

## Fourth Quarter 2011 Presentation



# The Hartford Financial Services Group, Inc.

February 8, 2012

## Safe Harbor Statement



Certain statements made in this presentation should be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These include statements about The Hartford's future results of operations. We caution investors that these forward-looking statements are not guarantees of future performance, and actual results may differ materially. Investors should consider the important risks and uncertainties that may cause actual results to differ, including those discussed in The Hartford's press release issued on Feb. 7, 2012, our Quarterly Reports on Form 10-Q, our 2010 Annual Report on Form 10-K and other filings we make with the Securities and Exchange Commission. We assume no obligation to update this presentation, which speaks as of today's date.

The discussion in this presentation of The Hartford's financial performance includes financial measures that are not derived from generally accepted accounting principles, or GAAP. Information regarding these non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures, is provided in the appendix to this presentation, the press release issued on Feb. 7, 2012 and The Hartford's Investor Financial Supplement for the fourth quarter and at the Investor Relations section of The Hartford's website at [ir.thehartford.com/financials.cfm](http://ir.thehartford.com/financials.cfm).

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# The Hartford Financial Services Group, Inc.

**Liam E. McGee**

Chairman, President and Chief Executive Officer

## Fourth Quarter 2011 Presentation



# The Hartford Financial Services Group, Inc.

**Christopher J. Swift**

Executive Vice President and Chief Financial Officer



## Core earnings of \$339 million in 4Q11

### Core Earnings<sup>1</sup>

(\$ in millions, except per diluted share amounts)	4Q11
<b>Net Income</b>	<b>\$ 127</b>
Income from discontinued operations, net of tax	1
Net realized capital losses, net of tax and DAC, excluded from core earnings	(213)
<b>Core earnings</b>	<b>\$ 339</b>
Core earnings per diluted share	\$ 0.69

### Certain Items Included in Core Earnings

(\$ in millions)	4Q11
Net prior year reserve strengthening	\$ (64)
Re-estimation of current accident year losses in Commercial Markets	(57)
Write-off of the goodwill balance associated with Hartford Financial Products	(20)
<b>Subtotal of items estimated on 12/8/11</b>	<b>\$ (141)</b>
DAC unlock benefit	47
Current accident year catastrophes below budget	25
<b>Items included in core earnings</b>	<b>\$ (69)</b>

- Fourth quarter 2011 (4Q11) core earnings were \$339 million, or \$0.69 per diluted share, including certain items totaling \$(69) million, after-tax:
  - Net prior year reserve strengthening of \$64 million;
  - Re-estimation of 2011 accident year losses of \$(57) million;
  - Goodwill write-off of \$20 million;
  - Deferred acquisition costs (DAC) unlock benefit of \$47 million; and
  - Current accident year catastrophe losses below budget by \$25 million.
- 4Q11 net catastrophe losses totaled \$9 million, after-tax, comprised of:
  - 4Q11 catastrophe losses of \$25 million
  - Favorable development of \$16 million on 2Q11 and 3Q11 catastrophes

## Results of runoff and ongoing businesses



### Core Earnings

(\$ in millions, except per share amounts)

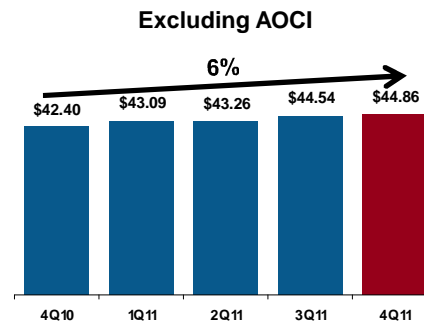
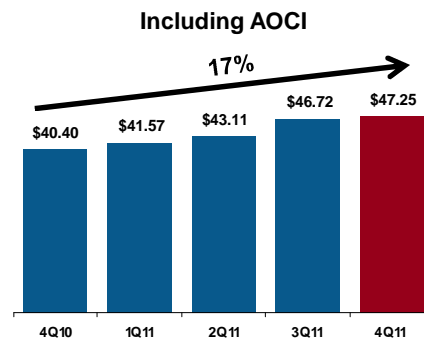
	4Q11
Commercial Markets	\$ 40
Consumer Markets	83
Wealth Management	228
<b>Subtotal</b>	<b>\$ 351</b>
Life Other Operations	42
P&C Other Operations	16
<b>Runoff division core earnings</b>	<b>\$ 58</b>
<b>Corporate core loss</b>	<b>\$ (70)</b>
<b>Consolidated core earnings</b>	<b>\$ 339</b>

