HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-K
February 23, 2007

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

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

o **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)
(860) 547-5000
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: the following, all of which are listed on the New York Stock Exchange, Inc.

Common Stock, par value $0.01 per share
6.1% Notes due October 1, 2041

Securities registered pursuant to Section 12(g) of the Act:

4.7% Notes due September 1, 2007	4.625% Notes due July 15, 2013
5.55% Notes due August 16, 2008	4.75% Notes due March 1, 2014
6.375% Notes due November 1, 2008	7.3% Debentures due November 1, 2015
5.663% Notes due November 16, 2008	5.50% Notes due October 15, 2016
7.9% Notes due June 15, 2010	5.95% Notes due October 15, 2036
5.25% Notes due October 15, 2011	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No þ

Indicate by check mark 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. Yes þ No o

Indicate by check mark 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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the shares of Common Stock held by non-affiliates of the registrant as of June 30, 2006 was approximately $25,666,539,000, based on the closing price of $84.60 per share of the Common Stock on the New York Stock Exchange on June 30, 2006.

As of February 16, 2007, there were outstanding 320,217,940 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 2007 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

The Hartford Financial Services Group, Inc.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2006
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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 or the Company) is a diversified insurance and financial services company. The Hartford, headquartered in Connecticut, is among the largest providers of investment products, individual life, group life and group disability insurance products, and property and casualty insurance products in the United States. Hartford Fire Insurance Company, founded in 1810, is the oldest of The Hartford s subsidiaries. The Hartford writes insurance in the United States and internationally. At December 31, 2006, total assets and total stockholders equity of The Hartford were $326.7 billion and $18.9 billion, respectively.

Organization

The Hartford strives to maintain and enhance its position as a market leader within the financial services industry and to maximize shareholder value. The Company pursues a strategy of developing and selling diverse and innovative products through multiple distribution channels, continuously developing and expanding those distribution channels, achieving cost efficiencies through economies of scale and improved technology, maintaining effective risk management and prudent underwriting techniques and capitalizing on its brand name and customer recognition of The Hartford Stag Logo, one of the most recognized symbols in the financial services industry.

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 the Capital Resources and Liquidity section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

The Company maintains a retail mutual fund operation, whereby the Company, through wholly-owned subsidiaries, provides investment management and administrative services to The Hartford Mutual Funds, Inc. and The Hartford Mutual Funds II, Inc. (The Hartford mutual funds) families of 52 mutual funds and 1 closed end fund. Investors can purchase shares in The Hartford mutual funds, all of which are registered with the Securities and Exchange Commission in accordance with the Investment Company Act of 1940. The Hartford mutual funds are owned by the shareholders of those funds and not by the Company.

Reporting Segments

The Hartford is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in ten operating segments. Additionally, Corporate primarily includes the Company s debt financing and related interest expense, as well as certain capital raising activities and purchase accounting adjustments.

Life is organized into six reportable operating segments: Retail Products Group (Retail), Retirement Plans, Institutional Solutions Group (Institutional), Individual Life, Group Benefits and International.

Retail offers individual variable and fixed market value adjusted (MVA) annuities, retail mutual funds, 529 college savings plans, Canadian and offshore investment products.

Retirement Plans provides products and services to corporations pursuant to Section 401(k) and products and services to municipalities and not-for-profit organizations under Section 457 and 403(b) of the IRS code. Retirement also offers mutual funds to individual investors.

Institutional primarily offers institutional liability products, including stable value products and institutional annuities (primarily terminal funding cases), as well as variable Private Placement Life Insurance (PPLI) owned by corporations and high net worth individuals. Within stable value, Institutional has an investor note program that offers both institutional and retail investor notes. Institutional and Retail notes are sold as funding agreement backed notes through trusts and may also be issued directly from the company to investors. Institutional also offers mutual funds to institutional investors. Furthermore, Institutional offers additional individual products including structured settlements, consumer notes and single premium immediate annuities and longevity assurance.

Individual Life sells a variety of life insurance products, including variable universal life, universal life, interest sensitive whole life and term life.

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

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and Canada.

Life includes in an Other category its leveraged PPLI product line of business; corporate items not directly allocated to any of its reportable operating segments; net realized capital gains and losses on fixed maturity sales generated from movements in interest rates, less amortization of those gains or losses back to the reportable segments; net realized capital gains and losses generated from credit related events, less a credit risk fee charged to the reportable segments; net realized capital gains and losses from non-qualifying derivative strategies (including embedded derivatives) other than the net periodic coupon settlements on credit derivatives and the net periodic coupon settlements on the cross currency swaps used to economically hedge currency and interest rate risk generated from sales of the Company s yen based fixed annuity, which are allocated to the reportable segments; the mark-to-market adjustment for the equity securities held for trading reported in net investment income and the related change in interest credited reported as a component of benefits, losses and loss adjustment expenses since these items are not considered by the Company s chief operating decision maker in evaluating the International results of operations; and intersegment eliminations.

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines, and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment.

Business Insurance provides standard commercial insurance coverage to small commercial and middle market commercial businesses primarily throughout the United States. This segment offers workers compensation, property, automobile, liability, umbrella and marine coverages. Commercial risk management products and services are also provided.

Personal Lines provides automobile, homeowners and home-based business coverages to the members of AARP through a direct marketing operation and to individuals who prefer local agent involvement through a network of independent agents in the standard personal lines market. Personal Lines also operates a member contact center for health insurance products offered through AARP s Health Care Options.

The Specialty Commercial segment offers a variety of customized insurance products and risk management services. Specialty Commercial provides standard commercial insurance products including workers compensation, automobile and liability coverages to large-sized companies. Specialty Commercial also provides professional liability, fidelity, surety, specialty casualty and livestock coverages, as well as core property and excess and surplus lines coverages not normally written by standard lines insurers. Alternative markets, within Specialty Commercial, provides insurance products and services primarily to captive insurance companies, pools and self-insurance groups. In addition, Specialty Commercial provides third party administrator services for claims administration, integrated benefits, loss control and performance measurement through Specialty Risk Services, a subsidiary of the Company.

The Other Operations segment consists of certain property and casualty insurance operations of The Hartford which have discontinued writing new business and includes substantially all of the Company s asbestos and environmental exposures.

The measure of profit or loss used by The Hartford s management in evaluating the performance of its Life segments is net income. Likewise, within Property & Casualty, net income is the measure of profit or loss used in evaluating the performance of Total Property & Casualty, Ongoing Operations and the Other Operations segment. Within Ongoing Operations, the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results represent premiums earned less incurred losses, loss adjustment expenses and underwriting expenses. The sum of underwriting results, other revenues, net investment income, net realized capital gains and losses, other expenses, and related income taxes is net income (loss).

Life

Life s business is conducted by Hartford Life, Inc. (Hartford Life or Life), an indirect subsidiary of The Hartford, headquartered in Simsbury, Connecticut, a leading financial services and insurance organization. Hartford Life provides (i) retail and institutional investment products, including variable annuities, fixed market value adjusted

(MVA) annuities, mutual funds, private placement life insurance, which includes life insurance products purchased by a company on the lives of its employees, and retirement plan services for the savings and retirement needs of over 5.0 million customers, (ii) life insurance for wealth protection, accumulation and transfer needs for approximately 754,000 customers, (iii) group benefits products such as group life and group disability insurance for the benefit of millions of individuals, and (iv) fixed and variable annuity products through its international operations for the savings and retirement needs of approximately 450,000 customers. Life is one of the largest sellers of individual variable annuities, variable universal life insurance and, group life and disability insurance in the United States. Life s strong position in each of its core businesses provides an opportunity to increase the sale of Life s products and services as individuals increasingly save and plan for retirement, protect themselves and their families against the financial uncertainties associated with disability or death and engage in estate planning.

Hartford Life is among the largest consolidated life insurance groups in the United States based on statutory assets as of December 31, 2006. In the past year, Life s total assets under management, which include $43.7 billion of third party assets invested in Life s mutual funds and 529 College Savings Plans, increased 18% to $327.5 billion at December 31, 2006 from $276.5 billion at December 31, 2005.

Life generated revenues of $14.1 billion, $15.0 billion and $11.4 billion in 2006, 2005 and 2004, respectively. Additionally, Life generated net income of $1.4 billion, $1.2 billion and $1.4 billion in 2006, 2005 and 2004, respectively.

Customer Service, Technology and Economies of Scale

Life maintains advantageous economies of scale and operating efficiencies due to its growth, attention to expense and claims management and commitment to customer service and technology. These advantages allow Life to competitively price its products for its distribution network and policyholders. In addition, Life utilizes technology to enhance communications within Life and throughout its distribution network in order to improve Life s efficiency in marketing, selling and servicing its products and, as a result, provides high-quality customer service. In recognition of excellence in customer service for individual annuities, Hartford Life was awarded the 2006 Annuity Service Award by DALBAR Inc., a recognized independent financial services research organization, for the eleventh consecutive year. Hartford Life is the only company to receive this prestigious award in every year of the award s existence. Also, in 2006 Life earned it s fourth DALBAR Award for Mutual Fund service, as well as, Retirement Plan Service which recognizes Hartford Life as the No. 1 service provider of mutual funds and retirement plans in the industry. Continuing the trend of service excellence, Life s Individual Life segment won its sixth consecutive DALBAR award for service of life insurance customers. Additionally, Life s Individual Life segment also won its fifth DALBAR Financial Intermediary Service Award in 2006.

Risk Management

Life s product designs, prudent underwriting standards and risk management techniques are structured to protect it against disintermediation risk, greater than expected mortality and morbidity experience, foreign currency risk and, risks associated with certain product features, specifically the guaranteed minimum death benefit (GMDB), guaranteed minimum withdrawal benefit (GMWB) and guaranteed minimum income benefit (GMIB) offered with variable annuity products. As of December 31, 2006, Life had limited exposure to disintermediation risk on approximately 98% of its domestic life insurance and annuity liabilities through the use of separate accounts, MVA features, policy loans, surrender charges and non-surrenderability provisions. Life effectively utilizes prudent underwriting to select and price insurance risks and regularly monitors mortality and morbidity assumptions to determine if experience remains consistent with these assumptions and to ensure that its product pricing remains appropriate. Life also enforces disciplined claims management to protect itself against greater than expected morbidity experience. Life uses reinsurance structures and has modified benefit features to mitigate the mortality exposure associated with GMDB. Life also uses reinsurance and derivative instruments to attempt to minimize equity risk volatility on GMWB and, to some degree, foreign currency risk associated with the GMIB liability.

Retail

The Retail segment focuses, through the sale of individual variable and fixed annuities, mutual funds and other investment products, on the savings and retirement needs of the growing number of individuals who are preparing for retirement or who have already retired. This segment s assets under management grew to $164.9 billion at December 31, 2006 from $145.9 billion at December 31, 2005 and from $137.1 billion at December 31, 2004. Retail generated revenues of $3.5 billion, $3.2 billion and $3.0 billion in 2006, 2005 and 2004, respectively, of which individual annuities accounted for $2.8 billion, $2.7 billion and $2.6 billion for 2006, 2005 and 2004, respectively. Net income in Retail was $628, $622 and $503 in 2006, 2005 and 2004, respectively.

Life sells both variable and fixed individual annuity products through a wide distribution network of national and regional broker-dealer organizations, banks and other financial institutions and independent financial advisors. Life is a market leader in the annuity industry with deposits of $13.1 billion, $11.5 billion and $15.7 billion in 2006, 2005 and 2004, respectively. Life was among the largest sellers of individual retail variable annuities in the United States with deposits of $12.1 billion, $11.2 billion and $15.0 billion in 2006, 2005 and 2004, respectively. In addition, Life continues to be the largest seller of individual retail variable annuities through banks in the United States.

Life s total account value related to individual annuity products was $124.3 billion as of December 31, 2006. Of this total account value, $114.4 billion, or 92%, related to individual variable annuity products and $9.9 billion, or 8%, related primarily to fixed MVA annuity products. As of December 31, 2005, Life s total account value related to individual annuity products was $115.5 billion. Of this total account value, $105.3 billion, or 91%, related to individual variable annuity products and $10.2 billion, or 9%, related primarily to fixed MVA annuity products. As of December 31, 2004, Life s total account value related to individual annuity products was $111.0 billion. Of this total account value, $99.6 billion, or 90%, related to individual variable annuity products and $11.4 billion, or 10%, related primarily to fixed MVA annuity products.

Life continues to emerge as a significant participant in the mutual fund business. Retail mutual fund assets were $38.5 billion, $29.1 billion and $25.2 billion as of December 31, 2006, 2005 and 2004, respectively. Retail mutual fund sales were $11.1 billion, $5.8 billion and $5.9 billion in 2006, 2005, and 2004, respectively.

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Principal Products

Individual Variable Annuities Life earns fees, based on policyholders account values, for managing variable annuity assets, providing various death benefits and principal guarantees, and maintaining policyholder accounts. Life uses specified portions of the periodic deposits paid by a customer to purchase units in one or more mutual funds as directed by the customer, who then assumes the investment performance risks and rewards. As a result, variable annuities permit policyholders to choose aggressive or conservative investment strategies, as they deem appropriate, without affecting the composition and quality of assets in Life s general account. These products offer the policyholder a variety of equity and fixed income options, as well as the ability to earn a guaranteed rate of interest in the general account of Life. Life offers an enhanced guaranteed rate of interest for a specified period of time (no longer than twelve months) if the policyholder elects to dollar-cost average funds from Life s general account into one or more separate accounts. Principal guarantees include guaranteed minimum death and withdrawal benefits.

The majority of the contracts with the guaranteed death benefit feature are sold by the Retail Products Group segment. Hartford Life pays the greater of (1) account value at death, (2) the sum of all premium payments less prior withdrawals; or (3) the maximum anniversary value of the contract, plus any premium payments since the contract anniversary, minus any withdrawals following the contract anniversary. For certain guaranteed death benefits sold with variable annuity contracts beginning in June 2003, the Company pays the greater of (1) the account value at death; or (2) the maximum anniversary value; not to exceed the account value plus the greater of (a) 25% of premium payments, or (b) 25% of the maximum anniversary value of the contract. The GMWB provides the policyholder with a guaranteed remaining balance (GRB) if the account value is reduced to zero through a combination of market declines and withdrawals. The GRB is generally equal to premiums less withdrawals. However, annual withdrawals that exceed a specific percentage of the premiums paid may reduce the GRB by an amount greater than the withdrawals and may also impact the guaranteed annual withdrawal amount that subsequently applies after the excess annual withdrawals occur. For certain of the withdrawal benefit features, the policyholder also has the option, after a specified time period, to reset the GRB to the then-current account value, if greater. In addition, the Company has introduced features for contracts issued beginning in the fourth quarter of 2005, that allows the policyholder to receive the guaranteed annual withdrawal amount for as long as they are alive. In this new feature, in all cases the contract holder or their beneficiary will receive the GRB and the GRB is reset on an annual basis to the maximum anniversary account value subject to a cap.

Policyholders may make deposits of varying amounts at regular or irregular intervals and the value of these assets fluctuates in accordance with the investment performance of the funds selected by the policyholder. To encourage persistency, many of Life s individual variable annuities are subject to withdrawal restrictions and surrender charges. Surrender charges range up to 8% of the contract s deposits less withdrawals, and reduce to zero on a sliding scale, usually within seven years from the deposit date. Individual variable annuity account values of $114.4 billion as of December 31, 2006, have grown from $105.3 billion as of December 31, 2005, primarily due to equity market appreciation. Approximately 95% and 94% of the individual variable annuity account values were held in separate accounts as of December 31, 2006 and 2005, respectively.

The assets underlying Life s variable annuities are managed both internally and by independent money managers, while Life provides all policy administration services. Life utilizes a select group of money managers all of which are among the nation s most successful investment managers. Furthermore, each money manager is compensated on sales of Life s products and enhance the marketability of Life s annuities and the strength of its product offerings. Hartford Leaders, which is a multi-manager variable annuity that combines the product manufacturing, wholesaling and service capabilities of Life with the investment management expertise of American Funds, Franklin Templeton Group, AIM Investments and MFS Investment Management, is an industry leader in terms of retail sales. In 2005, the Director M variable annuity was introduced to combine the product manufacturing, wholesaling and service capabilities of Life with the investment management expertise of Wellington Management Company, LLP (Wellington) and Hartford Investment Management Company (HIMCO), the two money managers for the former Director product, as well as an additional six premier investment firms: AllianceBernstein, Fidelity Investments, Lord Abbett, Oppenheimer Funds, Putnam and Van Kampen.

Fixed MVA Annuities Fixed MVA annuities are fixed rate annuity contracts which guarantee a specific sum of money to be paid in the future, either as a lump sum or as monthly income. In the event that a policyholder surrenders a policy prior to the end of the guarantee period, the MVA feature increases or decreases the cash surrender value of the annuity in respect of any interest rate decreases or increases, respectively, thereby protecting Life from losses due to higher interest rates at the time of surrender. The amount of the lump sum or monthly income payment will not fluctuate due to adverse changes in other components of Life s investment return, mortality experience or expenses. Life s primary fixed MVA annuities have terms varying from one to ten years with an average term to maturity of approximately four years. Account values of fixed MVA annuities were $9.9 billion, $10.2 billion and $11.4 billion as of December 31, 2006, 2005 and 2004, respectively.

Mutual Funds Life launched a family of retail mutual funds for which Life provides investment management and administrative services. The fund family has grown significantly from 8 funds at inception to the current offering of 52 mutual funds and 1 closed end fund, including the addition of 4 new funds in 2006, The Hartford Balanced Income Fund, The Hartford Large Cap Growth Fund, The Hartford Mid Cap Growth Fund and the Hartford Select Small Cap Value Fund. Life s funds are managed by Wellington and HIMCO. Life has entered into agreements with over 1,200 financial services firms to distribute these mutual funds.

Life charges fees to the shareholders of the mutual funds, which are recorded as revenue by Life. Investors can purchase shares in the mutual funds, all of which are registered with the Securities and Exchange Commission, in accordance with the Investment Company Act of 1940. The mutual funds are owned by the shareholders of those funds and not by Life. As such, the mutual fund assets and liabilities, as well as related investment returns, are not reflected in The Hartford s consolidated financial statements. Total retail mutual fund assets under management were $38.5 billion, $29.1 billion, and $25.2 billion as of December 31, 2006, 2005 and 2004, respectively.

Marketing and Distribution

Life s distribution network is based on management s strategy of utilizing multiple and competing distribution channels to achieve the broadest distribution to reach target customers. The success of Life s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling organizations, quality of customer service, and relationships with national and regional broker-dealer firms, banks and other financial institutions, and independent financial advisors (through which the sale of Life s retail investment products to customers is consummated).

Life maintains a distribution network of approximately 1,500 broker-dealers and approximately 500 banks. As of December 31, 2006, Life was selling products through the 25 largest retail banks in the United States. Life periodically negotiates provisions and terms of its relationships with unaffiliated parties, and there can be no assurance that such terms will remain acceptable to Life or such third parties. Life s primary wholesaler of its individual annuities is PLANCO Financial Services, LLC and its affiliate, PLANCO, LLC (collectively PLANCO) which are wholly owned subsidiaries of Hartford Life and Accident Insurance Company (HLA). PLANCO is one of the nation s largest wholesalers of individual annuities and has played a significant role in The Hartford s growth over the past decade. As a wholesaler, PLANCO distributes Life s fixed and variable annuities, mutual funds, 529 plans and offshore products by providing sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States. Owning PLANCO secures an important distribution channel for Life and gives Life a wholesale distribution platform which it can expand in terms of both the number of individuals wholesaling its products and the portfolio of products which they wholesale.

Competition

Retail competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

Retirement Plans

Life is among the top providers of retirement products and services. Products and services offered by Retirement include asset management and plan administration sold to municipalities and not-for-profit organizations pursuant to Section 457 and 403(b) of the Internal Revenue Code of 1986, as amended (referred to as Section 457 and 403(b) , respectively). Life also provides retirement products and services, including asset management and plan administration sold to small- and medium-size corporations pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (referred to as 401(k)).

Life s total account values related to retirement plans were $23.6 billion, $19.3 billion and $16.5 billion as of December 31, 2006, 2005 and 2004, respectively. Governmental account values were $11.5 billion, $10.5 billion and $10.0 billion as of December 31, 2006, 2005 and 2004, respectively. 401(k) products account values were $12.0 billion, $8.8 billion and $6.5 billion as of December 31, 2006, 2005 and 2004, respectively. Retirement Plans generated revenues of $538, $470 and $434 in 2006, 2005 and 2004, respectively, and net income of $109, $75 and $66 in 2006, 2005 and 2004, respectively.

Principal Products

Governmental Life sells retirement plan products and services to municipalities under Section 457 plans. Life offers a number of different investment products, including variable annuities and fixed products, to the employees in Section 457 plans. Generally, with the variable products, Life manages the fixed income funds and certain other outside money managers act as advisors to the equity funds offered in Section 457 plans administered by Life. As of

December 31, 2006, Life administered over 3,600 plans under Sections 457 and 403(b).

401(k) Life sells retirement plan products and services to corporations under 401(k) plans targeting the small and medium case markets. Life believes these markets are under-penetrated in comparison to the large case market. The number of 401(k) plans administered as of December 31, 2006 was over 12,700. Total assets under management were $13.2 billion, $9.8 billion and $7.3 billion as of December 31, 2006, 2005 and 2004, respectively.

Marketing and Distribution

In the Section 457 market, Retirement Plan s distribution network uses internal personnel with extensive experience to sell its products and services in the retirement plan and institutional markets. The success of Life s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling organizations, quality of customer service, and relationships with national and regional broker-dealer firms, banks and other financial institutions.

In the 401(k) market, Retirement Plan s primary wholesaler of its plans is PLANCO. As a wholesaler, PLANCO distributes Life s 401(k) plans by providing sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States. In addition, Life uses internal personnel with extensive experience in the 401(k) market to sell its products and services in the retirement plan market.

Competition

Retirement Plans competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

For the Section 457 and 403(b) as well as the 401(k) markets, which offer mutual funds wrapped in a variable annuity or mutual fund retirement program (government markets), the variety of available funds and their performance is most important to plan sponsors. The competitors tend to be the major mutual fund companies.

Institutional

Life provides structured settlement contracts, institutional annuities, longevity assurance, institutional mutual funds and stable value investment products such as funding agreements, funding agreement backed notes, consumer notes, and guaranteed investment contracts (GICs) through the Institutional Investment Products (IIP) business unit. Additionally, Life is a leader in the variable PPLI market, which includes life insurance policies purchased by a company or a trust on the lives of employees, with Life or a trust sponsored by Life named as the beneficiary under the policy.

In 2005, Life introduced two new products for the high net worth markets. One is a specialized life insurance contract for ultra-wealthy, high net worth investors. The other is a hedge fund designed to leverage the strengths of The Hartford s award-winning customer service and distribution capability.

In 2006, Life introduced one new product for the retail market, longevity assurance. Longevity assurance is designed to provide policyholders with the security that they will not outlive their assets in the form of a deferred fixed annuity with life contingencies. Life also changed the legal structure of its retail note platform by directly issuing retail registered notes (consumer notes) to investors. In addition to consumer note offerings, Life issues funding agreements to trusts, which, in turn, issues notes to retail and institutional investors.

Life s total account values related to institutional investment products were $22.2 billion, $17.9 billion and $14.6 billion as of December 31, 2006, 2005 and 2004, respectively. Variable PPLI products account values were $26.1 billion, $23.8 billion and $22.5 billion as of December 31, 2006, 2005 and 2004, respectively. Institutional generated revenues of $1.7 billion, $1.4 billion and $1.3 billion in 2006, 2005 and 2004, respectively and net income of $99, $88 and $68 in 2006, 2005 and 2004, respectively.

Principal Products

Institutional Investment Products Life sells the following institutional investment products: structured settlements, institutional mutual funds, GICs and other short-term funding agreements, and other annuity contracts for special purposes such as funding of terminated defined benefit pension plans (institutional annuities arrangements).

Structured Settlements Structured settlement annuity contracts provide for periodic payments to an injured person or survivor, typically in settlement of a claim under a liability policy in lieu of a lump sum settlement. Contracts pay either life contingent or period certain benefits, which is at the discretion of the contract holder.

Institutional Mutual Funds Life sells institutional shares of The Hartford Mutual Funds (Class Y shares) to both qualified (i.e., section 401(k) and 457 plans) and non-qualified (i.e., endowments and foundations) institutional investors on an investment only basis. Life also sells its Hartford HLS Funds and the Hartford HLS Series II Funds, to qualified retirement plans on an investment only basis. That means that the funds are sold individually, with no recordkeeping services included and not as a part of any bundled retirement program. The Hartford s wholly-owned subsidiary, HL Investment Advisors, LLC, serves as the investment advisor to these funds and contracts with sub-advisors to perform the day-to-day management of the funds. The two primary sub-advisors to the Hartford HLS

Funds are Wellington, of Boston, Massachusetts for most of the equity funds and HIMCO for the fixed income funds.
Stable Value Products GICs are group annuity contracts issued to sponsors of qualified pension or profit-sharing plans or stable value pooled fund managers. Under these contracts, the client deposits a lump sum with The Hartford for a specified period of time for a

guaranteed interest rate. At the end of the specified period, the client receives principal plus interest earned. Funding agreements are investment contracts that perform a similar function for non-qualified assets. The Company issues fixed and variable rate funding agreements to Hartford Life Global Funding trusts, that, in turn, issue registered notes to institutional and retail investors. During 2006, the Company began issuing consumer notes directly to retail investors.

Institutional Annuities Institutional annuities arrangements are group annuity contracts used to fund pension liabilities that exist when a qualified retirement plan sponsor decides to terminate an existing defined benefit pension plan. Group annuity contracts are very long-term in nature, since they must pay the pension liabilities typically on a monthly basis to all participants covered under the pension plan which is being terminated.

Longevity assurance Longevity assurance is a fixed deferred-payout annuity that provides life contingent benefits to individuals with the purpose of providing individuals with protection from the risk of outliving retirement income.

Single Premium Immediate Annuities Single premium immediate annuities (SPIA) are individual contracts that provide a fixed immediate payout annuity. Contracts pay either life contingent or period certain benefits, at the discretion of the contract holder.

Variable PPLI Products Private Placement Variable Life Insurance (PPVLI) products continue to be used by employers to fund non-qualified benefits or other post-employment benefit liabilities. A key advantage to plan sponsors is the opportunity to select from a range of tax deferred investment allocations. Recent clarifications in regulatory policy have made PPVLI products particularly attractive to banks with postretirement medical obligations. PPVLI has also been widely used in the high net worth marketplace due to its low costs, range of investment choices and ability to accommodate a fund of funds management style. This institutionally priced hedge fund product is aimed at the rapidly growing market composed of affluent investors unwilling to participate in hedge funds directly due to minimum investment thresholds.

Marketing and Distribution

In the structured settlement market, the Institutional segment sells individual fixed immediate annuity products through a small number of specialty brokerage firms that work closely with The Hartford s Property & Casualty operations. Life also works directly with the brokerage firms on cases that do not involve The Hartford s Property & Casualty operations.

In the institutional mutual fund market, the Institutional segment typically sells its products through investment consulting firms employed by retirement plan sponsors. Institutional s products are also sold through 401(k) record keeping firms that offer a platform of mutual funds to their plan sponsor clients. A third sales channel is direct sales to qualified plan sponsors, using registered representatives employed by Hartford Equity Sales Company, Inc., a subsidiary.

In the stable value marketplace, the Institutional segment sells GICs, funding agreements, and funding agreement backed notes to retirement plan sponsors or other large institutions either through investment management firms or directly, using Hartford employees.

In the institutional annuities market, Life sells its group annuity products to retirement plan sponsors through three different channels: (1) a small number of specialty brokers; (2) large benefits consulting firms; and (3) directly, using Hartford employees.

In the PPVLI market, specialized strategic alliance partners with expertise in the large case market assist in the placement of many cases. High net worth PPVLI is often placed with the assistance of investment banking and wealth management specialists.

The hedge fund of funds product is positioned to be sold through family offices, wealth management platforms and other specialists in the mass-affluent market.

The Institutional segment also distributes consumer notes through a purchasing agent and its corresponding selling group of broker-dealers and securities firms.

Competition

The Institutional segment competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

For institutional product lines offering fixed annuity products (e.g., institutional annuities, structured settlements, SPIAs, longevity assurance and stable value), financial strength, stability and credit ratings are key buying factors. As a result, the competitors in those marketplaces tend to be other large, long-established insurance companies.

For product lines offering mutual funds either unbundled (institutional mutual funds) or wrapped in a variable annuity or mutual fund retirement program (government markets) the variety of available funds and their performance is most important to plan sponsors. The competitors tend to be the major mutual fund companies.

For PPVLI, competition in the large case market comes from other insurance carriers and from specialized agents with expertise in the benefit funding marketplace. For high net worth programs, the competition is often from other investment banking firms allied with other insurance carriers.

Individual Life

The Individual Life segment provides life insurance strategies to a wide array of business intermediaries and partners to solve the wealth protection, accumulation and transfer needs of its affluent, emerging affluent and business life insurance clients. As of December 31, 2006, life insurance in force increased 9% to $164.2 billion, from $150.8 billion and $139.9 billion as of December 31, 2005 and 2004, respectively. Account values increased 11% to $11.4 billion as of December 31, 2006 from $10.3 billion and $9.5 billion as of December 31, 2005 and 2004, respectively. Revenues were $1.2 billion, $1.1 billion and $1.1 billion in 2006, 2005 and 2004, respectively. Net income in Individual Life was $170, $166 and $155 in 2006, 2005 and 2004, respectively.

Principal Products

Life holds a significant market share in the variable universal life product market and is a leading seller of variable universal life insurance according to the Tillinghast VALUE Survey as of September 30, 2006. Sales in the Individual Life segment were $284, $250 and $233 in 2006, 2005 and 2004, respectively.

Variable Universal Life Variable universal life provides life insurance with an investment return linked to underlying investments as policyholders are allowed to invest premium dollars among a variety of underlying mutual funds. As the return on the investment portfolios increase or decrease, the surrender value of the variable universal life policy will increase or decrease, and, under certain policyholder options or market conditions, the death benefit may also increase or decrease. Life s second-to-die products are distinguished from other products in that two lives are insured rather than one, and the policy proceeds are paid upon the deaths of both insureds. Second-to-die policies are frequently used in estate planning for a married couple as the policy proceeds are paid out at the time an estate tax liability is incurred. Variable universal life account values were $6.6 billion, $5.9 billion and $5.4 billion as of December 31, 2006, 2005 and 2004, respectively.

Universal Life and Interest Sensitive Whole Life Universal life and interest sensitive whole life insurance coverages provide life insurance with adjustable rates of return based on current interest rates and on the returns of the underlying investment portfolios. Universal life provides policyholders with flexibility in the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming period, unless guaranteed no-lapse coverage is in effect. At December 31, 2006 and 2005, guaranteed no-lapse universal life represented approximately 6% and 4% of life insurance in-force, respectively. Life also sells second-to-die universal life insurance policies.

Marketing and Distribution

Consistent with Life s strategy to access multiple distribution outlets, the Individual Life distribution organization has been developed to penetrate multiple retail sales channels. Life sells both variable and fixed individual life products through a wide distribution network of national and regional broker-dealer organizations, banks and independent financial advisors. Life is a market leader in selling individual life insurance through national stockbroker and financial institutions channels. In addition, Life distributes individual life products through independent life and property-casualty agents and Woodbury Financial Services, a subsidiary retail broker-dealer. To wholesale Life s products, Life has a group of highly qualified life insurance professionals with specialized training in sophisticated life insurance sales. These individuals are generally employees of Life who are managed through a regional sales office system.

Competition

Individual Life competes with approximately 1,100 life insurance companies in the United States, as well as other financial intermediaries marketing insurance products. Competitive factors related to this segment are primarily the breadth and quality of life insurance products offered, pricing, relationships with third-party distributors, effectiveness of wholesaling support, pricing and availability of reinsurance, and the quality of underwriting and customer service.

Group Benefits

The Group Benefits segment provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, group retiree health, and medical stop loss. Life ranks number two in fully-insured group disability premium and number four in fully-insured life premium of U.S. group carriers (according to LIMRA data as of June 30, 2006). The Company also offers disability underwriting, administration, claims processing services and reinsurance to other insurers and self-funded employer plans. Generally, policies sold in this segment are term insurance. This allows the Company to adjust the rates or terms of its policies in order to minimize the adverse effect of various market trends, including declining interest rates and other factors. Typically policies are sold with one-, two- or three-year rate guarantees depending upon the product. In the disability market, the Company focuses on its risk management expertise and on efficiencies and economies of scale to derive a competitive advantage. Group Benefits generated fully insured ongoing premiums of $4.1 billion, $3.7 billion and $3.6

billion in 2006, 2005 and 2004, respectively, of which group disability insurance accounted for $1.8 billion, $1.7 billion and $1.6 billion in 2006, 2005 and 2004, respectively, and group life insurance accounted for $1.8 billion, $1.6 billion and $1.7 billion for the year ended December 31, 2006, 2005 and 2004, respectively. The Company held group disability reserves of $4.5 billion, $4.4 billion and $4.2 billion and group life reserves of $1.3 billion, $1.3 billion and $1.2 billion, as of December 31, 2006, 2005 and 2004, respectively. Net income in Group Benefits was $303, $272 and $229 in 2006, 2005 and 2004, respectively.

