher incidence of deluge flooding, and the potential for an increase in severity of the largest hurricane events due to higher sea surface temperatures. In addition, our businesses have exposure to global or nationally occurring pandemics caused by highly infectious and potentially fatal diseases, and are spread through human, animal or plant populations. Additionally, due to such catastrophes, caused by natural or man-made events, policyholders may be unable to meet their obligations to pay premiums on our insurance policies.

Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which could result in extraordinary losses. In addition, in part because accounting rules do not permit insurers to reserve for such catastrophic events until they occur, claims from catastrophic events could have a material adverse effect on our business, financial condition, results of operations or liquidity. To the extent that loss experience unfolds or models improve, we will seek to reflect any of these changes in the design and pricing of our products. However, the Company may be exposed to regulatory or legislative actions that prevent a full accounting of loss expectations in the design or pricing of our products or result in additional risk-shifting to the insurance industry.

The occurrence of one or more terrorist attacks in the geographic areas we serve or the threat of terrorism in general may have a material adverse effect on our business, financial condition, results of operations and liquidity.

The occurrence of one or more terrorist attacks in the geographic areas we serve could result in substantially higher claims under our insurance policies than we have anticipated. Private sector catastrophe reinsurance is extremely limited and generally unavailable for terrorism losses caused by attacks with nuclear, biological, chemical or radiological weapons. Reinsurance coverage from the federal government under the Terrorism Risk Insurance Program Reauthorization Act of 2015 (“TRIPRA”) is also limited. Although TRIPRA provides benefits for certified acts of terrorism that exceed a certain threshold of industry losses (\$100 in 2015, increasing to \$200 by 2020), those benefits are subject to a deductible and other limitations. Under TRIPRA, once our losses exceed 20% of our subject commercial property and casualty insurance premium for the preceding calendar year, the federal government will reimburse us a percentage of our losses (85% in 2015, decreasing 1% annually until 2020) attributable to certain acts of terrorism which exceed this deductible up to a total industry program cap of \$100 billion. Our estimated deductible under the program is \$1.19 billion for 2015. In addition, because the interpretation of this law is untested, there is substantial uncertainty as to how it will be applied to specific circumstances.

Accordingly, the effects of a terrorist attack in the geographic areas we serve may result in claims and related losses for which we do not have adequate reinsurance. This would likely cause us to increase our reserves, adversely affect our results during the period or periods affected and, could adversely affect our business, financial condition, results of operations and liquidity. Further, the continued threat of terrorism and the occurrence of terrorist attacks, as well as heightened security measures and military action in response to these threats and attacks or other geopolitical or military crises, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in our investment portfolio as well as those in our separate accounts. Terrorist attacks also could disrupt our operations centers in the U.S. or abroad. As a result, it is possible that any, or a combination of all, of these factors may have a material adverse effect on our business, financial condition, results of operations and liquidity.

Our business, financial condition, results of operations and liquidity may be adversely affected by the emergence of unexpected and unintended claim and coverage issues.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may either extend coverage beyond our underwriting intent or increase the frequency or severity of claims. In some instances, these changes may not become apparent until some time after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued, and this liability may have a material adverse effect on our business, financial condition, results of operations and liquidity at the time it becomes known.

As a property and casualty insurer, the premium rates we are able to charge and the profits we are able to obtain are affected by the actions of state insurance departments that regulate our business, the cyclical nature of the business in which we compete and our ability to adequately price the risks we underwrite, which may have a material adverse effect on our business, financial condition, results of operations and liquidity.

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, our response to rate actions taken by competitors, and expectations about regulatory and legal developments and expense levels. We seek to price our property and casualty insurance policies such that insurance premiums and future net investment income earned on premiums received will provide for an acceptable profit in excess of underwriting expenses and the

cost of paying claims.

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State insurance departments that regulate us often propose premium rate changes for the benefit of the consumer at the expense of the insurer and may not allow us to reach targeted levels of profitability. In addition to regulating rates, certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, joint underwriting associations and other residual market plans, or to offer coverage to all consumers and often restrict an insurer's ability to charge the price it might otherwise charge or restrict an insurer's ability to offer or enforce specific policy deductibles. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates or accept additional risk not contemplated in our existing rates, participate in the operating losses of residual market plans or pay assessments to fund operating deficits of state-sponsored funds, possibly leading to unacceptable returns on equity. The laws and regulations of many states also limit an insurer's ability to withdraw from one or more lines of insurance in the state, except pursuant to a plan that is approved by the state's insurance department. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Any of these factors could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Additionally, the property and casualty insurance market is historically cyclical, experiencing periods characterized by relatively high levels of price competition, less restrictive underwriting standards, more expansive coverage offerings and relatively low premium rates, followed by periods of relatively low levels of competition, more selective underwriting standards, more coverage restrictions and relatively high premium rates. 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 when 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. In all of our property and casualty insurance product lines and states, there is a risk that the premium we charge may ultimately prove to be inadequate as reported losses emerge. In addition, there is a risk that regulatory constraints, price competition or incorrect pricing assumptions could prevent us from achieving targeted returns. Inadequate pricing could have a material adverse effect on our results of operations and financial condition.

Adjustments to our risk management program relating to products we offered with guaranteed benefits to emphasize protection of economic value may result in 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, including GMWB and GMDB 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 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. Adjustments to our risk management program may result 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 would improve 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

The impact of regulatory initiatives and legislative developments, including the implementation of the Dodd-Frank Act of 2010, could have a material adverse impact on our business, financial condition, results of operations and liquidity.

Regulatory initiatives and legislative developments may significantly affect our operations and prospects in ways that we cannot predict. U.S. and overseas governmental and regulatory authorities, including the SEC, the Board of

Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC"), the NYSE and the Financial Industry Regulatory Authority, Inc. ("FINRA") are considering enhanced or new regulatory requirements intended to prevent future financial crises or otherwise stabilize the institutions under their supervision. Such measures are likely to lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important companies in particular. Such measures could include taxation of financial transactions and restrictions on employee compensation.

The Dodd-Frank Act was enacted on July 21, 2010, mandating changes to the regulation of the financial services industry. Implementation of the Dodd-Frank Act is ongoing and may affect our operations and governance in ways that could adversely affect our financial condition and results of operations. The Dodd-Frank Act requires central clearing of, and imposes new margin requirements on, certain derivatives transactions, which increases the costs of our hedging program. Other provisions in the Dodd-Frank Act that may impact us include: the new “Federal Insurance Office” within Treasury; the possible adverse impact on the pricing and liquidity of the securities in which we invest resulting from the proprietary trading and market making limitation of the Volcker Rule; the possible adverse impact on the market for insurance-linked securities, including catastrophe bonds, resulting from the limitations of banking entity involvement in and ownership of certain asset-backed securities transactions; and enhancements to corporate governance, especially regarding risk management.

The Dodd-Frank Act vests the Financial Stability Oversight Council (“FSOC”) with the power to designate “systemically important” institutions, which will be subject to special regulatory supervision and other provisions intended to prevent, or mitigate the impact of, future disruptions in the U.S. financial system. Based on its most current financial data, The Hartford is below the quantitative thresholds used by the FSOC to determine which nonbank companies merit consideration. However, the FSOC has indicated it will review on a quarterly basis whether nonbank financial institutions meet the metrics for further review. If we were to be designated as a systemically important institution, we could be subject to heightened regulation under the Federal Reserve, which could impact requirements regarding our capital, liquidity and leverage as well as our business and investment conduct. In addition, we could be subject to assessments to pay for the orderly liquidation of other systemically important financial institutions that have become insolvent. As a result of these requirements, we could incur substantial costs and suffer other negative consequences, all of which may have a material adverse effect on our business, financial condition, results of operations and liquidity.

We may experience unfavorable judicial or legislative developments involving claim litigation that could have a material adverse effect on our business, financial condition, results of operations and liquidity.

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. The Company is also involved in legal actions that do not arise in the ordinary course of business, some of which assert claims for substantial amounts. Pervasive or significant changes in the judicial environment relating to matters such as trends in the size of jury awards, developments in the law relating to the liability of insurers or tort defendants, and rulings concerning the availability or amount of certain types of damages could cause our ultimate liabilities to change from our current expectations. Changes in federal or state tort litigation laws or other applicable law could have a similar effect. It is not possible to predict changes in the judicial and legislative environment and their impact on the future development of the adequacy of our loss reserves, particularly reserves for longer-tailed lines of business, including asbestos and environmental reserves, and how those changes might adversely affect our ability to price our products appropriately. Our business, financial condition, results of operations and liquidity could also be adversely affected if judicial or legislative developments cause our ultimate liabilities to increase from current expectations.

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."

Changes in federal or state tax laws could adversely affect our business, financial condition, results of operations and liquidity.

Changes in federal or state tax laws could have a material adverse effect on our profitability and financial condition, and could result in our incurring materially higher corporate taxes. Higher tax rates may cause small businesses to hire fewer workers and decrease investment in their businesses, including purchasing vehicles, property and equipment, which could adversely affect our business, financial condition, results of operations and liquidity. Conversely, if income tax rates decline it could adversely affect the Company's ability to realize the benefits of its deferred tax assets.

In addition, the Company's tax return reflects certain items, including but not limited to, tax-exempt bond interest, dividends received deductions, tax credits (such as foreign tax credits), and insurance reserve deductions. There is an increasing risk that, in the context of deficit reduction or overall tax reform, federal and/or state tax legislation could modify or eliminate these items, impacting the Company, its investments, investment strategies, and/or its policyholders. Although the specific form of any such legislation is uncertain, changes to the taxation of municipal bond interest could materially and adversely impact the value of those bonds, limit our investment choices and depress portfolio yield. Elimination of the dividends received deduction or changes to the taxation of reserving methodologies for P&C companies could increase the Company's actual tax rate, thereby reducing earnings. Moreover, many of the products that the Company previously sold benefit from one or more forms of tax-favored status under current federal and state income tax regimes. For example, the Company previously sold annuity contracts that allowed policyholders to defer the recognition of taxable income earned within the contract. Because the Company no longer sells these products, changes in the future taxation of life insurance and/or annuity contracts will not adversely impact future sales. If, however, the treatment of earnings accrued inside an annuity contract was changed prospectively, and the tax-favored status of existing contracts was grandfathered, holders of existing contracts would be less likely to surrender, which would make running off our existing annuity business more difficult.

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

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the acquirer's plans for the future operations of the domestic insurer, and any such additional information as the insurance commissioner may deem necessary or appropriate for the protection of policyholders or in the public interest. Generally, state statutes provide that control over a domestic insurer is

presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of the domestic insurer or its parent company. Because a person acquiring 10 percent or more of our Common Stock would indirectly control the same percentage of the stock of our U.S. insurance subsidiaries, the insurance change of control laws of various U.S. jurisdictions would likely apply to such a transaction. Other laws or required approvals pertaining to one or more of our existing subsidiaries, or a future subsidiary, may contain similar or additional restrictions on the acquisition of control of the Company. These laws may discourage potential acquisition proposals and may delay, deter, or prevent a change of control, including transactions that our Board of Directors and some or all of our shareholders might consider to be desirable.

Changes in accounting principles and financial reporting requirements could result in material changes to our reported results of operations and financial condition.

U.S. GAAP and related financial reporting requirements are complex, continually evolving and may be subject to varied interpretation by the relevant authoritative bodies. Such varied interpretations could result from differing views related to specific facts and circumstances. Changes in U.S. GAAP and financial reporting requirements, or in the interpretation of U.S. GAAP or those requirements, could result in material changes to our reported results and financial condition. Moreover, the SEC is currently evaluating International Financial Reporting Standards (“IFRS”) to determine whether IFRS should be incorporated into the financial reporting system for U.S. issuers. Certain of these standards could result in material changes to our reported results of operations.

#### Other Operational Risks

The ability to execute on our capital management plan, expense reduction initiatives and other actions, which may include acquisitions, divestitures or restructurings, is subject to material challenges, uncertainties and risks which could adversely affect our business, financial condition, results of operations and liquidity.

The ability to execute on our capital management plan remains 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. 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. 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, 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.

Competitive activity may adversely affect our market share and financial results, which could have a material adverse effect on our business and results of operations.

The industries in which we operate are highly competitive. Our principal competitors are other property and casualty insurers, group benefits providers and other mutual fund companies. Larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. These highly competitive pressures could result in increased pricing pressures on a number of our products and services and may harm our ability to maintain or increase our profitability. Because of the highly competitive nature of these industries, there can be no assurance that we will continue to compete effectively with our industry rivals, or that competitive pressure will not have a material adverse effect on our business and results of operations.

We may experience difficulty in marketing, distributing and providing investment advisory services in relation to our products through current and future distribution channels and advisory firms.

We distribute our insurance products and mutual funds through a variety of distribution channels, including brokers, independent agents, broker-dealers, banks, affinity partners, our own internal sales force and other third-party organizations. In some areas of our business, we generate a significant portion of our business through or in connection with individual third-party arrangements. For example, we market personal lines products in large part through an exclusive licensing arrangement with AARP that continues through January 1, 2023. Our ability to distribute products through affinity partners may be adversely impacted by membership levels and the pace of membership growth. We periodically negotiate provisions and renewals of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in our continuing relationship with certain of these third parties, including potentially as a result of a strategic transaction or other Company initiatives, could materially affect our ability to market our products and could have a material adverse effect on our business, financial condition, results of operations and liquidity.

If we are unable to maintain the availability of our systems and safeguard the security of our data due to the occurrence of disasters or a cyber or other information security incident, our ability to conduct business may be compromised, we may incur substantial costs and suffer other negative consequences, all of which may have a

material adverse effect on our business, reputation, financial condition, results of operations and liquidity. We use computer systems to process, store, retrieve, evaluate and utilize customer and company data and information. Our computer, information technology and telecommunications systems, in turn, interface with and rely upon third-party systems or maintenance. Our business is highly dependent on our ability, and the ability of certain third parties, to access our systems to perform necessary business functions, including, without limitation, conducting our financial reporting and analysis, providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios and hedging programs.

Systems failures or outages could compromise our ability to perform our business functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a disaster such as a natural catastrophe, a pandemic, an industrial accident, a blackout, a terrorist attack (including conventional, nuclear, biological, chemical or radiological) or war, systems upon which we rely may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees and business partners are able to report to work, they may be unable to perform their duties for an extended period of time if our data or systems used to conduct our business are disabled or destroyed.

Moreover, our computer systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorized access, cyber-attacks or other computer related penetrations. The frequency and sophistication of such threats continue to increase as well. While, to date, The Hartford is not aware of having experienced a material breach of our cybersecurity systems, administrative and technical controls as well as other preventive actions we take to reduce the risk of cyber incidents and protect our information technology may be insufficient to prevent physical and electronic break-ins, denial of service, cyber-attacks or other security breaches to our computer systems or those of third parties with whom we do business. Such an event could compromise our confidential information as well as that of our clients and third parties, with whom we interact, impede or interrupt our business operations and may result in other negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation and reputational damage. In addition, we routinely transmit, to third parties personal, confidential and proprietary information, which may be related to employees and customers, by email and other electronic means, along with receiving and storing such information on our systems. Although we attempt to keep such information confidential, we may be unable to utilize such capabilities in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect confidential information.

Furthermore, certain of our businesses are subject to compliance with regulations enacted by U.S. federal and state governments, the European Union, Japan or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy of the information of clients, employees or others. A misuse or mishandling of confidential or proprietary information being sent to or received from an employee or third party could result in legal liability, regulatory action and reputational harm.

Third parties to whom we outsource certain of our functions, including but not limited to third party administrators, are also subject to cyber-breaches of confidential information, along with the other risks outlined above, any one of which may result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, reputation, financial condition, results of operations and liquidity. While we maintain cyber liability insurance that provides both third party liability and first party insurance coverages, our insurance may not be sufficient to protect against all loss.

Our framework for managing operational risks may not be effective in mitigating risk and loss to us that could adversely affect our businesses.

Our business performance is highly dependent on our ability to manage operational risks that arise from a large number of day-to-day business activities, including insurance underwriting, claims processing, servicing, investment, financial and tax reporting, compliance with regulatory requirements and other activities, many of which are very complex and for some of which we rely on third parties. In addition, information technology investments we have made or plan to make in order to improve our operations are subject to material challenges, uncertainties and risks which may adversely impact our ability to achieve the anticipated business growth, expense reduction and operational efficiencies. We seek to monitor and control our exposure to risks arising out of these activities through a risk control framework encompassing a variety of reporting systems, internal controls, management review processes and other mechanisms. We cannot be completely confident that these processes and procedures will effectively control all known risks or effectively identify unforeseen risks, or that our employees and third-party agents will effectively implement them. Management of operational risks can fail for a number of reasons, including design failure, systems failure, failures to perform, cyber security attacks, human error, or unlawful activities on the part of employees or third parties. In the event that our controls are not effective or not properly implemented, we could suffer financial or other loss, disruption of our businesses, regulatory sanctions or damage to our reputation. Losses resulting from these

failures can vary significantly in size, scope and scale and may have material adverse effects on our financial condition or results of operations.

If we experience difficulties arising from outsourcing and similar third-party relationships, our ability to conduct business may be compromised, which may have an adverse effect on our business and results of operations. We outsource certain business and administrative functions and rely on third-party vendors to provide certain services on our behalf. As we continue to focus on reducing the expense necessary to support our operations, we have become increasingly committed to outsourcing strategies for certain technology and business functions. We have also taken action to reduce coordination costs and take advantage of economies of scale by transitioning multiple functions and services to a small number of third-party providers. We periodically negotiate provisions and renewals of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. If our continuing relationship with certain third-party providers, particularly those on which we rely for multiple functions or services, is interrupted, or if such third-party providers experience disruptions or do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, an inability to meet obligations (including, but not limited to, policyholder obligations), increased costs and a loss of business that may have a material adverse effect on our business and results of operations. For other risks associated with our outsourcing of certain functions, see the risk factor, "If we are unable to maintain the availability of our systems and safeguard the security of our data due to the occurrence of disasters or a cyber or other information security incident, our ability to conduct business may be compromised, we may incur substantial costs and suffer other negative consequences, all of which may have a material adverse effect on our business, financial condition, results of operations and liquidity." We may not be able to protect our intellectual property and may be subject to infringement claims. We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete. We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon their intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, systems, methods, processes or services. Any party that holds such a patent could make a claim of infringement against us. We may be subject to patent claims from certain individuals and companies who have acquired patent portfolios for the sole purpose of asserting such claims against other companies. We may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed a third-party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, systems, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

As of December 31, 2014, The Hartford owned building space of approximately 2.4 million square feet which comprised its Hartford, Connecticut location and other properties within the greater Hartford, Connecticut area. In addition, as of December 31, 2014, The Hartford leased approximately 1.8 million square feet, throughout the United States of America, and approximately 37 thousand square feet, in other countries. All of the properties owned or leased are used by one or more of all six reporting segments, depending on the location. For more information on reporting segments, see Part I, Item 1, Business — Reporting Segments. The Company believes its properties and facilities are suitable and adequate for current operations.





### Item 3. 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, life and inland marine; improper sales practices in connection with the sale of life insurance and other investment products; and improper fee arrangements in connection with investment products. 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. 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. In addition to 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 court has made no substantive legal decisions defining the scope of the claims or the potentially available damages, and no legal precedent has been identified that would aid in determining a reasonable estimate of potential loss. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any.

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 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. Discovery is ongoing. HFMC and HIFSCO dispute the allegations and expect to file a motion for summary judgment in the second quarter of 2015.

Asbestos and Environmental Claims - As discussed in Part II, Item 7, MD&A - Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance - Reserving for Asbestos and Environmental Claims within Property & Casualty Other Operations, 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 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## Item 5. MARKET FOR THE HARTFORD'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Hartford's common stock is traded on the New York Stock Exchange ("NYSE") under the trading symbol "HIG". The following table presents the high and low closing prices for the common stock of The Hartford on the NYSE for the periods indicated, and the quarterly dividends declared per share.

	1 <sup>st</sup> Qtr.	2 <sup>nd</sup> Qtr.	3 <sup>rd</sup> Qtr.	4 <sup>th</sup> Qtr.
2014				
Common Stock Price				
High	\$36.14	\$36.37	\$37.80	\$42.27
Low	\$32.18	\$33.30	\$33.85	\$35.47
Dividends Declared	\$0.15	\$0.15	\$0.18	\$0.18
2013				
Common Stock Price				
High	\$26.46	\$31.43	\$32.30	\$36.62
Low	\$23.05	\$24.82	\$29.60	\$30.68
Dividends Declared	\$0.10	\$0.10	\$0.15	\$0.15

On February 26, 2015, The Hartford's Board of Directors declared a quarterly dividend of \$0.18 per common share payable on April 1, 2015 to common shareholders of record as of March 9, 2015. As of February 24, 2015, the Company had approximately 14,421 holders of record of the Company's common stock. A substantially greater number of holders of our common stock are "street name" holders or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions. The closing price of The Hartford's common stock on the NYSE on February 24, 2015 was \$41.32.