- 4Q11 Commercial Markets, Consumer Markets and Wealth Management core earnings totaled \$351 million, including a \$73 million DAC unlock benefit in Wealth Management
- Runoff division core earnings were \$58 million in 4Q11, including a \$26 million DAC unlock charge
- 4Q11 Corporate core loss was \$70 million

## Book value per diluted common share rose 17% in 2011



### Book Value per Diluted Common Share

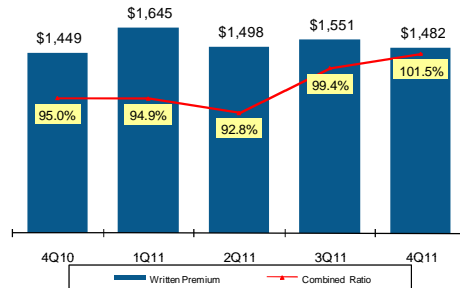


- Book value per diluted common share, including accumulated other comprehensive income (AOCI), was \$47.25 at Dec. 31, 2011, up 17% year-over-year
- Book value per diluted common share, excluding AOCI,<sup>1</sup> was \$44.86, up 6%, or \$2.46 per share, year-over-year
- Implementation of new DAC standard will reduce book value per diluted share by approximately \$1.5 billion, or \$3.09 per share as of Jan. 1, 2012

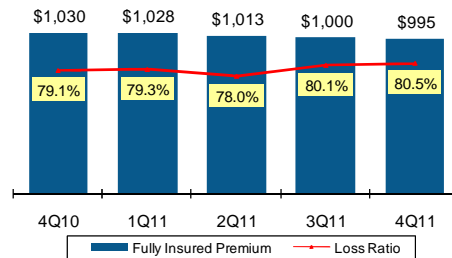
## Commercial Markets core earnings of \$40 million in 4Q11



**P&C Commercial Markets**  
Written Premium & Combined Ratio<sup>1</sup>  
(\$ in millions)



**Group Benefits**  
Fully Insured Premium & Loss Ratio<sup>2</sup>  
(\$ in millions)

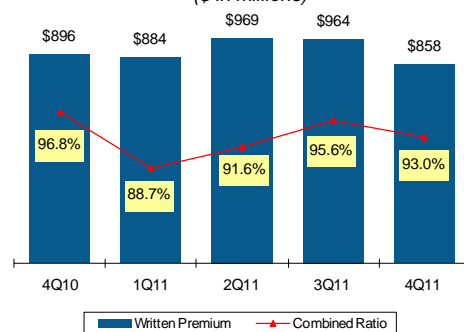


- P&C Commercial written premium grew 2% in 4Q11
  - Pricing continues to firm; achieved 5% renewal pricing increase in standard commercial for the first time in nearly eight years
  - Middle Market renewal pricing in 4Q11 was up 7% in total and up 10% in workers' compensation
  - 4Q11 new business of \$237 million, down 12% from 4Q10 as a result of continued underwriting discipline
- P&C Commercial underwriting results declined due to 2010 and 2011 workers' compensation
  - Prior year reserve development consisted of \$161 million of strengthening in workers' compensation and a \$52 million release for all other lines
  - 2011 accident year strengthening, primarily in workers' compensation, totaled \$87 million in 4Q11 compared with \$44 million in 4Q10
- Group Benefits core earnings decreased to \$15 million in 4Q11 due to continued elevated disability loss ratios
  - Premium decreased 3% versus 4Q10 due to the competitive environment