Principal Products

Group Disability Life is one of the largest carriers in the large case market of the group disability insurance business. Life s strong market presence in the group disability markets is the result of its well known brand recognition and reputation, financial strength and stability and Life s approach to claims management. Life also offers voluntary, or employee-paid, short-term and long-term disability group benefits. Life s efforts in the group disability market focus on early intervention, return-to-work programs and successful rehabilitation, offering the support to help claimants return to an active, productive life after a disability. Life also works with disability claimants to improve their approval rate for Social Security Assistance (i.e., reducing payment of benefits by the amount of Social Security payments received).

Life s short-term disability benefit plans provide a weekly benefit amount (typically 60% to 70% of the insured s earned income up to a specified maximum benefit) to insureds when they are unable to work due to an accident or illness. Long-term disability insurance provides a monthly benefit for those extended periods of time not covered by a short-term disability benefit plan when insureds are unable to work due to disability. Insureds may receive total or partial disability benefits. Most of these policies begin providing benefits following a 90- or 180-day waiting period and generally continue providing benefits until the insured reaches age 65. Long-term disability benefits are paid monthly and are limited to a portion, generally 50-70%, of the insured s earned income up to a specified maximum benefit.

Group Life and Accident Group term life insurance provides term coverage to employees and members of associations, affinity groups and financial institutions and their dependents for a specified period and has no accumulation of cash values. Life offers options for its basic group life insurance coverage, including portability of coverage and a living benefit and critical illness option, whereby terminally ill policyholders can receive death benefits in advance. Life also offers voluntary, or employee-paid, life group benefits and accidental death and dismemberment coverage either packaged with life insurance or on a stand-alone basis.

Other Life offers a host of other products and services, such as Family and Medical Leave Act Administration, group retiree health, and specialized insurance products for physicians. Life provides excess of loss medical coverage (known as stop loss insurance) to employers who self-fund their medical plans and pay claims using the services of a third party administrator. Life also provides travel accident, hospital indemnity, supplemental health insurance for military personnel and their families and other coverages to individual members of various associations, affinity groups, financial institutions and employee groups.

Marketing and Distribution

Life uses an experienced group of Company employees, 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

The Group Benefits business remains highly competitive. Competitive factors primarily affecting Group Benefits are the variety and quality of products and services offered, the price quoted for coverage and services, Life s relationships with its third-party distributors, and the quality of customer service. Group Benefits competes with numerous other insurance companies and other financial intermediaries marketing insurance products. However, many of these businesses have relatively high barriers to entry and there have been few new entrants into the group benefits insurance market over the past few years.

International

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and

Canada. International revenues were $759, $524 and $250 in 2006, 2005 and 2004, respectively. Net income for International was $246, $96 and $39 in 2006, 2005 and 2004, respectively. International s total assets under management were $33.9 billion, $27.8 billion and $16.1 billion as of December 31, 2006, 2005 and 2004, respectively. The Company s Japan operation, Hartford Life Insurance K.K. (HLIKK), which began selling variable annuities in December 2000, has continued to grow significantly and remains the largest distributor of variable annuities in Japan, based on assets under management. In August 2004, the Company began selling yen and U.S. dollar denominated fixed annuities in Japan. With assets under management of $31.3 billion, $26.1 billion and $14.6 billion as of December 31, 2006, 2005 and 2004, respectively, the Japan operation is the largest component of International with net income of $267, $120 and $36 in 2006, 2005 and 2004, respectively.

The Company s Japan operation sells both variable and fixed individual annuity products through a wide distribution network of Japan s broker-dealer organizations, banks and other financial institutions and independent financial advisors. The Company is one of the largest sellers of individual retail variable annuities in Japan with sales of $5.8 billion, $10.7 billion and $7.3 billion in 2006, 2005 and 2004, respectively.

International s other operations include a 50% owned joint venture in Brazil and a startup operation in Europe. The Brazil joint venture operates under the name Icatu-Hartford and distributes pension, life insurance and other insurance and savings products through broker-dealer organizations and various partnerships. The Company s European operation, Hartford Life Limited, began selling unit-linked investment bonds in the United Kingdom in April 2005. Unit-linked bonds are similar to variable annuities marketed in the United States and Japan. Hartford Life Limited established its operations in Dublin, Ireland with a branch office in London to help market and service its business in the United Kingdom.

Principal Products

Individual Variable Annuities The Company earns fees, based on policyholders account values, for managing variable annuity assets and maintaining policyholder accounts. The Company uses specified portions of the periodic deposits paid by a customer to purchase units in one or more mutual funds as directed by the customer, who then assumes the investment performance risks and rewards. These products offer the policyholder a variety of equity and fixed income options. Additionally, International sells variable annuity contracts that offer various guaranteed minimum death, investment, and living benefits.

Policyholders may make deposits of varying amounts at regular or irregular intervals, and the value of these assets fluctuates in accordance with the investment performance of the funds selected by the policyholder. To encourage persistency, many of the Company s individual variable annuities are subject to withdrawal restrictions and surrender charges. Surrender charges range up to 7% of the contract s deposits, less withdrawals, and reduce to zero on a sliding scale, usually within seven years from the deposit date. In Japan, individual variable annuity account values of $29.7 billion, as of December 31, 2006, have grown from $24.6 billion, as of December 31, 2005, and $14.1 billion, as of December 31, 2004.

Fixed MVA Annuities Fixed MVA annuities are fixed rate annuity contracts that guarantee a specific sum of money to be paid in the future, either as a lump sum or as monthly income. In the event that a policyholder surrenders a policy prior to the end of the guarantee period, the MVA feature adjusts the contract s cash surrender value with respect to any changes in interest rates, thereby protecting the Company from losses due to higher interest rates at the time of surrender. The amount of lump sum or monthly income payments will not fluctuate due to adverse changes in the Company s investment return, mortality experience or expenses. The Company s primary fixed MVA annuities in Japan are yen and dollar denominated with terms varying from five to ten years with an average term to maturity of approximately seven years. In Japan, account values of fixed MVA annuities were $1.7 billion, $1.5 billion and $502 as of December 31, 2006, 2005 and 2004, respectively.

Marketing and Distribution

The International distribution network is based on management s strategy of developing and utilizing multiple and competing distribution channels to achieve the broadest distribution to reach target customers. The success of the Company s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling, quality of customer service, and relationships with securities firms, banks and other financial institutions, and independent financial advisors (through which the sale of the Company s retail investment products to customers is consummated). As of December 31, 2006, the Japan operation employed a wholesaling network that supports sales through 56 banks and securities firms.

Competition

The International segment competes with a number of domestic and international insurance companies in Japan. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service. Competition has continued to increase in the Japanese market with the most significant competition the result of the strengthening of domestic competitors. This competition has resulted in changes in key distribution relationships. The Company continues to focus efforts on strengthening distribution relationships and improving wholesaling and servicing efforts.

Property & Casualty

Property & Casualty provides (1) workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock and fidelity and surety coverages to commercial accounts primarily throughout the United States; (2) professional liability coverage and directors and officers liability coverage, as well as excess and surplus lines business not normally written by standard commercial lines insurers; (3) automobile, homeowners and home-based business coverage to individuals throughout the United States; and (4) insurance-related services.

The Hartford seeks to distinguish itself in the property and casualty market through its product depth and innovation, distribution capacity, customer service expertise, and technology for ease of doing business. The Hartford is the eleventh largest property and casualty insurance operation in the United States based on direct written premiums for the year ended December 31, 2005, according to

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A.M. Best Company, Inc. (A.M. Best). Property & Casualty generated revenues of $12.4 billion, $12.0 billion and $11.3 billion in 2006, 2005 and 2004, respectively. Revenues include earned premiums, servicing revenue, net investment income and net realized capital gains and losses. Earned premiums for 2006, 2005 and 2004 were $10.4 billion, $10.2 billion and $9.5 billion, respectively. Additionally, net income was $1.5 billion, $1.2 billion and $910 for 2006, 2005 and 2004, respectively. Total assets for Property & Casualty were $41.0 billion, $40.3 billion and $38.0 billion as of December 31, 2006, 2005 and 2004, respectively.

Business Insurance

Business Insurance provides standard commercial insurance coverage to small and middle market commercial businesses primarily throughout the United States. Small commercial businesses generally represent companies with up to $15 in annual revenues or total property values. Middle market businesses generally represent companies with greater than $15 in annual revenues or total property values. This segment also provides commercial risk management products and services as well as marine coverage. Earned premiums for 2006, 2005 and 2004 were $5.1 billion, $4.8 billion and $4.3 billion, respectively. The segment had underwriting income of $618, $396 and $360 in 2006, 2005 and 2004, respectively.

Principal Products

Business Insurance offers workers compensation, property, automobile, liability, umbrella and marine coverages under several different products. Some of these coverages are sold together as part of a single package policy for small business owners. Among the products sold within small commercial, the Company offers the Select Xpand product, which is designed to meet the needs of businesses with $5 to $15 in revenues. Workers compensation insurance accounts for the largest share of the written premium in the Business Insurance segment. Commercial risk management products and services are also provided.

Marketing and Distribution

Business Insurance provides insurance products and services through its home office located in Hartford, Connecticut, and multiple domestic regional office locations and insurance centers. The segment markets its products nationwide utilizing brokers and independent agents and involving trade associations and employee groups. Brokers and independent agents are not employees of The Hartford.

Competition

The commercial insurance industry is a highly competitive environment regarding product, price, service and technology. The Hartford competes against a number of large, national carriers as well as regional competitors in certain territories. Competitors include other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. These companies sell through various distribution channels and business models, across a broad array of product lines, and with a high level of variation regarding geographic, marketing and customer segmentation.

The market for small commercial business has become more competitive as favorable loss costs in the past couple of years have led carriers to expand coverage while maintaining relatively flat pricing. While written premium growth rates in small commercial have been slowing, underwriting margins have been strong driven, in part, by favorable claim frequency. Within the small commercial segment of the business, a number of companies have sought to grow their business by increasing their underwriting appetite and paying more commissions. In addition, a number of companies, like The Hartford, are pursuing agency appointment strategies to increase premium writings. The increase in exposure to catastrophe losses in many coastal areas have led a number of carriers to be more aggressive in pursuing business in the Mid-West where exposure to catastrophes is not as severe.

Middle market business is characterized as high touch with case-by-case underwriting and pricing decisions. As such, compared to small commercial, the pricing of middle market accounts is prone to more significant variation or cyclicality from year to year. Legislative reforms in a number of states in recent years has helped to control indemnity costs on workers compensation claims, but this has also led to downward pressure on rates. In a market of declining or softening prices, carriers are competing to protect their profitable renewals. New business opportunities increasingly involve more complex exposures and risk classes. In addition, there continue to be constraints on the amount of catastrophe capacity available in the marketplace.

The Hartford is the fifth largest commercial lines insurer in the United States based on direct written premiums for the year ended December 31, 2005 according to A.M. Best. The relatively large size and underwriting capacity of The Hartford provide opportunities not available to smaller companies. In addition, the marketplace is affected by available capacity of the insurance industry as measured by statutory surplus. Surplus expands and contracts primarily in conjunction with profit levels generated by the industry. National carriers continue to compete for the same business, while regional carriers are broadening their target market and distribution. Many carriers are focusing on technology to streamline the underwriting process, provide more efficient customer service, introduce more sophisticated pricing models and increase the volume of business sold through agents.

Personal Lines

Personal Lines provides automobile, homeowners and home-based business coverages to the members of AARP through a direct marketing operation; to individuals who prefer local agent involvement through a network of independent agents in the standard personal lines market. Up until the sale of the business on November 30, 2006, the Company also sold non-standard auto insurance through the Company s Omni Insurance Group, Inc. (Omni) subsidiary. The Hartford s exclusive licensing arrangement with AARP continues until January 1, 2020 for automobile, homeowners and home-based business. This agreement provides Personal Lines with an important competitive advantage. Personal Lines also operates a member contact center for health insurance products offered through AARP s Health Care Options. The Health Care Options agreement continues through 2009. Personal Lines had earned premiums of $3.8 billion, $3.6 billion and $3.4 billion in 2006, 2005 and 2004, respectively. Underwriting income for 2006, 2005 and 2004 was $429, $460 and $138, respectively. AARP had earned premiums of $2.5 billion, $2.3 billion and $2.1 billion in 2006, 2005 and 2004, respectively.

Principal Products

Personal Lines provides standard and non-standard automobile, homeowners and home-based business coverages to individuals across the United States, including a special program designed exclusively for members of AARP. During 2006, the Company enhanced its new Dimensions automobile and homeowners class plans for insurance sold through independent agents and brokers. Dimensions with Packages , introduced in 2006, is a suite of products that offers coverages and competitive rates tailored to a customer s individual risk. Dimensions uses a large number of interactive rating variables to determine a rate that most accurately reflects the customer s individual characteristics.

Marketing and Distribution

Personal Lines reaches diverse markets through multiple distribution channels including brokers, independent agents, direct marketing, the internet and advertising in publications. This segment provides customized products and services to customers through a network of independent agents in the standard personal lines market. Brokers and independent agents are not employees of The Hartford. Personal Lines has an important relationship with AARP and markets directly to its nearly 38 million members.

Competition

The personal lines automobile and homeowners businesses are highly competitive. Personal lines insurance is written by insurance companies of varying sizes that sell products through various distribution channels, including independent agents, captive agents and directly to the consumer. The personal lines market competes on the basis of price; product; service, including claims handling; stability of the insurer and name recognition. A number of carriers will likely continue to increase their advertising in an effort to gain new business and retain profitable business. In addition, carriers that distribute products mainly through agents are offering additional incentives to those agents to attract new business. To distinguish themselves in the marketplace, top tier carriers are offering on-line and self service capabilities to agents and consumers. In addition, the capability to sell direct to the consumer has become increasingly important as a greater number of consumers use the internet to research or shop for auto insurance. Through information technology, carriers will likely further segment their pricing plans to expand market share in what they believe to be the most profitable segments. Carriers with more efficient cost structures will have an advantage in competing for new business through price. Some competitors are introducing new products at substantially reduced rate levels and the Company expects that top tier carriers will continue to capture a larger share of industry revenues and profits.

The Hartford is the twelfth largest personal lines insurer in the United States based on direct written premiums for the year ended December 31, 2005 according to A.M. Best. A major competitive advantage of The Hartford is the exclusive licensing arrangement with AARP to provide personal automobile, homeowners and home-based business insurance products to its members. This arrangement is in effect until January 1, 2020. Management expects favorable baby boom demographics to increase AARP membership during this period.

Specialty Commercial

Specialty Commercial provides a wide variety of property and casualty insurance products and services through retailers and wholesalers to large commercial clients and insureds requiring a variety of specialized coverages. Excess and surplus lines coverages not normally written by standard line insurers are also provided, primarily through wholesale brokers. Specialty Commercial had earned premiums of $1.6 billion, $1.8 billion and $1.7 billion in 2006, 2005 and 2004, respectively. Underwriting income (loss) was $64, ($165) and ($53) in 2006, 2005 and 2004, respectively.

Principal Products

Specialty Commercial offers a variety of customized insurance products and risk management services. Specialty Commercial provides standard commercial insurance products including workers compensation, automobile and liability coverages to large-sized companies. Specialty Commercial also provides bond, professional liability, specialty casualty and livestock coverages, as well as core property and excess and surplus lines coverages not normally written by standard lines insurers. A significant portion of 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. Specialty Casualty also provides retrospectively-rated programs where the premiums are adjustable based on loss experience. Alternative markets, within Specialty Commercial, provides insurance products and services primarily to captive insurance companies, pools and self-insurance groups. In addition, Specialty Commercial provides third-party administrator services for claims administration, integrated benefits, loss control and performance measurement through Specialty Risk Services, LLC, a subsidiary of the Company.

Marketing and Distribution

Specialty Commercial provides insurance products and services through its home office located in Hartford, Connecticut and multiple domestic office locations. The segment markets its products nationwide utilizing a variety of distribution networks including independent agents and brokers as well as wholesalers. Brokers, independents agents and wholesalers are not employees of The Hartford.

Competition

The commercial insurance industry is a highly competitive environment regarding product, price and service. Specialty Commercial is comprised of a diverse group of businesses that are unique to commercial lines. Each line of business operates independently with its own set of business objectives, and focuses on the operational dynamics of their specific industry. These businesses, while somewhat interrelated, have a unique business model and operating cycle. Specialty Commercial is considered a transactional business and, therefore, competes with other companies for business primarily on an account by account basis due to the complex nature of each transaction.

On specialty casualty business, written pricing competition is expected to be significant. With national account business, carriers will likely offer more lower-deductible policies and guaranteed cost policies. The Company expects competition among national carriers to continue to be very strong and larger regional carriers will likely target specific accounts at renewal. Within professional liability, in 2005 and 2006 there was a decrease in the number of securities class actions suits and this has put some downward pressure on rates. While pricing for specialty property increased significantly during 2006 as higher reinsurance costs were passed on to insureds, pricing increases will likely be less significant in 2007. Carriers continue to manage their aggregate exposure to property losses in catastrophe-prone areas.

Earned premium growth is not an objective of Specialty Commercial since premium writings may fluctuate based on the segment s view of perceived market opportunity. Specialty Commercial competes with other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. The relatively large size and underwriting capacity of The Hartford provide opportunities not available to smaller companies.

Other Operations

The Other Operations segment includes operations that are under a single management structure, Heritage Holdings, which is responsible for two related activities. The first activity is the management of certain subsidiaries and operations of The Hartford that have discontinued writing new business. The second is the management of claims (and the associated reserves) related to asbestos, environmental and other exposures.

Life Reserves

Life insurance subsidiaries of the Company establish and carry as liabilities, predominantly, three types of reserves: (1) a liability equal to the balance that accrues to the benefit of the policyholder as of the financial statement date, otherwise known as the account value, (2) a liability for unpaid losses, including those that have been incurred but not yet reported, and (3) 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. The liabilities for unpaid losses and future policy benefits are calculated based on actuarially recognized methods using morbidity and mortality tables, which are modified to reflect Life s actual experience when appropriate. Liabilities for unpaid losses include estimates of amounts to fully settle known reported claims as well as claims related to insured events that the Company estimates have been incurred but have not yet been reported. Future policy benefit reserves are computed at amounts that, with additions from estimated net premiums to be received and with interest on such reserves compounded annually at certain assumed rates, are expected to be sufficient to meet Life s policy obligations at their maturities or in the event of an insured s disability or death. Other insurance liabilities include those for unearned premiums and benefits in excess of account value. Reserves for assumed reinsurance are computed in a manner that is comparable to direct insurance reserves.

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Property & Casualty Reserves

The Hartford establishes property and casualty reserves to provide for the estimated costs of paying claims under insurance policies written by The Hartford. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported to The Hartford and include estimates of all expenses associated with processing and settling these claims. This estimation process involves a variety of actuarial techniques and is primarily based on historical experience and consideration of current trends. Examples of current trends include increases in medical cost inflation rates, the changing use of medical care procedures, the introduction of new products such as the Dimensions for auto product in Personal Lines, changes in internal claim practices, changes in the legislative and regulatory environment over workers compensation claims, evolving exposures to claims asserted against religious institutions and other organizations relating to molestation or abuse and other mass torts.

The Hartford continues to receive claims that assert damages from asbestos-related and environmental-related exposures. Asbestos claims relate primarily to bodily injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution related clean-up costs. As discussed further in the Critical Accounting Estimates and Other Operations sections of the MD&A, significant uncertainty limits the Company s ability to estimate the ultimate reserves necessary for unpaid losses and related expenses with regard to environmental and particularly asbestos claims.

Most of the Company s property and casualty reserves are not discounted. However, certain liabilities for unpaid losses for permanently disabled claimants have been discounted to present value using an average interest rate of 5.6% in 2006 and 2005. As of December 31, 2006 and 2005, such discounted reserves totaled $707 and $680, respectively (net of discounts of $510 and $505, respectively). In addition, certain structured settlement contracts that fund loss run-offs for unrelated parties having payment patterns that are fixed and determinable have been discounted to present value using an average interest rate of 5.5%. At December 31, 2006 and 2005, such discounted reserves totaled $273 and $264, respectively (net of discounts of $95 and $103, respectively). Accretion of these discounts was $32, $30, and $29 in 2006, 2005 and 2004, respectively.

As of December 31, 2006, net property and casualty reserves for losses and loss adjustment expenses reported under Generally Accepted Accounting Principles (GAAP) exceeded net reserves reported on a statutory basis by $29. The difference primarily results from a portion of the GAAP provision for uncollectible reinsurance not recognized under statutory accounting and the required exclusion from statutory reserves of assumed retroactive reinsurance, largely offset by the discounting of GAAP-basis workers compensation reserves at rates no higher than risk-free interest rates; such rates generally exceed the statutory discount rates set by regulators.

Further discussion on The Hartford s property and casualty reserves, including asbestos and environmental claims reserves, may be found in the Reserves section of the MD&A Critical Accounting Estimates.

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A reconciliation of liabilities for unpaid losses and loss adjustment expenses is herein referenced from Note 11 of Notes to Consolidated Financial Statements. A table depicting the historical development of the liabilities for unpaid losses and loss adjustment expenses, net of reinsurance, follows.

Loss Development Table

Property And Casualty Loss And Loss Adjustment Expense Liability Development Net of Reinsurance

For the years ended December 31, [1]

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$12,702	$12,770	$12,902	$12,476	$12,316	$12,860	$13,141	$16,218	$16,191	$16,863	$17,604
Cumulative paid losses and loss expenses											
One year later	2,625	2,472	2,939	2,994	3,272	3,339	3,480	4,415	3,594	3,702	
Two years later	4,188	4,300	4,733	5,019	5,315	5,621	6,781	6,779	6,035		
Three years later	5,540	5,494	6,153	6,437	6,972	8,324	8,591	8,686			
Four years later	6,418	6,508	7,141	7,652	9,195	9,710	10,061				
Five years later	7,201	7,249	8,080	9,567	10,227	10,871					
Six years later	7,800	8,036	9,818	10,376	11,140						
Seven years later	8,499	9,655	10,501	11,137							
Eight years later	10,044	10,239	11,246								
Nine years later	10,576	10,933									
Ten years later	11,237										
Liabilities re-estimated											
One year later	12,752	12,615	12,662	12,472	12,459	13,153	15,965	16,632	16,439	17,159	
Two years later	12,653	12,318	12,569	12,527	12,776	16,176	16,501	17,232	16,838		
Three years later	12,460	12,183	12,584	12,698	15,760	16,768	17,338	17,739			
Four years later	12,380	12,138	12,663	15,609	16,584	17,425	17,876				
Five years later	12,317	12,179	15,542	16,256	17,048	17,927					
Six years later	12,322	15,047	16,076	16,568	17,512						
Seven years later	15,188	15,499	16,290	17,031							
Eight years later	15,594	15,641	16,799								
Nine years later	15,713	16,165									
Ten years later	16,244										
Deficiency (redundancy), net of reinsurance	**$ 3,542**	**$ 3,395**	**$ 3,897**	**$ 4,555**	**$ 5,196**	**$ 5,067**	**$ 4,735**	**$ 1,521**	**$ 647**	**$ 296**	

[1] *The above table excludes Hartford Insurance, Singapore as a result of its sale in September 2001, Hartford Seguros as a result of its sale in February 2001, Zwolsche as a result of its sale in December 2000 and London & Edinburgh as a result of its sale in November 1998.*

The table above 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 table below, 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.

Property And Casualty Loss And Loss Adjustment Expense Liability Development Gross
For the years ended December 31, [1]

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net reserve, as initially estimated	**$12,770**	**$12,902**	**$12,476**	**$12,316**	**$12,860**	**$13,141**	**$16,218**	**$16,191**	**$16,863**	**$17,604**
Reinsurance and other recoverables, as initially estimated	3,996	3,275	3,706	3,871	4,176	3,950	5,497	5,138	5,403	4,387
Gross reserve, as initially estimated	**$16,766**	**$16,177**	**$16,182**	**$16,187**	**$17,036**	**$17,091**	**$21,715**	**$21,329**	**$22,266**	**$21,991**
Net reestimated reserve	**$16,165**	**$16,799**	**$17,031**	**$17,512**	**$17,927**	**$17,876**	**$17,739**	**$16,838**	**$17,159**	
	5,051	4,552	5,465	5,502	5,684	5,052	4,964	4,906	5,417	

Reestimated and other reinsurance recoverables									
Gross reestimated reserve	**$21,216**	**$21,351**	**$22,496**	**$23,014**	**$23,611**	**$22,928**	**$22,703**	**$21,744**	**$22,576**
Gross deficiency (redundancy)	**$ 4,450**	**$ 5,174**	**$ 6,314**	**$ 6,827**	**$ 6,575**	**$ 5,837**	**$ 988**	**$ 415**	**$ 310**

[1] The above table excludes Hartford Insurance, Singapore as a result of its sale in September 2001, Hartford Seguros as a result of its sale in February 2001, Zwolsche as a result of its sale in December 2000 and London & Edinburgh as a result of its sale in November 1998.

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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, 2006. 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, 2006 for the indicated accident year(s).

Effect of Net Reserve Re-estimates on Calendar Year Operations

	Calendar Year										
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**
By Accident year											
1996 & Prior	$50	$ (99)	$(193)	$(80)	$ (63)	$ 5	$2,866	$ 406	$ 119	$ 531	$3,542
1997		(56)	(104)	(55)	18	36	2	46	23	(7)	(97)
1998			57	42	60	38	11	82	72	(15)	347
1999				89	40	92	32	113	98	(46)	418
2000					88	146	73	177	152	1	637
2001						(24)	39	(232)	193	38	14
2002							(199)	(56)	180	36	(39)
2003								(122)	(237)	(31)	(390)
2004									(352)	(108)	(460)
2005										(103)	(103)
Total	**$50**	**$(155)**	**$(240)**	**$ (4)**	**$143**	**$293**	**$2,824**	**$ 414**	**$ 248**	**$ 296**	**$3,869**

The largest impacts of net reserve re-estimates are shown in the 1996 & Prior accident years. The reserve re-estimates in calendar year 2003 include an increase in reserves of $2.6 billion related to reserve strengthening based on the Company s evaluation of its asbestos reserves. The reserve evaluation that led to the strengthening in calendar year 2003 confirmed the Company s view of the existence of a substantial long-term deterioration in the asbestos litigation environment. The reserve re-estimates in calendar years 2004 and 2006 were largely attributable to reductions in the reinsurance recoverable asset associated with older, long-term casualty liabilities. Excluding the impacts of asbestos and environmental strengthening, over the past ten years, reserve re-estimates for total Property & Casualty ranged from (3.0%) to 1.6% of total net recorded reserves.

Reserves for accident year 1997 show the effects of favorable reestimation in subsequent years. A contributing factor to this improvement, spread over several calendar years, was an unexpected improvement in the environment for workers compensation. With the benefit of hindsight, annual changes in loss cost trends were very low during this period as compared to historical experience. Because it took several years for this improvement to emerge in the data, it similarly took several years for this to be recognized in the Company s estimates of liabilities.

Until calendar year 2006, there was also reserve deterioration, spread over several calendar years, on accident years 1998-2000. Assumed casualty reinsurance contributed in part to this deterioration. 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. Workers compensation also contributed to this deterioration, as medical inflation trends were above initial expectations.

Accident years 2001 and 2002 are reasonably close to original estimates. However, each year shows some swings by calendar period, with some favorable development later offset by unfavorable development. The release for accident year 2001 during calendar year 2004 relates primarily to reserves for September 11. Subsequent adverse developments on accident year 2001 relate to assumed casualty reinsurance and unexpected development on mature claims in both general liability and workers compensation. Reserve releases for accident year 2002 during calendar years 2003 and 2004 come largely from short-tail lines of business, where results emerge quickly and actual reported losses are predictive of ultimate losses. Reserve increases on accident year 2002 during calendar year 2005 were recognized, as unfavorable development on accident years prior to 2002 caused the Company to increase its estimate of unpaid losses for the 2002 accident year. Further increases occurred in 2006 due to unexpected development in general liability and workers compensation losses.

Accident years 2003 through 2005 show favorable development in calendar years 2004 through 2006. A portion of the release comes from short-tail lines of business, where results emerge quickly. During calendar year 2005 and 2006, favorable re-estimates occurred in Personal Lines for both loss and allocated loss adjustment expenses. Workers compensation also experienced favorable re-estimates of both loss and allocated loss adjustment expenses as the latest evaluations of workers compensation claims indicate that expense reduction initiatives and reform in states such as California have had a greater impact in controlling costs than was originally estimated. In addition, catastrophe reserves related to the 2004 and 2005 hurricanes developed favorably in 2006.

Within professional liability business, during calendar year 2005, reserves were released for directors and officers insurance on accident years 2003 and 2004 due to favorable developments, while prior accident year reserves were strengthened for contracts that provide auto financing gap coverage and auto lease residual value coverage. In 2003, the Company stopped writing contracts that provide auto financing gap coverage and auto lease residual value coverage.

Ceded Reinsurance

Consistent with industry practice, The Hartford cedes insurance risk to reinsurance companies. Reinsurance does not relieve The Hartford of its primary liability and, as such, failure of reinsurers to honor their obligations could result in losses to The Hartford. The Hartford evaluates the risk transfer of its reinsurance contracts, the financial condition of its reinsurers and monitors concentrations of credit risk. The Company s monitoring procedures include careful initial selection of its reinsurers, structuring agreements to provide collateral funds where possible, and regularly monitoring the financial condition and ratings of its reinsurers. Reinsurance accounting is followed for ceded transactions when the risk transfer provisions of Statement of Financial Accounting Standard No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts, (SFAS 113) have been met. For further discussion see Note 6 of Notes to Consolidated Financial Statements.

For Property & Casualty operations, these 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 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.

In accordance with normal industry practice, Life is involved in both the cession and assumption of insurance with other insurance and reinsurance companies. As of December 31, 2006 and 2005, the Company s policy for the largest amount of life insurance retained on any one life by any one of the life operations was approximately $5. In addition, Life has reinsured the majority of the minimum death benefit guarantees as well as 23% of the guaranteed minimum withdrawal benefits offered in connection with its variable annuity contracts. Life also assumes reinsurance from other insurers. For the years ended December 31, 2006, 2005 and 2004, Life did not make any significant changes in the terms under which reinsurance is ceded to other insurers.

Investment Operations

The Hartford s investment portfolios are primarily divided between Life and Property & Casualty. The investment portfolios of Life and Property & Casualty are managed by Hartford Investment Management Company (HIMCO), a wholly-owned subsidiary of The Hartford. HIMCO manages the portfolios to maximize economic value, while attempting to 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 and credit issuer allocation limits, maximum portfolio below investment grade holdings and foreign currency exposure. The Company attempts to minimize adverse impacts to the portfolio and the Company s results of operations from changes in economic conditions through asset allocation limits, asset/liability duration matching and through the use of derivatives. For further discussion of HIMCO s portfolio management approach, see the Investments General section of the MD&A.

In addition to managing the general account assets of the Company, HIMCO is also a Securities and Exchange Commission (SEC) registered investment advisor for third party institutional clients, a sub-advisor for certain mutual funds offered by Life and serves as the sponsor and collateral manager for synthetic collateralized loan obligations. HIMCO specializes in investment management that incorporates proprietary research and active management within a disciplined risk framework to provide value added returns versus peers and benchmarks. As of December 31, 2006 and 2005, the fair value of HIMCO s total assets under management was approximately $131.2 billion and $115.9 billion, respectively, of which $7.2 billion and $4.7 billion, respectively, were held in HIMCO managed third party accounts.

Regulation and Premium Rates

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; fixing maximum interest rates on life insurance policy loans 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 which 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.

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 many 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.

Employees

The Hartford had approximately 31,000 employees as of December 31, 2006.

Available Information

The Hartford makes available, free of charge, on or through its Internet website (http://www.thehartford.com) The Hartford s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after The Hartford electronically files such material with, or furnishes it to, the SEC.

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 a significant or material adverse effect on the business, financial condition, operating results or liquidity of The Hartford. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the Securities and Exchange Commission.

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 operating results, financial condition 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. 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. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. Accordingly, the degree of variability of reserve estimates for these 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. Although potential Federal asbestos-related legislation has been considered in the Senate, it is uncertain whether such legislation will be considered or be enacted in the future and, if so, what its effect would be on our aggregate asbestos liabilities. 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. Any such additional liability cannot be reasonably estimated now but could have a material adverse effect on our consolidated operating results, financial condition and liquidity.

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, consolidated operating results, financial condition or 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 Act of 2002, as extended through 2007, is also limited. Moreover, it is uncertain whether a federal terrorism risk insurance program similar to the Terrorism Risk Insurance Extension Act of 2005 will be enacted to cover events occurring after December 31, 2007. 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 earnings during the period or periods affected and, if significant enough, could adversely affect our liquidity and financial condition. 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, 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. The continued threat of terrorism also could result in increased reinsurance prices and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. 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, consolidated operating results, financial condition and liquidity.

