Digital Realty Trust, Inc.
Form 424B5
January 22, 2010
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-158958

CALCULATION OF REGISTRATION FEE

Title Of Securities Being Registered	Proposed Maximum Aggregate Offering Price	Amount Of Registration Fee
Common Stock, par value $0.01 per share	$400,000,000[(1)]	$28,520[(2)]

(1) Amount includes shares of common stock having an aggregate offering price of up to $400 million, offered pursuant to Digital Realty Trust, Inc. s Registration Statement on Form S-3 (File No. 333-158958) filed on May 1, 2009 by means of an earlier prospectus supplement dated December 31, 2009.

(2) Calculated in accordance with Rule 457(o), based on the proposed maximum aggregate offering price, and Rule 457(r) under the Securities Act of 1933, as amended, or the Securities Act. The entire amount of the registration fee of $28,520 was paid to the Securities and Exchange Commission on December 31, 2009.

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PROSPECTUS SUPPLEMENT

(To Prospectus dated May 1, 2009)

$400,000,000

Digital Realty Trust, Inc.

Common Stock

We have entered into equity distribution agreements with Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC and Morgan Stanley & Co. Incorporated, or collectively, the Agents, relating to the shares of common stock offered by this prospectus supplement. In accordance with the terms of the equity distribution agreements, we may offer and sell shares of our common stock having an aggregate offering price of up to $400,000,000 from time to time through the Agents as our sales agents. Sales of the shares, if any, will be made by means of ordinary brokers transactions at market prices. The shares of common stock to which this prospectus supplement relates include the shares of common stock having an aggregate offering price of up to $400,000,000 offered pursuant to an earlier prospectus supplement dated December 31, 2009. Of those shares of common stock, we have offered and sold shares of common stock having an aggregate offering price of approximately $54,299,597 as of the date of this prospectus supplement pursuant to the prospectus supplement dated December 31, 2009. As such, as of the date of this prospectus supplement, common stock having an aggregate offering price of approximately $345,700,403 remain available for offer and sale pursuant to this prospectus supplement.

We will pay each of the Agents a commission that will not exceed, but may be lower than, 2% of the gross sales price per share of shares sold through it as agent under the applicable equity distribution agreement.

None of the Agents is required to sell any specific number or dollar amount of shares of our common stock but each will use its reasonable efforts, as our agent and subject to the terms of the applicable equity distribution agreement, to sell the shares offered, as instructed by us. The offering of common stock pursuant to the equity distribution agreements will terminate upon the earlier of (1) the sale of shares of our common stock having an aggregate offering price of $400,000,000 and (2) the termination of each equity distribution agreement by us or by each of the Agents, as applicable.

Our common stock is listed on the New York Stock Exchange under the symbol DLR . The last reported sale price of our common stock on the New York Stock Exchange on January 21, 2010 was $50.47 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Citi **BofA Merrill Lynch** **Credit Suisse** **Morgan Stanley**

The date of this prospectus supplement is January 22, 2010.

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the Agents have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information contained in this prospectus supplement and the accompanying prospectus, as well as information that we have previously filed with the United States Securities and Exchange Commission and incorporated by reference, is accurate only as of the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since those dates. The descriptions set forth in this prospectus supplement replace and supplement, where inconsistent, the description of the general terms and provisions set forth in the accompanying prospectus.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. If you possess this prospectus supplement and the accompanying prospectus, you should find out about and observe these restrictions. This prospectus supplement and the accompanying prospectus are not an offer to sell the common stock and are not soliciting an offer to buy the common stock in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offer and sale from time to time of shares of our common stock pursuant to the equity distribution agreements and also adds to and updates information contained in the accompanying prospectus as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to the common stock we are offering. To the extent any inconsistency or conflict exists between the information included in this prospectus supplement and the information included in the accompanying prospectus, the information included or incorporated by reference in this prospectus supplement updates and supersedes the information in the accompanying prospectus. This prospectus supplement incorporates by reference important business and financial information about us that is not included in or delivered with this prospectus supplement.

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information contained in the documents identified under the heading Where You Can Find More Information.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus supplement to we, us, our or our company refer to Digital Realty Trust, Inc. together with our consolidated subsidiaries, including Digital Realty Trust, L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this prospectus supplement as our operating partnership.

FORWARD-LOOKING STATEMENTS

We make statements in this prospectus supplement and accompanying prospectus and the documents incorporated by reference that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, portfolio performance, acquisition and capital expenditure plans and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximatel intends, plans, pro forma, estimates or anticipates or the negative of these words and phrases or similar words or phrases which are predictio or indicate future events or trends and discussions which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described or that they will happen at all.

The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- the impact of the current deterioration in global economic and market conditions;
- decreases in information technology spending;

adverse economic or real estate developments in our markets or the industry sectors that we sell to;

our dependence upon significant tenants;

bankruptcy or insolvency of a major tenant or a significant number of smaller tenants;

downturn of local economic conditions in our geographic markets;

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- our inability to comply with the rules and regulations applicable to public companies or to manage our growth effectively;
- difficulty acquiring or operating properties in foreign jurisdictions;
- defaults on or non-renewal of leases by tenants;
- increased interest rates and operating costs;
- our failure to obtain necessary outside financing;
- restrictions on our ability to engage in certain business activities;
- risks related to joint venture investments;
- decreased rental rates or increased vacancy rates;
- inability to successfully develop and lease new properties and space held for redevelopment;
- difficulties in identifying properties to acquire and completing acquisitions;
- increased competition or available supply of data center space;
- our failure to successfully operate acquired properties;
- our inability to acquire off-market properties;
- delays or unexpected costs in development or redevelopment of properties;
- our failure to maintain our status as a REIT;
- possible adverse changes to tax laws;
- environmental uncertainties and risks related to natural disasters;
- financial market fluctuations;

- changes in foreign currency exchange rates;
- changes in foreign laws and regulations, including those related to taxation and real estate ownership and operation; and
- changes in real estate and zoning laws and increases in real property tax rates.

While forward-looking statements reflect our good faith beliefs, they are not guaranties of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in other sections of this prospectus supplement. In addition, we discussed a number of material risks in our annual report on Form 10-K for the year ended December 31, 2008. Those risks continue to be relevant to our performance and financial condition. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section entitled Risk Factors in this prospectus supplement.

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PROSPECTUS SUPPLEMENT SUMMARY

Digital Realty Trust, Inc.

We own, acquire, develop, redevelop and manage technology-related real estate. As of September 30, 2009, our portfolio consisted of 78 properties, excluding one property held as an investment in an unconsolidated joint venture, of which 65 are located throughout North America and 13 are located in Europe. Our properties are diversified in major markets where corporate datacenter and technology tenants are concentrated, including the Chicago, Dallas, Los Angeles, New York/New Jersey, Northern Virginia, Phoenix, San Francisco and Silicon Valley metropolitan areas in the U.S. and the London, Dublin, Paris and Amsterdam markets in Europe. The portfolio consists of Internet gateway and corporate datacenter properties, technology manufacturing properties and regional or national headquarters of technology companies. We operate as a real estate investment trust, or REIT, for federal income tax purposes.

As of September 30, 2009, our properties contained a total of approximately 13.8 million net rentable square feet, including approximately 1.9 million square feet held for redevelopment. As of September 30, 2009, our portfolio, excluding space held for redevelopment, was approximately 95.2% leased at an average annualized rent per occupied square foot of $40.80.

Our principal executive offices are located at 560 Mission Street, Suite 2900, San Francisco, California 94105. Our telephone number is (415) 738-6500. Our website is located at www.digitalrealtytrust.com. The information found on, or accessible through, our website is not incorporated into, and does not form a part of, this prospectus supplement or any other report or document we file with or furnish to the United States Securities and Exchange Commission, or the SEC.

Recent Developments Acquisitions

On October 30, 2009, we acquired two fully leased datacenter facilities, 1350 Duane Avenue and 3080 Raymond Street; the adjacent buildings are located in Santa Clara, California. The buildings total approximately 185,000 square feet. The purchase price of approximately $90.5 million includes the assumption of a $52.8 million loan. The acquisition was financed with borrowings under our revolving credit facility.

On December 17, 2009, we acquired a two-property datacenter portfolio consisting of four buildings located at 21561 and 21571 Beaumeade Circle in Ashburn, Virginia and 45901 and 45905 Nokes Boulevard in Sterling, Virginia, as well as certain vacant real property located at 21551 Beaumeade Circle in Ashburn, Virginia, which we refer to collectively as the Beaumeade/Nokes Property, for a purchase price of approximately $63.3 million. The Beaumeade/Nokes Property totals approximately 332,000 square feet with the vacant property capable of supporting up to 140,000 square feet of new datacenter development. The acquisition was financed with borrowings under our revolving credit facility.

On January 22, 2010, we completed the acquisition of a three-property data center portfolio located in Massachusetts and Connecticut, which we refer to as the New England Portfolio, from Sentinel Properties Needham, LLC, SP Needham I, LLC, Sentinel Properties Bedford LLC and Sentinel Properties Trumbull, LLC, or, collectively, the Sellers. The purchase price, which was determined through negotiations between our operating partnership and the Sellers, was approximately $375.0 million, paid in cash funded with borrowings under our revolving credit facility. There are no material relationships between us and the Sellers.

The New England Portfolio comprises a total of approximately 550,290 square feet. The New England Portfolio consists of 55 Middlesex Turnpike, Bedford, Massachusetts and a 100% condominium interest that represents 87.5% of the square footage of 128 First Avenue, Needham, Massachusetts, both located in the Boston metropolitan statistical area, as well as 60-80 Merritt Boulevard, Trumbull, Connecticut. The New England Portfolio has been renovated to modern data center standards in the last four years.

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Consistent with our growth strategy, we actively pursue opportunities for potential acquisitions, with due diligence and negotiations often at different stages of advancement at any particular time.

Recent Developments Financings

On January 20, 2010, our operating partnership, Digital Realty Trust, L.P., closed the sale of $100.0 million aggregate principal amount of its senior unsecured term notes to Prudential Investment Management, Inc. and certain of its affiliates, collectively referred to as Prudential, pursuant to the Note Purchase and Private Shelf Agreement dated July 24, 2008, which we refer to as the Prudential shelf facility, among it, us, certain of our subsidiaries and the Purchasers set forth therein. The notes were issued in two series referred to as the series D and series E notes. The series D notes have a principal amount of $50.0 million, an interest-only rate of 4.57% per annum and a five-year maturity, and the series E notes have a principal amount of $50.0 million, an interest-only rate of 5.73% per annum and a seven-year maturity.

On January 20, 2010, our operating partnership agreed to sell an additional $17.0 million aggregate principal amount of its senior unsecured term notes, which we refer to as the series F notes, to Prudential pursuant to the Prudential shelf facility. The series F notes will have an interest-only rate of 4.50% per annum and a five-year maturity. The purchase and sale of the series F notes is scheduled to close on February 3, 2010, subject to satisfaction of closing conditions. If our operating partnership does not satisfy these closing conditions and tender the series F notes to Prudential by February 3, 2010, it will, with certain exceptions, be liable for a delayed delivery fee. If our operating partnership at any time cancels the closing of the purchase and sale of any of the series F notes, it will be liable for a cancellation fee.

We intend to use the proceeds of the series D, series E and series F notes to fund acquisitions, to temporarily repay borrowings under our revolving credit facility and for working capital. The series D and series E notes are, and the series F notes will be, subject to the covenants set forth in the Prudential shelf facility.

On January 21, 2010, our operating partnership agreed to issue in a private placement $500.0 million aggregate principal amount of 5.875% notes due 2020, or the Notes. The Notes will be sold at a price of 98.296% of face value to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to non-United States persons in reliance on Regulation S under the Securities Act. The Notes will be senior unsecured obligations of our operating partnership and will be fully and unconditionally guaranteed by us. The terms of the Notes will be governed by an indenture, which will contain various restrictive covenants, including limitations on our ability to incur additional indebtedness and requirements to maintain a pool of unencumbered assets. The transaction is scheduled to close on January 28, 2010, subject to satisfaction of closing conditions. Our operating partnership intends to utilize the net proceeds from the offering to temporarily repay all or a portion of its borrowings under its revolving credit facility, to acquire additional properties, to fund development and redevelopment opportunities and for general corporate purposes.

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THE OFFERING

Issuer	Digital Realty Trust, Inc., a Maryland corporation
Common Stock Offered	Shares with an aggregate offering price of up to $400,000,000.
Use of Proceeds	We intend to contribute the net proceeds from this offering to our operating partnership, which will subsequently use the net proceeds from the offering to temporarily repay all or a portion of our borrowings under our revolving credit facility, to acquire additional properties, to fund development and redevelopment opportunities and for general corporate purposes. We intend to reborrow amounts under our revolving credit facility from time to time to acquire additional properties, to fund development and redevelopment opportunities and for general corporate purposes. See Use of Proceeds.
Risk Factors	An investment in our common stock involves various risks, and prospective investors should carefully consider the matters discussed under the caption entitled Risk Factors beginning on page S-4 of this prospectus supplement and in the documents incorporated by reference in this prospectus supplement before making a decision to invest in our common stock.
New York Stock Exchange Symbol	DLR
Transfer Agent and Registrar	American Stock Transfer & Trust Company

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RISK FACTORS

In addition to other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the risks described below and incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2008, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, in evaluating our company, our properties and our business before making a decision to invest in our common stock. These risks are not the only ones faced by us. Additional risks not presently known or that are currently deemed immaterial could also materially and adversely affect our financial condition, results of operations, business and prospects. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. This prospectus supplement and the accompanying prospectus and the documents incorporated herein and therein by reference also contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus supplement and the accompanying prospectus, and the documents incorporated herein and therein by reference. Please refer to the section entitled Forward-Looking Statements in the prospectus supplement.

Risks Related to this Offering

Market interest rates and other factors may affect the value of our common stock.

One of the factors that will influence the price of our common stock will be the dividend yield on our common stock relative to market interest rates. Increases in market interest rates could cause the market price of our common stock to go down. The trading price of the shares of our common stock will also depend on many other factors, which may change from time to time, including:

- the market for similar securities;
- the attractiveness of REIT securities in comparison to the securities of other companies, taking into account, among other things, the higher tax rates imposed on dividends paid by REITs;
- government action or regulation;
- general economic conditions or conditions in the financial or real estate markets; and
- our financial condition, performance and prospects.

Our revolving credit facility may limit our ability to pay distributions to our common stockholders.

Our revolving credit facility prohibits us from distributing to our stockholders more than 95% of our funds from operations (as defined in our revolving credit facility) during any four consecutive fiscal quarters, except as necessary to enable us to qualify as a REIT for federal income tax purposes. Consequently, if we do not generate sufficient funds from operations (as defined in our revolving credit facility) during the twelve

months preceding any dividend payment date for our common stock or preferred stock, we will not be able to pay all or a portion of the accumulated dividends payable to our stockholders on that payment date without causing a default under our revolving credit facility. In the event of a default under our revolving credit facility, we would be unable to borrow under our revolving credit facility and any amounts we have borrowed thereunder could become due and payable.

The number of shares available for future sale could adversely affect the market price of our common stock.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. Sales of a substantial number of shares of our common stock in the public market, or upon exchange of units or our outstanding exchangeable senior debentures or conversion of outstanding convertible preferred stock, or the perception that such sales, exchanges or conversions might occur could materially adversely affect the market price of the shares of our common stock.

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We have granted those persons who received units in the formation transactions related to our initial public offering certain registration rights with respect to the shares of our common stock for which their units may be redeemed or exchanged pursuant to the partnership agreement of our operating partnership. These registration rights required us to file a shelf registration statement covering all such shares of common stock. A shelf registration statement and a related prospectus supplement covering these shares has been filed and is currently effective.

The exchange of units for common stock, the exercise of any options granted to directors, executive officers and other employees under our incentive award plan, the issuance of our common stock in exchange for our outstanding exchangeable senior debentures or upon conversion of our outstanding convertible preferred stock, the issuance of our common stock or units in connection with property, portfolio or business acquisitions and other issuances of our common stock or units could have an adverse effect on the market price of the shares of our common stock, and the existence of units, options, convertible preferred stock and shares of our common stock reserved for issuance as restricted shares of our common stock or upon exchange of units or our outstanding exchangeable senior debentures may materially adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future issuances of shares of our common stock may be dilutive to existing stockholders.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the public offering price. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in our funds from operations or earnings estimates;
- publication of research reports about us, the real estate industry or the technology industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we incur in the future;
- additions or departures of key management personnel;

actions by institutional stockholders;

speculation in the press or investment community;

general market and economic conditions;

any determination in the future to pay a dividend partially in shares of our own common stock; and

the realization of any of the other risk factors presented or incorporated by reference in this prospectus supplement.

Future offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.

In the future, we may increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with

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respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our series A preferred stock, series B preferred stock, series C convertible preferred stock and series D convertible preferred stock have a preference on liquidating distributions and a preference on dividend payments that could limit our ability to pay a dividend or make another distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

We may in the future choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We may in the future elect to distribute taxable dividends that are partially payable in cash and partially payable in our stock. Under recent IRS guidance, up to 90% of any such taxable dividend for 2008 through 2011 could be payable in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. For more information on the tax consequences of distributions with respect to our common stock, see Supplemental United States Federal Income Tax Considerations. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

USE OF PROCEEDS

We intend to contribute the net proceeds from this offering to our operating partnership, which will subsequently use the net proceeds from the offering to temporarily repay all or a portion of our borrowings under our revolving credit facility to acquire additional properties, to fund development and redevelopment opportunities and for general corporate purposes. We intend to reborrow amounts under our revolving credit facility from time to time to acquire additional properties, to fund development and redevelopment opportunities and for general corporate purposes. At December 31, 2009, our revolving credit facility had total outstanding borrowings, excluding committed letters of credit, of $195.5 million bearing interest at LIBOR plus 1.1% per annum, which equaled a rate of 1.34%, and 7.0 million bearing interest at EURIBOR plus 1.1% per annum, which equaled a rate of 1.58%. Our revolving credit facility matures in August 2010, subject to two extension options of one year each. The bank group is obligated to grant extension options provided we give proper notice, we make certain representations and warranties and no default exists under the revolving credit facility. We have used the proceeds of borrowings under our revolving credit facility to fund acquisitions, to fund development and redevelopment activities and for general corporate purposes.

SUPPLEMENTAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

This discussion is a supplement to, and is intended to be read together with, the discussion in the accompanying prospectus under the heading United States Federal Income Tax Considerations. This summary of material federal income tax considerations is for general information only and is not tax advice. The information in this summary is based on current law, including:

the Internal Revenue Code of 1986, as amended, or the Code;

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- current, temporary and proposed Treasury regulations promulgated under the Code;
- the legislative history of the Code;
- current administrative interpretations and practices of the Internal Revenue Service, or the IRS; and
- court decisions;

in each case, as of the date of this prospectus supplement. In addition, the administrative interpretations and practices of the IRS include its practices and policies as expressed in private letter rulings which are not binding on the IRS except with respect to the particular taxpayers that requested and received those rulings. Future legislation, Treasury regulations, administrative interpretations and practices and/or court decisions may adversely affect the tax considerations described in this prospectus supplement. Any such change could apply retroactively.

We have not requested, and do not plan to request, any rulings from the IRS with respect to matters contained in this discussion, and the statements in this prospectus supplement are not binding on the IRS or any court. We can provide no assurance that the tax considerations described in this discussion will not be challenged by the IRS or, if so challenged, would be sustained by a court.

In addition, this summary does not consider the effect of any non-United States, state, local or other tax laws that may be applicable, and does not deal with all aspects of federal income taxation that may affect particular holders of common stock in light of their individual circumstances, or with holders subject to special treatment under the federal income tax laws, including:

- financial institutions, banks and thrifts;
- insurance companies;
- tax-exempt organizations;
- S corporations;
- traders in securities that elect to mark to market;
- partnerships, pass-through entities and persons holding our stock through a partnership or other pass-through entity;
- stockholders subject to the alternative minimum tax;
- regulated investment companies and REITs;

- foreign corporations or partnerships, and persons who are not residents or citizens of the United States;
- broker-dealers or dealers in securities or currencies;
- United States expatriates;
- persons holding our stock as part of a hedge, straddle, conversion, integrated or other risk reduction or constructive sale transaction; or
- U.S. stockholders (as defined in accompanying prospectus) whose functional currency is not the United States dollar.

You are urged to consult your tax advisor regarding the specific tax consequences to you of:

- **The acquisition, ownership and sale or other disposition of our common stock, including the federal, state, local, non-United States and other tax consequences;**
- **Our election to be taxed as a REIT for federal income tax purposes; and**
- **Potential changes in applicable tax laws.**

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Certain Dividends Paid in Stock

Recent guidance issued by the IRS extends and clarifies the application of the safe harbor set forth in Revenue Procedure 2009-15, described in the accompanying prospectus under the heading Taxation of Our Company Annual Distribution Requirements and Taxation of Taxable U.S. Stockholders Distributions Generally. This IRS guidance provides that certain part-stock and part-cash dividends distributed by publicly-traded REITs for calendar years 2008 though 2011 will satisfy the REIT distribution requirements. Under the terms of this guidance, up to 90% of our distributions could be paid in shares of our common stock. If we make such a distribution, taxable stockholders would be required to include the full amount of the dividend (*i.e.*, the cash and the stock portions) as ordinary income (subject to limited exceptions), to the extent of our current and accumulated earnings and profits for United States federal income tax purposes, as described in the accompanying prospectus under the headings Taxation of Taxable U.S. Stockholders Distributions Generally and Taxation of Non-U.S. Stockholders Distributions Generally. As a result, our stockholders generally would recognize taxable income in excess of the cash received and may be required to pay tax with respect to such dividends in excess of the cash received. If a taxable shareholder sells the stock it receives as a dividend, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of the stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders (as defined in the accompanying prospectus), we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock.

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PLAN OF DISTRIBUTION

On December 31, 2009, we entered into equity distribution agreements with each of Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC, or the Original Agents, which contemplated the offer and sale from time to time through any of the Original Agents, at our discretion, as our sales agents, of shares of common stock having an aggregate offering price of up to $400,000,000. As of the date of this prospectus supplement, we have offered and sold 1,074,379 shares of common stock having an aggregate offering price of approximately $54,299,597 under those equity distribution agreements.

On January 22, 2010, we amended and restated the equity distribution agreements with each of the Original Agents, and also entered into a new equity distribution agreement with Morgan Stanley & Co. Incorporated, or, collectively, the equity distribution agreements, under which we may issue and sell shares of common stock having an aggregate offering price of up to $400,000,000 from time to time through, at our discretion, any of the Original Agents or Morgan Stanley & Co. Incorporated, or, collectively, the Agents, as our sales agents. We refer to such agent selected by us for a sale as the Designated Agent. The shares of common stock to which this prospectus supplement relates include the shares of common stock having an aggregate offering price of up to $400,000,000 offered pursuant to an earlier prospectus supplement dated December 31, 2009. Of those shares of common stock, we have offered and sold shares of common stock having an aggregate offering price of approximately $54,299,597 as of the date of this prospectus supplement pursuant to the equity distribution agreements with the Original Agents by means of the prospectus supplement dated December 31, 2009.

The equity distribution agreements will be filed as exhibits to a current report on Form 8-K and incorporated by reference in this prospectus supplement. The sales, if any, of common stock made under the equity distribution agreements will be made in at the market offerings as defined in Rule 415 of the Securities Act, including sales made directly on the New York Stock Exchange, the principal trading market for our common stock, or sales made to or through a market maker or through an electronic communications network. As agents, none of the Agents will engage in any transactions that stabilize the price of our common stock.

We will designate the maximum amount of common stock to be sold through the Designated Agent on a daily basis or otherwise as we and such Designated Agent agree and the minimum price per share at which such shares may be sold. Subject to the terms and conditions of the equity distribution agreements, the Designated Agent will use its reasonable efforts to sell on our behalf all of the designated shares of our common stock. We may instruct the Designated Agent not to sell our common stock if the sales cannot be effected at or above the price designated by us in any such instruction. We may suspend the offering of our common stock under any equity distribution agreement by notifying the applicable Agent. Each of the Agents may suspend the offering of our common stock under its respective equity distribution agreement by notifying us of such suspension.

The Designated Agent will provide written confirmation to us following the close of trading on the New York Stock Exchange each day on which shares of our common stock are sold under the equity distribution agreement to which it is a party. Each confirmation will include the number of shares of common stock sold on that day, the gross sales price per share and the compensation payable by us to the Designated Agent in connection with the sales. We will report at least quarterly the number of shares of common stock sold through the Designated Agents under the applicable equity distribution agreements, the proceeds to us (before expenses) and the compensation paid by us to the applicable Designated Agent in connection with the sales of the common stock.

We will pay the Designated Agent a commission that will not exceed, but may be lower than, 2% of the gross sales price per share of our common stock sold through it as our agent under the equity distribution agreement to which it is a party. If shares having an aggregate offering price of at least $40,000,000 have not been offered or sold under the equity distribution agreements by December 31, 2010 (or such earlier date on which the Company terminates all equity distribution agreements), we have agreed to reimburse the Agents for their reasonable out of pocket expenses, including legal expenses, in connection with the equity distribution

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agreements, the registration statement and ongoing services in connection with the transactions contemplated thereunder, in an amount not to exceed $250,000 in the aggregate. We estimate that the total expenses of the offering payable by us, excluding commissions and expense reimbursement obligations under the equity distribution agreements, will be approximately $800,000. The remaining sales proceeds, after deducting any transaction fees imposed by any governmental or self-regulatory organization in connection with the sales, will equal our net proceeds for the sale of the common stock.

Settlement for sales of our common stock will occur on the third business day following the date on which any sales were made in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

The offering of shares of our common stock pursuant to the equity distribution agreements will terminate upon the earlier of (1) the sale of shares of our common stock having an aggregate offering price of $400,000,000 pursuant to this offering and (2) the termination of each equity distribution agreement by us or by each of the Agents.

The Agents will act as sales agents on a reasonable efforts basis. In connection with the sale of common stock on our behalf, any of the Agents may be deemed to be an underwriter within the meaning of the Securities Act, and the compensation paid to the Agents may be deemed to be underwriting commissions. We have agreed to provide indemnification and contribution to the Agents against certain civil liabilities, including liabilities under the Securities Act.

In the ordinary course of their business, the Agents or their respective affiliates have in the past performed, and may continue to perform, investment banking, broker dealer, financial advisory or other services for us, for which they have received, or may receive, customary fees and expenses. As of December 31, 2009, affiliates of Morgan Stanley & Co. Incorporated leased an aggregate of approximately 92,451 square feet of space in two buildings at one of our properties for a total annualized contractual rent of approximately $13.7 million. Affiliates of Morgan Stanley & Co. Incorporated have entered into a lease with us for additional space for annualized contractual rent of approximately $3.5 million at commencement. We expect this new lease to commence in the first quarter of 2010 upon completion of the build out of the space. We have also entered into an agreement to provide management, consulting and other services to an affiliate of Morgan Stanley & Co. Incorporated in connection with a datacenter construction project pursuant to which we will be paid a management fee. In addition, affiliates of the Agents are lenders under our revolving credit facility and, accordingly, may receive their proportionate share of any proceeds of this offering that are used to repay indebtedness under our revolving credit facility.

The Agents have determined that our common stock is an actively-traded security excepted from the requirements of Rule 101 of Regulation M under the Exchange Act by Rule 101(c)(1) under that Act. If the Agents or we have reason to believe that the exemptive provisions set forth in Rule 101(c)(1) of Regulation M under the Exchange Act are not satisfied, that party will promptly notify the others and sales of common stock under the equity distribution agreements will be suspended until that or other exemptive provisions have been satisfied in the judgment of the Agents and us.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Latham & Watkins LLP, San Francisco and Los Angeles, California, and for the underwriters by Goodwin Procter LLP, Boston, Massachusetts. Venable LLP, Baltimore, Maryland, will issue an opinion to us regarding certain matters of Maryland law, including the validity of the common stock offered hereby.

EXPERTS

The consolidated balance sheets of Digital Realty Trust, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, equity and comprehensive income (loss), and cash flows of Digital Realty Trust, Inc. and subsidiaries for each of the years in the three-year period ended December 31, 2008, and related financial statement schedule and management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2008 have been incorporated by reference in this prospectus supplement, the accompanying prospectus and elsewhere in the registration statement of which the accompanying prospectus is a part in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference in this prospectus and in the registration statement, and upon the authority of said firm as experts in accounting and auditing.

The audit report covering the December 31, 2008, 2007 and 2006 consolidated financial statements refers to the retrospective application of Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* and FASB No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, which all became effective on January 1, 2009.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC s public reference room at 100 F Street, N.E. Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at http://www.sec.gov. You can inspect reports and other information we file at the offices of the NYSE, 20 Broad Street, New York, New York 10005. In addition, we maintain a website that contains information about us at http://www.digitalrealtytrust.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus supplement or any other report or document we file with or furnish to the SEC.

We have filed with the SEC a registration statement on Form S-3, of which this prospectus supplement and the accompanying prospectus is a part, including exhibits, schedules and amendments filed with, or incorporated by reference in, this registration statement, under the Securities Act, with respect to the securities registered hereby. This prospectus supplement and the accompanying prospectus do not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and the securities registered hereby, reference is made to the registration statement, including the exhibits to the registration statement. Statements contained in this prospectus supplement and the accompanying prospectus as to the contents of any contract or other document referred to in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus are not necessarily complete and, where that contract is an exhibit to the registration statement, each statement is qualified in all respects by the exhibit to which the reference relates. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined at the SEC s public reference room. Copies of all or a portion of the registration statement can be obtained from the SEC s public reference room upon

payment of prescribed fees. This registration statement is also available to you on the SEC s website.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is an important part of this prospectus supplement. The incorporated documents contain significant information about us, our business and our finances. Any statement contained in a document which is incorporated by reference in this prospectus supplement is automatically updated and superseded if information contained in this prospectus supplement, or information that we later file with the SEC, modifies or replaces this information. We incorporate by reference the following documents we filed with the SEC:

- our Annual Report on Form 10-K for the year ended December 31, 2008;
- our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 6, 2009 (solely to the extent specifically incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2008);
- our Quarterly Reports on Form 10-Q filed with the SEC on May 8, 2009, August 6, 2009 and November 9, 2009;
- our Current Reports on Form 8-K filed with the SEC on February 13, 2009, March 19, 2009, April 13, 2009, April 22, 2009, November 2, 2009, November 19, 2009, December 31, 2009 (two reports), January 8, 2010, January 21, 2010 and January 22, 2010;
- the description of our common stock, par value $0.01 per share, contained in our Registration Statement on Form 8-A filed on October 28, 2004 (file number 001-32336), including any amendment or reports filed for the purpose of updating this description; and
- all documents filed by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of the offering of the underlying securities (excluding any portions of such documents that are deemed furnished to the SEC pursuant to applicable rules and regulations).