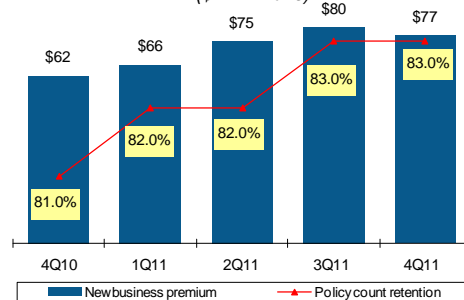


## Consumer Markets core earnings of \$83 million in 4Q11

**Written Premium and Combined Ratio<sup>1</sup>**  
(\$ in millions)



**Auto New Business Premium & Auto Policy Count Retention**  
(\$ in millions)

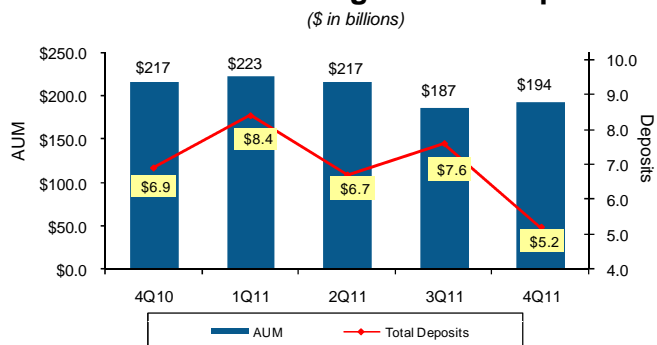


- Consumer Markets combined ratio<sup>1</sup> improved 3.8 points year over year
  - Auto liability profitability continued to improve
  - Homeowners also improved as earned premium pricing outpaced loss costs
- Favorable new business trends continue; retention beginning to recover
  - New business growth up 21% compared with 4Q10 driven by AARP Direct and AARP Agency
  - Dedicated personal lines agency sales and distribution organization was created to facilitate growth, including sale of the AARP product through agents
  - Policy retention improving at 83% for auto and 84% for home for 4Q11
- Auto loss cost trends remain relatively benign
  - Closely monitoring auto physical damage severity trends, which have been increasing

## Wealth Management core earnings of \$155 million, excluding DAC unlock, in 4Q11

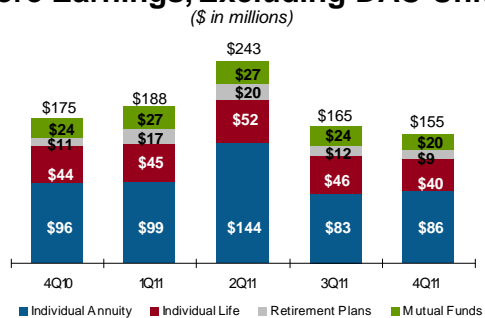


### Assets Under Management & Deposits



- Individual Annuity business building momentum
  - Fixed index annuity product launched in 4Q11
  - 4Q11 annuity deposits totaled \$258 million, up 13% over 3Q11; 4Q11 sales were the first sequential quarterly sales increase since 2008
- Individual Life sales growth across all distribution channels
  - Continued success with LifeAccess and Issue First
- Expansion of Mutual Funds' subadvisory relationship with Wellington Management
  - Most fixed income funds will transition in March
  - Announcement well received by distributors
- Appointed management team for Life Other Operations (Runoff) segment

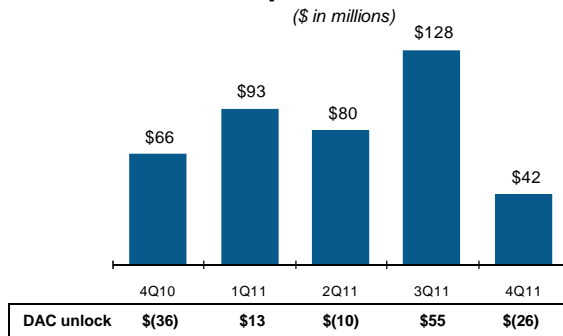
### Core Earnings, Excluding DAC Unlock



## Runoff division core earnings of \$84 million, excluding DAC unlock, in 4Q11

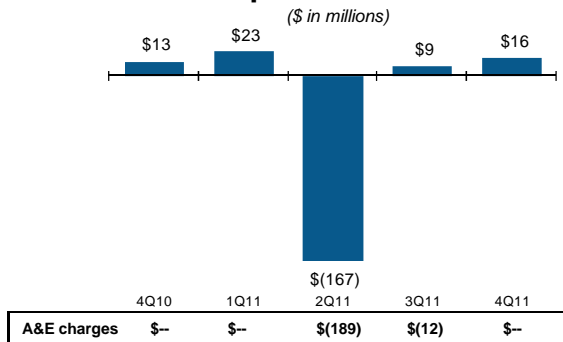


### Life Other Operations Core Earnings



- Runoff division is comprised of operations previously reported as part of Wealth Management and Corporate and Other
  - Life Other Operations includes International Annuity, Institutional Annuity and Private Placement Life Insurance, formerly in Wealth Management
  - P&C Other Operations, which includes legacy asbestos and environmental exposures, was previously reported in Corporate and Other