We may incur losses due to our reinsurers being unwilling or unable 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 seek to reduce the losses that may arise from catastrophes, or other events that can cause unfavorable results of operations, through reinsurance. 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 evaluate periodically the financial condition of our reinsurers to minimize our exposure to significant losses from reinsurer insolvencies, our reinsurers may become financially unsound or choose to dispute their contractual obligations by the time their financial obligations become due. The inability or unwillingness of any reinsurer to meet its financial obligations to us could negatively affect our consolidated operating results. In addition, market conditions beyond our control determine the availability and cost of the reinsurance we are able to purchase. Recently, the price of reinsurance has increased significantly, and may continue to increase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates 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 other alternatives to reinsurance.

We are exposed to significant capital markets risk related to changes in interest rates, equity prices and foreign exchange rates which may adversely affect our results of operations, financial condition or cash flows.

We are exposed to significant capital markets risk related to changes in interest rates, equity prices and foreign currency exchange rates. Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates will reduce the net unrealized gain position of our investment portfolio, increase interest expense on our variable rate debt obligations and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of our Life businesses may 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. Due to the long-term nature of the liabilities associated with certain of our Life businesses, such as structured settlements and guaranteed benefits on variable annuities, sustained declines in long term interest rates may subject us to reinvestment risks and increased hedging costs. Our primary exposure to equity risk relates to the potential for lower earnings associated with certain of our Life businesses, such as variable annuities, where fee income is earned based upon the fair value of the assets under management. In addition, certain of our Life products offer guaranteed benefits which increase our potential benefit exposure should equity markets decline. We are also exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other post-retirement benefit obligations. Sustained declines in long-term interest rates or equity returns likely would have a negative effect on the funded status of these plans. Our primary foreign currency exchange risks are related to net income from foreign operations, non U.S. dollar denominated investments, investments in foreign subsidiaries, the yen denominated individual fixed annuity product, and certain guaranteed benefits associated with the Japan variable annuity. These risks relate to the potential decreases in value and income resulting from a strengthening or weakening in foreign exchange rates versus the U.S. dollar. In general, the weakening of foreign currencies versus the U.S. dollar will unfavorably affect net income from foreign operations, the value of non-U.S. dollar denominated investments, investments in foreign subsidiaries and realized gains or losses on the yen denominated individual fixed annuity product. In comparison, a strengthening of the Japanese yen in comparison to the U.S. dollar and other currencies may increase our exposure to the guarantee benefits associated with the Japan variable annuity. If significant, declines in equity prices, changes in U.S. interest rates and the strengthening or weakening of foreign currencies against the U.S. dollar, individually or in tandem, could have a material adverse effect on our consolidated results of operations, financial condition or cash flows.

We may be unable to effectively mitigate the impact of equity market volatility on our financial position and results of operations arising from obligations under annuity product guarantees, which may affect our consolidated results of operations, financial condition or cash flows.

Our primary exposure to equity risk relates to the potential for lower earnings associated with certain of our life businesses where fee income is earned based upon the fair value of the assets under management. In addition, some of the products offered by these businesses, especially variable annuities, offer certain guaranteed benefits which increase our potential benefit exposure as the equity markets decline. We are subject to equity market volatility related to these benefits, especially the guaranteed minimum death benefit (GMDB), guaranteed minimum withdrawal benefit (GMWB) and guaranteed minimum income benefit (GMIB) offered with variable annuity products. We use reinsurance structures and have modified benefit features to mitigate the exposure associated with GMDB. We also use reinsurance in combination with derivative instruments to minimize the claim exposure and the volatility of net income associated with the GMWB liability. While we believe that these and other actions we have taken mitigate the risks related to these benefits, we are subject to the risks that reinsurers or derivative counterparties are unable or unwilling to pay, that other risk 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 consolidated results of operations, financial condition or cash flows.

Regulatory proceedings or private claims relating to incentive compensation or payments made to brokers or other producers, alleged anti-competitive conduct and other sales practices could have a material adverse effect on us.

We have received multiple regulatory inquiries regarding our compensation arrangements with brokers and other producers. For example, in June 2004, the Company received a subpoena from the New York Attorney General s Office in connection with its inquiry into compensation arrangements between brokers and carriers. In mid-September 2004 and subsequently, the Company has received additional subpoenas from the New York Attorney General s Office, which relate more specifically to possible anti-competitive activity among brokers and insurers. On October 14, 2004, the New York Attorney General s Office filed a civil complaint against Marsh & McLennan Companies, Inc., and Marsh, Inc. (collectively, Marsh). The complaint alleges, among other things, that certain insurance companies, including the Company, participated with Marsh in arrangements to submit inflated bids for business insurance and paid contingent commissions to ensure that Marsh would direct business to them. The Company was not joined as a defendant in the action, which has since settled.

Since the beginning of October 2004, the Company has received subpoenas or other information requests from Attorneys General and regulatory agencies in more than a dozen jurisdictions regarding broker compensation, possible anti-competitive activity and sales practices. These inquiries have concerned lines of business in both our Property & Casualty and Life operations. The Company may continue to receive additional subpoenas and other information requests from Attorneys General or other regulatory agencies regarding similar issues. The Company intends to continue cooperating fully with these investigations, and is conducting an internal review, with the assistance of outside counsel, regarding broker compensation issues in its Property & Casualty and Group Benefits operations. Although no regulatory action has been initiated against the Company in connection with the allegations described in the civil complaint, it is possible that one or more other regulatory agencies may pursue action against the Company or one or more of its employees in the future on this matter or on other similar matters. If such an action is brought, it could have a material adverse effect on the Company.

Regulatory and market-driven changes may affect our practices relating to the payment of incentive compensation to brokers and other producers, including changes that have been announced and those which may occur in the future, and could have a material adverse effect on us in the future.

We pay brokers and independent agents commissions and other forms of incentive compensation in connection with the sale of many of our insurance products. Since the New York Attorney General s Office filed a civil complaint against Marsh on October 14, 2004, several of the largest national insurance brokers, including Marsh, Aon Corporation and Willis Group Holdings Limited, have announced that they have discontinued the use of contingent compensation arrangements. Other industry participants may make similar, or different, determinations in the future. In addition, legal, legislative, regulatory, business or other developments may require changes to industry practices relating to incentive compensation.

Pursuant to settlement agreements reached with regulators, several insurance companies have agreed to restrictions on the payment of contingent compensation relating to the placement of excess casualty insurance policies. These insurers have agreed that the restrictions may be extended in time, and to other property and casualty lines, if insurers in a given line or segment, that together represent more than 65% of the market share in the insurance line (based upon national gross written premiums), do not pay contingent compensation. On November 30, 2006, the New York Attorney General s Office notified these insurers that the 65% threshold had been reached for a number of insurance lines, including personal automobile and homeowners insurance. As a result, beginning January 1, 2007, these insurers were prohibited from paying contingent compensation relating to the placement of these types of insurance. In addition, on December 21, 2006, Chubb Corporation agreed to forego the payment of contingent compensation for all P&C insurance lines pursuant to a settlement agreement reached with regulators. These insurers, including Chubb, have also agreed to support legislation and regulations to abolish contingent compensation and to require greater disclosure of compensation. At this time, it is not possible to predict the effect of these announced or potential future changes on our business or distribution strategies, but such changes could have a material adverse effect on us in the future.

Our consolidated results of operations, financial condition or cash flows in a particular period or periods may be adversely affected by unfavorable loss development.

Our success depends upon our ability to accurately assess the risks associated with the businesses 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 actual losses and related loss expenses exceed our expectations and reserves recorded in our financial statements, 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 the severity and timing of these determinations, this could have a material adverse effect on our consolidated results of operations, financial condition or cash flows in a particular quarterly or annual period.

We are particularly vulnerable to losses from the incidence and severity of catastrophes, both natural and man-made, the occurrence of which may have a material adverse effect on our financial condition, consolidated results of operations or cash flows in a particular quarterly or annual period.

Our property and casualty insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, severe winter weather, fires, tornadoes, explosions and other natural or man-made disasters. We also face substantial exposure to losses resulting from acts of terrorism, disease pandemics and political instability. The geographic distribution of our business subjects us to catastrophe exposure for natural 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, and earthquakes in California and the New Madrid region of the United States. Further we expect that increases in the values and concentrations of insured property in these areas will increase the severity of catastrophic events in the future. In addition, in the aftermath of the 2004 and 2005 hurricane season, third-party catastrophe loss models for hurricane loss events were updated to incorporate medium-term forecasts of increased hurricane frequency and severity. Our life insurance operations are also exposed to risk of loss from catastrophes. For example, natural or man-made disasters or a disease pandemic such as could arise from avian flu, could significantly increase our mortality and morbidity experience. Policyholders may be unable to meet their obligations to pay premiums on our insurance policies or make deposits on our investment products. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of our debt or financial strength ratings. 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 financial condition, consolidated results of operations or cash flows in a particular quarterly or annual period.

Competitive activity may adversely affect our market share and profitability, which could have an adverse effect on our business, results of operations or financial condition.

The insurance industry is highly competitive. Our competitors include other insurers and, because many of our products include an investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. In recent years, there has been substantial consolidation and convergence among companies in the insurance and financial services industries resulting in increased competition from large, well-capitalized insurance and financial services firms that market products and services similar to ours. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. These competitors compete with us for producers such as brokers and independent agents. 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, particularly as competitors seek to win market share, and may harm our ability to maintain or increase our profitability. Because of the highly competitive nature of the insurance industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressure will not have a material adverse effect on our business, results of operations or financial condition.

We may experience unfavorable judicial or legislative developments that would adversely affect our results of operations, financial condition or 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. 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. Pervasive or dramatic 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. Similarly, changes in federal or state tort litigation laws or other applicable laws could have the same effect. To the extent that judicial or legislative developments cause our ultimate liabilities to increase from our current expectations, they could have a material adverse effect on the Company s consolidated results of operations, financial condition or liquidity.

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Potential changes in domestic and foreign regulation may increase our business costs and required capital levels, which could adversely affect our business, consolidated operating results, financial condition or liquidity.

We are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Moreover, they are administered and enforced by a number of different governmental authorities, including foreign regulators, state insurance regulators, state securities administrators, the Securities and Exchange Commission, the New York Stock Exchange, the National Association of Securities Dealers, the U.S. Department of Justice, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator s or enforcement authority s interpretation of a legal issue may not result in compliance with another regulator s or enforcement authority s interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator s or enforcement authority s interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator s or enforcement authority s interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business.

State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and licensed. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving policy forms;
- regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- establishing statutory capital and reserve requirements and solvency standards;
- fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;
- approving changes in control of insurance companies;
- restricting the payment of dividends and other transactions between affiliates;
- establishing assessments and surcharges for guaranty funds, second-injury funds and other mandatory pooling arrangements; and
- regulating the types, amounts and valuation of investments.

State insurance regulators and the National Association of Insurance Commissioners, or NAIC, regularly re-examine existing laws and regulations applicable to insurance companies and their products. 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. Our asset management operations are also subject to extensive regulation in the various jurisdictions where they operate. These regulations are primarily intended to protect investors in the securities markets or investment advisory clients and generally grant supervisory authorities broad administrative powers. Changes in all of these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have a material adverse effect on our business, consolidated operating results, financial condition and liquidity. Compliance with these laws and regulations is also time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance costs and other expenses of doing business, thus having an adverse effect on our business, consolidated operating results, financial condition and liquidity.

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Our business, results of operations and financial condition may be adversely affected by general domestic and international economic and business conditions that are less favorable than anticipated.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of business we conduct. For example, in an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and consumer spending, the demand for financial and insurance products could be adversely affected. Further, given that we offer our products and services in North America, Japan, Europe and South America, we are exposed to these risks in multiple geographic locations. Our operations are subject to different local political, regulatory, business and financial risks and challenges which may affect the demand for our products and services, the value of our investment portfolio, the required levels of our capital and surplus, and the credit quality of local counterparties. These risks include, for example, political, social or economic instability in countries in which we operate, fluctuations in foreign currency exchange rates, credit risks of our local borrowers and counterparties, lack of local business experience in certain markets, and, in certain cases, risks associated with the potential incompatibility with partners. Additionally, some of our recent growth is due to our expansion into new markets for our investment products, primarily in Japan. During 2006, our sales of investment products in Japan declined significantly from the prior year, as competition increased from both domestic and foreign competitors. Looking forward, our overall success in these new markets will depend on our ability to succeed despite differing and dynamic economic, social and political conditions. We may not succeed in developing and implementing policies and strategies that are effective in each location where we do business and we cannot guarantee that the inability to successfully address the risks related to economic conditions in all of the geographic locations where we conduct business will not have a material adverse effect on our business, results of operations or financial condition.

We may experience difficulty in marketing and distributing products through our current and future distribution channels.

We distribute our annuity, life and certain property and casualty insurance products through a variety of distribution channels, including brokers, independent agents, broker-dealers, banks, wholesalers, 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 individual third party arrangements. For example, we generated approximately 66% of our personal lines earned premium in 2006 under an exclusive licensing arrangement with AARP that continues until January 1, 2020. 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 could materially affect our ability to market our products.

Our business, results of operations, financial condition or 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, results of operations, financial condition or liquidity at the time it becomes known.

We may experience a downgrade in our financial strength or credit ratings which may make our products less attractive, increase our cost of capital, and inhibit our ability to refinance our debt, which would have an adverse effect on our business, consolidated operating results, financial condition and liquidity.

Financial strength and credit ratings, including commercial paper ratings, have become an increasingly important factor in establishing the competitive position of insurance companies. Rating organizations 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 organization, general economic conditions, and circumstances outside the rated company s control. In addition, rating organizations may employ different models and formulas to assess the financial strength of a rated company, and from time to time rating organizations have, in their discretion, altered these models. Changes to the models, general economic conditions, or circumstances outside our control could impact a rating organization s judgment of its rating and the subsequent rating it assigns us. We cannot predict what actions rating organizations may take, or what actions we may be required to take in response to the actions of rating organizations, 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 in our financial strength ratings, or an announced potential downgrade, of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products, as potential customers may select companies with higher financial strength ratings. The interest rates we pay on our borrowings are largely dependent on our credit ratings. A downgrade of our credit ratings, or an announced potential downgrade, could affect our ability to raise additional debt with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of our credit ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described above. 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, consolidated operating results, financial condition and liquidity.

Limits on the ability of our insurance subsidiaries to pay dividends to us may adversely affect our liquidity.

The Hartford Financial Services Group, Inc. is a holding company with no significant operations. Our principal asset is the stock of our insurance subsidiaries. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries. In addition, competitive pressures generally require certain of our insurance subsidiaries to maintain financial strength ratings. These restrictions and other regulatory requirements affect the ability of our insurance subsidiaries to make dividend payments. Limits on the ability of the insurance subsidiaries to pay dividends could adversely affect our liquidity, including our ability to pay dividends to shareholders and service our debt.

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 consolidated results of operations in a particular quarterly or annual period or periods.

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, 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.

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, often restricting an insurer s ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates, participate in the operating losses of residual market plans or pay assessments to fund operating deficits of state-sponsored funds, possibly leading to an unacceptable returns on equity. 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 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 consolidated results of operations in a particular quarterly or annual period or periods.

Additionally, the property and casualty insurance market is historically cyclical, experiencing periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively low levels of competition, more selective underwriting standards 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 a number of product lines and states, we are currently experiencing premium rate reductions. In these product lines and states, there is a risk that the premium we charge may ultimately prove to be inadequate as reported losses emerge. Even in a period of rate increases, 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 consolidated results of operations in a particular quarterly or annual period or periods.

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 other unanticipated events, our ability to conduct business may be compromised, which may have a material adverse effect on our business, consolidated results of operations, financial condition or cash flows.

We use computer systems to 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. Our business is highly dependent on our ability, and the ability of certain affiliated third parties, to access these systems to perform necessary business functions, such as providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, and providing customer support. Systems failures or outages could compromise our ability to perform these 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, an industrial accident, a blackout, a computer virus, a terrorist attack or war, our systems may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees 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 are disabled or destroyed. Our systems could also be subject to physical and electronic break-ins, and subject to similar disruptions from unauthorized tampering with our systems. This may impede or interrupt our business operations and may have a material adverse effect on our business, consolidated operating results, financial condition or liquidity.

If we experience difficulties arising from outsourcing relationships, our ability to conduct business may be compromised.

We outsource certain technology and business functions to third parties and expect to do so selectively in the future. If we do not effectively develop and implement our outsourcing strategy, third party providers do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on our consolidated results of operations in a particular quarterly or annual period or periods.

Potential changes in Federal or State tax laws could adversely affect our business, consolidated operating results or financial condition.

Many of the products that the Company sells currently benefit from one or more forms of tax-favored status under current federal and state income tax regimes. For example, the Company sells life insurance policies which benefit from the deferral or elimination of taxation on earnings accrued under the policy, as well as permanent exclusion of certain death benefits that may be paid to policyholders beneficiaries. We also sell annuity contracts which allow the policyholders to defer the recognition of taxable income earned within the contract. Other products that the Company sells also enjoy similar, as well as other, types of tax advantages. The Company also benefits from certain tax benefits, 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 risk that federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of the tax advantages currently benefiting the Company or its policyholders. This could occur in the context of deficit reduction or several types of fundamental tax reform. The effects of any such changes could result in materially lower product sales, lapses of policies currently held, and/or materially higher corporate taxes that would be incurred by the Company.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Hartford owns the land and buildings comprising its Hartford location and other properties within the greater Hartford, Connecticut area which total approximately 1.9 million of the 2.1 million square feet owned by the Company in the aggregate. In addition, The Hartford leases approximately 5.4 million square feet throughout the United States and approximately 175,000 square feet in other countries. All of the properties owned or leased are used by one or more of all ten operating segments, depending on the location. For more information on operating segments, see Part 1, Item 1, Business of The Hartford Reporting Segments. The Company believes its properties and facilities are suitable and adequate for current operations.

Item 3. LEGAL PROCEEDINGS

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, 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 mutual funds and structured settlements. 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 that insurers had a duty to protect the public from the dangers of asbestos and in a putative class action filed in West Virginia state court by asbestos plaintiffs alleging 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, an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company s consolidated results of operations or cash flows in particular quarterly or annual periods.

Broker Compensation Litigation On October 14, 2004, the New York Attorney General s Office filed a civil complaint (the NYAG Complaint) against Marsh Inc. and Marsh & McLennan Companies, Inc. (collectively, Marsh) alleging, among other things, that certain insurance companies, including The Hartford, participated with Marsh in arrangements to submit inflated bids for business insurance and paid contingent commissions to ensure that Marsh would direct business to them. The Hartford was not joined as a defendant in the action, which has since settled. Since the filing of the NYAG Complaint, several private actions have been filed against the Company asserting claims arising from the allegations of the NYAG Complaint.

Two securities class actions, now consolidated, have been filed in the United States District Court for the District of Connecticut alleging claims against the Company and certain of its executive officers under Section 10(b) of the Securities Exchange Act and SEC Rule 10b-5. The consolidated amended complaint alleges on behalf of a putative class of shareholders that the Company and the four named individual defendants, as control persons of the Company, failed to disclose to the investing public that The Hartford s business and growth was predicated on the unlawful activity alleged in the NYAG Complaint. The class period alleged is August 6, 2003 through October 13, 2004, the day before the NYAG Complaint was filed. The complaint seeks damages and attorneys fees. Defendants filed a motion to dismiss in June 2005, and, on July 13, 2006, the district court granted the motion. The plaintiffs have noticed an appeal of the dismissal.

Two corporate derivative actions, now consolidated, also have been filed in the same court. The consolidated amended complaint, brought by shareholders on behalf of the Company against its directors and an executive officer, alleges that the defendants knew adverse non-public information about the activities alleged in the NYAG Complaint and concealed and misappropriated that information to make profitable stock trades, thereby breaching their fiduciary duties, abusing their control, committing gross mismanagement, wasting corporate assets, and unjustly enriching themselves. The complaint seeks damages, injunctive relief, disgorgement, and attorneys fees. Defendants filed a motion to dismiss in May 2005, and the plaintiffs thereafter agreed to stay further proceedings pending resolution of the motion to dismiss the securities class action. All defendants dispute the allegations and intend to defend these actions vigorously.

The Company is also a defendant in a multidistrict litigation in federal district court in New Jersey. There are two consolidated amended complaints filed in the multidistrict litigation, one related to alleged conduct in connection with the sale of property-casualty insurance and the other related to alleged conduct in connection with the sale of group benefits products. The Company and various of its subsidiaries are named in both complaints. The actions assert, on behalf of a class of persons who purchased insurance through the broker defendants, claims under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state law, and in the case of the group benefits complaint, claims under ERISA arising from conduct similar to that alleged in the NYAG Complaint. The class period alleged is 1994 through the date of class certification, which has not yet occurred. The complaints seek treble damages, injunctive and declaratory relief, and attorneys fees. On October 3, 2006, the court denied in part the defendants motions to dismiss the two consolidated amended complaints but found the complaints deficient in other respects and ordered the plaintiffs to file supplemental pleadings. After the plaintiffs filed their supplemental pleadings, the defendants renewed their motions to dismiss. The renewed motions to dismiss and the plaintiffs motions for class certification are pending. The Company also has been named in two similar actions filed in state courts, which the defendants have removed to federal court. Those actions currently are transferred to the court presiding over the multidistrict litigation. The Company disputes the allegations in all of these actions and intends to defend the actions vigorously. In addition, the Company was joined as a defendant in an action by the California Commissioner of Insurance alleging similar conduct by various insurers in connection with the sale of group benefits products. The Commissioner s action asserted claims under California insurance law and sought injunctive relief only. The Company has settled the Commissioner s action.

Additional complaints may be filed against the Company in various courts alleging claims under federal or state law arising from the conduct alleged in the NYAG Complaint. The Company s ultimate liability, if any, in the pending and possible future suits is highly uncertain and subject to contingencies that are not yet known, such as how many suits will be filed, in which courts they will be lodged, what claims they will assert, what the outcome of investigations by the New York Attorney General s Office and other regulatory agencies will be, the success of defenses that the

Company may assert, and the amount of recoverable damages if liability is established. In the opinion of management, it is possible that an adverse outcome in one or more of these suits could have a material adverse effect on the Company s consolidated results of operations or cash flows in particular quarterly or annual periods.

Fair Credit Reporting Act Putative Class Action In October 2001, a complaint was filed in the United States District Court for the District of Oregon, on behalf of a putative class of homeowners and automobile policyholders from 1999 to the present, alleging that the Company willfully violated the Fair Credit Reporting Act (FCRA) by failing to send appropriate notices to new customers whose initial rates were higher than they would have been had the customer had a more favorable credit report. In July 2003, the district court granted summary judgment for the Company, holding that FCRA s adverse action notice requirement did not apply to the rate first charged for an initial policy of insurance. The plaintiff appealed and, in August 2005, a panel of the United States Court of Appeals for the Ninth Circuit reversed the district court, holding that the adverse action notice requirement applies to new business and that the Company s notices, even when sent, contained inadequate information. Although no court previously had decided the notice requirements applicable to insurers under FCRA, and the district court had not addressed whether the Company s alleged violations of FCRA were willful because it had agreed with the Company s interpretation of FCRA and found no violation, the Court of Appeals further held, over a dissent by one of the judges, that the Company s failure to send notices conforming to the Court s opinion constituted a willful violation of FCRA as a matter of law. FCRA provides for a statutory penalty of $100 to $1,000 per willful violation. Simultaneously, the Court of Appeals issued decisions in related cases against four other insurers, reversing the district court and holding that those insurers also had violated FCRA in similar ways. On October 3, 2005, the Court of Appeals withdrew its opinion in the Hartford case and issued a revised opinion, which changed certain language of the opinion but not the outcome.

On October 31, 2005, the Company timely filed a petition for rehearing and for rehearing en banc in the Ninth Circuit. While that petition was pending, on January 25, 2006, the Court of Appeals again withdrew its opinion in the Hartford case and issued a second revised opinion. The new opinion vacated the Court s earlier ruling that the Company had willfully violated FCRA as a matter of law and remanded the case to the district court for further proceedings. On February 15, 2006, the Company filed a new petition for rehearing and rehearing en banc, and on April 20, 2006, the Court of Appeals denied the petition. On July 19, 2006, the Company filed a petition for a writ of certiorari in the United States Supreme Court. On September 26, 2006, the Supreme Court granted petitions filed by insurers in two of the related cases, and on January 16, 2007, it heard argument in those cases. The Supreme Court has not yet acted on the Company s petition.

On July 25, 2006, the parties entered into a memorandum of understanding setting forth the essential terms of a class settlement in this action, and, on September 8, 2006, the parties executed and filed with the district court a Stipulation of Settlement. On September 11, 2006, the district court preliminarily approved the settlement and scheduled a hearing for final approval of the settlement for February 26, 2007. The settlement is subject to certain contingencies, including final approval by the district court. If the settlement is completed, management expects that the Company s ultimate obligations under the settlement agreement, after consideration of provisions made for this matter, will not have a material adverse effect on the Company s consolidated results of operations or cash flows in any particular quarterly or annual period.

Blanket Casualty Treaty Litigation The Company is engaged in pending litigation in Connecticut Superior Court against certain of its upper-layer reinsurers under its Blanket Casualty Treaty (BCT). The BCT is a multi-layered reinsurance program providing excess-of-loss coverage in various amounts from the 1930s through the 1980s. The upper layers were first placed in 1950, predominantly with London Market reinsurers, including Lloyd s syndicates reinsured by Equitas. The action seeks, among other relief, damages for the reinsurer defendants failure to pay certain billings for asbestos and pollution claims.

In December 2003, the Company entered into a global settlement with MacArthur Company, an asbestos insulation distributor and installer then in bankruptcy, for $1.15 billion. The Company then billed the reinsurer defendants under the BCT for $117 of the settlement amount. After the reinsurers refused to pay the MacArthur billing, the Company amended its complaint to add, among other things, claims related to that billing. Most of the reinsurer defendants counterclaimed, seeking a declaration that they did not owe reinsurance for the MacArthur settlement.

The litigation concerns under what circumstances losses arising from multiple claims against a single insured may be combined and ceded as a single accident under the BCT so as to reach the upper layers of the program. The BCT contains a unique definition of accident. The application of this definition to the ceded losses is the crux of the dispute.

In April 2005, the Superior Court phased the proceedings, providing for a trial of the MacArthur billing first, in April 2006, with other billings to follow in subsequent trial settings. In September 2005, the London Market reinsurer defendants moved for summary judgment on the MacArthur-related claims. After briefing and oral argument, the Superior Court issued a decision on December 13, 2005, granting the defendants motion. The Company noticed an appeal to the Connecticut Appellate Court; the appeal has since been transferred to the Connecticut Supreme Court. The Company intends to prosecute its appeal vigorously.

On June 15, 2006, the Company announced an agreement with Equitas and all Lloyd s syndicates reinsured by Equitas (collectively, Equitas) that resolved, with minor exception, all of the Company s ceded and assumed domestic reinsurance exposures with Equitas, including the Company s reinsurance recoveries from Equitas under the BCT. Those recoveries consist predominantly of asbestos and pollution losses, including the billing for the MacArthur settlement. The pending litigation and appeal continue with other upper-layer reinsurers under the BCT.

The outcome of the appeal is uncertain. If the decision of the Superior Court is affirmed on appeal, the Company may be unable to collect from the nonsettling reinsurers not only its billing for the MacArthur settlement but also other current and future billings to which the same relevant facts and legal analysis would apply. The Company has considered the risk of non-collection of these recoveries in its allowance for all uncollectible reinsurance recoverables associated with older, long-term casualty liabilities reported in the Other Operations segment. After consideration of this allowance, management expects that a negative outcome in the BCT litigation would not have a material adverse effect on the Company s consolidated results of operations or cash flows in any particular quarterly or annual period.

Asbestos and Environmental Claims As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Other Operations (Including Asbestos and Environmental Claims) , The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to

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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, financial condition and liquidity.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders of The Hartford Financial Services Group, Inc. during the fourth quarter of 2006.

PART II

Item 5. MARKET FOR THE HARTFORD S COMMON EQUITY AND 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.

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2006				
Common Stock Price				
High	$88.83	$92.22	$87.84	$93.61
Low	79.24	80.63	79.86	84.73
Dividends Declared	0.40	0.40	0.40	0.50
2005				
Common Stock Price				
High	$73.76	$77.26	$81.89	$89.00
Low	66.06	65.51	73.05	73.75
Dividends Declared	0.29	0.29	0.29	0.30

As of February 16, 2007, the Company had approximately 350,000 shareholders. The closing price of The Hartford s common stock on the NYSE on February 16, 2007 was $97.09.

On February 22, 2007, The Hartford s Board of Directors declared a quarterly dividend of $0.50 per share payable on April 2, 2007 to shareholders of record as of March 1, 2007. Dividend decisions are based on and affected by a number of factors, including the operating results and financial requirements of The Hartford and the impact of regulatory restrictions discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Liquidity Requirements.

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 Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Liquidity Requirements.

See Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for information related to securities authorized for issuance under equity compensation plans.

Purchases of Equity Securities by the Issuer

The following table summarizes the Company s repurchases of its common stock for each of the three months in the period ended December 31, 2006:

	Total Number of Shares		Total Number of Shares Purchased as Part of	Maximum Number of Shares that May Yet

Period	Purchased	Average Price Paid Per Share	Publicly Announced Plans or Programs	Be Purchased as Part of the Plans or Programs
October 2006	[1] 1,832	$ 86.96	N/A	[2]
November 2006		$	N/A	[2]
December 2006		$	N/A	[2]

[1] Represents shares acquired from employees of the Company for tax withholding purposes in connection with the Company s benefit plans.

[2] $1 billion of the Company s securities were eligible for repurchase pursuant to the Company s repurchase program.

In February 2007, the Company s Board of Directors authorized the Company to repurchase up to an additional $1 billion of its securities. This brings the Company s total share repurchase authorization to $2 billion. The Company s repurchase authorization permits purchases of common stock, which may be in the open market or through privately negotiated transactions. The Company also may enter into derivative transactions to facilitate future repurchases of common stock. The timing of 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. Through February 16, 2007, The Hartford had repurchased approximately $363 (3.8 million shares) under this program.

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Item 6. SELECTED FINANCIAL DATA
(In millions, except for per share data and combined ratios)

	2006	2005	2004	2003	2002
Income Statement Data					
Total revenues	$ 26,500	$ 27,083	$ 22,708	$ 18,719	$ 16,410
Income (loss) before cumulative effect of accounting changes *[1]*	2,745	2,274	2,138	(91)	1,000
Net income (loss) *[1] [2]*	2,745	2,274	2,115	(91)	1,000
Balance Sheet Data					
Total assets	$326,710	$285,557	$259,735	$225,850	$181,972
Long-term debt	3,504	4,048	4,308	4,610	4,061
Total stockholders equity	18,876	15,325	14,238	11,639	10,734
Earnings (Loss) Per Share Data					
Basic earnings (loss) per share *[1]*					
Income (loss) before cumulative effect of accounting changes *[1]*	$ 8.89	$ 7.63	$ 7.32	$ (0.33)	$ 4.01
Net income (loss) *[1] [2]*	8.89	7.63	7.24	(0.33)	4.01
Diluted earnings (loss) per share *[1] [3]*					
Income (loss) before cumulative effect of accounting changes *[1]*	8.69	7.44	7.20	(0.33)	3.97
Net income (loss) *[1] [2]*	8.69	7.44	7.12	(0.33)	3.97
Dividends declared per common share	1.70	1.17	1.13	1.09	1.05
Other Data					
Mutual fund assets *[4]*	$ 43,732	$ 32,705	$ 28,068	$ 22,462	$ 15,321
Operating Data					
Combined ratios					
Ongoing Property & Casualty Operations	89.3	93.2	95.3	96.5	99.1

[1] 2004 includes a $216 tax benefit related to agreement with the IRS on the resolution of matters pertaining to tax years prior to 2004. 2003 includes an

after-tax charge of $1.7 billion related to the Company s 2003 asbestos reserve addition, $40 of after-tax expense related to the settlement of a certain litigation dispute, $30 of tax benefit in Life primarily related to the favorable treatment of certain tax items arising during the 1996-2002 tax years, and $27 of after-tax severance charges in Property & Casualty. 2002 includes $76 tax benefit in Life, $11 after-tax expense in Life related to a certain litigation dispute and an $8 after-tax benefit in Life s September 11 exposure.

[2] 2004 includes a $23 after-tax charge related to the cumulative effect of accounting change for the Company s adoption of the AICPA issued Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for

Separate Accounts .

[3] *As a result of the net loss for the year ended December 31, 2003, Statement of Financial Accounting Standards No. 128, Earnings per Share requires the Company to use basic weighted average common shares outstanding in the calculation of the year ended December 31, 2003 diluted earnings (loss) per share, since the inclusion of options of 1.8 would have been antidilutive to the earnings per share calculation. In the absence of the net loss, weighted average common shares outstanding and dilutive potential common shares would have totaled 274.2.*

[4] *Mutual funds are owned by the shareholders of those funds and not by the Company. As a result, they are not reflected in total assets on the Company s balance sheet.*

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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)

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the financial condition of The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, The Hartford or the Company) as of December 31, 2006, compared with December 31, 2005, and its results of operations for each of the three years in the period ended December 31, 2006. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes beginning on page F-1. Certain reclassifications have been made to prior year financial information to conform to the current year presentation.