We will provide to each person to whom this prospectus supplement is delivered a copy of any or all of the information that we have incorporated by reference into this prospectus supplement but not delivered with this prospectus supplement. To receive a free copy of any of the documents incorporated by reference in this prospectus supplement, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write to General Counsel, Digital Realty Trust, Inc., 560 Mission Street, Suite 2900, San Francisco, California 94105, telephone: (415) 738-6500.

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PROSPECTUS

Digital Realty Trust, Inc.

Common Stock, Preferred Stock, Depositary Shares and Warrants

We may from time to time offer, in one or more series or classes, separately or together, and in amounts, at prices and on terms to be set forth in one or more supplements to this prospectus, the following securities:

- shares of our common stock, par value $0.01 per share;
- shares of our preferred stock, par value $0.01 per share;
- depositary shares representing entitlement to all rights and preferences of fractions of shares of preferred stock of a specified series and represented by depositary receipts; or
- warrants to purchase shares of our common stock or preferred stock or depositary shares.

This prospectus also covers delayed delivery contracts that may be issued by the registrant under which the counterparty may be required to purchase common stock, preferred stock, depositary shares or warrants to purchase common stock or preferred stock. Delayed delivery contracts may be issued together with the specific securities to which they relate. In addition, securities registered hereunder may be sold separately, together or as units with other securities registered hereunder.

We refer to the common stock, preferred stock, depositary shares and warrants registered hereunder collectively as the securities in this prospectus. We will offer our securities in amounts, at prices and on terms determined at the time of the offering of any such security.

The specific terms of each series or class of the securities will be set forth in the applicable prospectus supplement and will include, as applicable: (i) in the case of our common stock, any public offering price; (ii) in the case of our preferred stock, the specific title and any dividend, liquidation, redemption, conversion, voting and other rights and any public offering price; (iii) in the case of depositary shares, the fractional share of preferred stock represented by each such depositary share; and (iv) in the case of warrants, the duration, offering price, exercise price and detachability. In addition, because we are organized and conduct our operations so as to qualify as a real estate investment trust, or REIT, for federal income tax purposes, the specific terms of any securities may include limitations on actual or constructive ownership and restrictions on transfer of the securities, in each case as may be appropriate to preserve the status of our company as a REIT.

The applicable prospectus supplement will also contain information, where applicable, about certain United States federal income tax consequences relating to, and any listing on a securities exchange of, the securities covered by such prospectus supplement.

The securities may be offered directly by us, through agents designated from time to time by us or to or through underwriters or dealers. These securities also may be resold by securityholders, if so provided in a prospectus supplement hereto. We will provide specific information about any selling securityholders in one or more supplements to this prospectus. If any agents, dealers or underwriters are involved in the sale of any of the securities, their names, and any applicable purchase price, fee, commission or discount arrangement between or among them will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement. See the sections entitled Plan of Distribution and About this Prospectus for more information. No securities may be sold without delivery of this prospectus and the applicable prospectus supplement describing the method and terms of the offering of such series of securities.

Our common stock currently trades on the New York Stock Exchange, or NYSE, under the symbol DLR .

See Risk Factors beginning on page 2 for certain risk factors relevant to an investment in our securities.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 1, 2009.

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You should rely only on the information contained in this prospectus, in an accompanying prospectus supplement or incorporated by reference herein or therein. We have not authorized anyone to provide you with information or make any representation that is different. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus and any accompanying prospectus supplement do not constitute an offer to sell or a solicitation of an offer to buy any securities other than the registered securities to which they relate, and this prospectus and any accompanying prospectus supplement do not constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction where, or to any person to whom, it is unlawful to make such an offer or solicitation. You should not assume that the information contained in this prospectus and any accompanying prospectus supplement is correct on any date after the respective dates of the prospectus and such prospectus supplement or supplements, as applicable, even though this prospectus and such prospectus supplement or supplements are delivered or shares are sold pursuant to the prospectus and such prospectus supplement or supplements at a later date. Since the respective dates of the prospectus contained in this registration statement and any accompanying prospectus supplement, our business, financial condition, results of operations and prospects may have changed. We may only use this prospectus to sell the securities if it is accompanied by a prospectus supplement.

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OUR COMPANY

We own, acquire, develop, redevelop and manage technology-related real estate. Our properties are diversified in major markets where corporate datacenter and technology tenants are concentrated, including the Chicago, Dallas, Los Angeles, New York, Northern Virginia, Phoenix, San Francisco and Silicon Valley metropolitan areas in the U.S. and the London, Dublin, Paris and Amsterdam markets in Europe. Our portfolio consists of Internet gateway and corporate datacenter properties, technology manufacturing properties and regional or national headquarters of technology companies. We operate as a real estate investment trust, or REIT, for U.S. federal income tax purposes.

Our principal executive offices are located at 560 Mission Street, Suite 2900, San Francisco, California 94105. Our telephone number is (415) 738-6500. Our website is located at www.digitalrealtytrust.com. The information found on, or accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the United States Securities and Exchange Commission, or the SEC.

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RISK FACTORS

Investment in any securities offered pursuant to this prospectus involves risks. You should carefully consider the risk factors incorporated by reference to our most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q and the other information contained or incorporated by reference in this prospectus, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the risk factors and other information contained in the applicable prospectus supplement before acquiring any of such securities.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the United States Securities and Exchange Commission, or SEC, using a shelf registration process. Under this process, we may sell common stock, preferred stock, depositary shares and warrants in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement containing specific information about the terms of the applicable offering. Such prospectus supplement may add, update or change information contained in this prospectus. To the extent that this prospectus is used by any securityholder to resell any securities, information with respect to the securityholder and the terms of the securities being offered will be contained in a prospectus supplement. You should read this prospectus and the applicable prospectus supplement together with additional information described under the heading Where You Can Find More Information.

We or any selling securityholders may offer the securities directly, through agents, or to or through underwriters. The applicable prospectus supplement will describe the terms of the plan of distribution and set forth the names of any underwriters involved in the sale of the securities. See Plan of Distribution for more information on this topic. No securities may be sold without delivery of a prospectus supplement describing the method and terms of the offering of those securities.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to we, us, our or our company refer to Digital Realty Trust, Inc. together with our consolidated subsidiaries, including Digital Realty Trust, L.P., a Maryland limited partnership of which we are the sole general partner and which we refer to in this prospectus as our operating partnership.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC s public reference room at 100 F Street, N.E. Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at http://www.sec.gov. You can inspect reports and other information we file at the offices of the NYSE, 20 Broad Street, New York, New York 10005. In addition, we maintain a website that contains information about us at http://www.digitalrealtytrust.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the SEC.

We have filed with the SEC a registration statement on Form S-3, of which this prospectus is a part, including exhibits, schedules and amendments filed with, or incorporated by reference in, this registration statement, under the Securities Act of 1933, as amended, or the

Securities Act, with respect to the securities registered hereby. This prospectus and any accompanying prospectus supplement do not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and the securities registered hereby, reference is made to the registration statement, including the exhibits to the registration statement. Statements contained in this prospectus and any accompanying prospectus supplement as to the contents of any contract or other document referred to in, or incorporated by reference in, this prospectus and any accompanying prospectus supplement are not necessarily complete and, where that contract is an exhibit to the registration statement, each statement is qualified in all respects by the exhibit to which the reference relates. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined at the SEC s public reference room. Copies of all or a portion of the registration statement can be obtained from the public reference room of the SEC upon payment of prescribed fees. This registration statement is also available to you on the SEC s website.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is an important part of this prospectus. The incorporated documents contain significant information about us, our business and our finances. Any statement contained in a document which is incorporated by reference in this prospectus is automatically updated and superseded if information contained in this prospectus, or information that we later file with the SEC, modifies or replaces this information. We incorporate by reference the following documents we filed with the SEC:

- our Annual Report on Form 10-K for the year ended December 31, 2008;
- our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 6, 2009 (solely to the extent specifically incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2008);
- our Current Report on Form 8-K filed with the SEC on February 13, 2009;
- our Current Report on Form 8-K filed with the SEC on March 19, 2009;
- our Current Report on Form 8-K filed with the SEC on April 13, 2009;
- our Current Report on Form 8-K filed with the SEC on April 22, 2009;
- the description of our Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share, contained in our Registration Statement on Form 8-A filed on July 20, 2005 (file number 001-32336), including any amendment or reports filed for the purpose of updating this description;
- the description of our Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share, contained in our Registration Statement on Form 8-A filed on February 2, 2005 (file number 001-32336), including any amendment or reports filed for the purpose of updating this description;
- the description of our common stock, par value $0.01 per share, contained in our Registration Statement on Form 8-A filed on October 28, 2004 (file number 001-32336), including any amendment or reports filed for the purpose of updating this description; and
- all documents filed by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of the offering of the underlying securities (excluding any portions of such documents that are deemed furnished to the SEC pursuant to applicable rules and regulations).

We will provide without charge to each person, including any beneficial owner, to whom a prospectus is delivered, on written or oral request of that person, a copy of any or all of the documents we are incorporating by reference into this prospectus, other than exhibits to those documents unless those exhibits are specifically incorporated by reference into those documents. A written request should be addressed to Joshua A. Mills, General Counsel and Assistant Secretary, Digital Realty Trust, Inc., 560 Mission Street, Suite 2900, San Francisco, California 94105.

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FORWARD-LOOKING STATEMENTS

This prospectus, including the documents that we incorporate by reference, contains forward-looking statements within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act and Section 21E of the Exchange Act). Also, documents we subsequently file with the SEC and incorporate by reference will contain forward-looking statements. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, pro forma financial statements and other pro forma information incorporated by reference and all our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, estimates or anticipates or the negative of these words and phrases or simil phrases. You can also identify forward-looking statements by discussions of strategies, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- the impact of the current deterioration in global economic and market conditions;
- adverse economic or real estate developments in our markets or the industry sectors that we sell to;
- decreases in information technology spending;
- our dependence upon significant tenants;
- bankruptcy or insolvency of a major tenant or a significant number of smaller tenants;
- downturn of local economic conditions in our geographic markets;
- our inability to comply with the rules and regulations applicable to public companies or to manage our growth effectively;
- difficulty acquiring or operating properties in foreign jurisdictions;
- defaults on or non-renewal of leases by tenants;
- increased interest rates and operating costs;
- our failure to obtain necessary outside financing;
- restrictions on our ability to engage in certain business activities;

risks related to joint venture investments;

decreased rental rates or increased vacancy rates;

inability to successfully develop and lease new properties and space held for redevelopment;

difficulties in identifying properties to acquire and completing acquisitions;

increased competition or available supply of data center space;

our failure to successfully operate acquired properties;

our possible inability to acquire off-market properties;

delays or unexpected costs in development or redevelopment of properties;

our possible failure to maintain our status as a REIT;

- possible adverse changes to tax laws;
- environmental uncertainties and risks related to natural disasters;
- financial market fluctuations;
- changes in foreign currency exchange rates;
- changes in foreign laws and regulations, including those related to taxation and real estate ownership and operation; and
- changes in real estate and zoning laws and increases in real property tax rates.

For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section entitled Risk Factors, including the risks incorporated therein, from our most recent Annual Report on Form 10-K, as updated by our subsequent filings, including filings we make after the date of this prospectus.

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USE OF PROCEEDS

Unless we indicate otherwise in the applicable prospectus supplement, we intend to contribute the net proceeds from any sale of the securities pursuant to this prospectus to our operating partnership. Our operating partnership will subsequently use the net proceeds received from us to potentially acquire or develop additional properties and for general corporate purposes, which may include the repayment of existing indebtedness. Pending application of cash proceeds, we may use the net proceeds to temporarily reduce borrowings under our revolving credit facility or we may invest the net proceeds in interest-bearing accounts and short-term, interest-bearing securities which are consistent with our intention to qualify as a REIT for U.S. federal income tax purposes. We will not receive any of the proceeds from sales of securities by selling securityholders, if any, pursuant to this prospectus. Further details regarding the use of the net proceeds of a specific series or class of the securities will be set forth in the applicable prospectus supplement.

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RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

Our ratios of earnings to fixed charges and earnings to fixed charges and preferred dividends for the periods indicated are as follows:

Digital Realty Trust, Inc.

Statement of Computation of Ratios

	The Company Year ended December 31,				The Company and the Predecessor
	2008	**2007**	**2006**	**2005**	**2004**
Ratio of earnings to fixed charges	1.65	1.17	1.41	1.68	
Ratio of earnings to fixed charges and preferred stock dividends	1.12		1.12	1.31	

Our ratios of earnings to fixed charges are computed by dividing earnings by fixed charges. Our ratios of earnings to fixed charges and preferred dividends are computed by dividing earnings by the sum of fixed charges and preferred dividends. For this purpose, earnings consist of income (loss) from continuing operations before minority interests and fixed charges. Fixed charges consist of interest expense, capitalized interest and amortization of deferred financing fees, whether expensed or capitalized, and interest within rental expense. Preferred stock dividends consist of the amount of pre-tax earnings required to pay dividends on our series A preferred stock, series B preferred stock, series C preferred stock and series D preferred stock.

For the year ended December 31, 2007, earnings were insufficient to cover fixed charges and preferred dividends by $5.7 million. For the year ended December 31, 2004, earnings were insufficient to cover fixed charges and fixed charges and preferred dividends by $5.3 million.

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DESCRIPTION OF SECURITIES

The following summary of the material terms of our securities sets forth certain general terms and provisions of the securities to which any prospectus supplement may relate. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to our charter documents and bylaws, copies of which we have previously filed with the SEC. See Where You Can Find More Information.

We may from time to time offer under this prospectus one or more of the following categories of our securities:

- shares of our common stock, par value $0.01 per share;
- shares of our preferred stock, par value $0.01 per share;
- depositary shares representing entitlement to all rights and preferences of fractions of shares of preferred stock of a specified series and represented by depositary receipts; or
- warrants to purchase shares of our common stock or preferred stock or depositary shares.

The terms of any specific offering of our securities, including the terms of any units of a combination of our securities, will be described in a prospectus supplement relating to such offering.

Description of Common Stock

General. Our charter provides that we may issue up to 125 million shares of our common stock, par value $0.01 per share, or common stock. As of March 31, 2009, 76,042,511 shares of our common stock were issued and outstanding, excluding:

- 4,032,511 shares available for future issuance under our incentive award plan;
- 909,911 shares underlying options granted under our incentive award plan;
- 874,259 shares issuable upon redemption of outstanding vested long-term incentive units (including class C units) issued under our incentive award plan;
- 482,002 shares issuable upon redemption of outstanding unvested long-term incentive units issued under our incentive award plan;

4,581,944 shares issuable upon redemption of outstanding common units;

728,202 shares potentially issuable upon redemption of outstanding unvested class C units;

22,522 restricted shares issued under our incentive award plan; and

3,614,777 shares potentially issuable upon conversion of our series C cumulative convertible preferred stock, using the current conversion rate, 8,215,221 shares potentially issuable upon conversion of our series D cumulative convertible preferred stock, using the current conversion rate and 5,353,883 shares potentially issuable upon exchange of our 4.125% exchangeable senior debentures, using the current conversion rate.

All outstanding shares of our common stock are duly authorized, fully paid and nonassessable. Subject to the preferential rights of any other class or series of stock and to the provisions of our charter regarding the restrictions on transfer of stock, holders of shares of our common stock are entitled to receive dividends on such stock if, as and when authorized by our board of directors out of assets legally available therefor and declared by us and to share ratably in the assets of our company legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment or establishment of reserves for all known debts and liabilities of our company.

Subject to the provisions of our charter regarding the restrictions on transfer of stock and except as may be otherwise specified therein with respect to any class or series of common stock, each outstanding share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors and, except as provided with respect to any other class or series of stock, the holders of such shares will possess the exclusive voting power. There is no cumulative voting in the election of our board of directors, which means that the holders of a majority of the outstanding shares of our common stock can elect all of the directors then standing for election and the holders of the remaining shares will not be able to elect any directors.

Holders of shares of our common stock have no preference, conversion, exchange, sinking fund or redemption rights, have no preemptive rights to subscribe for any securities of our company and generally have no appraisal rights unless our board of directors determines that appraisal rights apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which stockholders would otherwise be entitled to exercise appraisal rights. Subject to the provisions of our charter regarding the restrictions on transfer of stock, shares of our common stock will have equal dividend, liquidation and other rights.

Under the Maryland General Corporation Law, or MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business unless the action is approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation s charter. Except for certain charter amendments relating to the removal of directors, our charter provides that these actions may be taken if declared advisable by a majority of our board of directors and approved by the vote of a majority of the votes entitled to be cast on the matter. However, Maryland law permits a corporation to transfer all or substantially all of its assets without the approval of the stockholders of the corporation to one or more persons if all of the equity interests of the person or persons are owned, directly or indirectly, by the corporation. In addition, operating assets may be held by a corporation s subsidiaries, as in our situation, and these subsidiaries may be able to transfer all or substantially all of such assets without a vote of the parent corporation s stockholders.

Our charter authorizes our board of directors to reclassify any unissued shares of our common stock into other classes or series of stock and to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption for each such class or series.

Power to Increase Authorized Stock and Issue Additional Shares of Our Common Stock. Our board of directors has the power to amend our charter without stockholder approval to increase or decrease the number of authorized shares of common stock, to issue additional authorized but unissued shares of our common stock and to classify or reclassify unissued shares of our common stock and thereafter to cause us to issue such classified or reclassified shares of stock. We believe these powers provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. Subject to the limited rights of holders of our series A preferred stock, series B preferred stock, series C preferred stock and series D preferred stock and each other parity class or series of preferred stock, voting together as a single class, to approve certain issuances of senior classes or series of stock, the additional classes or series, as well as the common stock, will be available for issuance without further action by our stockholders, unless stockholder consent is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not intend to do so, it could authorize us to issue a class or series that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for our stockholders or otherwise be in their best interest.

Restrictions on Ownership and Transfer. To assist us in complying with certain federal income tax requirements applicable to REITs, we have adopted certain restrictions relating to the ownership and transfer of our common stock. See Restrictions on Ownership and Transfer.

Transfer Agent and Registrar. The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Description of Preferred Stock

General. Our charter provides that we may issue up to 30 million shares of preferred stock, $0.01 par value per share, or preferred stock. Our charter authorizes our board of directors to amend our charter without stockholder approval to increase the number of authorized shares of preferred stock. As of March 31, 2009, 4,140,000 shares of our series A preferred stock, 2,530,000 shares of our series B preferred stock, 6,999,955 shares of our series C preferred stock and 13,795,500 shares of our series D preferred stock were issued and outstanding. No other shares of preferred stock are currently outstanding.

Our charter authorizes our board of directors to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series. Prior to issuance of shares of each series, our board of directors is required by the MGCL and our charter to set, subject to the provisions of our charter regarding the restrictions on transfers of stock, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

The specific terms of a particular class or series of preferred stock will be described in the prospectus supplement relating to that class or series, including a prospectus supplement providing that preferred stock may be issuable upon the exercise of warrants we issue. The description of preferred stock set forth below and the description of the terms of a particular class or series of preferred stock set forth in the applicable prospectus supplement do not purport to be complete and are qualified in their entirety by reference to the articles supplementary relating to that class or series.

The preferences and other terms of the preferred stock of each class or series will be fixed by the articles supplementary relating to such class or series. A prospectus supplement, relating to each class or series, will specify the terms of the preferred stock, including, where applicable, the following:

(i) the title and stated value of such preferred stock;

(ii) the number of shares of such preferred stock offered, the liquidation preference per share and the offering price of such preferred stock;

(iii) the dividend rate(s), period(s), and/or payment date(s) or method(s) of calculation thereof applicable to such preferred stock;

(iv) whether such preferred stock is cumulative or not and, if cumulative, the date from which dividends on such preferred stock shall accumulate;

(v) the provision for a sinking fund, if any, for such preferred stock;

(vi) the provision for redemption, if applicable, of such preferred stock;

(vii) any listing of such preferred stock on any securities exchange;

(viii) preemptive rights, if any;

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(ix) the terms and conditions, if applicable, upon which such preferred stock will be converted into our common stock, including the conversion price (or manner of calculation thereof);

(x) a discussion of any material United States federal income tax consequences applicable to an investment in such preferred stock;

(xi) any limitations on actual and constructive ownership and restrictions on transfer, in each case as may be appropriate to preserve our status as a REIT;

(xii) the relative ranking and preferences of such preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of our company;

(xiii) any limitations on issuance of any class or series of preferred stock ranking senior to or on a parity with such class or series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of our company;

(xiv) any voting rights of such preferred stock; and

(xv) any other specific terms, preferences, rights, limitations or restrictions of such preferred stock.

Rank. Unless otherwise specified in the applicable prospectus supplement, the preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our company, rank: (i) senior to all classes or series of our common stock, and to any other class or series of our stock expressly designated as ranking junior to the preferred stock; (ii) on parity with any class or series of our stock expressly designated as ranking on parity with the preferred stock; and (iii) junior to any other class or series of our stock expressly designated as ranking senior to the preferred stock.

Conversion Rights. The terms and conditions, if any, upon which any shares of any class or series of preferred stock are convertible into our common stock will be set forth in the applicable prospectus supplement relating thereto. Such terms will include the number of shares of our common stock into which the shares of preferred stock are convertible, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the holders of such class or series of preferred stock, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such class or series of preferred stock.

Power to Increase Authorized Stock and Issue Additional Shares of Our Preferred Stock. Our board of directors has the power to amend our charter without stockholder approval to increase the number of authorized shares of preferred stock, to issue additional authorized but unissued shares of our preferred stock and to classify or reclassify unissued shares of our preferred stock and thereafter to cause us to issue such classified or reclassified shares of stock. Subject to the limited rights of holders of our series A preferred stock, series B preferred stock, series C preferred stock and series D preferred stock and each other parity class or series of preferred stock, voting together as a single class, to approve certain issuances of senior classes or series of stock, the additional classes or series will be available for issuance without further action by our stockholders, unless stockholder consent is required by applicable law or the rules of any stock exchange or automated quotation system on

which our securities may be listed or traded. Although our board of directors does not intend to do so, it could authorize us to issue a class or series that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for our stockholders or otherwise be in their best interest.

Restrictions on Ownership and Transfer. To assist us in complying with certain federal income tax requirements applicable to REITs, we have adopted certain restrictions relating to the ownership and transfer of our series A preferred stock, series B preferred stock, series C preferred stock and series D preferred stock. We expect to adopt similar restrictions with respect to any class or series offered pursuant to this prospectus under the articles supplementary for each such class or series. The applicable prospectus supplement will specify any additional ownership limitation relating to such class or series. See Restrictions on Ownership and Transfer.

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8.50% Series A Cumulative Redeemable Preferred Stock

General. Our board of directors and a duly authorized committee thereof approved articles supplementary, a copy of which we have previously filed with the SEC and which we incorporate by reference as an exhibit to the registration statement of which this prospectus is a part, creating the series A preferred stock as a series of our preferred stock, designated as the 8.50% Series A Cumulative Redeemable Preferred Stock. The series A preferred stock is validly issued, fully paid and nonassessable.

The series A preferred stock is currently listed on the NYSE as DLR Pr A .

Ranking. The series A preferred stock ranks, with respect to dividend rights and rights upon our liquidation, dissolution or winding-up:

- senior to all classes or series of our common stock, and to any other class or series of our stock expressly designated as ranking junior to the series A preferred stock;
- on parity with any class or series of our stock expressly designated as ranking on parity with the series A preferred stock, including our series B preferred stock, series C preferred stock and series D preferred stock; and
- junior to any other class or series of our stock expressly designated as ranking senior to the series A preferred stock.

Dividend Rate and Payment Date. Investors are entitled to receive cumulative cash dividends on the series A preferred stock from and including the date of original issue, payable quarterly in arrears on or about the last calendar day of March, June, September and December of each year, commencing March 31, 2005, at the rate of 8.50% per annum of the $25.00 liquidation preference per share (equivalent to an annual amount of $2.125 per share). Dividends on the series A preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are authorized or declared.

Liquidation Preference. If we liquidate, dissolve or wind-up, holders of the series A preferred stock will have the right to receive $25.00 per share, plus accrued and unpaid dividends (whether or not earned or declared) up to but excluding the date of payment, before any payment is made to holders of our common stock and any other class or series of stock ranking junior to the series A preferred stock as to liquidation rights. The rights of holders of series A preferred stock to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our stock ranking on parity with the series A preferred stock as to liquidation.

Optional Redemption. We may not redeem the series A preferred stock prior to February 9, 2010, except in limited circumstances to preserve our status as a REIT. On and after February 9, 2010, the series A preferred stock will be redeemable at our option, in whole or in part at any time or from time to time, for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to but excluding the redemption date. Any partial redemption will be on a pro rata basis.

No Maturity, Sinking Fund or Mandatory Redemption. The series A preferred stock has no maturity date and we are not required to redeem the series A preferred stock at any time. Accordingly, the series A preferred stock will remain outstanding indefinitely, unless we decide, at our option, to exercise our redemption right. The series A preferred stock is not subject to any sinking fund.

Voting Rights. Holders of series A preferred stock generally have no voting rights. However, if we are in arrears on dividends on the series A preferred stock for six or more quarterly periods, whether or not consecutive, holders of the series A preferred stock (voting together as a class with the holders of all other classes or series of parity preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to

vote at our next annual meeting and each subsequent annual meeting of stockholders for the election of two additional directors to serve on our board of directors until all unpaid dividends with respect to the series A preferred stock and any other class or series of parity preferred stock have been paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, we may not make certain material and adverse changes to the terms of the series A preferred stock without the affirmative vote of the holders of at least two-thirds of the outstanding shares of series A preferred stock and the holders of all other shares of any class or series ranking on parity with the series A preferred stock that are entitled to similar voting rights (voting together as a single class).

Conversion. The series A preferred stock is not convertible into or exchangeable for any of our other property or securities.

Transfer Agent and Registrar. The transfer agent and registrar for our series A preferred stock is American Stock Transfer & Trust Company.

7.875% Series B Cumulative Redeemable Preferred Stock

General. Our board of directors and a duly authorized committee thereof approved articles supplementary, a copy of which we have previously filed with the SEC and which we incorporate by reference as an exhibit to the registration statement of which this prospectus is a part, creating the series B preferred stock as a series of our preferred stock, designated as the 7.875% Series B Cumulative Redeemable Preferred Stock. The series B preferred stock is validly issued, fully paid and nonassessable.

The series B preferred stock is currently listed on the NYSE as DLR Pr B .

Ranking. The series B preferred stock ranks, with respect to dividend rights and rights upon our liquidation, dissolution or winding-up:

- senior to all classes or series of our common stock, and to any other class or series of our stock expressly designated as ranking junior to the series B preferred stock;

- on parity with any class or series of our stock expressly designated as ranking on parity with the series B preferred stock, including our series A preferred stock, series C preferred stock and series D preferred stock; and

- junior to any other class or series of our stock expressly designated as ranking senior to the series B preferred stock.

Dividend Rate and Payment Date. Investors are entitled to receive cumulative cash dividends on the series B preferred stock from and including the date of original issue, payable quarterly in arrears on or about the last calendar day of March, June, September and December of each year, commencing September 30, 2005, at the rate of 7.875% per annum of the $25.00 liquidation preference per share (equivalent to an annual amount of $1.96875 per share). Dividends on the series B preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are authorized or declared.

Liquidation Preference. If we liquidate, dissolve or wind-up, holders of the series B preferred stock will have the right to receive $25.00 per share, plus accrued and unpaid dividends (whether or not earned or declared) up to but excluding the date of payment, before any payment is made to holders of our common stock and any other class or series of stock ranking junior to the series B preferred stock as to liquidation rights. The rights of holders of series B preferred stock to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our stock ranking on parity with the series B preferred stock as to liquidation.

Optional Redemption. We may not redeem the series B preferred stock prior to July 26, 2010, except in limited circumstances to preserve our status as a REIT. On and after July 26, 2010, the series B preferred stock

will be redeemable at our option, in whole or in part at any time or from time to time, for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to but excluding the redemption date. Any partial redemption will be on a pro rata basis.

No Maturity, Sinking Fund or Mandatory Redemption. The series B preferred stock has no maturity date and we are not required to redeem the series B preferred stock at any time. Accordingly, the series B preferred stock will remain outstanding indefinitely, unless we decide, at our option, to exercise our redemption right. The series B preferred stock is not subject to any sinking fund.

Voting Rights. Holders of series B preferred stock generally have no voting rights. However, if we are in arrears on dividends on the series B preferred stock for six or more quarterly periods, whether or not consecutive, holders of the series B preferred stock (voting together as a class with the holders of all other classes or series of parity preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote at our next annual meeting and each subsequent annual meeting of stockholders for the election of two additional directors to serve on our board of directors until all unpaid dividends with respect to the series B preferred stock and any other class or series of parity preferred stock have been paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, we may not make certain material and adverse changes to the terms of the series B preferred stock without the affirmative vote of the holders of at least two-thirds of the outstanding shares of series B preferred stock and the holders of all other shares of any class or series ranking on parity with the series B preferred stock that are entitled to similar voting rights (voting together as a single class).

Conversion. The series B preferred stock is not convertible into or exchangeable for any of our other property or securities.

Transfer Agent and Registrar. The transfer agent and registrar for our series B preferred stock is American Stock Transfer & Trust Company.

4.375% Series C Cumulative Convertible Preferred Stock

General. Our board of directors and a duly authorized committee thereof approved articles supplementary, a copy of which we have previously filed with the SEC and which we incorporate by reference as an exhibit to the registration statement of which this prospectus is a part, creating the series C preferred stock as a series of our preferred stock, designated as the 4.375% Series C Cumulative Convertible Preferred Stock. The series C preferred stock is validly issued, fully paid and nonassessable.

Ranking. The series C preferred stock ranks, with respect to dividend rights and rights upon our liquidation, dissolution or winding-up:

- senior to all classes or series of our common stock, and to any other class or series of our stock expressly designated as ranking junior to the series C preferred stock;
- on parity with any class or series of our stock expressly designated as ranking on parity with the series C preferred stock, including our series A preferred stock, series B preferred stock and series D preferred stock; and
- junior to any other class or series of our stock expressly designated as ranking senior to the series C preferred stock.