### P&C Other Operations Core Earnings



- 4Q11 Life Other Operations core earnings of \$42 million declined versus 4Q10 due to lower earnings in Institutional Annuity
  - 4Q11 DAC unlock charge of \$26 million as compared with \$36 million charge in 4Q10
- P&C Other Operations core earnings were \$16 million versus \$13 million in 4Q10

## Quarterly change in variable annuity reserves and liabilities and fair value of hedge assets



	(\$ in millions)	3Q11	4Q11
<b>Consolidated GAAP Basis</b> <i>(pre-tax)</i>	(Increase) decrease in GMWB net liability	\$(1,129)	\$237
	Increase (decrease) in fair value of hedge assets <sup>1</sup>	2,044	(645)
	Net realized gains (losses)	\$915	\$(408)
	(Increase) decrease in SOP 03-1 reserves included in core earnings	(377)	(22)
	<b>Net impact</b>	<b>\$538</b>	<b>\$(430)</b>
	<b>Ending GMWB &amp; SOP 03-1 reserves</b>	<b>\$3,726</b>	<b>\$3,466</b>
<b>U.S. Statutory Basis</b> <i>(pre-tax)</i>	(Increase) decrease in VACARVM liability	\$(2,734)	\$756
	Increase (decrease) in fair value of hedge assets	2,044	(649)
	<b>Net impact</b>	<b>\$(690)</b>	<b>\$107</b>
	<b>Ending VACARVM liability</b>	<b>\$4,457</b>	<b>\$3,701</b>

As of:	Sept. 30, 2011	Increase/(decrease) from prior quarter	Dec. 31, 2011	Increase/(decrease) from prior quarter
<b>S&amp;P 500</b>	1131	(14.3)%	1258	11.2%
<b>10 Year Treasury</b>	1.92%	(124) bps	1.88%	(4) bps
<b>Yen/\$</b>	77.1	(4.6)%	76.9	(0.3)%