On June 16, 2014, the Company's Chief Executive Officer has certified to the NYSE that he is not aware of any violation by the Company of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE's Listed Company Manual.

There are also various legal and regulatory limitations governing the extent to which The Hartford's insurance subsidiaries may extend credit, pay dividends or otherwise provide funds to The Hartford Financial Services Group, Inc. as discussed in Part II, Item 7, MD&A — Capital Resources and Liquidity — Liquidity Requirements and Sources of Capital.

For information related to securities authorized for issuance under equity compensation plans, see Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, Purchases of Equity Securities by the Issuer

The following table summarizes the Company's repurchases of its common stock for the three months ended December 31, 2014:

Period	Total Number of Shares Purchased [2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1] (in millions)
October 1, 2014 – October 31, 2014	3,200,500	\$36.99	3,200,500	\$1,162
November 1, 2014 – November 30, 2014	2,390,749	\$40.40	2,344,500	\$1,067
December 1, 2014 – December 31, 2014	4,906,717	\$39.20	4,906,717	\$979
Total	10,497,966	\$38.80	10,451,717	

[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.

[2] Includes 2.7 million common shares received upon settlement of an accelerated share repurchase ("ASR") agreement with a major financial institution in December 2014. Under the terms of the agreement, the Company paid \$525 and received initial delivery of 11.2 million common shares in July 2014. A total of 13.9 million common shares were repurchased by the Company under the ASR at a price of \$37.64 per common share.

Total Return to Shareholders

The following tables present The Hartford's annual percentage return and five-year total return on its common stock including reinvestment of dividends in comparison to the S&P 500 and the S&P Insurance Composite Index.

Annual Return Percentage

Company/Index	For the years ended					
	2010	2011	2012	2013	2014	
The Hartford Financial Services Group, Inc.	14.89	%(37.55)	)%41.01	%64.12	%17.13	%
S&P 500 Index	15.06	%2.11	%16.00	%32.39	%13.69	%
S&P Insurance Composite Index	15.80	%(8.28)	)%19.09	%46.71	%8.29	%

Cumulative Five-Year Total Return

Company/Index	Base	For the years ended					
	Period	2010	2011	2012	2013	2014	
The Hartford Financial Services Group, Inc.	\$100	114.89	71.75	101.18	166.06	194.51	
S&P 500 Index	\$100	115.06	117.49	136.30	180.44	205.14	
S&P Insurance Composite Index	\$100	115.80	106.21	126.49	185.56	200.94	

## Item 6. SELECTED FINANCIAL DATA

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

The following table sets forth the Company's selected consolidated financial data at the dates and for the periods indicated below. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") presented in Item 7 and the Company's Consolidated Financial Statements and the related Notes beginning on page F-1.

	2014	2013	2012	2011	2010
<b>Income Statement Data</b>					
Total revenues	\$18,614	\$20,673	\$22,086	\$21,667	\$22,158
Income (loss) from continuing operations before income taxes	1,699	1,471	(89	)(293	)2,189
Income from continuing operations, net of tax	1,349	1,225	220	256	1,642
Income (loss) from discontinued operations, net of tax	(551	)(1,049	)(258	)(456	(6
Net income (loss)	\$798	\$176	\$(38	)\$712	\$1,636
Preferred stock dividends and accretion of discount	—	10	42	42	515
Net income (loss) available to common shareholders	\$798	\$166	\$(80	)\$670	\$1,121
<b>Balance Sheet Data</b>					
Total assets	\$245,013	\$277,884	\$298,513	\$302,609	\$316,789
Short-term debt	\$456	\$438	\$320	\$—	\$400
Total debt (including capital lease obligations)	\$6,109	\$6,544	\$7,126	\$6,216	\$6,607
Preferred stock	\$—	\$—	\$556	\$556	\$556
Total stockholders' equity	\$18,720	\$18,905	\$22,447	\$21,486	\$18,754
<b>Net income (loss) available to common shareholders per common share</b>					
Basic	\$1.81	\$0.37	\$(0.18	)\$1.51	\$2.60
Diluted	\$1.73	\$0.36	\$(0.17	)\$1.40	\$2.40
Cash dividends declared per common share	\$0.66	\$0.50	\$0.40	\$0.40	\$0.20

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollar amounts in millions, except for per 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-K. 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. The Hartford undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise.

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. In 2014, the Company refined the definition of underwriting expenses by including certain centralized services and bad debt expenses in the determination of underwriting results for the Commercial Lines, Personal Lines and Property & Casualty Other Operations reporting segments. The reclassification of certain centralized services and bad debt expenses from other income (expenses) did not impact previously reported net income.

The Hartford defines increases or decreases greater than or equal to 200% as "NM" or not meaningful.

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## THE HARTFORD'S OPERATIONS

### Overview

The Hartford is a financial holding company for a group of subsidiaries that provide property and casualty, group benefits 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 Commercial Lines, Personal Lines, 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 had been in runoff since 2009.

On December 12, 2013, the Company completed the sale of Hartford Life International Limited ("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 ("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, Note 7 - Reinsurance and Note 19 - Discontinued Operations of Notes to Consolidated Financial Statements. These businesses are included in the Talcott Resolution reporting segment.

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.

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.

Financial Highlights for the Year Ended December 31, 2014

Net income of \$798, or \$1.73 per diluted share, compared with net income of \$176, or \$0.36 per diluted share, for the prior year.

Amounts paid for share repurchases totaled approximately \$1.8 billion for the year.

Book value per diluted common share (excluding AOCI) increased to \$40.71 from \$39.30 as of the prior year end due to the effect of net income less dividends and the effect of share repurchases for the year.

Net investment income decreased 3.4% to \$3,154 compared to the prior year primarily due to a decrease in income from fixed maturities as a result of a decline in asset levels, primarily in Talcott Resolution, lower income from repurchase agreements, and the impact of reinvesting at lower interest rates.

While the annualized investment yield after-tax of 3.0% decreased 10 basis points compared to the prior year, new money yields decreased from 3.8% to 3.6% driven by lower interest rates, tighter credit spreads and the effect of reinvesting Japan sales proceeds into short-duration assets pending use for share repurchases.

Higher short term interest rates and wider credit spreads increased the after-tax net unrealized gains in the investment portfolio by approximately \$1.4 billion for the year.

Property & Casualty written premium increased 3% over the prior year, comprised of 3% growth in Commercial Lines and 4% in Personal Lines.

Property & Casualty combined ratio, before catastrophes and prior year development, improved to 91.5 from 94.4 in the prior year.

Catastrophe losses of \$341, before tax, increased from catastrophe losses of \$312, before tax, in the prior year.

Unfavorable prior year development totaled \$228, before tax, primarily driven by strengthening of net asbestos and environmental reserves.

Group Benefits after-tax core earnings margin, excluding buyouts, increased to 5.2% from 4.3% in the prior year.

Talcott Resolution after-tax income from continuing operations was \$370, down from \$414 in the prior year.

## CONSOLIDATED RESULTS OF OPERATIONS

The Consolidated Results of Operations should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes beginning on page F-1.

	2014	2013	2012	Increase (Decrease) From 2013 to 2014	Increase (Decrease) From 2012 to 2013
Earned premiums	\$13,336	\$13,231	\$13,637	\$105	\$(406)
Fee income	1,996	2,105	3,567	(109)	(1,462)
Net investment income	3,154	3,264	4,127	(110)	(863)
Net realized capital gains [1]	16	1,798	497	(1,782)	1,301
Other revenues	112	275	258	(163)	17
Total revenues	18,614	20,673	22,086	(2,059)	(1,413)
Benefits, losses and loss adjustment expenses	10,805	11,048	13,195	(243)	(2,147)
Amortization of deferred policy acquisition costs and present value of future profits	1,729	1,794	1,990	(65)	(196)
Insurance operating costs and other expenses	4,028	4,176	5,090	(148)	(914)
Loss on extinguishment of debt	—	213	910	(213)	(697)
Reinsurance (gain) loss on disposition in 2014 and 2013, goodwill impairment of \$342 in 2012 and premium deficiency of \$191 in 2012	(23)	)1,574	533	(1,597)	1,041
Interest expense	376	397	457	(21)	(60)
Total benefits, losses and expenses	16,915	19,202	22,175	(2,287)	(2,973)
Income (loss) from continuing operations before income taxes	1,699	1,471	(89)	)228	1,560
Income tax expense (benefit)	350	246	(309)	)104	555
Income from continuing operations, net of tax	1,349	1,225	220	124	1,005
Loss from discontinued operations, net of tax	(551)	)1,049	)258	)498	(791)
Net income (loss)	\$798	\$176	\$(38)	)\$622	\$214

[1] Includes net realized capital gains in 2013 of \$1,575 on investments transferred at fair value in business disposition by reinsurance.

Year ended December 31, 2014 compared to the year ended December 31, 2013

The increase in net income from 2013 to 2014 was primarily due to the net effect of the following items:

A decrease in the loss from discontinued operations to \$551, net of tax, compared to \$1,049, net of tax, in 2013. The loss from discontinued operations in 2014 includes the results of operations of the Japan business and the realized capital loss on the sale of HLIKK. The loss from discontinued operations in 2013 includes the results of operations of the Japan and U.K. annuity businesses and the realized capital loss on the sale of HLIL. The results of operations for the Japan annuity business in 2013 include the write-off of DAC and higher hedging losses. For further discussion of the sale of these businesses, see Note 2 - Business Dispositions and Note 19 - Discontinued Operations of Notes to Consolidated Financial Statements.

A \$299 before tax improvement in current accident year underwriting results before catastrophes in Property & Casualty resulting in a 2.9 point decrease in the combined ratio before catastrophes and prior year development. Also contributing to the improvement in underwriting results was an increase in earned premiums of 2% or \$232, before tax, in 2014, compared to 2013, reflecting earned premium growth of 1% in Commercial Lines and 4% in Personal Lines. For a discussion of the Company's operating results by segment, see the segment sections of MD&A.

A loss on extinguishment of debt of \$213, before tax, in 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.

Pension settlement charge of \$128, before tax, in 2014, in insurance operating costs and other expenses, related to voluntary lump-sum settlements with vested participants in the Company's defined benefit pension plan who had separated from service, but who had not yet commenced annuity benefits. For additional information, see MD&A - Capital Resources and Liquidity, Pension Plans and Other Postretirement Benefits.

Net investment income of \$3,154, before tax, in 2014 decreased from \$3,264, before tax, in 2013. The decrease in net investment income is primarily due to lower income from fixed maturities, as a result of a decline in asset levels, primarily in Talcott Resolution, lower income from repurchase agreements, and the impact of reinvesting at lower interest rates. For further discussion of investment results, see MD&A - Investment Results, Net Investment Income (Loss).

Current accident year catastrophe losses in Property & Casualty of \$341, before tax, in 2014, compared to \$312, before tax, in 2013. The increase in current accident year catastrophe losses was primarily due to increased frequency and severity from wind and hail events 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 in Property & Casualty of \$228, before tax, in 2014, compared to reserve strengthening of \$192, before tax, in 2013. Reserve strengthenings in 2014 were primarily related to an increase in reserves for asbestos and environmental claims, primarily 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 increased net asbestos reserves due to higher claim frequency and severity as well as costs and expenses associated with litigating asbestos coverage matters.

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"). The \$104 increase in income tax expense in 2014 compared with 2013 was primarily due to the \$228 increase in income from continuing operations, before tax. Income tax expense of \$350 and \$246 in 2014 and 2013, respectively, includes separate account DRD benefits of \$114 and \$139, respectively.

Year ended December 31, 2013 compared to the year ended December 31, 2012

The increase in net income from 2012 to 2013 was primarily due to the net effect of the following items:

An increase in the loss from discontinued operations to \$1,049, net of tax, compared to \$258, net of tax, in 2013. The loss from discontinued operations in 2013 includes the results of operations of the Japan and U.K. annuity businesses and the realized capital loss on the sale of HLIL. The loss from discontinued operations in 2012 includes the results of operations of the Japan and U.K. annuity businesses.

Reinsurance loss on disposition of \$533, before tax, in 2012 consisting of an impairment of goodwill and a loss accrual for premium deficiency related to the disposition of the Individual Life business, and losses in 2012 from the operations of the Retirement Plans and Individual Life businesses sold in 2013.

A loss on extinguishment of debt of \$213, before tax, in 2013, compared to \$910, before tax in 2012. The loss in 2013 related to the repurchase of approximately \$800 of senior notes and the loss in 2012 related to the repurchase of all outstanding 10% fixed-to-floating rate junior subordinated debentures due 2068 with a \$1.75 billion aggregate principal amount all held by Allianz.

Current accident year catastrophe losses in Property & Casualty of \$312, before tax, in 2013, compared to \$706, before tax, in 2012. Losses in 2013 were primarily due to multiple thunderstorm, hail, and tornado events across various U.S. geographic regions. Losses in 2012 were primarily driven by \$350 related to Storm Sandy and multiple thunderstorm, hail, and tornado events across various U.S. geographic regions.

Current accident year losses and loss adjustment expenses before catastrophes in Property & Casualty of \$6.3 billion, before tax, in 2013 decreased from \$6.6 billion, before tax, in 2012. The decrease was primarily driven by lower loss and loss adjustment expenses in Commercial Lines workers' compensation business due to favorable severity and frequency.

Net investment income of \$3,264, before tax, in 2013 decreased from \$4,127, before tax, in 2012. The decrease in net investment income is primarily due to lower asset levels as a result of the sale of the Retirement Plans and Individual Life businesses in 2013, and a decline in yield.

Net asbestos reserve strengthening of \$130, before tax, in 2013 compared to \$48, before tax, in 2012 resulting from the Company's annual review of its asbestos liabilities. For further information, see MD&A - Critical Accounting Estimates, Property & Casualty Other Operations Claims with the Property and Casualty Insurance Product Reserves, Net of Reinsurance.

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"). The \$555 increase in income tax expense in 2013 compared to an income tax benefit in 2012 was primarily due to the \$1.0 billion increase in income from continuing operations, before tax. Income tax expense of \$246 in 2013 and income tax benefit of \$309 in 2012, includes separate account DRD benefits of \$139 and \$145, respectively.

The following table presents net income (loss) for each reporting segment, as well as the Corporate category. For a discussion of the Company's operating results by segment, see the segment sections of MD&A.

Net income (loss) by segment	2014	2013	2012	Increase (Decrease) From 2013 to 2014	Increase (Decrease) From 2012 to 2013	
Commercial Lines	\$983	\$870	\$547	\$113	\$323	
Personal Lines	207	229	166	(22)	)63	
Property & Casualty Other Operations	(108)	)(2	)57	(106)	)(59	)
Group Benefits	191	192	129	(1)	)63	
Mutual Funds	87	76	71	11	5	
Talcott Resolution	(187)	)(634	)1	447	(635)	)
Corporate	(375)	)(555	)(1,009	)180	454	
Net income (loss)	\$798	\$176	\$(38)	)\$622	\$214	

## Investment Results

## Composition of Invested Assets

	December 31, 2014		December 31, 2013		
	Amount	Percent	Amount	Percent	
Fixed maturities, available-for-sale ("AFS"), at fair value	\$59,384	77.9	%\$62,357	79.2	%
Fixed maturities, at fair value using the fair value option ("FVO")	488	0.6	%844	1.1	%
Equity securities, AFS, at fair value [1]	1,047	1.4	%868	1.1	%
Mortgage loans	5,556	7.3	%5,598	7.1	%
Policy loans, at outstanding balance	1,431	1.9	%1,420	1.8	%
Limited partnerships and other alternative investments	2,942	3.9	%3,040	3.9	%
Other investments [2]	536	0.7	%521	0.7	%
Short-term investments	4,883	6.4	%4,008	5.1	%
Total investments excluding equity securities, trading	76,267	100	%78,656	100	%
Equity securities, trading, at fair value [3]	11		19,745		
Total investments	\$76,278		\$98,401		

[1] Includes equity securities at fair value using the FVO of \$348 and \$0 as of December 31, 2014 and December 31, 2013, respectively.

[2] Primarily relates to derivative instruments.

[3] 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 as a result of a decline in equity securities, trading and fixed maturities, AFS, partially offset by an increase in short-term investments. The decrease in equity securities, trading and fixed maturities, AFS is largely due to the sale of the Japan variable and fixed annuity business as well as the continued runoff of the remaining Talcott Resolution business. For further discussion on the Japan sale, see Note 2 - Business Dispositions of Notes to Consolidated Financial Statements. This decline was partially offset by an increase in the valuation of fixed maturities, AFS due to a decrease in interest rates. Short-term investments increased primarily due to the investment of proceeds from the sale of the Japan variable and fixed annuity business.



## Net Investment Income (Loss)

	For the years ended December 31,						
	2014		2013		2012		
(Before tax)	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]	
Fixed maturities [2]	\$2,420	4.2	%\$2,552	4.3	%\$3,299	4.4	%
Equity securities, AFS	38	4.8	%30	3.6	%36	4.3	%
Mortgage loans	265	4.7	%260	4.9	%334	5.2	%
Policy loans	80	5.6	%83	5.9	%119	6.0	%
Limited partnerships and other alternative investments	294	10.4	%287	9.5	%196	7.1	%
Other investments [3]	179		167		248		
Investment expense	(122 )		(115 )		(105 )		
Total net investment income (loss)	\$3,154	4.4	%\$3,264	4.4	%\$4,127	4.5	%
Total net investment income excluding limited partnerships and other alternative investments	2,860	4.1	%2,977	4.2	%3,931	4.5	%

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, if any, and [1] derivatives book value. Yield calculations for each period exclude assets associated with the dispositions of the Japan variable and fixed annuity business, 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.

Year ended December 31, 2014 compared to the year ended December 31, 2013

Total net investment income decreased primarily due to a decrease in income from fixed maturities as a result of a decline in asset levels, primarily in Talcott Resolution, lower income from repurchase agreements, and the impact of reinvesting at lower interest rates.

The annualized net investment income yield, excluding limited partnerships and other alternative investments, has declined to 4.1% in 2014 versus 4.2% in 2013. The decline was primarily attributable to lower income from repurchase agreements and lower reinvestment rates. For further discussion of repurchase agreements, see Note 6 - Investments and Derivative Instruments of Notes to Consolidated Financial Statements. The average reinvestment rate, excluding certain U.S. Treasury securities and cash equivalent securities, for the year ended December 31, 2014 was approximately 3.6% which was below the average yield of sales and maturities of 3.9% for the same period due to the current interest rate environment. In addition, the reinvestment rate was impacted by the investment of proceeds from the sale of the Japan variable and fixed annuity business into short duration, high quality corporates and ABS. For the year ended December 31, 2014, the new money yield of 3.6% decreased from 3.8% in 2013 driven by lower interest rates, tighter credit spreads on average and the effect of reinvesting Japan sales proceeds into short-duration assets pending use for share repurchases.

Based upon current reinvestment rates, we expect the annualized net investment income yield, excluding limited partnerships and other alternative investments, for 2015, to decline slightly compared to the 2014 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.

Year ended December 31, 2013 compared to the year ended December 31, 2012

Total net investment income decreased primarily due to a decrease in income due to lower asset levels as a result of the sale of the Retirement Plans and Individual Life businesses in 2013, and a decline in yield. The decline was partially offset by an increase in income from limited partnerships, due to real estate and private equity funds selling underlying investments and continued valuation improvements. The annualized net investment income yield, excluding limited partnerships and other alternative investments, declined to 4.2% in 2013 versus 4.5% in 2012. The decline was primarily attributable to the divestiture of Individual Life and Retirement Plans businesses.



## Net Realized Capital Gains (Losses)

	For the years ended December 31,		
(Before tax)	2014	2013	2012
Gross gains on sales [1]	\$527	\$2,313	\$801
Gross losses on sales	(250)	(659)	(420)
Net OTTI losses recognized in earnings [2]	(59)	(73)	(349)
Valuation allowances on mortgage loans	(4)	(1)	14
Periodic net coupon settlements on credit derivatives	1	(8)	(18)
Results of variable annuity hedge program			
GMWB derivatives, net	5	262	519
Macro hedge program	(11)	(234)	(340)
Total results of variable annuity hedge program	(6)	28	179
Other, net [3]	(193)	198	290
Net realized capital gains (losses)	\$16	\$1,798	\$497

[1] Includes \$1.5 billion of gains relating to the sales of the Retirement Plans and Individual Life businesses in the year ended December 31, 2013.

[2] Includes \$177 of intent-to-sell impairments for the year ended December 31, 2012, relating to the sales of the Retirement Plans and Individual Life businesses in 2013.

[3] Primarily consists of changes in value of non-qualifying derivatives, including interest rate derivatives used to manage duration, and the Japan 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 year ended December 31, 2014 were primarily due to gains on the sale of corporate securities, CMBS, RMBS, and municipal securities. Gross losses on sales for the year ended December 31, 2014 were primarily the result of losses on the sale of corporate and foreign government and government agency securities, which included sales resulting from a reduction in our exposure to the emerging market and energy sector securities as well as other portfolio management activities. The sales were primarily a result of duration, liquidity and credit management, as well as tactical changes to the portfolio as a result of changing market conditions.