Dividend Rate and Payment Date. Investors are entitled to receive cumulative cash dividends on the series C preferred stock from and including the date of original issue, payable quarterly in arrears on or about the last calendar day of March, June, September and December of each year, commencing June 30, 2007, at the rate of 4.375% per annum of the $25.00 liquidation preference per share (equivalent to an annual amount of $1.09375 per share). Dividends on the series C preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are authorized or declared.

Liquidation Preference. If we liquidate, dissolve or wind-up, holders of the series C preferred stock will have the right to receive $25.00 per share, plus accrued and unpaid dividends (whether or not earned or declared) up to but excluding the date of payment, before any payment is made to holders of our common stock and any other class or series of stock ranking junior to the series C preferred stock as to liquidation rights. The rights of holders of series C preferred stock to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our stock ranking on parity with the series C preferred stock as to liquidation.

Optional Redemption. We may not redeem the series C preferred stock except in limited circumstances to preserve our status as a REIT. Any partial redemption will be on a pro rata basis.

No Maturity, Sinking Fund or Mandatory Redemption. The series C preferred stock has no maturity date and is not subject to any sinking fund and we are not required to redeem the series C preferred stock at any time.

Voting Rights. Holders of shares of the series C preferred stock will generally have no voting rights. However, if we are in arrears on dividends on the series C preferred stock for six or more quarterly periods, whether or not consecutive, holders of shares of the series C preferred stock (voting together as a class with the holders of all other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote at a special meeting called by at least 10% of such holders or at our next annual meeting and each subsequent annual meeting of stockholders, for the election of two additional directors to serve on our board of directors until all unpaid dividends with respect to the series C preferred stock and any other class or series of parity preferred stock have been paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, we may not make certain material and adverse changes to the terms of the series C preferred stock without the affirmative vote of the holders of at least two-thirds of the outstanding shares of the series C preferred stock together with the holders of all other shares of any class or series of preferred stock ranking on parity with the series C preferred stock that are entitled to similar voting rights (voting together as a single class).

Conversion. Holders may convert their shares of the series C preferred stock into shares of our common stock subject to certain conditions. The conversion rate will initially be 0.5164 shares of common stock per $25.00 liquidation preference, which is equivalent to an initial conversion price of approximately $48.41 per share of common stock (subject to adjustment in certain events). On or after April 10, 2012, we may, at our option, cause some or all of the series C preferred stock to be automatically converted into shares of common stock at the then-applicable conversion rate if (1) the closing sales price of our common stock equals or exceeds 130% of the then applicable conversion price of the series C preferred stock for at least 20 trading days in a period of 30 consecutive trading days and (2) on or prior to the effective date of the conversion, we have either declared and paid, or declared and set apart for payment, any unpaid dividends that are in arrears on the series C preferred stock.

If holders of shares of the series C preferred stock elect to convert their shares of the series C preferred stock in connection with a fundamental change that occurs on or prior to April 10, 2014, we will increase the conversion rate for shares of the series C preferred stock surrendered for conversion by a number of additional shares determined based on the stock price at the time of such fundamental change and the effective date of such fundamental change, as set forth in the articles supplementary.

On or prior to April 10, 2014, in the event of a fundamental change when the applicable price of our common stock described in the articles supplementary is less than $40.34 per share, then holders of shares of the series C preferred stock will have a special right to convert some or all of their series C preferred stock on the fundamental change conversion date (as defined in the articles supplementary) into a number of shares of our common stock per $25.00 liquidation preference equal to such liquidation preference, plus an amount equal to accrued and unpaid dividends to, but not including, the fundamental change conversion date, divided by 98% of the market price (as defined in the articles supplementary) of our common stock. In the event that holders of shares of the series C preferred stock exercise the special conversion right, we have the right to repurchase for

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cash all or any part of the series C preferred stock as to which the conversion right was exercised at a repurchase price equal to 100% of the liquidation preference of the series C preferred stock to be repurchased plus an amount equal to accrued and unpaid dividends to, but not including, the fundamental change conversion date. If we elect to exercise our repurchase right, holders of shares of the series C preferred stock will not have the special conversion right described above.

Transfer Agent and Registrar. The transfer agent and registrar for our series C preferred stock is American Stock Transfer & Trust Company.

5.500% Series D Cumulative Convertible Preferred Stock

General. Our board of directors and a duly authorized committee thereof approved articles supplementary, a copy of which we have previously filed with the SEC and which we incorporate by reference as an exhibit to the registration statement of which this prospectus is a part, creating the series D preferred stock as a series of our preferred stock, designated as the 5.500% Series D Cumulative Convertible Preferred Stock. The series D preferred stock is validly issued, fully paid and nonassessable.

Ranking. The series D preferred stock ranks, with respect to dividend rights and rights upon our liquidation, dissolution or winding-up:

- senior to all classes or series of our common stock, and to any other class or series of our stock expressly designated as ranking junior to the series D preferred stock;
- on parity with any class or series of our stock expressly designated as ranking on parity with the series D preferred stock, including our series A preferred stock, series B preferred stock and series C preferred stock; and
- junior to any other class or series of our stock expressly designated as ranking senior to the series D preferred stock.

Dividend Rate and Payment Date. Investors are entitled to receive cumulative cash dividends on the series D preferred stock from and including the date of original issue, payable quarterly in arrears on or about the last calendar day of March, June, September and December of each year, commencing March 31, 2008, at the rate of 5.500% per annum of the $25.00 liquidation preference per share (equivalent to an annual amount of $1.375 per share). Dividends on the series D preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are authorized or declared.

Liquidation Preference. If we liquidate, dissolve or wind-up, holders of the series D preferred stock will have the right to receive $25.00 per share, plus accrued and unpaid dividends (whether or not earned or declared) up to but excluding the date of payment, before any payment is made to holders of our common stock and any other class or series of stock ranking junior to the series D preferred stock as to liquidation rights. The rights of holders of series D preferred stock to receive their liquidation preference will be subject to the proportionate rights of any other class or series of our stock ranking on parity with the series D preferred stock as to liquidation.

Optional Redemption. We may not redeem the series D preferred stock except in limited circumstances to preserve our status as a REIT. Any partial redemption will be on a pro rata basis.

No Maturity, Sinking Fund or Mandatory Redemption. The series D preferred stock has no maturity date and is not subject to any sinking fund and we are not required to redeem the series D preferred stock at any time.

Voting Rights. Holders of shares of the series D preferred stock will generally have no voting rights. However, if we are in arrears on dividends on the series D preferred stock for six or more quarterly periods, whether or not consecutive, holders of shares of the series D preferred stock (voting together as a class with the

holders of all other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote at a special meeting called by at least 10% of such holders or at our next annual meeting and each subsequent annual meeting of stockholders, for the election of two additional directors to serve on our board of directors until all unpaid dividends with respect to the series D preferred stock and any other class or series of parity preferred stock have been paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, we may not make certain material and adverse changes to the terms of the series D preferred stock without the affirmative vote of the holders of at least two-thirds of the outstanding shares of the series D preferred stock together with the holders of all other shares of any class or series of preferred stock ranking on parity with the series D preferred stock that are entitled to similar voting rights (voting together as a single class).

Conversion. Holders may convert their shares of the series D preferred stock into shares of our common stock subject to certain conditions. The conversion rate will initially be 0.5955 shares of common stock per $25.00 liquidation preference, which is equivalent to an initial conversion price of approximately $41.98 per share of common stock (subject to adjustment in certain events). On or after February 6, 2013, we may, at our option, cause some or all of the series D preferred stock to be automatically converted into shares of common stock at the then-applicable conversion rate if (1) the closing sales price of our common stock equals or exceeds 130% of the then applicable conversion price of the series D preferred stock for at least 20 trading days in a period of 30 consecutive trading days and (2) on or prior to the effective date of the conversion, we have either declared and paid, or declared and set apart for payment, any unpaid dividends that are in arrears on the series D preferred stock.

If holders of shares of the series D preferred stock elect to convert their shares of the series D preferred stock in connection with a fundamental change that occurs on or prior to February 6, 2015, we will increase the conversion rate for shares of the series D preferred stock surrendered for conversion by a number of additional shares determined based on the stock price at the time of such fundamental change and the effective date of such fundamental change, as set forth in the articles supplementary.

On or prior to February 6, 2015, in the event of a fundamental change when the applicable price of our common stock described in the articles supplementary is less than $35.73 per share, then holders of shares of the series D preferred stock will have a special right to convert some or all of their series D preferred stock on the fundamental change conversion date (as defined in the articles supplementary) into a number of shares of our common stock per $25.00 liquidation preference equal to such liquidation preference, plus an amount equal to accrued and unpaid dividends to, but not including, the fundamental change conversion date, divided by 98% of the market price (as defined in the articles supplementary) of our common stock. In the event that holders of shares of the series D preferred stock exercise the special conversion right, we have the right to repurchase for cash all or any part of the series D preferred stock as to which the conversion right was exercised at a repurchase price equal to 100% of the liquidation preference of the series D preferred stock to be repurchased plus an amount equal to accrued and unpaid dividends to, but not including, the fundamental change conversion date. If we elect to exercise our repurchase right, holders of shares of the series D preferred stock will not have the special conversion right described above.

Transfer Agent and Registrar. The transfer agent and registrar for our series D preferred stock is American Stock Transfer & Trust Company.

Description of Depositary Shares

We may, at our option, elect to offer depositary shares rather than full shares of preferred stock. Each depositary share will represent ownership of and entitlement to all rights and preferences of a fraction of a share of preferred stock of a specified series (including dividend, voting, redemption and liquidation rights). The applicable fraction will be specified in a prospectus supplement. The shares of preferred stock represented by the depositary shares will be deposited with a depositary named in the applicable prospectus supplement, under a

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deposit agreement, among us, the depositary and the holders of the certificates evidencing depositary shares, or depositary receipts. Depositary receipts will be delivered to those persons purchasing depositary shares in the offering. The depositary will be the transfer agent, registrar and dividend disbursing agent for the depositary shares. Holders of depositary receipts agree to be bound by the deposit agreement, which requires holders to take certain actions such as filing proof of residence and paying certain charges.

The summary of the terms of the depositary shares contained in this prospectus does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the deposit agreement, our charter and the form of articles supplementary for the applicable series of preferred stock.

Dividends. The depositary will distribute all cash dividends or other cash distributions received in respect of the series of preferred stock represented by the depositary shares to the record holders of depositary receipts in proportion to the number of depositary shares owned by such holders on the relevant record date, which will be the same date as the record date fixed by us for the applicable series of preferred stock. The depositary, however, will distribute only such amount as can be distributed without attributing to any depositary share a fraction of one cent, and any balance not so distributed will be added to and treated as part of the next sum received by the depositary for distribution to record holders of depositary receipts then outstanding.

In the event of a distribution other than in cash, the depositary will distribute property received by it to the record holders of depositary receipts entitled thereto, in proportion, as nearly as may be practicable, to the number of depositary shares owned by such holders on the relevant record date, unless the depositary determines (after consultation with us) that it is not feasible to make such distribution, in which case the depositary may (with our approval) adopt any other method for such distribution as it deems equitable and appropriate, including the sale of such property (at such place or places and upon such terms as it may deem equitable and appropriate) and distribution of the net proceeds from such sale to such holders.

No distribution will be made in respect of any depositary share to the extent that it represents any preferred stock converted into excess stock.

Liquidation Preference. In the event of the liquidation, dissolution or winding up of the affairs of our company, whether voluntary or involuntary, the holders of each depositary share will be entitled to the fraction of the liquidation preference accorded each share of the applicable series of preferred stock as set forth in the applicable prospectus supplement.

Redemption. If the series of preferred stock represented by the applicable series of depositary shares is redeemable, such depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption, in whole or in part, of preferred stock held by the depositary. Whenever we redeem any preferred stock held by the depositary, the depositary will redeem as of the same redemption date the number of depositary shares representing the preferred stock so redeemed. The depositary will mail the notice of redemption promptly upon receipt of such notice from us and not less than 30 nor more than 60 days prior to the date fixed for redemption of the preferred stock and the depositary shares to the record holders of the depositary receipts.

Voting. Promptly upon receipt of notice of any meeting at which the holders of the series of preferred stock represented by the applicable series of depositary shares are entitled to vote, the depositary will mail the information contained in such notice of meeting to the record holders of the depositary receipts as of the record date for such meeting. Each such record holder of depositary receipts will be entitled to instruct the depositary as to the exercise of the voting rights pertaining to the number of shares of preferred stock represented by such record holder s depositary shares. The depositary will endeavor, insofar as practicable, to vote such preferred stock represented by such depositary shares in accordance with such instructions, and we will agree to take all action which may be deemed necessary by the depositary in order to enable the

depositary to do so. The depositary will abstain from voting any of the preferred stock to the extent that it does not receive specific instructions from the holders of depositary receipts.

Withdrawal of Preferred Stock. Upon surrender of depositary receipts at the principal office of the depositary and payment of any unpaid amount due the depositary, and subject to the terms of the deposit agreement, the owner of the depositary shares evidenced thereby is entitled to delivery of the number of whole shares of preferred stock and all money and other property, if any, represented by such depositary shares. Partial shares of preferred stock will not be issued. If the depositary receipts delivered by the holder evidence a number of depositary shares in excess of the number of depositary shares representing the number of whole shares of preferred stock to be withdrawn, the depositary will deliver to such holder at the same time a new depositary receipt evidencing such excess number of depositary shares. Holders of preferred stock thus withdrawn will not thereafter be entitled to deposit such shares under the deposit agreement or to receive depositary receipts evidencing depositary shares therefor.

Amendment and Termination of Deposit Agreement. The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may at any time and from time to time be amended by agreement between us and the depositary. However, any amendment which materially and adversely alters the rights of the holders (other than any change in fees) of depositary shares will not be effective unless such amendment has been approved by at least a majority of the depositary shares then outstanding. No such amendment may impair the right, subject to the terms of the deposit agreement, of any owner of any depositary shares to surrender the depositary receipt evidencing such depositary shares with instructions to the depositary to deliver to the holder the preferred stock and all money and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law.

The deposit agreement will be permitted to be terminated by us upon not less than 30 days prior written notice to the applicable depositary if (i) such termination is necessary to preserve our status as a REIT or (ii) a majority of each series of preferred stock affected by such termination consents to such termination, whereupon such depositary will be required to deliver or make available to each holder of depositary receipts, upon surrender of the depositary receipts held by such holder, such number of whole or fractional shares of preferred stock as are represented by the depositary shares evidenced by such depositary receipts together with any other property held by such depositary with respect to such depositary receipts. We will agree that if the deposit agreement is terminated to preserve our status as a REIT, then we will use our best efforts to list the preferred stock issued upon surrender of the related depositary shares on a national securities exchange. In addition, the deposit agreement will automatically terminate if (i) all outstanding depositary shares thereunder shall have been redeemed, (ii) there shall have been a final distribution in respect of the related preferred stock in connection with any liquidation, dissolution or winding-up of our company and such distribution shall have been distributed to the holders of depositary receipts evidencing the depositary shares representing such preferred stock or (iii) each share of the related preferred stock shall have been converted into stock of our company not so represented by depositary shares.

Charges of Depositary. We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the depositary in connection with the initial deposit of the preferred stock and initial issuance of the depositary shares, and redemption of the preferred stock and all withdrawals of preferred stock by owners of depositary shares. Holders of depositary receipts will pay transfer, income and other taxes and governmental charges and certain other charges as are provided in the deposit agreement to be for their accounts. In certain circumstances, the depositary may refuse to transfer depositary shares, may withhold dividends and distributions and sell the depositary shares evidenced by such depositary receipt if such charges are not paid. The applicable prospectus supplement will include information with respect to fees and charges, if any, in connection with the deposit or substitution of the underlying securities, the receipt and distribution of dividends, the sale or exercise of rights, the withdrawal of the underlying security, and the transferring, splitting or grouping of receipts. The applicable prospectus supplement will also include information with respect to the right to collect the fees and charges, if any, against dividends received and deposited securities.

Miscellaneous. The depositary will forward to the holders of depositary receipts all notices, reports and proxy soliciting material from us which are delivered to the depositary and which we are required to furnish to

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the holders of the preferred stock. In addition, the depositary will make available for inspection by holders of depositary receipts at the principal office of the depositary, and at such other places as it may from time to time deem advisable, any notices, reports and proxy soliciting material received from us which are received by the depositary as the holder of preferred stock. The applicable prospectus supplement will include information about the rights, if any, of holders of receipts to inspect the transfer books of the depositary and the list of holders of receipts.

Neither the depositary nor our company assumes any obligation or will be subject to any liability under the deposit agreement to holders of depositary receipts other than for its negligence or willful misconduct. Neither the depositary nor our company will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under the deposit agreement. The obligations of our company and the depositary under the deposit agreement will be limited to performance in good faith of their duties thereunder, and they will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless satisfactory indemnity is furnished. Our company and the depositary may rely on written advice of counsel or accountants, on information provided by holders of the depositary receipts or other persons believed in good faith to be competent to give such information and on documents believed to be genuine and to have been signed or presented by the proper party or parties.

In the event the depositary shall receive conflicting claims, requests or instructions from any holders of depositary receipts, on the one hand, and us, on the other hand, the depositary shall be entitled to act on such claims, requests or instructions received from us.

Resignation and Removal of Depositary. The depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the depositary, any such resignation or removal to take effect upon the appointment of a successor depositary and its acceptance of such appointment. Such successor depositary must be appointed within 60 days after delivery of the notice for resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least $150,000,000.

Description of Warrants

We may issue warrants for the purchase of our common stock, preferred stock or depositary shares and may issue warrants independently or together with our common stock, preferred stock or depositary shares or attached to or separate from such securities. We will issue each series of warrants under a separate warrant agreement between us and a bank or trust company as warrant agent, as specified in the applicable prospectus supplement.

The warrant agent will act solely as our agent in connection with the warrants and will not act for or on behalf of warrant holders. The following sets forth certain general terms and provisions of the warrants that may be offered under this registration statement. Further terms of the warrants and the applicable warrant agreement will be set forth in the applicable prospectus supplement.

The applicable prospectus supplement will describe the terms of the warrants in respect of which this prospectus is being delivered, including, where applicable, the following:

- the title of such warrants;

the aggregate number of such warrants outstanding;

the price or prices at which such warrants will be issued;

the type and number of securities purchasable upon exercise of such warrants;

the designation and terms of the other securities, if any, with which such warrants are issued and the number of such warrants issued with each such offered security;

the date, if any, on and after which such warrants and the related securities will be separately transferable;

- the price at which each security purchasable upon exercise of such warrants may be purchased;
- the provisions, if any, for changes to or adjustments in the exercise price;
- the date on which the right to exercise such warrants shall commence and the date on which such right shall expire;
- the minimum or maximum amount of such warrants that may be exercised at any one time;
- information with respect to book-entry procedures, if any;
- any anti-dilution protection;
- a discussion of certain United States federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the transferability, exercise and exchange of such warrants.

Warrant certificates will be exchangeable for new warrant certificates of different denominations and warrants may be exercised at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement. Prior to the exercise of their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise or to any dividend payments or voting rights as to which holders of the shares of our common stock or preferred stock purchasable upon such exercise may be entitled.

Each warrant will entitle the holder to purchase for cash such number of shares of our common stock or preferred stock, at such exercise price as shall, in each case, be set forth in, or be determinable as set forth in, the applicable prospectus supplement relating to the warrants offered thereby. Unless otherwise specified in the applicable prospectus supplement, warrants may be exercised at any time up to 5:00 p.m. New York City time on the expiration date set forth in applicable prospectus supplement. After 5:00 p.m. New York City time on the expiration date, unexercised warrants will be void.

Warrants may be exercised as set forth in the applicable prospectus supplement relating to the warrants. Upon receipt of payment and the warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement, we will, as soon as practicable, forward the securities purchasable upon such exercise. If less than all of the warrants are presented by such warrant certificate of exercise, a new warrant certificate will be issued for the remaining amount of warrants.

RESTRICTIONS ON OWNERSHIP AND TRANSFER

The following summary with respect to restrictions on ownership and transfer of our stock sets forth certain general terms and provisions of our charter documents to which any prospectus supplement may relate. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to our charter documents, as amended and supplemented from time to time, including any articles supplementary relating to any issuance of preferred stock pursuant to this prospectus. Copies of our existing charter documents are filed with the SEC and are incorporated by reference as exhibits to the registration statement of which this prospectus is a part. Any amendment or supplement to our charter documents relating to an issuance of securities pursuant to this prospectus shall be filed with the SEC and shall be incorporated by reference as an exhibit to the applicable prospectus supplement. See Where You Can Find More Information.

In order for us to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities such as private foundations) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made).

Our charter contains restrictions on the ownership and transfer of our common stock, preferred stock and capital stock which are intended to assist us in complying with these requirements and continuing to qualify as a REIT. Our charter provides that, subject to the exceptions described below, no person or entity may beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or of any series of preferred stock, or more than 9.8% of the value of our outstanding capital stock. We refer to these restrictions as the common stock ownership limit, the preferred stock ownership limit and the aggregate stock ownership limit, respectively. A person or entity that becomes subject to one of the ownership limits by virtue of a violative transfer that results in a transfer to a trust, as set forth below, is referred to as a purported beneficial transferee if, had the violative transfer been effective, the person or entity would have been a record owner and beneficial owner or solely a beneficial owner of our common stock, any series of our preferred stock, or our capital stock, as applicable, or is referred to as a purported record transferee if, had the violative transfer been effective, the person or entity would have been solely a record owner of our common stock, any series of our preferred stock, or our capital stock, as applicable.

The constructive ownership rules under the Code are complex and may cause stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 9.8% of our common stock or any series of our preferred stock or less than 9.8% of the value of our outstanding capital stock (or the acquisition of an interest in an entity that owns, actually or constructively, our capital stock) by an individual or entity could, nevertheless, cause that individual or entity, or another individual or entity, to own constructively more than 9.8% of our outstanding common stock or a series of our preferred stock or our capital stock, as applicable, and thereby subject such stock to the applicable ownership limit.

Our board of directors may, in its sole discretion, waive one of the ownership limits with respect to a particular stockholder if it:

- determines that such ownership will not cause any individual s beneficial ownership of shares of our capital stock to violate the aggregate stock ownership limit and that any exemption from the applicable ownership limit will not jeopardize our status as a REIT; and

- determines that such stockholder does not and will not own, actually or constructively, an interest in a tenant of ours (or a tenant of any entity owned in whole or in part by us) that would cause us to own, actually or constructively, more than a 9.8% interest (as set

forth in Section 856(d)(2)(B) of the Code) in such tenant or that any such ownership would not cause us to fail to qualify as a REIT under the Code.

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Our board of directors may also, in its sole discretion, waive the preferred stock ownership limit with respect to a particular stockholder if it determines that such ownership will not jeopardize our status as a REIT.

As a condition of our waiver, our board of directors may require an opinion of counsel or IRS ruling satisfactory to our board of directors, and/or representations or undertakings from the applicant with respect to preserving our REIT status.

In connection with a waiver of an ownership limit or at any other time, our board of directors may increase the applicable ownership limit for one or more persons and decrease the applicable ownership limit for all other persons and entities; provided, however, that the decreased ownership limit will not be effective for any person or entity whose percentage ownership in our common stock, any series of our preferred stock or our capital stock, as applicable, exceeds the decreased ownership limit until such time as such person or entity s percentage ownership equals or falls below the decreased ownership limit; but any further acquisition of our common, preferred or capital stock, as applicable, in excess of such percentage ownership will be in violation of the applicable ownership limit. Additionally, the new ownership limit, as applicable, may not allow five or fewer stockholders to beneficially own more than 49% in value of our outstanding capital stock.

Our charter further prohibits:

- any person from beneficially or constructively owning shares of our stock that would result in our being closely held under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT; and

- any person from transferring shares of our capital stock if such transfer would result in shares of our stock being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution).

Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of shares of our stock that will or may violate any of the foregoing restrictions on transferability and ownership will be required to give notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our status as a REIT. The foregoing provisions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Pursuant to our charter, if any purported transfer of our stock or any other event would otherwise result in any person violating the ownership limits or such other limit as established by our board of directors or would result in our being closely held under Section 856(h) of the Code or otherwise failing to qualify as a REIT, then that number of shares in excess of the applicable ownership limit or causing us to be closely held or otherwise to fail to qualify as a REIT (rounded up to the nearest whole share) will be automatically transferred to, and held by, a trust for the exclusive benefit of one or more charitable organizations selected by us. The automatic transfer will be effective as of the close of business on the business day prior to the date of the violative transfer or other event that results in a transfer to the trust. Any dividend or other distribution paid to the purported record transferee, prior to our discovery that the shares had been automatically transferred to a trust as described above, must be repaid to the trustee upon demand for distribution to the beneficiary of the trust. If the transfer to the trust as described above is not automatically effective, for any reason, to prevent a violation of the applicable ownership limit or our being closely held or otherwise failing to qualify as a REIT, then our charter provides that the transfer of the shares in excess of the ownership limit will be void. If any transfer would result in shares of our stock being beneficially owned by fewer than 100 persons, then any such purported transfer will be void and of no force or effect.

Shares of our stock transferred to the trustee are deemed offered for sale to us, or our designee, at a price per share equal to the lesser of (1) the price paid by the purported record transferee for the shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of such shares of our stock at market price, the last reported sales price reported on the NYSE on the trading day immediately preceding the day of the event

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which resulted in the transfer of such shares of our stock to the trust) and (2) the market price on the date we, or our designee, accept such offer. We have the right to accept such offer until the trustee has sold the shares of our stock held in the trust pursuant to the clauses discussed below. Upon a sale to us, the interest of the charitable beneficiary in the shares sold terminates and the trustee must distribute the net proceeds of the sale to the purported record transferee and any dividends or other distributions held by the trustee with respect to such stock will be paid to the charitable beneficiary.

If we do not buy the shares, the trustee must, within 20 days of receiving notice from us of the transfer of shares to the trust, sell the shares to a person or entity designated by the trustee who could own the shares without violating the common stock ownership limit or the preferred stock ownership limit, as applicable, and the aggregate stock ownership limit or such other limit as established by our board of directors. After that, the trustee must distribute to the purported record transferee an amount equal to the lesser of (1) the price paid by the purported record transferee or owner for the shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of such shares at market price, the last reported sales price reported on the NYSE on the trading day immediately preceding the day of the event which resulted in the transfer of such shares of our stock to the trust) and (2) the sales proceeds (net of commissions and other expenses of sale) received by the trustee for the shares. Any net sales proceeds in excess of the amount payable to the purported record transferee will be immediately paid to the charitable beneficiary, together with any dividends or other distributions thereon. In addition, if prior to discovery by us that shares of our stock have been transferred to a trust, such shares of stock are sold by a purported record transferee, then such shares shall be deemed to have been sold on behalf of the trust and to the extent that the purported record transferee received an amount for or in respect of such shares that exceeds the amount that such purported record transferee was entitled to receive, such excess amount shall be paid to the trustee upon demand. The purported beneficial transferee or purported record transferee has no rights in the shares held by the trustee.

The trustee shall be designated by us and shall be unaffiliated with us and with any purported record transferee or purported beneficial transferee. Prior to the sale of any shares in excess of the common stock ownership limit, the preferred stock ownership limit or the aggregate stock ownership limit by the trust, the trustee will receive, in trust for the beneficiary, all dividends and other distributions paid by us with respect to the shares in excess of the applicable ownership limit, and may also exercise all voting rights with respect to such shares.

Subject to Maryland law, effective as of the date that the shares have been transferred to the trust, the trustee shall have the authority, at the trustee s sole discretion:

- to rescind as void any vote cast by a purported record transferee prior to our discovery that the shares have been transferred to the trust; and

- to recast the vote in accordance with the desires of the trustee acting for the benefit of the beneficiary of the trust.

However, if we have already taken irreversible corporate action, then the trustee may not rescind and recast the vote.

In addition, if our board of directors or other permitted designees determine in good faith that a proposed transfer would violate the restrictions on ownership and transfer of our stock set forth in our charter, our board of directors or other permitted designees will take such action as it deems or they deem advisable to refuse to give effect to or to prevent such transfer, including, but not limited to, causing the company to redeem shares of common stock or preferred stock, refusing to give effect to the transfer on our books or instituting proceedings to enjoin the transfer.

Any beneficial owner or constructive owner of shares of our stock and any person or entity (including the stockholder of record) who is holding shares of our stock for a beneficial owner must, on request, provide us with a completed questionnaire containing the information regarding the

ownership of such shares, as set forth in the applicable treasury regulations. In addition, any person or entity that is a beneficial owner or constructive owner

of shares of our stock and any person or entity (including the stockholder of record) who is holding shares of our stock for a beneficial owner or constructive owner shall, on request, be required to disclose to us in writing such information as we may request in order to determine the effect, if any, of such stockholder s actual and constructive ownership of shares of our stock on our status as a REIT and to ensure compliance with the common stock ownership limit, the preferred stock ownership limit and the aggregate stock ownership limit, or as otherwise permitted by our board of directors.

All certificates representing shares of our common stock and preferred stock bear a legend referring to the restrictions described above.

These ownership limits could delay, defer or prevent a transaction or a change of control of our company that might otherwise result in a premium price for our stock or otherwise be in the best interest of our stockholders.

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DESCRIPTION OF THE PARTNERSHIP AGREEMENT OF DIGITAL REALTY TRUST, L.P.

We have summarized the material terms and provisions of the Eighth Amended and Restated Agreement of Limited Partnership of Digital Realty Trust, L.P., which we refer to as the partnership agreement. This summary is not complete. For more detail, you should refer to the partnership agreement itself, a copy of which we have previously filed with the SEC and which we incorporate by reference as an exhibit to the registration statement of which this prospectus is part. For purposes of this section, references to we, our, us and our company refer to Digital Realty Trust, Inc.

Management of Our Operating Partnership

Our operating partnership, Digital Realty Trust, L.P., is a Maryland limited partnership that was formed on July 21, 2004. Our company is the sole general partner of our operating partnership and conducts substantially all of our business in or through it. As sole general partner of our operating partnership, we exercise exclusive and complete responsibility and discretion in its day-to-day management and control. We can cause our operating partnership to enter into major transactions including acquisitions, dispositions and refinancings, subject to certain limited exceptions. The limited partners of our operating partnership may not transact business for, or participate in the management activities or decisions of, our operating partnership, except as provided in the partnership agreement and as required by applicable law. We may not be removed as general partner by the limited partners. The partnership agreement restricts our ability to engage in a business combination as more fully described in Termination Transactions below.