Certain of the statements contained herein are forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond the Company s control and have been made based upon management s expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management s expectations or that the effect of future developments on The Hartford will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in Part II, Item 1A, Risk Factors. These factors include: the difficulty in predicting the Company s potential exposure for asbestos and environmental claims; the possible occurrence of terrorist attacks; the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company s statutory capital levels; the inability to effectively mitigate the impact of equity market volatility on the Company s financial position and results of operations arising from obligations under annuity product guarantees; the Company s potential exposure arising out of regulatory proceedings or private claims relating to incentive compensation or payments made to brokers or other producers and alleged anti-competitive conduct; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers and other producers, including changes that have been announced and those which may occur in the future; the possibility of unfavorable loss development; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of domestic and foreign regulatory developments, including those which could increase the Company s business costs and required capital levels; the possibility of general economic and business conditions that are less favorable than anticipated; the Company s ability to distribute its products through distribution channels, both current and future; the uncertain effects of emerging claim and coverage issues; a downgrade in the Company s financial strength or credit ratings; the ability of the Company s subsidiaries to pay dividends to the Company; the Company s ability to adequately price its property and casualty policies; the ability to recover the Company s systems and information in the event of a disaster or other unanticipated event; potential for difficulties arising from outsourcing relationships; potential changes in Federal or State tax laws; and other factors described in such forward-looking statements.

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OVERVIEW

The Hartford is a diversified insurance and financial services company with operations dating back to 1810. The Company is headquartered in Connecticut and is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in ten operating segments. Additionally, Corporate primarily includes the Company s debt financing and related interest expense, as well as certain capital raising activities and purchase accounting adjustments.

Life is organized into six reportable operating segments: Retail Products Group (Retail), Retirement Plans, Institutional Solutions Group (Institutional), Individual Life, Group Benefits and International. Through Life the Company provides retail and institutional investment products such as variable and fixed annuities, mutual funds, private placement life insurance and retirement plan services, individual life insurance products including variable universal life, universal life, interest sensitive whole life and term life; and group benefit products, such as group life and group disability insurance.

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial (collectively Ongoing Operations), and the Other Operations segment. Through Property & Casualty the Company provides a number of coverages, as well as insurance-related services, to businesses throughout the United States, including workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock, fidelity and surety, professional liability and director s and officer s liability coverages. Property & Casualty also provides automobile, homeowners, and home-based business coverage to individuals throughout the United States, as well as insurance-related services to businesses.

Many of the principal factors that drive the profitability of The Hartford s Life and Property & Casualty operations are separate and distinct. Management considers this diversification to be a strength of The Hartford that distinguishes the Company from many of its peers. To present its operations in a more meaningful and organized way, management has included separate overviews within the Life and Property & Casualty sections of MD&A. For further overview of Life s profitability and analysis, see page 51. For further overview of Property & Casualty s profitability and analysis, see page 70.

Broker Compensation

As the Company has disclosed previously, the Company pays brokers and independent agents commissions and other forms of incentive compensation in connection with the sale of many of the Company s insurance products. Since the New York Attorney General s Office filed a civil complaint against Marsh on October 14, 2004, several of the largest national insurance brokers, including Marsh, Aon Corporation and Willis Group Holdings Limited, have announced that they have discontinued the use of contingent compensation arrangements. Other industry participants may make similar, or different, determinations in the future. In addition, legal, legislative, regulatory, business or other developments may require changes to industry practices relating to incentive compensation.

Pursuant to settlement agreements reached with regulators, several insurance companies have agreed to restrictions on the payment of contingent compensation relating to the placement of excess casualty insurance policies. These insurers have agreed that the restrictions may be extended in time, and to other property and casualty lines, if insurers in a given line or segment, that together represent more than 65% of the market share in the insurance line (based upon national gross written premiums), do not pay contingent compensation. On November 30, 2006, the New York Attorney General s Office notified these insurers that the 65% threshold had been reached for a number of insurance lines, including personal automobile and homeowners insurance. As a result, beginning January 1, 2007, these insurers were prohibited from paying contingent compensation relating to the placement of these types of insurance. In addition, on December 21, 2006, Chubb Corporation agreed to forego the payment of contingent compensation for all P&C insurance lines pursuant to a settlement agreement reached with regulators. These insurers, including Chubb, have also agreed to support legislation and regulations to abolish contingent compensation and to require greater disclosure of compensation. At this time, it is not possible to predict the effect of these announced or potential future changes on our business or distribution strategies, but such changes could have a material adverse effect on us in the future.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (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 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 reserves for unpaid losses and loss adjustment expenses, net of reinsurance; Life deferred policy acquisition costs and present value of future profits associated with variable annuity and other universal life-type contracts; the evaluation of other-than-temporary impairments on investments in available-for-sale securities; the valuation of guaranteed minimum withdrawal benefit derivatives; pension and other postretirement benefit obligations; and contingencies relating to corporate litigation and regulatory matters. 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 & Casualty Reserves, Net of Reinsurance

The Hartford establishes property and casualty reserves 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 been incurred but not reported, and include estimates of all expenses associated with processing and settling these claims. Estimating the ultimate cost of future losses and loss adjustment expenses is an uncertain and complex process. This estimation process is based largely on the assumption that past developments are an appropriate predictor of future events and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. 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 breast implants, lead paint and construction defects. 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 or (3) changes in the quality of risk selection in the underwriting process. 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 incurred but not reported unpaid losses. The Company calculates its ceded reinsurance projection based on the terms of any applicable facultative and treaty reinsurance, including an estimate of how incurred but not reported losses will ultimately be ceded by reinsurance agreement. Accordingly, the Company s estimate of reinsurance recoverables is subject to similar risks and uncertainties as the estimate of the gross reserve for unpaid losses and loss adjustment expenses.

The Company 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 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 $412 as of December 31, 2006, including $294 related to Other Operations and $118 related to Ongoing Operations.

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

The Hartford, like other insurance companies, categorizes and tracks its insurance reserves for its segments by line of business , such as property, auto physical damage, auto liability, commercial multi-peril package business, workers compensation, general liability professional liability and fidelity and surety. 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, within the Other Operations segment, the Company has reserves for asbestos and environmental (A&E) claims. 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.
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.

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The following table shows loss and loss adjustment expense reserves by line of business and by operating segment as of December 31, 2006, net of reinsurance:

	Business Insurance	Personal Lines	Specialty Commercial	Other Operations	Total P&C
Reserve Line of Business					
Property	$ 65	$ 225	$ 63	$	$ 353
Auto physical damage	15	26	9		50
Auto liability	625	1,526	94		2,245
Package business	2,028				2,028
Workers compensation	3,816	7	1,830		5,653
General liability	587	39	1,504		2,130
Professional liability			556		556
Fidelity and surety			158		158
Assumed Reinsurance [1]				813	813
All other non-A&E				1,045	1,045
A&E	8	2	5	2,558	2,573
Total reserves-net	7,144	1,825	4,219	4,416	17,604
Reinsurance and other recoverables	650	134	2,303	1,300	4,387
Total reserves-gross	**$ 7,794**	**$ 1,959**	**$ 6,522**	**$ 5,716**	**$ 21,991**

[1] These net loss and loss adjustment expense reserves relate to assumed reinsurance underwritten by Reinsurance operations that were moved into Other Operations (formerly known as HartRe).

Reserving for non-A&E reserves within Ongoing and Other Operations

How non-A&E reserves are set

Reserves are set by line of business within the various operating segments. As indicated in the above table, a single line of business may be written in one or more of the segments. 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. Within the Company s Ongoing Operations the shortest-tail lines of business are property and auto physical damage. The longest tail lines of business within Ongoing Operations include workers compensation, general liability, and professional liability. Assumed reinsurance, which is within Other Operations, is also long-tail business.

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.

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.

Company 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. These reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. Most non-A&E reserves are reviewed fully each quarter, including loss reserves for property, auto physical damage, auto liability, package business, workers compensation, most general liability, professional liability and fidelity and surety. Other non-A&E reserves are reviewed semi-annually (twice per year) or annually. These include, but are not limited to, reserves for allocated loss adjustment expenses, assumed reinsurance, latent exposures such as construction defects, unallocated loss adjustment expense and all other non-A&E exposures within Other Operations. For reserves that are reviewed semi-annually and annually, management monitors the emergence of paid and reported losses in the intervening quarters to either confirm that its estimate of ultimate losses should not change or, if necessary, perform a reserve review to determine whether the reserve estimate should change.

For most lines of business, a variety of actuarial methods are reviewed and the actuaries select methods and specific assumptions appropriate for each line of business based on the current circumstances affecting that line of business. 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. The output of the reserve reviews are reserve estimates that are referred to herein as the actuarial indication .

The actuarial techniques or methods used include paid and reported loss development, frequency / severity, expected loss ratio and Bornhuetter-Ferguson techniques. Within any one line of business, a variety of techniques are used. Within any one line of business, certain methods are generally given more influence in determining the actuarial indication. The methods that are given more influence vary within a line of business 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 following is a discussion of the most common methods used; these methods are not used for every line of business or every accident year within a line of business.

Paid Development method. Historical data, organized by accident period and calendar period, is used to develop paid loss development patterns, which are then applied to current paid losses by accident period to estimate ultimate losses. The paid development method is also used to estimate reserves for allocated loss adjustments expenses (ALAE).

Paid development techniques do not use information about case reserves and, therefore, are not affected by changes in case reserving practices. Paid development techniques can, however, be significantly affected by changes in claim closure patterns. Paid development techniques for longer-tailed lines are generally less useful for more recent accident years since a low percentage of ultimate losses are paid to date in early periods of development and small changes in paid losses can have a large impact on estimated ultimate losses.

Reported Development method. Historical data, organized by accident period and calendar period, is used to develop reported loss development patterns, which are then applied to current reported losses by accident period to estimate ultimate losses. The reported losses used in this analysis refer to cumulative paid losses plus case reserves and do not include IBNR.

Compared to the paid development technique, the reported development technique has the advantage that a higher percentage of ultimate losses are reflected in reported losses than in cumulative paid losses. The reported development technique estimates only the unreported losses rather than the total unpaid losses. While the reported development technique takes advantage of information contained in the case reserves, estimates determined from this technique are affected by changes in case reserving practices.

Both paid and reported development techniques assume that historical development patterns are predictive of future development patterns.

Frequency / Severity methods. Historical data is used to develop claim count development patterns and those patterns are applied to the number of current reported claims to estimate ultimate claim counts. Estimated ultimate claim counts are multiplied by an estimated average severity (i.e., an average cost per claim) to calculate estimated ultimate losses. Average severity is estimated by fitting historical severity data to a trend line and making assumptions about how the current environment would affect claim severity. In making assumptions about the current environment, industry data is used where such data is available and appropriate.

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.

Expected Loss Ratio method. Loss ratios for prior accident years are used to determine the appropriate expected loss ratio for the current accident year after applying anticipated changes in rates, pricing and loss costs. The current accident year expected loss ratio is multiplied by earned premium to calculate estimated ultimate losses.

Expected Loss Ratio techniques are useful for early periods of maturity on long-tailed lines of business, where very little paid or reported loss information is available.

Bornhuetter-Ferguson method. This method is a combination of the expected loss ratio method and the reported development method, where the reported loss development method is given more weight as an accident year matures.

For all lines of business, variations of the above methods are used. Examples of variation within the paid and reported development methods include:

- The accident period used may vary (e.g., year, quarter, or month)
- The Company may analyze the data by coverage (e.g., bodily injury separate from property damage)
- There may be adjustments for unusual loss activity
- For ALAE, the Company uses patterns of the relationship between paid ALAE and paid losses.

Examples of variation within the frequency /severity methods include:

- For one sub-set of professional liability business, management estimates frequency, not through historical claim count development, but through an analysis of the securities class actions filed and policy listings
- For some methods, management projects severity on only open claims
- In the commercial liability lines, the Company performs the frequency / severity technique only on claims over a certain size

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For allocated loss adjustment expenses (ALAE), the Company analyzes ALAE on claims in suit and associated legal expenses separately from ALAE on other claims.

For each line of business, certain methods are given more influence than other methods. The discussion below gives a general indication 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. For example, for Personal Lines auto liability claims, reported development techniques are currently not given significant influence in making estimates for recent accident years because case reserving practices have been changing in the recent past. If case reserving practices become more stable, reported development techniques may be given more weight.

Property and Auto Physical Damage. These lines are fast-developing and paid and reported development techniques are used. The Company performs and relies primarily on reported development techniques and frequency/severity and Bornhuetter-Ferguson techniques for the most immature accident months.

Auto Liability Personal Lines. 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, including paid and reported development, and several frequency / severity approaches. The Company generally uses the reported development method for older accident years and the frequency / severity methods for more recent accident years. Recent periods are heavily influenced by changes in case reserve practices and changing disposal rates, and the frequency / severity techniques are not affected as much by these changes.

Auto Liability Commercial Lines, Package Business and Short-Tailed General Liability. As with Personal Lines auto 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, management finds that reported development techniques are best. For more recent accident years, management typically prefers frequency / severity techniques that allow it to make assumptions about the frequency of larger claims.

Long-Tailed General Liability, Fidelity and Surety and Large Deductible Workers Compensation. For these very long-tailed lines of business, the Company generally relies on the expected loss ratio, Bornhuetter-Ferguson and reported development techniques. Management 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 and management does the largest amount of actuarial analysis on this line of business. Methods performed include paid and reported development, variations on expected loss ratio methods, and an in-depth analysis on the largest states. Paid development patterns are historically very stable in the Company s workers compensation business, so paid techniques are preferred for older accident periods. For more recent periods, paid techniques are less predictive of the ultimate liability since such a low percentage of ultimate losses are paid in early periods of development. Accordingly, for more recent accident periods, the Company generally relies more heavily on a 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 within Other Operations. For these lines, management 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 and frequency / severity techniques.

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 various information that has been accumulated. Numerous factors are considered in this determination process including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, the maturity of the accident year, 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. In general, changes are made more quickly to more mature accident years and less volatile lines of business. At year-end 2006, total recorded net reserves excluding asbestos and environmental and excluding the allowance for uncollectible reinsurance were 2.2% higher than the actuarial indication of the reserves. Annually, as part of the statutory reporting requirements, IBNR is allocated to accident year by statutory line of business. This work forms the basis for the loss development table and reserve re-estimates table shown in the Business section.

During 2006, there were numerous changes to non-A&E reserve estimates. Among other loss developments in 2006, these changes included an $83 reduction in catastrophe reserves related to the 2005 and 2004 hurricanes, a $58 release of Business Insurance allocated

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loss adjustment expense reserves for workers compensation and package business related to accident years 2003 to 2005, and a $45 strengthening of Specialty Commercial construction defect claim reserves for accident years 1997 and prior. See Reserves within the Property and Casualty MD&A for further discussion of reserve developments.

Current trends contributing to reserve uncertainty

The Hartford is a multi-line company in the property and casualty 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 for any segment. 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 the commercial segments and the Other Operations segment, 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, latex gloves, 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. The Company also 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. This is largely due to 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 success of the Company s new Dimensions class plan for automobile first introduced in 2004 has lead to a different mix of business by type of insured than the Company experienced in the past. In general, the Company now has a lower proportion of preferred risks than in the past. Such a change in mix increases the uncertainty of the reserve projections, since historical data and reporting patterns may not be applicable to the new business.

In Business Insurance, workers compensation is the Company s single biggest line of business and the line of business with the longest pattern of loss emergence. Reserve estimates for workers compensation are particularly sensitive to assumptions about medical inflation and the changing use of medical care procedures. In addition, changes in state legislative and regulatory environments impact the Company s estimates. These changes increase the uncertainty in the application of development patterns.

In the Specialty Commercial segment, many lines of insurance, such as excess insurance and large deductible workers compensation insurance are long-tail lines of insurance. For long-tail lines, the period of time between the incidence of the insured loss and either the reporting of the claim to the insurer, the settlement of the claim, or the payment of the claim can be substantial, and in some cases, several years. As a result of this extended period of time for losses to emerge, reserve estimates for these lines are more uncertain (i.e. more variable) 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 can be paid by the insured; if such losses are not paid by the insured due to financial difficulties, the Company would be contractually liable. Another example of reserve variability relates to reserves for directors and officers insurance. There is uncertainty in the required level of reserves due to the impact of recent allegations within the financial services industry, including those in the mutual fund, investment banking and insurance industries.

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 derive statistical loss distributions or confidence levels around its reserve estimate and, as a result, does not have reserve range estimates to disclose.

The reserve estimation process includes explicit 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. For most lines, the reported loss development factor is most important. In workers compensation, paid loss development factors are also important. 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 assumptions. Each of the impacts described below is estimated individually, without consideration for any correlation among key assumptions 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 assumptions 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 workers compensation, net of reinsurance, are $5.7 billion across Business Insurance and Specialty Commercial. The two most important assumptions for workers compensation reserves are loss development factors and loss cost trends, particularly medical cost inflation. Loss development patterns are dependent on medical cost inflation. Approximately half of the workers compensation net reserves are related to future medical costs. A review of National Council on Compensation Insurance (NCCI) data suggests that the annual growth in industry medical claim costs has varied from -2% to +12% since 1991. This data shows that medical inflation has been highly variable over the past decade. Across the entire workers compensation reserve base, a 1 point change in calendar year medical inflation would change the estimated net reserve by $600, in either direction.

Recorded reserves for auto liability, net of reinsurance, are $2.2 billion across all lines, $1.5 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 assumption for Personal Lines auto liability is the annual loss cost trend, particularly the severity trend component of loss costs. A review of Insurance Services Office (ISO) data suggests that annual growth in industry severity since 1999 has varied from +1% to +6%. The ISO data shows recent severity changes to be in the middle of this range. A 2.5 point change in assumed annual severity is within historical variation for the industry and for the Company. A 2.5 point change in assumed annual severity for the two most recent accident years would change the estimated net reserve need by $70, in either direction. Assumed annual severity for accident years prior to the two most recent accident years is likely to have minimal variability.

Recorded reserves for general liability, net of reinsurance, are $2.1 billion across Business Insurance and Specialty Commercial. Reported loss development patterns are a key assumption for this line of business, particularly for more mature accident years. Historically, assumptions on reported 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%, a change that is within historical variation, the estimated net reserve need would change by $300, in either direction. A 10% change in reported loss development patterns is within historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Similar to general liability, assumed casualty reinsurance is affected by reported loss development pattern assumptions. In addition to the items identified above that would affect both direct and reinsurance liability claim development patterns, there is also an impact to assumed reporting patterns for any changes in claim notification from ceding companies to the reinsurer. Recorded net reserves for HartRe assumed reinsurance business, excluding asbestos and environmental liabilities, within Other Operations were $813 as of December 31, 2006. If the reported loss development patterns underlying the Company s net reserves for HartRe assumed casualty reinsurance change by 10%, the estimated net reserve need would change by $254, in either direction. A 10% change in reported loss development patterns is within 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 Other Operations

How A&E reserves are set

The Company continues to receive asbestos and environmental claims. Asbestos claims relate primarily to bodily injuries asserted by people who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs.

The Company wrote several different categories of insurance contracts that may cover asbestos and environmental claims. First, the Company wrote primary policies providing the first layer of coverage in an insured s liability program. Second, the Company wrote excess policies providing higher layers of coverage for losses that exhaust the limits of underlying coverage. Third, the Company acted as a reinsurer assuming a portion of those risks assumed by other insurers writing primary, excess and reinsurance coverages. Fourth, subsidiaries of the Company participated in the London Market, writing both direct insurance and assumed reinsurance business.

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 incurred experience, and net loss and expense paid and incurred experience year by year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and incurred 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

With regard to both environmental and particularly asbestos claims, significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. The degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures. In particular, the Company believes there is a high degree of uncertainty inherent in the estimation of asbestos loss reserves.

In the case of the reserves for asbestos exposures, factors contributing to the high degree of uncertainty include inadequate loss development patterns, plaintiffs expanding theories of liability, the risks inherent in major litigation, and inconsistent emerging legal doctrines. Furthermore, over time, insurers, including the Company, have experienced significant changes in the rate at which asbestos claims are brought, the claims experience of particular insureds, and the value of claims, making predictions of future exposure from past experience uncertain. Plaintiffs and insureds also have sought to use bankruptcy proceedings, including pre-packaged bankruptcies, to accelerate and increase loss payments by insurers. In addition, some policyholders have asserted new classes of claims for coverages to which an aggregate limit of liability may not apply. Further uncertainties include insolvencies of other carriers and unanticipated developments pertaining to the Company s ability to recover reinsurance for asbestos and environmental claims. Management believes these issues are not likely to be resolved in the near future.

In the case of the reserves for environmental exposures, factors contributing to the high degree of uncertainty include expanding theories of liability and damages; the risks inherent in major litigation; inconsistent decisions concerning the existence and scope of coverage for environmental claims; and uncertainty as to the monetary amount being sought by the claimant from the insured.

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. It is unknown whether potential Federal asbestos-related legislation will be enacted or what its effect would be on the Company s aggregate asbestos liabilities.

The reporting pattern for assumed reinsurance claims, including those related to asbestos and environmental claims is much longer than for direct claims. In many instances, it takes months or years to determine that the policyholder s own obligations have been met and how the reinsurance in question may apply to such claims. The delay in reporting reinsurance claims and exposures adds to the uncertainty of estimating the related reserves.

Given the factors described above, the Company believes the actuarial tools and other techniques it employs to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for its asbestos and environmental exposures. For this reason, the Company relies on exposure-based analysis to estimate the ultimate costs of these claims and regularly evaluates new information in assessing its potential asbestos and environmental exposures.

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, 2006 of $2.57 billion ($2.25 billion and $322 for asbestos and environmental, respectively) is within an estimated range, unadjusted for covariance, of $1.99 billion to $3.05 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of uncertainties, which are detailed in Note 12 of Notes to Consolidated Financial Statements. Due to these uncertainties, further 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, financial condition and liquidity.

Total Property & Casualty Reserves, Net of Reinsurance

In the opinion of management, based upon the known facts and current law, the reserves recorded for the Company s property and casualty businesses at December 31, 2006 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 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, financial condition and liquidity.

Life Deferred Policy Acquisition Costs and Present Value of Future Profits Associated with Variable Annuity and Other Universal Life-Type Contracts

Accounting Policy and Assumptions

Life policy acquisition costs include commissions and certain other expenses that vary with and are primarily associated with acquiring business. Present value of future profits (PVFP) is an intangible asset recorded upon applying purchase accounting in an acquisition of a life insurance company. Deferred policy acquisition costs and the present value of future profits intangible asset are amortized in the same way. Both are amortized over the estimated life of the contracts acquired. Within the following discussion, deferred policy acquisition costs and the present value of future profits intangible asset will be referred to as DAC . At December 31, 2006 and December 31, 2005, the carrying value of the Company s Life DAC asset was $9.1 billion and $8.6 billion, respectively. Of those amounts, $4.4 billion and $4.5 billion related to individual variable annuities sold in the U.S., $1.4 billion and $1.2 billion related to individual variable annuities sold in Japan and $2.1 billion and $1.9 billion related to universal life-type contracts sold by Individual Life.

The Company amortizes DAC related to investment contracts and universal life-type contracts (including individual variable annuities) using the retrospective deposit method. Under the retrospective deposit method, acquisition costs are amortized in proportion to the present value of estimated gross profits (EGPs). EGPs are also used to amortize other assets and liabilities on the Company s balance sheet, such as sales inducement assets and unearned revenue reserves. Components of EGPs are used to determine reserves for guaranteed minimum death and income benefits. For most contracts, the Company evaluates EGPs over a 20 year horizon as estimated profits emerging subsequent to year 20 are immaterial. The Company uses other measures for amortizing DAC, such as gross costs (net of reinsurance), as a replacement for EGPs when EGPs are expected to be negative for multiple years of the contract s life. The Company also adjusts the DAC balance, through other comprehensive income, by an amount that represents the amortization of DAC that would have been required as a charge or credit to operations had unrealized gains and losses on investments been realized. Actual gross profits, in a given reporting period, that vary from management s initial estimates result in increases or decreases in the rate of amortization, commonly referred to as a true-up , which are recorded in the current period. The true-up recorded for the years ended December 31, 2006, 2005 and 2004 was an increase to amortization of $41, $18 and $16, respectively.

Each year, the Company develops future EGPs for the products sold during that year. The EGPs for products sold in a particular year are aggregated into cohorts. Future gross profits are projected for the estimated lives of the contracts, and are, to a large extent, a function of future account value projections for individual variable annuity products and to a lesser extent for variable universal life products. The projection of future account values requires the use of certain assumptions. The assumptions considered to be important in the projection of future account value, and hence the EGPs, include separate account fund performance, which is impacted by separate account fund mix, less fees assessed against the contract holder s account balance, surrender and lapse rates, interest margin, and mortality. The assumptions are developed as part of an annual process and are dependent upon the Company s current best estimates of future events. The Company s current aggregate separate account return assumption is approximately 8.0% (after fund fees, but before mortality and expense charges) for U.S. products and 5.0% (after fund fees, but before mortality and expense charges) in aggregate for all Japanese products, but varies from product to product. The overall actual return generated by the separate account is dependent on several factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds as well as equity sector weightings. The Company s overall U.S. separate account fund performance has been reasonably correlated to the overall performance of the S&P 500 Index (which closed at 1,418 on December 29, 2006), although no assurance can be provided that this correlation will continue in the future.

Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. Estimating future gross profits is important not only for determining the amortization of DAC but also in the accounting and valuation of sales inducement assets, unearned revenue reserves and guaranteed minimum death and income benefit reserves. The estimation process, the underlying assumptions and the resulting EGPs, are evaluated regularly.

During the fourth quarter of 2006, the Company refined its estimation process for DAC amortization and completed a comprehensive study of assumptions. The Company plans to complete a comprehensive assumption study and refine its estimate of future gross profits in the third quarter of 2007 and at least annually thereafter.

Upon completion of an assumption study, the Company revises its assumptions to reflect its current best estimate, thereby changing its estimate of projected account values and the related EGPs in the DAC, sales inducement and unearned revenue reserve amortization models as well as the guaranteed minimum death and income benefit reserving models. The cumulative balance of DAC as well as sales inducement assets, unearned revenue reserves and guaranteed minimum death and income benefit reserves are adjusted with an offsetting benefit or charge to income to reflect such changes in the period of the revision, a process known as unlocking . An unlock that results in an after-tax benefit generally occurs as a result of actual experience or future expectations being favorable compared to previous estimates of account value growth and EGPs. An unlock that results in an after-tax charge generally occurs as a result of actual experience or future expectations being unfavorable compared to previous estimates of account value growth and EGPs.

In addition to when a comprehensive assumption study is completed, revisions to best estimate assumptions used to estimate future gross profits are necessary when the EGPs in the Company s models fall outside of a reasonable range of EGPs. The Company performs a quantitative process each quarter to determine the reasonable range of EGPs. This process involves the use of internally developed models, which run a large number of stochastically determined scenarios of separate account fund performance. Incorporated in each scenario are assumptions with respect to lapse rates, mortality, and expenses, based on the Company s most recent assumption study. These scenarios are run for individual variable annuity business in the U.S. and independently for individual variable annuity business in Japan and are used to calculate statistically significant ranges of reasonable EGPs. The statistical ranges produced from the stochastic scenarios are compared to the present value of EGPs used in the Company s models. If EGPs used in the Company s models fall outside of the statistical ranges of reasonable EGPs, an unlock would be necessary. A similar approach is used for variable universal life business.

Unlock and Sensitivity Analysis

As described above, during the fourth quarter of 2006, the Company completed a comprehensive study of assumptions underlying EGPs, resulting in an unlock . The study covered all assumptions, including mortality, lapses, expenses and separate account returns, in substantially all product lines. The new best estimate assumptions were applied to the current in-force to project future gross profits. The impact on the Company s assets and liabilities as a result of the unlock during the fourth quarter was as follows:

Segment After-tax (charge) benefit	DAC and PVFP	Unearned Revenue Reserves	Death and Income Benefit Reserves [1]	Sales Inducement Assets	Total
Retail Products Group	$ (70)	$ 5	$ (10)	$ 3	$ (72)
Retirement Plans	20				20
Individual Life	(49)	31			(18)
International Japan Annuity	26		27		53
Life Other	(46)				(46)
Corporate	(13)				(13)
Total	**$ (132)**	**$ 36**	**$ 17**	**$ 3**	**$ (76)**

[1]

As a result of the unlock, death benefit reserves, in the Retail Products Group, increased $294, offset by an increase of $279 in reinsurance recoverables.

As a result of the unlock in the fourth quarter of 2006, the Company expects total Company DAC amortization to be lower than it would have been in 2007 if the unlock had not occurred. This effect of the lower DAC amortization in 2007 is expected to result in an increase to net income of approximately $12, after-tax, of which approximately $6 relates to Retail Products Group. The impact on amortization in 2007 for other segments is immaterial.

The Company performs sensitivity analyses with respect to the effect certain assumptions have on our DAC balances. Each of the sensitivities illustrated below are estimated individually, without consideration for any correlation among the key assumptions. Therefore, it would be inappropriate to take each of the sensitivity amounts below and add them together in an attempt to estimate volatility for the respective DAC balances in total. The following tables depict the estimated sensitivities for U.S. variable annuities and Japan variable annuities DAC:

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U.S. Variable Annuities

(Increasing separate account returns and decreasing lapse rates result in benefits. Decreasing separate accounts and increasing lapse rates result in charges.)	Effect on DAC if unlocked (after-tax)[1]
If actual separate account returns were 1% above or below our estimated return	$20 - $30
If actual lapse rates were 1% above or below our estimated aggregate lapse rate	$20 - $30 [2]
If we changed our future separate account return rate by 1% from our estimated future return	$60 - $70
If we changed our future lapse rate by 1% from our estimated aggregate future lapse rate	$70 - $80 [2]

Japan Variable Annuities

(Increasing separate account returns and decreasing lapse rates result in benefits. Decreasing separate accounts and increasing lapse rates result in charges.)	Effect on DAC if unlocked (after-tax)[1]
If actual separate account returns were 1% above or below our aggregated estimated return	$1 - $10
If actual lapse rates were 1% above or below our estimated aggregate lapse rate	$1 - $10 [2]
If we changed our future separate account return rate by 1% from our aggregated estimated future return	$1 - $10
If we changed our future lapse rate by 1% from our estimated aggregate future lapse rate	$12 - $22 [2]

[1] These sensitivities do not include the estimated impacts on sales inducement assets, unearned revenue reserves and death and income benefit reserves and are not reflective of any future refinements to the Company s gross profit estimation process. The Company s DAC models assume that separate account returns are earned linearly and that lapses occur linearly (except for certain

dynamic lapse features) throughout the year. Similarly, the sensitivities assume that differential separate account and lapse rates are linear and parallel and persist throughout a full 12 month period. These sensitivities are not perfectly linear nor perfectly symmetrical for increases and decreases and are most accurate for small changes in assumptions. As such, extrapolating results over a wide range will decrease the accuracy of the sensitivities predictive ability. Sensitivity results are, in part, based on the current in-the-moneyness of various guarantees offered with the products. Future market conditions could significantly change the sensitivity results.

[2] Sensitivity around lapses assumes lapses increase or decrease consistently across all cohort years and

products.

An unlock only revises EGPs to reflect current best estimate assumptions. The Company must also test the aggregate recoverability of the DAC asset by comparing the amounts deferred to the present value of total EGPs. In addition, the Company routinely stress tests its DAC asset for recoverability against severe declines in its separate account assets, which could occur if the equity markets experienced a significant sell-off, as the majority of policyholders funds in the separate accounts is invested in the equity market. As of December 31, 2006, the Company believed U.S. individual and Japan individual variable annuity separate account assets could fall, through a combination of negative market returns, lapses and mortality, by at least 53% and 70%, respectively, before portions of its DAC asset would be unrecoverable.