Gross gains on sales for the year ended December 31, 2013 were predominately from the sale of the Retirement Plans and Individual Life businesses resulting in a gain of \$1.5 billion. The remaining gains on sales were primarily due to the sales of corporate securities and tax-exempt municipals. Gross losses on sales were primarily the result of the sales of U.S. Treasuries and mortgage backed securities, predominantly due to duration, liquidity and credit management as well as progress towards sector allocation objectives.

Gross gains and losses on sales for the year ended December 31, 2012 were predominately from investment grade corporate securities, municipal bonds, mortgage backed securities and U.S. Treasuries. These sales were the result of tactical portfolio management as well as to maintain duration targets.

## Net OTTI losses

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

## Valuation allowances on mortgage loans

See Valuation Allowances on Mortgage Loans within the Investment Portfolio Risks and Risk Management section of the MD&A.

## Variable annuity hedge program

For the year ended December 31, 2014, the gain related to the combined GMWB derivatives, net, which include the GMWB product, reinsurance, and hedging derivatives, was primarily driven by gains of \$25 on liability/model assumption updates and gains of \$15 due to increased volatility, partially offset by a loss of \$26 resulting from policyholder behavior primarily related to increased surrenders. The loss on the macro hedge program for the year ended December 31, 2014 was primarily due to a loss of \$25 driven by an improvement in the domestic equity markets, partially offset by a gain of \$17 related to a decrease in interest rates.



For the year ended December 31, 2013 the gain on GMWB related derivatives, net, was primarily related to gains of \$203 from revaluing the liability for living benefits largely driven by favorable policyholder behavior related to increased surrenders and gains of \$38 due to liability assumption updates for lapses and withdrawal rates. The loss on the macro hedge program for the year ended December 31, 2013 was primarily driven by losses of \$114 due to an improvement in domestic equity markets, losses of \$56 related to an increase in interest rates, and losses of \$31 related to a decrease in equity market volatility.

For the year ended December 31, 2012 the gain on GMWB related derivatives, net, was primarily driven by gains due to liability model assumption updates of \$274, largely related to a reduction in the reset assumptions to better align with actual experience, gains of \$106 related to outperformance of the underlying actively managed funds compared to their respective indices, and gains of \$83 driven by a decline in equity market volatility. The loss on the macro hedge program for the year ended December 31, 2013 was primarily driven by losses of \$167 related to the passage of time, losses of \$118 due to an improvement in domestic equity markets, and losses of \$60 related to a decrease in equity market volatility.

Other, net

Other, net loss for the year ended December 31, 2014 was primarily related to a loss of \$172 on interest rate derivatives used to manage the risk of a rise in interest rates and manage duration, driven by a decline in U.S. interest rates.

Other, net gain for the year ended December 31, 2013 was primarily related to gains of \$71 on interest rate derivatives primarily associated with fixed rate bonds sold as part of the Individual Life and Retirement Plan business dispositions. For further information on the business dispositions, see Note 2 of Notes to the Consolidated Financial Statements. Additional gains included \$69 on interest rate derivatives primarily due to an increase in U.S. interest rates and \$42 of gains on credit derivatives due to credit spreads tightening.

Other, net gain for the year ended December 31, 2012 was primarily related to gains of \$313 on credit derivatives due to credit spreads tightening, and gains of \$96 on interest derivatives largely driven by the de-designation of the cash flow hedges associated with bonds included in the sale of Individual Life and Retirement Plans businesses. For further information on the business dispositions, see Note 2 of Notes to the Consolidated Financial Statements. These gains were partially offset by losses of \$111 related to Japan fixed payout annuity hedges primarily driven by the strengthening of the currency basis swap spread between the U.S. dollar and Japanese yen and the decline in U.S. interest rates.

## 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 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

The Hartford establishes reserves on its property and casualty insurance products to provide for the estimated costs of paying claims under insurance policies written by the Company. These reserves include estimates for both claims that have been reported and those that have not yet been reported, and include estimates of all expenses associated with processing and settling these claims. Incurred but not reported (“IBNR”) reserves represent the difference between the estimated ultimate cost of all claims and the actual reported loss and loss adjustment expenses (“reported losses”). Reported losses represent cumulative loss and loss adjustment expenses paid plus case reserves for outstanding reported claims. Company actuaries evaluate the total reserves (IBNR and case reserves) on an accident year basis. An accident year is the calendar year in which a loss is incurred, or, in the case of claims-made policies, the calendar year in which a loss is reported.

Reserve estimates can change over time because of unexpected changes in the external environment. Potential external factors include (1) changes in the inflation rate for goods and services related to covered damages such as medical care, hospital care, auto parts, wages and home repair; (2) changes in the general economic environment that could cause unanticipated changes in the claim frequency per unit insured; (3) changes in the litigation environment as evidenced by changes in claimant attorney representation in the claims negotiation and settlement process; (4) changes in the judicial environment regarding the interpretation of policy provisions relating to the determination of coverage and/or the amount of damages awarded for certain types of damages; (5) changes in the social environment regarding the general attitude of juries in the determination of liability and damages; (6) changes in the legislative environment regarding the definition of damages; and (7) new types of injuries caused by new types of injurious exposure: past examples include lead paint, construction defects and tainted Chinese-made drywall.

Reserve estimates can also change over time because of changes in internal Company operations. Potential internal factors include (1) periodic changes in claims handling procedures; (2) growth in new lines of business where exposure and loss development patterns are not well established; (3) changes in the quality of risk selection in the underwriting process; (4) changes in the geographic mix of business; (5) changes in the mix of business by industry; (6) changes in policy language; or (7) changes in the mix of business by policy limit or deductible.

In the case of assumed reinsurance, all of the above risks apply. In addition, changes in ceding company case reserving and reporting patterns can create additional factors that need to be considered in estimating the reserves. Due to the inherent complexity of the assumptions used, final claim settlements may vary significantly from the present estimates, particularly when those settlements may not occur until well into the future.

Through both facultative and treaty reinsurance agreements, the Company cedes a share of the risks it has underwritten to other insurance companies. The Company's net reserves for loss and loss adjustment expenses include anticipated recovery from reinsurers on unpaid claims. The estimated amount of the anticipated recovery, or reinsurance recoverable, is net of an allowance for uncollectible reinsurance.

Reinsurance recoverables include an estimate of the amount of gross loss and loss adjustment expense reserves that may be ceded under the terms of the reinsurance agreements, including IBNR unpaid losses. The Company calculates its ceded reinsurance projection based on the terms of any applicable facultative and treaty reinsurance, often including an estimate by reinsurance agreement of how IBNR losses will ultimately be ceded.

The Company provides an allowance for uncollectible reinsurance, reflecting 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. Where its contracts permit, the Company secures funding of future claim obligations with various forms of collateral, including irrevocable letters of credit, secured trusts, funds held accounts and group-wide offsets. The allowance for uncollectible reinsurance was \$271 as of December 31, 2014, comprised of \$46 related to Commercial Lines and \$225 related to Property & Casualty Other Operations.

The Company's estimate of reinsurance recoverables, net of an allowance for uncollectible reinsurance, is subject to similar risks and uncertainties as the estimate of the gross reserve for unpaid losses and loss adjustment expenses.

The Hartford, like other insurance companies, categorizes and tracks its insurance reserves for its segments by "line of business". Furthermore, The Hartford regularly reviews the appropriateness of reserve levels at the line of business level, taking into consideration the variety of trends that impact the ultimate settlement of claims for the subsets of claims in each particular line of business. In addition, Property & Casualty Other Operations categorizes reserves as asbestos and environmental ("A&E"), whereby the Company reviews these reserve levels by type of event, rather than by line of business. Adjustments to previously established reserves, which may be material, are reflected in the operating results of the period in which the adjustment is determined to be necessary. In the judgment of management, information currently available has been properly considered in the reserves established for losses and loss adjustment expenses.

Loss and loss adjustment expense reserves by line of business as of December 31, 2014, net of reinsurance are as follows:

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty
Auto liability	\$689	\$1,401	\$—	\$2,090
Auto physical damage	21	31	—	52
Homeowners'	—	396	—	396
Professional liability	593	—	—	593
Package business	1,232	—	—	1,232
General liability	2,459	27	—	2,486
Bond	196	—	—	196
Commercial property	152	—	—	152
A&E	21	1	1,951	1,973
Workers' compensation	8,678	—	—	8,678
Assumed reinsurance	—	—	237	237
All other non-A&E	—	—	680	680
Total reserves-net	14,041	1,856	2,868	18,765
Reinsurance and other recoverables	2,464	18	559	3,041
Total reserves-gross	\$16,505	\$1,874	\$3,427	\$21,806





## Reserving Methodology

(See Reserving for Asbestos and Environmental Claims within Property & Casualty Other Operations for a discussion of how A&E reserves are set)

### How reserves are set

Reserves are set by line of business within the various segments. A single line of business may be written in more than one segment. Case reserves are established by a claims handler on each individual claim and are adjusted as new information becomes known during the course of handling the claim. Lines of business for which loss data (e.g., paid losses and case reserves) emerge (i.e., is reported) over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's shortest-tail lines of business are property and auto physical damage. The longest tail lines of business include workers' compensation, general liability, professional liability and assumed reinsurance. For short-tail lines of business, emergence of paid loss and case reserves is credible and likely indicative of ultimate losses. For long-tail lines of business, emergence of paid losses and case reserves is less credible in the early periods and, accordingly, may not be indicative of ultimate losses.

The Company's reserving actuaries, who are independent of the business units, regularly review reserves for both current and prior accident years using the most current claim data. For most lines of business, these reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. These selections incorporate input, as judged by the reserving actuaries to be appropriate, from claims personnel, pricing actuaries and operating management on reported loss cost trends and other factors that could affect the reserve estimates. Most reserves are reviewed fully each quarter, including loss and loss adjustment expense reserves for property, auto physical damage, auto liability, package business, workers' compensation, most general liability, professional liability and bond. Other reserves are reviewed semi-annually (twice per year) or annually. These include, but are not limited to, reserves for losses incurred in accident years older than twelve and twenty years, for Personal and Commercial Lines, respectively, assumed reinsurance, latent exposures, such as construction defects, and unallocated loss adjustment expense. For reserves that are reviewed semi-annually or annually, management monitors the emergence of paid and reported losses in the intervening quarters to either confirm that the estimate of ultimate losses should not change or, if necessary, perform a reserve review to determine whether the reserve estimate should change.

An expected loss ratio is used in initially recording the reserves for both short-tail and long-tail lines of business. This expected loss ratio is determined through a review of prior accident years' loss ratios and expected changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to impact the loss ratio for the current accident year. For short-tail lines, IBNR for the current accident year is initially recorded as the product of the expected loss ratio for the period, earned premium for the period and the proportion of losses expected to be reported in future calendar periods for the current accident period. For long-tailed lines, IBNR reserves for the current accident year are initially recorded as the product of the expected loss ratio for the period and the earned premium for the period, less reported losses for the period.

In addition to the expected loss ratio, the actuarial techniques or methods used primarily include paid and reported loss development and frequency / severity techniques as well as the Bornhuetter-Ferguson method (a combination of the expected loss ratio and paid development or reported development method). Within any one line of business, the methods that are given more influence vary based primarily on the maturity of the accident year, the mix of business and the particular internal and external influences impacting the claims experience or the methods. The output of the reserve reviews are reserve estimates that are referred to herein as the "actuarial indication".

Most of the Company's property and casualty insurance product reserves are not discounted. However, the Company has discounted liabilities funded through structured settlements and has discounted certain reserves for indemnity payments due to permanently disabled claimants under workers' compensation policies. For further discussion of these discounted liabilities, see Note 11 - Reserves for Future Policy Benefits and Unpaid Losses and Loss Adjustment Expenses of Notes to Consolidated Financial Statements.

As of December 31, 2014 and 2013, net U.S. property and casualty insurance product reserves for losses and loss adjustment expenses reported under accounting principles generally accepted in the United States of America ("U.S. GAAP") were approximately equal to net reserves reported on a statutory basis. Under U.S. GAAP, liabilities for

unpaid losses for permanently disabled workers' compensation claimants are discounted at rates that are no higher than risk-free interest rates in effect at the time the claims are incurred and which can vary from the statutory discount rates set by regulators. Largely offsetting/augmenting the effect of the difference in discounting is that a portion of the U.S. GAAP provision for uncollectible reinsurance is not recognized under statutory accounting.

Provided below is a general discussion of which methods are preferred by line of business. Because the actuarial estimates are generated at a much finer level of detail than line of business (e.g., by distribution channel, coverage, accident period), this description should not be assumed to apply to each coverage and accident year within a line of business. Also, as circumstances change, the methods that are given more influence will change.

Property and Auto Physical Damage. These lines are fast-developing and paid and reported development techniques are used as these methods use historical data to develop paid and reported loss development patterns, which are then applied to current paid and reported losses by accident period to estimate ultimate losses. The Company relies primarily on reported development techniques although a review of frequency and severity and the initial loss expectation based on the expected loss ratio is used for the most immature accident months. The advantage of frequency / severity techniques is that frequency estimates are generally easier to predict and external information can be used to supplement internal data in making severity estimates.

Personal Auto Liability. For auto liability, and bodily injury in particular, the Company performs a greater number of techniques than it does for property and auto physical damage. In addition to traditional paid and reported development methods, the Company relies on frequency/severity techniques and Berquist-Sherman techniques. Because the paid development technique is affected by changes in claim closure patterns and the reported development method is affected by changes in case reserving practices, the Company uses Berquist-Sherman techniques which adjust these patterns to reflect current settlement rates and case reserving techniques. The Company generally uses the reported development method for older accident years as a higher percentage of ultimate losses are reflected in reported losses than in cumulative paid losses and a combination of reported development, frequency/severity and Berquist-Sherman methods for more recent accident years. Recent periods can be influenced by changes in case reserve practices and changing disposal rates; the frequency/severity techniques are not affected as much by these changes and the Berquist-Sherman techniques specifically adjust for these changes.

Auto Liability for Commercial Lines and Short-Tailed General Liability. The Company performs a variety of techniques, including the paid and reported development methods and frequency / severity techniques. For older, more mature accident years, the Company finds that reported development techniques are best. For more recent accident years, the Company typically prefers frequency / severity techniques that make separate assumptions about loss activity above and below a selected capping level.

Long-Tailed General Liability, Bond and Large Deductible Workers' Compensation. For these long-tailed lines of business, the Company generally relies on the expected loss ratio and reported development techniques. The Company generally weights these techniques together, relying more heavily on the expected loss ratio method at early ages of development and more on the reported development method as an accident year matures.

Workers' Compensation. Workers' compensation is the Company's single largest reserve line of business so a wide range of methods are reviewed in the reserve analysis. Methods performed include paid and reported development, variations on expected loss ratio methods, and an in-depth analysis on the largest states. Historically, paid development patterns in the Company's workers' compensation business have been stable, so paid techniques are preferred. Although paid techniques may be less predictive of the ultimate liability when a low percentage of ultimate losses are paid as in early periods of development, given changes in the frequency of workers' compensation claims over time, the Company places greater reliance on paid methods with continued consideration of the state-by-state analysis and the expected loss ratio approach.

Professional Liability. Reported and paid loss developments patterns for this line tend to be volatile. Therefore, the Company typically relies on frequency and severity techniques.

Assumed Reinsurance and All Other. For these lines, the Company tends to rely on the reported development techniques. In assumed reinsurance, assumptions are influenced by information gained from claim and underwriting audits.

Allocated Loss Adjustment Expenses (ALAE). For some lines of business (e.g., professional liability and assumed reinsurance), ALAE and losses are analyzed together. For most lines of business, however, ALAE is analyzed separately, using paid development techniques and an analysis of the relationship between ALAE and loss payments.

Unallocated Loss Adjustment Expense (ULAE). ULAE is analyzed separately from loss and ALAE. For most lines of business, incurred ULAE costs to be paid in the future are projected based on an expected cost per claim year and the anticipated claim closure pattern and the ratio of paid ULAE to paid loss.

The final step in the reserve review process involves a comprehensive review by senior reserving actuaries who apply their judgment and, in concert with senior management, determine the appropriate level of reserves based on the information that has been accumulated. Numerous factors are considered in this process including, but not limited to,

the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, pertinent trends observed over the recent past, the level of volatility within a particular line of business, and the improvement or deterioration of actuarial indications in the current period as compared to the prior periods. Total recorded net reserves, excluding asbestos and environmental, were 3.5% higher than the actuarial indication of the reserves as of December 31, 2014.

For a discussion of changes to reserve estimates recorded in 2014, see Reserve Roll-forwards and Development included below in this section.

#### Current trends contributing to reserve uncertainty

The Hartford is a multi-line company in the property and casualty insurance business. The Hartford is therefore subject to reserve uncertainty stemming from a number of conditions, including but not limited to those noted above, any of which could be material at any point in time. Certain issues may become more or less important over time as conditions change. As various market conditions develop, management must assess whether those conditions constitute a long-term trend that should result in a reserving action (i.e., increasing or decreasing the reserve).

Within Commercial Lines and Property & Casualty Other Operations, the Company has exposure to claims asserted for bodily injury as a result of long-term or continuous exposure to harmful products or substances. Examples include, but are not limited to, pharmaceutical products, silica and lead paint. The Company also has exposure to claims from construction defects, where property damage or bodily injury from negligent construction is alleged. In addition, the Company has exposure to claims asserted against religious institutions and other organizations relating to molestation or abuse. Such exposures may involve potentially long latency periods and may implicate coverage in multiple policy periods. These factors make reserves for such claims more uncertain than other bodily injury or property damage claims. With regard to these exposures, the Company is monitoring trends in litigation, the external environment, the similarities to other mass torts and the potential impact on the Company's reserves.

In Personal Lines, reserving estimates are generally less variable than for the Company's other property and casualty segments because of the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends and their impact on recorded reserve levels. Severity trends can be impacted by changes in internal claim handling and case reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels. In addition, the introduction of new products and class plans has led to a different mix of business by type of insured than the Company experienced in the past. Such changes in mix increase the uncertainty of the reserve projections, since historical data and reporting patterns may not be applicable to the new business.

In standard commercial lines, workers' compensation is the Company's single biggest line of business and the line of business with the longest pattern of loss emergence. Medical costs make up more than 50% of workers' compensation payments. To the extent that payment patterns are impacted by increases or decreases in the frequency of settlement payments, historical patterns would be less reliable, increasing the uncertainty around reserve estimates. As such, reserve estimates for workers' compensation are particularly sensitive to changes in medical inflation, the changing use of medical care procedures and changes in state legislative and regulatory environments. In addition, a changing economic environment can affect the ability of an injured worker to return to work and the length of time a worker receives disability benefits.

In specialty lines, many lines of insurance are "long-tail", including large deductible workers' compensation insurance; as such, reserve estimates for these lines are more difficult to determine than reserve estimates for shorter-tail lines of insurance. Estimating required reserve levels for large deductible workers' compensation insurance is further complicated by the uncertainty of whether losses that are attributable to the deductible amount will be paid by the insured; if such losses are not paid by the insured due to financial difficulties, the Company would be contractually liable. Auto severity trends can be impacted by changes in internal claim handling and case reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels. Another example of reserve variability relates to reserves for directors' and officers' insurance. There is potential volatility in the required level of reserves due to the continued uncertainty regarding the number and severity of class action suits. Additionally, the Company's exposure to losses under directors' and officers' insurance policies is primarily in excess layers, making estimates of loss more complex.

#### Impact of changes in key assumptions on reserve volatility

As stated above, the Company's practice is to estimate reserves using a variety of methods, assumptions and data elements. Within its reserve estimation process for reserves other than asbestos and environmental, the Company does not consistently use statistical loss distributions or confidence levels around its reserve estimate and, as a result, does not disclose reserve ranges.

The reserve estimation process includes assumptions about a number of factors in the internal and external environment. Across most lines of business, the most important assumptions are future loss development factors applied to paid or reported losses to date. The trend in loss costs is also a key assumption, particularly in the most recent accident years, where loss development factors are less credible.

The following discussion includes disclosure of possible variation from current estimates of loss reserves due to a change in certain key indicators of potential losses. Each of the impacts described below is estimated individually, without consideration for any correlation among key indicators or among lines of business. Therefore, it would be inappropriate to take each of the amounts described below and add them together in an attempt to estimate volatility for the Company's reserves in total. The estimated variation in reserves due to changes in key indicators is a reasonable estimate of possible variation that may occur in the future, likely over a period of several calendar years. It is important to note that the variation discussed is not meant to be a worst-case scenario, and therefore, it is possible that future variation may be more than the amounts discussed below.

Recorded reserves for auto liability, net of reinsurance, are approximately \$2.1 billion across all lines, \$1.4 billion of which is in Personal Lines. Personal auto liability reserves are shorter-tailed than other lines of business (such as workers' compensation) and, therefore, less volatile. However, the size of the reserve base means that future changes in estimates could be material to the Company's results of operations in any given period. The key indicator for Personal Lines auto liability is the annual loss cost trend, particularly the severity trend component of loss costs. A 2.5 point change in annual severity for the two most recent accident years would change the estimated net reserve need by \$80, in either direction. A 2.5 point change in annual severity is within the Company's historical variation.