The limited partners of our operating partnership expressly acknowledged that we, as general partner of our operating partnership, are acting for the benefit of the operating partnership, the limited partners and our stockholders collectively. Neither our company nor our board of directors is under any obligation to give priority to the separate interests of the limited partners or our stockholders in deciding whether to cause our operating partnership to take or decline to take any actions. If there is a conflict between the interests of our stockholders on one hand and the limited partners on the other, we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or the limited partners; provided, however, that for so long as we own a controlling interest in our operating partnership, any conflict that cannot be resolved in a manner not adverse to either our stockholders or the limited partners will be resolved in favor of our stockholders. We are not liable under the partnership agreement to our operating partnership or to any partner for monetary damages for losses sustained, liabilities incurred, or benefits not derived by limited partners in connection with such decisions; provided, that we have acted in good faith.

The partnership agreement provides that all of our business activities, including all activities pertaining to the acquisition and operation of properties, must be conducted through our operating partnership, and that our operating partnership must be operated in a manner that will enable us to satisfy the requirements for being classified as a REIT.

Transferability of Interests

Except in connection with a transaction described in Termination Transactions below, we, as general partner, may not voluntarily withdraw from our operating partnership, or transfer or assign all or any portion of our interest in our operating partnership, without the consent of the holders of a majority of the limited partnership interests. Any transfer of units by the limited partners, except to us, as general partner, to immediate family members, to a trust for the benefit of a charitable beneficiary, to a lending institution as collateral for a bona fide loan or to an affiliate or member of such limited partner, will be subject to a right of first refusal by us. All transfers must be made only to accredited investors as defined under Rule 501 of the Securities Act.

Amendments of the Partnership Agreement

Amendments to the partnership agreement may be proposed by us, as general partner, or by limited partners owning at least 25% of the units held by limited partners.

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Generally, the partnership agreement may not be amended, modified or terminated without the approval of limited partners (other than limited partners 50% or more of whose equity is owned, directly or indirectly, by us as general partner) holding a majority of all outstanding units held by limited partners. As general partner, we have the power to unilaterally make certain amendments to the partnership agreement without obtaining the consent of the limited partners as may be required to:

add to our obligations as general partner or surrender any right or power granted to us as general partner for the benefit of the limited partners;

reflect the issuance of additional units or the admission, substitution, termination or withdrawal of partners in accordance with the terms of the partnership agreement;

reflect a change of an inconsequential nature that does not adversely affect the limited partners in any material respect, or cure any ambiguity, correct or supplement any provisions of the partnership agreement not inconsistent with law or with other provisions of the partnership agreement, or make other changes concerning matters under the partnership agreement that will not otherwise be inconsistent with the partnership agreement or law;

satisfy any requirements, conditions or guidelines of federal or state law;

reflect changes that are reasonably necessary for us, as general partner, to maintain our status as a REIT; or

modify the manner in which capital accounts are computed.

Amendments that would, among other things, convert a limited partner s interest into a general partner s interest, modify the limited liability of a limited partner, alter a partner s right to receive any distributions or allocations of profits or losses, adversely alter or modify the redemption rights or alter the protections of the limited partners in connection with termination transactions described below must be approved by each limited partner that would be adversely affected by such amendment.

In addition, without the written consent of a majority of the units held by limited partners (other than limited partners 50% or more of whose equity is owned, directly or indirectly, by us as general partner), we, as general partner, may not do any of the following:

take any action in contravention of an express prohibition or limitation contained in the partnership agreement;

perform any act that would subject a limited partner to liability as a general partner in any jurisdiction or any liability not contemplated in the limited partnership agreement;

enter into any contract, mortgage loan or other agreement that prohibits or restricts, or has the effect of prohibiting or restricting, the ability of a limited partner to exercise its redemption/exchange rights explained below;

enter into or conduct any business other than in connection with our role as general partner of the operating partnership and our operation as a REIT;

acquire an interest in real or personal property other than through our operating partnership;

withdraw from the operating partnership or transfer any portion of our general partnership interest; or

be relieved of our obligations under the partnership agreement following any permitted transfer of our general partnership interest.

Distributions to Unitholders

The partnership agreement provides that holders of common units are entitled to receive quarterly distributions of available cash on a pro rata basis in accordance with their respective percentage interests. The

holders of series A preferred units, series B preferred units, series C preferred units and series D preferred units have distribution rights substantially similar to the dividend rights of series A preferred stockholders, series B preferred stockholders, series C preferred stockholders and series D preferred stockholders, respectively.

Redemption/Exchange Rights

Limited partners have the right to require our operating partnership to redeem part or all of their units for cash based upon the fair market value of an equivalent number of shares of our company s common stock at the time of the redemption. Alternatively, we may elect to acquire those units in exchange for shares of our company s common stock. Our acquisition will be on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuances of stock rights, specified extraordinary distributions and similar events. We presently anticipate that we will elect to issue shares of our company s common stock in exchange for units in connection with each redemption request, rather than having our operating partnership redeem the units for cash. With each redemption or exchange, we increase our company s percentage ownership interest in our operating partnership. Limited partners who hold units may exercise this redemption right from time to time, in whole or in part, except when, as a consequence of shares of our common stock being issued, any person s actual or constructive stock ownership would exceed our company s ownership limits, or any other limit as provided in our charter or as otherwise determined by our board of directors as described under the section entitled Description of Securities Restrictions on Ownership and Transfer.

In addition, if the number of units delivered by a limited partner for redemption exceeds 9.8% of our outstanding common stock and $50.0 million in gross value (based on a unit having a value equal to the trailing ten-day daily price of our common stock) and we are eligible to file a registration statement on Form S-3 under the Securities Act, then we may also elect to redeem the units with the proceeds from a public offering or private placement of our common stock. In the event we elect this option, we may require the other limited partners also to elect whether or not to participate. If we do so, any limited partner who does not elect to participate will not be permitted to redeem units for the subsequent 12 months, subject to limited exceptions. Participating limited partners will receive on the redemption date the lesser of the cash our operating partnership would otherwise be required to pay for such units or the net proceeds per share in the public offering, but will have a limited opportunity to withdraw their units from the redemption immediately prior to the pricing of the public offering. Except as described above, a limited partner is not entitled to have common units redeemed, either for cash or shares of common stock, if exchanging the common units for shares of common stock would violate the ownership limits set forth in our charter.

Issuance of Additional Common Units, Preferred Units, Common Stock, Preferred Stock or Convertible Securities

As sole general partner, we have the ability to cause the operating partnership to issue additional units representing general and limited partnership interests. These additional units may include preferred limited partnership units. In addition, we may issue additional shares of our common stock or convertible securities, but only if we cause our operating partnership to issue to us partnership interests or rights, options, warrants or convertible or exchangeable securities of our operating partnership having designations, preferences and other rights, so that the economic interests of our operating partnership s interests issued are substantially similar to the economic interests of the securities that we have issued.

Tax Matters

We are the tax matters partner of our operating partnership and, as such, we have authority to make tax elections under the Code on behalf of our operating partnership.

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Allocations of Net Income and Net Losses to Partners

The net income of our operating partnership will generally be allocated to us to the extent of the accrued preferred return on our preferred units, and then to us, as general partner, and the limited partners in accordance with our respective percentage interests in the common units issued by our operating partnership. Net loss will generally be allocated to us, as general partner, and the limited partners in accordance with our respective common percentage interests in our operating partnership until the limited partner s capital is reduced to zero and any remaining net loss would be allocated to us. However, in some cases losses may be disproportionately allocated to partners who have guaranteed debt of our operating partnership. The allocations described above are subject to special allocations relating to depreciation deductions and to compliance with the provisions of Sections 704(b) and 704(c) of the Code and the associated Treasury Regulations. See United States Federal Income Tax Considerations Tax Aspects of Our Operating Partnership, the Subsidiary Partnerships and the Limited Liability Companies.

In addition, we may from time to time issue long-term incentive units to persons who provide services to our operating partnership for such consideration or for no consideration as we may determine to be appropriate, and admit such persons as limited partners of our operating partnership. The long-term incentive units are similar to our common units in many respects and rank pari passu with our common units as to the payment of regular and special periodic or other distributions except liquidating distributions. The long-term incentive units may be subject to vesting requirements.

Initially, long-term incentive units do not have full parity with common units with respect to liquidating distributions. If such parity is reached, vested long-term incentive units may be converted into an equal number of common units of our operating partnership at any time, and thereafter enjoy all the rights of common units of our operating partnership, including redemption rights.

In order to achieve full parity with common units, long-term incentive units must be fully vested and the holder s capital account balance in respect of such long-term incentive units must be equal to the capital account balance of a holder of an equivalent number of common units. (The capital account balance attributable to each common unit is generally expected to be the same, in part because of the amount credited to a partner s capital account upon their contribution of property to the operating partnership, and in part because the partnership agreement provides, in most cases, that allocations of income, gain, loss and deduction (which will adjust the partners capital accounts) are to be made to the common units on a proportionate basis. As a result, with respect to a number of long-term incentive units, it is possible to determine the capital account balance of an equivalent number of common units by multiplying the number of long-term incentive units by the capital account balance with respect to a common unit.)

A partner s initial capital account balance is equal to the amount the partner paid (or contributed to the operating partnership) for its units and is subject to subsequent adjustments, including with respect to the partner s share of income, gain or loss of the operating partnership. Because a holder of long-term incentive units generally will not pay for the long-term incentive units, the initial capital account balance attributable to such long-term incentive units will be zero. However, the operating partnership is required to allocate income, gain, loss and deduction to the partners capital accounts in accordance with the terms of the partnership agreement, subject to applicable Treasury Regulations. The partnership agreement provides that holders of long-term incentive units will receive special allocations of gain in the event of a sale or hypothetical sale of assets of our operating partnership prior to the allocation of gain to our company or other limited partners with respect to their common units. The amount of such allocation will, to the extent of any such gain, be equal to the difference between the capital account balance of a holder of long-term incentive units attributable to such units and the capital account balance attributable to an equivalent number of common units. If and when such gain allocation is fully made, a holder of long-term incentive units will have achieved full parity with holders of common units. To the extent that, upon an actual sale or a hypothetical sale of the operating partnership s assets as described above, there is not sufficient gain to allocate to a holder s capital account with respect to long-term incentive units, or if such sale or hypothetical sale does not occur, such units will not achieve parity with common units.

The term hypothetical sale refers to circumstances that are not actual sales of our company s assets but that require certain adjustments to the value of the operating partnership s assets and the partners capital account balances. Specifically, the partnership agreement provides that, from time to time, in accordance with applicable Treasury Regulations, the operating partnership will adjust the value of its assets to equal their respective fair market values, and adjust the partners capital accounts, in accordance with the terms of the partnership agreement, as if the operating partnership sold its assets for an amount equal to their value. Times for making such adjustments generally include the liquidation of the operating partnership, the acquisition of an additional interest in the operating partnership by a new or existing partner in exchange for more than a de minimis capital contribution, the distribution by the operating partnership to a partner of more than a de minimis amount of partnership property as consideration for an interest in the operating partnership, in connection with the grant of an interest in the operating partnership (other than a de minimis interest) as consideration for the performance of services to or for the benefit of the operating partnership (including the grant of a long-term incentive unit), and at such other times as may be desirable or required to comply with the Treasury Regulations.

We may also from time to time issue class C profits interest units, or class C units, to persons who provide services to our operating partnership for such consideration or for no consideration as we may determine to be appropriate. If all applicable performance and other vesting conditions are satisfied with respect to a class C unit, the class C unit will be treated in the same manner as the long-term incentive units issued by our operating partnership. Class C units are not entitled to quarterly distributions prior to the satisfaction of all applicable performance conditions. Class C units are subject to the same conditions as other long-term incentive units with respect to achieving full parity with common units.

Operations

The partnership agreement provides that we, as general partner, will determine in our discretion and distribute available cash on a quarterly basis, pro rata in accordance with the partners percentage interests. Available cash is the partnership s net operating cash flow plus the reduction of any reserves and minus principal payment on debt and capital expenditures, investments in any entity, and increase in reserves or working capital accounts and any amounts paid in redemption of limited partner interests.

The partnership agreement provides that our operating partnership will assume and pay when due, or reimburse us for payment of, all costs and expenses relating to the operations of, or for the benefit of, our operating partnership.

Termination Transactions

The partnership agreement provides that our company may not engage in any merger, consolidation or other combination with or into another person, any sale of all or substantially all of our assets or any reclassification or any recapitalization or change in outstanding shares of our common stock (a termination transaction), unless in connection with a termination transaction

(i) we obtain the consent of the holders of at least 35% of our operating partnership s common units, long-term incentive units and class C units (including units held by us), and

(ii) either:

(A) all limited partners will receive, or have the right to elect to receive, for each common unit an amount of cash, securities or other property equal to the product of:

the number of shares of our company s common stock into which each unit is then exchangeable, and

the greatest amount of cash, securities or other property paid to the holder of one share of our company s common stock in consideration of one share of our common stock in connection with the termination transaction,

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provided that, if, in connection with a termination transaction, a purchase, tender or exchange offer is made to and accepted by the holders of more than 50% of the outstanding shares of our company s common stock, each holder of common units will receive, or will have the right to elect to receive, the greatest amount of cash, securities or other property which such holder would have received had it exercised its redemption right and received shares of our common stock in exchange for its common units immediately prior to the expiration of such purchase, tender or exchange offer and accepted such purchase, tender or exchange offer; or

(B) the following conditions are met:

- substantially all of the assets of the surviving entity are held directly or indirectly by our operating partnership or another limited partnership or limited liability company which is the surviving partnership of a merger, consolidation or combination of assets with our operating partnership;
- the holders of common units, long-term incentive units and class C units own a percentage interest of the surviving partnership based on the relative fair market value of the net assets of our operating partnership and the other net assets of the surviving partnership immediately prior to the consummation of this transaction;
- the rights, preferences and privileges of such unit holders in the surviving partnership are at least as favorable as those in effect immediately prior to the consummation of the transaction and as those applicable to any other limited partners or non-managing members of the surviving partnership; and
- the limited partners may exchange their interests in the surviving partnership for either the consideration available to the limited partners pursuant to paragraph (A) in this section, or the right to redeem their common units for cash on terms equivalent to those in effect with respect to their common units immediately prior to the consummation of the transaction, or, if the ultimate controlling person of the surviving partnership has publicly traded common equity securities, shares of those common equity securities, at an exchange ratio based on the relative fair market value of those securities and our common stock.

Term

Our operating partnership will continue in full force and effect until December 31, 2104, or until sooner dissolved in accordance with its terms or as otherwise provided by law.

Indemnification and Limitation of Liability

To the extent permitted by applicable law, the partnership agreement indemnifies us, as general partner, and our officers, directors, employees and agents and any other persons we may designate from and against any and all claims arising from operations of our operating partnership in which any indemnitee may be involved, or is threatened to be involved, as a party or otherwise, unless it is established that:

- the act or omission of the indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith, constituted fraud or was the result of active and deliberate dishonesty;

the indemnitee actually received an improper personal benefit in money, property or services; or

in the case of any criminal proceeding, the indemnitee had reasonable cause to believe that the act or omission was unlawful.

Similarly, we, as general partner of our operating partnership, and our officers, directors, agents or employees, are not liable or accountable to our operating partnership for losses sustained, liabilities incurred or benefits not derived as a result of errors in judgment or mistakes of fact or law or any act or omission so long as we acted in good faith.

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MATERIAL PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS

The following summary of certain provisions of Maryland law and of our charter and bylaws does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and our charter and bylaws, copies of which are exhibits to the registration statement of which this prospectus is a part. See Where You Can Find More Information.

Our Board of Directors

Our bylaws provide that the number of directors of our company may be established by our board of directors but may not be fewer than the minimum number permitted under the MGCL or more than 15. Except as may be provided by our board of directors in setting the terms of any class or series of stock, any vacancy may be filled only by a vote of a majority of the remaining directors, even if the remaining directors do not constitute a quorum. Any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies.

Each of our directors is elected by our common stockholders to serve until the next annual meeting and until their successors are duly elected and qualify. Holders of shares of our common stock will have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the shares of our common stock will be able to elect all of our directors. Additionally, in the event that we are in arrears on dividends on our series A preferred stock, series B preferred stock, series C preferred stock or series D preferred stock for six or more quarterly periods, whether or not consecutive, holders of our series A preferred stock, series B preferred stock, series C preferred stock or series D preferred stock, as the case may be, voting as a single class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable, will have the right to elect two additional directors to our board for a limited time.

Removal of Directors

Our charter provides that a director may be removed only for cause (as defined in our charter) and only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. This provision, when coupled with the exclusive power of our board of directors to fill vacant directorships, precludes stockholders from (1) removing incumbent directors except upon the existence of cause for removal and a substantial affirmative vote and (2) filling the vacancies created by such removal with their own nominees. In addition, any director elected to our board by the holders of our preferred stock may only be removed by a vote of preferred stockholders.

Business Combinations

Under the MGCL, certain business combinations (including a merger, consolidation, share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and any interested stockholder, or an affiliate of such an interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Maryland law defines an interested stockholder as any person who beneficially owns 10% or more of the voting power of the corporation s outstanding voting stock or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation. A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have

become an interested stockholder. Our board of directors may provide that its approval is subject to compliance with any terms and conditions determined by it.

After such five-year period, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by

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holders of outstanding shares of voting stock of the corporation and (2) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation s common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares.

These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution opted out of the business combination provisions of the MGCL and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between us and any interested stockholder of ours. As a result, anyone who later becomes an interested stockholder may be able to enter into business combinations with us that may not be in the best interest of our stockholders without compliance by our company with the super-majority vote requirements and the other provisions of the statute. We cannot assure you that our board of directors will not opt to be subject to such business combination provisions in the future.

Control Share Acquisitions

The MGCL provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved at a special meeting by the affirmative vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock in a corporation in respect of which any of the following persons is entitled to exercise or direct the exercise of the voting power of shares of stock of the corporation in the election of directors: (1) a person who makes or proposes to make a control share acquisition, (2) an officer of the corporation or (3) an employee of the corporation who is also a director of the corporation. Control shares are voting shares of stock which, if aggregated with all other such shares of stock previously acquired by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (1) one-tenth or more but less than one-third, (2) one-third or more but less than a majority, or (3) a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to t;">

Workers’ compensation
$
772

$
760

$
1,527

$
1,504

Property
159

160

318

316

Automobile
153

152

310

300

Package business
309

299

612

591

Liability
148

142

291

277

Bond
54

55

107

108

Professional liability
55

55

108

110

Total Commercial Lines
1,650

1,623

3,273

3,206

Personal Lines

Automobile
680

665

1,358

1,320

Homeowners
296

301

593

598

Total Personal Lines [1]
976

966

1,951

1,918

Group Benefits

Group disability
381

374

750

745

Group life
376

376

751

741

Other
51

46

102

90

Total Group Benefits
808

796

1,603

1,576

Mutual Funds

Mutual Fund
147

154

289

303

Talcott
25

30

50

60

Total Mutual Funds
172

184

339

363

Talcott Resolution
259

288

528

573

Corporate
1

3

2

5

Total earned premiums and fee income
3,866

3,860

7,696

7,641

Net investment income
735

796

1,431

1,605

Net realized capital gains (losses)
53

9

(102
)
14

Other revenues
23

20

43

42

Total revenues
$
4,677

$
4,685

$
9,068

$
9,302

[1] For the three months ended June 30, 2016 and 2015, AARP members accounted for earned premiums of $817 and $785, respectively. For the six months ended June 30, 2016 and 2015, AARP member accounted for earned premiums of $1.6 billion.

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

Fair value is determined based on the "exit price" notion which is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Financial instruments carried at fair value in the Company's Condensed Consolidated Financial Statements include fixed maturity and equity securities, available-for-sale ("AFS"); fixed maturities and equity securities at fair value using the fair value option ("FVO"); short-term investments; freestanding and embedded derivatives; certain limited partnerships and other alternative investments; separate account assets and certain other liabilities.

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The Company categorizes its assets and liabilities measured at estimated fair value based on whether the significant inputs into the valuation are observable. The fair value hierarchy categorizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2 or 3).

Level 1	Unadjusted quoted prices for identical assets, or liabilities, in active markets that the Company has the ability to access at the measurement date.
Level 2	Observable inputs, other than quoted prices included in Level 1, for the asset or liability, or prices for similar assets and liabilities.
Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Because Level 3 fair values, by their nature, contain one or more significant unobservable inputs, as there is little or no observable market for these assets and liabilities, considerable judgment is used to determine the Level 3 fair values. Level 3 fair values represent the Company’s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs. The Company’s fixed maturities included in Level 3 are classified as such because these securities are primarily within illiquid markets and/or priced by independent brokers.

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

The following tables present assets and (liabilities) carried at fair value by hierarchy level. Upon implementation of the new disclosure guidance effective in 2016 certain NAV-based fair values are no longer included in the fair value level disclosures; however, these amounts are included in the total fair value disclosed. As a result, prior period values for limited partnerships and other alternative investments and separate account assets have been removed from Level 2 and Level 3.

	June 30, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
Asset-backed-securities ("ABS")	$2,777	$ —	$2,736	$ 41
Collateralized debt obligations ("CDOs")	2,867	—	2,389	478
Commercial mortgage-backed securities ("CMBS")	5,195	—	5,116	79
Corporate	27,158	—	26,022	1,136
Foreign government/government agencies	1,188	—	1,116	72
Municipal	12,611	—	12,521	90
Residential mortgage-backed securities ("RMBS")	4,826	—	2,953	1,873
U.S. Treasuries	4,619	509	4,110	—
Total fixed maturities	61,241	509	56,963	3,769
Fixed maturities, FVO	411	—	405	6
Equity securities, trading [1]	11	11	—	—
Equity securities, AFS	827	564	166	97
Derivative assets				
Credit derivatives	29	—	29	—
Foreign exchange derivatives	27	—	27	—
Interest rate derivatives	115	—	115	—
Guaranteed minimum withdrawal benefit ("GMWB") hedging instruments	85	—	(2)	87
Macro hedge program	49	—	—	49
Other derivative contracts	4	—	—	4
Total derivative assets [2]	309	—	169	140
Short-term investments	2,497	457	2,040	—
Limited partnerships and other alternative investments [3]	5	—	—	—
Reinsurance recoverable for GMWB	106	—	—	106
Modified coinsurance reinsurance contracts	32	—	32	—
Separate account assets [4]	114,607	73,805	39,605	171
Total assets accounted for at fair value on a recurring basis	$180,046	$ 75,346	$99,380	$ 4,289
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
GMWB	$(412)	$ —	$—	$ (412)
Equity linked notes	(28)	—	—	(28)
Total other policyholder funds and benefits payable	(440)	—	—	(440)
Derivative liabilities				

Credit derivatives	(36	)—	(36	)—
Equity derivatives	28	—	27	1
Foreign exchange derivatives	(281	)—	(281	)—
Interest rate derivatives	(919	)—	(887	) (32)
GMWB hedging instruments	118	—	40	78
Macro hedge program	98	—	6	92
Total derivative liabilities [5]	(992	)—	(1,131	) 139
Total liabilities accounted for at fair value on a recurring basis	$(1,432	)$ —	$ (1,131	) $ (301)

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

	December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, AFS				
ABS	$2,499	$ —	$ 2,462	$ 37
CDOs	3,038	—	2,497	541
CMBS	4,717	—	4,567	150
Corporate	26,802	—	25,948	854
Foreign government/government agencies	1,308	—	1,248	60
Municipal	12,121	—	12,072	49
RMBS	4,046	—	2,424	1,622
U.S. Treasuries	4,665	740	3,925	—
Total fixed maturities	59,196	740	55,143	3,313
Fixed maturities, FVO	503	2	485	16
Equity securities, trading [1]	11	11		
Equity securities, AFS	1,121	874	154	93
Derivative assets				
Credit derivatives	21	—	21	—
Foreign exchange derivatives	15	—	15	—
Interest rate derivatives	(227)	—	(227)	—
GMWB hedging instruments	111	—	27	84
Macro hedge program	74	—	—	74
Other derivative contracts	7	—	—	7
Total derivative assets [2]	1	—	(164)	165
Short-term investments	1,843	333	1,510	—
Limited partnerships and other alternative investments [3]	622	—	—	—
Reinsurance recoverable for GMWB	83	—	—	83
Modified coinsurance reinsurance contracts	79	—	79	—
Separate account assets [4]	118,174	78,110	38,700	140
Total assets accounted for at fair value on a recurring basis	$181,633	$ 80,070	$ 95,907	$ 3,810
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
GMWB	$(262)	$ —	$ —	$ (262)
Equity linked notes	(26)	—	—	(26)
Total other policyholder funds and benefits payable	(288)	—	—	(288)
Derivative liabilities				
Credit derivatives	(16)	—	(16)	—
Equity derivatives	41	—	41	—
Foreign exchange derivatives	(374)	—	(374)	—
Interest rate derivatives	(569)	—	(547)	(22)
GMWB hedging instruments	47	—	(4)	51
Macro hedge program	73	—	—	73

Total derivative liabilities [5]	(798)	—	(900)	102
Total liabilities accounted for at fair value on a recurring basis	$ (1,086)	$ —	$ (900)	$ (186)

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

[1] Included in other investments on the Condensed Consolidated Balance Sheets.
[2] Includes over-the-counter ("OTC") and OTC-cleared derivative instruments in a net positive fair value position after consideration of the accrued interest and impact of collateral posting requirements which may be imposed by agreements, clearing house rules and applicable law. See the following footnote 5 for derivative liabilities.
[3] Represents hedge funds where investment company accounting has been applied to a wholly-owned fund of funds measured at fair value. The fair value is estimated using the net asset value per unit as a practical expedient and is excluded from the disclosure requirement to classify amounts in the fair value hierarchy in connection with the retrospective adoption of ASU 2015-07, Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent), on January 1, 2016.
[4] Approximately $3.2 billion and $1.8 billion of investment sales receivable, as of June 30, 2016, and December 31, 2015, respectively, are excluded from this disclosure requirement because they are trade receivables in the ordinary course of business where the carrying amount approximates fair value. Included in the total fair value amount are $1.0 billion and $1.2 billion of investments, as of June 30, 2016 and December 31, 2015, for which the fair value is estimated using the net asset value per unit as a practical expedient and which are excluded from the disclosure requirement to classify amounts in the fair value hierarchy in connection with the retrospective adoption of ASU 2015-07, Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent), on January 1, 2016.
[5] Includes OTC and OTC-cleared derivative instruments in a net negative fair value position (derivative liability) after consideration of the accrued interest and impact of collateral posting requirements, which may be imposed by agreements, clearing house rules and applicable law.

Valuation Techniques, Procedures and Controls

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices where available, and where prices represent a reasonable estimate of fair value. The Company also determines fair value based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company's default spreads, liquidity, and where appropriate, risk margins on unobservable parameters.

The fair value process is monitored by the Valuation Committee, which is a cross-functional group of senior management within the Company that meets at least quarterly. The Valuation Committee is co-chaired by the Heads of Investment Operations and Accounting, and has representation from various investment sector professionals, accounting, operations, legal, compliance, and risk management. The purpose of the committee is to oversee the pricing policy and procedures by ensuring objective and reliable valuation practices and pricing of financial instruments as well as addressing valuation issues and approving changes to valuation methodologies and pricing sources. There are also two working groups under the Valuation Committee, a Securities Fair Value Working Group ("Securities Working Group") and a Derivatives Fair Value Working Group ("Derivatives Working Group"), which include various investment, operations, accounting and risk management professionals that meet monthly to review market data trends, pricing and trading statistics and results, and any proposed pricing methodology changes.

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

Fixed Maturities, Equity Securities, and Short-term Investments

The fair value of fixed maturities, equity securities, and short-term investments in an active and orderly market (e.g., not distressed or forced liquidation) are determined by management using a "waterfall" approach after considering the following pricing sources: quoted prices for identical assets or liabilities, prices from third-party pricing services, independent broker quotations, or internal matrix pricing processes. Typical inputs used by these pricing sources

include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and/or estimated cash flows, prepayment speeds, and default rates. Most fixed maturities do not trade daily. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third-party pricing services utilize matrix pricing to derive security prices. Matrix pricing relies on securities' relationships to other benchmark quoted securities, which trade more frequently. Pricing services utilize recently reported trades of identical or similar securities making adjustments through the reporting date based on the preceding outlined available market observable information. If there are no recently reported trades, the third-party pricing services may develop a security price using expected future cash flows based upon collateral performance and discounted at an estimated market rate. Both matrix pricing and discounted cash flow techniques develop prices by factoring in the time value for cash flows and risk, including liquidity and credit.

Prices from third-party pricing services may be unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding.

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

The Company utilizes an internally developed matrix pricing process for private placement securities for which the Company is unable to obtain a price from a third-party pricing service. The Company's process is similar to the third-party pricing services. The Company develops credit spreads each month using market based data for public securities adjusted for credit spread differentials between public and private securities which are obtained from a survey of multiple private placement brokers. The credit spreads determined through this survey approach are based upon the issuer’s financial strength and term to maturity, utilizing independent public security index and trade information and adjusting for the non-public nature of the securities. Credit spreads combined with risk-free rates are applied to contractual cash flows to develop a price.

The Securities Working Group performs ongoing analyses of the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. As a part of these analyses, the Company considers trading volume, new issuance activity and other factors to determine whether the market activity is significantly different than normal activity in an active market, and if so, whether transactions may not be orderly considering the weight of available evidence. If the available evidence indicates that pricing is based upon transactions that are stale or not orderly, the Company places little, if any, weight on the transaction price and will estimate fair value utilizing an internal pricing model. In addition, the Company ensures that prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models utilizing spreads, and when available, market indices. As a result of this analysis, if the Company determines that there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly and approved by the Valuation Committee.

The Company conducts other specific monitoring controls around pricing. Daily analyses identify price changes over 3% for fixed maturities and 5% for equity securities and trade prices for both debt and equity securities that differ over 3% to the current day's price. Weekly analyses identify prices that differ more than 5% from published bond prices of a corporate bond index. Monthly analyses identify price changes over 3%, prices that have not changed, and missing prices. Also on a monthly basis, a second source validation is performed on most sectors. Analyses are conducted by a dedicated pricing unit that follows up with trading and investment sector professionals and challenges prices with vendors when the estimated assumptions used differ from what the Company feels a market participant would use. Examples of other procedures performed include, but are not limited to, initial and on-going review of third-party pricing services’ methodologies, review of pricing statistics and trends, and back testing recent trades.