Valuation of Guaranteed Minimum Withdrawal Benefit Derivatives

The Company offers certain variable annuity products with a guaranteed minimum withdrawal benefit (GMWB) rider. The fair value of the GMWB is calculated based on actuarial and capital market assumptions related to the projected cash flows, including benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior. Because of the dynamic and complex nature of these cash flows, best estimate assumptions and stochastic techniques under a variety of market return scenarios are used. Estimating these cash flows involves numerous estimates and subjective judgments including those regarding expected market rates of return, market volatility, correlations of market returns and discount rates. At each valuation date, the Company assumes expected returns based on risk-free rates as represented by the current LIBOR forward curve rates; market volatility assumptions for each underlying index based on a blend of observed market implied volatility data and annualized standard deviations of monthly returns using the most recent 20 years of observed market performance; correlations of market returns across underlying indices based on actual observed market returns and relationships over the ten years preceding the valuation date; and current risk-free spot rates as represented by the current LIBOR spot curve to determine the present value of expected future cash flows produced in the stochastic projection process. Changes in capital market assumptions can significantly change the value of the GMWB. For example, independent future decreases in equity market returns, future decreases in interest rates and future increases in equity index volatility will all have the effect of decreasing the GMWB asset as of December 31, 2006 resulting in a realized loss in net income. Furthermore, changes in policyholder behavior can also significantly change the value of the GMWB. For example, independent future increases in fund mix towards equity based funds vs. bond funds, future increases in withdrawals, future increasing mortality, future increasing usage of the step-up feature and decreases in lapses will all have the effect of decreasing the GMWB asset as of December 31, 2006 resulting in a realized loss in net income. Independent changes in any one of these assumptions moving in the opposite direction will have the effect of increasing the GMWB asset as of December 31, 2006 resulting in a realized gain in net income. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions. In addition, management regularly evaluates the valuation model, incorporating emerging valuation techniques where appropriate, including drawing on the expertise of market participants and valuation experts. Upon adoption of Statement of Financial Accounting Standard No. 157, Fair Value Measurements , (SFAS 157) the Company will revise many of the assumptions used to value GMWB. See Note 1 in Notes to Consolidated Financial Statements for a discussion of SFAS 157.

Evaluation of Other-Than-Temporary Impairments on Available-for-Sale Securities

The Hartford s investments in fixed maturities, which include bonds, redeemable preferred stock and commercial paper; and certain equity securities, which include common and non-redeemable preferred stocks, are classified as available-for-sale and accordingly are carried at fair value with the after-tax difference from cost or amortized cost, as adjusted for the effect of deducting the life and pension policyholders share of the immediate participation guaranteed contracts; and certain life and annuity deferred policy acquisition costs and reserve adjustments, reflected in stockholders equity as a component of accumulated other comprehensive income (AOCI).

One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. If a decline in the fair value of an available-for-sale security is judged to be other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost or amortized cost basis of the security. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale. The fair value of the other-than-temporarily impaired investment becomes its new cost basis. For fixed maturities, the Company amortizes the new cost basis to par or to estimated future value over the remaining life of the security based on future estimated cash flows.

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition or near term recovery prospects and the effects of changes in interest rates. The Company has a security monitoring process overseen by a committee of investment and accounting professionals (the committee) that identifies securities that, due to certain characteristics, as described below, are subjected to an enhanced analysis on a quarterly basis.

Securities not subject to Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continued to Be Held by a Transferor in Securitized Financial Assets (non-EITF Issue No. 99-20 securities) that are in an unrealized loss position, are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. The primary factors considered in evaluating whether a decline in value for non-EITF Issue No. 99-20 securities is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost or amortized cost, (b) the financial condition, credit rating and near-term prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.

Each quarter, during this analysis, the Company asserts its intent and ability to retain until recovery those securities judged to be temporarily impaired. Once identified, these securities are systematically restricted from trading unless approved by the committee. The committee will only authorize the sale of these securities based on predefined criteria that relate to events that could not have been foreseen. Examples of the criteria include, but are not limited to, the deterioration in the issuer s creditworthiness, a change in regulatory requirements or a major business combination or major disposition.

For certain securitized financial assets with contractual cash flows including asset-backed securities, (ABS), EITF Issue No. 99-20 requires the Company to periodically update its best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. The Company also considers its intent and ability to retain a temporarily depressed security until recovery. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral.

Pension and Other Postretirement Benefit Obligations

The Company maintains a U.S. qualified defined benefit pension plan (the Plan) that covers substantially all employees, as well as unfunded excess plans to provide benefits in excess of amounts permitted to be paid to participants of the Plan under the provisions of the Internal Revenue Code. The Company has also entered into individual retirement agreements with certain retired directors providing for unfunded supplemental pension benefits. In addition, the Company provides certain health care and life insurance benefits for eligible retired employees. The Company maintains international plans which represent an immaterial percentage of total pension assets, liabilities and expense and, for reporting purposes, are combined with domestic plans.

Pursuant to accounting principles related to the Company s pension and other postretirement obligations to employees under its various benefit plans, the Company is required to make a significant number of assumptions in order to calculate the related liabilities and expenses each period. The two economic assumptions that have the most impact on pension and other postretirement expense are the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate assumption, the Company utilizes a discounted cash flow analysis of the Company s pension and other postretirement obligations, currently available market and industry data and consultation with its plan actuaries. The yield curve utilized in the cash flow analysis is comprised of bonds rated Aa or higher with maturities primarily between zero and thirty years. Based on all available information, it was determined that 5.75% was the appropriate discount rate as of December 31, 2006 to calculate the Company s benefit liability. Accordingly, the 5.75% discount rate will also be used to determine the Company s 2007 pension and other postretirement expense. At December 31, 2005, the discount rate was 5.50%.

The Company determines the expected long-term rate of return assumption based on an analysis of the Plan portfolio s historical compound rates of return since 1979 (the earliest date for which comparable portfolio data is available) and over rolling 5 year and 10 year periods, balanced along with future long-term return expectations that generally anticipate an investment mix of 60% equity securities and 40% fixed income securities. The Company selected these periods, as well as shorter durations, to assess the portfolio s volatility, duration and total returns as they relate to pension obligation characteristics, which are influenced by the Company s workforce demographics. In addition, the Company also applies market return assumptions, utilized in Life s DAC analysis, to an investment mix that generally anticipates 60% equity securities and 40% fixed income securities to derive an expected long-term rate of return. Based upon this analysis, the portfolio s historical rates of return and management s outlook with respect to market returns and the planned asset mix, management maintained the long-term rate of return assumption at 8.00% as of December 31, 2006. This assumption is used to determine the Company s 2007 expense. The long-term rate of return assumption at December 31, 2005 was 8.00%.

To illustrate the impact of these assumptions on annual pension and other postretirement expense for 2007 and going forward, a 25 basis point change in the discount rate will increase/decrease pension and other postretirement expense by approximately $15 and a 25 basis point change in the long-term asset return assumption will increase/decrease pension and other postretirement expense by approximately $9.

Contingencies Relating to Corporate Litigation and Regulatory Matters

Management follows the requirements of SFAS No. 5 Accounting for Contingencies . This statement requires management to evaluate 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. In view of the uncertainties regarding the outcome of these matters, as well as the 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 consolidated results of operations or cash flows in a particular quarterly or annual period.

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CONSOLIDATED RESULTS OF OPERATIONS

Operating Summary	For the Years Ended December 31, 2006	2005	2004
Earned premiums	$ 15,023	$ 14,359	$ 13,566
Fee income	4,739	4,012	3,471
Net investment income			
Securities available-for-sale and other	4,691	4,384	4,144
Equity securities held for trading [1]	1,824	3,847	799
Total net investment income	6,515	8,231	4,943
Other revenues	474	464	437
Net realized capital gains (losses)	(251)	17	291
Total revenues	**26,500**	**27,083**	**22,708**
Benefits, losses and loss adjustment expenses [1]	15,042	16,776	13,640
Amortization of deferred policy acquisition costs and present value of future profits	3,558	3,169	2,843
Insurance operating costs and expenses	3,252	3,227	2,776
Interest expense	277	252	251
Other expenses	769	674	675
Total benefits, losses and expenses	**22,898**	**24,098**	**20,185**
Income before income taxes and cumulative effect of accounting change	**3,602**	**2,985**	**2,523**
Income tax expense	857	711	385
Income before cumulative effect of accounting change	**2,745**	**2,274**	**2,138**
Cumulative effect of accounting change, net of tax [2]			(23)
Net income	**$ 2,745**	**$ 2,274**	**$ 2,115**

[1] Includes investment income and mark-to-market effects of equity securities held for trading supporting the international variable annuity business, which are classified in net investment income with

corresponding amounts credited to policyholders within benefits, losses and loss adjustment expenses.

[2] *For the year ended December 31, 2004, represents the cumulative impact of the Company s adoption of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1).*

Net Income (Loss) by Operation and Life Segment	**2006**	**2005**	**2004**
Life			
Retail	$ 628	$ 622	$ 503
Retirement Plans	109	75	66
Institutional	99	88	68
Individual Life	170	166	155
Group Benefits	303	272	229
International	246	96	39
Other	(114)	(115)	322
Total Life	1,441	1,204	1,382
Property & Casualty			

Ongoing Operations	1,554	1,165	955
Other Operations	(35)	71	(45)
Total Property & Casualty	1,519	1,236	910
Corporate	(215)	(166)	(177)
Net income	**$ 2,745**	**$ 2,274**	**$ 2,115**

Ongoing Operations Underwriting Results by Segment	**2006**	**2005**	**2004**
Business Insurance	$ 618	$ 396	$ 360
Personal Lines	429	460	138
Specialty Commercial	64	(165)	(53)

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Operating Results

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income increased $471 due to the following:

Property & Casualty net income increased $283, as a result of a $389 increase in Ongoing Operations net income, partially offset by a decrease in Other Operations results from net income of $71 in 2005 to a net loss of $35 in 2006. Ongoing Operations net income increased due to increases in underwriting results and net investment income, partially offset by a decrease in net realized capital gains. The increase in Ongoing Operations underwriting results was principally due to lower current accident year catastrophe losses, lower insurance operating costs and expenses due to a change in estimated Florida Citizens assessments, a change to net favorable prior accident year loss development and the effect of catastrophe treaty reinstatement premium recorded as a reduction of earned premium in 2005. The net loss in Other Operations was primarily a result of prior year reserve development of $243, pre-tax, recorded in 2006, resulting from the agreement with Equitas and the Company s evaluation of the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities.

Life s net income increased $237 primarily due to growth in assets under management resulting from market growth and strong sales along with higher earned premiums. Also contributing to Life s increased net income were the following:

During 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance policies in the early to mid-1990s. The Company reduced its estimate of the ultimate cost of these cases in 2006. This reserve reduction resulted in an after-tax benefit of $34.

A charge of $102, after-tax, recorded in 2005 in Life to reserve for investigations related to market timing by the SEC and New York Attorney General s Office, directed brokerage by the SEC and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

During 2005, the Company recorded an after-tax expense of $46, related to the termination of a provision of an agreement with a mutual fund distribution partner of the Company s retail mutual funds.

Partially offsetting the increase in Life s net income was a $63, after-tax, charge related to the DAC unlock. See the Critical Accounting Estimates section of the MD&A for further information on the DAC unlock.

Total revenues decreased $583 primarily due to the following:

A decrease in net investment income of $1.7 billion, driven primarily by a $2.0 billion decrease in net investment income on the Company s equity securities, held for trading. The underlying fund performance of assets supporting the Company s Japanese variable annuity business was not as strong in 2006 as compared to 2005, resulting in a decrease in net investment income from equity securities, held for trading. The increase in net investment income on securities available-for-sale and other of $307 was primarily due to income earned on higher average invested assets base, increase in interest rates and a change in asset mix to a greater investment in mortgage loans and limited partnerships.

Net realized capital losses occurred in 2006 as compared to gains in 2005, primarily as a result of a higher interest rate environment. The components that drove the increase in net losses during the year ended December 31, 2006 included net losses on sales of fixed maturity securities and other-than-temporary impairments.

Partially offsetting the decrease in total revenues were the following:

Fee income increased $727 as a result of increases in the Life operation s Retail and International segments. The increase in fee income occurred primarily as the result of growth in average account values.

Earned premium increased $664 as a result of $387 from Life operations and $277 from Property & Casualty operations. The increase in Life earned premiums was primarily related to Group Benefits where the increase was driven by year-to-date sales (excluding buyouts) growth, particularly in group life insurance. Contributing to the growth in Property & Casualty earned premium was a $73 reduction of earned premium in 2005 due to catastrophe treaty reinstatement premium payable to reinsurers as a result of losses from the 2005 hurricanes. Apart from the effect of the reinstatement premium in 2005, the growth was primarily driven by new business premium outpacing non-renewals over the last six months of 2005 and the full year of 2006 and the effect of earned pricing increases in homeowners, partially offset by an increase in reinsurance costs. Growth in Business Insurance and Personal Lines earned premium was partially offset by a decrease in Specialty Commercial earned premium.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income increased $159 primarily due to the following:

An increase in Property & Casualty net income of $326, driven primarily by improved underwriting results in the Personal Lines and Other Operations segments, increased net investment income, and a reduction in other expenses; partially offset by a decrease in net realized capital gains. The improved underwriting results in Personal Lines was driven primarily by a reduction in current year catastrophe losses, a reduction in net unfavorable prior accident year loss reserve development and earned premium growth.

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The improvement in underwriting results for Other Operations was primarily due to a reduction in net unfavorable prior accident year loss reserve development. The increase in net investment income was primarily due to higher assets under management resulting from increased cash flows from underwriting, higher investment yields on fixed maturity investments and an increase in income from limited partnership investments.

An increase in net income for Retail of $119, principally driven by higher fee income from growth in the variable annuity and mutual fund businesses as a result of higher assets under management as compared to the prior year periods.

An increase in net income for International of $57, principally driven by higher fee income and investment spread in Japan derived from a 78% increase in the assets under management.

An increase in net income for the Group Benefits segment of $43, driven primarily by higher earned premiums and net investment income as well as a favorable loss ratio.

Partially offsetting these increases were:

A $216 tax benefit recorded in 2004 to reflect the effect of the IRS audit settlement on tax years prior to 2004.

A charge of $102, after-tax, recorded in 2005 in Life to reserve for investigations related to market timing by the SEC and New York Attorney General s Office, directed brokerage by the SEC and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

An after-tax expense of $46 recorded in Life during 2005, related to the termination of a provision of an agreement with a mutual fund distribution partner of the Company s retail mutual funds.

Total revenues increased $4.4 billion primarily due to the following:

An increase of $3.3 billion in net investment income, driven primarily by a $3.0 billion increase in net investment income on the Company s equity securities, held for trading. Also contributing to the increase was a higher average invested asset base.

An increase of $793 in earned premiums. Earned premium growth of $486 in Business Insurance was primarily driven by new business premium growth outpacing non-renewals in the prior 12 months. Earned premium growth of $165 in Personal Lines was primarily driven by new business growth outpacing non-renewals in auto and the effect of earned pricing increases in homeowners. Earned premiums and other increased $158 in Group Benefits primarily due to increased sales, particularly in group disability, and continued strong persistency.

An increase of $541 in fee income primarily driven by increased individual annuity assets under management in the United States and Japan.

Partially offsetting these increases was a decrease of $274 in net realized capital gains primarily due to lower net gains on the sale of fixed maturity securities, losses associated with GMWB derivatives, Japanese fixed annuity contract hedges and periodic net coupon settlements. These losses were offset in part by changes in the value of non-qualifying foreign currency swaps.

Net Realized Capital Gains and Losses

See Investment Results in the Investments section.

Income Taxes

The effective tax rate for 2006, 2005 and 2004 was 24%, 24% and 15%, respectively. The principal causes of the difference between the effective rate and the U.S. statutory rate of 35% for 2006 and 2005 were tax-exempt interest earned on invested assets and the separate account dividends received deduction (DRD). For 2004, the principal causes were tax exempt interest earned on invested assets, the separate account DRD and the tax benefit associated with the settlement of the 1998-2001 IRS audit. Income taxes paid in 2006, 2005 and 2004 were $179, $447 and $32, respectively. For additional information, see Note 13 of Notes to Consolidated Financial Statements.

The separate account DRD is estimated for the current year using information from the prior year-end, adjusted for current year equity market performance. The estimated DRD is generally updated in the third quarter for the provision-to-filed-return adjustments, and in the fourth quarter based on current year ultimate mutual fund distributions and fee income from the Company s variable insurance products. The actual current year DRD can vary from the estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distributions from these mutual funds, the utilization of capital loss carry forwards at the mutual fund level and appropriate levels of taxable income.

The Company receives a foreign tax credit (FTC) against its U.S. tax liability for foreign taxes paid by the Company including payments from its separate account assets. The separate account FTC is estimated for the current year using information from the most recent filed return, adjusted for the change in the allocation of separate account investments to the international equity markets during the current year. The actual current year FTC can vary from the estimates due to the actual FTC s passed through by the mutual funds.

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Earnings Per Common Share

The following table represents earnings per common share data for the past three years:

	2006	2005	2004
Basic earnings per share	$ 8.89	$ 7.63	$ 7.24
Diluted earnings per share	$ 8.69	$ 7.44	$ 7.12
Weighted average common shares outstanding (basic)	308.8	298.0	292.3
Weighted average common shares outstanding and dilutive potential common shares (diluted)	315.9	305.6	297.0

Outlooks

The Hartford provides projections and other forward-looking information in the Outlook sections within MD&A. The Outlook sections 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 precautionary statements set forth in the introduction to MD&A above. Actual results are likely to differ materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each Outlook section and in Item 1A, Risk Factors.

Outlook

Life

To a large extent, the future profitability of Life will depend on Life s ability to increase assets under management across all businesses and maintain its investment spread on general account products. Management believes the market for retirement products continues to expand as individuals increasingly save and plan for retirement. Demographic trends suggest that as the baby boom generation matures, a significant portion of the United States population will allocate a greater percentage of their disposable incomes to saving for their retirement years due to uncertainty surrounding the Social Security system and increases in average life expectancy.

Competition has increased substantially in the variable annuities market with most major variable annuity writers now offering living benefits such as GMWB riders. The highly competitive environment in this market and the success of these riders and any new product will ultimately be based on customer acceptance. Future sales and revenues will be largely dependent on the Company s ability to attract new customers and to retain contract holder s account values in existing or new product offerings as they reach the end of the surrender charge period of their contract. The Company s strategy in 2007 revolves around introducing new products and continually evaluating the portfolio of products currently offered. As a result, sales may be lower than the level of sales attained in 2006 when considering the highly competitive environment, the risk of disruption on new sales from product offering changes, customer acceptance of new products and the effect on the distribution related to product offering changes.

In 2007, Life will begin selling mutual fund based products in the 401(k) market that will increase Life s ability to grow assets under management in the medium size 401(k) market. Life will also be selling mutual fund based products in the 403(b) market as it looks to grow assets in a highly competitive environment. Disciplined expense management will continue to be a focus; however, as Life looks to expand its reach in these markets, additional investments in service and technology will occur.

The Institutional Investment Products (IIP) markets are highly competitive from a pricing perspective, and a small number of cases often account for a significant portion of deposits, therefore the Company may not be able to sustain the level of assets under management growth attained in 2006. The Company s success depends in part on the level of credited interest rates and the Company s credit rating.

IIP has launched new products in 2006 to provide solutions that deal specifically with longevity risk, and will continue to introduce products in 2007. Longevity risk is defined as the likelihood of an individual outliving their assets. IIP is also designing innovative solutions to corporation s defined benefit liabilities. The focus of the PPLI business is variable PPLI products to fund non-qualified benefits or other post employment benefit liabilities. The market served

by PPLI is subject to extensive legal and regulatory review that could have an adverse effect on its business.
Individual Life continues to focus on its core distribution model of sales through financial advisors, while also pursuing growth opportunities through other distribution sources such as independent life professionals. Variable universal life sales and account values remain sensitive to equity market levels and returns. Individual Life continues to face uncertainty surrounding estate tax legislation, a high level of competition from other life insurance providers, reduced availability and higher price of reinsurance, and the current regulatory environment related to reserving for universal life products with no-lapse guarantees, which may negatively affect Individual Life s future earnings.
The increased scale of the group life and disability operations and the expanded distribution network for its products and services has generated strong premium and sales growth in 2006. Management is committed to selling competitively priced products that meet the

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Company s internal rate of return guidelines and sales may be negatively affected by the competitive pricing environment in the marketplace. Although sales may fluctuate from year to year, the Company has experienced consistent premium growth over the past few years which results from the combination of sales, renewal pricing and persistency.

Despite the current market conditions, including rising medical costs, the changing regulatory environment and cost containment pressure on employers, the Company continues to leverage its strength in claim practices risk management, service and distribution, enabling the Company to capitalize on market opportunities. Additionally, employees continue to look to the workplace for a broader and ever expanding array of insurance products. As employers design benefit strategies to attract and retain employees, while attempting to control their benefit costs, management believes that the need for the Company s products will continue to expand. This combined with the significant number of employees who currently do not have coverage or adequate levels of coverage, creates opportunities for our products and services.

Management continues to be optimistic about growth potential of the retirement savings market in Japan. Several trends such as an aging population, longer life expectancies and declining birth rate leading to a smaller number of younger workers to support each retiree have resulted in greater need for an individual to plan and adequately fund retirement savings.

Competition has continued to increase in the Japanese market with the most significant competition the result of the strengthening of domestic competitors. This competition has resulted in changes in key distribution relationships that have negatively impacted current year deposits and could potentially impact future deposits. The Company continues to focus its efforts on strengthening our distribution relationships and improving our wholesaling and servicing efforts. In addition, the Company continues to evaluate product designs that meet customers needs while maintaining prudent risk management. In the first quarter 2007, the Company is launching a new variable annuity product to complement its existing variable annuity product offerings. The success of the Company s enhanced product offering will ultimately be based on customer acceptance in an highly competitive environment.

The Company will adopt Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications of Exchanges of Insurance Contracts (SOP 05-1) on January 1, 2007. The Company expects the cumulative effect upon adoption of SOP 05-1 to be $50 to $65, after-tax, which will be recorded as a reduction in retained earnings as of January 1, 2007. In addition, the Company expects an after-tax reduction in net income, in 2007, of $15 to $25 assuming the level of internal replacement activity in 2007 is consistent with prior years.

Property & Casualty

In 2007, management expects continued growth in written and earned premiums in Business Insurance and Personal Lines and a return to written premium growth in Specialty Commercial.

Within Business Insurance, management expects written premium to grow 2% to 5% in 2007, comprised of 4% to 7% growth in small commercial and no growth in middle market. Growth in small commercial is expected to primarily come from an increase in agency appointments, better segmented pricing and improved product features. As competition among P&C insurers puts downward pressure on prices in Business Insurance, the Company may non-renew some accounts or decide to write less new business.

The Personal Lines segment is expected to deliver written premium growth of 4% to 7% in 2007, including growth from both AARP and Agency. The Company expects personal auto written premium to increase 3% to 6% and homeowners written premium to increase 7% to 10% as management expects that growth from Agency business will be largely driven by an increase in the number of agency appointments and growth in AARP business will be largely driven an increase in marketing to AARP members.

Within Specialty Commercial, management expects written premium growth of 3% to 6% in 2007, driven by increases in property, casualty and professional liability, fidelity and surety.

Lines of business within Business Insurance and Personal Lines experienced either lower written price increases or a continuation of written price declines in 2006. Despite the downward pressure on rates, the Company expects market pricing to remain largely rational in 2007, although underwriting margins will likely lessen as loss costs outpace earned pricing increases. Management believes that 2006 represented the peak year of profitability in the underwriting cycle. Across Business Insurance and Personal Lines, management expects that loss costs will increase in 2007 as claim frequency is expected to be less favorable than in 2006 and claim severity is expected to increase. Due to the earned pricing and loss cost trends, management expects that, in 2007, the current accident year loss and loss adjustment expense ratio before catastrophes will increase in Business Insurance. While Personal Lines earned pricing and loss cost trends are expected to be less favorable in 2007, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to remain relatively unchanged as underwriting results will benefit from the sale of Omni, which generated an underwriting loss of $52 in 2006. Within Specialty Commercial, management expects that current accident year underwriting results before catastrophes in 2007 will be relatively consistent with results in 2006.

Current accident year catastrophe losses in 2006, at 1.9 percent of Ongoing Operations earned premium, were lower than the long-term historical average. While catastrophe losses vary significantly from year to year and are unpredictable, management has assumed that catastrophe losses in 2007 will be closer to 3.0% to 3.5% of earned premium. Despite a mild hurricane season and a relatively low level of catastrophe losses in 2006, the Company will continue to manage its exposure to catastrophe losses through the ongoing assessment of its risk, disciplined underwriting and the use of reinsurance and other risk transfer alternatives, as appropriate. As of January 1, 2007, the Company s retention under its principal property catastrophe reinsurance program was increased from $175 to $250 per catastrophe event, although under certain conditions, the Company s loss retention from a single event could be reduced to

$200 for a second or subsequent event. With the January 1 renewal, the cost of the company s principal property catastrophe reinsurance program increased by approximately 28%.

The expense ratio is expected to increase slightly in 2007 since the 2006 expense ratio benefited from a $41 reduction in Florida Citizens assessments. In addition, the expense ratio in 2007 will likely reflect an increase in spending for AARP marketing initiatives and investments in technology. As a result of less favorable or unfavorable earned pricing changes and increases in loss costs and underwriting expenses, the Company expects an Ongoing Operations combined ratio before catastrophes and prior accident year development of between 87.5 and 90.5 in 2007, compared to 88.0 in 2006. Likewise, P&C operating cash flow is expected to be less favorable than in 2006, although still very positive. Management expects a mid-single digit increase in net investment income in 2007, driven by net underwriting cash inflows and a change in asset mix. Based upon current market forward interest rate expectations and an expectation of moderating partnership income, management expects the after-tax investment yield for Property & Casualty to be about 4.0% in 2007, consistent with an after-tax yield of 4.1% in 2006.

The Other Operations segment will continue to manage the discontinued operations of the Company as well as claims (and associated reserves) related to asbestos, environmental and other exposures. The Company will continue to review various components of all of its reserves on a regular basis.

LIFE

Executive Overview

Life provides retail and institutional investment products such as variable and fixed annuities, mutual funds, PPLI, and retirement plan services, individual life insurance and group benefit products, such as group life and group disability insurance.

Retail offers individual variable and fixed market value adjusted (MVA) annuities, retail mutual funds, 529 college savings plans, Canadian and offshore investment products.

Retirement Plans offers retirement plan products and services to corporations and municipalities under Section 401(k), 403(b) and 457 plans.

Institutional primarily offers institutional liability products, including stable value products and institutional annuities (primarily terminal funding cases), as well as variable Private Placement Life Insurance (PPLI) owned by corporations and high net worth individuals. Within stable value, Institutional has an investor note program that offers both institutional and retail investor notes. Institutional and Retail notes are sold as funding agreement backed notes through trusts and may also be issued directly from the Company to investors. Institutional also offers mutual funds to institutional investors. Furthermore, Institutional offers additional individual products including structured settlements, consumer notes and single premium immediate annuities and longevity assurance.

Individual Life sells a variety of life insurance products, including variable universal life, universal life, interest sensitive whole life and term life.

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

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and Canada.

Life charges direct operating expenses to the appropriate segment and allocates the majority of indirect expenses to the segments based on an intercompany expense arrangement. Intersegment revenues primarily occur between Life s Other category and the operating segments. These amounts primarily include interest income on allocated surplus, interest charges on excess separate account surplus, the allocation of certain net realized capital gains and losses and the allocation of credit risk charges.

Life derives its revenues principally from: (a) 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; (b) net investment income on general account assets; (c) fully insured premiums; and (d) certain other fees. Asset management fees and mortality and expense fees are primarily generated from separate account assets, which are deposited with Life through the sale of variable annuity and variable universal life products and from mutual funds. Cost of insurance charges are assessed

on the net amount at risk for investment-oriented life insurance products. Premium revenues are derived primarily from the sale of group life, group disability and individual term insurance products.
Life s expenses essentially consist of interest credited to policyholders on general account liabilities, insurance benefits provided, amortization of deferred policy acquisition costs, expenses related to selling and servicing the various products offered by the Company, dividends to policyholders, and other general business expenses.
Life s profitability in its variable annuity, mutual fund and, to a lesser extent, variable universal life businesses, depends largely on the amount of the contract holder account value or assets under management on which it earns fees and the level of fees charged. Changes

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in account value or assets under management are driven by two main factors: net flows, which measure the success of the Company s asset gathering and retention efforts, and the market return of the funds, which is heavily influenced by the return realized in the equity markets. Net flows are comprised of new sales and other 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. Life uses the average daily value of the S&P 500 Index as an indicator for evaluating market returns of the underlying account portfolios in the United States. Relative profitability of variable products is highly correlated to the growth in account values or assets under management since these products generally earn fee income on a daily basis. An immediate significant downturn in the financial markets could result in a charge against deferred acquisition costs. See the Critical Accounting Estimates section of the MD&A for further information on DAC unlocks.

The profitability of Life s fixed annuities and other spread-based products depends largely on its ability to earn target spreads between earned investment rates on its general account assets and interest credited to policyholders. Profitability is also influenced by operating expense management including the benefits of economies of scale in the administration of its United States variable annuity businesses in particular. In addition, the size and persistency of gross profits from these businesses is an important driver of earnings as it affects the rate of amortization of deferred policy acquisition costs.

Life s profitability in its individual life insurance and group benefits businesses depends largely on the size of its in force block, the adequacy of product pricing and underwriting discipline, actual mortality and morbidity experience, and the efficiency of its claims and expense management.

Performance Measures

Fee Income

Fee income is largely driven from amounts collected as a result of contractually defined percentages of assets under management on investment type contracts. These fees are generally collected on a daily basis from the contract holder s account. For individual life insurance products, fees are contractually defined percentages based on levels of insurance, age, premiums and deposits collected and contractholder account value. Life insurance fees are generally collected on a monthly basis. Therefore, the growth in assets under management either through positive net flows or net sales and favorable equity market performance will have a favorable impact on fee income. Conversely, negative net flows or net sales and unfavorable equity market performance will reduce fee income generated from investment type contracts.

	As of and for the years ended December 31,		
Product/Key Indicator Information	**2006**	**2005**	**2004**
United States Individual Variable Annuities			
Account value, beginning of period	$ 105,314	$ 99,617	$ 86,501
Net flows	(3,150)	(881)	5,471
Change in market value and other	12,201	6,578	7,645
Account value, end of period	$ 114,365	$ 105,314	$ 99,617
Retail Mutual Funds			
Assets under management, beginning of period	$ 29,063	$ 25,240	$ 20,301
Net sales	5,659	1,335	2,505
Change in market value and other	3,814	2,488	2,434

Assets under management, end of period	$ 38,536	$ 29,063	$ 25,240
Retirement Plans			
Account value, beginning of period	$ 19,317	$ 16,493	$ 13,571
Net flows	2,545	1,618	1,636
Change in market value and other	1,713	1,206	1,286
Account value, end of period	$ 23,575	$ 19,317	$ 16,493
Individual Life Insurance			
Variable universal life account value, end of period	$ 6,637	$ 5,902	$ 5,356
Total life insurance in-force	164,227	150,801	139,889
S&P 500 Index			
Year end closing value	1,418	1,248	1,212
Daily average value	1,310	1,208	1,131
Japan Annuities			
Account value, beginning of period	$ 26,104	$ 14,631	$ 6,220
Net flows	4,393	10,857	7,249
Change in market value and other	846	616	1,162
Account value, end of period	$ 31,343	$ 26,104	$ 14,631

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Year ended December 31, 2006 compared to year ended December 31, 2005

The increase in U.S. variable annuity account values can be attributed to market growth during 2006.

Net flows for the U.S. variable annuity business were negative and have worsened from prior year levels resulting from higher surrenders outpacing increased deposits.

Mutual Fund net sales increased substantially over the prior year as a result of focused wholesaling efforts and favorable fund and equity market performance.

The increase in Retirement Plans account values is due to positive net flows over the past year due to higher deposits and market appreciation.

Individual Life variable universal life account value increased due primarily to premiums, deposits and market appreciation. Life insurance inforce increased from December 31, 2005 due to business growth.

Japan annuity account values as of December 31, 2006 were higher as a result of positive net flows and fund performance, offset by the effects of currency translation. Japan net flows have decreased from the prior year due to increased competition.

Changes in market value were based on market conditions and investment management performance in 2006.

Year ended December 31, 2005 compared to year ended December 31, 2004

The increase in U.S. variable annuity account values can be attributed to market growth during 2005.

Net flows and net deposits for the U.S. variable annuity and retail mutual fund businesses decreased in particular, as variable annuity net flows and mutual fund net sales were negatively affected due to lower sales levels and higher surrenders due to increased competition.

Changes in market value were based on market conditions and investment management performance in 2005.

Japan annuity account values and net flows grew as a result of strong deposits and significant market growth in 2005.

Net Investment Income and Interest Credited

Certain investment type contracts such as fixed annuities and other spread-based contracts generate deposits that the Company collects and invests to earn investment income. These investment type contracts use this investment income to credit the contract holder an amount of interest specified in the respective contract; therefore, management evaluates performance of these products based on the spread between net investment income and interest credited. Net investment income and interest credited can be volatile period over period, which can have a significant positive or negative effect on the operating results of each segment. The volatile nature of net investment income is driven primarily by prepayments on securities and earnings on partnership investments. In addition, insurance type contracts such as those sold by Group Benefits (discussed below) collect and invest premiums to pay for losses specified in the particular insurance contract and those sold by Institutional, collect and invest premiums for certain life contingent benefits. For these insurance products the investment spread is reflected in net investment income and policyholder benefits. Finally, the return of the funds underlying the Japan variable annuities is reported in net investment income in Other with an offsetting amount credited to those contractholders in interest credited. The net investment income and interest credited from the Japan variable annuities will be volatile due to the volatile performance of the funds and, similar to returns on U.S. separate account assets, accrues to the benefit of the policyholders, not the Company.