Recorded reserves for workers' compensation, net of reinsurance, are approximately \$8.7 billion. Loss development patterns are a key indicator for this line of business, particularly for more mature accident years. Historically, loss development patterns have been impacted by, among other things, medical cost inflation and other changes in loss cost trends. The Company has reviewed the historical variation in paid loss development patterns. If the paid loss development patterns change by 2%, the estimated net reserve need would change by \$400, in either direction. A 2% change in paid loss development patterns is within the Company's historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Recorded reserves for general liability, net of reinsurance, are approximately \$2.5 billion. Loss development patterns are a key indicator for this line of business, particularly for more mature accident years. Historically, loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g., construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 10%, the estimated net reserve need would change by \$200, in either direction. A 10% change in reported loss development patterns is within the Company's historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Reserving for Asbestos and Environmental Claims within Property & Casualty Other Operations

How A&E reserves are set

In establishing reserves for asbestos claims, the Company evaluates its insureds' estimated liabilities for such claims using a ground-up approach. The Company considers a variety of factors, including the jurisdictions where underlying claims have been brought, past, pending and anticipated future claim activity, disease mix, past settlement values of similar claims, dismissal rates, allocated loss adjustment expense, and potential bankruptcy impact.

Similarly, a ground-up exposure review approach is used to establish environmental reserves. The Company's evaluation of its insureds' estimated liabilities for environmental claims involves consideration of several factors, including historical values of similar claims, the number of sites involved, the insureds' alleged activities at each site, the alleged environmental damage at each site, the respective shares of liability of potentially responsible parties at each site, the appropriateness and cost of remediation at each site, the nature of governmental enforcement activities at each site, and potential bankruptcy impact.

Having evaluated its insureds' probable liabilities for asbestos and/or environmental claims, the Company then evaluates its insureds' insurance coverage programs for such claims. The Company considers its insureds' total available insurance coverage, including the coverage issued by the Company. The Company also considers relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds' estimated liabilities and the Company's exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by the Company's lawyers and is subject to applicable privileges.



For both asbestos and environmental reserves, the Company also compares its historical direct net loss and expense paid and reported experience, and net loss and expense paid and reported experience year by year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and reported activity.

Once the gross ultimate exposure for indemnity and allocated loss adjustment expense is determined for its insureds by each policy year, the Company calculates its ceded reinsurance projection based on any applicable facultative and treaty reinsurance and the Company's experience with reinsurance collections.

#### 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 December 31, 2014 of approximately \$2.0 billion (\$1.7 billion and \$0.3 billion for asbestos and environmental, respectively) are within an estimated range, unadjusted for covariance, of \$1.6 billion to \$2.3 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of uncertainties, which are detailed in Note 14 - Commitments and Contingencies of Notes to Consolidated Financial Statements. 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 or cash flows. 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.

#### Reserve Roll-forwards and Development

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.

#### Total Property and Casualty Insurance Product Reserves, Net of Reinsurance, Results

In the opinion of management, based upon the known facts and current law, the reserves recorded for the Company's property and casualty insurance products at December 31, 2014 represent the Company's best estimate of its ultimate liability for losses and loss adjustment expenses related to losses covered by policies written by the Company. However, because of the significant uncertainties surrounding reserves, and particularly asbestos and environmental exposures, it is possible that management's estimate of the ultimate liabilities for these claims may change and that the required adjustment to recorded reserves could exceed the currently recorded reserves by an amount that could be material to the Company's results of operations or cash flows.

A roll-forward of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses follows:

For the year ended December 31, 2014

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty
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	3,733	2,498	—	6,231
Current accident year catastrophes [3]	109	232	—	341
Prior accident years strengthening (release)	13	(46)	) 261	228
Total provision for unpaid losses and loss adjustment expenses	3,855	2,684	261	6,800
Less: Payments	3,665	2,679	367	6,711
Ending liabilities for unpaid losses and loss adjustment expenses, net	14,041	1,856	2,868	18,765
Reinsurance and other recoverables	2,464	18	559	3,041
Ending liabilities for unpaid losses and loss adjustment expenses, gross	\$ 16,505	\$ 1,874	\$ 3,427	\$ 21,806
Earned premiums	\$ 6,289	\$ 3,806		
Loss and loss expense paid ratio [1]	58.3	70.4		
Loss and loss expense incurred ratio	61.3	70.5		
Prior accident years development (pts) [2]	0.2	(1.2	)	

[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:

For the year ended December 31, 2014

Category	Commercial Lines	Personal Lines	Total Property and Casualty Insurance
Wind and hail [1]	\$ 45	\$ 196	\$ 241
Winter storms [1]	54	19	73
Other [2]	10	17	27
Total	\$ 109	\$ 232	\$ 341

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

[2] Includes tornadoes, earthquakes and flooding.

Prior accident years development recorded in 2014

Included within prior accident years development were the following loss and loss adjustment expense reserve strengthenings (releases):

For the year ended December 31, 2014

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty & Insurance
Auto liability	\$23	\$2	\$—	\$25
Homeowners	—	(7	)—	(7 )
Professional liability	(17	)—	—	(17 )
Package business	3	—	—	3
General liability	(25	)—	—	(25 )
Bond	8	—	—	8
Commercial property	2	—	—	2
Net asbestos reserves	—	—	212	212
Net environmental reserves	—	—	30	30
Workers' compensation	(7	)—	—	(7 )
Change in workers' compensation discount, including accretion	30	—	—	30
Catastrophes	(14	) (31	)—	(45 )
Other reserve re-estimates, net	10	(10	) 19	19
Total prior accident years development	\$13	\$(46	) \$261	\$228

During 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 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 in general liability due to lower frequency in late emerging claims.

Bond reserves emerged favorably for accident years 2008 to 2013, offset by adverse emergence on reserves for accident years 2007 and prior.

Released reserves primarily for accident year 2013 catastrophes as fourth quarter 2013 catastrophes have developed favorably.

Released reserves in workers' compensation for recent accident years due to improved frequency and lower estimated claim handling costs.

Refer to the Property & Casualty Other Operations Claims section for discussion of the increase to net asbestos reserves, net environmental reserves and other reserve re-estimates, net.

A roll-forward of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses follows:

For the year ended December 31, 2013

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & 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	3,897	2,412	—	6,309
Current accident year catastrophes [3]	105	207	—	312
Prior accident years strengthening (release)	83	(39	) 148	192
Total provision for unpaid losses and loss adjustment expenses	4,085	2,580	148	6,813
Less: Payments	3,889	2,639	298	6,826
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,851	1,851	2,974	18,676
Reinsurance and other recoverables	2,442	13	573	3,028
Ending liabilities for unpaid losses and loss adjustment expenses, gross	\$ 16,293	\$ 1,864	\$ 3,547	\$ 21,704
Earned premiums	\$ 6,203	\$ 3,660		
Loss and loss expense paid ratio [1]	62.7	72.1		
Loss and loss expense incurred ratio	65.9	70.5		
Prior accident years development (pts) [2]	1.3	(1.1	)	

[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:

For the year ended December 31, 2013

Category	Commercial Lines	Personal Lines	Total Property and Casualty Insurance
Wind and hail [1]	\$ 65	\$ 103	\$ 168
Tornadoes [1]	27	63	90
Other [2]	13	41	54
Total	\$ 105	\$ 207	\$ 312

[1] Amounts represent an aggregation of multiple catastrophes.

[2] Includes wildfire, winter storms and flooding.

Prior accident years development recorded in 2013

Included within prior accident years development were the following loss and loss adjustment expense reserve strengthenings (releases):

For the year ended December 31, 2013

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty & Insurance
Auto liability	\$ 141	\$ 3	\$—	\$ 144
Homeowners	—	(6	)—	(6 )
Professional liability	(29	)—	—	(29 )
Package business	2	—	—	2
General liability	(75	)—	—	(75 )
Bond	(8	)—	—	(8 )
Commercial property	(7	)—	—	(7 )
Net asbestos reserves	—	—	130	130
Net environmental reserves	—	—	12	12
Uncollectible reinsurance	(25	)—	—	(25 )
Workers' compensation	(2	)—	—	(2 )
Workers' compensation - NY 25a Fund for Reopened Cases	80	—	—	80
Change in workers' compensation discount, including accretion	30	—	—	30
Catastrophes	(24	)(39	)—	(63 )
Other reserve re-estimates, net	—	3	6	9
Total prior accident years development	\$ 83	\$(39	)\$ 148	\$ 192

During 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, arising from a higher frequency of large loss bodily injury claims in accident years 2010 through 2012.

• Released reserves in professional liability for accident years 2008 through 2012 due to lower than expected claim severity, primarily for large-sized accounts.

Released reserves in general liability in accident years 2006 through 2011. The emergence of claim severity as well as the frequency of late reported claims for these years was lower than expected and management has placed more weight on the emerged experience.

• 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.

Release in workers' compensation is the net of releases for accident year 2009 and prior reflecting favorable development in average severity, the result of a speed up in settlements and the result of moving to an enhanced state-level analysis of loss experience, offset by strengthening workers' compensation for accident years 2010 through 2012 reflecting the emergence of a higher mix of more severe claims.

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.

• 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 of 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 follows:

For the year ended December 31, 2012

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	\$15,437	\$2,061	\$4,052	\$21,550
Reinsurance and other recoverables	2,343	9	681	3,033
Beginning liabilities for unpaid losses and loss adjustment expenses, net	13,094	2,052	3,371	18,517
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	4,178	2,390	—	6,568
Current accident year catastrophes [3]	325	381	—	706
Prior accident years strengthening (release)	72	(141)	)65	(4 )
Total provision for unpaid losses and loss adjustment expenses	4,575	2,630	65	7,270
Less: Payments	4,014	2,772	312	7,098
Ending liabilities for unpaid losses and loss adjustment expenses, net	13,655	1,910	3,124	18,689
Reinsurance and other recoverables	2,365	16	646	3,027
Ending liabilities for unpaid losses and loss adjustment expenses, gross	\$16,020	\$1,926	\$3,770	\$21,716
Earned premiums	\$6,259	\$3,636		
Loss and loss expense paid ratio [1]	64.1	76.2		
Loss and loss expense incurred ratio	73.1	72.3		
Prior accident years development (pts) [2]	1.2	(3.9 )		

[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:

For the year ended December 31, 2012

Category	Commercial Lines	Personal Lines	Total Property and Casualty Insurance
Wind and hail [1]	\$84	\$172	\$256
Tornadoes [1]	30	40	70
Storm Sandy	207	143	350
Other [1][2]	4	26	30
Total	\$325	\$381	\$706

[1] Amounts represent an aggregation of multiple catastrophes.

[2] Primarily includes wildfire.



Prior accident years development recorded in 2012

Included within prior accident years development were the following loss and loss adjustment expense reserve strengthenings (releases):

For the year ended December 31, 2012

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance	
Auto liability	\$56	\$(81	)\$—	\$(25	)
Homeowners	—	(32	)—	(32	)
Professional liability	40	—	—	40	
Package business	(20	)—	—	(20	)
General liability	(87	)—	—	(87	)
Bond	(9	)—	—	(9	)
Commercial property	(8	)—	—	(8	)
Net asbestos reserves	—	—	48	48	
Net environmental reserves	—	—	10	10	
Workers' compensation	78	—	—	78	
Change in workers' compensation discount, including accretion	52	—	—	52	
Catastrophes	(37	) (29	)—	(66	)
Other reserve re-estimates, net	7	1	7	15	
Total prior accident years development	\$72	\$(141	)\$65	\$(4	)

During 2012, the Company's re-estimates of prior accident years reserves included the following significant reserve changes:

Released reserves for personal auto liability claims, primarily for accident years 2008 through 2011. As these accident years matured, favorable bodily injury severity trends were observed and management placed more weight on the emerged experience. Management has adjusted trend assumptions accordingly.

Released reserves for homeowners claims, primarily for accident year 2011 as a result of favorable large loss frequency and lower than expected severity.

Strengthened reserves for commercial auto liability claims, primarily for accident year 2010 and 2011. Higher than expected bodily injury severity, driven by large loss activity, has been observed for these accident years.

Strengthened reserves for professional liability directors and officers claims for accident years 2011 and prior as a result of higher severity, primarily for mid- and large-sized accounts.

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. In addition, older years have improved due to favorable emergence of larger claims.

Strengthened reserves in workers' compensation primarily due to the emergence of lost time claims from 2011.

The change in workers' compensation discount, including accretion, primarily reflects a decrease in the number of tabular claims, and to a lesser extent, the decrease in interest rates.

Reserve releases on certain prior year catastrophes, primarily related to 2001 World Trade Center worker's compensation claims.

Refer to the Property & Casualty Other Operations Claims section for further discussion of the increase to net asbestos and net environmental reserves.

## Property &amp; 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, for Property & Casualty Other Operations, categorized by asbestos, environmental and all other claims, for the years ended December 31, 2014, 2013 and 2012.

## Property &amp; Casualty Other Operations Losses and Loss Adjustment Expenses

	Asbestos	Environmental	All Other [1]	Total
2014				
Beginning liability — net [2] [3]	\$ 1,714	\$ 270	\$ 990	\$ 2,974
Losses and loss adjustment expenses incurred	212	30	19	261
Less: Losses and loss adjustment expenses paid	216	59	92	367
Ending liability — net [2] [3]	\$ 1,710	[4] \$ 241	\$ 917	\$ 2,868
2013				
Beginning liability — net [2] [3]	\$ 1,776	\$ 290	\$ 1,058	\$ 3,124
Losses and loss adjustment expenses incurred	130	12	6	148
Less: Losses and loss adjustment expenses paid	192	32	74	298
Ending liability — net [2] [3]	\$ 1,714	\$ 270	\$ 990	\$ 2,974
2012				
Beginning liability — net [2] [3]	\$ 1,892	\$ 320	\$ 1,159	\$ 3,371
Losses and loss adjustment expenses incurred	48	10	7	65
Less: Losses and loss adjustment expenses paid	164	40	108	312
Ending liability — net [2] [3]	\$ 1,776	\$ 290	\$ 1,058	\$ 3,124

“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.

[1] Excludes amounts reported in Commercial Lines and Personal Lines reporting segments (collectively “Ongoing Operations”) for asbestos and environmental net liabilities of \$16 and \$6 respectively, as of December 31, 2014, \$18 and \$5, respectively, as of December 31, 2013, and \$15 and \$7, respectively, as of December 31, 2012; excludes [2] total net losses and loss adjustment expenses incurred for the years ended December 31, 2014, 2013 and 2012 of \$16, \$15 and \$13, respectively, related to asbestos and environmental claims; and excludes total net losses and loss adjustment expenses paid for the years ended December 31, 2014, 2013 and 2012 of \$17, \$14 and \$15, respectively, related to asbestos and environmental claims.

Gross of reinsurance, asbestos and environmental reserves, including liabilities in Ongoing Operations, were [3] \$2,193 and \$267, respectively, as of December 31, 2014; \$2,182 and \$311, respectively, as of December 31, 2013; and \$2,294 and \$334, respectively, as of December 31, 2012.

The one year and average three year net paid amounts for asbestos claims, including Ongoing Operations, were \$229 and \$201, respectively, resulting in a one year net survival ratio of 7.6 and a three year net survival ratio of [4] 8.6. 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 less predictable than direct insurance exposures because the Company does not generally 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 years ended December 31, 2014, 2013 and 2012, 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]	
	Paid Losses & LAE	Incurred Losses & LAE	Paid Losses & LAE	Incurred Losses & LAE
2014				
Gross				
Direct	\$201	\$206	\$55	\$23
Assumed Reinsurance	72	70	12	—
London Market	17	28	6	7
Total	290	304	73	30
Ceded	(74	)(92	)(14	)(—
Net	\$216	\$212	\$59	\$30
2013				
Gross				
Direct	\$159	\$72	\$23	\$6
Assumed Reinsurance	68	50	4	6
London Market	16	8	6	—
Total	243	130	33	12
Ceded	(51	)(—	(1	)(—
Net	\$192	\$130	\$32	\$12
2012				
Gross				
Direct	\$153	\$55	\$31	\$9
Assumed Reinsurance	51	14	7	—
London Market	17	5	5	3
Total	221	74	43	12
Ceded	(57	)(26	)(3	)(2
Net	\$164	\$48	\$40	\$10

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 years ended December 31, 2014, 2013 and 2012 includes [1]\$19, \$15 and \$13, respectively, related to asbestos and environmental claims. Total gross losses and LAE paid in Ongoing Operations for the years ended December 31, 2014, 2013 and 2012 includes \$21, \$14 and \$15, respectively, related to asbestos and environmental claims.

In the fourth quarters of 2014, 2013 and 2012, the Company completed evaluations of certain of its non-asbestos and non-environmental reserves in Property & Casualty Other Operations, including its assumed reinsurance liabilities. In 2014, the Company's prior year development was impacted by unfavorable frequency of international workers' compensation claims. The Company's prior year development on these reserves was immaterial in 2013 and 2012.



During the second quarters of 2014, 2013 and 2012, the Company completed its annual ground-up asbestos reserve evaluations. As part of these evaluations, 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. During 2014, the Company found 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. Based on this evaluation, the Company strengthened its net asbestos reserves by \$212 in second quarter 2014. During 2013, the Company found estimates for individual cases changed based upon the particular circumstances in such accounts. These cases were case specific and not as a result of any underlying change in current environment. The Company experienced moderate increases in claim frequency and severity as well as expense and costs associated with litigating asbestos coverage matters, particularly against certain smaller, more peripheral insureds. The Company also experienced unfavorable development on certain of its assumed reinsurance accounts driven largely by the same factors experienced by the direct policyholders. Based on this evaluation, the Company strengthened its net asbestos reserves by \$130 in second quarter 2013. During 2012, the Company found estimates for individual cases changed based upon the particular circumstances of such accounts. These changes were case specific and not as a result of any underlying change in the current environment. The Company experienced moderate increases in claim severity, expense and costs associated with litigating asbestos coverage matters, particularly against certain smaller, more peripheral insureds. The Company also experienced unfavorable development on certain of its assumed reinsurance accounts driven largely by the same factors experienced by direct policy holders. Based on this evaluation, the Company strengthened its net asbestos reserves by \$48 in second quarter 2012. The Company currently expects to continue to perform an evaluation of its asbestos liabilities annually.

During the second quarters of 2014, 2013 and 2012, the Company completed its annual ground-up environmental reserve evaluations. In each of these evaluations, 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. The Company found estimates for certain individual account exposures increased based upon unfavorable litigation results and increased clean-up and expense costs. The net effect of these account-specific changes as well as quarterly actuarial evaluations of new account emergence and historical loss and expense paid experience resulted in increases of \$30, \$12 and \$10 in net environmental reserves in 2014, 2013 and 2012, respectively. The Company currently expects to continue to perform a ground-up evaluation of its environmental liabilities annually and to regularly evaluate the Company's historical direct 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 accounted 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 represented 1,115 accounts and contained 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 December 31, 2014:  
Summary of Gross A&E Reserves

	Asbestos [1]	Environmental [2]	Total A&E
Gross			
Direct	\$ 1,640	\$ 196	\$ 1,836
Assumed Reinsurance	289	22	311
London Market	264	49	313
Total	2,193	267	2,460
Ceded	(467	) (20	) (487
Net	\$ 1,726	\$ 247	\$ 1,973

The one year gross paid amount for total asbestos claims is \$304, resulting in a one year gross survival ratio of 7.2.

[1] The three year average gross paid amount for total asbestos claims is \$263, resulting in a three year gross survival ratio of 8.3.

The one year gross paid amount for total environmental claims is \$83, resulting in a one year gross survival ratio of 3.2. The three year average gross paid amount for total environmental claims is \$58, resulting in a three year gross survival ratio of 4.6.

The Company provides an allowance for uncollectible reinsurance, reflecting management's best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers' unwillingness or inability to pay. During the second quarters of 2014, 2013 and 2012, the Company completed its annual evaluations of the collectability of the reinsurance recoverables and the adequacy of the allowance for uncollectible reinsurance associated with older, long-term casualty liabilities reported in the Property & Casualty Other Operations. In conducting this evaluation, the Company used its most recent detailed evaluations of ceded liabilities reported in the segment. The Company analyzed the overall credit quality of the Company's reinsurers, recent trends in arbitration and litigation outcomes in disputes between cedants and reinsurers, and recent developments in commutation activity between reinsurers and cedants. The evaluation in the second quarters of 2014, 2013, and 2012 resulted in no adjustments to the allowance for uncollectible reinsurance. As of December 31, 2014, 2013, and 2012, the allowance for uncollectible reinsurance for Property & Casualty Other Operations totaled \$225, \$202, and \$203. The Company currently expects to perform its regular comprehensive review of Property & Casualty Other Operations reinsurance recoverables annually. Due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables become due, particularly for older, long-term casualty liabilities, it is possible that future adjustments to the Company's reinsurance recoverables, net of the allowance, could be required.