## 4Q11 investment portfolio annualized yield, excluding alternative investments, of 4.1%

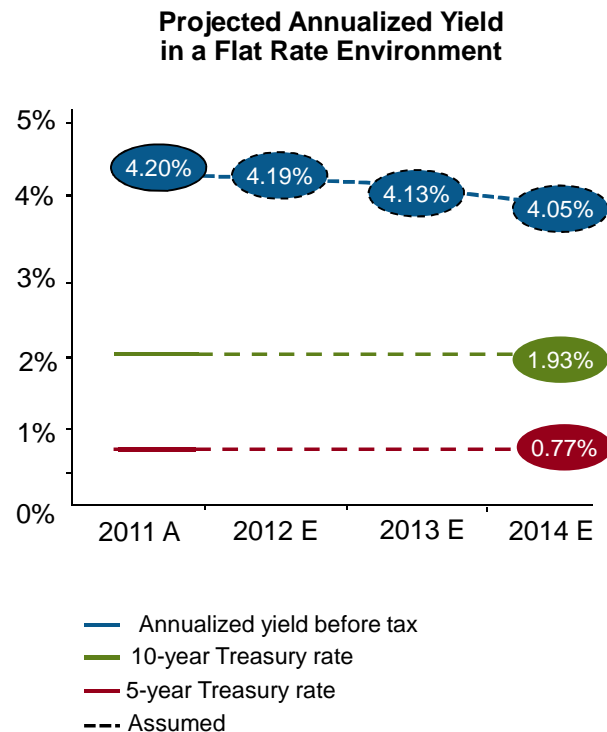


(\$ in millions)	Three months ended				
	Dec. 31, 2010	Mar. 31, 2011	June 30, 2011	Sept. 31, 2011	Dec. 31, 2011
<b>Net investment income, ex. trading securities</b>	\$1,089	\$1,108	\$1,104	\$1,062	\$998
<b>Net impairment losses including mortgage loan loss reserves, before tax</b>	(\$57)	(\$58)	\$3	(\$60)	(\$35)
<b>Net unrealized gains/(losses), before DAC and tax</b>	(\$600)	(\$161)	\$819	\$2,404	\$2,768
<b>Total invested assets, ex. trading securities</b>	\$98,175	\$97,350	\$99,794	\$105,408	\$104,449
<b>Annualized yield, ex. alternative investments<sup>1</sup></b>	4.2%	4.2%	4.3%	4.1%	4.1%

- Net investment income, excluding trading securities, declined to \$998 million before tax
  - 4Q11 investment income on limited partnerships and alternative investments was \$(2) million versus \$75 million in 4Q10
- Net unrealized gain, before tax, of \$2.8 billion, an improvement of \$364 million since Sept. 30, 2011
  - 4Q11 net unrealized gain increase due to lower interest rates
- Net impairment losses, including mortgage loan loss reserves, were \$35 million, before tax
- 4Q11 annualized yield, excluding alternative investments, declined slightly to 4.1% from 4.2% in 4Q10



## Net investment income sensitivity to flat interest rates

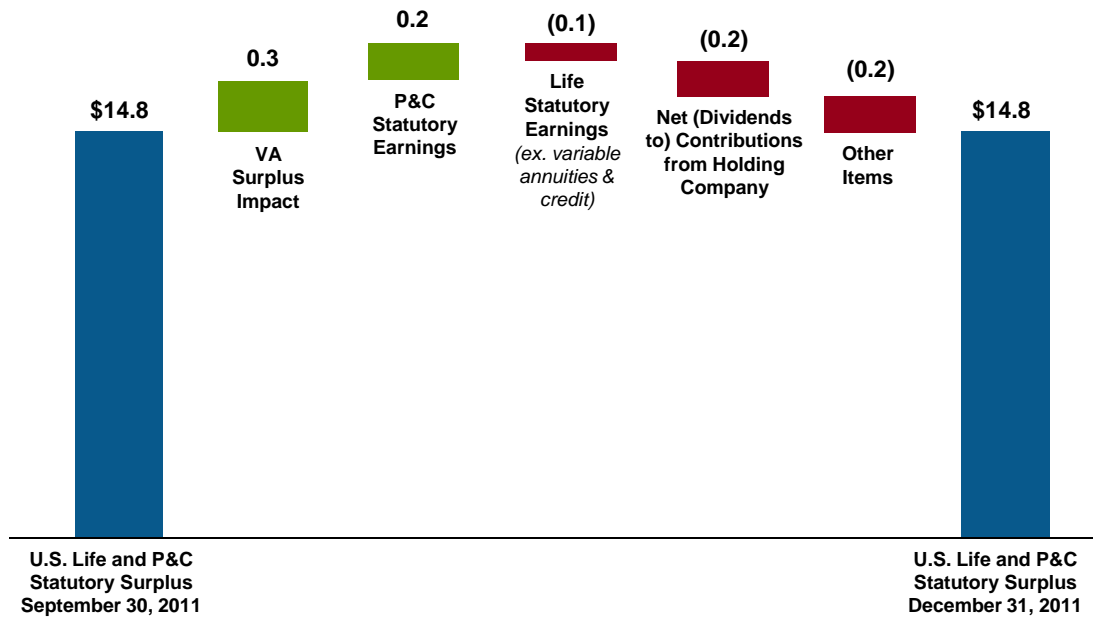


- The investment portfolio is largely duration matched to insurance liabilities, reducing the impact of lower reinvestment rates on core earnings
- If interest rates were to remain at current new money level rather than increasing in line with the current forward yield curve, annual reinvestment of about \$7.5 billion of general account investments is estimated to reduce future after-tax core earnings by:
  - \$10 to \$20 million in 2012
  - \$30 to \$40 million in 2013
  - Up to \$100 million in 2014
- These assumptions do not reflect any portfolio management and pricing actions that could be taken to mitigate the earnings impact of lower interest rates

## U.S. statutory surplus was \$14.8 billion at December 31, 2011



(\$ in billions)