	For the years ended December 31,		
Net Investment Income	**2006**	**2005**	**2004**

Retail	$ 839	$ 933	$ 1,011
Retirement Plans	326	311	306
Institutional	1,003	802	664
Individual Life	324	305	303
Group Benefits	415	398	373
International	123	75	11
Other	1,978	4,021	1,007
Total net investment income	**$ 5,008**	**$ 6,845**	**$ 3,675**

Interest Credited on General Account Assets

Retail	$ 640	$ 717	$ 841
Retirement Plans	208	197	186
Institutional	522	383	300
Individual Life	237	225	216
International	21	14	(1)
Other	1,925	4,135	939
Total interest credited on general account assets	**$ 3,553**	**$ 5,671**	**$ 2,481**

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Year ended December 31, 2006 compared to year ended December 31, 2005

Net investment income and interest credited on general account assets in Retail declined due to a decline in general account assets as a result of surrenders on market value adjusted (MVA) fixed annuity products at the end of the guarantee period. Also contributing to the decline in general account assets were transfers within variable annuity products from the general account to separate account funds.

Net investment income and interest credited on general account assets in Institutional increased primarily due to an increase in general account assets as a result of sales in the Company s funding agreement backed Investor Notes program.

Net investment income and interest credited in Other decreased due to a decrease in the mark-to-market effects of trading account securities supporting the Japanese variable annuity business.

In addition to interest credited on general account assets, Institutional also had other contract benefits for limited payment contracts of $345 and $212 for the years ended December 31, 2006 and 2005, respectively. These amounts need to be deducted from net investment income to understand the net interest spread on these businesses because these contracts are accounted for as traditional insurance products.

Year ended December 31, 2005 compared to year ended December 31, 2004

Net investment income and interest credited in Other increased due to $3.8 billion increase in the mark-to-market effects of trading account securities supporting the Japanese variable annuity business.

Net investment income and interest credited on general account assets in Retail declined due to lower assets under management from surrenders on market value adjusted (MVA) fixed annuity products at the end of their guarantee period.

Net investment income and interest credited on general account assets in Institutional increased as a result of the Company s funding agreement backed Investor Notes program, partially offset by surrenders in the PPLI business.

In addition to interest credited on general account assets, Institutional also had other contract benefits for limited payment contracts of $292 and $279 for the years ended December 31, 2005 and 2004, respectively. These amounts need to be deducted from net investment income to understand the net interest spread on these businesses because these contracts are accounted for as traditional insurance products.

Premiums

As discussed above, traditional insurance type products, such as those sold by Group Benefits, collect premiums from policyholders in exchange for financial protection for the policy holder 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. A majority of sales correspond with the open enrollment periods of employers benefits, typically January 1 or July 1. Persistency is the percentage of insurance policies remaining in force from year to year as measured by premiums.

	For the years ended December 31,		
Group Benefits	**2006**	**2005**	**2004**
|||			
Total premiums and other considerations	$ 4,150	$ 3,810	$ 3,652
Fully insured ongoing sales (excluding buyouts)	861	779	632
Persistency [1]	87%	87%	85%

[1] *The persistency rate represents group life and disability business sold to employer groups, which accounts for, on average, 72% to 75% of in-force premiums.*

Earned premiums and other considerations include $12, $27 and $4 in buyout premiums for the years ended December 31, 2006, 2005 and 2004 respectively. The increase in premiums and other considerations for Group Benefits in 2006 compared to 2005 was driven by sales growth of 11%. The increase in premiums and other considerations for Group Benefits in 2005 compared to 2004 was driven by sales growth of 23%.

Expenses

There are three major categories for expenses. The first major category of expenses is benefits and losses. These include the costs of mortality and morbidity, particularly in the group benefits business, and mortality in the individual life businesses, as well as other contractholder benefits to policyholders. In addition, traditional insurance type products generally use a loss ratio which is expressed as the amount of benefits incurred during a particular period divided by total premiums and other considerations, as a key indicator of underwriting performance. 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.

The second major category is insurance operating costs and expenses, which is commonly expressed in a ratio of a revenue measure depending on the type of business. The third category is the amortization of deferred policy acquisition costs and the present value of

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future profits, which is typically expressed as a percentage of pre-tax income before the cost of this amortization. The individual annuity business within Retail accounts for the majority of the amortization of deferred policy acquisition costs and present value of future profits for Life.

	For the years ended December 31,		
Retail	**2006**	**2005**	**2004**
General insurance expense ratio (individual annuity)	17.2bps	17.9bps	18.3bps
DAC amortization ratio (individual annuity)	58.1%	49.6%	50.9%
Insurance expenses, net of deferrals	$ 995	$ 869	$ 687
Individual Life			
Death benefits	$ 251	$ 241	$ 245
Insurance expenses, net of deferrals	$ 179	$ 167	$ 164
Group Benefits			
Total benefits and losses	$ 3,002	$ 2,794	$ 2,703
Loss ratio (excluding buyout premiums)	72.3%	73.1%	74.0%
Insurance expenses, net of deferrals	$ 1,102	$ 1,022	$ 989
Expense ratio (excluding buyout premiums)	27.6%	27.8%	27.7%
International Japan			
General insurance expense ratio	49.1bps	68.6bps	92.1bps
DAC amortization ratio	29.0%	41.4%	56.6%
Insurance expenses, net of deferrals	$ 159	$ 148	$ 83

Individual annuity s asset growth in 2006 and 2005 decreased individual annuity s expense ratio to a level lower than prior years.

The ratio of individual annuity DAC amortization increased due to the DAC unlock in 2006. Excluding the DAC unlock, the ratio was 50.8%, slightly higher than 2005 and consistent with 2004.

Individual Life death benefits increased 4% in 2006 primarily due to a larger insurance inforce. Individual Life Insurance expenses, net of deferrals increased 7% for 2006 consistent with the growth of life insurance inforce. Death benefits decreased in 2005 as compared to 2004 due to favorable mortality in 2005.

The Group Benefits loss ratio, excluding buyouts, for 2006 decreased due to favorable mortality experience, partially offset by unfavorable morbidity experience. Loss ratios experience volatility in period over period comparisons due to fluctuations in mortality and morbidity experience.

The Group Benefits loss ratio, excluding buyouts, for 2005, decreased due to favorable mortality and morbidity experience, as compared to 2004.

International s expense ratio continued to decline in 2006 as Japan further leveraged the existing infrastructure as it attains economies of scale.

The International DAC amortization ratio decreased due to the DAC unlock in 2006. Excluding the DAC unlock, the ratio was down slightly to 38.8%.

Profitability

Management evaluates the rates of return various businesses can provide as an input in determining where additional capital should be invested to increase net income and shareholder returns. Specifically, because of the importance of its individual annuity products, the Company uses the return on assets for the individual annuity business for evaluating profitability. In Group Benefits, after tax margin is a key indicator of overall profitability.

Ratios	**2006**	**2005**	**2004**
Retail			
Individual annuity return on assets (ROA)	47.6 bps	54.6 bps	44.8 bps
Group Benefits			
After-tax margin (excluding buyouts)	7.3%	7.2%	6.3%
International Japan			
International return on assets (ROA)	93.0 bps	59.2 bps	34.5 bps

Individual annuity s ROA decreased primarily due to the DAC unlock in 2006. Excluding the DAC unlock, ROA was 53.6 bps in 2006. Contributing to the decline was an increase in trail commissions. Individual annuity s ROA increased for 2005, compared to the prior year. In particular, variable annuity fees and fixed annuity general account spreads each increased for 2005 compared to the prior year. The increase in the ROA can be attributed to the increase in account values and resulting increased fees including GMWB rider fees without a corresponding increase in expenses, while the increase in fixed annuity general account spread resulted

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from fixed annuity contracts that were repriced upon the contract reaching maturity. Also, contributing to a higher ROA in 2005 is an increase in the separate account dividends received deduction (DRD) tax benefit compared to 2004.

The improvement in the Group Benefits after-tax margin for 2006 was primarily due to an improvement in the loss and expense ratios partially offset by a lower net investment income rate and higher income tax expense. The improvement in the Group Benefits after tax margin for 2005 as compared to 2004 was primarily due to the favorable loss ratios and higher net investment income.

International s ROA increased significantly in 2006 primarily due to the DAC unlock and the leveraging of its existing infrastructure through disciplined expense management. Excluding the DAC unlock, ROA was 74 bps in 2006.

Life Operating Summary	**2006**	**2005**	**2004**
Earned premiums	$ 4,590	$ 4,203	$ 4,072
Fee income	4,726	4,000	3,464
Net investment income			
Securities available-for-sale and other	3,184	2,998	2,876
Equity securities held for trading [1]	1,824	3,847	799
Total net investment income	5,008	6,845	3,675
Other revenues			
Net realized capital gains (losses)	(260)	(25)	164
Total revenues	**14,064**	**15,023**	**11,375**
Benefits, losses and loss adjustment expenses [1]	8,040	9,809	6,630
Amortization of deferred policy acquisition costs and present value of future profits	1,452	1,172	993
Insurance operating costs and other expenses	2,708	2,522	2,145
Total benefits, losses and expenses	**12,200**	**13,503**	**9,768**
Income before income taxes and cumulative effect of accounting change	**1,864**	**1,520**	**1,607**
Income tax expense	423	316	202
Income before cumulative effect of accounting change	**1,441**	**1,204**	**1,405**
Cumulative effect of accounting change, net of tax [2]			(23)
Net income	**$ 1,441**	**$ 1,204**	**$ 1,382**

[1] Includes investment income and mark-to-market effects of equity securities held for trading supporting the international variable annuity

business, which are classified in net investment income with corresponding amounts credited to policyholders within benefits, losses and loss adjustment expenses.

[2] *For the year ended December 31, 2004, represents the cumulative impact of the Company s adoption of SOP 03-1.*

Year ended December 31, 2006 compared to the year ended December 31, 2005

The change in Life s net income was due to the following:

Net income increased primarily due to growth in assets under management resulting from market growth and sales, along with higher earned premiums in Group Benefits. The increase in net investment income was primarily due to income earned on higher average invested assets base, an increase in interest rates and a change in asset mix (e.g. greater investment in mortgage loans and limited partnerships). The increase in average invested assets base, as compared to the prior year, was primarily due to positive operating cash flows, investment contract sales such as retail and institutional notes, and universal life-type product sales.

Net realized capital losses were larger in the year ended December 31, 2006 compared to 2005 primarily due to rising interest rates. Components of the increased realized losses included increased other than temporary impairments (see the Other-Than-Temporary Impairments discussion within Investment Results for more information on the increase in impairments), losses on non-qualifying derivatives and net losses on sales of investments.

During 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance (leveraged COLI) policies in the early to mid-1990s. The Company ceased offering this product in 1996. Based on the favorable outcome of these cases, together with the Company s current assessment of the few remaining leveraged COLI cases, the Company reduced its estimate of the ultimate cost of these cases during 2006. This reserve reduction, recorded in insurance operating costs and other expenses, resulted in an after-tax benefit of $34.

During 2005, the Company recorded an after-tax expense of $46, related to the termination of a provision of an agreement with a mutual fund distribution partner of the Company s retail mutual funds.

Life recorded an after-tax charge of $102 in 2005 to establish reserves for regulatory matters for investigations related to market timing by the SEC and New York Attorney General s Office, directed brokerage by the SEC, and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

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Year ended December 31, 2005 compared to the year ended December 31, 2004

The change in Life s net income was due to the following:

Life recorded an after-tax charge of $102 in 2005 to establish reserves for regulatory matters for investigations related to market timing by the SEC and New York Attorney General s Office, directed brokerage by the SEC, and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

Life recorded an after-tax expense of $46 in 2005, which related to the termination of a provision of an agreement with a mutual fund distribution partner.

The effective tax rate was 21% for Life operations for the current year as compared to an effective tax rate of 13% for Life operations for the respective prior year period. The 2005 higher effective tax rate was attributed to the absence of the 2004 tax benefit of $190 offset by an increase in the DRD tax benefit of $50.

Partially offsetting the decreases to earnings discussed above was:

Net income increased due to growth in assets under management resulting from sales as well as higher premium and favorable loss ratios in Group Benefits.

Net investment income increased for all Life segments during 2005, driven by a higher asset base and increased partnership income, as compared to the prior year.

Income Taxes

The effective tax rate for 2006, 2005 and 2004 was 23%, 21% and 13%, respectively. The principal causes of the difference between the effective rate and the U.S. statutory rate of 35% for 2006 and 2005 were tax-exempt interest earned on invested assets and the separate account dividends received deduction (DRD). For 2004, the principal causes were tax exempt interest earned on invested assets, the separate account DRD and the tax benefit associated with the settlement of the 1998-2001 IRS audit. For additional information, see Note 13 of Notes to Consolidated Financial Statements.

The separate account DRD is estimated for the current year using information from the prior year-end, adjusted for current year equity market performance. The estimated DRD is generally updated in the third quarter for the provision-to-filed-return adjustments, and in the fourth quarter based on current year ultimate mutual fund distributions and fee income from the Company s variable insurance products. The actual current year DRD can vary from the estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distributions from these mutual funds, the utilization of capital loss carry forwards at the mutual fund level and appropriate levels of taxable income.

The Company receives a foreign tax credit (FTC) against its U.S. tax liability for foreign taxes paid by the Company including payments from its separate account assets. The separate account FTC is estimated for the current year using information from the most recent filed return, adjusted for the change in the allocation of separate account investments to the international equity markets during the current year. The actual current year FTC can vary from the estimates due to the actual FTC s passed through by the mutual funds.

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A description of each segment as well as an analysis of the operating results summarized above is included on the following pages.

RETAIL

Operating Summary	**2006**	**2005**	**2004**
Fee income and other	$ 2,697	$ 2,325	$ 2,019
Earned premiums	(86)	(52)	5
Net investment income	839	933	1,011
Net realized capital gains	7	9	
Total revenues	**3,457**	**3,215**	**3,035**
Benefits, losses and loss adjustment expenses	819	895	1,074
Insurance operating costs and other expenses	995	869	687
Amortization of deferred policy acquisition costs and present value of future profits	930	744	647
Total benefits, losses and expenses	**2,744**	**2,508**	**2,408**
Income before income taxes and cumulative effect of accounting change	**713**	**707**	**627**
Income tax expense	85	85	105
Income before cumulative effect of accounting change	**628**	**622**	**522**
Cumulative effect of accounting change, net of tax [1]			(19)
Net income	**$ 628**	**$ 622**	**$ 503**

Assets Under Management	**2006**	**2005**	**2004**
Individual variable annuity account values	$ 114,365	$ 105,314	$ 99,617
Individual fixed annuity and other account values	9,937	10,222	11,384
Other retail products account values	525	336	182
Total account values [2]	**124,827**	**115,872**	**111,183**
Retail mutual fund assets under management	38,536	29,063	25,240
Other mutual fund assets under management	1,489	1,004	641
Total mutual fund assets under management	**40,025**	**30,067**	**25,881**
Total assets under management	**$ 164,852**	**$ 145,939**	**$ 137,064**

[1] Represents the cumulative impact of the Company s adoption of SOP

03-1.

[2] Includes policyholders balances for investment contracts and reserve for future policy benefits for insurance contracts.

Retail focuses on the savings and retirement needs of the growing number of individuals who are preparing for retirement, or have already retired, through the sale of individual variable and fixed annuities, mutual funds and other investment products. Life is both a leading writer of individual variable annuities and a top seller of individual variable annuities through banks in the United States.

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income in the Retail segment for the year ended December 31, 2006 increased primarily due to improved fee income partially offset by higher amortization of DAC resulting from the DAC unlock during the fourth quarter of 2006. Higher fee income was driven by higher assets under management resulting primarily from market growth. A more expanded discussion of earnings can be found below:

The increase in fee income in the variable annuity business for the year ended December 31, 2006 was mainly a result of growth in average account values. The year-over-year increase in average account values of 7% or $7.4 billion can be attributed to market appreciation of $12.2 billion during 2006. Variable annuities had net outflows of $3.2 billion for the year ended December 31, 2006 compared to net outflows of $881 for the year ended December 31, 2005. Net outflows from additional surrender activity were due to increased deposits competition, particularly from competitors offering variable annuity products with guaranteed living benefits.

Mutual fund fee income increased 26% for the year ended December 31, 2006 due to increased assets under management driven by market appreciation of $3.9 billion and net deposits of $5.7 billion during the year. This increase was primarily attributable to focused wholesaling efforts.

Despite stable general account investment spread during the year, net investment income has steadily declined for the year ended December 31, 2006 due to variable annuity transfers from the fixed account to the separate account combined with surrenders in the fixed MVA contracts. Despite these outflows, a more favorable interest rate environment during 2006 has resulted in increased deposits and a lower surrender rate due to fewer contracts up for renewal for the year ended December 31, 2006 resulting in a decrease in net outflows of $1.3 billion compared to the prior year.

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Benefits, losses and loss adjustment expenses have decreased for the year ended December 31, 2006 due to a decline in interest credited as a result of fixed annuity outflows which decreased fixed annuity account values.

Insurance operating costs and other expenses increased for the year ended December 31, 2006 primarily due to an increase in mutual fund commissions due to significant growth in deposits. In addition, variable annuity asset based commissions increased due to 9% growth in assets under management, as well as an increase in the number of contracts reaching anniversaries when trail commission payments begin. During 2005, the Company recorded an after-tax expense of $46, for the termination of a provision of an agreement with a distribution partner of the Company s retail mutual funds.

Higher amortization of DAC resulted from the DAC unlock during the fourth quarter of 2006. The earnings impact of the DAC unlock was an increase to amortization of $72 after-tax. (For further discussion, see DAC Unlock Analysis in the Critical Accounting Estimates section of the MD&A).

The effective tax rate remained steady for the year ended December 31, 2006 compared to the prior year.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income in Retail increased for the year ended December 31, 2005 primarily due to improved fee income driven by higher assets under management. Assets under management increased primarily as a result of market growth. A more expanded discussion of earnings growth can be found below:

The increase in fee income in the variable annuity business for the year ended December 31, 2005 was mainly a result of growth in average account values. The year-over-year increase in average account values of 10% can be attributed to market appreciation of $6.6 billion during 2005. Variable annuities had net outflows of $881 for the year ended December 31, 2005 compared to net inflows of $5.5 billion for the year ended December 31, 2004. The net outflows in 2005 were due to increased surrender activity and increased competition for deposits particularly from competitors that offered guaranteed living benefits riders with their variable annuity products.

Mutual fund fee income increased for the year ended December 31, 2005 due to increased assets under management driven by market appreciation of $2.6 billion and net deposits of $1.3 billion. Despite the increase in assets under management, the amount of net deposits has declined for the year ended December 31, 2005 compared to the prior year. This decrease is attributed to market competition and higher redemption amounts.

The fixed annuity business contributed $66 of higher investment spread income in 2005 compared to 2004, excluding the cumulative effects of accounting change, due to improved investment spreads from the MVA products.

Benefits and losses and loss adjustment expenses have decreased for the year ended December 31, 2005 due to an increase in reserves in 2004 related to the acquisition of a block of acquired business from London Pacific Life and Annuity Company in liquidation. The increase in reserves of $62 was offset by an equivalent increase in earned premium. Also contributing to the decrease in benefits expense is a decrease in interest credited as older fixed annuity MVA business with higher credited rates matures and either lapses or renews at lower credited rates.

The effective tax rate decreased for the year ended December 31, 2005 compared to the prior year end due to an increase in the DRD benefit as a percentage of pre-tax income.

Partially offsetting these positive earnings drivers were the following items:

Throughout Retail, insurance operating costs and other expenses increased for the year ended December 31, 2005 compared to the prior year. General insurance expenses increased due to increased costs related to technology services as well as sales and marketing. In addition, the Company recorded an after-tax expense of $46, for the termination of a provision of an agreement with a mutual fund distribution partner.

There was higher amortization of DAC, which resulted from higher gross profits due to the positive earnings drivers as discussed above.

Outlook

Management believes the market for retirement products continues to expand as individuals increasingly save and plan for retirement. Demographic trends suggest that as the baby boom generation matures, a significant portion of the United States population will allocate a greater percentage of their disposable incomes to saving for their retirement years due to uncertainty surrounding the Social Security system and increases in average life expectancy. Competition has increased substantially in the variable annuities market with most major variable annuity writers now offering living benefits such as GMWB riders. The Company s strategy in 2007 revolves around introducing new products and continually evaluating the portfolio of products currently offered. As a result, deposits may be lower than the level of deposits attained in 2006 due to the increasingly competitive environment, the risk of disruption on new deposits from product offering changes, customer acceptance of new products and the effect on the distribution related to product offering changes.

Individual annuity deposits of $13.1 billion in 2006 increased 14% compared to prior year levels of $11.5 billion. Significantly contributing to the Company s variable annuity deposits since August of 2002 are GMWB riders. The highly competitive environment in this market and the success of these riders and new product development will ultimately be based on customer acceptance. Future

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deposits and revenues will be largely dependent on the Company s ability to attract new customers and to retain contract holder s account values in existing or new product offerings as they reach the end of the surrender charge period of their contracts.

The growth and profitability of the individual annuity and mutual fund businesses is dependent to a large degree on the performance of the equity markets. In periods of favorable equity market performance, Life may experience stronger deposits and higher net flows, which will increase assets under management and thus increase fee income earned on those assets. In addition, higher equity market levels will generally reduce certain costs to Life of individual annuities, such as guaranteed minimum death benefit (GMDB) and GMWB benefits. Conversely, weak equity markets may dampen deposits activity and increase surrender activity causing declines in assets under management and lower fee income. Such declines in the equity markets will also increase the cost to Retail of GMDB and GMWB benefits associated with individual annuities. Life attempts to mitigate some of the volatility associated with the GMDB and GMWB benefits using reinsurance or other risk management strategies, such as hedging. Future net income for Life will be affected by the effectiveness of the risk management strategies Life has implemented to mitigate the net income volatility associated with the GMDB and GMWB benefits of variable annuity contracts. For spread-based products sold in the Life segment, the future growth will depend on the ability to earn targeted returns on new business given competition, retention of account values in the fixed annuity business when the contract holder s rate guarantee expires and the future interest rate environment.

Management s current full year projections for 2007 are as follows:

- Variable annuity deposits of $12.0 billion to $13.0 billion
- Fixed annuity deposits of $500 to $1.0 billion
- Retail mutual fund deposits of $10.5 billion to $12.5 billion
- Variable annuity outflows of $3.0 billion to $4.0 billion
- Fixed annuity outflows of $500 to $1.0 billion
- Retail mutual fund net sales of $4.5 billion to $5.5 billion
- Individual annuity return on assets of 55 to 57 basis points
- Other retail return on assets of 13 to 15 basis points

RETIREMENT PLANS

Operating Summary	**2006**	**2005**	**2004**
Fee income and other	$ 192	$ 152	$ 121
Earned premiums	19	10	10
Net investment income	326	311	306
Net realized capital gains (losses)	1	(3)	(3)
Total revenues	**538**	**470**	**434**
Benefits, losses and loss adjustment expenses	250	231	220
Insurance operating costs and other expenses	135	115	96
Amortization of deferred policy acquisition costs	1	26	29
Total benefits, losses and expenses	**386**	**372**	**345**

Income before income taxes and cumulative effect of account change	**152**	**98**	**89**
Income tax expense	43	23	22
Income before cumulative effect of accounting change	**109**	**75**	**67**
Cumulative effect of accounting change, net of tax [1]			(1)
Net income	**$ 109**	**$ 75**	**$ 66**

Assets Under Management	**2006**	**2005**	**2004**
Governmental account values	$ 11,540	$ 10,475	$ 9,962
401(k) account values	12,035	8,842	6,531
Total account values [2]	23,575	19,317	16,493
Government mutual fund assets under management [3]		163	756
401(k) mutual fund assets under management	1,140	947	755
Total mutual fund assets under management	1,140	1,110	1,511
Total assets under management	**$ 24,715**	**$ 20,427**	**$ 18,004**

[1] *Represents the cumulative impact of the Company s adoption of SOP 03-1.*

[2] *Includes policyholder balances for investment contracts and reserves for future policy benefits for insurance contracts.*

[3] *Government Mutual Fund assets declined to zero due to a large case surrender in 2005 and the remaining business being*

transferred to the Institutional segment.

The Retirement Plans segment primarily offers customized wealth creation and financial protection for corporate and government employers through its two business units, Government and 401(k).

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income in the Retirement segment for the year ended December 31, 2006 increased primarily due to improved fee income combined with lower amortization of DAC resulting from the DAC unlock during the fourth quarter of 2006. Higher fee income was driven by higher assets under management resulting primarily from net flows and market growth. A more expanded discussion of earnings can be found below:

Fee income for 401(k) increased 34%, or $37 for the year ended December 31, 2006 compared to the prior year due to the growth in average account values. This growth is primarily driven by positive net flows of $2.0 billion during the year resulting from strong deposits. Total 401(k) deposits and net flows increased by 22% and 16%, respectively, over the prior year. The increase in average account values can also be attributed to market appreciation of $1.1 billion during the year.

General account spread remained stable for the year ended December 31, 2006 compared to the prior year. Overall, net investment income and the associated interest credited within benefits, losses and loss adjustment expenses each increased as a result of the growth in general account assets under management. Additionally, benefits, losses and loss adjustment expenses increased for the year ended December 31, 2006 compared to the prior year due to a large case annuitization in the 401(k) business which also resulted in a corresponding increase in earned premiums of $12.

Insurance operating costs and other expenses increased for the year ended December 31, 2006 primarily driven by the 401(k) business. The additional costs can be attributed to greater assets under management resulting in higher trail commissions and maintenance expenses.

Lower amortization of DAC resulted from a $20 benefit due to the unlocking of Retirement Plans DAC assumptions during the fourth quarter of 2006 in both the 401(k) and Government businesses of $25 and ($5) after-tax, respectively. (For further discussion, see DAC Unlock and Sensitivity Analysis in this section of the MD&A).

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income in the Retirement Plans segment increased for the year ended December 31, 2005 compared to the prior year end primarily due to higher earnings in the 401(k) business while net income for the Government business was relatively stable as positive market appreciation was largely offset by negative net flows resulting in little growth in assets under management. A more expanded discussion of earnings growth can be found below.

Fee income for 401(k) increased 39% or $30 for year ended December 31, 2005 compared to the prior year. This increase is a result of positive net flows from the 401(k) business of $1.8 billion over the prior year driven by strong deposits and increasing ongoing deposits contributing to the growth in 401(k) assets under management of 34% to $9.7 billion. Total 401(k) deposits and net flows increased substantially by 32% and 26%, respectively, over the prior year primarily due to the full year impact of 2004 s expansion of wholesaling capabilities and new product offerings.

The DAC amortization rate decreased in 2005 compared to 2004 as a result of higher profits.

Partially offsetting these positive earnings drivers were the following items:

General account spread decreased for both 401(k) and Governmental businesses for December 31, 2005 compared to prior year. The decrease is attributable to a decrease in the net investment income earned rate for both businesses. Average general account assets for the Retirement segment increased approximately 7% in 2005 compared to 2004, while net investment income increased only 2%. Benefits and claims expense, which mainly consists of interest credited, increased 5% for the year ended December 31, 2005 compared to prior year.

An increase in insurance operating costs and other expenses of $19 for the year ended December 31, 2005 was principally driven by the 401(k) business. The additional costs can be attributed to greater deposits and assets under management, resulting in a 20% increase in commissions, technology expenditures, and marketing and servicing costs supporting the segment s business. However, the increase in 401(k) deposits has driven down the overall general insurance expense per case by over 4% compared to prior year.

Outlook

The future profitability of this segment will depend on Life s ability to increase assets under management across all businesses and maintain its investment spread earnings on the general account products sold largely in the Government business. As the baby boom generation approaches retirement, management believes these individuals will contribute more of their income to retirement plans due to the uncertainty of the Social Security system and the increase in average life expectancy. In 2007, Life will begin selling mutual fund based products in the 401(k) market that will increase Life s ability to grow assets under management in the medium size 401(k) market. Life will also be selling mutual fund based products in the 403(b) market as they look to grow assets in a highly competitive environment. Disciplined expense management will continue to be a focus; however, as Life looks to expand its reach in these markets, additional investments in service and technology will occur.

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Management s current full year projections for 2007 are as follows:

- Deposits of $5.5 billion to $6.5 billion
- Net flows of $2.0 billion to $3.0 billion
- Return on assets of 36 to 38 basis points

INSTITUTIONAL
Operating Summary

	2006	2005	2004
Fee income and other	$ 124	$ 119	$ 161
Earned premiums	607	504	463
Net investment income	1,003	802	664
Net realized capital gains (losses)	(5)	(5)	3
Total revenues	**1,729**	**1,420**	**1,291**
Benefits, losses and loss adjustment expenses	1,484	1,212	1,116
Insurance operating costs and expenses	78	56	55
Amortization of deferred policy acquisition costs and present value of future profits	32	32	26
Total benefits, losses and expenses	**1,594**	**1,300**	**1,197**
Income before income taxes	**135**	**120**	**94**
Income tax expense	36	32	26
Net income	**$ 99**	**$ 88**	**$ 68**

Assets Under Management	**2006**	**2005**	**2004**
Institutional account values [1]	$ 22,214	$ 17,917	$ 14,599
Private Placement Life Insurance account values	26,131	23,836	22,498
Mutual fund assets under management [2]	2,567	1,528	676
Total assets under management	**$ 50,912**	**$ 43,281**	**$ 37,773**

[1] Institutional investment product account values include transfers from Retirement Plans and Retail of $763 during 2006.

[2] Mutual fund assets under

management include transfers from the Retirement Plan segment of $178 during 2006.

Institutional primarily offers customized wealth creation and financial protection for institutions, corporate and high net worth individuals through its two business units: Institutional Investment Products (IIP) and PPLI.

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income in Institutional increased for the year ended December 31, 2006 compared to the prior year driven by higher earnings in both the IIP and PPLI businesses. A more expanded discussion of earnings can be found below:

- Higher net investment income increased in Institutional driven by positive net flows of $2.2 billion during the year, which resulted in higher assets under management. Net flows for IIP were strong primarily as a result of the Company s funding agreement backed Investor Notes program. Investor Note deposits for the years ended December 31, 2006 and 2005 were $2.3 billion and $2.0 billion, respectively.
- General account spread is one of the main drivers of net income for the Institutional line of business. The increase in spread income in 2006 was driven by higher assets under management as noted above, combined with improved partnership income. For the year ended December 31, 2006 and 2005, income from partnership investments were $15 and $6 after-tax, respectively.
- For the year ended December 31, 2006, earned premiums increased as a result of two large terminal funding cases that were sold during the period. This increase in earned premiums was offset by a corresponding increase in benefits, losses and loss adjustment expenses.
- PPLI s net income increased compared to prior year primarily due to asset growth in the variable business combined with increased tax benefits.

Partially offsetting these positive earnings drivers was the following item:

- IIP operating expenses increased in the year ended December 31, 2006 due to higher costs related to the launch of new retirement products targeting the baby boom generation in 2006.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income in Institutional increased for the year ended December 31, 2005 compared to the prior year driven by higher earnings in both the IIP and PPLI businesses. A more expanded discussion of earnings can be found below:

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Total revenues increased in Institutional driven by positive net flows of $2.4 billion during 2005, which resulted in higher assets under management. Net flows for Institutional increased for the year ended December 31, 2005 compared to the prior year, primarily as a result of the Company s funding agreement backed Investor Notes program, which was launched in the third quarter of 2004. Investor Note deposits for the years ended December 31, 2005 and 2004 were $2.0 billion and $643, respectively.

General account spread is one of the main drivers of net income for the Institutional line of business. An increase in spread income in 2005 was driven by higher assets under management noted above, combined with improved partnership income and mortality gains related to terminal funding and structured settlement contracts that include life contingencies. For the year ended December 31, 2005 and 2004, gains related to mortality, investments or other activity were $10 and $3 after-tax, respectively. During 2005, the Company invested in more variable rate assets to back the increasing block of variable rate liabilities sold under the stable value product line. This asset/liability matching strategy decreased portfolio yields, as variable rate assets had lower initial coupon yields then fixed rate assets. At the same time, the stable value variable rate liabilities have lower crediting rates in 2005 than stable value fixed rate liabilities, which allowed the Company to maintain-to-slightly-increase its general account spread on a yield basis.

PPLI s net income increased $3 or 17% compared to prior year primarily due to asset growth in the variable business combined with favorable mortality experience.

Partially offsetting these positive earnings drivers was the following item:

PPLI s cost of insurance charges has decreased due to reductions in the face amount of certain cases. These face reductions have also resulted in lower death benefits. This impact combined with favorable mortality, which increases the provision for future experience rate credits has led to the year over year decrease in fee income and other.

Outlook

The future net income of this segment will depend on Institutional s ability to increase assets under management across all businesses and maintain its investment spread earnings on the products sold largely in the IIP business. The IIP markets are highly competitive from a pricing perspective, and a small number of cases often account for a significant portion of deposits, therefore the Company may not be able to sustain the level of assets under management growth attained in 2006. In 2004, IIP introduced the Hartford Income Notes which is a product that provides the Company with opportunity for future growth. This product provides access to both a multi-billion dollar retail market, and a nearly trillion dollar institutional market. These markets are highly competitive and the Company s success depends in part on the level of credited interest rates and the Company s credit rating.