Consistent with the Company's long-standing reserving 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 allowance for uncollectible reinsurance, and environmental liabilities, and where future developments indicate, make appropriate adjustments to the reserves. The company will complete both its annual ground-up asbestos and environmental reserve studies during the second quarter of 2015.



## Impact of Re-estimates

The establishment of property and casualty insurance product reserves is an estimation process, using a variety of methods, assumptions and data elements. Ultimate losses may vary materially from the current estimates. Many factors can contribute to these variations and the need to change the previous estimate of required reserve levels. Subsequent changes can generally be thought of as being the result of the emergence of additional facts that were not known or anticipated at the time of the prior reserve estimate and/or changes in interpretations of information and trends.

The table below shows the range of annual reserve re-estimates experienced by The Hartford over the past ten years. The amount of prior accident year development (as shown in the reserve rollforward) for a given calendar year is expressed as a percent of the beginning calendar year reserves, net of reinsurance. The percentage relationships presented are significantly influenced by the facts and circumstances of each particular year and by the fact that only the last ten years are included in the range. Accordingly, these percentages are not intended to be a prediction of the range of possible future variability. See “Impact of key assumptions on reserve volatility” within this section for further discussion of the potential for variability in recorded loss reserves.

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty [1]
Annual range of prior accident year unfavorable (favorable) development for the ten years ended December 31, 2014	(3.1)% - 1.5%	(6.9)% - (0.2)%	1.9% - 9.3%	(1.2)% - 2.0%

[1] Excluding the reserve strengthening for asbestos and environmental reserves, over the past ten years reserve re-estimates for total property and casualty insurance ranged from (2.5)% to 1.0%.

The potential variability of the Company’s property and casualty insurance product reserves would normally be expected to vary by segment and the types of loss exposures insured by those segments. Illustrative factors influencing the potential reserve variability for each of the segments are discussed above.

A table depicting the historical development of the liabilities for unpaid losses and loss adjustment expenses, net of reinsurance, follows:

## Loss Development Table

## Loss And Loss Adjustment Expense Liability Development — Net of Reinsurance

For the Years Ended December 31,

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	\$16,191	\$16,863	\$17,604	\$18,231	\$18,347	\$18,210	\$17,948	\$18,517	\$18,689	\$18,676	\$18,765
Cumulative paid losses and loss expenses											
One year later	3,594	3,702	3,727	3,703	3,771	3,882	4,037	4,216	4,274	4,072	
Two years later	6,035	6,122	5,980	5,980	6,273	6,401	6,664	6,897	7,019	—	
Three years later	7,825	7,755	7,544	7,752	8,074	8,241	8,503	8,875	—	—	
Four years later	9,045	8,889	8,833	9,048	9,411	9,538	9,928	—	—	—	
Five years later	9,928	9,903	9,778	10,061	10,395	10,649	—	—	—	—	
Six years later	10,798	10,674	10,564	10,845	11,303	—	—	—	—	—	
Seven years later	11,448	11,334	11,216	11,612	—	—	—	—	—	—	
Eight years later	12,023	11,895	11,883	—	—	—	—	—	—	—	
Nine years later	12,526	12,493	—	—	—	—	—	—	—	—	
Ten years later	13,088	—	—	—	—	—	—	—	—	—	

## Liabilities

## re-estimated

One year later	16,439	17,159	17,652	18,005	18,161	18,014	18,315	18,513	18,881	18,904
Two years later	16,838	17,347	17,475	17,858	18,004	18,136	18,275	18,686	19,207	—
Three years later	17,240	17,318	17,441	17,700	18,139	18,093	18,299	19,013	—	—
Four years later	17,344	17,497	17,439	17,866	18,120	18,056	18,629	—	—	—
Five years later	17,570	17,613	17,676	17,848	18,092	18,408	—	—	—	—
Six years later	17,777	17,895	17,673	17,857	18,437	—	—	—	—	—
Seven years later	18,064	17,899	17,749	18,215	—	—	—	—	—	—
Eight years later	18,062	18,045	18,097	—	—	—	—	—	—	—
Nine years later	18,214	18,390	—	—	—	—	—	—	—	—
Ten years later	18,565	—	—	—	—	—	—	—	—	—

## Deficiency

(redundancy), net of reinsurance	\$2,374	\$1,527	\$493	\$(16 )	\$90	\$198	\$681	\$496	\$518	\$228
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The previous table shows the cumulative deficiency (redundancy) of the Company's reserves, net of reinsurance, as now estimated with the benefit of additional information. Those amounts are comprised of changes in estimates of gross losses and changes in estimates of related reinsurance recoveries.

The following table, for the periods presented, reconciles the net reserves to the gross reserves, as initially estimated and recorded, and as currently estimated and recorded, and computes the cumulative deficiency (redundancy) of the Company's reserves before reinsurance.

Loss And Loss Adjustment Expense Liability Development — Gross

For the Years Ended December 31,

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net reserve, as initially estimated	\$ 16,863	\$ 17,604	\$ 18,231	\$ 18,347	\$ 18,210	\$ 17,948	\$ 18,517	\$ 18,689	\$ 18,676	\$ 18,765
Reinsurance and other recoverables, as initially estimated	5,403	4,387	3,922	3,586	3,441	3,077	3,033	3,027	3,028	3,041
Gross reserve, as initially estimated	\$ 22,266	\$ 21,991	\$ 22,153	\$ 21,933	\$ 21,651	\$ 21,025	\$ 21,550	\$ 21,716	\$ 21,704	\$ 21,806
Net re-estimated reserve	\$ 18,390	\$ 18,097	\$ 18,215	\$ 18,437	\$ 18,408	\$ 18,629	\$ 19,013	\$ 19,207	\$ 18,904	
Re-estimated and other reinsurance recoverables	6,296	4,732	4,443	4,115	3,713	3,376	3,292	3,099	3,041	
Gross re-estimated reserve	\$ 24,686	\$ 22,829	\$ 22,658	\$ 22,552	\$ 22,121	\$ 22,005	\$ 22,305	\$ 22,306	\$ 21,945	
Gross deficiency (redundancy)	\$ 2,420	\$ 838	\$ 505	\$ 619	\$ 470	\$ 980	\$ 755	\$ 590	\$ 241	

The following table is derived from the Loss Development table and summarizes the effect of reserve re-estimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2014. The total of each column details the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve re-estimates during the ten year period ended December 31, 2014 for the indicated accident year(s).

Effect of Net Reserve Re-estimates on Calendar Year Operations

	Calendar Year										Total
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
By Accident Year											
2004 & Prior	\$ 248	\$ 399	\$ 402	\$ 104	\$ 226	\$ 207	\$ 287	\$(2)	\$ 151	\$ 352	\$ 2,374
2005	—	(103)	(214)	(133)	(47)	(91)	(5)	6	(6)	(6)	(599)
2006	—	—	(140)	(148)	(213)	(118)	(45)	(7)	(69)	2	(738)
2007	—	—	—	(49)	(113)	(156)	(71)	(15)	(67)	10	(461)
2008	—	—	—	—	(39)	1	(31)	(1)	(37)	(13)	(120)
2009	—	—	—	—	—	(39)	(13)	(24)	(8)	7	(77)
2010	—	—	—	—	—	—	245	3	61	(22)	287
2011	—	—	—	—	—	—	—	36	148	(4)	180
2012	—	—	—	—	—	—	—	—	19	—	19
2013	—	—	—	—	—	—	—	—	—	(98)	(98)
Total strengthening (release)	\$ 248	\$ 296	\$ 48	\$(226)	\$(186)	\$(196)	\$ 367	\$(4)	\$ 192	\$ 228	\$ 767

#### Reserve changes for accident years 2004 & Prior

The largest impacts of net reserve re-estimates are shown in the “2004 & Prior” accident years. The reserve deterioration is driven, in part, by deterioration of reserves for asbestos, environmental, assumed casualty reinsurance, workers’ compensation, and general liability claims. Numerous actuarial assumptions on assumed casualty reinsurance turned out to be low, including loss cost trends, particularly on excess of loss business, and the impact of deteriorating terms and conditions.

The reserve re-estimates in calendar years 2005 through 2006 were largely attributable to reductions in the reinsurance recoverable asset associated with older, long-term casualty liabilities, and unexpected development on mature claims in both general liability and workers’ compensation. In addition, catastrophe reserves related to the 2004 hurricanes developed favorably in 2006.

During the 2007 calendar year, the Company refined its processes for allocating incurred but not reported (“IBNR”) reserves by accident year, resulting in a reclassification of \$347 of IBNR reserves from the 2003 to 2006 accident years to the 2002 and prior accident years. This reclassification of reserves by accident year had no effect on total recorded reserves within any segment or on total recorded reserves for any line of business within a segment.

The reserve re-estimates during calendar year 2008 were largely driven by increases in asbestos, environmental and general liability reserves. The reserve re-estimates in calendar years 2009, 2010, 2011, 2013 and 2014 were largely due to increases in asbestos and environmental reserves, resulting from the Company’s annual evaluations of these liabilities. These reserve evaluations reflect deterioration in the litigation environment surrounding asbestos and environmental liabilities during this period.

#### Reserve changes for accident years 2005 through 2009

During calendar year 2006, favorable re-estimates occurred in both loss and allocated loss adjustment expenses for the 2005 accident year. In addition, catastrophe reserves related to the 2005 hurricanes developed favorably in 2006.

During calendar years 2006 through 2008 for the 2005 through 2007 accident years, the Company recognized favorable re-estimates of both loss and allocated loss adjustment expenses on workers’ compensation claims, driven, in part, by state regulatory reforms in California and Florida, underwriting actions, and expense reduction initiatives that had a greater impact in controlling costs than originally estimated. Even after considering the reclassification of IBNR reserves, accident years 2005 through 2007 show favorable development in calendar years 2006 through 2011. A portion of the release comes from short-tail lines of business, where results emerge quickly. In 2007, the Company released reserves for package business claims as reported losses emerged favorably to previous expectations. In 2007 through 2009, the Company released reserves for general liability claims due to the favorable emergence of losses for high hazard and umbrella general liability claims. Reserves for professional liability claims were released in 2008 and 2009 related to the 2005 through 2007 accident years due to a lower estimate of claim severity on both directors’ and officers’ insurance claims and errors and omissions insurance claims. Reserves of auto liability claims, within Personal Lines, were released in 2008 due largely to an improvement in emerged claim severity for the 2005 to 2007 accident years.

Accident year 2009 remains reasonably close to original estimates. Modest favorable reserve re-estimates during calendar periods 2009 through 2014 are primarily related to liability lines of business.

#### Reserve changes for accident years 2010 through 2011

Unfavorable reserve re-estimates in calendar year 2011 on accident year 2010 are largely driven by workers’ compensation. Loss cost trends were higher than initially expected as an increase in frequency outpaced a moderation of severity trends. Unfavorable reserve re-estimates in calendar year 2013 on accident year 2010 and 2011 are primarily related workers’ compensation and commercial auto liability. Workers’ compensation loss cost trends were higher than initially expected as an increase in frequency outpaced a moderation of severity trends. Commercial auto liability was driven by higher frequency of large loss bodily injury claims.

Reserves were released in calendar year 2014 for accident year 2010 due to lower frequency of professional liability reported claims, favorable bond claim emergence, and lower frequency of late emerging liability claims.

#### Reserve changes for accident year 2012

Accident year 2012 remains reasonably close to the original estimate. Modest unfavorable reserve re-estimates during calendar year 2013 are primarily related to commercial auto liability driven by higher frequency of large loss bodily

injury claims offset by reserve releases related to Storm Sandy.

Reserve changes for accident year 2013

Reserves were released in calendar year 2014 on accident year 2013 due to lower estimated claim handling costs for workers' compensation and lower frequency of reported claims for professional liability. Reserves were also released in calendar year 2014 for accident year 2013 due to favorable development of fourth quarter catastrophes and favorable emergence of losses for property lines of business.

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### 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, 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 December 31,	
	2014	2013
DAC [1]	\$1,200	\$1,552
SIA	\$89	\$149
URR	\$—	\$50
Death and Other Insurance Benefit Reserves, net of reinsurance [2]	\$331	\$565

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

### Unlocks

The benefit (charge) to income from continuing operations, net of tax by asset and liability as a result of the Unlocks is as follows:

	Talcott Resolution		
	For the years ended December 31,		
	2014	2013	2012
DAC	\$(136)	\$(199)	\$(214)
SIA	(35)	(20)	(82)
URR	42	16	12
Death and Other Insurance Benefit Reserves	34	36	73
Total (before tax)	\$(95)	\$(167)	\$(211)
Income tax effect	(33)	(58)	(73)
Total (after-tax)	\$(62)	\$(109)	\$(138)

The Unlock charge for the year ended December 31, 2014 was primarily due to lower future estimated gross profits on the fixed annuity block driven by the continued low interest rate environment as well as higher variable annuity units costs due to higher than expected surrenders, partially offset by actual separate account returns being above our aggregated estimated returns during the period.

The Unlock charge for the year ended December 31, 2013 was primarily due to assumption changes in connection with the annual policyholder behavior assumption study, partially offset by actual separate account returns above our aggregated estimated returns during the period.

The Unlock charge for the year ended December 31, 2012 was driven primarily by policyholder assumption changes which reduced expected future gross profits including additional costs associated with the U.S. variable annuity macro hedge program, partially offset by actual separate account returns above our aggregated estimated return.

For most annuity contracts, the Company estimates gross profits over 20 years as EGPs emerging subsequent to that time frame are immaterial. Products sold in a particular year are aggregated into cohorts. Future gross profits for each cohort are projected over the estimated lives of the underlying contracts, based on future account value projections for variable annuity. The projection of future account values requires the use of certain assumptions including: separate account returns; separate account fund mix; fees assessed against the contract holder's account balance; surrender and lapse rates; interest margin; mortality; and the extent and duration of hedging activities and hedging costs. Changes in these assumptions and, in addition, changes to other policyholder behavior assumptions such as resets, partial surrenders, reaction to price increases, and asset allocations causes EGPs to fluctuate which impacts earnings.



The Company determines EGPs from a single deterministic reversion to mean (“RTM”) separate account return projection which is an estimation technique commonly used by insurance entities to project future separate account returns. Through this estimation technique, the Company’s DAC model is adjusted to reflect actual account values at the end of each quarter. Through consideration of recent market returns, the Company will unlock, or adjust, projected returns over a future period so that the account value returns to the long-term expected rate of return, providing that those projected returns do not exceed certain caps. This Unlock for future separate account returns is determined each quarter. Under RTM, the expected long term weighted average rate of return is 8.3%.

In the third quarter of 2014, the Company completed a comprehensive non-market related policyholder behavior assumption study and incorporates the results of those studies into its projection of future gross profits. Additionally, throughout the year, the Company evaluates various aspects of policyholder behavior and periodically revises its policyholder assumptions as credible emerging data indicates that changes are warranted. The Company will continue to evaluate its assumptions related to policyholder behavior as initiatives to reduce the size of the variable annuity business are implemented by management. Upon completion of an annual assumption study or evaluation of credible new information, the Company will revise its assumptions to reflect its current best estimate. These assumption revisions will change the projected account values and the related EGPs in the DAC, SIA and URR amortization models, as well as the death and other insurance benefit reserving model. Beginning in 2015, the annual comprehensive non-market related policyholder behavior assumption study will be completed in the fourth quarter of the year.

All assumption changes that affect the estimate of future EGPs including the update of current account values, the use of the RTM estimation technique and policyholder behavior assumptions are considered an Unlock in the period of revision. An Unlock adjusts DAC, SIA, URR and death and other insurance benefit reserve balances in the Consolidated Balance Sheets with an offsetting benefit or charge in the Consolidated Statements of Operations in the period of the revision. An Unlock that results in an after-tax benefit generally occurs as a result of actual experience or future expectations of product profitability being favorable compared to previous estimates. An Unlock that results in an after-tax charge generally occurs as a result of actual experience or future expectations of product profitability being unfavorable compared to previous estimates.

EGPs are also used to determine the expected excess benefits and assessments included in the measurement of death and other insurance benefit reserves. These excess benefits and assessments are derived from a range of stochastic scenarios that have been calibrated to the Company’s RTM separate account returns. The determination of death and other insurance benefit reserves is also impacted by discount rates, lapses, volatilities, mortality assumptions and benefit utilization, including assumptions around annuitization rates.

An Unlock revises EGPs, on a quarterly basis, to reflect market updates of policyholder account value and the Company’s current best estimate assumptions. 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 36% as of December 31, 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.

#### Evaluation of Other-Than-Temporary Impairments on Available-for-Sale Securities and Valuation Allowances on Mortgage Loans

The Company has a monitoring process that is overseen by a committee of investment and accounting professionals which identifies investments that are subject to an enhanced evaluation on a quarterly basis to determine if an other-than-temporary impairment (“impairment”) is present for AFS securities or a valuation allowance is required for mortgage loans. This evaluation is a quantitative and qualitative process, which is subject to risks and uncertainties. For further discussion of the accounting policies, see the Significant Investment Accounting Policies Section in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements. For a discussion of impairments recorded, see the Other-Than-Temporary Impairments within the Investment Portfolio Risks and Risk Management section of the MD&A.





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

Fair values for GMWBs classified as embedded derivatives are calculated using the income approach based upon internally developed models, because active and observable markets do not exist for those items. The fair value of these GMWBs 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. 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

For further discussion on the impact of fair value changes from living benefits see Note 5 - Fair Value Measurements of Notes to Consolidated Financial Statements, and for a discussion on the sensitivities of certain living benefits due to capital market factors see Variable Product Guarantee Risks and Risk Management section of the MD&A.

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 legal entity capital held or 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 of Group Benefits, Personal Lines and Mutual Funds.

The carrying value of goodwill is \$498 as of December 31, 2014 and is comprised of \$138 for Group Benefits, \$119 for Personal Lines, and \$241 for Mutual Funds.

The annual goodwill assessment for the Group Benefits, Personal Lines and Mutual Funds reporting units was completed during the fourth quarter of 2014, which resulted in no write-downs of goodwill for the year ended December 31, 2014. The reporting units passed the first step of the annual impairment test with a significant margin with the exception of the Group Benefits reporting unit. Group Benefits passed the first step of its annual impairment test with less than a 10% margin. The fair value of the Group Benefits reporting unit is based on discounted cash flows using earnings projections on in force business and future business growth. There could be a positive or

negative impact on the results of step one in future periods if assumptions change about the level of economic capital, future business growth, earnings projections or the weighted average cost of capital. Please see Note 9 - Goodwill for information regarding the 2013 and 2012 impairment tests.

#### Valuation of Investments and Derivative Instruments

Fixed Maturities, AFS; Equity Securities, AFS; Equity Securities, FVO, 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 (i.e., 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, any 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 through 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 recent reported trades, the third party pricing services and 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 asset-backed-securities (“ABS”) and residential mortgage-backed securities (“RMBS”) are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based upon 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. For further discussion, see the AFS Securities, Equity Securities, FVO Fixed Maturities, FVO, Equity Securities, Trading, and Short-Term Investments section in Note 5 of Notes to Consolidated Financial Statements.

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. For further discussion of fair value measurement, see Note 5 of Notes to Consolidated Financial Statements.

Derivative Instruments, including embedded derivatives within investments

The fair value of derivative instruments is determined using pricing valuation models for over-the-counter (“OTC”) derivatives that utilize market data inputs, quoted market prices for exchanged-traded derivatives and transactions cleared through central clearing houses (“OTC-cleared”), or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of December 31, 2014 and 2013, 96% 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 are valued using mid-market level inputs that are predominantly observable in the market with the exception of the customized swap contracts that hedge GMWB liabilities. Inputs used to value derivatives include, but are not limited to, swap interest rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. For further discussion on derivative instrument valuation methodologies, see the Derivative Instruments, including embedded derivatives within the investments section in Note 5 of Notes to Consolidated Financial Statements. For further discussion on GMWB and other guaranteed living benefits valuation methodologies, see the Living Benefits Required to be Fair Valued section in Note 5 of Notes to Consolidated Financial Statements.

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 assesses impediments to redemption and current market conditions that will restrict the redemption at the end of the notice period. For further discussion of fair value measurement, see Note 5 of Notes to Consolidated Financial Statements. In addition, certain limited partnerships and other alternative investments are accounted for under the equity method of accounting. For further discussion, see the Investments - Overview section of Note 1 of Notes to the Consolidated Financial Statements.

#### Valuation Allowance on Deferred Tax Assets

Deferred tax assets represent the tax benefit of future deductible temporary differences and operating loss and tax credit carryovers. Deferred tax assets are measured using the enacted tax rates expected to be in effect when such benefits are realized if there is no change in tax law. Under U.S. GAAP, we test the value of deferred tax assets for impairment on a quarterly basis at the entity level within each tax jurisdiction, consistent with our filed tax returns. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The determination of the valuation allowance for our deferred tax assets requires management to make certain judgments and assumptions. In evaluating the ability to recover deferred tax assets, we have considered all available evidence as of December 31, 2014, including past operating results, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In the event we determine it is not more likely than not that we will not be able to realize all or part of our deferred tax assets in the future, an increase to the valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance and specific industry and investment market conditions.