The Company has analyzed the third-party pricing services’ valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Most prices provided by third-party pricing services are classified into Level 2 because the inputs used in pricing the securities are observable. Due to the lack of transparency in the process that brokers use to develop prices, most valuations that are based on brokers’ prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated with observable market data.

Derivative Instruments, including Embedded Derivatives within Investments

Derivative instruments are fair valued using pricing valuation models for OTC derivatives that utilize independent market data inputs, quoted market prices for exchange-traded and OTC-cleared derivatives, or independent broker quotations. Excluding embedded and reinsurance related derivatives, as of June 30, 2016 and December 31, 2015, 95% and 96%, respectively, of derivatives, based upon notional values, were priced by valuation models, including discounted cash flow models and option-pricing models that utilize present value techniques, or quoted market prices. The remaining derivatives were priced by broker quotations.

The Derivatives Working Group performs ongoing analyses of the valuations, assumptions and methodologies used to ensure that the prices represent a reasonable estimate of the fair value. The Company performs various controls on derivative valuations which include both quantitative and qualitative analyses. Analyses are conducted by a dedicated

derivative pricing team that works directly with investment sector professionals to analyze impacts of changes in the market environment and investigate variances. On a daily basis, market valuations are compared to counterparty valuations for OTC derivatives. There are monthly analyses to identify market value changes greater than pre-defined thresholds, stale prices, missing prices, and zero prices. Also on a monthly basis, a second source validation, typically to broker quotations, is performed for certain of the more complex derivatives and all new deals during the month. A model validation review is performed on any new models, which typically includes detailed documentation and validation to a second source. The model validation documentation and results of validation are presented to the Valuation Committee for approval.

The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instrument may not be classified with the same fair value hierarchy level as the associated assets and liabilities. Therefore, the realized and unrealized gains and losses on derivatives reported in the Level 3 rollforward may be offset by realized and unrealized gains and losses of the associated assets and liabilities in other line items of the financial statements.

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

Limited Partnerships and Other Alternative Investments
The portion of limited partnerships and other alternative investments recorded at fair value represents hedge funds for which investment company accounting has been applied to a wholly-owned fund of funds measured at fair value. Fair value is determined for these funds using the NAV, as a practical expedient, calculated on a monthly basis, and is the amount at which a unit or shareholder may redeem their investment, if redemption is allowed. Certain impediments to redemption include, but are not limited to the following: 1) redemption notice periods vary and may be as long as 90 days, 2) redemption may be restricted (e.g. only be allowed on a quarter-end), 3) a holding period referred to as a lock-up may be imposed whereby an investor must hold their investment for a specified period of time before they can make a notice for redemption, 4) gating provisions may limit all redemptions in a given period to a percentage of the entities' equity interests, or may only allow an investor to redeem a portion of their investment at one time, 5) early redemption penalties may be imposed that are expressed as a percentage of the amount redeemed and 6) redemptions not allowed. The Company regularly assesses impediments to redemption and current market conditions that will restrict the redemption at the end of the notice periods. During 2016, the Company began liquidating this hedge fund of funds and expects to be fully liquidated by the second half of the year. As a result, as of June 30, 2016, there was one remaining fund in which redemptions are not allowed. As of December 31, 2015, 9% of the value of the investments was subject to significant liquidity restrictions due to lock-up or gating provisions and 3% of the value of the investments had no redemptions allowed.
Valuation Inputs for Investments
For Level 1 investments, which are comprised of on-the-run U.S. Treasuries, money market funds, exchange-traded equity securities, open-ended mutual funds, short-term investments, and exchange traded futures and option contracts, valuations are based on quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.
For the Company’s Level 2 and 3 debt securities, typical inputs used by pricing techniques include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and/or estimated cash flows, prepayment speeds, and default rates. Derivative instruments are valued using mid-market inputs that are predominantly observable in the market.
A description of additional inputs used in the Company’s Level 2 and Level 3 measurements is included in the following discussion:

Level 2	The fair values of most of the Company’s Level 2 investments are determined by management after considering prices received from third party pricing services. These investments include most fixed maturities and preferred stocks, including those reported in separate account assets as well as certain derivative instruments.

- ABS, CDOs, CMBS and RMBS – Primary inputs also include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, and credit default swap indices. ABS and RMBS prices also include estimates of the rate of future principal prepayments over the remaining life of the securities. These estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral.
- Corporates, including investment grade private placements – Primary inputs also include observations of credit default swap curves related to the issuer.
- Foreign government/government agencies — Primary inputs also include observations of credit default swap curves related to the issuer and political events in emerging market economies.
- Municipals – Primary inputs also include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.
- Short-term investments – Primary inputs also include material event notices and new issue money market rates.
- Credit derivatives – Primary inputs include the swap yield curve and credit default swap curves.

- Equity derivatives – Primary inputs include equity index levels.
- Foreign exchange derivatives – Primary inputs include the swap yield curve, currency spot and forward rates, and cross currency basis curves.
- Interest rate derivatives – Primary input is the swap yield curve.

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

Level 3	Most of the Company's securities classified as Level 3 include less liquid securities such as lower quality ABS, CMBS, commercial real estate ("CRE") CDOs and RMBS primarily backed by sub-prime loans. Also included in Level 3 are securities valued based on broker prices or broker spreads, without adjustments. Primary inputs for non-broker priced investments, including structured securities, are consistent with the typical inputs used in the preceding noted Level 2 measurements, but are Level 3 due to their less liquid markets. Additionally, certain long-dated securities are priced based on third party pricing services, including certain municipal securities, foreign government/government agency securities, and bank loans, which are included with corporate fixed maturities. Primary inputs for these long-dated securities are consistent with the typical inputs used in the preceding noted Level 1 and Level 2 measurements, but include benchmark interest rate or credit spread assumptions that are not observable in the marketplace. Significant inputs for Level 3 derivative contracts primarily include the typical inputs used in the preceding noted Level 1 and Level 2 measurements; but also include equity and interest rate volatility and swap yield curves beyond observable limits.

Transfers between Levels

Transfers of securities among the levels occur at the beginning of the reporting period. The amount of transfers from Level 1 to Level 2 was $67 and $808, for the three and six months ended June 30, 2016 and $417 and $524 for the three and six months ended June 30, 2015, respectively, which represented previously on-the-run U.S. Treasury securities that are now off-the-run. For the three and six months ended June 30, 2016 and 2015, there were no transfers from Level 2 to Level 1. See the fair value roll-forward tables for the three and six months ended June 30, 2016 and 2015, for the transfers into and out of Level 3.

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

Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value
The following tables present information about significant unobservable inputs used in Level 3 assets measured at fair value. The tables exclude ABS, CRE CDOs, certain CMBS, corporate and municipal securities as well as index options for which fair values are based on broker quotations.

Securities Unobservable Inputs

Assets Accounted for at Fair Value on a Recurring Basis	Fair Value	Predominant Valuation Technique	Significant Unobservable Input	Minimum	Maximum	Weighted Average [1]	Impact of Increase in Input on Fair Value [2]
	As of June 30, 2016						
CMBS [3]	$58	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	10 bps	1,275 bps	344 bps	Decrease
Corporate [3]	590	Discounted cash flows	Spread	158 bps	1,750 bps	401 bps	Decrease
Municipal [3]	72	Discounted cash flows	Spread	223 bps	283 bps	245 bps	Decrease
RMBS	1,873	Discounted cash flows	Spread	54 bps	1,896 bps	212 bps	Decrease
			Constant prepayment rate	—%	20%	3%	Decrease [4]
			Constant default rate	1%	11%	6%	Decrease
			Loss severity	—%	100%	79%	Decrease
	As of December 31, 2015						
CMBS [3]	$122	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	31 bps	1,505 bps	266 bps	Decrease
Corporate [3]	339	Discounted cash flows	Spread	63 bps	800 bps	306 bps	Decrease
Municipal [3]	31	Discounted cash flows	Spread	193 bps	193 bps	193 bps	Decrease
RMBS	1,622	Discounted cash flows	Spread	30 bps	1,696 bps	178 bps	Decrease
			Constant prepayment rate	—%	20%	2%	Decrease [4]
			Constant default rate	1%	10%	6%	Decrease
			Loss severity	—%	100%	78%	Decrease

[1] The weighted average is determined based on the fair value of the securities.
[2] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table.
[3] Excludes securities for which the Company bases fair value on broker quotations as noted in the following discussion.
[4] Decrease for above market rate coupons and increase for below market rate coupons.

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

Freestanding Derivatives	Unobservable Inputs					
	As of June 30, 2016					
	Fair Value	Predominant Valuation Technique	Significant Unobservable Input	Minimum	Maximum	Impact of Increase in Input on Fair Value [1]
Interest rate derivative						
Interest rate swaps	$(34)	Discounted cash flows	Swap curve beyond 30 years	2 %	2 %	Decrease
Interest rate swaptions [2]	2	Option model	Interest rate volatility	1 %	1 %	Increase
GMWB hedging instruments						
Equity variance swaps	(34)	Option model	Equity volatility	22 %	24 %	Increase
Equity options	33	Option model	Equity volatility	27 %	30 %	Increase
Customized swaps	166	Discounted cash flows	Equity volatility	12 %	30 %	Increase
Macro hedge program [3]						
Equity options	175	Option model	Equity volatility	12 %	28 %	Increase
	As of December 31, 2015					
Interest rate derivative						
Interest rate swaps	$(30)	Discounted cash flows	Swap curve beyond 30 years	3 %	3 %	Decrease
Interest rate swaptions [2]	8	Option model	Interest rate volatility	1 %	2 %	Increase
GMWB hedging instruments						
Equity variance swaps	(31)	Option model	Equity volatility	19 %	21 %	Increase
Equity options	35	Option model	Equity volatility	27 %	29 %	Increase
Customized swaps	131	Discounted cash flows	Equity volatility	10 %	40 %	Increase
Macro hedge program [3]						
Equity options	179	Option model	Equity volatility	14 %	28 %	Increase

[1] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table. Changes are based on long positions, unless otherwise noted. Changes in fair value will be inversely impacted for short positions.
[2] The swaptions presented are purchased options that have the right to enter into a pay-fixed swap.
[3] Excludes derivatives for which the Company bases fair value on broker quotations as noted in the following discussion.

Securities and derivatives for which the Company bases fair value on broker quotations include ABS, CDOs, CMBS, corporate, and index options. Due to the lack of transparency in the process brokers use to develop prices for these investments, the Company does not have access to the significant unobservable inputs brokers use to price these securities and derivatives. The Company believes however, the types of inputs brokers may use would likely be

similar to those used to price securities and derivatives for which inputs are available to the Company, and therefore may include but not be limited to, loss severity rates, constant prepayment rates, constant default rates and credit spreads. Therefore, similar to non broker priced securities and derivatives, generally, increases in these inputs would cause fair values to decrease. For the three and six months ended June 30, 2016, no significant adjustments were made by the Company to broker prices received.

Product Derivatives

The Company formerly offered certain variable annuity products with GMWB riders. The GMWB provides the policyholder with a guaranteed remaining balance ("GRB") which is generally equal to premiums less withdrawals. If the policyholder's account value is reduced to the specified level through a combination of market declines and withdrawals but the GRB still has value, the Company is obligated to continue to make annuity payments to the policyholder until the GRB is exhausted. Certain contract provisions can increase the GRB at contractholder election or after the passage of time. GMWB payments that are not life-contingent represent an embedded derivative in the variable annuity contract. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host for measurement purposes. The embedded derivative is carried at fair value, with changes in fair value reported in net realized capital gains and losses. The Company's GMWB liability, excluding life-contingent benefits, is carried at fair value and reported in other policyholder funds and benefits payable in the Condensed Consolidated Balance Sheets. The notional value of the embedded derivative is the GRB.

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

In valuing the embedded derivative, the Company attributes to the derivative a portion of the fees collected from the contract holder equal to the present value of future GMWB claims (the “Attributed Fees”) as determined at contract issuance. All changes in the fair value of the embedded derivative are recorded in net realized capital gains and losses. The excess of fees collected from the contract holder over the Attributed Fees are associated with the host variable annuity contract and are reported in fee income.

GMWB Reinsurance Derivative

The Company has reinsurance arrangements in place to transfer a portion of its risk of loss due to GMWB. These arrangements are recognized as derivatives and carried at fair value in reinsurance recoverables. Changes in the fair value of the reinsurance agreements are reported in net realized capital gains and losses.

The fair value of the GMWB reinsurance derivative is calculated as an aggregation of the components described in the following Living Benefits Required to be Fair Valued discussion and is modeled using significant unobservable policyholder behavior inputs, identical to those used in calculating the underlying liability, such as lapses, fund selection, resets and withdrawal utilization and risk margins.

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

Fair values for GMWBs classified as embedded derivatives are calculated using the income approach based upon internally developed models because active, observable markets do not exist for those items. The fair value of these GMWBs and the related reinsurance and customized freestanding derivatives are calculated as an aggregation of the following components: Best Estimate Claim Payments; Credit Standing Adjustment; and Margins. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. The Company believes the aggregation of these components, as necessary and as reconciled or calibrated to the market information available to the Company, results in an amount that the Company would be required to transfer to or receive from market participants in an active liquid market, if one existed, for those market participants to assume the risks associated with the guaranteed minimum benefits and the related reinsurance and customized derivatives. The fair value is likely to materially diverge from the ultimate settlement of the liability as the Company believes settlement will be based on our best estimate assumptions rather than those best estimate assumptions plus risk margins. In the absence of any transfer of the guaranteed benefit liability to a third party, the release of risk margins is likely to be reflected as realized gains in future periods’ net income. Each component described in the following discussion is unobservable in the marketplace and requires subjectivity by the Company in determining its value.

Oversight of the Company's valuation policies and processes for product and GMWB reinsurance derivatives is performed by a multidisciplinary group comprised of finance, actuarial and risk management professionals. This multidisciplinary group reviews and approves changes and enhancements to the Company's valuation model as well as associated controls.

Best Estimate Claim Payments

The Best Estimate Claim Payments are calculated based on actuarial and capital market assumptions related to projected cash flows, including the present value of benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior such as lapses, fund selection, resets and withdrawal utilization. For the customized derivatives, policyholder behavior is prescribed in the derivative contract. Because of the dynamic and complex nature of these cash flows, best estimate assumptions and a Monte Carlo stochastic process are used in valuation. The Monte Carlo stochastic process involves the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates and a blend of observable implied index volatility levels. Estimating these cash flows involves numerous estimates and subjective judgments regarding a number of variables. These variables include expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and assumptions about policyholder behavior which emerge over time.

At each valuation date, the Company assumes expected returns based on:

- risk-free rates as represented by the Eurodollar futures, LIBOR deposits and swap rates to derive forward curve rates;
- market implied volatility assumptions for each underlying index based primarily on a blend of observed market "implied volatility" data;
- correlations of historical returns across underlying well known market indices based on actual observed returns over the ten years preceding the valuation date; and
- three years of history for fund indexes compared to separate account fund regression.

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4. Fair Value Measurements (continued)

The Company updates capital market assumptions used in the GMWB liability model such as interest rates, equity indices and the blend of implied equity index volatilities on a daily basis. The Company monitors various aspects of policyholder behavior and may modify certain of its assumptions, including living benefit lapses and withdrawal rates, if credible emerging data indicates that changes are warranted. In addition, the Company will continue to evaluate policyholder behavior assumptions as we implement initiatives to reduce the size of the variable annuity business. At a minimum, all policyholder behavior assumptions are reviewed and updated, as appropriate, in conjunction with the completion of the Company's annual comprehensive study in the fourth quarter of each year to refine the estimate of future gross profits.

Credit Standing Adjustment

This assumption makes an adjustment that market participants would make, in determining fair value, to reflect the risk that guaranteed benefit obligations, or the GMWB reinsurance recoverables will not be fulfilled. The Company incorporates a blend of observable Company and reinsurer credit default spreads from capital markets, adjusted for market recoverability. The credit standing adjustment assumption, net of reinsurance, resulted in pre-tax realized losses of $(3) and $(2), for the three months ended June 30, 2016 and 2015, respectively and $(1) and $(2) for the six months ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and December 31, 2015 the credit standing adjustment was $(1) and $0, respectively.

Margins

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

There were no policyholder assumption updates related to the behavior risk margin for the three and six months ended June 30, 2016 and 2015. As of June 30, 2016 and December 31, 2015 the behavior risk margin was $43 and $45.

In addition to the non-market-based update described in the preceding discussion, the Company recognized non-market-based updates driven by the relative outperformance (underperformance) of the underlying actively managed funds as compared to their respective indices resulting in pre-tax realized gains of approximately $17 and $1, for the three months ended June 30, 2016 and 2015, respectively and $13 and $11 for the six months ended June 30, 2016 and 2015, respectively.

The following table provides quantitative information about the significant unobservable inputs and is applicable to all of the GMWB embedded derivative and the GMWB reinsurance derivative.

	As of June 30, 2016		
Significant Unobservable Input	Unobservable Inputs (Minimum)	Unobservable Inputs (Maximum)	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization [2]	20%	100%	Increase
Withdrawal Rates [3]	—%	8%	Increase
Lapse Rates [4]	—%	75%	Decrease
Reset Elections [5]	20%	75%	Increase
Equity Volatility [6]	12%	30%	Increase

	As of December 31, 2015		
Significant Unobservable Input	Unobservable Inputs (Minimum)	Unobservable Inputs (Maximum)	Impact of Increase in Input on Fair Value Measurement [1]
Withdrawal Utilization [2]	20%	100%	Increase
Withdrawal Rates [3]	—%	8%	Increase
Lapse Rates [4]	—%	75%	Decrease

Reset Elections [5]	20%	75%	Increase
Equity Volatility [6]	10%	40%	Increase

[1] Conversely, the impact of a decrease in input would have the opposite impact to the fair value as that presented in the table.

[2] Range represents assumed cumulative percentages of policyholders taking withdrawals.

[3] Range represents assumed cumulative annual amount withdrawn by policyholders.

[4] Range represents assumed annual percentages of full surrender of the underlying variable annuity contracts across all policy durations for in force business.

[5] Range represents assumed cumulative percentages of policyholders that would elect to reset their guaranteed benefit base.

[6] Range represents implied market volatilities for equity indices based on multiple pricing sources.

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4. Fair Value Measurements (continued)

Generally, a change in withdrawal utilization assumptions would be accompanied by a directionally opposite change in lapse rate assumptions, as the behavior of policyholders that utilize GMWB riders is typically different from policyholders that do not utilize these riders.

Separate Account Assets

Separate account assets are primarily invested in mutual funds. Other separate account assets include fixed maturities, limited partnerships, equity securities, short-term investments and derivatives that are valued in the same manner, and using the same pricing sources and inputs, as those investments held by the Company. For limited partnerships in which fair value represents the separate account's share of the NAV, 35% and 28% were subject to significant liquidation restrictions due to lock-up or gating provisions as of June 30, 2016 and December 31, 2015, respectively. Limited partnerships where redemptions are not allowed consisted of 9% and 4% as of June 30, 2016 and December 31, 2015, respectively. Separate account assets classified as Level 3 primarily include long-dated bank loans, subprime RMBS, and commercial mortgage loans.

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The following tables provide fair value roll-forwards for the three and six months ended June 30, 2016 and 2015, for the financial instruments classified as Level 3.

For the three months ended June 30, 2016

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of March 31, 2016	$32	$542	$134	$834	$ 76	$ 50	$1,886	$3,554	$ 14
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	(1)	—	(1)	1	—	—	(1)	1
Included in OCI [3]	—	(2)	5	19	4	4	10	40	—
Purchases	—	—	10	37	1	20	97	165	1
Settlements	(4)	(61)	(9)	(50)	(1)	—	(101)	(226)	(1)
Sales	—	—	(3)	(66)	(9)	—	—	(78)	(3)
Transfers into Level 3 [4]	13	—	1	455	—	16	3	488	—
Transfers out of Level 3 [4]	—	—	(59)	(92)	—	—	(22)	(173)	(6)
Fair value as of June 30, 2016	$41	$478	$79	$1,136	$ 72	$ 90	$1,873	$3,769	$ 6
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$—	$—	$—	$(1)	$ —	$ —	$—	$(1)	$ —

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

Assets (Liabilities)	Equity Securities, AFS	Freestanding Derivatives [5] Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of March 31, 2016	$ 92	$ 5	$ (28)	$ 144	$ 145	$ 5	$ 271
Total realized/unrealized gains (losses)							
Included in net income [1] [2] [6]	1	(4)	(4)	15	(4)	(1)	2
Included in OCI [3]	5	—	—	—	—	—	—
Purchases	2	—	—	—	—	—	—
Settlements	—	—	—	—	—	—	—
Sales	(3)	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	6	—	—	6
Fair value as of June 30, 2016	$ 97	$ 1	$ (32)	$ 165	$ 141	$ 4	$ 279
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$ —	$ (4)	$ (4)	$ 15	$ (4)	$ (1)	$ 2

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of March 31, 2016	$ 99	$ 154
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	3	—
Included in OCI [3]	—	3
Purchases	—	22
Settlements	4	(3)
Sales	—	(6)
Transfers into Level 3 [4]	—	3
Transfers out of Level 3 [4]	—	(2)
Fair value as of June 30, 2016	$ 106	$ 171
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$ 3	$ —

Liabilities	Other Policyholder Funds and Benefits Payable Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable
Fair value as of March 31, 2016	$ (361)	$ (25)	$ (386)
Total realized/unrealized gains (losses)			$ —
Included in net income [1] [2] [6]	(35)	(3)	$ (38)
Settlements	(16)	—	$ (16)
Fair value as of June 30, 2016	$ (412)	$ (28)	$ (440)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$ (35)	$ (3)	$ (38)

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

For the six months ended June 30, 2016

	Fixed Maturities, AFS								
Assets	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2016	$37	$541	$150	$854	$ 60	$ 49	$1,622	$ 3,313	$ 16
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	—	(1)	(1)	(14)	1	—	—	(15)	(1)
Included in OCI [3]	—	(2)	(3)	12	9	5	(4)	17	—
Purchases	—	—	50	67	15	20	430	582	6
Settlements	(7)	(60)	(18)	(55)	(2)	—	(158)	(300)	(2)
Sales	—	—	(3)	(91)	(11)	—	—	(105)	(3)
Transfers into Level 3 [4]	18	—	1	513	—	16	5	553	—
Transfers out of Level 3 [4]	(7)	—	(97)	(150)	—	—	(22)	(276)	(10)
Fair value as of June 30, 2016	$41	$478	$79	$1,136	$ 72	$ 90	$1,873	$ 3,769	$ 6
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$—	$—	$(1)	$(1)	$ —	$ —	$—	$(2)	$ (1)

		Freestanding Derivatives [5]					
Assets (Liabilities)	Equity Securities, AFS	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2016	$ 93	$—	$(22)	$ 135	$ 147	$ 7	$ 267
Total realized/unrealized gains (losses)							
Included in net income [1] [2] [6]	—	(15)	(10)	24	(4)	(3)	(8)
Included in OCI [3]	7	—	—	—	—	—	—
Purchases	2	16	—	—	—	—	16
Settlements	—	—	—	—	(2)	—	(2)
Sales	(5)	—	—	—	—	—	—
Transfers out of Level 3 [4]	—	—	—	6	—	—	6
Fair value as of June 30, 2016	$ 97	$1	$(32)	$ 165	$ 141	$ 4	$ 279
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$ —	$(15)	$(10)	$ 24	$(4)	$ (3)	$ (8)

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

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2016	$ 83	$ 139
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	16	—
Included in OCI [3]	—	7
Purchases	—	61
Settlements	7	(9)
Sales	—	(16)
Transfers into Level 3 [4]	—	6
Transfers out of Level 3 [4]	—	(17)
Fair value as of June 30, 2016	$ 106	$ 171
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$ 16	$ —

	Other Policyholder Funds and Benefits Payable		
Liabilities	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable
Fair value as of January 1, 2016	$(262)	$ (26)	$ (288)
Total realized/unrealized gains (losses)			
Included in net income [1] [2] [6]	(117)	(2)	$ (119)
Settlements	(33)	—	$ (33)
Fair value as of June 30, 2016	$(412)	$ (28)	$ (440)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2016 [2] [7]	$(117)	$ (2)	$ (119)

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

For the three months ended June 30, 2015

Assets	Fixed Maturities, AFS ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of March 31, 2015	$161	$584	$268	$1,112	$ 48	$ 64	$1,463	$ 3,700	$ 85
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	1	(2)	2	—	—	1	(1)	1	(2)
Included in OCI [3]	(2)	(2)	—	(14)	(4)	(3)	1	(24)	—
Purchases	28	—	18	18	7	—	135	206	7
Settlements	(3)	(16)	(25)	(30)	(1)	(13)	(47)	(135)	—
Sales	(13)	—	(6)	(26)	(10)	—	(54)	(109)	(3)
Transfers into Level 3 [4]	—	—	—	12	—	—	43	55	—
Transfers out of Level 3 [4]	(119)	—	(43)	(141)	—	—	—	(303)	(1)
Fair value as of June 30, 2015	$53	$564	$214	$931	$ 40	$ 49	$1,540	$ 3,391	$ 86
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]	$1	$(2)	$(1)	$1	$ —	$ —	$—	$ (1)	$ (3)

Assets (Liabilities)	Equity Securities, AFS	Freestanding Derivatives [5] Credit	Commodity	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of March 31, 2015	$ 102	$(11)	$ —	$ 8	$(18)	$ 159	$ 187	$ 11	$ 336
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	11	(6)	(7)	(5)	9	(34)	(22)	(2)	(67)
Included in OCI [3]	(1)	—	—	—	—	—	—	—	—
Purchases	4	(6)	—	—	—	—	—	—	(6)
Settlements	—	—	—	—	(5)	—	—	—	(5)
Sales	(14)	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	10	—	—	—	—	—	10
Transfers out of Level 3 [4]	(5)	23	—	—	—	—	—	—	23
Fair value as of June 30, 2015	$ 97	$—	$ 3	$ 3	$(14)	$ 125	$ 165	$ 9	$ 291
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]	$ —	$(3)	$ (8)	$ —	$7	$ (32)	$ (18)	$ (3)	$ (57)

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

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of March 31, 2015	$ 65	$ 137
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	(20)	—
Included in OCI [3]	—	(1)
Purchases	—	222
Settlements	5	(5)
Sales	—	(19)
Transfers into Level 3 [4]	—	5
Transfers out of Level 3 [4]	—	(53)
Fair value as of June 30, 2015	$ 50	$ 286
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]	$ (20)	$ —

Liabilities	Other Policyholder Funds and Benefits Payable			
	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of March 31, 2015	$(176)	$ (26)	$ (202)	$ (3)
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	78	—	$ 78	—
Settlements	(14)	—	$ (14)	—
Fair value as of June 30, 2015	$(112)	$ (26)	$ (138)	$ (3)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]	$78	$ —	$ 78	$ —

For the six months ended June 30, 2015

Assets	Fixed Maturities, AFS								
	ABS	CDOs	CMBS	Corporate	Foreign Govt./Govt. Agencies	Municipal	RMBS	Total Fixed Maturities, AFS	Fixed Maturities, FVO
Fair value as of January 1, 2015	$122	$623	$284	$ 1,040	$ 59	$ 66	$1,281	$ 3,475	$ 92
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	1	(4)	1	(4)	—	1	(2)	(7)	(7)
Included in OCI [3]	(2)	17	(3)	(42)	(3)	(5)	—	(38)	—
Purchases	71	—	39	23	12	—	445	590	19
Settlements	(4)	(25)	(38)	(29)	(2)	(13)	(93)	(204)	—
Sales	(13)	—	(6)	(33)	(26)	—	(85)	(163)	(7)
Transfers into Level 3 [4]	1	—	5	151	—	—	47	204	—
Transfers out of Level 3 [4]	(123)	(47)	(68)	(175)	—	—	(53)	(466)	(11)
Fair value as of June 30, 2015	$53	$564	$214	$931	$ 40	$ 49	$1,540	$ 3,391	$ 86
	$1	$(4)	$(1)	$(1)	$ —	$ —	$—	$ (5)	$ (5)

Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]

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

Assets (Liabilities)	Equity Securities, AFS	Freestanding Derivatives [5] Credit	Commodity	Equity	Interest Rate	GMWB Hedging	Macro Hedge Program	Other Contracts	Total Free-Standing Derivatives [5]
Fair value as of January 1, 2015	$ 98	$(9)	$ —	$ 6	$(7)	$ 170	$ 141	$ 12	$ 313
Total realized/unrealized gains (losses)									
Included in net income [1] [2] [6]	12	(1)	(7)	12	(2)	(25)	(23)	(3)	(49)
Included in OCI [3]	(4)	—	—	—	—	—	—	—	—
Purchases	12	(13)	—	—	—	—	47	—	34
Settlements	—	—	—	(15)	(5)	(20)	—	—	(40)
Sales	(16)	—	—	—	—	—	—	—	—
Transfers into Level 3 [4]	—	—	10	—	—	—	—	—	10
Transfers out of Level 3 [4]	(5)	23	—	—	—	—	—	—	23
Fair value as of June 30, 2015	$ 97	$—	$ 3	$ 3	$(14)	$ 125	$ 165	$ 9	$ 291
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]	$ 1	$2	$ (8)	$ 3	$(12)	$(16)	$(15)	$(4)	$ (50)

Assets	Reinsurance Recoverable for GMWB	Separate Accounts
Fair value as of January 1, 2015	$ 56	$ 112
Total realized/unrealized gains (losses)		
Included in net income [1] [2] [6]	(15)	1
Included in OCI [3]	—	(1)
Purchases	—	260
Settlements	9	(10)
Sales	—	(25)
Transfers into Level 3 [4]	—	6
Transfers out of Level 3 [4]	—	(57)
Fair value as of June 30, 2015	$ 50	$ 286
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]	$ (15)	$ 1

Liabilities	Other Policyholder Funds and Benefits Payable			
	Guaranteed Withdrawal Benefits	Equity Linked Notes	Total Other Policyholder Funds and Benefits Payable	Consumer Notes
Fair value as of January 1, 2015	$(139)	$(26)	$ (165)	$ (3)
Total realized/unrealized gains (losses)				
Included in net income [1] [2] [6]	59	—	$ 59	—
Settlements	(32)	—	(32)	—
Fair value as of June 30, 2015	$(112)	$(26)	$ (138)	$ (3)
Changes in unrealized gains (losses) included in net income related to financial instruments still held at June 30, 2015 [2] [7]	$59	$ —	$ 59	$ —

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

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

[2] All amounts in these rows are reported in net realized capital gains (losses). The realized/unrealized gains (losses) included in net income for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. All amounts are before income taxes and amortization of DAC.