## Capital resources totaled \$17.7 billion at Dec. 31, 2011



### Capital Resources (\$ in billions)

As of:	Dec. 31, 2011
U.S. Life insurance subsidiaries	\$7.4
P&C insurance subsidiaries	7.4
Japan (HLIKK)	1.3
Holding company cash and short-term investments	1.6
<b>Total</b>	<b>\$17.7</b>

- Capital resources totaled \$17.7 billion at Dec. 31, 2011, down 3% from Sept. 30, 2011
  - U.S. life and P&C statutory surplus totaled \$14.8 billion, equal to Sept. 30, 2011
- Holding company cash and short term investments totaled \$1.6 billion, down approximately \$500 million from Sept. 30, 2011 due principally to:
  - \$400 million of senior debt matured and was repaid during 4Q11
  - Common stock dividends and interest expense, net of dividends received from subsidiaries
  - Common share repurchases totaled \$51.4 million, or 3.2 million shares, through Dec. 31, 2011 and \$93.7 million, or 5.8 million shares, through Feb. 7, 2012

## Challenges to separating the life and P&C companies



- The Hartford has received inquiries on the feasibility of splitting the life and P&C companies
- Challenges to creating shareholder value in a separation include:
  - Maintaining competitive ratings while allocating \$6.8 billion in holding company debt
    - Life companies could assume no more than one-third of debt due to combination of their currently limited capacity to generate statutory earnings and dividends and “A” level interest coverage ratios
    - P&C companies would need to assume at least two-thirds of debt, which could require potentially dilutive de-leveraging actions in order to meet “A” rating debt leverage ratios
  - Regulatory approval could be conditioned on capital contributions or keepwell agreements between the stand-alone companies
  - Other items:
    - Cost of securing bondholder approval of debt allocation
    - Valuation impact of P&C company guarantee of certain life company obligations
    - Potential write-off of a significant portion of life companies’ deferred tax asset

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# Questions & Answers

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# Appendix

The Hartford Financial Services Group, Inc.

## 2011 core earnings excluding certain items



(\$ in millions)	1Q11	2Q11	3Q11	4Q11	FY 2011
<b>Core earnings<sup>1</sup></b>	<b>\$ 586</b>	<b>\$ 12</b>	<b>\$ 33</b>	<b>\$ 339</b>	<b>\$ 970</b>
DAC unlock benefit/(charge)	61	(21)	(227)	47	(140)
Catastrophes below/(above) budget <sup>2</sup>	(5)	(215)	(63)	25	(258)
Prior year development, incl. asbestos and environmental	33	(206)	(2)	(64)	(239)
<b>Core earnings excluding certain items<sup>1</sup></b>	<b>\$ 497</b>	<b>\$ 454</b>	<b>\$ 325</b>	<b>\$ 331</b>	<b>\$ 1,607</b>

(\$ per diluted share <sup>3</sup> )	1Q11	2Q11	3Q11	4Q11	FY 2011
<b>Core earnings<sup>1</sup></b>	<b>\$ 1.15</b>	<b>\$ 0.00</b>	<b>\$ 0.05</b>	<b>\$ 0.69</b>	<b>\$ 1.94</b>
DAC unlock benefit/(charge)	0.12	(0.04)	(0.46)	0.10	(0.28)
Catastrophes below/(above) budget	(0.01)	(0.43)	(0.13)	0.05	(0.52)
Prior year development, incl. asbestos and environmental	0.06	(0.41)	0.00	(0.13)	(0.48)
<b>Core earnings excluding certain items<sup>1</sup></b>	<b>\$ 0.98</b>	<b>\$ 0.88</b>	<b>\$ 0.64</b>	<b>\$ 0.68</b>	<b>\$ 3.22</b>

[1] Denotes a financial measure not calculated based on generally accepted accounting principles

[2] The company's budget for pre-tax catastrophe losses was \$70, \$116, \$111, \$52 and \$349 for 1Q11, 2Q11, 3Q11, 4Q11 and FY2011, respectively.

[3] Share count used in per share calculations is 508.2, 482.2, 473.4, 489.6 and 498.7 for 1Q11, 2Q11, 3Q11, 4Q11 and FY2011, respectively.