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 \$181, relating mostly to the U.S. capital loss carryover, as of December 31, 2014 and \$4, relating mostly to U.S. net operating losses, as of December 31, 2013. In assessing the need for a valuation allowance, management considered future taxable temporary difference reversals, future taxable income exclusive of reversing temporary differences and carryovers, 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 held, making investments that allow utilization of foreign tax credits, business considerations such as asset-liability matching, and making investments which have specific tax characteristics. Management views such tax planning strategies as prudent and feasible, and would implement them, if necessary, to realize the deferred tax asset.

#### Contingencies Relating to Corporate Litigation and Regulatory Matters

Management evaluates each contingent matter separately. A loss is recorded if probable and reasonably estimable. Management establishes reserves for these contingencies at its "best estimate," or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range of losses.

The Company has a quarterly monitoring process involving legal and accounting professionals. Legal personnel first identify outstanding corporate litigation and regulatory matters posing a reasonable possibility of loss. These matters are then jointly reviewed by accounting and legal personnel to evaluate the facts and changes since the last review in order to determine if a provision for loss should be recorded or adjusted, the amount that should be recorded, and the appropriate disclosure. The outcomes of certain contingencies currently being evaluated by the Company, which relate to corporate litigation and regulatory matters, are inherently difficult to predict, and the reserves that have been established for the estimated settlement amounts are subject to significant changes. 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 Company. In view of the uncertainties regarding the outcome of these matters, as well as the uncertainties regarding tax-deductibility of payments, it is possible that the ultimate cost to the Company of these matters could exceed the reserve by an amount that would have a material adverse effect on the Company's results of operations or liquidity in a particular quarterly or annual period.

## KEY PERFORMANCE MEASURES AND RATIOS

The Company considers the measures and ratios discussed below to be key performance indicators for its businesses. 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.

### 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 core earnings margin, excluding buyouts

After-tax core earnings margin, excluding buyouts, 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 core earnings margin, excluding buyouts, 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. After-tax core earnings margin, excluding buyouts, 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 core earnings margin, excluding buyouts, and after-tax margin when reviewing performance. After-tax core earnings margin, excluding buyouts is calculated by dividing core earnings excluding buyouts by revenues excluding buyouts and realized gains (losses). A reconciliation of after-tax margin to after-tax core earnings margin, excluding buyouts for the years ended December 31, 2014, 2013 and 2012 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 years ended December 31, 2014, 2013 and 2012 is set forth in MD&A - Commercial Lines and Personal Lines.





### 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, pension settlements, loss on extinguishment of debt, gains and losses on business disposition transactions, certain restructuring and other costs 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 to core earnings is set forth below:

	For the years ended December 31,		
	2014	2013	2012
Net income (loss)	\$798	\$176	\$(38)
Less: Unlock charge, after-tax	(62)	(109)	(138)
Less: Restructuring and other costs, after-tax	(49)	(44)	(129)
Less: Loss from discontinued operations, after-tax	(551)	(1,049)	(258)
Less: Pension settlement, after-tax	(83)	—	—
Less: Loss on extinguishment of debt, after-tax	—	(138)	(587)
Less: Net reinsurance gain (loss) on dispositions, after-tax	15	(24)	(388)
Less: Net realized capital gains (losses), after-tax and DAC, excluded from core earnings [1]	(20)	121	340
Core earnings	\$1,548	\$1,419	\$1,122

Excludes net realized gain on dispositions of \$1.0 billion, after-tax, for the year ended December 31, 2013 relating [1] 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 Commercial Lines and Personal Lines is the ratio of underwriting expenses to earned premiums. Underwriting expenses include the amortization of deferred policy acquisition costs and insurance operating costs and expenses, including certain centralized services and bad debt expense. 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 the 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.

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#### 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 issues 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 Personal Lines and standard commercial lines within Commercial Lines 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 twelve months for substantially all of the remainder of the Company's property and casualty business. Because the Company earns premiums over the six to twelve month term of the policies, renewal earned price increases (decreases) lag renewal written price increases (decreases) by six to twelve 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 years ended December 31, 2014, 2013 and 2012 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 pricing and 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. Net income (loss) is the most directly comparable GAAP measure. 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 (loss) for Commercial Lines, Personal Lines and Property & Casualty Other Operations 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.

## COMMERCIAL LINES

## Results of Operations

Underwriting Summary	2014	2013	2012	
Written premiums	\$6,381	\$6,208	\$6,209	
Change in unearned premium reserve	92	5	(50	)
Earned premiums	6,289	6,203	6,259	
Losses and loss adjustment expenses				
Current accident year before catastrophes	3,733	3,897	4,178	
Current accident year catastrophes	109	105	325	
Prior accident years	13	83	72	
Total losses and loss adjustment expenses	3,855	4,085	4,575	
Amortization of deferred policy acquisition costs	919	905	927	
Underwriting expenses	1,086	1,082	1,034	
Dividends to policyholders	15	16	14	
Underwriting gain (loss)	414	115	(291	)
Net servicing income [2]	23	21	17	
Net investment income	958	984	924	
Net realized capital gains (losses)	(30	)72	67	
Other expenses	(3	)(1	)(6	)
Income from continuing operations before income taxes	1,362	1,191	711	
Income tax expense	385	320	159	
Income from continuing operations, net of tax	977	871	552	
Income (loss) from discontinued operations, net of tax [1]	6	(1	)(5	)
Net income	\$983	\$870	\$547	

[1] Represents the residual income (loss) from operations and sale in 2011 of Specialty Risk Services (“SRS”).

[2] Includes servicing revenues of \$113, \$112, and \$102 for the years ended December 31, 2014, December 31, 2013, and December 31, 2012 respectively.

Premium Measures [1]	2014	2013	2012	
New business premium	\$1,088	\$1,035	\$968	
Standard commercial lines policy count retention	84	%81	%83	%
Standard commercial lines renewal written pricing increase	5	%7	%7	%
Standard commercial lines renewal earned pricing increase	7	%8	%6	%
Standard commercial lines policies in-force as of end of period (in thousands)	1,277	1,250	1,263	

[1] Standard commercial premium measures exclude Middle Market specialty programs and livestock lines of business.

Ratios	2014	2013	2012	
Loss and loss adjustment expense ratio				
Current accident year before catastrophes	59.4	62.8	66.8	
Current accident year catastrophes	1.7	1.7	5.2	
Prior year development	0.2	1.3	1.2	
Total loss and loss adjustment expense ratio	61.3	65.9	73.1	
Expense ratio	31.9	32.0	31.3	
Policyholder dividend ratio	0.2	0.3	0.2	
Combined ratio	93.4	98.1	104.6	
Current accident year catastrophes and prior year development	1.9	3.0	6.4	
Combined ratio before catastrophes and prior year development	91.5	95.1	98.3	





## 2015 Outlook

The Company expects economic conditions to continue to improve slowly driving a modest increase in exposures, while pricing is anticipated to moderate. As such, the Company expects low-to-mid single-digit written premiums growth in 2015 driven by small commercial and middle market where the Company continues to develop comprehensive product solutions, deeper relationships with distribution partners, differentiating customer experiences and enhanced ease of doing business processes and technologies. In specialty lines, the Company expects modest written premium growth in professional liability. The Company expects the combined ratio before catastrophes and prior accident year development will be between approximately 89.5 and 91.5 for 2015, compared to 91.5 in 2014, due to stable to slightly improving margins as earned pricing increases are expected to be slightly ahead of long-term loss costs trends.

Year ended December 31, 2014 compared to the year ended December 31, 2013

### Overview

Net income, as compared to the prior year period, increased in 2014 primarily due to an improvement in underwriting results, driven by lower current accident year losses and loss adjustment expenses before catastrophes and lower prior accident years development, partially offset by a shift to net realized capital losses in the current year from net realized capital gains in the prior year period. 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 increased in 2014, reflecting the impact of higher written premiums primarily in small commercial and to a lesser extent in middle market, partially offset by written premium declines in specialty lines.

Written premium increased in all small commercial lines of business, driven by favorable renewal premium due to higher policy count retention and higher written pricing, as well as an increase in new business and higher audit premium on workers' compensation policies. Written premium increases in middle market were driven primarily by higher renewal written premium in property, general liability and auto, partially offset by the impact of underwriting actions that reduced written premium in the programs business. Written premium decreases in specialty lines were primarily the result of underwriting actions to improve profitability of the captives business, partially offset by growth in national accounts and bond.

### Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses reflect favorable current accident year losses before catastrophes in all lines of business and lower unfavorable prior accident years development.

The reduction in the current accident year loss and loss adjustment expense ratio before catastrophes in 2014 was primarily driven by a lower loss and loss adjustment expense ratio in workers' compensation due to earned pricing increases and favorable frequency and severity trends. Accordingly, the current accident year loss and loss adjustment expense ratio before catastrophes decreased by 3.4 points to 59.4 in 2014 from 62.8 in 2013.

Current accident year catastrophe losses of \$109, before tax, in 2014, compared to \$105, before tax, in 2013. Losses in 2014 were primarily due to multiple winter storm and wind and hail events across various U.S. geographic regions. Losses in 2013 were primarily due to multiple wind and hail and tornado events 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 years reserve strengthening of \$13, before tax, in 2014, compared to \$83, before tax, in 2013.

Development in 2014 was primarily due to discount accretion on workers' compensation and strengthening related to commercial auto liability, partially offset by a release of professional and general liability reserves. Development in 2013 was primarily due to strengthening related to commercial auto liability and the closing of the New York Section 25A Fund for Reopened Cases, partially offset by a release of professional and general liability reserves. 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 3.6 points to 91.5 in 2014 from 95.1 in 2013. The improvement primarily reflects a decrease in the current accident year loss and loss adjustment expense ratio before catastrophes, as well as a decrease in the expense ratio (including a 0.8 point favorable impact on the

expense ratio related to a reduction in NY State Workers' Compensation Board assessments).

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## Investment Results

Investment income decreased in 2014, as compared to the prior year period. 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 rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

Year ended December 31, 2013 compared to the year ended December 31, 2012

## Overview

Net income, as compared to the prior year period, increased in 2013 primarily due to improvements in underwriting results, driven by lower current accident year losses and loss adjustment expenses before catastrophes and lower current accident year catastrophe losses.

## Revenues - Earned and Written Premium

Earned premiums decreased in 2013, reflecting the impact of lower written premiums primarily in middle market and specialty lines, partially offset by written premium growth in small commercial.

Written premium increases in small commercial, primarily in workers' compensation business, were driven by favorable audit premium as well as favorable renewal premium due to higher earned pricing, partially offset by lower policy count retention. Written premium decreases in middle market were driven primarily by lower renewal premium in workers' compensation business partially offset by new business premium growth in property, general liability and auto and favorable overall inforce policy retention. Written premium decreases in specialty lines were primarily the result of underwriting actions to reposition the captives business and exit unprofitable programs partially offset by new business growth in national accounts. The Company ceased writing all transportation programs effective January 1, 2014.

## Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses reflect favorable current accident year losses before catastrophes in all three businesses and a significant decline in current accident year catastrophes partially offset by unfavorable prior accident years development.

Favorable current accident year losses and loss adjustment expenses before catastrophes were primarily driven by lower loss and loss adjustment expenses in workers' compensation due to favorable severity and frequency. The current accident year loss and loss adjustment expense ratio before catastrophes decreased accordingly by 4.0 points to 62.8 in 2013 from 66.8 in 2012.

Current accident year catastrophe losses of \$105, before tax, in 2013, compared to \$325, before tax, in 2012. Losses in 2013 were primarily due to multiple thunderstorm, hail and tornado events across various U.S. geographic regions. Losses in 2012 were primarily driven by \$207 related to Storm Sandy and multiple thunderstorm, hail and tornado events 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 years reserve strengthening of \$83, before tax, in 2013, compared to \$72, before tax, in 2012.

Development in 2013 was primarily due to strengthening related to commercial auto liability and the closing of the New York Section 25A Fund for Reopened Cases partially offset by a release of general liability reserves.

Development in 2012 was primarily due to strengthening related to commercial auto liability claims, professional liability directors and officers claims and workers compensation partially offset by a release of general liability and catastrophe reserves. 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 3.2 points to 95.1 in 2013 from 98.3 in 2012. The improvement primarily reflects a decrease in the current accident year before catastrophes loss and loss adjustment expense ratio.

## Investment Results

Investment income increased in 2013, as compared to the prior year period. 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 rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

## PERSONAL LINES

## Results of Operations

Operating Summary	2014	2013	2012	
Written premiums	\$3,861	\$3,719	\$3,630	
Change in unearned premium reserve	55	59	(6	)
Earned premiums	3,806	3,660	3,636	
Losses and loss adjustment expenses				
Current accident year before catastrophes	2,498	2,412	2,390	
Current accident year catastrophes	232	207	381	
Prior accident years	(46	)(39	)(141	)
Total losses and loss adjustment expenses	2,684	2,580	2,630	
Amortization of DAC	348	332	332	
Underwriting expenses	604	634	635	
Underwriting gain	170	114	39	
Net servicing income [1]	3	34	23	
Net investment income	129	145	159	
Net realized capital gains (losses)	(5	)(34	12	
Other income (expenses)	2	2	(2	)
Income before income taxes	299	329	231	
Income tax expense	92	100	65	
Net income	\$207	\$229	\$166	

[1] Includes servicing revenues of \$163 and \$155 for years ended December 31, 2013 and 2012, respectively.

Written Premiums	2014	2013	2012
Product Line			
Automobile	\$2,659	\$2,562	\$2,514
Homeowners	1,202	1,157	1,116
Total	\$3,861	\$3,719	\$3,630
Earned Premiums			
Product Line			
Automobile	\$2,613	\$2,522	\$2,526
Homeowners	1,193	1,138	1,110
Total	\$3,806	\$3,660	\$3,636

Premium Measures	2014	2013	2012	
Policies in-force at year end (in thousands)				
Automobile	2,049	2,019	2,015	
Homeowners	1,309	1,319	1,319	
Total policies in-force at year end	3,358	3,338	3,334	
New business written premium				
Automobile	\$415	\$374	\$332	
Homeowners	\$130	\$131	\$117	
Policy count retention				
Automobile	85	%86	%85	%
Homeowners	86	%87	%86	%
Renewal written pricing increase				
Automobile	5	%5	%3	%
Homeowners	8	%7	%6	%
Renewal earned pricing increase				
Automobile	5	%5	%6	%
Homeowners	8	%6	%7	%
Underwriting Ratios	2014	2013	2012	
Loss and loss adjustment expense ratio				
Current accident year before catastrophes	65.6	65.9	65.7	
Current accident year catastrophes	6.1	5.7	10.5	
Prior year development	(1.2	)(1.1	)(3.9	)
Total loss and loss adjustment expense ratio	70.5	70.5	72.3	
Expense ratio	25.0	26.4	26.6	
Combined ratio	95.5	96.9	98.9	
Current accident year catastrophes and prior year development	4.9	4.6	6.6	
Combined ratio before catastrophes and prior year development	90.6	92.3	92.3	
Product Combined Ratios	2014	2013	2012	
Automobile	98.4	99.0	99.1	
Homeowners	90.0	90.7	98.2	

## 2015 Outlook

The Company expects moderate written premium growth driven by AARP Direct and AARP Agency. The Company expects the combined ratio before catastrophes and prior accident year development will be between approximately 89.0 and 91.0 for 2015 compared to 90.6 in 2014. The current accident year loss and loss adjustment expense ratio before catastrophes is expected to improve modestly for 2015, driven by continued focus on rate adequacy. For auto, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to decline slightly in 2015, driven by earned pricing increases partially offset by moderate average claim severity. For homeowners, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to decline in 2015, driven by earned pricing increases and lower claim frequency partially offset by increased average claim severity.

Year ended December 31, 2014 compared to the year ended December 31, 2013

#### Overview

Net income, as compared to the prior year period, decreased in 2014 primarily due to a change to net realized capital losses and a decrease in net servicing income, partially offset by improvements in underwriting results, driven by higher earned premiums and lower underwriting expenses.

#### Revenues - Earned and Written Premiums

Earned and written premiums increased in 2014 reflecting new business written premium growth in auto, primarily from AARP Direct and AARP Agency, improved earned pricing increases in both auto and homeowners, and continued high levels of premium retention.

#### Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses reflect an increase in current accident year loss and loss adjustment expenses before catastrophes and higher current accident year catastrophes, partially offset by higher favorable prior accident years development.

Current accident year losses and loss adjustment expenses before catastrophes increased in 2014 compared to 2013 driven by growth in earned premium, partially offset by a decline in the current accident year loss and loss adjustment expense ratio before catastrophes to 65.6 in 2014 from 65.9 in 2013.

Current accident year catastrophe losses of \$232, before tax, in 2014 compared to \$207, before tax, in 2013. Losses in 2014 were primarily due to multiple thunderstorm and winter storm events across various U.S. geographic regions.

Losses in 2013 were primarily due to multiple thunderstorm, hail and tornado events 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 years reserve releases of \$46, before tax, in 2014 compared to \$39, before tax, in 2013. Reserve releases in 2014 were primarily related to prior accident year catastrophes, as well as prior accident year homeowners and extra contractual liability reserves. Reserve releases in 2013 were primarily related to Storm Sandy. 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, improved to 90.6 in 2014 from 92.3 in 2013.

#### Investment Results

Investment income decreased in 2014, as compared to the prior year period. 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 Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

Year ended December 31, 2013 compared to the year ended December 31, 2012

#### Overview

Net income, as compared to the prior year period, increased in 2013 primarily due to improvements in underwriting results, driven by lower current year catastrophes partially offset by lower favorable prior year development.

#### Revenues - Earned and Written Premiums

Earned and written premiums increased in 2013, reflecting new business written premium growth in auto and home, primarily from the AARP Direct and AARP through agents distribution channels and improved policy count retention in auto and home due to initiatives implemented over the last two years.

#### Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses reflect a decline in current accident year catastrophes partially offset by lower favorable prior accident years development.

Current accident year losses and loss adjustment expenses before catastrophes increased in 2013 compared to 2012 in line with the growth in earned premium and as reflected by the current accident year loss and loss adjustment expense ratio before catastrophes of 65.9 in 2013 as compared with 65.7 in 2012.

Current accident year catastrophe losses of \$207, before tax, in 2013 compared to \$381, before tax in 2012. Losses in 2013 were primarily due to multiple thunderstorm, hail and tornado events across various U.S. geographic regions.

Losses in 2012 were primarily driven by losses from Storm Sandy of \$143 along with other thunderstorm and hail events 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 years reserve releases of \$39, before tax, in 2013 compared to \$141, before tax, in 2012. Reserve releases in 2013 were primarily related to Storm Sandy. Reserve releases in 2012 were due to favorable emergence of losses in auto liability, homeowners and 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, stayed consistent at 92.3 for 2012 and 2013.

#### Investment Results

Investment income increased in 2014, as compared to the prior year period. 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 2013 and 2012 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 Note 13 - Income Taxes of Notes to Consolidated Financial Statements.



## PROPERTY &amp; CASUALTY OTHER OPERATIONS

## Results of Operations

	2014	2013	2012
Underwriting Summary			
Written premiums	\$2	\$2	\$8
Change in unearned premium reserve	1	1	10
Earned premiums	1	1	(2)
Losses and loss adjustment expenses			
Prior accident years	261	148	65
Total losses and loss adjustment expenses	261	148	65
Underwriting expenses	37	29	34
Underwriting loss	(297)	(176)	(101)
Net servicing expense	—	(1)	—
Net investment income	129	141	149
Net realized capital gains	3	12	17
Other income	6	2	6
Income (loss) before income taxes	(159)	(22)	71
Income tax expense (benefit)	(51)	(20)	14
Net income (loss)	\$(108)	\$(2)	\$57

Year ended December 31, 2014 compared to the year ended December 31, 2013

Net loss, as compared to the prior year period, increased in 2014 primarily due to an increase in net asbestos and environmental reserve strengthening. As part of its annual ground-up asbestos and environmental reserve evaluations in 2014, the Company strengthened its associated reserves by \$212 and \$27, before tax, respectively. In 2013, the Company strengthened its net asbestos and environmental reserves by \$130 and \$10, before tax, respectively.

Year ended December 31, 2013 compared to the year ended December 31, 2012

Net income, as compared to the prior year period, decreased in 2013 primarily due to net asbestos and environmental reserve strengthening. As part of its annual ground-up asbestos and environmental reserve evaluations in 2013, the Company strengthened its associated reserves by \$130 and \$10, before tax, respectively. In 2012, the Company strengthened its net asbestos and environmental reserves by \$48 and \$3, before tax, respectively.

The effective tax rates in 2014, 2013 and 2012 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 Consolidated Financial Statements.

For information on net 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.