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

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

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

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

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

Fair Value Option

FVO investments include certain securities that contain embedded credit derivatives with underlying credit risk primarily related to residential and commercial real estate, for which the Company has elected the fair value option. The Company also classifies the underlying fixed maturities held in certain consolidated investment funds within the Fixed Maturities, FVO line on the Condensed Consolidated Balance Sheets. The Company reports these consolidated investment companies at fair value with changes in the fair value of these securities recognized in net realized capital gains and losses, which is consistent with accounting requirements for investment companies. The investment funds hold fixed income securities in multiple sectors and the Company has management and control of the funds as well as a significant ownership interest.

The Company also elected the fair value option for certain equity securities in order to align the accounting with total return swap contracts that hedge the risk associated with the investments. The swaps do not qualify for hedge accounting and the change in value of both the equity securities and the total return swaps are recorded in net realized capital gains and losses. These equity securities are classified within equity securities, AFS on the Condensed Consolidated Balance Sheets. As of June 30, 2016, the Company no longer holds these investments. Income earned from FVO securities is recorded in net investment income and changes in fair value are recorded in net realized capital gains and losses.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Assets				
Fixed maturities, FVO				
Corporate	$—	$(3)	$—	$(3)
CDOs	—	—	—	1
Foreign government	—	(1)	(1)	(1)
RMBS	4	(1)	5	—
Total fixed maturities, FVO	$4	$(5)	$4	$(3)
Equity, FVO	—	1	(34)	3

Total realized capital gains (losses)	$ 4	$ (4)	$ (30)	$ —

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

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

	June 30, 2016	December 31, 2015
Assets		
Fixed maturities, FVO		
ABS	$ 6	$ 13
CDOs	4	6
CMBS	8	24
Corporate	35	87
Foreign government	—	2
U.S government	2	3
RMBS	356	368
Total fixed maturities, FVO	$ 411	$ 503
Equity, FVO [1]	$ —	$ 282

[1] Included in equity securities, AFS on the Condensed Consolidated Balance Sheets. The Company did not hold any equity securities, FVO as of June 30, 2016.

Financial Instruments Not Carried at Fair Value

The following table presents carrying amounts and fair values of the Company’s financial instruments not carried at fair value.

	Fair Value Hierarchy Level	June 30, 2016		December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Policy loans	Level 3	$1,436	$1,436	$1,447	$1,447
Mortgage loans	Level 3	5,659	6,000	5,624	5,736
Liabilities					
Other policyholder funds and benefits payable [1]	Level 3	$6,492	$6,787	$6,706	$6,898
Senior notes [2]	Level 2	4,241	4,942	4,259	4,811
Junior subordinated debentures [2]	Level 2	1,083	1,292	1,100	1,304
Consumer notes [3]	Level 3	32	32	38	38
Assumed investment contracts [3]	Level 3	738	795	619	682

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

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

[3] Included in other liabilities in the Condensed Consolidated Balance Sheets.

Fair values for policy loans were determined using current loan coupon rates, which reflect the current rates available under the contracts. As a result, the fair value approximates the carrying value of the policy loans.

Fair values for mortgage loans were estimated using discounted cash flow calculations based on current lending rates for similar type loans. Current lending rates reflect changes in credit spreads and the remaining terms of the loans.

Fair values for other policyholder funds and benefits payable and assumed investment contracts, not carried at fair value, are estimated based on the cash surrender values of the underlying policies or by estimating future cash flows discounted at current interest rates adjusted for credit risk.

Fair values for senior notes and junior subordinated debentures are determined using the market approach based on reported trades, benchmark interest rates and issuer spread for the Company which may consider credit default swaps. Fair values for consumer notes were estimated using discounted cash flow calculations using current interest rates adjusted for estimated loan durations.

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

Net Realized Capital Gains (Losses)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Before tax)	2016	2015	2016	2015
Gross gains on sales	$124	$121	$214	$318
Gross losses on sales	(25)	(112)	(133)	(260)
Net OTTI losses recognized in earnings	(7)	(11)	(30)	(23)
Valuation allowances on mortgage loans	—	—	—	(3)
Periodic net coupon settlements on credit derivatives	—	4	—	5
Results of variable annuity hedge program				
GMWB derivatives, net	3	(4)	(14)	(3)
Macro hedge program	(20)	(23)	(34)	(27)
Total results of variable annuity hedge program	(17)	(27)	(48)	(30)
Other, net [1]	(22)	34	(105)	7
Net realized capital gains (losses)	$53	$9	$(102)	$14

[1] Primarily consists of changes in the value of non-qualifying derivatives and transactional foreign currency revaluation gains (losses). For the three months ended June 30, 2016 and 2015, transactional foreign currency revaluation gains (losses) were $(87) and $16, respectively, and related to yen denominated fixed payout annuity liabilities as well as the change in equity of a P&C runoff entity in the United Kingdom, which were largely offset by gains (losses) of $79 and $(17), respectively, on derivative instruments used to hedge the foreign currency exposure. For the six months ended June 30, 2016 and 2015, the transactional foreign currency revaluation gains (losses) were $(131) and $16, respectively, which were largely offset by gains (losses) of $121 and $(31), respectively, on the related hedging instruments.

Net realized capital gains and losses from investment sales are reported as a component of revenues and are determined on a specific identification basis. Before tax, net gains and losses on sales and impairments previously reported as unrealized gains in AOCI were $92 and $51, respectively, for the three and six months ended June 30, 2016, and $6 and $43 for the three and six months ended June 30, 2015, respectively. Proceeds from sales of AFS securities totaled $4.1 billion and $9.0 billion, respectively, for the three and six months ended June 30, 2016, and $5.6 billion and $11.8 billion for three and six months ended June 30, 2015, respectively.

Recognition and Presentation of Other-Than-Temporary Impairments

The Company deems bonds and certain equity securities with debt-like characteristics (collectively “debt securities”) to be other-than-temporarily impaired (“impaired”) if a security meets the following conditions: a) the Company intends to sell or it is more likely than not that the Company will be required to sell the security before a recovery in value, or b) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell or it is more likely than not that the Company will be required to sell the security before a recovery in value, a charge is recorded in net realized capital losses equal to the difference between the fair value and amortized cost basis of the security. For those impaired debt securities which do not meet the first condition and for which the Company does not expect to recover the entire amortized cost basis, the difference between the security’s amortized cost basis and the fair value is separated into the portion representing a credit OTTI, which is recorded in net realized capital losses, and the remaining non-credit impairment, which is recorded in OCI. Generally, the Company determines a security’s credit impairment as the difference between its amortized cost basis and its best estimate of expected future cash flows discounted at the security’s effective yield prior to impairment. The remaining non-credit impairment is the difference between the security’s fair value and the Company’s best estimate of expected future cash flows discounted at the security’s effective yield prior to the impairment, which typically includes current market liquidity and risk premiums.

The previous amortized cost basis less the impairment recognized in net realized capital losses becomes the security's new cost basis. The Company accretes the new cost basis to the estimated future cash flows over the expected remaining life of the security by prospectively adjusting the security's yield, if necessary.

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

The Company’s evaluation of whether a credit impairment exists for debt securities includes but is not limited to, the following factors: (a) changes in the financial condition of the security’s underlying collateral, (b) whether the issuer is current on contractually obligated interest and principal payments, (c) changes in the financial condition, credit rating and near-term prospects of the issuer, (d) the extent to which the fair value has been less than the amortized cost of the security and (e) the payment structure of the security. The Company’s best estimate of expected future cash flows used to determine the credit loss amount 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 security. The Company’s best estimate of future cash flows involves assumptions including, but not limited to, earnings multiples, underlying asset valuations and various performance indicators, such as historical and projected default and recovery rates, credit ratings, current and projected delinquency rates, and loan-to-value ("LTV") ratios. In addition, for structured securities, the Company considers factors including, but not limited to, average cumulative collateral loss rates that vary by vintage year, commercial and residential property value declines that vary by property type and location and commercial real estate delinquency levels. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer and/or underlying collateral such as changes in the projections of the underlying property value estimates.
For equity securities where the decline in the fair value is deemed to be other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost basis of the security. The previous cost basis less the impairment becomes the security’s new cost basis. The Company asserts its intent and ability to retain those equity securities deemed to be temporarily impaired until the price recovers. Once identified, these securities are systematically restricted from trading unless approved by investment and accounting professionals.
The primary factors considered in evaluating whether an impairment exists for an equity security may include, but are not limited to: (a) the length of time and extent to which the fair value has been less than the cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on preferred stock dividends and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.
The following table presents the Company's impairments by impairment type.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Credit impairments	$ 5	$ 1	$ 23	$ 4
Intent-to-sell impairments	1	8	3	17
Impairments on equity securities	1	—	4	—
Other impairments	—	2	—	2
Total impairments	$ 7	$ 11	$ 30	$ 23

The following table presents a roll-forward of the Company’s cumulative credit impairments on fixed maturities held.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Before tax)	2016	2015	2016	2015
Balance as of beginning of period	$ (336)	$ (412)	$ (324)	$ (424)
Additions for credit impairments recognized on [1]:				
Securities not previously impaired	(4)	—	(21)	(3)

Securities previously impaired	(1)	(1)	(2)	(1)
Reductions for credit impairments previously recognized on:				
Securities that matured or were sold during the period	35	6	36	10
Securities the Company made the decision to sell or more likely than not will be required to sell	—	—	—	2
Securities due to an increase in expected cash flows	13	19	18	28
Balance as of end of period	$(293)	$(388)	$(293)	$(388)

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

Available-for-Sale Securities
The following table presents the Company's AFS securities by type.

	June 30, 2016					December 31, 2015				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI [1]
ABS	$2,782	$ 36	$ (41)	$2,777	$ —	$2,520	$ 24	$ (45)	$2,499	$ —
CDOs [2]	2,829	63	(26)	2,867	—	2,989	75	(23)	3,038	—
CMBS	5,014	213	(32)	5,195	(7)	4,668	105	(56)	4,717	(8)
Corporate	25,010	2,281	(133)	27,158	(9)	25,876	1,342	(416)	26,802	(3)
Foreign govt./govt. agencies	1,116	78	(6)	1,188	—	1,321	34	(47)	1,308	—
Municipal	11,206	1,408	(3)	12,611	—	11,124	1,008	(11)	12,121	—
RMBS	4,723	123	(20)	4,826	—	3,986	82	(22)	4,046	—
U.S. Treasuries	4,042	577	—	4,619	—	4,481	222	(38)	4,665	—
Total fixed maturities, AFS	$56,722	$ 4,779	$ (261)	$61,241	$ (16)	$56,965	$ 2,892	$ (658)	$59,196	$ (11)
Equity securities, AFS [3]	772	79	(24)	827	—	842	38	(41)	839	—
Total AFS securities	$57,494	$ 4,858	$ (285)	$62,068	$ (16)	$57,807	$ 2,930	$ (699)	$60,035	$ (11)

[1] Represents the amount of cumulative non-credit OTTI losses recognized in OCI on securities that also had credit impairments. These losses are included in gross unrealized losses as of June 30, 2016, and December 31, 2015.
[2] Gross unrealized gains (losses) exclude the fair value of bifurcated embedded derivatives within certain securities. Subsequent changes in value are recorded in net realized capital gains (losses).
[3] Excluded equity securities, FVO, with a cost and fair value of $293 and $282 as of December 31, 2015. The Company held no equity securities, FVO as of June 30, 2016.

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

	June 30, 2016		December 31, 2015	
Contractual Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One year or less	$2,030	$2,048	$2,373	$2,405
Over one year through five years	10,116	10,575	10,929	11,200
Over five years through ten years	9,292	9,866	9,322	9,497
Over ten years	19,936	23,087	20,178	21,794
Subtotal	41,374	45,576	42,802	44,896
Mortgage-backed and asset-backed securities	15,348	15,665	14,163	14,300
Total fixed maturities, AFS	$56,722	$61,241	$56,965	$59,196

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

Concentration of Credit Risk

The Company aims to maintain a diversified investment portfolio including issuer, sector and geographic stratification, where applicable, and has established certain exposure limits, diversification standards and review procedures to mitigate credit risk. The Company had no investment exposure to any credit concentration risk of a single issuer greater than 10% of the Company's stockholders' equity, other than the U.S. government and certain U.S.

government agencies as of June 30, 2016, or December 31, 2015.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

Unrealized Losses on AFS Securities

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

	June 30, 2016								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$758	$755	$ (3)	$427	$389	$ (38)	$1,185	$1,144	$ (41)
CDOs [1]	1,006	997	(10)	1,262	1,246	(16)	2,268	2,243	(26)
CMBS	548	536	(12)	413	393	(20)	961	929	(32)
Corporate	1,742	1,685	(57)	1,008	932	(76)	2,750	2,617	(133)
Foreign govt./govt. agencies	57	55	(2)	129	125	(4)	186	180	(6)
Municipal	97	95	(2)	21	20	(1)	118	115	(3)
RMBS	587	583	(4)	709	693	(16)	1,296	1,276	(20)
U.S. Treasuries	2	2	—	—	—	—	2	2	—
Total fixed maturities, AFS	$4,797	$4,708	$ (90)	$3,969	$3,798	$ (171)	$8,766	$8,506	$ (261)
Equity securities, AFS [2]	201	184	(17)	71	64	(7)	272	248	(24)
Total securities in an unrealized loss position	$4,998	$4,892	$ (107)	$4,040	$3,862	$ (178)	$9,038	$8,754	$ (285)

	December 31, 2015								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
ABS	$1,619	$1,609	$ (10)	$357	$322	$ (35)	$1,976	$1,931	$ (45)
CDOs [1]	1,164	1,154	(10)	1,243	1,227	(13)	2,407	2,381	(23)
CMBS	1,726	1,681	(45)	189	178	(11)	1,915	1,859	(56)
Corporate	9,206	8,866	(340)	656	580	(76)	9,862	9,446	(416)
Foreign govt./govt. agencies	679	646	(33)	124	110	(14)	803	756	(47)
Municipal	440	430	(10)	18	17	(1)	458	447	(11)
RMBS	1,349	1,340	(9)	415	402	(13)	1,764	1,742	(22)
U.S. Treasuries	2,432	2,394	(38)	8	8	—	2,440	2,402	(38)
Total fixed maturities, AFS	$18,615	$18,120	$ (495)	$3,010	$2,844	$ (163)	$21,625	$20,964	$ (658)
Equity securities, AFS [2]	480	449	(31)	62	52	(10)	542	501	(41)
Total securities in an unrealized loss position	$19,095	$18,569	$ (526)	$3,072	$2,896	$ (173)	$22,167	$21,465	$ (699)

[1] Unrealized losses exclude the change in fair value of bifurcated embedded derivatives within certain securities, for which changes in fair value are recorded in net realized capital gains (losses).

[2] As of June 30, 2016, and December 31, 2015, excludes equity securities, FVO which are included in equity securities, AFS on the Condensed Consolidated Balance Sheets.

As of June 30, 2016, AFS securities in an unrealized loss position, consisted of 2,917 securities, primarily in the corporate sector, which were depressed primarily due to widening of credit spreads since the securities were purchased. As of June 30, 2016, 89% of these securities were depressed less than 20% of cost or amortized cost. The decrease in unrealized losses during the first half of 2016 was primarily attributable to a decline in interest rates, as well as tighter credit spreads.

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Most of the securities depressed for twelve months or more relate to corporate securities concentrated in the financial services and energy sectors, structured securities with exposure to commercial and residential real estate, and student loan ABS. Corporate financial services securities and student loan ABS were primarily depressed because the securities have floating-rate coupons and have long-dated maturities, and current credit spreads are wider than when these securities were purchased. Corporate securities within the energy sector were primarily depressed due to a decline in oil and gas prices. For certain commercial and residential real estate securities, current market spreads are wider than spreads at the securities' respective purchase dates. The Company neither has an intention to sell nor does it expect to be required to sell the securities outlined in the preceding discussion.

Mortgage Loans

Mortgage Loan Valuation Allowances

The Company’s security monitoring process reviews mortgage loans on a quarterly basis to identify potential credit losses. Commercial mortgage loans are considered to be impaired when management estimates that, based upon current information and events, it is probable that the Company will be unable to collect amounts due according to the contractual terms of the loan agreement. Criteria used to determine if an impairment exists include, but are not limited to: current and projected macroeconomic factors, such as unemployment rates, and property-specific factors such as rental rates, occupancy levels, LTV ratios and debt service coverage ratios (“DSCR”). In addition, the Company considers historic, current and projected delinquency rates and property values. These assumptions require the use of significant management judgment and include the probability and timing of borrower default and loss severity estimates. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the borrower and/or underlying collateral such as changes in the projections of the underlying property value estimates.

For mortgage loans that are deemed impaired, a valuation allowance is established for the difference between the carrying amount and the Company’s share of either (a) the present value of the expected future cash flows discounted at the loan’s effective interest rate, (b) the loan’s observable market price or, most frequently, (c) the fair value of the collateral. A valuation allowance has been established for either individual loans or as a projected loss contingency for loans with an LTV ratio of 90% or greater and after consideration of other credit quality factors, including DSCR. Changes in valuation allowances are recorded in net realized capital gains and losses. Interest income on impaired loans is accrued to the extent it is deemed collectible and the loans continue to perform under the original or restructured terms. Interest income ceases to accrue for loans when it is probable that the Company will not receive interest and principal payments according to the contractual terms of the loan agreement. Loans may resume accrual status when it is determined that sufficient collateral exists to satisfy the full amount of the loan and interest payments as well as when it is probable cash will be received in the foreseeable future. Interest income on defaulted loans is recognized when received.

	June 30, 2016			December 31, 2015		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Total commercial mortgage loans	$5,678	$ (19)	$ 5,659	$5,647	$ (23)	$ 5,624

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

As of June 30, 2016, and December 31, 2015, the carrying value of mortgage loans associated with the valuation allowance was $31 and $82, respectively. There were no mortgage loans held-for-sale as of June 30, 2016, or December 31, 2015. As of June 30, 2016, loans within the Company’s mortgage loan portfolio that have had extensions or restructurings other than what is allowable under the original terms of the contract are immaterial.

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

	2016	2015
Balance, as of January 1	$(23)	$(18)
(Additions)/Reversals	—	(3)
Deductions	4	—
Balance, as of June 30	$(19)	$(21)

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
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5. Investments and Derivative Instruments (continued)

The weighted-average LTV ratio of the Company’s commercial mortgage loan portfolio was 55% as of June 30, 2016, while the weighted-average LTV ratio at origination of these loans was 62%. LTV ratios compare the loan amount to the value of the underlying property collateralizing the loan. The loan values are updated no less than annually through property level reviews of the portfolio. Factors considered in the property valuation include, but are not limited to, actual and expected property cash flows, geographic market data and capitalization rates. DSCR compares a property’s net operating income to the borrower’s principal and interest payments. The weighted average DSCR of the Company’s commercial mortgage loan portfolio was 2.62x as of June 30, 2016. As of June 30, 2016, the Company held one delinquent commercial mortgage loan, past due by 90 days or more. The loan had a total carrying value and valuation allowance of $15 and $16, respectively, and was not accruing income. As of December 31, 2015, the Company held two delinquent commercial mortgage loans, past due by 90 days or more. The loans had a total carrying value and valuation allowance of $17 and $20, respectively, and were not accruing income
The following table presents the carrying value of the Company’s commercial mortgage loans by LTV and DSCR.
Commercial Mortgage Loans Credit Quality

	June 30, 2016		December 31, 2015	
Loan-to-value	Carrying Value	Avg. Debt-Service Coverage Ratio	Carrying Value	Avg. Debt-Service Coverage Ratio
Greater than 80%	$122	1.16x	$24	0.81x
65% - 80%	602	2.08x	623	1.82x
Less than 65%	4,935	2.74x	4,977	2.75x
Total commercial mortgage loans	$5,659	2.62x	$5,624	2.63x

The following tables present the carrying value of the Company’s mortgage loans by region and property type.
Mortgage Loans by Region

	June 30, 2016		December 31, 2015	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
East North Central	$315	5.6 %	$289	5.1 %
East South Central	14	0.2 %	14	0.2 %
Middle Atlantic	408	7.2 %	384	6.8 %
Mountain	35	0.6 %	32	0.6 %
New England	445	7.9 %	446	7.9 %
Pacific	1,635	28.9 %	1,669	29.7 %
South Atlantic	1,179	20.8 %	1,174	20.9 %
West North Central	29	0.5 %	29	0.5 %
West South Central	338	6.0 %	318	5.7 %
Other [1]	1,261	22.3 %	1,269	22.6 %
Total mortgage loans	$5,659	100.0%	$5,624	100.0%

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

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5. Investments and Derivative Instruments (continued)

Mortgage Loans by Property Type

	June 30, 2016		December 31, 2015	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Commercial				
Agricultural	$16	0.3 %	$26	0.5 %
Industrial	1,440	25.4 %	1,422	25.3 %
Lodging	25	0.4 %	26	0.5 %
Multifamily	1,378	24.4 %	1,345	23.9 %
Office	1,504	26.6 %	1,547	27.5 %
Retail	1,089	19.2 %	1,109	19.7 %
Other	207	3.7 %	149	2.6 %
Total mortgage loans	$5,659	100.0 %	$5,624	100.0 %

Mortgage Servicing

The Company originates, sells and services commercial mortgage loans on behalf of third parties and recognizes servicing fees over the period that services are performed in fee income. As of June 30, 2016, the Company serviced commercial mortgage loans under this program with a total outstanding principal of $545, of which $178 was serviced on behalf of third parties and $367 was retained and reported on the Company’s Condensed Consolidated Balance Sheets, including $89 in separate account assets. As of December 31, 2015, the Company serviced commercial mortgage loans under this program with a total outstanding principal of $359, of which $129 was serviced on behalf of third parties and $230 was retained and reported on the Company’s Condensed Consolidated Balance Sheets, including $54 in separate account assets. Servicing rights are carried at the lower of cost or fair value and were zero as of June 30, 2016 and December 31, 2015, because servicing fees were market-level fees at origination and remain adequate to compensate the Company to administer the servicing.

Variable Interest Entities

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

A VIE is an entity that either has investors that lack certain essential characteristics of a controlling financial interest, such as simple majority kick-out rights, or lacks sufficient funds to finance its own activities without financial support provided by other entities. The Company performs ongoing qualitative assessments of its VIEs to determine whether the Company has a controlling financial interest in the VIE and therefore is the primary beneficiary. The Company is deemed to have a controlling financial interest when it has both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. Based on the Company’s assessment, if it determines it is the primary beneficiary, the Company consolidates the VIE in the Company’s Condensed Consolidated Financial Statements.

Consolidated VIEs

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

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5. Investments and Derivative Instruments (continued)

	June 30, 2016			December 31, 2015		
	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]	Total Assets	Total Liabilities [1]	Maximum Exposure to Loss [2]
CDO [3]	$5	$ 5	$ —	$5	$ 5	$ —
Investment funds [4]	—	—	—	159	7	151
Limited partnerships and other alternative investments [5]	7	—	7	2	—	2
Total	$12	$ 5	$ 7	$166	$ 12	$ 153

[1] Included in other liabilities on the Company's Condensed Consolidated Balance Sheets.
[2] The maximum exposure to loss represents the maximum loss amount that the Company could recognize as a reduction in net investment income or as a realized capital loss and is the cost basis of the Company's investment.
[3] Total assets included in cash on the Company's Condensed Consolidated Balance Sheets.
[4] Total assets included in fixed maturities, FVO, short-term investments, equity, AFS, and cash on the Company's Condensed Consolidated Balance Sheets.
[5] Total assets included in limited partnerships and other alternative investments, short-term investments, and other assets on the Company's Condensed Consolidated Balance Sheets.

Effective January 1, 2016, the Company adopted new consolidation guidance which resulted in a hedge fund of funds that is part of limited partnerships and other alternative investments and which was previously consolidated as a voting interest entity, to be consolidated instead as a VIE. This hedge fund of funds limited partnership is considered a VIE under the updated guidance and the Company has determined it is the primary beneficiary and will continue to consolidate the VIE. As of June 30, 2016, this limited partnership has outstanding commitments totaling $20, which may be called by the underlying partnerships during the commitment period to fund the purchase of new investments. For further information on the adoption, see Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements.

Also as a result of the adoption, the Company determined that three investment funds, that were previously identified as consolidated VIEs and for which the Company has management and control of the investments, are voting interest entities under the new consolidation guidance. The Company still owns a majority interest in one investment fund that is still consolidated on the Company's Condensed Consolidated Financial Statements; however, as of June 30, 2016, this fund is not included as VIE in the table above. The remaining two investment funds previously identified as consolidated VIEs were disposed of during the first six months of the year. CDO represents a structured investment vehicle for which the Company has a controlling financial interest as it provides collateral management services, earns a fee for those services and also holds investments in the security issued by this vehicle.

Non-Consolidated VIEs

The Company, through normal investment activities, makes passive investments in limited partnerships and other alternative investments. Upon the adoption of the new consolidation guidance, discussed above, these investments are now considered VIEs. For these non-consolidated VIEs, the Company has determined it is not the primary beneficiary as it has no ability to direct activities that could significantly affect the economic performance of the investments. The Company's maximum exposure to loss as of June 30, 2016 and December 31, 2015 is limited to the total carrying value of $1.8 billion and $1.5 billion, respectively, which are included in limited partnerships and other alternative investments in the Company's Condensed Consolidated Balance Sheets. As of June 30, 2016 and December 31, 2015, the Company has outstanding commitments totaling $1.1 billion and $692, respectively, which is committed to fund these investments and may be called by the partnership during the commitment period to fund the purchase of new investments and partnership expenses. These investments are generally of a passive nature in that the Company does not take an active role in management. For further discussion of these investments, see Equity Method Investments within Note 6 - Investments and Derivatives of Notes to Consolidated Financial Statements included in the Company's

2015 Form 10-K Annual Report.
In addition, the Company also makes passive investments in structured securities issued by VIEs for which the Company is not the manager and, therefore, does not consolidate. These investments are included in ABS, CDOs, CMBS and RMBS in the Available-for-Sale Securities table and fixed maturities, FVO, in the Company's Condensed Consolidated Balance Sheets. The Company has not provided financial or other support with respect to these investments other than its original investment. For these investments, the Company determined it is not the primary beneficiary due to the relative size of the Company's investment in comparison to the principal amount of the structured securities issued by the VIEs, the level of credit subordination which reduces the Company's obligation to absorb losses or right to receive benefits and the Company's inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company's maximum exposure to loss on these investments is limited to the amount of the Company's investment.

The Company also holds a significant variable interest in a VIE for which it is not the primary beneficiary. This VIE represents a contingent capital facility ("facility") that has been held by the Company since February 2007 and for which the Company has no implied or unfunded commitments. Assets and liabilities recorded for the contingent capital facility were $4 and $6, respectively, as of June 30, 2016, and $7 and $8, respectively, as of December 31, 2015. Additionally, the Company has a maximum exposure to loss of $3 and $3, respectively, as of June 30, 2016, and December 31, 2015, which represents the issuance costs that were incurred to establish the facility. The Company does not have a controlling financial interest as it does not manage the assets of the facility nor does it have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the facility, as the asset manager has significant variable interest in the vehicle. The Company's financial or other support provided to the facility is limited to providing ongoing support to cover the facility's operating expenses. As such, the Company does not consolidate its variable interest in the facility. For further information on the facility, see Note 11 - Debt of Notes to Consolidated Financial Statements included in The Hartford's 2015 Form 10-K Annual Report.

Securities Lending, Repurchase Agreements, and Similar Transactions and Other Collateral Transactions

The Company participates in securities lending programs to generate additional income. Through these programs, certain fixed maturities within the corporate, foreign government/government agencies, and municipal sectors as well as equity securities are loaned from the Company's portfolio to qualifying third-party borrowers in return for collateral in the form of cash or securities. Borrowers of these securities provide collateral of 102% and 105% of the fair value of the securities lent at the time of the loan for domestic and non-domestic securities, respectively. The borrower will return the securities to the Company for cash or securities collateral at maturity dates generally of 90 days or less. Security collateral on deposit from counterparties in connection with securities lending transactions may not be sold or re-pledged, except in the event of default, and is not reflected on the Company's consolidated balance sheets. The fair value of the loaned securities is monitored and additional collateral is obtained if the fair value of the collateral falls below 100% of the fair value of the loaned securities. The agreements provide the counterparty the right to sell or re-pledge the securities transferred. If cash, rather than securities, is received as collateral, the cash is typically invested in short-term investments or fixed maturities and is reported as an asset on the consolidated balance sheets. Income associated with securities lending transactions is reported as a component of net investment income on the Company's consolidated statements of operations. As of June 30, 2016, the fair value of securities on loan and the associated liability for cash collateral received was $151 and $153, respectively. As of December 31, 2015, the fair value of securities on loan and the associated liability for cash collateral received was $67 and $68, respectively.

From time to time, the Company enters into repurchase agreements and similar transactions to manage liquidity or to earn incremental spread income. A repurchase agreement is a transaction in which one party (transferor) agrees to sell securities to another party (transferee) in return for cash (or securities), with a simultaneous agreement to repurchase the same securities at a specified price at a later date. A dollar roll is a type of repurchase agreement where a mortgage backed security is sold with an agreement to repurchase substantially the same security at a specified time in the future. Repurchase transactions generally have a contractual maturity of ninety days or less.

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

As of June 30, 2016, the Company reported in fixed maturities, AFS on the Condensed Consolidated Balance Sheets financial collateral pledged relating to repurchase agreements of $495. The Company reported a corresponding obligation to repurchase the pledged securities of $490 in other liabilities on the Condensed Consolidated Balance Sheets. As of December 31, 2015, the Company reported financial collateral pledged relating to repurchase agreements $440 in fixed maturities, AFS and $5 in cash. The Company reported a corresponding obligation to repurchase the pledged securities of $445 in other liabilities on the Condensed Consolidated Balance Sheets. The Company had no outstanding dollar roll transactions as of June 30, 2016 or December 31, 2015.