As the baby boom generation approaches retirement, management believes these individuals will seek investment and insurance vehicles that will give them steady streams of income throughout retirement. IIP has launched new products in 2006 to provide solutions that deal specifically with longevity risk, and will continue to introduce products in 2007. Longevity risk is defined as the likelihood of an individual outliving their assets. IIP is also designing innovative solutions to corporations defined benefit liabilities. The focus of the PPLI business is variable PPLI products to fund non-qualified benefits or other post employment benefit liabilities. The market served by PPLI is subject to extensive legal and regulatory review that could have an adverse effect on its business.

Management s current full year projections for 2007 are as follows:

Deposits (includes mutual funds)	$5.0 billion $6.0 billion
Net flows (excludes mutual funds)	$2.0 billion $3.0 billion
Return on assets (includes mutual funds)	18 to 20 basis points

INDIVIDUAL LIFE
Operating Summary

	2006	2005	2004
Fee income and other	$ 883	$ 802	$ 767
Earned premiums	(53)	(33)	(21)
Net investment income	324	305	303
Net realized capital gains	5	5	7
Total revenues	**1,159**	**1,079**	**1,056**
Benefits, losses and loss adjustment expenses	497	469	480
Insurance operating costs and other expenses	179	167	164
Amortization of deferred policy acquisition costs and present value of future profits	241	205	185
Total benefits, losses and expenses	**917**	**841**	**829**
Income before income taxes and cumulative effect of accounting change	**242**	**238**	**227**
Income tax expense	72	72	71
Income before cumulative effect of accounting change	**170**	**166**	**156**
Cumulative effect of accounting change, net of tax [1]			(1)
Net income	**$ 170**	**$ 166**	**$ 155**

Account Values	**2006**	**2005**	**2004**
Variable universal life insurance	$ 6,637	$ 5,902	$ 5,356
Universal life/interest sensitive whole life	4,035	3,696	3,402
Modified guaranteed life and other	699	716	729
Total account values	**$ 11,371**	**$ 10,314**	**$ 9,487**
Life Insurance Inforce			
Variable universal life insurance	$ 73,770	$ 71,365	$ 69,089
Universal life/interest sensitive whole life	45,230	41,714	39,109
Modified guaranteed life and other	45,227	37,722	31,691
Total life insurance inforce	**$ 164,227**	**$ 150,801**	**$ 139,889**

[1] Represents the cumulative impact of the Company s

adoption of SOP 03-1.

Individual Life provides life insurance strategies to a wide array of business intermediaries to solve the wealth protection, accumulation and transfer needs of their affluent, emerging affluent and small business insurance clients.

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net Income in Individual Life for 2006, includes an unfavorable $18 after tax impact related to the DAC unlock in the fourth quarter of 2006, partially offset by $7, after-tax, favorable revisions to prior year net DAC estimates reflected in the first half of 2006. Excluding these net impacts of $11, net income increased $15 or 9% for 2006 primarily due to growth in life insurance and account values, and favorable mortality experience in 2006 compared to 2005. The following factors contributed to the earnings results:

- Cost of insurance charges, the largest component of fee income, increased $30 for the year ended December 31, 2006, driven by growth in the variable universal and universal life insurance inforce. Variable fee income increased, consistent with the growth in the variable universal life insurance account value. Other fee income, another component of total fee income, increased primarily due to additional amortization of deferred revenues of $48 associated with the DAC unlock.
- Earned premiums, which include premiums for ceded reinsurance, decreased primarily due to increased ceded reinsurance premiums for the year ended December 31, 2006.
- Net investment income increased primarily due to increased general account assets from sales growth.
- Benefits, losses and loss adjustment expenses increased for 2006 consistent with the growth in account values and life insurance inforce, and also reflect favorable mortality experience in 2006 compared to 2005.
- Insurance operating costs and other expenses increased for the year ended December 31, 2006 consistent with the growth of life insurance inforce.
- Amortization of DAC for the year ended December 31, 2006 increased $76 related to the DAC unlock, partially offset by revisions to prior year estimates. Excluding the impacts of the DAC unlock and revisions, the amortization of DAC decreased for the year ended December 31, 2006, consistent with the mix of products and the level and mix of product profitability.

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Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income increased for the year ended December 31, 2005 compared to 2004, primarily due to increases in both life insurance inforce and account values. The following factors contributed to the earnings results:

Fee income increased $35 for the year ended December 31, 2005 compared to 2004. Cost of insurance charges, a component of total fee income, increased $22 in 2005, driven by business growth and aging of the prior year block of variable universal, universal, and interest-sensitive whole life insurance inforce. Other fee income, another component of total fee income, increased $7 in 2005 primarily due to growth and improved product performance primarily in interest-sensitive whole life and variable universal life insurance products. Variable fee income grew $6 in 2005, as equity market performance and premiums in excess of withdrawals added to the variable universal life account value.

Net investment income increased moderately for the year ended December 31, 2005 compared to 2004 due to increased general account assets from business growth, partially offset by lower interest rates on new investments and reduced prepayments on bonds in 2005.

Benefits, losses and loss adjustment expenses decreased for the year ended December 31, 2005 compared to 2004 consistent with growth in account values and life insurance inforce.

Income tax expense and the resulting tax rate for the year ended December 31, 2005 was impacted by a DRD tax benefit of $7, whereas income tax expense for the year ended December 31, 2004 included a DRD tax benefit of $5.

Partially offsetting these positive earnings drivers were the following items:

Amortization of DAC increased for the year ended December 31, 2005 compared to 2004 primarily as a result of product mix and higher gross margins within variable universal and interest-sensitive whole life insurance products.

Insurance operating costs and other expenses increased for the year ended December 31, 2005 compared to 2004 as a result of business growth.

Outlook

Individual Life sales were $284 in 2006, an increase of $34 or 14% over sales of $250 in 2005. Sales results in 2006 were strong across major distribution channels and product lines. Individual Life continues to focus on its core distribution model of sales through financial advisors, while also pursuing growth opportunities through other distribution sources such as independent life professionals. The variable universal life mix remains strong at 40% of total sales in 2006. Overall, product sales were enhanced by new product launches in each quarter in 2006. In the first quarter of 2006, Individual Life introduced a new variable life product that blends the benefits of universal life insurance and variable annuities and in the second quarter launched Hartford Term, which has additional term insurance durations and new competitive features. In late June 2006, Individual Life launched a flexible premium last survivor variable universal life product. In early October 2006, Individual Life introduced a new product rider to its existing Stag Whole Life product for the employer market.

Variable universal life sales and account values remain sensitive to equity market levels and returns. Individual Life continues to face uncertainty surrounding estate tax legislation, a high level of competition from other life insurance providers, reduced availability and higher price of reinsurance, and the current regulatory environment related to reserving for universal life products with no-lapse guarantees, which may negatively affect Individual Life s future earnings.

Management s full year 2007 projections are as follows:

Sales of $305 to $315

Life insurance inforce increase of 8% to 10%

After tax margin on total revenues of 15% to 16%

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GROUP BENEFITS
Operating Summary

	2006	2005	2004
Earned premiums and other	$ 4,150	$ 3,810	$ 3,652
Net investment income	415	398	373
Net realized capital gains (losses)	(6)	1	2
Total revenues	**4,559**	**4,209**	**4,027**
Benefits, losses and loss adjustment expenses	3,002	2,794	2,703
Insurance operating costs and other expenses	1,102	1,022	989
Amortization of deferred policy acquisition costs	41	31	23
Total benefits, losses and expenses	**4,145**	**3,847**	**3,715**
Income before income taxes	**414**	**362**	**312**
Income tax expense	111	90	83
Net income	**$ 303**	**$ 272**	**$ 229**

Earned Premiums and Other	**2006**	**2005**	**2004**
Fully insured ongoing premiums	$ 4,100	$ 3,747	$ 3,611
Buyout premiums	12	27	4
Other	38	36	37
Total earned premiums and other	**$ 4,150**	**$ 3,810**	**$ 3,652**

The Group Benefits segment provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, group retiree health, and medical stop loss. The Company also offers disability underwriting, administration, claims processing services and reinsurance to other insurers and self-funded employer plans.

Group Benefits has a block of financial institution business that is experience rated. This business comprised approximately 10%, 9% and 9% of the segment s 2006, 2005 and 2004 premiums and other considerations (excluding buyouts) respectively, and, on average, 4% to 5% of the segment s 2006, 2005 and 2004 net income.

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income increased for the year ended December 31, 2006, primarily due to higher earned premiums and a lower expense ratio excluding the financial institution business. The results for the year ended December 31, 2006 included a net benefit of $11 resulting from the completion of life reserve studies during the fourth quarter. The results for the year ended December 31, 2005 included a non-recurring tax benefit of $9 related to the CNA Acquisition. The following factors contributed to the earnings increase:

- Earned premiums increased driven by year-to-date sales (excluding buyouts) growth of 11%, particularly in group life insurance.
- The loss ratio (defined as benefits, losses and loss adjustment expenses as a percentage of premiums and other considerations excluding buyouts) was 72.3% for the year ended December 31, 2006, down from 73.1% in the prior year period. For the year ended December 31, 2006, the loss ratio excluding financial institutions was 77.2% as compared to 77.3% in the prior year period.

The expense ratio was 27.6% for the year ended December 31, 2006 as compared to 27.8% in the prior year period. Excluding financial institutions, the expense ratio for the year ended December 31, 2006 was 22.9%, down from 24.0% in the prior year period. The decline in expense ratio excluding financial institutions for the year ended December 31, 2006 was due to growth in premiums outpacing growth in expenses.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income of $272 included a non-recurring tax benefit of $9 related to the CNA Acquisition. Excluding this tax benefit, net income increased 15% to $263 for the year ended December 31, 2005 as compared to $229 for the prior year due primarily to higher earned premiums and net investment income as well as a favorable loss ratio. The following factors contributed to the earnings increase:

Earned premiums, excluding buyouts, increased 4% driven by sales growth of 23%, particularly in disability, for the year ended December 31, 2005 and continued strong persistency during 2005.

Net investment income increased due to higher average asset balances as well as slightly higher average investment yields.

The segment s loss ratio (defined as benefits, losses and loss adjustment expenses as a percentage of premiums and other considerations excluding buyouts) was 73.1% for the year ended December 31, 2005, down from 74.0% in the prior year due to improved morbidity experience as well as favorable mortality experience. Excluding financial institutions, the loss ratio was 77.3%, down from 78.7% in the prior year.

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Partially offsetting the positive earnings drivers noted above was the following item:

- Operating costs were higher for the year ended December 31, 2005 as compared to the prior year primarily due to higher operating expenses related to business growth.

Outlook

The increased scale of the group life and disability operations and the expanded distribution network for its products and services has generated strong premium and sales growth in 2006. Fully insured ongoing premiums for the year ended December 31, 2006 was $4.1 billion, a 9% increase over the prior year. Sales for the year ended December 31, 2006 were $861 (excluding buyout premiums and premium equivalents) representing an increase of 11% over the prior year. Management is committed to selling competitively priced products that meet the Company s internal rate of return guidelines and sales may be negatively affected by the competitive pricing environment in the marketplace. Although sales may fluctuate from year to year, the Company has experienced consistent premium growth over the past few years which results from the combination of sales, renewal pricing and persistency.

Despite the current market conditions, including rising medical costs, the changing regulatory environment and cost containment pressure on employers, the Company continues to leverage its strength in claim practices risk management, service and distribution, enabling the Company to capitalize on market opportunities. Additionally, employees continue to look to the workplace for a broader and ever expanding array of insurance products. As employers design benefit strategies to attract and retain employees, while attempting to control their benefit costs, management believes that the need for the Company s products will continue to expand. This combined with the significant number of employees who currently do not have coverage or adequate levels of coverage, creates opportunities for our products and services.

Management s current 2007 full year projections are as follows:

- Fully insured ongoing premiums (excluding buyout premiums and premium equivalents) $4.4 billion to $4.5 billion
- Sales (excluding buyout premiums and premium equivalents) $800 to $850
- Loss ratio (excluding buyout premiums) between 72% and 74%
- Expense ratio (excluding buyout premiums) between 27% and 29%
- After tax margin, on earned premiums and other (excluding buyout premiums), between 6.8% and 7.2%, which reflects the estimated impact of adopting SOP 05-1 Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connections with Modifications or Exchanges of Insurance Contracts.

INTERNATIONAL

Operating Summary

	2006	2005	2004
Fee income and other	$ 700	$ 483	$ 240
Net investment income	123	75	11
Net realized capital losses	(64)	(34)	(1)
Total revenues	**759**	**524**	**250**
Benefits, losses and loss adjustment expenses	3	42	20
Insurance operating costs and other expenses	208	188	98
Amortization of deferred policy acquisition costs and present value of future profits	167	133	77
Total benefits, losses and expenses	**378**	**363**	**195**
Income before income taxes and cumulative effect of accounting change	**381**	**161**	**55**
Income tax expense	135	65	12

Income before cumulative effect of accounting change	**246**	**96**	**43**
Cumulative effect of accounting change, net of tax [1]			(4)
Net income	**$ 246**	**$ 96**	**$ 39**

Assets Under Management	**2006**	**2005**	**2004**
Japan variable annuity account values	$ 29,653	$ 24,641	$ 14,129
Japan MVA fixed annuity account values	1,690	1,463	502
Total Japan assets under management	**$ 31,343**	**$ 26,104**	**$ 14,631**

[1] Represents the cumulative impact of the Company s adoption of SOP 03-1.

International, with operations in Japan, Brazil, Ireland and the United Kingdom, focuses on the savings and retirement needs of the growing number of individuals outside the United States who are preparing for retirement, or have already retired, through the sale of variable annuities, fixed annuities and other insurance and savings products. The Company s Japan operation, which began selling variable annuities at the end of 2000, has grown significantly to become a significant distributor of variable annuities and is the market leader in variable annuity assets under management in Japan and is the largest component of the International segment.

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income in International increased for the year ended December 31, 2006, principally driven by higher fee income in Japan, which was derived from an increase in average assets under management. A more expanded discussion of earnings growth can be found below:

Fee income increased $217 or 45%, for the year ended December 31, 2006. As of December 31, 2006, Japan s variable annuity assets under management were $29.7 billion, a 20% increase from the prior year period. The increase in average assets under management was driven by positive net flows of $4.2 billion and market appreciation of $1.2 billion during the year. The amount of variable annuity deposits has declined for the year ended December 31, 2006 by 46%, compared to the prior year periods primarily due to increased competition and changes in key distribution relationships.

Also contributing to the higher fee income was increased surrender activity as some customers surrendered policies in order to lock in favorable market appreciation in their account balances. Surrender fees increased by $19, or 53% from the prior year.

The decrease in benefits, losses and loss adjustment expenses by 93% over prior year can be attributed to the unlock of the GMDB/GMIB reserve of $27 after-tax. For further discussion, see DAC Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.

Contributing to the increase in net income for the year ended December 31, 2006 was a cumulative tax benefit of $9, that resulted from a change in the effective tax rate on Japan earnings resulting from a change in management s intent under APB 23.

The increase in fixed annuity assets under management can be attributed to positive net flows of $224 during the year.

Partially offsetting the positive earnings drivers discussed above were the following items:

DAC amortization was higher due to higher actual gross profits consistent with growth in the Japan operation, off-set by $26 after-tax amortization benefit associated with the DAC amortization unlock. For further discussion, see DAC Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.

Insurance operating costs and other expenses increased for the year ended December 31, 2006 by 11%. These increases are due to higher maintenance costs and non-deferred asset-based commissions resulting from the growth in the Japan operation.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income increased significantly for the year ended December 31, 2005, principally driven by higher fee income and investment spread in Japan, derived from a 78% increase in the assets under management. A more expanded discussion of earnings growth can be found below:

The increase in fee income in 2005 was mainly a result of growth in Japan s variable annuity assets under management. As of December 31, 2005, Japan s variable annuity assets under management were $24.6 billion, a 74% increase from the prior year. The increase in assets under management was driven by positive net flow of $9.8 billion and favorable market appreciation of $3.4 billion, partially offset by a ($2.6) billion impact of foreign currency exchange.

Higher fees in 2005 were also the result of increased surrender activity, as customers surrendered policies in order to take advantage of significant appreciation in their account balances.

The Japan MVA fixed annuity business contributed $13 of higher investment spread income, including net periodic coupon settlements included in realized losses, in 2005 compared to 2004. This increase in investment spread was driven by higher assets under management. As of December 31, 2005, Japan s MVA assets under management increased to $1.5 billion compared to $502 in the prior year. The increase in fixed annuity assets under management can be attributed to deposits of $1.2 billion for the year ending December 31, 2005 as compared to $521 for the prior year.

Partially offsetting the positive earnings drivers discussed above were the following items:

The increase in operating costs in 2005 was primarily due to the significant growth in the Japan operation and investment in our Ireland operation.

DAC amortization was higher in the current year as compared to the prior year due to higher EGP s consistent with the growth in the Japan operation.

Tax rates increased in 2005 primarily due to a deferred tax valuation allowance established for losses on the United Kingdom operation.

Outlook

Management continues to be optimistic about growth potential of the retirement savings market in Japan. Several trends such as an aging population, longer life expectancies and declining birth rates leading to a smaller number of younger workers to support each retiree, have resulted in greater need for an individual to plan and adequately fund retirement savings.

Profitability depends on the account values of our customers, which are affected by equity, bond and currency markets. Periods of favorable market performance will increase assets under management and thus increase fee income earned on those assets. In addition, higher account value levels will generally reduce certain costs for individual annuities to the Company, such as guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB). Expense management is also an important component of product profitability.

Competition has continued to increase in the Japanese market with the most significant competition the result of the strengthening of domestic competitors. This competition has resulted in changes to key distribution relationships that have negatively impacted current year deposits and could potentially impact future deposits. The Company continues to focus its efforts on strengthening our distribution relationships and improving our wholesaling and servicing efforts. In addition, the Company continues to evaluate product designs that meet customers needs while maintaining prudent risk management. In the first quarter 2007, the company is launching a new variable annuity product to complement its existing variable annuity product offerings. The success of the Company s enhanced product offering will ultimately be based on customer acceptance in an increasingly competitive environment. International continues to invest in its operations outside of Japan. In the short term, the Company expects losses in these operations outside of Japan to be relatively consistent with 2006.

Management s full year projections for Japan for 2007 are now as follows (using ¥118/$1 exchange rate for 2007):

- Variable annuity deposits of ¥530 billion to ¥825 billion ($4.5 billion to $7.0 billion)
- Variable annuity net flows of ¥350 billion to ¥650 billion ($3.0 billion to $5.5 billion)
- Return on assets of 68 to 72 basis points

OTHER

Operating Summary

	2006	2005	2004
Fee income and other	$ 83	$ 83	$ 119
Net investment income			
Securities available-for-sale and other	154	174	208
Equity securities held for trading [1]	1,824	3,847	799
Total net investment income	1,978	4,021	1,007
Net realized capital gains (losses)	(198)	2	156
Total revenues	**1,863**	**4,106**	**1,282**
Benefits, losses and loss adjustment expenses [1]	1,985	4,166	1,017
Insurance operating costs and other expenses	11	105	56
Amortization of deferred policy acquisition costs and present value of future profits	40	1	6
Total benefits, losses and expenses	**2,036**	**4,272**	**1,079**
Income (loss) before income taxes and cumulative effect of accounting change	**(173)**	**(166)**	**203**
Income tax benefit	(59)	(51)	(117)
Income (loss) before cumulative effect of accounting change	**(114)**	**(115)**	**320**
Cumulative effect of accounting change, net of tax [2]			2
Net income (loss)	**$ (114)**	**$ (115)**	**$ 322**

[1] Includes investment income and mark-to-market effects of equity securities held for trading supporting the international variable annuity business, which are classified in net investment income with corresponding amounts credited to policyholders within benefits, losses and loss adjustment expenses.

[2] Represents the cumulative impact of the Company s adoption of SOP 03-1.

Net investment income includes the mark-to-market adjustment for equity securities held for trading which decreased primarily due to decreased fund performance in International. This decrease in net investment income is offset by a decrease in benefit, losses and loss adjustment expenses which reflects the interest credited on the Japan account balance liability.

Year ended December 31, 2006 compared to the year ended December 31, 2005

The change in Other s net income was due to the following:

Net realized capital losses occurred in the year ended December 31, 2006 compared to net realized capital gains in the prior year period due primarily to rising interest rates. Components of the increased realized losses included increased other than temporary impairments (see the Other-Than-Temporary Impairments discussion within Investment Results for more information on the increase in impairments), losses on non-qualifying derivatives and net losses on sales of investments.

Life recorded an after-tax charge of $102 for the year ended December 31, 2005 to establish reserves for regulatory matters for investigations related to market timing by the SEC and New York Attorney General s Office, directed brokerage by the SEC, and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

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During 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance (leveraged COLI) policies in the early to mid-1990s. The Company ceased offering this product in 1996. Based on the favorable outcome of these cases, together with the Company s current assessment of the few remaining leveraged COLI cases, the Company reduced its estimate of the ultimate cost of these cases during 2006. This reserve reduction, recorded in insurance operating costs and other expenses, resulted in an after-tax benefit of $34.

Also contributing to the insurance operating costs and other expenses decreases for the year ended December 31, 2006 was a lower level of dividends to leveraged COLI policyholders.

During 2005, the Company recorded a charge of $18, after-tax, related to the settlement of certain annuity contracts.

The increase in the DAC amortization in 2006 was due to the DAC unlock of $46, after-tax.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income decreased for the year ended December 31, 2005. The following factors contributed to the change in earnings:

Net realized capital gains decreased for the year ended December 31, 2005 due to increasing interest rates and the realized loss associated with the GMWB derivatives.

Income tax benefit decreased for the year ended December 31, 2005 due to the absence of a $190 tax benefit recorded during 2004.

Other than the impact of Japan interest credited, benefits, losses, and loss adjustment expenses increased for the year ended December 31, 2005 primarily due to the establishment of a $102 after-tax reserve for investigations related to market timing by the SEC and the New York Attorney General s Office, directed brokerage by the SEC and single premium group annuities by the New York Attorney General s Office and the Connecticut Attorney General s Office.

PROPERTY & CASUALTY

Executive Overview

Property & Casualty is organized into four reportable operating segments: the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment.

Property & Casualty provides a number of coverages, as well as insurance related services, to businesses throughout the United States, including workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock, fidelity, surety, professional liability and directors and officers liability coverages. Property & Casualty also provides automobile, homeowners and home-based business coverage to individuals throughout the United States as well as insurance-related services to businesses.

Property & Casualty derives its revenues principally from premiums earned for insurance coverages provided to insureds, investment income, and, to a lesser extent, from fees earned for services provided to third parties and 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.

Service fees principally include revenues from third party claims administration services provided by Specialty Risk Services and revenues from member contact center services provided through AARP s Health Care Options program.

<u>Total Property & Casualty Financial Highlights</u>

Premium revenue

	2006	2005	2004
Earned premiums	$ 10,433	$ 10,156	$ 9,494

Year ended December 31, 2006 compared to the year ended December 31, 2005

Earned premiums grew $277, or 3%, primarily due to:

- A $436 increase in Business Insurance and Personal Lines earned premium before considering catastrophe treaty reinstatement premium, primarily driven by new business outpacing non-renewals in Personal Lines auto, Personal Lines homeowners and small commercial,

- $73 of catastrophe treaty reinstatement premium related to the 2005 hurricanes that depressed 2005 earned premium, and

- Earned pricing increases in Personal Lines homeowners.

Partially offsetting these favorable drivers were factors that decreased earned premium:

- Non-renewal of a single captive insurance program in specialty casualty that accounted for $241 of earned premium in 2005, and

- Higher property catastrophe treaty reinsurance costs.

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Year ended December 31, 2005 compared to the year ended December 31, 2004

Earned premiums grew $662, or 7%, primarily due to:

A $651 increase in Business Insurance and Personal Lines earned premium before considering catastrophe treaty reinstatement premium, primarily driven by new business outpacing non-renewals,

A $90 decrease in 2004 earned premiums under retrospectively-rated policies, and

Earned pricing increases in small commercial and Personal Lines homeowners.

Partially offsetting these favorable drivers was a $56 increase in catastrophe treaty reinstatement premium as a result of the 2005 hurricanes.

Net income

	2006	2005	2004
Underwriting results	**$ 745**	**$ 465**	**$ (3)**
Net servicing and other income [1]	53	49	42
Net investment income	1,486	1,365	1,248
Other expenses	(223)	(203)	(235)
Net realized capital gains	9	44	133
Income tax expense	(551)	(484)	(275)
Net income	**$ 1,519**	**$ 1,236**	**$ 910**

[1] Net of expenses related to service business.

Year ended December 31, 2006 compared to the year ended December 31, 2005

Net income increased $283 for the year ended December 31, 2006, primarily due to:

A $152 decrease in current accident year catastrophe losses,

A $121 increase in net investment income,

A $41 reduction of estimated Citizens assessments in 2006 related to the 2005 hurricanes compared to a charge of $64 for Citizens assessments in 2005 related to the 2005 and 2004 hurricanes,

$73 of catastrophe treaty reinstatement premium recorded as a reduction of earned premium in 2005, and

A $51 increase in underwriting results from earned premium growth in Business Insurance and Personal Lines before considering catastrophe treaty reinstatement premium.

Partially offsetting these favorable drivers were factors reducing net income:

A $67 increase in income tax expense, reflecting an increase in income before income taxes, partially offset by a $49 income tax benefit resulting from the sale of Omni,

A $48 increase in net unfavorable prior accident year development,

A $35 decrease in net realized capital gains, primarily due to a $24, pre-tax, realized capital loss from the sale of Omni, and

A $20 increase in other expenses, primarily due to lower bad debt expense in 2005.

The $152 decrease in current accident year catastrophe losses was largely due to $264 of losses in 2005 related to hurricanes Katrina, Rita and Wilma, partially offset by an increase in non-hurricane catastrophe losses in 2006. The current accident year loss and loss adjustment expense ratio before catastrophes of 62.4 for Ongoing Operations was relatively flat from 2005 to 2006 as a lower current accident year loss and loss adjustment expense ratio for workers compensation business in small commercial was largely offset by an increase in non-catastrophe property loss costs in middle market Business Insurance and Personal Lines homeowners.

Primarily driving the $121 increase in net investment income was a larger investment base due to increased cash flows from underwriting as well as an increase in interest rates and a change in asset mix (i.e., a greater share of investments in mortgage loans and limited partnerships). The $35 decrease in net realized capital gains was primarily due to a $24 pre-tax realized capital loss from the sale of Omni, an increase in other-than-temporary-impairments and losses on the sale of fixed maturity investments, partially offset by an increase in income from other sources. (See the Other-Than-Temporary Impairments discussion within Investment Results for more information on the increase in impairments).

The $48 increase in net unfavorable prior accident year development was primarily due to a $148 increase in net unfavorable loss development in Other Operations, partially offset by a change in Ongoing Operations from $36 of net unfavorable prior accident year development in 2005 to $64 of net favorable prior accident year development in 2006. The $148 increase in net unfavorable prior accident year development in Other Operations was primarily due to a $243 reduction of reinsurance recoverables in 2006 resulting from an agreement with Equitas and the Company s evaluation of the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities. The $64 of net favorable prior accident year development in 2006 for

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Ongoing Operations was primarily due to an $83 release of prior accident year hurricane reserves and a $58 release of allocated loss adjustment expense reserves for workers compensation and package business, partially offset by reserve strengthenings in Specialty Commercial. See the Reserves section for a discussion of prior accident year reserve development.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Net income increased $326 for the year ended December 31, 2005 primarily due to:

- A $172 decrease in current accident year catastrophe losses,
- A $166 decrease in net unfavorable prior accident year development,
- A $117 increase in net investment income,
- A $90 decrease in 2004 earned premiums under retrospectively-rated policies,
- An improvement in current accident year loss costs before catastrophes,
- A $32 decrease in other expenses, primarily due to lower bad debt expense in 2005, and
- A $76 increase in underwriting results from earned premium growth in Business Insurance and Personal Lines at a combined ratio less than 100.0.

Partially offsetting these improvements were factors reducing net income:

- An $89 decrease in net realized capital gains,
- $64 of Citizens assessments in 2005 related to the 2005 and 2004 hurricanes,
- A $56 increase in catastrophe treaty reinstatement premium recorded as a reduction of earned premium, and
- A $209 increase in income tax expense, reflecting an increase in income before income taxes.

The $172 decrease in current accident year catastrophe losses was primarily due to $264 of losses from Hurricanes Katrina, Rita and Wilma in 2005 compared to $394 of losses from Hurricanes Charley, Frances, Ivan and Jeanne in 2004. The $166 decrease in net unfavorable prior accident year development was primarily due to $181 of unfavorable development in 2004 related to a reduction in the reinsurance recoverable asset associated with older, long-term casualty liabilities, including asbestos liabilities.

Primarily driving the $117 increase in net investment income was a larger investment base due to increased cash flows from underwriting, higher investment yields on fixed maturity investments and an increase in income from limited partnership investments.

The $89 decrease in net realized capital gains was primarily due to lower net realized gains on the sale of fixed maturity investments and net losses on non-qualifying derivatives during 2005 compared to net gains during 2004.

Key Performance Ratios and Measures

The Company considers several measures and ratios to be the key performance indicators for the property and casualty underwriting businesses. The following table and the segment discussions for the years ended December 31, 2006, 2005 and 2004 include various ratios and measures of profitability. Management believes that these ratios and measures are useful in understanding the underlying trends in The Hartford s property and casualty insurance underwriting business. However, these key performance indicators should only be used in conjunction with, and not in lieu of, underwriting income for the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial and net income for the Property & Casualty business as a whole, Ongoing Operations and Other Operations. These ratios and measures may not be comparable to other performance measures used by the Company s competitors.

Ongoing Operations earned premium growth	**2006**	**2005**	**2004**
Business Insurance	7%	11%	16%
Personal Lines	4%	5%	8%
Specialty Commercial	(12%)	2%	11%
Ongoing Operations	**3%**	**7%**	**12%**
Ongoing Operations combined ratio			
Combined ratio before catastrophes and prior year development	88.0	89.4	89.7
Catastrophe ratio			
Current year	1.9	3.5	5.5
Prior years [1]	(0.7)	0.1	(3.3)
Total catastrophe ratio	**1.2**	**3.6**	**2.2**
Non-catastrophe prior year development	0.1	0.2	3.4
Combined ratio	**89.3**	**93.2**	**95.3**
Other Operations net income (loss)	**$ (35)**	**$ 71**	**$ (45)**
Total Property & Casualty measures of net investment income			
Investment yield, after-tax	4.1%	4.1%	4.1%
Average annual invested assets at cost	$27,324	$25,148	$23,437

[1] Included in the prior year catastrophe ratio is the net reserve release of (3.1) points related to

September 11 in 2004.

Year ended December 31, 2006 compared to the year ended December 31, 2005

Ongoing Operations earned premium growth

The lower growth rate in Business Insurance was primarily attributable to a decrease in new business written premium, lower earned pricing increases in small commercial, larger earned pricing decreases in middle market and higher property catastrophe treaty reinsurance costs.

The lower growth in Personal Lines was primarily due to unfavorable changes in earned pricing and the effect of higher property catastrophe treaty reinsurance costs. Partially offsetting the lower growth rate was the effect of $31 of catastrophe treaty reinstatement premium recorded as a reduction of earned premium in 2005 and an increase in new business written premium in auto and homeowners. During 2006, there was a decline in earned pricing increases in homeowners and a change from slight earned pricing increases for auto in 2005 to flat earned pricing for auto in 2006.

The decline in Specialty Commercial earned premium primarily resulted from the non-renewal of a single captive insurance program within specialty casualty that accounted for $241 of earned premium in 2005 and a decrease in specialty property earned premium, partially offset by the effect of $26 of catastrophe treaty reinstatement recorded as a reduction of earned premium in 2005 and a higher growth rate in professional liability, fidelity and surety business.

Ongoing Operations combined ratio

For 2006, the combined ratio before catastrophes and prior accident year development decreased by 1.4 points, to 88.0, driven largely by the effect of $73 of catastrophe treaty reinstatement premium recorded as a reduction of earned premium in 2005 and an improvement in the expense ratio. Before the effect of reinstatement premium in 2005, the combined ratio before catastrophes and prior accident year development decreased by 0.7 points, primarily due to a 0.8 point decrease in the expense ratio and a lower current accident year loss and loss adjustment expense ratio for workers compensation business in small commercial, partially offset by an increase in non-catastrophe property loss costs in middle market and Personal Lines homeowners. The decrease in the expense ratio was primarily driven by a reduction of $41 for Citizens assessments in 2006 and a charge of $64 for Citizens assessments in 2005.

The decrease in the current accident year catastrophe ratio for 2006 was primarily due to $264 of net losses incurred in 2005 for hurricanes Katrina, Rita and Wilma, partially offset by an increase in non-hurricane catastrophe losses. Catastrophe losses for 2006 included tornadoes and hail storms in the Midwest and windstorms in Texas and on the East coast.