## GROUP BENEFITS

## Results of Operations

Operating Summary	2014	2013	2012	
Premiums and other considerations [1]	\$3,095	\$3,330	\$3,810	
Net investment income	374	390	405	
Net realized capital gains	15	50	40	
Total revenues	3,484	3,770	4,255	
Benefits, losses and loss adjustment expenses	2,362	2,518	3,029	
Amortization of deferred policy acquisition costs	32	33	33	
Insurance operating costs and other expenses	836	964	1,033	
Total benefits, losses and expenses	3,230	3,515	4,095	
Income before income taxes	254	255	160	
Income tax expense	63	63	31	
Net income [1]	\$191	\$192	\$129	
Premiums and other considerations				
Fully insured — ongoing premiums	\$3,014	\$3,272	\$3,745	
Buyout premiums	20	1	3	
Other	61	57	62	
Total premiums and other considerations	3,095	3,330	3,810	
Fully insured ongoing sales, excluding buyouts	\$326	\$393	\$405	
Ratios, excluding buyouts				
Group disability loss ratio	83.5	% 84.0	% 92.2	%
Group life loss ratio	70.5	% 69.5	% 69.0	%
Total loss ratio	76.2	% 75.6	% 79.5	%
Expense ratio	28.2	% 29.9	% 28.0	%
Selected ratios excluding Association - Financial Institutions				
Group life loss ratio, excluding Association - Financial Institutions	72.8	% 76.2	% 77.1	%
Total loss ratio, excluding Association - Financial Institutions	77.4	% 79.3	% 84.1	%
Expense ratio, excluding Association - Financial Institutions	27.2	% 26.8	% 24.1	%
After-tax margin				
After-tax margin (excluding buyouts)	5.5	% 5.1	% 3.0	%
Effect of net realized gains, net of tax on after-tax margin	0.3	% 0.8	% 0.6	%
After-tax core earnings margin (excluding buyouts)	5.2	% 4.3	% 2.4	%

Group Benefits has a block of Association - Financial Institution business that is subject to a profit sharing [1] arrangement with third parties. The Association - Financial Institutions business represented \$72, \$277 and \$321 of premiums and other considerations, and \$1, \$1 and \$2 of net income in 2014, 2013 and 2012, respectively.

## 2015 Outlook

The Company expects premiums to increase for 2015 due primarily to higher expected sales than prior year and continued strong book persistency. The Company expects Group Benefits' disability results to improve as a result of continued pricing actions, and lower incidence partially offset by lower life results due to less favorable life mortality compared to 2014. The Company expects Group Benefits' after-tax core earnings margin (excluding buyouts) will be between approximately 5.0% and 5.5% for 2015 as compared to 5.2% in 2014.

Year ended December 31, 2014 compared to the year ended December 31, 2013

Net income slightly decreased in 2014, as compared to the prior year period, primarily due to lower premiums and other considerations, net investment income and net realized capital gains, offset by lower benefits, losses and loss adjustment expenses and insurance operating costs and other expenses.

Premiums and other considerations decreased in 2014, as compared to the prior year period, due primarily to management actions related to the Association - Financial Institutions block of business. Insurance operating costs and other expenses decreased in 2014, compared to the prior year period, due primarily to lower profit sharing expense related to the Association - Financial Institutions block of business.

Fully insured ongoing sales, excluding buyouts declined 17% in 2014, as compared to prior year period. Excluding Association - Financial Institutions block of business, fully insured ongoing sales, excluding buyouts decreased 12% in 2014 primarily due to lower large case sales.

The total loss ratio increased by 0.6 points in 2014, as compared to the prior year period. Excluding the Association - Financial Institutions block of business, the loss ratio improved 1.9 points in 2014 due to improvements in both the life and disability loss ratios. The life loss ratio improvement reflects favorable mortality experience, improved pricing, and the impact of changes in reserve assumptions. The disability loss ratio improvement reflects improved accident year incidence and pricing partially offset by higher new claim severity and less favorable development on prior accident year recoveries.

The expense ratio improved 1.7 points in 2014, compared to the prior year period, primarily due to lower profit sharing expense related to the Association - Financial Institutions block of business in relation to lower premium and other considerations.

The after-tax core earnings margin, excluding buyouts, improved 0.9 points in 2014, compared to the prior year period. The improvement was primarily due to the improved loss ratio excluding the Association - Financial Institutions block of business.

Investment income and net realized capital gains decreased in 2014, as compared to the prior year period. For discussion of consolidated investment results, see MD&A - Investment Results, Investment Income (Loss) and Net Realized Capital Gains (Losses).

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

Year ended December 31, 2013 compared to the year ended December 31, 2012

Net income, as compared to the prior year period, increased in 2013 driven primarily by an improvement in the loss ratio and lower insurance operating costs and other expenses, partially offset by a decrease in premiums and other considerations.

The decrease in premiums was driven by continued pricing discipline, our decision not to renew our largest account effective January 1, 2013 due to pricing and other considerations and management actions to reduce the association business. Insurance operating costs and other expenses decreased in 2013 as compared to the prior year due to lower commission payments as a result of overall lower premiums.

The improvement in the loss ratio in 2013 was primarily attributable to the long-term disability product driven by favorable claim recoveries from claims incurred in 2013 and prior years, lower incidence trends and improved renewal pricing. Additionally, the 2012 loss ratio reflected unfavorable long-term disability severity. The increase in after-tax core earnings margin, excluding buyouts, was primarily due to an improved loss ratio.

The effective tax rate, in both periods, differs from the U.S. Federal statutory rate primarily due to permanent differences related to investments in tax exempt securities. For further discussion of income taxes, see Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

## MUTUAL FUNDS

## Results of Operations

Operating Summary	2014	2013	2012
Fee income and other revenue	\$723	\$668	\$626
Net investment loss	—	—	(3 )
Net realized capital losses	—	—	—
Total revenues	723	668	623
Amortization of DAC	28	39	35
Insurance operating costs and other expenses	559	511	479
Total benefits, losses and expenses	587	550	514
Income before income taxes	136	118	109
Income tax expense	49	42	38
Net income	\$87	\$76	\$71

Average Total Mutual Funds segment AUM	\$95,177	\$92,191	\$86,592
Return on Assets ("ROA")	9.1	8.2	8.2
Effect of restructuring, net of tax	(0.5 )	(0.2 )	(0.3 )
Effect of net realized gains, net of tax and DAC	—	(0.1 )	—
ROA, core earnings	9.6	8.5	8.5

## Mutual Funds segment AUM

Mutual Fund AUM - beginning of period	\$70,918	\$61,611	\$57,925
Sales	15,249	15,172	11,841
Redemptions [1]	(16,636 )	(19,696 )	(16,258 )
Net flows	(1,387 )	(4,524 )	(4,417 )
Change in market value and other	3,504	13,831	8,103
Mutual Fund AUM - end of period	\$73,035	\$70,918	\$61,611
Talcott AUM [2]	\$20,584	\$25,817	\$26,036
Total Mutual Funds segment AUM	\$93,619	\$96,735	\$87,647

## Mutual Fund AUM by Asset Class

Equity	\$45,221	\$42,426	\$35,843
Fixed Income	14,046	14,632	14,524
Multi-Strategy Investments [3]	13,768	13,860	11,244
Mutual Fund AUM	\$73,035	\$70,918	\$61,611

The year ended December 31, 2014 includes a planned asset transfer of \$0.7 billion to the HIMCO Variable

[1] Insurance Trust ("HVIT") which supports legacy retirement mutual funds and runoff mutual funds (see footnote [3]). HVIT's invested assets are managed by Hartford Investment Management Company, a wholly-owned subsidiary of the Company.

Talcott AUM (formerly Annuity Mutual Fund Assets) consist of Company-sponsored mutual fund assets held in [2] separate accounts supporting variable insurance and investment products. The year ended December 31, 2014 includes a planned asset transfer of \$2.0 billion to HVIT.

[3] Includes balanced, allocation, target date and alternative investment products.

## 2015 Outlook

The primary objective of Mutual Funds is to grow total AUM and core earnings. Strong fund performance, market appreciation, developing and maintaining client relationships and positive net flows are all factors that can increase AUM. Assuming normal market conditions, Mutual Funds expects moderate 2015 earnings growth driven by improved earnings from Mutual Fund assets offset by the runoff of the Talcott assets supporting the Hartford's legacy variable insurance products. The relationship with Wellington Management, sole sub-advisor for Mutual Funds,

provides clients with a diversified lineup of domestic and international equity, fixed income, alternative, and asset allocation funds. These products combined with our strong long-term fund performance and expanded key client relationships are critical to drive improved net flows and future earnings.

Year ended December 31, 2014 compared to the year ended December 31, 2013

Net income, as compared to the prior year period, increased in 2014 primarily due to higher fee revenue driven by higher Mutual Fund average AUM. AUM increased reflecting positive market performance of the Mutual Fund assets throughout the year coupled with year over year improvements in net flows offset by expected runoff of Talcott assets. Redemptions in 2014 included fund liquidations of \$0.7 billion and a transfer of HVIT assets within the Hartford of \$2.7 billion.

Year ended December 31, 2013 compared to the year ended December 31, 2012

Net income, as compared to the prior year period, increased in 2013 primarily due to higher fee revenue driven by higher Mutual Fund average AUM and partially offset by increased sales related expenses. AUM increased reflecting positive market performance of the Mutual Fund assets throughout the year offset by expected runoff of Talcott assets. Redemptions in 2013 included a portfolio rebalance at a key distributor and an institutional redemption, together totaling \$2.5 billion.

## TALCOTT RESOLUTION

## Results of Operations

Operating Summary	2014	2013	2012
Earned premiums [1]	\$206	\$94	\$(4)
Fee income and other [1]	1,201	1,369	2,712
Net investment income	1,542	1,577	2,462
Net realized capital gains	26	1,719	236
Total revenues	2,975	4,759	5,406
Benefits, losses and loss adjustment expenses	1,643	1,717	2,896
Amortization of DAC	402	485	663
Insurance operating costs and other expenses	567	645	1,277
Reinsurance (gain) loss on disposition in 2014 and 2013, respectively, goodwill impairment of \$224 in 2012 and premium deficiency of \$191 in 2012	(23)	) 1,505	415
Total benefits, losses and expenses	2,589	4,352	5,251
Income from continuing operations, before income taxes	386	407	155
Income tax expense (benefit)	16	(7)	)(99)
Income from continuing operations	370	414	254
Loss from discontinued operations, net of tax [2]	(557)	)(1,048)	)(253)
Net income (loss) [5]	\$(187)	)(634)	)\$1
Assets Under Management (end of period)			
Variable annuity account value	\$52,861	\$81,942	\$94,371
Fixed Market Value Adjusted annuity and other account value	8,748	13,203	14,755
Institutional annuity account value	15,636	16,857	17,744
Other account value [4]	107,697	108,133	102,429
Total account value [3]	\$184,942	\$219,127	\$228,143
Variable Annuity Account Value [6]			
Account value, beginning of period	\$61,812	\$64,824	\$68,760
Net outflows	(11,726)	)(14,598)	)(11,388)
Change in market value and other	2,775	11,586	7,452
Account value, end of period	\$52,861	\$61,812	\$64,824

[1] Includes earned premiums, fee income and other related to the Retirement Plans business of \$38 and \$368 and the Individual Life business of \$2 and \$866, for the years ended December 31, 2013 and 2012, respectively.

[2] Represents the loss from operations and sale of HLIKK in 2014, 2013 and 2012, and HLIL in 2013 and 2012. For additional information, see Note 19 Discontinued Operations of Notes to Consolidated Financial Statements.

[3] Included in the balance is approximately \$(1.0) billion and \$(1.2) billion for the years ended December 31, 2013 and 2012, respectively, related to a Talcott Resolution intra-segment funding agreement which eliminates in consolidation.

[4] Other account value includes \$53.0 billion, \$14.9 billion, and \$39.8 billion as of December 31, 2014, and \$54.7 billion, \$14.7 billion, and \$38.7 billion as of December 31, 2013, for the Retirement Plans, Individual Life, and Private Placement Life Insurance businesses; 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.

[5] Includes net losses for the year ended December 31, 2012, related to the Retirement Plans and Individual Life businesses sold in 2013 of \$39 and \$172, respectively. For further discussion of the disposed businesses, see Note 2 - Business Dispositions of Notes to Consolidated Financial Statements.

[6] Excludes account value related to the Japan business sold on June 30, 2014.





## 2015 Outlook

The principal goal for Talcott Resolution is to reduce the size and risk associated with the Company's in-force variable annuities. As a result, the Company expects account values and consequently earnings to decline due to surrenders, policyholder initiatives or transactions with third parties, that will reduce the size of this legacy book of business.

Risk-reducing transactions may also cause a reduction in statutory capital and shareholders' equity.

As the Company's annuity book continues to run off, earnings will continue to decline. A key driver to the decline in earnings will be the pace at which customers surrender their contracts. In 2014, the Company continued to experience double digit variable annuities surrender rates driven by market appreciation, continued aging of the block and in-force management initiatives. Contract counts decreased 13% for variable annuities in 2014. Looking forward, the Company expects variable annuity surrender rates to decline in 2015, as 2014 included the effect of in-force management initiatives. The decline in policy counts will likely result in unit cost increases and margin compression because expenses will not reduce at the same pace as the annuity block, further contributing to a decline in earnings over time.

Year ended December 31, 2014 compared to the year ended December 31, 2013

The net loss for the year ended December 31, 2014 decreased compared to the net loss for the year ended December 31, 2013 primarily due to the decrease in the loss from discontinued operations, net of tax, related to the sale of HLIKK. Also contributing to the decrease in net loss were lower amortization of DAC, and lower insurance operating costs and other expenses, including lower costs associated with the enhanced surrender value program, and higher income from limited partnerships and other alternative investments, partially offset by a decline in earned fee income attributable to the continued run off of the business, and a decline in net investment income excluding that from limited partnerships and other alternative investments.

Account values for Talcott Resolution decreased to approximately \$185 billion at year ended December 31, 2014 from approximately \$219 billion at year ended December 31, 2013 due primarily to the sale of HLIKK, and net outflows partially offset by market value appreciation in variable annuities. For the year ended December 31, 2014 variable annuity net outflows decreased by approximately \$2.9 billion as compared to the prior year period due to lower outflows from in-force management initiatives.

For the year ended December 31, 2014 the annualized full surrender rate on variable annuities declined to 13.5% compared to 16.7% for the year ended December 31, 2013. This decline was primarily due to lower surrenders from in-force management initiatives.

Contract counts decreased 13% for variable annuities at year ended December 31, 2014 compared to year ended December 31, 2013 primarily due to market appreciation, in-force management initiatives and the continued aging of the block.

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 Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

Year ended December 31, 2013 compared to the year ended December 31, 2012

The net loss for the year ended December 31, 2013 was primarily driven by Unlock charges of \$806, before tax, during the current year period compared to an Unlock benefit of \$47, before tax, in the prior year period. The Unlock charge for the year ended 2013 includes a charge of \$887, before tax, for hedge cost assumption changes associated with expanding the Japan variable annuity hedging program in the first quarter of 2013. In addition, variable annuity hedge program losses for the year ended 2013 were \$1,558, before tax, including international losses of \$1,586, compared to losses of \$1,288 before tax, including international losses of \$1,467, for the prior year period.

Lower fee income in 2013 due to the continued runoff of the variable annuity business, as well as costs associated with an enhanced surrender value program in the U.S., also contributed to the net loss for the year ended December 31, 2013. In addition, 2012 results of operations reflect the reinsurance loss on disposition related to the disposition of the Individual Life business, and losses in 2012 from the operations of the Retirement Plans and Individual Life businesses sold in 2013.

For further discussion of investment results and the results of the variable annuity hedge program, see MD&A – Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses). For further discussion of

Unlocks, see MD&A - Critical Accounting Estimates, Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity and Other Universal Life-Type Contracts. The 2013 and 2012 effective tax rates 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 Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

Account value decreased to approximately \$219 billion at December 31, 2013 from approximately \$228 billion at December 31, 2012 due primarily to increased net outflows and negative currency translation impacts, partially offset by market value appreciation in variable annuities. In addition, the net decrease in account value reflects the disposition of \$1.8 billion of variable annuities related to the sold U.K. business. In 2013 variable annuity net outflows increased by approximately \$9.1 billion as compared to the prior year period driven by increased net outflows in the Japan variable annuities as a result of market appreciation and the expiration of the surrender charge period as the block of business ages.

The annualized full surrender rate on U.S. variable annuities rose to 16.7% for the year ended December 31, 2013 compared to 11.1% for the prior year period. The annualized full surrender rate on Japan variable annuities rose to 28.8% for the year ended December 31, 2013 compared to 3.4% for the prior year period. Surrender activity in Japan has increased significantly over the past nine months as market appreciation has resulted in an increased number of account values exceeding guaranteed amounts.

## CORPORATE

## Results of Operations

Operating Summary	2014	2013	2012
Fee income [1]	\$10	\$12	\$168
Net investment income	22	27	31
Net realized capital gains (losses)	7	(89)	)125
Total revenues	39	(50)	)324
Insurance operating costs and other expenses	114	78	365
Pension settlement	128	—	—
Loss on extinguishment of debt	—	213	910
Reinsurance loss on disposition in 2013, and goodwill impairment in 2012	—	69	118
Interest expense	376	397	457
Total benefits, losses and expenses	618	757	1,850
Loss from continuing operations before income taxes	(579	)(807	)(1,526 )
Income tax benefit	(204	)(252	)(517 )
Net loss	\$(375	)\$ (555	)\$ (1,009 )

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

Year ended December 31, 2014 compared to the year ended December 31, 2013

Net loss, as compared to the prior year period, decreased in 2014 primarily due to decreases in the loss on extinguishment of debt, a change to net realized capital gains, decreases in the reinsurance loss on disposition, and a lower effective income tax rate benefit in 2013.

The pension settlement charge in 2014 is related to voluntary lump-sum settlements with vested participants in the Company's defined benefit pension plan who had separated from service, but who had not yet commenced annuity benefits. For additional information regarding the pension settlement, see Note 17 - Employee Benefit Plans of Notes to Consolidated Financial Statements.

Insurance operating costs and other expenses increased in 2014 primarily due to benefits recognized in 2013 related to an insurance company recovery and the favorable resolution in 2013 of items under the Company's spin-off agreement with its former parent company. Interest expense declined in 2014 due to a decrease in outstanding debt from debt maturities and the paydown of \$800 of senior notes in 2013.

In 2014, \$200 of the Company's senior notes matured. For additional information regarding debt, see Note 12 - Debt of Notes to Consolidated Financial Statements.

For a reconciliation of the tax provision at the U.S. Federal statutory rate to the provision (benefit) for income taxes, see Note 13 - Income Taxes of Notes to Consolidated Financial Statements.

Year ended December 31, 2013 compared to the year ended December 31, 2012

Net loss, as compared to the prior year period, decreased in 2013 primarily due to decreases in insurance operating costs and other expenses, the reinsurance loss on disposition, the loss on extinguishment of debt and interest expense. The net loss in 2013 was partially driven by net realized capital losses due to higher long-term interest rates and global credit hedging losses due to increases in the equity market as compared with net realized capital gains in 2012.

Insurance operating costs and other expenses decreased due to a benefit of \$57, before tax, for an insurance recovery from the Company's insurers for past legal expenses associated with closed litigation and a benefit of \$19, before tax, from the resolution of items under the Company's spin-off agreement with its former parent company. Restructuring costs, included in Corporate insurance operating costs and other expenses and related to the implementation of certain strategic initiatives, decreased to \$64 in 2013 from \$121 in 2012.

The reinsurance loss on disposition of \$69 in 2013 consisted of the write-off of all of the goodwill held in Corporate allocated to the Retirement Plans business sold in 2013. The reinsurance loss on disposition of \$118 in 2012 consisted of an impairment of goodwill related to the Individual Life business sold in 2013. For additional information regarding goodwill, see Note 9 - Goodwill of Notes to Consolidated Financial Statements.



In 2013, the Company repurchased approximately \$800 of senior notes at a premium to the face amount of the then outstanding debt. In 2012, the Company repurchased all outstanding 10% fixed-to-floating rate junior subordinated debentures due 2068 with a \$1.75 billion aggregate principal amount held by Allianz. Loss on extinguishment of debt consists of the premium associated with repurchasing the debentures at an amount greater than the face amount, the write-off of the unamortized discount and debt issuance and other costs related to the repurchase transactions. For additional information regarding debt, see Note 12 - Debt of Notes to Consolidated Financial Statements.

For a reconciliation of the tax provision at the U.S. Federal statutory rate to the provision (benefit) for income taxes, see Note 13 - Income Taxes of Notes to 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, Chief Financial Officer, Chief Investment Officer, Chief Risk Officer, General Counsel and others as deemed necessary by the committee chair. 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

### Insurance Risk Management

The Company categorizes its insurance risks across both property-casualty and life products. The Company’s insurance operations are vested in the ability to add value through the effective underwriting, pooling, and pricing of insurance risks. The Company has developed a disciplined approach to insurance risk management that is well integrated into the organization’s underwriting, pricing, reinsurance, claims, and capital management processes.

At the same time, the Company has policies and procedures to manage concentrations or correlations of insurance risk, including ERM policies governing the risks related to natural and man-made property catastrophes such as hurricanes, earthquakes, tornado/hailstorms, winter storms, pandemics, terrorism, and casualty catastrophes. The Company establishes risk limits to control potential loss and actively monitors the risk exposures as a percent of statutory surplus or total available capital resources. The Company also uses reinsurance to transfer insurance risk to well-established and financially secure reinsurers. For additional information, see MD&A - Enterprise Risk Management, Reinsurance as a Risk Management Strategy.