The Company is required by law to deposit securities with government agencies in certain states in which it conducts business. As of June 30, 2016, and December 31, 2015, the fair value of securities on deposit was approximately $2.7 billion and $2.5 billion, respectively.

As of June 30, 2016, and December 31, 2015, the Company has pledged as collateral $17 and $35, respectively, of U.S. government securities and government agency securities or cash for letters of credit.

For disclosure of collateral in support of derivative transactions, refer to the Derivative Collateral Arrangements section of this note.

Derivative Instruments

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

Strategies That Qualify for Hedge Accounting

Certain derivatives that the Company enters into satisfy the hedge accounting requirements as outlined in Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements, included in The Hartford's 2015 Form 10-K Annual Report. Typically, these hedge relationships include interest rate swaps and, to a lesser extent, foreign currency swaps where the terms or expected cash flows of the hedged item closely match the terms of the swap. The interest rate swaps are typically used to manage interest rate duration of certain fixed maturity securities or liability contracts. The hedge strategies by hedge accounting designation include:

Cash Flow Hedges

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

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

Fair Value Hedges

Interest rate swaps are used to hedge the changes in fair value of fixed maturity securities due to fluctuations in interest rates. These swaps are typically used to manage interest rate duration.

Non-Qualifying Strategies

Derivative relationships that do not qualify for hedge accounting ("non-qualifying strategies") primarily include the hedge program for the Company's variable annuity products as well as the hedging and replication strategies that utilize credit default swaps. In addition, hedges of interest rate, foreign currency and equity risk of certain fixed maturities, equities and liabilities do not qualify for hedge accounting.

The non-qualifying strategies include:

Interest Rate Swaps, Swaptions, and Futures

The Company uses interest rate swaps, swaptions, and futures to manage duration between assets and liabilities in certain investment portfolios. In addition, the Company enters into interest rate swaps to terminate existing swaps, thereby offsetting the changes in value of the original swap. As of June 30, 2016, and December 31, 2015, the notional amount of interest rate swaps in offsetting relationships was $12.4 billion and $12.9 billion, respectively.

Foreign Currency Swaps and Forwards

Foreign currency forwards are used to hedge currency impacts on changes in equity of a P&C runoff entity in the United Kingdom. The Company also enters into foreign currency swaps and forwards to convert the foreign currency exposures of certain foreign currency-denominated fixed maturity investments to U.S. dollars. During 2015, the

Company also entered into foreign currency forwards to hedge non-U.S. dollar denominated cash and equity securities, which matured in January 2016.

Fixed Payout Annuity Hedge

The Company reinsures certain yen denominated fixed payout annuities. The Company invests in U.S. dollar denominated assets to support the reinsurance liability. The Company entered into pay U.S. dollar, receive yen swap contracts to hedge the currency and yen interest rate exposure between the U.S. dollar denominated assets and the yen denominated fixed liability reinsurance payments.

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

Credit Contracts

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

Equity Index Swaps and Options

The Company enters into equity index options to hedge the impact of a decline in the equity markets on the investment portfolio. During 2015, the Company entered into a total return swap to hedge equity risk of specific common stock investments which were accounted for using the fair value option in order to align the accounting treatment within net realized capital gains (losses). The swap matured in January 2016 and the specific common stock investments were sold at that time. In addition, the Company formerly offered certain equity indexed products that remain in force, a portion of which contain embedded derivatives that require bifurcation. The Company uses equity index swaps to economically hedge the equity volatility risk associated with the equity indexed products.

Commodity Contracts

During 2015, the Company purchased for $11 put option contracts on West Texas Intermediate oil futures with a strike of $35 dollars per barrel in order to partially offset potential losses related to certain fixed maturity securities that could arise if oil prices decline substantially. The Company has since reduced its exposure to the targeted fixed maturity securities and, therefore, these options were terminated at the end of 2015.

GMWB Derivatives, Net

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

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

	Notional Amount		Fair Value	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Customized swaps	$5,421	$ 5,877	$166	$ 131
Equity swaps, options, and futures	1,395	1,362	—	2
Interest rate swaps and futures	3,716	3,740	37	25
Total	$10,532	$ 10,979	$203	$ 158

Macro Hedge Program

The Company utilizes equity swaps, options, futures, and forwards to provide partial protection against the statutory tail scenario risk arising from GMWB and guaranteed minimum death benefit ("GMDB") liabilities on the Company's statutory surplus. These derivatives cover some of the residual risks not otherwise covered by the dynamic hedging program. The following table presents notional and fair value for the macro hedge program.

Notional Amount Fair Value

	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Equity swaps, options, futures, and forwards	$4,699	$ 4,548	$147	$ 147
Total	$4,699	$ 4,548	$147	$ 147

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Contingent Capital Facility Put Option

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

Modified Coinsurance Reinsurance Contracts

As of June 30, 2016, and December 31, 2015, the Company had approximately $928 and $895, respectively, of invested assets supporting other policyholder funds and benefits payable reinsured under a modified coinsurance arrangement in connection with the sale of the Individual Life business, which was structured as a reinsurance transaction. The assets are primarily held in a trust established by the Company. The Company pays or receives cash quarterly to settle the results of the reinsured business, including the investment results. As a result of this modified coinsurance arrangement, the Company has an embedded derivative that transfers to the reinsurer certain unrealized changes in fair value due to interest rate and credit risks of these assets. The notional amount of the embedded derivative reinsurance contracts are the invested assets that are carried at fair value supporting the reinsured reserves.

Derivative Balance Sheet Classification

The following table summarizes the balance sheet classification of the Company's derivative related net fair value amounts as well as the gross asset and liability fair value amounts. For reporting purposes, the Company has elected to offset within total assets or total liabilities based upon the net of the fair value amounts, income accruals, and related cash collateral receivables and payables of OTC derivative instruments executed in a legal entity and with the same counterparty under a master netting agreement, which provides the Company with the legal right of offset. The Company has also elected to offset within total assets or total liabilities based upon the net of the fair value amounts, income accruals and related cash collateral receivables and payables of OTC-cleared derivative instruments based on clearing house agreements. The following fair value amounts do not include income accruals or related cash collateral receivables and payables, which are netted with derivative fair value amounts to determine balance sheet presentation. Derivative fair value reported as liabilities after taking into account the master netting agreements was $1.4 billion and $1.1 billion, respectively, as of June 30, 2016, and December 31, 2015. Derivatives in the Company's separate accounts, where the associated gains and losses accrue directly to policyholders, are not included in the table below. The Company's derivative instruments are held for risk management purposes, unless otherwise noted in the following table. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and is presented in the table to quantify the volume of the Company's derivative activity. Notional amounts are not necessarily reflective of credit risk. The following tables exclude investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 4 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
5. Investments and Derivative Instruments (continued)

	Net Derivatives				Asset Derivatives		Liability Derivatives	
	Notional Amount		Fair Value		Fair Value		Fair Value	
Hedge Designation/ Derivative Type	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2016	Dec. 31, 2015
Cash flow hedges								
Interest rate swaps	$3,433	$3,527	$115	$17	$115	$50	$—	$(33)
Foreign currency swaps	143	143	(19)	(19)	9	7	(28)	(26)
Total cash flow hedges	3,576	3,670	96	(2)	124	57	(28)	(59)
Fair value hedges								
Interest rate swaps	23	23	—	—	—	—	—	—
Total fair value hedges	23	23	—	—	—	—	—	—
Non-qualifying strategies								
Interest rate contracts								
Interest rate swaps, swaptions, and futures	13,156	14,290	(919)	(814)	606	297	(1,525)	(1,111)
Foreign exchange contracts								
Foreign currency swaps and forwards	356	653	26	17	26	17	—	—
Fixed payout annuity hedge	1,063	1,063	(261)	(357)	—	—	(261)	(357)
Credit contracts								
Credit derivatives that purchase credit protection	227	423	(5)	18	1	22	(6)	(4)
Credit derivatives that assume credit risk [1]	1,842	2,458	—	(13)	13	9	(13)	(22)
Credit derivatives in offsetting positions	3,905	4,059	(2)	(2)	46	40	(48)	(42)
Equity contracts								
Equity index swaps and options	1,441	419	1	15	30	41	(29)	(26)
Variable annuity hedge program								
GMWB product derivatives [2]	14,072	15,099	(412)	(262)	—	—	(412)	(262)
GMWB reinsurance contracts	2,905	3,106	106	83	106	83	—	—
GMWB hedging instruments	10,532	10,979	203	158	360	264	(157)	(106)
Macro hedge program	4,699	4,548	147	147	185	179	(38)	(32)
Other								
Contingent capital facility put option	500	500	4	7	4	7	—	—
Modified coinsurance reinsurance contracts	928	895	32	79	32	79	—	—
Total non-qualifying strategies	55,626	58,492	(1,080)	(924)	1,409	1,038	(2,489)	(1,962)
Total cash flow hedges, fair value hedges, and non-qualifying strategies	$59,225	$62,185	$(984)	$(926)	$1,533	$1,095	$(2,517)	$(2,021)
Balance Sheet Location								
Fixed maturities, available-for-sale	$388	$425	$1	$(3)	$1	$—	$—	$(3)
Other investments	8,882	23,253	309	1	364	409	(55)	(408)
Other liabilities	32,001	19,358	(992)	(798)	1,030	524	(2,022)	(1,322)
Reinsurance recoverables	3,832	4,000	138	162	138	162	—	—
Other policyholder funds and benefits payable	14,122	15,149	(440)	(288)	—	—	(440)	(288)
Total derivatives	$59,225	$62,185	$(984)	$(926)	$1,533	$1,095	$(2,517)	$(2,021)

[1] The derivative instruments related to this strategy are held for other investment purposes.
[2] These derivatives are embedded within liabilities and are not held for risk management purposes.

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

Change in Notional Amount
The net decrease in notional amount of derivatives since December 31, 2015, was primarily due to the following:

- The decline in the combined notional amount associated with the GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by policyholder lapses and partial withdrawals.
- The decline in notional amount related to non-qualifying interest rate derivatives was primarily driven by the termination of interest rate swaps that were used for the purpose of managing duration.
- The decline in notional amount related to the termination of credit derivatives that assume credit risk as a result of re-balancing within certain fixed maturity sectors. The terminated positions related to replication transactions that pair credit derivatives with high quality liquid securities to earn a higher credit spread.
- The increase in notional amount related to equity derivatives primarily resulted from purchases of equity index options which are hedging against the potential for a decline in the equity market on the investment portfolio.

Change in Fair Value
The net decline in the total fair value of derivative instruments since December 31, 2015, was primarily related to the following:

- The decrease in fair value related to the combined GMWB hedging program, which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by an increase in the equity markets.
- The increase in fair value associated with qualifying cash flow hedge interest rate swaps was due to a decline in interest rates and the decrease in fair value related to non-qualifying interest rate swaps was due to the termination of offsetting swaps that were in a net gain position.
- The increase in fair value associated with the fixed payout annuity hedges was primarily driven by an appreciation of the Japanese yen in comparison to the U.S. dollar, slightly offset by a decline in U.S. interest rates.
- The decrease in the fair value associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was primarily driven by a decline in interest rates and credit spread tightening.

Offsetting of Derivative Assets (Liabilities)
The following tables present the gross fair value amounts, the amounts offset, and net position of derivative instruments eligible for offset in the Company's Condensed Consolidated Balance Sheets. Amounts offset include fair value amounts, income accruals and related cash collateral receivables and payables associated with derivative instruments that are traded under a common master netting agreement, as described in the preceding discussion. Also included in the tables are financial collateral receivables and payables, which are contractually permitted to be offset upon an event of default, although are disallowed for offsetting under U.S. GAAP.
As of June 30, 2016

(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
		Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
Gross Amounts of Recognized	Gross Amounts Offset in	Derivative Assets [1]	Accrued Interest and Cash	Financial Collateral Received	Net Amount

Description	Assets	the Statement of Financial Position		Collateral Received [2]	[4]	
Other investments	$ 1,394	$ 1,139	$ 309	$ (54)	$ 190	$ 65

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount
Other liabilities	$ (2,077)	$ (1,090)	$ (992)	$ 5	$ (951)	$ (36)

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

As of December 31, 2015

	(i)	(ii)	(iii) = (i) - (ii)		(iv)	(v) = (iii) - (iv)
			Net Amounts Presented in the Statement of Financial Position		Collateral Disallowed for Offset in the Statement of Financial Position	
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Derivative Assets [1]	Accrued Interest and Cash Collateral Received [2]	Financial Collateral Received [4]	Net Amount
Other investments	$ 933	$ 756	$ 1	$ 176	$ 100	$ 77
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Derivative Liabilities [3]	Accrued Interest and Cash Collateral Pledged [3]	Financial Collateral Pledged [4]	Net Amount
Other liabilities	$ (1,730)	$ (818)	$ (798)	$ (114)	$ (889)	$ (23)

[1] Included in other invested assets in the Company's Condensed Consolidated Balance Sheets.
[2] Included in other assets in the Company's Condensed Consolidated Balance Sheets and amount presented is limited to the net derivative receivable associated with each counterparty.
[3] Included in other liabilities in the Company's Condensed Consolidated Balance Sheets and amount presented is limited to the net derivative payable associated with each counterparty.
[4] Excludes collateral associated with exchange-traded derivative instruments.

Cash Flow Hedges

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

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

Derivatives in Cash Flow Hedging Relationships

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)				Net Realized Capital Gains(Losses) Recognized in Income on Derivative (Ineffective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015	2016	2015	2016	2015
Interest rate swaps	$ 40	$ (71)	$ 146	$ (15)	$ —	$ —	$ —	$ —
Foreign currency swaps	—	6	1	(1)	—	—	—	—
Total	$ 40	$ (65)	$ 147	$ (16)	$ —	$ —	$ —	$ —

		Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended June 30,		Six Months Ended June 30,	
	Location	2016	2015	2016	2015
Interest rate swaps	Net realized capital gains	$ 2	$ 2	$ 7	$ 3
Interest rate swaps	Net investment income	15	16	30	32
Foreign currency swaps	Net realized capital gains (losses)	(2)	3	2	(7)
Total		$ 15	$ 21	$ 39	$ 28

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

As of June 30, 2016, the before-tax deferred net gains on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are $56. This expectation is based on the anticipated interest payments on hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to net investment income over the term of the investment cash flows. The maximum term over which the Company is hedging its exposure to the variability of future cash flows for forecasted transactions, excluding interest payments on existing variable-rate financial instruments, is approximately two years.

During the three and six months ended June 30, 2016, and June 30, 2015, the Company had no net reclassifications from AOCI to earnings resulting from the discontinuance of cash-flow hedges due to forecasted transactions that were no longer probable of occurring.

Fair Value Hedges

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

For the three and six months ended June 30, 2016 and 2015, the Company recognized in income losses of less than $1, respectively, representing the ineffective portion of fair value hedges for the derivative instrument and the hedged item.

Non-Qualifying Strategies

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

Derivatives Used in Non-Qualifying Strategies
Gain or (Loss) Recognized within Net Realized Capital Gains and Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest rate contracts				
Interest rate swaps, swaptions, and futures	$4	$7	$(20)	$(5)
Foreign exchange contracts				
Foreign currency swaps and forwards [1]	22	1	25	8
Fixed payout annuity hedge [2]	60	(17)	96	(31)
Credit contracts				
Credit derivatives that purchase credit protection	(2)	—	(7)	(2)
Credit derivatives that assume credit risk	6	(11)	4	(2)
Equity contracts				
Equity index swaps and options	(5)	6	13	3
Commodity contracts				
Commodity options	—	(5)	—	(10)
Variable annuity hedge program				
GMWB product derivatives	(30)	78	(109)	59
GMWB reinsurance contracts	1	(16)	13	(9)

GMWB hedging instruments	32	(66)	82	(53)
Macro hedge program	(20)	(23)	(34)	(27)
Other				
Contingent capital facility put option	(1)	(2)	(3)	(3)
Modified coinsurance reinsurance contracts	(25)	37	(47)	26
Total [3]	$42	$(11)	$13	$(46)

[1] Not included in this amount is the associated transactional foreign currency revaluation related to changes in equity of a P&C runoff entity in the United Kingdom adjusted through realized capital gains (losses) of $(23) for the three and six months ended June 30, 2016.

[2] Not included in this amount is the associated liability adjustment for changes in foreign exchange spot rates through realized capital gains (losses) of $(64) and $16 for the three months ended June 30, 2016 and 2015, respectively, and $(108) and $16 for the six months ended June 30, 2016 and 2015, respectively.

[3] Excludes investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 4 - Fair Value Measurements.

For the three months ended June 30, 2016, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net gain on foreign exchange contracts was primarily driven by a depreciation of the British pound and an appreciation of the Japanese yen in comparison to the U.S. dollar, slightly offset by a decline in U.S. interest rates.
- The net loss on the macro hedge program was primarily driven by an increase in equity markets and time decay of options, partially offset by gains due to a decline in interest rates and an increase in equity volatility.
- The loss associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was primarily driven by a decline in interest rates and credit spread tightening. The assets remain on the Company's books and the Company recorded an offsetting gain in OCI as a result of the increase in market value of the bonds.

For the six months ended June 30, 2016, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The net loss related to interest rate derivatives was primarily driven by a decline in interest rates and terminations of derivative positions for the purpose of managing duration.
- The net gain on foreign exchange contracts was primarily driven by a depreciation of the British pound and an appreciation of the Japanese yen in comparison to the U.S. dollar, slightly offset by a decline in U.S. interest rates.
- The net loss related to the combined GMWB hedging program which includes the GMWB product, reinsurance, and hedging derivatives, was primarily driven by an increase in the U.S. equity markets.
- The net loss on the macro hedge program was primarily driven by an increase in equity markets and time decay of options, partially offset by gains due to a decline in interest rates and an increase in equity volatility.
- The loss associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was primarily driven by a decline in interest rates and credit spread tightening.

In addition, for the three months ended June 30, 2016 and 2015, the Company recognized gains of $1 and $2, respectively, and gains of $1 and $2, respectively, for the six months ended June 30, 2016 and 2015, due to cash recovered on derivative receivables that were previously written-off related to the bankruptcy of Lehman Brothers Inc. The derivative receivables were the result of the contractual collateral threshold amounts and open collateral calls prior to the bankruptcy filing as well as interest rate and credit spread movements from the date of the last collateral call to the date of the bankruptcy filing.

For the three and six months ended June 30, 2015, the net realized capital gain (loss) related to derivatives used in non-qualifying strategies was primarily comprised of the following:

- The losses on the macro hedge program were primarily driven by time decay on options and an increase in interest rates.
- The net losses related to the fixed payout annuity hedge were primarily driven by the depreciation of the Japanese yen in comparison to the U.S. dollar, partially offset by an increase in U.S. interest rates. In addition, for the six months ended June 30, 2015, losses were driven by a decline in short-term U.S. interest rates.
- The gain on the GMWB product derivatives was largely driven by an increase in interest rates, offset by losses on the GMWB reinsurance contracts and GMWB hedging instruments.
- The gains associated with modified coinsurance reinsurance contracts, which are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies, was primarily driven by an increase in long-term interest rates during the period.

For additional disclosures regarding contingent credit related features in derivative agreements, see Note 8 - Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
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5. Investments and Derivative Instruments (continued)

Credit Risk Assumed through Credit Derivatives

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

The following tables present the notional amount, fair value, weighted average years to maturity, underlying referenced credit obligation type and average credit ratings, and offsetting notional amounts and fair value for credit derivatives in which the Company is assuming credit risk as of June 30, 2016, and December 31, 2015.

As of June 30, 2016

				Underlying Referenced Credit Obligation(s) [1]			
Credit Derivative Type by Derivative Risk Exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 188	$—	3 years	Corporate Credit/ Foreign Gov.	A-	$ 75	$ —
Below investment grade risk exposure	77	(1)	1 year	Corporate Credit	B	77	—
Basket credit default swaps [4]							
Investment grade risk exposure	2,505	22	3 years	Corporate Credit	BBB+	1,414	(11)
Below investment grade risk exposure	50	2	5 years	Corporate Credit	BB-	50	(2)
Investment grade risk exposure	488	(14)	5 years	CMBS Credit	AA+	200	1
Below investment grade risk exposure	136	(31)	1 year	CMBS Credit	CCC	136	31
Embedded credit derivatives							
Investment grade risk exposure	350	351	1 year	Corporate Credit	A+	—	—
Total [5]	$ 3,794	$329				$ 1,952	$ 19

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

As of December 31, 2015

Credit Derivative Type by Derivative Risk Exposure	Notional Amount [2]	Fair Value	Weighted Average Years to Maturity	Underlying Referenced Credit Obligation(s) [1] Type	Average Credit Rating	Offsetting Notional Amount [3]	Offsetting Fair Value [3]
Single name credit default swaps							
Investment grade risk exposure	$ 190	$ (1)	1 year	Corporate Credit/ Foreign Gov.	BBB+	$ 176	$ (1)
Below investment grade risk exposure	77	(2)	2 years	Corporate Credit	B	77	1
Basket credit default swaps [4]							
Investment grade risk exposure	3,036	22	4 years	Corporate Credit	BBB+	1,411	(13)
Investment grade risk exposure	681	(19)	6 years	CMBS Credit	AA+	212	1
Below investment grade risk exposure	153	(25)	1 year	CMBS Credit	CCC	153	25
Embedded credit derivatives							
Investment grade risk exposure	350	346	1 year	Corporate Credit	A+	—	—
Total [5]	$ 4,487	$ 321				$ 2,029	$ 13

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

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

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

[4] Includes $3.2 billion and $3.9 billion as of June 30, 2016, and December 31, 2015, respectively, of standard market indices of diversified portfolios of corporate and CMBS issuers referenced through credit default swaps. These swaps are subsequently valued based upon the observable standard market index.

[5] Excludes investments that contain an embedded credit derivative for which the Company has elected the fair value option. For further discussion, see the Fair Value Option section in Note 4 - Fair Value Measurements.

Derivative Collateral Arrangements

The Company enters into various collateral arrangements in connection with its derivative instruments, which require both the pledging and accepting of collateral. As of June 30, 2016, and December 31, 2015, the Company pledged cash collateral associated with derivative instruments with a fair value of $392 and $488, respectively, for which the collateral receivable has been primarily included within other assets on the Company's Condensed Consolidated Balance Sheets. The Company also pledged securities collateral associated with derivative instruments with a fair value of $1.3 billion and $1.1 billion, respectively, as of June 30, 2016, and December 31, 2015, which have been included in fixed maturities on the Condensed Consolidated Balance Sheets. The counterparties have the right to sell or re-pledge these securities.

As of June 30, 2016, and December 31, 2015, the Company accepted cash collateral associated with derivative instruments of $419 and $369, respectively, which was invested and recorded in the Company's Condensed Consolidated Balance Sheets in fixed maturities and short-term investments with corresponding amounts recorded in other liabilities. The Company also accepted securities collateral as of June 30, 2016, and December 31, 2015, with a fair value of $203 and $100, respectively, of which the Company has the ability to sell or repledge $203 and $100,

respectively. As of June 30, 2016, and December 31, 2015, the Company had no repledged securities and did not sell any securities. In addition, as of June 30, 2016, and December 31, 2015, non-cash collateral accepted was held in separate custodial accounts and was not included in the Company's Condensed Consolidated Balance Sheets.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
6. Separate Accounts, Death Benefits and Other Insurance Benefit Features

Changes in the gross GMDB/GMWB and universal life secondary guarantee benefits are as follows:

	GMDB/GMWB [1,2]	Universal Life Secondary Guarantees [1]
Liability balance as of January 1, 2016	$ 863	$ 2,313
Incurred [3]	41	158
Paid	(66)	—
Liability balance as of June 30, 2016	$ 838	$ 2,471
Reinsurance recoverable asset, as of January 1, 2016	$ 523	$ 2,313
Incurred [3]	32	158
Paid	(51)	—
Reinsurance recoverable asset, as of June 30, 2016	$ 504	$ 2,471

	GMDB/GMWB [1,2]	Universal Life Secondary Guarantees [1]
Liability balance as of January 1, 2015	$ 812	$ 2,041
Incurred [3]	20	135
Paid	(56)	—
Liability balance as of June 30, 2015	$ 776	$ 2,176
Reinsurance recoverable asset, as of January 1, 2015	$ 481	$ 2,041
Incurred [3]	51	135
Paid	(45)	—
Reinsurance recoverable asset, as of June 30, 2015	$ 487	$ 2,176

[1] Included in Reserve for future policy benefits and unpaid losses and loss adjustment expenses on the Condensed Consolidated Balance Sheets.

[2] These liability balances include all GMDB benefits, plus the life-contingent portion of GMWB benefits in excess of the return of the GRB. GMWB benefits up to the return of the GRB are embedded derivatives held at fair value and are excluded from these balances.

[3] Includes the portion of assessments established as additions to reserves as well as changes in estimates affecting the reserves.

The following table provides details concerning GMDB/GMWB exposure as of June 30, 2016:
Account Value by GMDB/GMWB Type

Maximum anniversary value (“MAV”) [1]	Account Value (“AV”) [8]	Net Amount at Risk (“NAR”) [9]	Retained Net Amount at Risk (“RNAR”) [9]	Weighted Average Attained Age of Annuitant
MAV only	$13,801	$ 2,599	$ 429	71
With 5% rollup [2]	1,192	215	71	71
With Earnings Protection Benefit Rider (“EPB”) [3]	3,507	463	74	70
With 5% rollup & EPB	470	103	23	72
Total MAV	18,970	3,380	597	
Asset Protection Benefit (“APB”) [4]	10,850	392	261	69
Lifetime Income Benefit (“LIB”) — Death Benefit [5]	483	8	8	69
Reset [6] (5-7 years)	2,453	31	30	70

Return of Premium (“ROP”) [7]/Other	8,982	74	69	68
Subtotal Variable Annuity with GMDB/GMWB [10]	41,738	3,885	965	70
Less: General Account Value with GMDB/GMWB	3,804			
Subtotal Separate Account Liabilities with GMDB	37,934			
Separate Account Liabilities without GMDB	79,917			
Total Separate Account Liabilities	$117,851			

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
6. Separate Accounts, Death Benefits and Other Insurance Benefit Features (continued)

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

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

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

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

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

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

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

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

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

[10] Some variable annuity contracts with GMDB also have a life-contingent GMWB that may provide for benefits in excess of the return of the GRB. Such contracts included in this amount have $6.6 billion of total account value and weighted average attained age of 72 years. There is no NAR or retained NAR related to these contracts.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

Asset type	As of June 30, 2016	As of December 31, 2015
Equity securities (including mutual funds)	$34,783	$ 36,970
Cash and cash equivalents	3,151	3,453
Total	$37,934	$ 40,423

As of June 30, 2016 and December 31, 2015, approximately 17% of the equity securities (including mutual funds), in the preceding table were funds invested in fixed income securities and approximately 83% were funds invested in equity securities.

For further information on guaranteed living benefits that are accounted for at fair value, such as GMWB, see Note 4 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Tax provision at U.S. federal statutory rate	$60	$164	$193	$383
Tax-exempt interest	(31)	(33)	(63)	(67)
Dividends-received deduction ("DRD")	(21)	(72)	(43)	(95)
Decrease in valuation allowance	(53)	4	(78)	3
Other	(1)	(6)	3	(9)
Provision for income taxes	$(46)	$57	$12	$215

The Company's effective tax rate for the three and six months ended June 30, 2015 reflects a $48 reduction in the provision for income taxes related to uncertain tax positions due to the second quarter 2015 conclusion of the Internal Revenue Service audit of the Company's 2007-2011 federal consolidated corporate income tax returns.
The separate account DRD is estimated for the current year using information from the most recent return, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments and level of policy owner equity account balances. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received in the mutual funds, amounts of distribution from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company's taxable income before the DRD. The Company evaluates its DRD computations on a quarterly basis.
A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$12	$48	$12	$48
Gross increases - tax positions in prior period	—	—	—	—
Gross decreases - tax positions in prior period [1]	—	(48)	—	(48)
Balance, end of period	$12	$—	$12	$—

[1] Gross decreases in 2015 relate to conclusion of the Internal Revenue Service audit of the Company's 2007-2011 federal consolidated corporate income tax returns.

The entire amount of unrecognized tax benefits, if recognized, would affect the effective tax rate in the period of the release.
The federal audit of the years 2012 and 2013 began in March 2015 and is expected to be completed in 2016. Management believes that adequate provision has been made in the financial statements for any potential adjustments that may result from tax examinations and other tax-related matters for all open tax years.
Net deferred income taxes include the future tax benefits associated with the net operating loss carryover, foreign tax credit carryover, capital loss carryover, and alternative minimum tax credit carryover as follows:

As of			
June 30, 2016	December 31, 2015	Expiration	
		Dates	Amount

	Carryover amount	Expected tax benefit, gross	Carryover amount	Expected tax benefit, gross		
Net operating loss carryover - U.S.	$5,020	$ 1,757	$5,182	$ 1,814	2016-2020	$ 4
					2023-2036	$ 5,016
Net operating loss carryover - foreign	$80	$ 16	$89	$ 17	No expiration	$ 80
Foreign tax credit carryover	$138	$ 138	$154	$ 154	2020-2024	$ 138
Capital loss carryover	$60	$ 21	$222	$ 78	2019	$ 60
Alternative minimum tax credit carryover	$639	$ 639	$639	$ 639	No expiration	$ 639

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Net Operating Loss Carryover

Due to limitations on the use of losses for one subsidiary, a valuation allowance of $1 has been established as of June 30, 2016 and December 31, 2015 in order to recognize only the portion of net operating losses that will more likely than not be realized.

Utilization of these loss carryovers is dependent upon the generation of sufficient future taxable income. Most of the net operating loss carryover originated from the Company's U.S. and international annuity business, including from the hedging program. Given the continued runoff of the U.S. fixed and variable annuity business, the exposure to taxable losses from the Talcott Resolution business is significantly lessened. Given the expected earnings of its property and casualty, group benefits and mutual fund businesses, the Company expects to generate sufficient taxable income in the future to utilize its net operating loss carryover net of the recorded valuation allowance. Although the Company projects there will be sufficient future taxable income to fully recover the remainder of the loss carryover, the Company's estimate of the likely realization may change over time.