Prior accident year catastrophe reserves were reduced by $70 in 2006 primarily due to $83 of favorable development related to the 2005 and 2004 hurricanes. Net prior accident year development for non-catastrophe claims was not significant as reserve strengthenings were largely offset by reserve releases. See the Reserves section for a discussion of prior accident year reserve development for Ongoing Operations in 2006.

Other Operations net income (loss)

Other Operations reported a net loss of $35 for 2006 compared to net income of $71 for 2005. The change from net income to a net loss was primarily due to a $148 increase in unfavorable prior accident year development and a $22 decrease in net investment income, partially offset by a change to an income tax benefit in 2006 as a result of a pre-tax loss in 2006. The $148 increase in prior accident year development was primarily due to a $243 reduction in net reinsurance recoverables as a result of the agreement with Equitas and the Company s evaluation of the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities. Partially offsetting the increase in prior accident year development in 2006 was $85 of unfavorable reserve development for assumed reinsurance in 2005. The $22 decrease in net investment income was primarily due to lower invested assets as a result of loss and loss adjustment expense payments and the reallocation of capital from Other Operations to Ongoing Operations.

Investment yield and average invested assets

The after-tax investment yield remained flat at 4.1% from 2005 to 2006. An increase in the yield on investments in fixed maturities was offset by a decrease in the yield on limited partnerships.

The average annual invested assets at cost increased as a result of net underwriting cash inflows and investment income.

Year ended December 31, 2005 compared to the year ended December 31, 2004

Ongoing Operations earned premium growth

Contributing to the decrease in the earned premium growth rate for Business Insurance were lower earned pricing increases in small commercial, earned pricing decreases in middle market and a decrease in new business growth, partially offset by increased renewal retention.

The decrease in the earned premium growth rate for Personal Lines was primarily due to lower earned pricing increases in both auto and homeowners business, a decrease in premium renewal retention and a decline in Omni and Other Affinity earned premium.

The decline in the Specialty Commercial earned premium growth rate primarily resulted from a decrease in property business due to a decline in new business and the Company s exit from the multi-peril crop insurance business.

Ongoing Operations combined ratio

Before catastrophes and prior accident year development, the combined ratio improved from 2004 to 2005 principally due to improved current accident year performance for auto bodily injury and workers compensation claims, partially offset by the effect of an increase in non-catastrophe loss costs for property coverages and an increase in the expense ratio, which was largely due to the hurricane-related assessments of $64 in 2005.

The decrease in the current accident year catastrophe ratio for 2005 was primarily due to $264 of net losses incurred for hurricanes Katrina, Rita and Wilma in 2005 compared to $394 of losses from Hurricanes Charley, Frances, Ivan and Jeanne in 2004.

Net prior accident year development was not significant in 2005 as reserve strengthenings were largely offset by reserve releases. In 2004, strengthening of non-catastrophe loss reserves was almost entirely offset by a release of catastrophe reserves. Prior accident year catastrophe reserves related to September 11 were reduced by $298 in 2004. Net prior accident year reserve increases in 2004 for non-catastrophe losses included $190 for construction defects claims, $38 for small commercial package business and $25 for auto liability claims. See the Reserves section for a discussion of net favorable prior accident year reserve development for Ongoing Operations in 2006.

Other Operations net income (loss)

Other Operations reported net income of $71 for 2005 compared to a net loss of $45 for 2004. The change from a net loss to net income was primarily due to a $233 decrease in unfavorable prior accident year development, partially offset by a $62 decrease in net investment income and a change to income tax expense due to the pre-tax income in 2005. The $233 decrease in net reserve strengthening was primarily due to $181 of unfavorable development in 2004 related to a reduction in the reinsurance recoverable asset associated with older, long-term casualty liabilities, including asbestos liabilities, as well as $85 more of unfavorable prior accident year reserve development in 2004 on assumed reinsurance reserves. The $62 decrease in net investment income was primarily due to lower invested assets as a result of loss and loss adjustment expense payments and the reallocation of capital from Other Operations to Ongoing Operations.

Investment yield and average invested assets

The after-tax investment yield of 4.1% for 2005 was consistent with the after-tax yield in 2004.

The average annual invested assets increased over the same period as a result of net underwriting cash inflows and investment income.

How Property & Casualty seeks to earn income

Net income is the measure of profit or loss used in evaluating the performance of Total Property & Casualty and the Ongoing Operations and Other Operations segments. Within Ongoing Operations, the underwriting segments of Business Insurance, Personal Lines and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results within Ongoing Operations are influenced significantly by earned premium growth and the adequacy of the Company s pricing. Underwriting profitability over time is also greatly influenced by the Company s underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio which it accomplishes through economies of scale and its management of acquisition costs and other underwriting expenses.

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. Property & Casualty 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, Property & Casualty is required to obtain approval for its premium rates from state insurance departments.

In setting its pricing, Property & Casualty assumes an expected level of losses from natural or man-made catastrophes that will cover the Company s exposure to catastrophes over the long-term. In most years, however, Property & Casualty s actual losses from catastrophes will be more or less than that assumed in its pricing due to the significant volatility of catastrophe losses. ISO defines a catastrophe loss as an event that causes $25 or more in industry insured property losses and affects a significant number of property and casualty policyholders and insurers.

Given the lag in the period from when claims are incurred to when they are reported and paid, final claim settlements may vary from current estimates of incurred losses and loss expenses, particularly when those payments may not occur until well into the future. Reserves for lines of business with a longer lag (or tail) in reporting are more difficult to estimate. Reserve estimates for longer tail lines are initially set based on loss and loss expense ratio assumptions estimated when the business was priced and are adjusted as the paid and reported claims develop, indicating that the ultimate loss and loss expense ratio will differ from the initial assumptions. Adjustments to previously established loss and loss expense reserves, if any, are reflected in underwriting results in the period in which the adjustment is determined to be necessary.

The investment return, or yield, on Property & Casualty s 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 loss and loss adjustment expenses are paid. For longer tail lines, such as workers compensation and general liability, claims are paid over several years and, therefore, the premiums received for these lines of business can generate significant investment income. Due to the emphasis on preservation of capital and the need to maintain sufficient liquidity to satisfy claim obligations, the vast majority of Property & Casualty s invested assets have been held in fixed maturities, including, among other asset classes, corporate bonds, municipal bonds, government debt, short-term debt, mortgage-backed securities and asset-backed securities.

Through its Other Operations segment, Property & Casualty is responsible for managing operations of The Hartford that have discontinued writing new or renewal business as well as managing the claims related to asbestos and environmental exposures.

Definitions of key ratios and measures

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 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.

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.
Policies in force as of year end
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 only and is affected by both new business growth and premium renewal retention, including growth in both AARP and Agency lines of business.
Written pricing increase (decrease)
Written pricing increase (decrease) over the comparable period of the prior year includes the impact of rate filings, the impact of changes in the value of the rating bases and individual risk pricing decisions. A number of factors impact written pricing 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. Written pricing 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.
Earned pricing increase (decrease)
Written premiums are earned over the policy term, which is six months for certain Personal Lines auto business and 12 months for substantially all of the remainder of the Company s business. Because the Company earns premiums over the 6 to 12 month term of the policies, earned pricing increases (decreases) lag written pricing increases (decreases) by 6 to 12 months.
Premium renewal retention
Premium renewal retention represents the ratio of net written premium in the current period that is not derived from new business divided by total net written premium of the prior period. Accordingly, premium renewal retention includes the effect of written pricing changes on renewed business. In addition, the renewal retention rate is affected by a number of other 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 lines of business or states. Premium renewal retention is also affected by advertising and rate actions taken by competitors.
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. 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.
Current accident year loss and loss adjustment expense ratio
The current year loss and loss adjustment expense ratio is a measure of the cost of claims incurred in the current accident year divided by earned premiums. The current accident year loss and loss adjustment expense ratio includes both the current accident year loss and loss adjustment expense ratio before catastrophes and the current accident year catastrophe ratio. 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.

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.

Expense ratio

The expense ratio is the ratio of underwriting expenses, excluding bad debt expense, to earned premiums. Underwriting expenses include the amortization of deferred policy acquisition costs and insurance operating costs and expenses. Deferred policy acquisition costs include commissions, taxes, licenses and fees and other underwriting expenses and are amortized over the policy term.

Policyholder dividend ratio

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

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 expense for every $100 of earned premiums. A combined ratio below 100.0 demonstrates underwriting profit; a combined ratio above 100.0 demonstrates underwriting losses.

Catastrophe ratio

The catastrophe ratio (a component of the loss and loss adjustment expense ratio) represents the ratio of catastrophe losses (net of reinsurance) to earned premiums. 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. By their nature, catastrophe losses vary dramatically from year to year. Based on the mix and geographic dispersion of premium written and estimates derived from various catastrophe loss models, the Company s expected catastrophe ratio over the long-term is 3.0 to 3.5 points. See Risk Management Strategy below for a discussion of the Company s property catastrophe risk management program that serves to mitigate the Company s net exposure to catastrophe losses. The catastrophe ratio includes the effect of catastrophe losses, but does not include the effect of reinstatement premiums.

Combined ratio before catastrophes and prior accident year development

The combined ratio before catastrophes and prior accident year development represents the combined ratio for the current accident year, excluding the impact of catastrophes. The Company believes this ratio is an important measure of the trend in profitability since it removes the impact of volatile and unpredictable catastrophe losses and prior accident year reserve development.

Underwriting results

Underwriting results is a before-tax measure that represents earned premiums less incurred losses, loss adjustment expenses and underwriting expenses. The Hartford believes that underwriting results provides investors with a valuable measure of before-tax profitability derived from underwriting activities, which are managed separately from the Company s investing activities. Underwriting results is also presented for Ongoing Operations and Other Operations. A reconciliation of underwriting results to net income for Ongoing Operations and Other Operations is set forth in their respective discussions herein.

Investment yield

The investment yield, or return, on the Company s invested assets primarily includes interest income on fixed maturity investments. Based upon the fair value of Property & Casualty s investments as of December 31, 2006 and 2005, approximately 93% and 94%, respectively, of invested assets were held in fixed maturities. A number of factors affect the yield on fixed maturity investments, including fluctuations in interest rates and the level of prepayments. The Company also invests in equity securities, mortgage loans and limited partnership arrangements.

Property & Casualty s insurance business has been written by a number of writing companies that, under a pooling arrangement, participate in the Hartford Fire Insurance Pool, the lead company of which is the Hartford Fire Insurance Company (Hartford Fire).

Property & Casualty maintains one portfolio of invested assets for all business written by the Hartford Fire Insurance Pool companies, including business reported in both the Ongoing Operations and Other Operations segments. Separate investment portfolios are maintained within Other Operations for the runoff of international assumed reinsurance claims and for the runoff business of Heritage Holdings, Inc., including its subsidiaries, Excess Insurance Company Ltd., First State Insurance Company and Heritage Reinsurance Company, Ltd. Within the Hartford Fire Insurance Pool, invested assets are attributed to Ongoing Operations and Other Operations pursuant to the Company s capital attribution process.

The Hartford attributes capital to each line of business or segment using an internally-developed, risk-based capital attribution methodology that incorporates management s assessment of the relative risks within each line of business or segment, as well as the capital requirements of external parties, such as regulators and rating agencies.

Net investment income earned on the Hartford Fire invested asset portfolio is allocated between Ongoing Operations and Other Operations based on the allocation of invested assets to each segment and the expected investment yields earned by each segment. Net investment income earned on the separate portfolios within Other Operations is recorded entirely within Other Operations. Based on the Company s method of allocating net investment income for the Hartford Fire Insurance Pool and the net investment income earned by Other Operations on its separate investment portfolios, in 2006, the after-tax investment yield for Ongoing Operations was 4.2% and the after-tax investment yield for Other Operations was 3.9%.

Net realized capital gains (losses)

When fixed maturity or equity investments are sold, any gain or loss is reported in net realized capital gains (losses). Individual securities may be sold for a variety of reasons, including a decision to change the Company s asset allocation in response to market conditions and the need to liquidate funds to meet large claim settlements. Accordingly, net realized capital gains (losses) for any particular period are not predictable and can vary significantly. In addition, net realized capital gains (losses) include the pre-tax loss from the sale of Omni (see Ongoing Operations segment MD&A for further discussion). Refer to the Investment section of MD&A for further discussion of net investment income and net realized capital gains (losses).

Reserves

Reserving for property and casualty losses is an estimation process. As additional experience and other relevant claim data become available, reserve levels are adjusted accordingly. Such adjustments of reserves related to claims incurred in prior years are a natural occurrence in the loss reserving process and 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. The prior accident year development in the following table represents the ratio of reserve development to earned premiums. For a detailed discussion of the Company s reserve policies, see Notes 1, 11 and 12 of Notes to Consolidated Financial Statements and the discussion in Critical Accounting Estimates.

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, changes are made more quickly to more mature accident years and less volatile lines of business. For information regarding reserving for asbestos and environmental claims within Other Operations, refer to the Other Operations segment discussion.

As part of its quarterly reserve review process, the Company is closely monitoring reported loss development in certain lines where the recent emergence of paid losses and case reserves could indicate a trend that may eventually lead the Company to change its estimate of ultimate losses in those lines. If, and when, the emergence of reported losses is determined to be a trend that changes the Company s estimate of ultimate losses, prior accident year reserves would be adjusted in the period the change in estimate is made. For example, for both Personal Lines homeowners claims and Business Insurance workers compensation claims, during the latter half of 2006 there was an increase in severity in reported losses for recent accident years. While it is too early to tell whether this increase in severity constitutes a reliable trend, if reported losses continue to emerge unfavorably in 2007, prior accident year reserves may be strengthened. For Personal Lines auto liability claims, the Company s estimates of ultimate losses include assumptions about frequency and severity trends. These assumptions are updated each quarter as the Company s actuaries complete a review of reserves. During 2005 and 2006, these updates resulted in improvements in estimates of both frequency and severity trends and, as a result, the Company released reserves in the first, second, and fourth quarters of 2006. If, during 2007, frequency and severity trends continue to improve and the development of reported losses indicates that the assumptions made in the prior reserve review are too high, prior accident years may develop favorably.

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A rollforward of liabilities for unpaid losses and loss adjustment expenses by segment for Property & Casualty for the year ended December 31, 2006 follows:

	For the year ended December 31, 2006					
	Business Insurance	**Personal Lines**	**Specialty Commercial**	**Ongoing Operations**	**Other Operations**	**Total P&C**
Beginning liabilities for unpaid losses and loss adjustment expenses-gross	**$ 7,066**	**$ 2,152**	**$ 6,202**	**$ 15,420**	**$ 6,846**	**$22,266**
Reinsurance and other recoverables	**709**	**385**	**2,354**	**3,448**	**1,955**	**5,403**
Beginning liabilities for unpaid losses and loss adjustment expenses-net	**6,357**	**1,767**	**3,848**	**11,972**	**4,891**	**16,863**
Provision for unpaid losses and loss adjustment expenses						
Current year	3,127	2,516	1,063	6,706		6,706
Prior years	(61)	(38)	35	(64)	360	296
Total provision for unpaid losses and loss adjustment expenses	**3,066**	**2,478**	**1,098**	**6,642**	**360**	**7,002**
Less: Payments	(2,279)	(2,309)	(727)	(5,315)	(835)	(6,150)
Less: Net reserves of Omni business sold		(111)		(111)		(111)
Ending liabilities for unpaid losses and loss adjustment expenses-net	**7,144**	**1,825**	**4,219**	**13,188**	**4,416**	**17,604**
Reinsurance and other recoverables	**650**	**134**	**2,303**	**3,087**	**1,300**	**4,387**
Ending liabilities for unpaid losses and loss adjustment expenses-gross	**$ 7,794**	**$ 1,959**	**$ 6,522**	**$ 16,275**	**$ 5,716**	**$21,991**
Earned premiums	$ 5,118	$ 3,760	$ 1,550	$ 10,428	$ 5	$10,433
Loss and loss expense paid ratio [1]	44.6	61.4	46.8	51.0		
Loss and loss expense incurred ratio	59.9	65.9	70.8	63.7		
Prior accident year development (pts.) [2]	(1.2)	(1.0)	2.3	(0.6)		

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

[2]

Prior accident year development (pts) represents the ratio of prior accident year development to earned premiums.

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Prior accident year development recorded in 2006

Included within prior accident year development for the year ended December 31, 2006 were the following reserve strengthenings (releases).

	Business Insurance	Personal Lines	Specialty Commercial	Ongoing Operations	Other Operations	Total P&C
Net release of catastrophe loss reserves for 2004 and 2005 hurricanes	$ (25)	$ (23)	$ (35)	$ (83)	$	$ (83)
Release of Personal Lines auto liability reserves for accident year 2005		(31)		(31)		(31)
Strengthening of Personal Lines auto liability reserves for claims with exposure in excess of policy limits		30		30		30
Release of Business Insurance allocated loss adjustment expense reserves for workers compensation and package business for accident years 2003 to 2005	(58)			(58)		(58)
Release of Personal Lines auto liability reserves for accident year 2003 to 2005		(22)		(22)		(22)
Strengthening of Specialty Commercial construction defect claim reserves for accident years 1997 and prior			45	45		45
Strengthening of Specialty Commercial workers compensation allocated loss adjustment expense reserves			20	20		20
Effect of Equitas agreement and strengthening of allowance for uncollectible reinsurance					243	243
Strengthening of environmental reserves					43	43
Other reserve re-estimates, net [1]	22	8	5	35	74	109
Total prior accident year development for the year ended December 31, 2006	$ (61)	$ (38)	$ 35	$ (64)	$ 360	$ 296

[1]

Includes reserve discount accretion of $32, including $14 in Business Insurance, $11 in Specialty Commercial and $7 in Other Operations.

During the year ended December 31, 2006, the Company s reestimates of prior accident year reserves included the following significant reserve changes.

Ongoing Operations

Released net reserves related to prior year hurricanes by a total of $83, including $57 for hurricanes Katrina and Rita in 2005 and $26 for hurricanes Charley, Frances and Jeanne in 2004. Initial reserve estimates for the 2005 and 2004 hurricanes were higher because of the difficulty claim adjusters had in accessing the most significantly impacted areas and initially higher estimates of the cost of building materials and contractors due to demand surge . As the reported claims have matured, the estimated settlement value of the claims has decreased from the initial estimates. The ultimate estimate for hurricane Katrina was increased in the first quarter of 2006 because of higher than expected claim reporting, particularly in Personal Lines. Net loss reserves within Specialty Commercial decreased, primarily because hurricane Katrina losses on specialty property business were reimbursable under a specialty property reinsurance treaty as well as under the Company s principal property catastrophe reinsurance program. After the first quarter of 2006, Katrina new claim intake abated and settlement percentages increased, resulting in a reduction of reserves in the last nine months of 2006. In addition, the rate of newly reported compensable claims for Rita and the 2004 hurricanes was less than expected, resulting in a reduction of reserves for these hurricanes.

Released Personal Lines auto liability reserves by $31 related to the fourth accident quarter of 2005 as a result of better than expected frequency trends. During the third and fourth quarter of 2005, the Company had reduced the 2005 accident year loss and loss adjustment expense ratio for Personal Lines auto liability claims related to the first three accident quarters of 2005. Favorable frequency for the fourth accident quarter of 2005 emerged during the fourth quarter of 2005. However, the Company did not release reserves at that time, since reserve indications at only three months of development were not reliable. The Company released reserves in 2006 after further development indicated that early indications of reduced frequency were representative of a real trend. The $31 reserve release represented 2% of the Company s net reserves for Personal Lines auto liability claims as of December 31, 2005.

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Strengthened reserves for personal auto liability claims by $30 due to an increase in estimated severity on claims where the Company is exposed to losses in excess of policy limits. From the Company s reserve review during the first quarter of 2006, the Company determined that the facts and circumstances necessitated an increase in the reserve estimate. The $30 of reserve strengthening represented 2% of the Company s net reserves for Personal Lines auto liability claims as of December 31, 2005.

Released Business Insurance allocated loss adjustment expense reserves by $58 for accident years 2003 to 2005, primarily for workers compensation business and package business, as a result of cost reduction initiatives implemented by the Company to reduce allocated loss adjustment expenses for both legal and non-legal expenses. The Company began implementing cost reduction initiatives in late 2003. It was initially uncertain what effect those efforts would have on controlling allocated loss adjustment expenses. During 2004, favorable trends started to emerge, particularly on shorter-tailed auto liability claims, but it was not clear if these trends would be sustained. In early 2005, favorable trends continued and the Company analyzed claims involving legal expenses separate from claims that do not involve legal expenses. This analysis included a review of the trends in the number of claims involving legal expenses, the average expenses incurred and trends in legal expenses. During the second quarter of 2005, the Company released allocated loss adjustment expense reserves on shorter-tailed auto liability claims as the favorable trends on shorter-tailed business emerged more quickly and were determined to be reliable. During both the second and fourth quarter of 2006, the Company determined that the favorable development on package business and workers compensation business had become a verifiable trend and, accordingly, reserves were reduced. The $58 reserve release represented 1% of Business Insurance net reserves as of December 31, 2005.

Released Personal Lines auto liability reserves related to AARP and other affinity business by $22. AARP auto liability reserves for accident year 2004 were reduced as a result of favorable loss cost severity trends. AARP auto liability severity, as measured by reported data, began declining in 2005; however, the Company was uncertain whether this trend would prove persistent over time since paid loss data did not support a decline. During the second quarter of 2006, the Company determined that all the metrics supported a decline in severity estimates and, therefore, the Company released reserves. Auto liability reserves for other affinity business related to accident years 2003 to 2005 were reduced to recognize favorable developments in loss costs that have emerged. The $22 reserve release represented 1% of the Company s net reserves for Personal Lines auto liability claims as of December 31, 2005.

Strengthened Specialty Commercial construction defect claim reserves by $45 for accident years 1997 and prior as a result of an increase in claim severity trends. In 2004, two large construction defects claims were reported, but these were not viewed as an indication of an increase in the severity trend for all claims. In 2005, two additional large cases were reported. Management performed an expanded review of construction defects claims in the second quarter of 2006. Based on the expanded review and additional reported claim experience, management concluded that reported losses would likely continue at a higher level in the future and this resulted in strengthening the recorded reserves. The $45 of reserve strengthening represented 16% of the Company s net reserves for Specialty Commercial property claims as of December 31, 2005.

Strengthened Specialty Commercial workers compensation allocated loss adjustment expense reserves by $20 for loss adjustment expense payments expected to emerge after 20 years of development. During 2005, the Company had done an in-depth study of loss payments expected to emerge after 20 years of development. At that time, it was believed that allocated loss adjustment expenses for a particular subset of business (primary policies on national accounts business) developed more quickly than allocated loss adjustment expenses for smaller insureds and that a similar reserve strengthening for national accounts business was not required. During the second quarter of 2006, the Company s reserve review indicated that the development pattern for this business should be adjusted to be more consistent with that for smaller insureds. Because the Company has written very little of this business in recent years, the increase in reserves affects accident years 1995 and prior. The $20 of reserve strengthening represented 1% of the Company s net reserves for Specialty Commercial workers compensation claims as of December 31, 2005.

Other Operations

Reduced the reinsurance recoverable asset associated with older, longer-term casualty liabilities by $243. The Company reviewed the reinsurance recoverables and allowance for uncollectible reinsurance associated with older, long-term casualty liabilities in the second quarter 2006. As a result of this study, and the outcome of an agreement that resolved, with minor exception, all of the Company s ceded and assumed domestic reinsurance exposures with Equitas, Other Operations recorded prior accident year development of $243.

Strengthened environmental reserves by $43 as a result of an environmental reserve evaluation completed in the third quarter of 2006. As part of this evaluation, the Company reviewed all of its domestic direct and assumed reinsurance accounts exposed to environmental liability. The Company also examined its London Market exposures for both direct insurance and assumed reinsurance. The Company found estimates for individual cases changed based upon the particular circumstances of each account, although the review found no underlying cause or change in the claim environment. The $43 of reserve strengthening represented 2% of the Company s net reserves for asbestos and environmental claims as of December 31, 2005.

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A rollforward of liabilities for unpaid losses and loss adjustment expenses by segment for Property & Casualty for the year ended December 31, 2005 follows:

	For the year ended December 31, 2005					
	Business Insurance	**Personal Lines**	**Specialty Commercial**	**Ongoing Operations**	**Other Operations**	**Total P&C**
Beginning liabilities for unpaid losses and loss adjustment expenses-gross	**$ 6,057**	**$ 2,000**	**$ 5,519**	**$13,576**	**$7,753**	**$21,329**
Reinsurance and other recoverables	**474**	**190**	**2,091**	**2,755**	**2,383**	**5,138**
Beginning liabilities for unpaid losses and loss adjustment expenses-net	**5,583**	**1,810**	**3,428**	**10,821**	**5,370**	**16,191**
Provision for unpaid losses and loss adjustment expenses						
Current year	2,949	2,389	1,377	6,715		6,715
Prior years	22	(95)	109	36	212	248
Total provision for unpaid losses and loss adjustment expenses	**2,971**	**2,294**	**1,486**	**6,751**	**212**	**6,963**
Less: Payments	(2,197)	(2,337)	(1,066)	(5,600)	(691)	(6,291)
Ending liabilities for unpaid losses and loss adjustment expenses-net	**6,357**	**1,767**	**3,848**	**11,972**	**4,891**	**16,863**
Reinsurance and other recoverables	**709**	**385**	**2,354**	**3,448**	**1,955**	**5,403**
Ending liabilities for unpaid losses and loss adjustment expenses-gross	**$ 7,066**	**$ 2,152**	**$ 6,202**	**$15,420**	**$6,846**	**$22,266**
Earned premiums	$ 4,785	$ 3,610	$ 1,757	$10,152	$ 4	$10,156
Loss and loss expense paid ratio [1]	45.9	64.8	60.6	55.1		
Loss and loss expense incurred ratio	62.1	63.6	84.6	66.5		
Prior accident year development (pts.) [2]	0.5	(2.6)	6.2	0.4		

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

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

2005 accident year catastrophe loss and loss adjustment expenses record in 2005

In 2005, the current accident year provision for loss and loss adjustment expenses of $6.7 billion included net catastrophe loss and loss adjustment expenses of $351, of which $264 related to hurricanes Katrina, Rita and Wilma. The following table shows current accident year catastrophe impacts in 2005, including reinstatement premium owed to reinsurers:

	Year Ended December 31, 2005					
	Business Insurance	**Personal Lines**	**Specialty Commercial**	**Ongoing Operations**	**Other Operations**	**Total P&C**
Gross incurred loss and loss adjustment expenses for current accident year catastrophes	**$ 337**	**$ 394**	**$ 594**	**$ 1,325**	**$**	**$ 1,325**
Ceded loss and loss adjustment expenses for current accident year catastrophes	248	296	430	974		974
Net incurred loss and loss adjustment expenses for current accident year catastrophes	**$ 89**	**$ 98**	**$ 164**	**$ 351**	**$**	**$ 351**
Reinstatement premium ceded to reinsurers	**$ 16**	**$ 31**	**$ 26**	**$ 73**	**$**	**$ 73**

A significant portion of the gross incurred loss and loss adjustment expenses are recoverable from reinsurers under the Company s principal catastrophe reinsurance program in addition to other reinsurance programs. Reinsurance recoveries under the Company s principal catastrophe reinsurance program, which covers multiple lines of business, are allocated to the segments in accordance with a pre-established methodology that is consistent with the method used to allocate the ceded premium to each segment. In addition to its retention, the Company has a co-participation in the losses ceded under the principal catastrophe reinsurance program, which varies by layer, and is recorded in Specialty Commercial. In the third and fourth quarters of 2005, the Company reinstated the limits under its reinsurance programs that were exhausted by hurricane Katrina and Wilma, resulting in additional ceded premium of $73, which is reflected as a reduction in earned premium.

Net current accident year catastrophe losses decreased by $171, from $522 in 2004 to $351 in 2005, as the increase in ceded catastrophe losses exceeded the increase in gross catastrophe losses. While gross current accident year catastrophe losses increased by $514, from $811 in 2004 to $1,325 in 2005, ceded current accident year catastrophe losses increased by $686, from $288 in 2004, to $974 in 2005. The amount of gross losses ceded to reinsurers depends, in large part, on the extent to which gross losses incurred from a single event exceed the Company s attachment point under its principal catastrophe reinsurance program. Compared to the hurricanes of 2004, the individual hurricanes in 2005 significantly exceeded the attachment point, resulting in greater reinsurance recoveries. Most of the current accident year catastrophe losses ceded in 2004 related to hurricanes Charley and Francis. Most of the current accident year catastrophe losses ceded in 2005 related to hurricanes Katrina and Wilma.

The Company s estimate of loss and loss expenses under hurricanes Katrina, Rita and Wilma is based on covered losses under the terms of the policies. The Company does not provide residential flood insurance on its Personal Lines homeowners policies so the Company s estimate of hurricane losses on Personal Lines homeowners business does not include any provision for damages arising from flood waters. The Company acts as an administrator for the Write Your Own flood program on behalf of the National Flood Insurance Program under FEMA, for which it earns a fee for collecting premiums and processing claims. Under the program, the Company services both personal lines and commercial lines flood insurance policies and does not assume any underwriting risk. As a result, catastrophe losses in the above table do not include any losses related to the Write Your Own flood program.

Prior accident year development recorded in 2005

Included within prior accident year development for the year ended December 31, 2005 were the following reserve strengthenings (releases).

	Business Insurance	Personal Lines	Specialty Commercial	Ongoing Operations	Other Operations	Total P&C
Strengthening of workers compensation reserves for claim payments expected to emerge after 20 years of development	$ 50	$	$ 70	$ 120	$	$ 120
Release of 2003 and 2004 accident year workers compensation reserves	(75)			(75)		(75)
Release of reserves for allocated loss adjustment expenses	(25)	(95)		(120)		(120)
Strengthening of general liability reserves in Business Insurance	40			40		40
Strengthening of reserves for 2004 hurricanes	20	9	4	33		33
Strengthening of assumed casualty reinsurance reserves					85	85
Strengthening of environmental reserves					37	37
Other reserve reestimates, net [1]	12	(9)	35	38	90	128
	$ 22	**$ (95)**	**$ 109**	**$ 36**	**$ 212**	**$ 248**

Total prior accident year development for the year ended December 31, 2005

[1] Includes reserve discount accretion of $30, including $13 in Business Insurance, $10 in Specialty Commercial and $7 in Other Operations.

During the year ended December 31, 2005, the Company s re-estimates of prior accident year reserves included the following significant reserve changes.

Ongoing Operations

Strengthened workers compensation reserves for claim payments expected to emerge after 20 years of development by $120. For workers compensation claims involving permanent disability, it is particularly difficult to estimate how such claims will develop more than 20 years after the year the claims were incurred (known as the tail). During 2005, the Company s actuaries performed an actuarial study to re-estimate the required reserves for additional development beyond the 20th year following a claim being incurred. This study involved gathering extensive historical data dating back over 50 years which could be used for making these estimates and incorporated modeling using actuarial techniques that have recently been developed within the actuarial profession. Based on the results of this analysis the Company changed its previous estimate and increased the percentage of ultimate claim costs expected to be paid after 20 years of development. As an example, within Business Insurance this development percentage was increased from 8% to 9%. The $120 of reserve strengthening represented a change in estimate which was 3% of the Company s net reserves for workers compensation claims as of December 31, 2004.

Released reserves for workers compensation losses in Business Insurance on accident years 2003 and 2004 by $75. The state of California instituted reforms to its workers compensation laws that began in 2003 and continued through 2005. In addition, in this same time frame, the Company was taking underwriting actions to improve workers compensation underwriting performance. Management recognized that the combination of the Company s underwriting initiatives and the state of California changes could, over time, improve the Company s workers compensation experience. Verification of this improvement as a probable outcome, however, would require sufficient supporting evidence. While there appeared to be some favorable trends emerging in late 2004 with respect to accident year 2003 and while early indications on accident year 2004 were favorable, senior reserving actuaries and senior management were uncertain that these favorable trends were real and would be sustained. In the third quarter of 2005, management concluded that sufficient evidence existed in the actuarial data and methods to support a release of reserves. The actuarial work was further supported by a review of underwriting metrics, supporting the effectiveness of the actions taken, and by discussions with claim handlers involved with the California workers compensation business. The $75 reserve release represented a change in estimate which was 2% of the Company s net reserves for workers compensation claims as of December 31, 2004.

Released prior accident year reserves for allocated loss adjustment expenses by $120, largely as the result of cost reduction initiatives implemented by the Company to reduce allocated loss adjustment expenses for both legal and non-legal expenses as well as improved actuarial techniques. The improved actuarial techniques included an analysis of claims involving legal expenses separate from claims that do not involve legal expenses. This analysis included a review of the trends in the number of claims involving legal expenses, the average expenses incurred and trends in legal expenses. The release of $95 in Personal Lines represented 5% of Personal Lines net reserves as of December 31, 2004.

Strengthened general liability reserves within Business Insurance by $40 for accident years 2000-2003 due to higher than anticipated loss payments beyond four years of development. The $40 reserve strengthening represented 2% of the Company s net reserves for general liability claims as of December 31, 2004.