### Non-Catastrophic Insurance Risks

Non-catastrophic insurance risks exist within each of the Company’s divisions and include, but are not limited to, the following:

**Property:** Risk of loss to personal or commercial property from automobile related accidents, weather, explosions, smoke, shaking, fire, theft, vandalism, inadequate installation, faulty equipment, collisions and falling objects, and/or machinery mechanical breakdown resulting in physical damage and other covered perils.

**Liability:** Risk of loss from automobile related accidents, uninsured and underinsured drivers, lawsuits from accidents, defective products, breach of warranty, negligent acts by professional practitioners, environmental claims, latent exposures, fraud, coercion, forgery, failure to fulfill obligations per contract surety, liability from errors and omissions, derivative lawsuits, and other securities actions and covered perils.

**Mortality:** Risk of loss from unexpected trends in insured deaths impacting timing of payouts from life insurance or annuity products, personal or commercial automobile related accidents, and death of employees or executives during the course of employment, while on disability, or while collecting workers compensation benefits.

**Morbidity:** Risk of loss to an insured from illness incurred during the course of employment or illness from other covered perils.

- **Disability:** Risk of loss incurred from personal or commercial automobile related losses, accidents arising outside of the workplace, injuries or accidents incurred during the course of employment, or from equipment, with each loss resulting in short term or long term disability payments.

**Longevity:** Risk of loss from increased life expectancy trends among policyholders receiving long term benefit payments or annuity payouts.

The Company’s processes for managing these risks include disciplined underwriting protocols, exposure controls, sophisticated risk based pricing, risk modeling, risk transfer, and capital management strategies. The Company has established underwriting guidelines for both individual risks, including individual policy limits, and risks in the aggregate, including aggregate exposure limits by geographic zone and peril. Pricing indications for each line of business are set independently by the Company’s pricing actuaries and are integrated into the reserve review process to ensure consistency between pricing and reserving. Monthly reports track loss cost trends relative to pricing objectives

within each state and product, and the Company's reserving actuaries provide an independent report to the Board on the Company's reserve position and loss cost trends.



### Natural Catastrophe Risk

Natural catastrophe risk is defined as the exposure arising from natural phenomena (e.g., weather, earthquakes, wildfires, etc.) that create a concentration or aggregation of loss across the Company's insurance or asset portfolios. The Company uses both internal and third-party models to estimate the potential loss resulting from various catastrophe events and the potential financial impact those events would have on the Company's financial position and results of operations across the property-casualty, life, and asset management businesses. For natural catastrophe perils, the Company generally limits its estimated pre-tax loss as a result of natural catastrophes for property & casualty exposures from a single 250-year event to less than 30% of statutory surplus of the property and casualty insurance subsidiaries prior to reinsurance and to less than 15% of statutory surplus of the property and casualty insurance subsidiaries after reinsurance. The Company's modeled loss estimates are derived by averaging 21 modeled loss events representing a 250-year return period loss. For the peril of earthquake, the 21 events averaged to determine the modeled loss estimate include events occurring in California as well as the Northeastern, Southeastern, Northwestern, Midwestern and New Madrid regions of the United States with associated magnitudes ranging from 6.0 to 8.2 on the Moment Magnitude scale. For the peril of hurricane, the 21 events averaged to determine the modeled loss estimate include category 2, 3, 4 and 5 events in Florida, as well as other Gulf, Mid Atlantic and Northeastern region landfalls.

While Enterprise Risk Management has a process to track and manage these limits, from time to time, the estimated loss to natural catastrophes from a single 250-year event prior to reinsurance may fluctuate above or below these limits due to changes in modeled loss estimates, exposures, or statutory surplus. Currently, the Company's estimated pre-tax loss to a single 250-year natural catastrophe event prior to reinsurance is less than 30% of the statutory surplus of the property and casualty insurance subsidiaries and the Company's estimated pre-tax loss net of reinsurance is less than 15% of statutory surplus of the property and casualty operations. The estimated 250 year pre-tax probable maximum losses from hurricane events are estimated to be \$1.5 billion and \$570, before and after reinsurance, respectively. The estimated 250 year pre-tax probable maximum loss from earthquake events is estimated to be \$736 before reinsurance and \$471 net of reinsurance. The loss estimates represent total property losses for hurricane events and property and workers compensation losses for earthquake events resulting from a single event. The estimates provided are based on 250-year return period loss estimates that have a 0.4% likelihood of being exceeded in any single year.

The net loss estimates provided above assume that the Company is able to recover all losses ceded to reinsurers under its reinsurance programs. There are various methodologies used in the industry to estimate the potential property and workers compensation losses that would arise from various catastrophe events and companies may use different models and assumptions in their estimates. Therefore, the Company's estimates of gross and net losses arising from a 250-year hurricane or earthquake event may not be comparable to estimates provided by other companies.

Furthermore, the Company's estimates are subject to significant uncertainty and could vary materially from the actual losses that would arise from these events and the loss estimates provided by other companies. The Company also manages natural catastrophe risk for group life and group disability, which in combination with property and workers compensation loss estimates are subject to separate enterprise risk management net aggregate loss limits as a percent of enterprise surplus.

### Terrorism Risk

The Company defines terrorism risk as the risk of losses from terrorist attacks, including losses caused by single-site and multi-site conventional attacks, as well as the potential for attacks using nuclear, biological, chemical or radiological weapons ("NBCR"). The Company monitors aggregations of terrorism risk exposure around key landmarks primarily in major metropolitan areas that span the Company's insurance portfolio. ERM limits for terrorism apply to aggregations of risk across property-casualty, group benefits and specific asset portfolios and are defined based on a deterministic, single-site conventional terrorism attack scenario. The Company manages its potential estimated loss from a conventional terrorism loss scenario to less than \$1.3 billion. In addition, the Company monitors exposures monthly and employs both internally developed and vendor-licensed loss modeling tools as part of its risk management discipline. While our modeled exposures to conventional terrorist attacks around landmark locations may fluctuate above and below \$1.3 billion, currently, all such terrorism exposures are within ERM limits. For a discussion

on risks related to terrorist attacks, see the risk factor, "The occurrence of one or more terrorist attacks in the geographic areas we serve or the threat of terrorism in general may have a material adverse effect on our business, financial condition, results of operations and liquidity."

## Pandemic Risk

Pandemic risk is the exposure to loss arising from widespread influenza or other pathogens or bacterial infections that create an aggregation of loss across the Company's insurance or asset portfolios. Consistent with industry practice, the Company assesses exposure to pandemics by analyzing the potential impact from a variety of pandemic scenarios based on conditions consistent with historical outbreaks of flu-like viruses such as the "Severe" 1918 Spanish Flu, the Asian flu of 1957, the Hong Kong flu of 1968, and the 2009 outbreak of the swine flu. For pandemic risk, the Company generally limits its estimated pre-tax loss from a single 250 year event to less than 10% of total available capital resources. In evaluating these scenarios, the Company assesses the impact on group life policies, short-term and long term disability, annuities, COLI, property & casualty claims, and losses in the investment portfolio associated with market declines in the event of a widespread pandemic. While ERM has a process to track and manage these limits, from time to time, the estimated loss for pandemics may fluctuate above or below these limits due to changes in modeled loss estimates, exposures, or statutory surplus. Currently, the Company's estimated pre-tax loss for pandemic is less than 10% of enterprise statutory surplus.

## Reinsurance as a Risk Management Strategy

The Hartford utilizes reinsurance to transfer risk to affiliated and unaffiliated insurers. 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. All reinsurance processes are aligned under a single enterprise reinsurance risk management policy. Reinsurance purchasing is a centralized function across Commercial Lines, Personal Lines and Talcott Resolution to support a consistent strategy and to ensure that the reinsurance activities are fully integrated into the organization's risk management processes.

A variety of traditional reinsurance products are used as part of the Company's risk management strategy, including excess of loss occurrence-based products that protect property and workers compensation exposures, and individual risk or quota share arrangements, that protect specific classes or lines of business. The Company has no significant finite risk contracts in place and the statutory surplus benefit from all such prior year contracts is immaterial. Facultative reinsurance is used by the Company to manage policy-specific risk exposures based on established underwriting guidelines. The Hartford also participates in governmentally administered reinsurance facilities such as the Florida Hurricane Catastrophe Fund ("FHCF"), the Terrorism Risk Insurance Program established under The Terrorism Risk Insurance Program Reauthorization Act of 2015 ("TRIPRA") and other reinsurance programs relating to particular risks or specific lines of business.

## 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 January 1, 2015:

Coverage	Effective for the period	% of layer(s) reinsurance	Per occurrence limit	Retention
Principal property catastrophe program covering property catastrophe losses from a single event [1]	1/1/2015 to 1/1/2016	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%	\$109	[2] \$41
Workers compensation losses arising from a single catastrophe event [3]	7/1/2014 to 7/1/2015	80%	\$350	\$100

[1] Certain aspects of our catastrophe treaty have terms that extend beyond the traditional one year term.

The per occurrence limit on the FHCF treaty is \$109 for the 6/1/2014 to 6/1/2015 treaty year based on the [2] 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 2015.

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

In addition to the property catastrophe reinsurance coverage described in the above table, the Company has other catastrophe and working layer treaties and facultative reinsurance agreements that cover property catastrophe losses on an aggregate excess of loss and on a per risk basis. The principal property catastrophe reinsurance program and certain other reinsurance programs include a provision to reinstate limits in the event that a catastrophe loss exhausts limits on one or more layers under the treaties. In addition, covering the period from January 1, 2014 to December 31, 2016, the Company has an aggregate loss treaty in place which provides one limit of \$200 over the three-year period of aggregate qualifying property catastrophe losses in excess of a net retention of \$860.

In addition to the reinsurance protection provided by The Hartford's traditional property catastrophe reinsurance program described above, until February 18, 2015, the Hartford had a fully collateralized reinsurance coverage from Foundation Re III for losses sustained from qualifying hurricane loss events. Under the terms of the treaty, the Company had coverage for losses from hurricanes using a customized industry index contract designed to replicate The Hartford's own catastrophe losses, with a provision that the actual losses incurred by the Company for covered events, net of reinsurance recoveries, cannot be less than zero.

The following table summarizes the terms of the reinsurance treaty with Foundation Re III that was in place as of December 31, 2014:

Covered perils	Treaty term	Covered losses	Bond amount issued by Foundation Re III
Hurricane loss events affecting the Gulf and Eastern Coast of the United States	2/18/2011 to 2/18/2015	At the time of the purchase, 67.5% of \$200 million in losses in excess of an index loss trigger equating to approximately \$1.4 billion in losses to The Hartford	\$135

There have been no events that are expected to trigger a recovery under the Foundation Re III reinsurance program and, accordingly, the Company has not recorded any recoveries from the associated reinsurance treaty. The Company did not replace the Foundation Re III treaty when it expired in February 2015.

#### Reinsurance for Terrorism

For the risk of terrorism, private sector catastrophe reinsurance capacity is generally limited and largely unavailable for terrorism losses caused by nuclear, biological, chemical or radiological weapons attacks. As such, the Company's principal reinsurance protection against large-scale terrorist attacks is the coverage currently provided through the TRIPRA 2015. On January 12, 2015, the President signed TRIPRA 2015, extending TRIPRA 2007, through the end of 2020. TRIPRA 2015 provides a backstop for insurance-related losses resulting from any "act of terrorism", which is certified by the Secretary of Homeland Security and Attorney General and requires consultation by the Secretary of Treasury, for losses that exceed a threshold of industry losses of \$100 billion in 2015, and continue to increase to \$200 billion by 2020. Under the program, in any one calendar year, the federal government would pay losses of 85% in 2015, which then continue to decrease 1% annually, starting on January 1st, 2016, down to 80% by the year 2020, from a certified act of terrorism after an insurer's losses exceed 20% of the Company's eligible direct commercial earned premiums of the prior calendar year up to a combined annual aggregate limit for the federal government and all insurers of \$100 billion. The Company's estimated deductible under the program is \$1.19 billion for 2015. If an act of terrorism or acts of terrorism result in covered losses exceeding the \$100 billion annual industry aggregate limit, a future Congress would be responsible for determining how additional losses in excess of \$100 billion will be paid. Among other items, TRIPRA required that the President's Working Group on Financial Markets ("PWG") continue to perform an analysis regarding the long-term availability and affordability of insurance for terrorism risk. Among the findings detailed in the PWG's initial report, released October 2, 2006, were that the high level of uncertainty associated with predicting the frequency of terrorist attacks, coupled with the unwillingness of some insurance policyholders to purchase insurance coverage, makes predicting long-term development of the terrorism risk market difficult, and that there is likely little potential for future market development for NBCR coverage. The January 2011 PWG report notes some improvements in capacity and modeling, but also noted that take-up rates for terrorism coverage remained relatively flat over the past three years and that insurers remain uncertain about the ability of models to predict the frequency and severity of terrorist attacks. The April 2014 PWG report notes that the availability and affordability of insurance for terrorism risk has not changed appreciably since 2010. Take up rates have increased since the first year of TRIA and are stable at 60% in the aggregate. The private market does not have capacity to provide reinsurance for terrorism risk to the extent provided by TRIPRA. With respect to NBCR coverage, a December 2008 study by the U.S. Government Accountability Office ("GAO") found that property and casualty insurers still generally seek to exclude NBCR coverage from their commercial policies when permitted. However, while nuclear, pollution and contamination exclusions are contained in many property and liability insurance policies, the GAO report concluded that such exclusions may be subject to challenges in court because they were not specifically drafted to address terrorist attacks. Furthermore, workers compensation policies generally have no exclusion or limitations. The GAO found that commercial property and casualty policyholders, including companies that own

high-value properties in large cities, generally reported that they could not obtain NBCR coverage. Commercial property and casualty insurers generally remain unwilling to offer NBCR coverage because of uncertainties about the risk and the potential for catastrophic losses.

## 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 discussion on how the Company manages and mitigates third party credit risk, see MD&A - Enterprise Risk Management, Credit Risk.

## Property and Casualty Insurance Product Reinsurance Recoverables

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 recoverables are summarized as follows:

	As of December 31,	
	2014	2013
Reinsurance Recoverables		
Paid loss and loss adjustment expenses	\$133	\$138
Unpaid loss and loss adjustment expenses	2,868	2,841
Gross reinsurance recoverables	3,001	2,979
Less: Allowance for uncollectible reinsurance	(271	)(244
Net reinsurance recoverables	\$2,730	\$2,735

## Distribution of Gross Reinsurance Recoverables

As shown in the following table, a portion of the total gross reinsurance recoverables relates to the Company's mandatory participation in various involuntary assigned risk pools and the value of annuity contracts held under structured settlement agreements. Reinsurance recoverables due from mandatory pools are backed by the financial strength of the property and casualty insurance industry. Annuities purchased from third-party life insurers under structured settlements are recognized as reinsurance recoverables in cases where the Company has not obtained a release from the claimant. Of the remaining gross reinsurance recoverables, the portion of recoverables due from companies rated by A.M. Best is as follows:

	As of December 31,			
	2014	2013		
Distribution of gross reinsurance recoverables				
Gross reinsurance recoverables	\$3,001	\$2,979		
Less: mandatory (assigned risk) pools and structured settlements	(567	)(569		
Gross reinsurance recoverables excluding mandatory pools and structured settlements	\$2,434	\$2,410		
			% of Total	% of Total
Rated A- (Excellent) or better by A.M. Best [1]	\$1,561	\$1,558	64.1	64.6
Other rated by A.M. Best	4	4	0.2	0.2
Total rated companies	1,565	1,562	64.3	64.8
Voluntary pools	92	96	3.8	4.0
Captives	488	499	20.0	20.7
Other not rated companies	289	253	11.9	10.5
Total	\$2,434	\$2,410	100.0	100.0

[1]Based on A.M. Best ratings as of December 31, 2014 and 2013, respectively.

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. As part of its reinsurance recoverable review, the Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between cedants and reinsurers and the overall

credit quality of the Company's reinsurers. As indicated in the above table, 64.1% of the gross reinsurance recoverables due from reinsurers rated by A.M. Best were rated A- (excellent) or better as of December 31, 2014. Due to the inherent uncertainties as to collection and the length of time before such amounts will be 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 quarterly or annual period.



Annually, the Company completes evaluations of the reinsurance recoverable asset associated with older, long-term casualty liabilities reported in the Property & Casualty Other Operations reporting segment, and the allowance for uncollectible reinsurance reported in the Commercial Lines reporting segment. For a discussion regarding the results of these evaluations, see MD&A - Critical Accounting Estimates, Property and Casualty Insurance Product Reserves, Net of Reinsurance.

#### Life Insurance Product Reinsurance Recoverables

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 recoverables are as follows:

	As of December 31,	
	2014	2013
Reinsurance Recoverables		
Future policy benefits and unpaid loss and loss adjustment expenses and other policyholder funds and benefits payable	20,190	20,595
Gross reinsurance recoverables	\$20,190	\$20,595
Less: Allowance for uncollectible reinsurance [1]	—	—
Net reinsurance recoverables	\$20,190	\$20,595

[1] No allowance for uncollectible reinsurance is required as of December 31, 2014 and 2013.

As of December 31, 2014, the Company has reinsurance recoverables from MassMutual and Prudential of \$8.6 billion and \$10.4 billion, respectively. As of December 31, 2013 the Company has reinsurance recoverables from MassMutual and Prudential of \$9.5 billion and \$9.9 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 December 31, 2014, the fair value of assets held in trust securing the reinsurance recoverables from MassMutual and Prudential is \$9.0 billion for each of these parties. As of December 31, 2014, the Company has no reinsurance-related concentrations of credit risk greater than 10% of the Company's consolidated stockholders' equity.

#### Guaranty Funds and Other Insurance-related Assessments

As part of its risk management strategy, the Company regularly monitors the financial wherewithal of other insurers and, in particular, activity by insurance regulators and various state guaranty associations relating to troubled insurers. In all states, insurers licensed to transact certain classes of insurance are required to become members of a guaranty fund. In most states, in the event of the insolvency of an insurer writing any such class of insurance in the state, members of the funds are assessed to pay certain claims of the insolvent insurer. A particular state's fund assesses its members based on their respective written premiums in the state for the classes of insurance in which the insolvent insurer was engaged. Assessments are generally limited for any year to one or two percent of the premiums written per year depending on the state. The amount and timing of assessments related to past insolvencies is unpredictable. Citizens Property Insurance Corporation in Florida ("Citizens"), a non-affiliate insurer, provides property insurance to Florida homeowners and businesses that are unable to obtain insurance from other carriers, including for properties deemed to be "high risk." Citizens maintains a Personal Lines account, a Commercial Lines account and a High Risk account. If Citizens incurs a deficit in any of these accounts, Citizens may impose a "regular assessment" on other insurance carriers in the state, such as the Company, to fund the deficits, subject to certain restrictions and subject to approval by the Florida Office of Insurance Regulation. Carriers are then permitted to surcharge policyholders to recover the assessments over the next few years. Citizens may also opt to finance a portion of the deficits through issuing bonds and may impose "emergency assessments" on other insurance carriers to fund the bond repayments. Unlike with regular assessments, however, insurance carriers only serve as a collection agent for emergency assessments and are not required to remit surcharges for emergency assessments to Citizens until they collect surcharges from policyholders. Under U.S. GAAP, the Company is required to accrue for regular assessments in the period the assessments become probable and estimable and the obligating event has occurred. Surcharges to recover the amount of regular assessments may not be recorded as an asset until the related premium is written. Emergency assessments that may be levied by Citizens are not recorded in the income statement.

#### Operational Risk Management

The Hartford has an Operational Risk Management ("ORM") function whose responsibility is to provide a comprehensive and enterprise-wide view of the Company's operational risk on an aggregate basis. The Company

defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inherent in our business and functional areas. It includes legal risk and considers reputational risk as an impact.

ORM is responsible for establishing, maintaining and communicating the framework, principles and guidelines of The Hartford's operational risk management program. In addition, ORM also manages business continuity, model risk management, the ORM system, and risk assessments. Responsibility for day-to-day management of operational risk lies within each business unit and functional area.

ORM works closely with the Operational Risk Committee (“ORC”), an enterprise wide governance group comprised of senior leaders from functional areas such as ORM, Operations and Technology, Claims, Legal, Compliance, Finance and Internal Audit. The ORC meets regularly and provides a forum for ensuring the effective identification, assessment, control, ownership, management and reporting of operational risks across the enterprise. Individual committees, such as the Enterprise Privacy and Security Committee, Enterprise Health, Environment and Safety Committee, and the Model Oversight Committees focus on specific operational risk issues.

ORM has various tools and processes for identifying, monitoring, measuring, prioritizing, and reporting operational risks. ORM facilitates the business risk assessment process which is used to identify the top risks in the business and functional areas, evaluate controls to mitigate those risks, and monitor control improvements. ORM also facilitates loss event collection