Alternative Minimum Tax Credit and Foreign Tax Credit Carryover

These credits are available to offset regular federal income taxes from future taxable income and although the Company believes there will be sufficient future regular federal taxable income, there can be no certainty that future events will not affect the ability to utilize the credits. Additionally, the use of the foreign tax credits generally depends on the generation of sufficient taxable income to first utilize all U.S. net operating loss carryover. However, the Company has identified and begun to purchase certain investments which allow for utilization of the foreign tax credits without first using the net operating loss carryover. Consequently, the Company believes it is more likely than not the foreign tax credit carryover will be fully realized. Accordingly, no valuation allowance has been provided on either the alternative minimum tax carryover or foreign tax credit carryover.

Capital Loss Carryover

Utilization of the capital loss carryover requires the Company to realize sufficient taxable capital gains. Based on tax capital gains realized to date and in consideration of tax planning strategies the company can employ to generate capital gains in the future, the Company concluded it is more likely than not that the remaining capital loss carryovers will be utilized. Accordingly, the valuation allowance on capital loss carryovers was reduced to zero as of June 30, 2016. The tax benefit from the reduction of the deferred tax valuation allowance was $53 and $78 in the three and six months ended June 30, 2016.

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

Litigation
The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties in the following discussion under the caption "Asbestos and Environmental Claims," management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.
The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, and in addition to the matters in the following discussion, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, disability, life and inland marine. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims or other allegedly unfair or improper business practices. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in particular quarterly or annual periods.
In addition to the inherent difficulty of predicting litigation outcomes, the Mutual Funds Litigation identified below purports to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel applications of complex legal theories. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company's experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. The application of the legal standard identified by the court for assessing the potentially available damages, as described below, is inherently unpredictable, and no legal precedent has been identified that would aid in determining a reasonable estimate of potential loss. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any.
Mutual Funds Litigation — In February 2011, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of New Jersey, alleging that Hartford Investment Financial Services, LLC ("HIFSCO"), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. HIFSCO moved to dismiss and, in September 2011, the motion was granted in part and denied in part, with leave to amend the complaint. In November 2011, plaintiffs filed an amended complaint on behalf of The Hartford Global Health Fund, The Hartford Conservative Allocation Fund, The Hartford Growth Opportunities Fund, The Hartford Inflation Plus Fund, The Hartford Advisors Fund, and The Hartford Capital Appreciation Fund. Plaintiffs seek to rescind the investment management agreements and distribution plans between HIFSCO and these funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received, in addition to lost earnings. HIFSCO filed a partial motion to dismiss the amended complaint and, in December 2012, the court dismissed without prejudice the claims regarding distribution fees and denied the motion with respect to the advisory fees claims. In March 2014, the plaintiffs filed a new complaint that, among other things, added as new plaintiffs The Hartford Floating Rate Fund and The Hartford Small Company Fund and named as a defendant Hartford Funds Management Company, LLC ("HFMC"), an indirect subsidiary of the Company which assumed the role as advisor to

the funds as of January 2013. In June 2015, HFMC and HIFSCO moved for summary judgment, and plaintiffs cross-moved for partial summary judgment with respect to The Hartford Capital Appreciation Fund. In March 2016, the court, in large part, denied summary judgment for all parties. The court granted judgment for HFMC and HIFSCO with respect to all claims made by The Hartford Small Company Fund and certain claims made by The Hartford Floating Rate Fund. The court further ruled that the appropriate measure of damages on the surviving claims is the difference, if any, between the actual advisory fees paid through trial and those that could have been paid under the applicable legal standard. There is currently no trial date, but the matter may be set for trial as early as September 2016.

Asbestos and Environmental Claims – As discussed in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance - Property & Casualty Other Operations Claims, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford’s consolidated operating results and liquidity.

Derivative Commitments

Certain of the Company’s derivative agreements contain provisions that are tied to the financial strength ratings, as set by nationally recognized statistical agencies, of the individual legal entity that entered into the derivative agreement. If the legal entity’s financial strength were to fall below certain ratings, the counterparties to the derivative agreements could demand immediate and ongoing full collateralization and in certain instances demand immediate settlement of all outstanding derivative positions traded under each impacted bilateral agreement. The settlement amount is determined by netting the derivative positions transacted under each agreement. If the termination rights were to be exercised by the counterparties, it could impact the legal entity’s ability to conduct hedging activities by increasing the associated costs and decreasing the willingness of counterparties to transact with the legal entity. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position as of June 30, 2016 is $1.3 billion. Of this $1.3 billion the legal entities have posted collateral of $1.6 billion in the normal course of business. In addition, the Company has posted collateral of $31 associated with a customized GMWB derivative. Based on derivative market values as of June 30, 2016 a downgrade of one or two levels below the current financial strength ratings by either Moody’s or S&P would not require additional assets to be posted as collateral. These collateral amounts could change as derivative market values change, as a result of changes in our hedging activities or to the extent changes in contractual terms are negotiated. The nature of the collateral that we would post, if required, would be primarily in the form of U.S. Treasury bills, U.S. Treasury notes and government agency securities.

9. Equity

Capital Purchase Program ("CPP") Warrants

As of June 30, 2016 and December 31, 2015, respectively, the Company has 4.2 million and 4.4 million of CPP warrants outstanding and exercisable. There were no CPP warrant exercises for the three months ended June 30, 2016 and 1.0 million during the three months ended 2015 and 0.2 million and 1.6 million during the six months ended June 30, 2016 and 2015, respectively.

The declaration of common stock dividends by the Company in excess of a threshold triggers a provision in the Company's warrant agreement with The Bank of New York Mellon resulting in adjustments to the CPP warrant exercise price. Accordingly, the declaration of a common stock dividend during the three months ended June 30, 2016 resulted in an adjustment to the CPP warrant exercise price. The CPP warrant exercise price was $9.197 as of June 30, 2016 and $9.264 as of December 31, 2015.

Equity Repurchase Program

The following summarizes equity repurchase activity in 2016 and remaining repurchase capacity as of June 30, 2016.

Three months ended	Common Shares Repurchased	Cost of Shares Repurchased	Average Price Paid per Share	Remaining Capacity Under Share Repurchase Authorization

(In millions, except for per share data)				
March 31, 2016	8.4	$ 350	$ 41.72	
June 30, 2016	7.8	$ 350	$ 44.74	
Total	16.2	$ 700		$ 630

During the period July 1, 2016 to July 27, 2016, the Company repurchased 2.0 million common shares for $89.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Changes In and Reclassifications From Accumulated Other Comprehensive Income

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

Three months ended June 30, 2016

	Changes in					
	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$1,801	$(15)	$ 184	$ (49)	$ (1,667)	$254
OCI before reclassifications	696	3	26	(19)	—	706
Amounts reclassified from AOCI	(60)	2	(10)	—	8	(60)
OCI, net of tax	636	5	16	(19)	8	646
Ending balance	$2,437	$(10)	$ 200	$ (68)	$ (1,659)	$900

Six months ended June 30, 2016

	Changes in					
	Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$1,279	$(7)	$ 130	$ (55)	$ (1,676)	$(329)
OCI before reclassifications	1,191	(6)	95	(13)	—	1,267
Amounts reclassified from AOCI	(33)	3	(25)	—	17	(38)
OCI, net of tax	1,158	(3)	70	(13)	17	1,229
Ending balance	$2,437	$(10)	$ 200	$ (68)	$ (1,659)	$900

Reclassifications from AOCI consist of the following:

AOCI	Amount Reclassified from AOCI		Affected Line Item in the Condensed Consolidated Statement of Operations
	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	
Net Unrealized Gain on Securities			
Available-for-sale securities	$92	$ 51	Net realized capital gains (losses)
	92	51	Total before tax
	32	18	Income tax expense (benefit)
	$60	$ 33	Net income
OTTI Losses in OCI			
Other than temporary impairments	$(3)	$ (4)	Net realized capital gains (losses)
	(3)	(4)	Total before tax
	(1)	(1)	Income tax expense (benefit)
	$(2)	$ (3)	Net income
Net Gains on Cash Flow Hedging Instruments			

Interest rate swaps	$ 2	$ 7	Net realized capital gains (losses)
Interest rate swaps	15	30	Net investment income
Foreign currency swaps	(2)	2	Net realized capital gains (losses)
	15	39	Total before tax
	5	14	Income tax expense (benefit)
	$ 10	$ 25	Net income
Pension and Other Postretirement Plan Adjustments			
Amortization of prior service credit	$ 1	$ 3	Insurance operating costs and other expenses
Amortization of actuarial loss	(14)	(29)	Insurance operating costs and other expenses
	(13)	(26)	Total before tax
	(5)	(9)	Income tax expense (benefit)
	$ (8)	$ (17)	Net income
Total amounts reclassified from AOCI	$ 60	$ 38	Net income

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

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

Three months ended June 30, 2015

	Changes in Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$2,578	$ (8)	$ 177	$ (28)	$ (1,569)	$1,150
OCI before reclassifications	(917)	1	(41)	4	18	(935)
Amounts reclassified from AOCI	(4)	—	(14)	—	(9)	(27)
OCI, net of tax	(921)	1	(55)	4	9	(962)
Ending balance	$1,657	$ (7)	$ 122	$ (24)	$ (1,560)	$188

Six months ended June 30, 2015

	Changes in Net Unrealized Gain on Securities	OTTI Losses in OCI	Net Gain on Cash Flow Hedging Instruments	Foreign Currency Translation Adjustments	Pension and Other Postretirement Plan Adjustments	AOCI, net of tax
Beginning balance	$2,370	$ (5)	$ 150	$ (8)	$ (1,579)	$928
OCI before reclassifications	(685)	(3)	(10)	(16)	37	(677)
Amounts reclassified from AOCI	(28)	1	(18)	—	(18)	(63)
OCI, net of tax	(713)	(2)	(28)	(16)	19	(740)
Ending balance	$1,657	$ (7)	$ 122	$ (24)	$ (1,560)	$188

Reclassifications from AOCI consist of the following:

AOCI	Amount Reclassified from AOCI Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	Affected Line Item in the Condensed Consolidated Statement of Operations
Net Unrealized Gain on Securities			
Available-for-sale securities	$ 6	$ 43	Net realized capital gains (losses)
	6	43	Total before tax
	2	15	Income tax expense (benefit)
	$ 4	$ 28	Net income
OTTI Losses in OCI			
Other than temporary impairments	$ —	$ (1)	Net realized capital gains (losses)
	—	(1)	Total before tax
	—	—	Income tax expense (benefit)
	$ —	$ (1)	Net income
Net Gains on Cash Flow Hedging Instruments			

Interest rate swaps	$ 2	$ 3	Net realized capital gains (losses)
Interest rate swaps	16	32	Net investment income
Foreign currency swaps	3	(7)	Net realized capital gains (losses)
	21	28	Total before tax
	7	10	Income tax expense (benefit)
	$ 14	$ 18	Net income
Pension and Other Postretirement Plan Adjustments			
Amortization of prior service credit	$ (1)	$ (3)	Insurance operating costs and other expenses
Amortization of actuarial loss	15	31	Insurance operating costs and other expenses
	14	28	Total before tax
	5	10	Income tax expense (benefit)
	$ 9	$ 18	Net income
Total amounts reclassified from AOCI	$ 27	$ 63	Net income

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

The Company’s employee benefit plans are described in Note 16 - Employee Benefit Plans of Notes to Consolidated Financial Statements included in The Hartford’s 2015 Annual Report on Form 10-K.

Components of Net Periodic Cost (Benefit)

Net periodic cost (benefit) included the following components:

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Service cost	$ 1	$ 1	$ —	$ —
Interest cost	59	58	3	3
Expected return on plan assets	(76)	(78)	(3)	(3)
Amortization of prior service credit	—	—	(1)	(1)
Amortization of actuarial loss	13	14	1	1
Net periodic benefit	$ (3)	$ (5)	$ —	$ —

	Pension Benefits		Other Postretirement Benefits	
	Six months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Service cost	$ 1	$ 1	$ —	$ —
Interest cost	118	117	6	6
Expected return on plan assets	(153)	(156)	(5)	(6)
Amortization of prior service credit	—	—	(3)	(3)
Amortization of actuarial loss	27	29	2	2
Net periodic benefit	$ (7)	$ (9)	$ —	$ (1)

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Subsequent Event

On July 26, 2016, the Company announced it had entered into an agreement to sell its U.K. property and casualty run-off subsidiaries, Downlands Liability Management Limited and Hartford Financial Products International Limited, to Catalina Holdings UK Limited. This transaction is not expected to have a material gain or loss, net of tax effects. This transaction is expected to close in the fourth quarter of 2016, subject to regulatory approvals and other customary closing conditions.

The following table summarizes the assets and liabilities to be transferred by the Company in connection with the sale.

	Carrying Value as of June 30, 2016
Assets	
Cash and investments	$ 761
Reinsurance recoverables	$ 174
Other assets	$ 41
Liabilities	
Reserve for future policy benefits and unpaid loss and loss adjustment expenses	$ 650
Other liabilities	$ 15

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

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

The Hartford provides projections and other forward-looking information in the following discussions, which contain many forward-looking statements, particularly relating to the Company’s future financial performance. These forward-looking statements are estimates based on information currently available to the Company, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to the cautionary statements set forth on pages 3 and 4 of this Form 10-Q. Actual results are likely to differ, and in the past have differed, materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each following discussion and in Part I, Item 1A, Risk Factors in The Hartford’s 2015 Form 10-K Annual Report, and those identified from time to time in our other filings with the Securities and Exchange Commission. The Hartford undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise.

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

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THE HARTFORD’S OPERATIONS

Overview

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

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

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

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

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

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

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

For further information on the Company's reporting segments refer to Part I, Item 1, Business - Reporting Segments in The Hartford’s 2015 Form 10-K Annual Report.

Financial Highlights - Second Quarter 2016

- Net income was $216, or $0.55 per basic share and $0.54 per diluted share, compared with second quarter 2015 net income of $413, or $0.99 per basic share and $0.96 per diluted share.
- Common share repurchases totaled $350, or 7.8 million shares and $85 of dividends were paid to shareholders.
- Book value per diluted common share (excluding AOCI) increased to $44.74 from $44.27 as of March 31, 2016 due to the effect of net income less dividends.
- Net investment income decreased 8% to $735 compared with second quarter 2015 due to a decrease in income from limited partnerships and other alternative investments.
- Net realized capital gains increased by $44 compared with second quarter 2015 primarily due to gains on the sale of corporate securities, U.S. Treasury securities and municipal bonds, partially offset by a change from net gains to net losses on non-qualifying derivatives.
- Annualized investment yield of 4.2%, before tax, decreased from 4.5%, before tax, compared with second quarter 2015, primarily due to lower income from limited partnerships. Average reinvestment rate of 3.2%, excluding certain U.S. Treasury securities and cash equivalent securities, was lower than the rate for second quarter 2015 of 3.5%, largely due to lower interest rates.
- Net unrealized gains, after-tax, in the investment portfolio increased by $636 compared with second quarter 2015 due to lower interest rates and tighter credit spreads.
- Property & Casualty written premiums were slightly lower when compared with second quarter 2015 driven by a decrease in Personal Lines.
- Property & Casualty combined ratio increased 9.2points to 112.0 compared with second quarter 2015 of 102.8.
- Commercial Lines current accident year underwriting results before catastrophes decreased due to higher non-catastrophe property and general liability losses, as well as higher underwriting expenses, partially offset by improved workers' compensation results.
- Personal Lines current accident year underwriting results before catastrophes decreased due to higher automobile liability loss costs and modestly higher fire-related homeowners losses.
- Catastrophe losses of $184, before tax, increased from catastrophe losses of $139, before tax, in second quarter 2015.
- Unfavorable prior accident year reserve development, primarily due to increased asbestos and environmental reserves and personal lines auto liability reserves, totaled $351, before tax, compared with unfavorable prior accident year development of $220, before tax, in second quarter 2015.
- Group Benefits net income margin decreased to 6.0% from 6.3% in second quarter 2015.
- Talcott Resolution net income was $104 compared with $217 in second quarter 2015 primarily due to lower fee income and net investment income, and the effect of a $48 tax benefit in second quarter 2015.

CONSOLIDATED RESULTS OF OPERATIONS

Operating Summary	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Earned premiums	$3,444	$3,391	2 %	$6,848	$6,713	2 %
Fee income	422	469	(10 %)	848	928	(9 %)
Net investment income	735	796	(8 %)	1,431	1,605	(11 %)
Net realized capital gains (losses)	53	9	NM	(102)	14	NM
Other revenues	23	20	15 %	43	42	2 %
Total revenues	4,677	4,685	— %	9,068	9,302	(3 %)
Benefits, losses and loss adjustment expenses	3,142	2,812	12 %	5,783	5,375	8 %
Amortization of deferred policy acquisition costs	368	391	(6 %)	742	778	(5 %)
Insurance operating costs and other expenses	912	910	— %	1,821	1,858	(2 %)
Loss on extinguishment of debt	—	21	(100%)	—	21	(100%)
Reinsurance gain on dispositions	—	(8)	100 %	—	(8)	100 %
Interest expense	85	89	(4 %)	171	183	(7 %)
Total benefits, losses and expenses	4,507	4,215	7 %	8,517	8,207	4 %
Income before income taxes	170	470	(64 %)	551	1,095	(50 %)
Income tax expense (benefit)	(46)	57	(181%)	12	215	(94 %)
Net income	$216	$413	(48 %)	$539	$880	(39 %)

Three months ended June 30, 2016 compared to the three months ended June 30, 2015

Net income, compared to the prior year period, decreased for the three months ended June 30, 2016 primarily due to lower net investment income and fee income and an increase in Property & Casualty incurred losses, partially offset by an increase in net realized capital gains. The increase in incurred losses included higher unfavorable prior accident year reserve development, an increase in catastrophe losses and an increase in current accident year losses and loss adjustment expenses before catastrophes.

Earned premiums. The increase in earned premium of 2% or $53, before tax, reflected growth of 2% in Commercial Lines and 1% in Personal Lines. For a discussion of the Company's operating results by segment, see the segment sections of MD&A.

Fee income. The decrease in fee income was primarily due to the continued runoff of the Talcott Resolution variable annuity block.

Net investment income. The decrease in net investment income was primarily due to a decrease in income from limited partnerships and alternative investments. For further discussion of investment results, see MD&A - Investment Results, Net Investment Income (Loss).

Net realized capital gains. The increase was primarily due to net gains on the sale of corporate securities, U.S. Treasury securities and municipal bonds, partially offset by a change from net gains to net losses on non-qualifying derivatives for the three months ended June 30, 2016. For further discussion of investment results, see MD&A - Investment Results, Net Realized Capital Gains (Losses).

Incurred losses.

- A $102, before tax, increase in current accident year losses and loss adjustment expenses before catastrophes in Property & Casualty, primarily resulting from higher losses on Personal Lines auto liability and non-catastrophe property claims.
- Current accident year catastrophe losses of $184, before tax, for the three months ended June 30, 2016, compared to $139, before tax, for the prior year period. Catastrophe losses in 2016 were primarily due to multiple wind and hail events across various U.S. geographic regions, concentrated in Texas and the central plains. Catastrophe losses in 2015 were primarily due to multiple wind and hail events across various U.S. geographic regions. For additional information, see MD&A - Critical Accounting Estimates, Property & Casualty Insurance Product Reserves, Net of Reinsurance.
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Unfavorable prior accident year reserve development in Property and Casualty of $351, before tax, for the three months ended June 30, 2016, compared to unfavorable reserve development of $220, before tax, for the prior year period.

Prior accident year reserve development in 2016 was due to an increase in asbestos reserves of $197 primarily related to greater than expected mesothelioma claim filings for a small percentage of defendants in specific, adverse jurisdictions. As a result, aggregate indemnity and defense costs have not declined as expected. Environmental reserves increased $71 in 2016 primarily due to deterioration associated with the tendering of new sites for policy coverage, increased defense costs stemming from individual bodily injury liability suits, and increased clean-up costs associated with waterways. Reserves were increased by $75 in Personal Lines auto liability primarily for accident year 2015 due to higher than expected emerged auto liability frequency and severity.

Prior accident year reserve development in 2015 was primarily due to an increase in asbestos reserves of $146 and environmental reserves of $52. For additional information, see MD&A - Critical Accounting Estimates, Reserve Roll Forwards and Development.

Loss on extinguishment of debt. The decrease in the loss on extinguishment of debt was related to the redemption of $296 aggregate principal amount outstanding of 4.0% senior notes in 2015.

Income taxes. Differences between the Company's effective income tax rate and the U.S. statutory rate of 35% are due primarily to tax-exempt interest earned on invested assets, the dividends received deduction and changes in the valuation allowance recorded on capital loss carryovers. Income tax benefit for the three months ended June 30, 2016 included a federal income tax benefit of $53 related to the reduction of the deferred tax valuation allowance on capital loss carryovers due to taxable gains on the termination of certain derivatives during the period. The three months ended June 30, 2015 included a $48 federal income tax benefit arising from the conclusion of the 2007 to 2011 IRS audit. For further discussion of income taxes, see Note 7 - Income Taxes of Notes to Condensed Consolidated Financial Statements.

Six months ended June 30, 2016 compared to the six months ended June 30, 2015

Net income, compared to the prior year period, decreased for the six months ended June 30, 2016 primarily due to lower net investment income and fee income, an increase in Property & Casualty incurred losses and a change to net realized capital losses. The increase in incurred losses included higher unfavorable prior accident year reserve development, an increase in catastrophe losses and an increase in current accident year losses and loss adjustment expenses before catastrophes.

Earned premiums. The increase of 2% or $135, before tax, reflected growth of 2% in both Commercial Lines and Personal Lines. For a discussion of the Company's operating results by segment, see the segment sections of MD&A.

Net investment income. The decrease in net investment income was primarily due to a decrease in income from limited partnerships and other alternative investments. For further discussion of investment results, see MD&A - Investment Results, Net Investment Income (Loss).

Net realized capital gains (losses). The change to net realized capital losses from net realized capital gains was primarily due to losses associated with modified coinsurance reinsurance contracts driven by a decline in interest rates and credit spread tightening, as well as losses on equity derivatives and interest rate derivatives. For further discussion of investment results, see MD&A - Investment Results, Net Realized Capital Gains (Losses).

Incurred losses.

- A $101, before tax, increase in current accident year losses and loss adjustment expenses before catastrophes in Property & Casualty, primarily resulting from higher losses on Personal Lines auto liability and non-catastrophe property claims.
- Current accident year catastrophe losses of $275, before tax, for the six months ended June 30, 2016, compared to $222, before tax, for the prior year period. Catastrophe losses in 2016 were primarily due to multiple wind and hail events across various U.S. geographic regions, concentrated in Texas and the central and southern plains and, to a lesser extent, winter storms. Catastrophe losses in 2015 were primarily due to multiple wind and hail events across various U.S. geographic regions. For additional information, see MD&A - Critical Accounting Estimates, Property & Casualty Insurance Product Reserves, Net of Reinsurance.
- Unfavorable prior accident year reserve development in Property and Casualty of $384, before tax, for the six months ended June 30, 2016, compared to unfavorable reserve development of $218, before tax, for the prior year period.

Prior accident year reserve development in 2016 was due to increases in asbestos reserves of $197 and environmental reserves of $71, as discussed above. Reserves were increased in Personal Lines auto liability for accident years 2014 and 2015, primarily due to higher than expected emerged auto liability frequency and severity.

Prior accident year reserve development in 2015 was primarily due to an increase in asbestos reserves of $146 and environmental reserves of $52. For additional information, see MD&A - Critical Accounting Estimates, Reserve Roll Forwards and Development.

Income taxes. Differences between the Company's effective income tax rate and the U.S. statutory rate of 35% are due primarily to tax-exempt interest earned on invested assets, the dividends received deduction and changes in the valuation allowance recorded on capital loss carryovers. Income tax expense for the six months ended June 30, 2016

included a federal income tax benefit of $78 related to the partial reduction of the deferred tax valuation allowance on capital loss carryovers due to taxable gains on the termination of certain derivatives during the period. The six months ended June 30, 2015 included a $48 federal income tax benefit arising from the conclusion of the 2007 to 2011 IRS audit. For further discussion of income taxes, see Note 7 - Income Taxes of Notes to Condensed Consolidated Financial Statements.

INVESTMENT RESULTS

Composition of Invested Assets

	June 30, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
Fixed maturities, available-for-sale ("AFS"), at fair value	$61,241	81.5 %	$59,196	81.4 %
Fixed maturities, at fair value using the fair value option ("FVO")	411	0.6 %	503	0.7 %
Equity securities, AFS, at fair value [1]	827	1.1 %	1,121	1.5 %
Mortgage loans	5,659	7.5 %	5,624	7.7 %
Policy loans, at outstanding balance	1,436	1.9 %	1,447	2.0 %
Limited partnerships and other alternative investments	2,578	3.4 %	2,874	4.0 %
Other investments [2]	495	0.7 %	120	0.2 %
Short-term investments	2,497	3.3 %	1,843	2.5 %
Total investments	$75,144	100.0%	$72,728	100.0%

[1] Included equity securities at fair value using the FVO of $282 as of December 31, 2015. The Company did not hold any equity securities, FVO as of June 30, 2016.

[2] Primarily relates to derivative instruments.

The increase in total investments since December 31, 2015, was primarily the result of an increase in fixed maturities, AFS and short-term investments, partially offset by a decrease in limited partnerships and other alternative investments and equity securities, AFS. The increase in fixed maturities, AFS is primarily due to an increase in valuations as a result of a decline in interest rates as well as tighter credit spreads. The increase in short-term investments was largely due to portfolio management and the timing of the reinvestment of assets into longer duration asset classes. The decline in limited partnerships and other alternative investments was primarily due to redemptions in hedge fund investments which were reinvested into other asset classes. The decrease in equity, AFS was primarily due to sales with proceeds reinvested into other asset classes.

Net Investment Income (Loss)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
(Before tax)	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]	Amount	Yield [1]
Fixed maturities [2]	$604	4.3%	$603	4.2 %	$1,199	4.2%	$1,203	4.2 %
Equity securities, AFS	6	2.6%	5	2.1 %	17	3.7%	11	2.1 %
Mortgage loans	60	4.3%	71	4.9 %	120	4.3%	140	4.9 %
Policy loans	20	5.7%	20	5.3 %	42	5.9%	40	5.4 %
Limited partnerships and other alternative investments	40	6.1%	94	12.9%	48	3.6%	193	13.5%
Other [3]	34		31		61		73	
Investment expense	(29)		(28)		(56)		(55)	
Total net investment income	735	4.2%	796	4.5 %	1,431	4.1%	1,605	4.5 %
Total net investment income excluding limited partnerships and other alternative investments	$695	4.1%	$702	4.1 %	$1,383	4.1%	$1,412	4.1 %

[1] Yields calculated using annualized net investment income divided by the monthly average invested assets at cost, amortized cost, or adjusted carrying value, as applicable, excluding repurchase agreement and securities lending collateral, if any, and derivatives book value.

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

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

Three and six months ended June 30, 2016, compared to the three and six months ended June 30, 2015

Total net investment income for the three and six months ended June 30, 2016, decreased as compared to the three and six months ended June 30, 2015, primarily due to a decrease in income from limited partnerships and other alternative

investments. The decline in partnership income was primarily due to higher income received in the prior year periods from both sales of underlying companies within private equity funds and valuation improvements on real estate funds. Excluding limited partnerships and other alternative investments, net investment income for the three and six months ended June 30, 2016 declined as compared to the three and six months ended June 30, 2015, primarily due to lower income from make-whole premiums on fixed maturities and prepayment premiums on mortgage loans as well as the effect of reinvesting at lower interest rates and a decrease in invested asset levels as a result of the run-off of Talcott Resolution.

The annualized net investment income yield, excluding limited partnerships and other alternative investments, was 4.1% for the six months ended June 30, 2016, consistent with the same period in 2015. Excluding income received from make-whole payments on fixed maturities and prepayment premiums on mortgage loans, the annualized investment income yield, excluding limited partnerships and other alternative investments, was 4.0%, for the six months ended June 30, 2016, consistent with the yield of the same period in 2015.
The average reinvestment rate, excluding certain U.S. Treasury securities and cash equivalent securities, for the six months ended June 30, 2016, was approximately 3.5%, which was below the average yield of sales and maturities of 4.2% for the same period due to the current interest rate environment and purchases of floating rate agency RMBS and CMBS.
Going forward, if interest rates continue to stay at current levels, we expect the annualized net investment income yield, excluding limited partnerships and other alternative investments, to decline from the current net investment income yield due to lower reinvestment rates. The estimated impact on net investment income is subject to change as the composition of the portfolio changes through portfolio management and trading activities and changes in market conditions.
Net Realized Capital Gains (Losses)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Before tax)	2016	2015	2016	2015
Gross gains on sales	$124	$121	$214	$318
Gross losses on sales	(25)	(112)	(133)	(260)
Net other-than-temporary impairment ("OTTI") losses recognized in earnings	(7)	(11)	(30)	(23)
Valuation allowances on mortgage loans	—	—	—	(3)
Periodic net coupon settlements on credit derivatives	—	4	—	5
Results of variable annuity hedge program				
GMWB derivatives, net	3	(4)	(14)	(3)
Macro hedge program	(20)	(23)	(34)	(27)
Total results of variable annuity hedge program	(17)	(27)	(48)	(30)
Other, net [1]	(22)	34	(105)	7
Net realized capital gains (losses)	$53	$9	$(102)	$14

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

Details on the Company’s net realized capital gains and losses are as follows:
Gross Gains and Losses on Sales

- Gross gains on sales for the three and six months ended June 30, 2016, were primarily due to gains on the sale of corporate securities due to attractive tender offers, U.S. Treasury securities and bonds of municipalities and political subdivisions ("municipal bonds"). Gross losses on sales for the three and six months ended June 30, 2016, were primarily the result of losses on the sale of corporate and equity securities. The sales were primarily a result of duration, liquidity and credit management as well as tactical changes to the portfolio as a result of changing market conditions, including sales to reduce exposure to energy, emerging markets and other below investment grade corporate securities.
- Gross gains on sales for the three months ended June 30, 2015 were primarily due to gains on the sale of equity, industrial corporate, CMBS, and U.S. treasury securities. Gross losses on sales for the three months ended June 30, 2015 were primarily the result of losses on the sale of equity, U.S. treasury, and industrial corporate securities. Gross gains on sales for the six months ended June 30, 2015 were primarily due to gains on the sale of industrial corporate, equity and U.S. treasury securities. Gross losses on sales for the six months ended June 30, 2015 were primarily the result of losses on the sale of industrial and financial corporate securities as well as equity and U.S. treasury securities. The sales were primarily a result of duration, liquidity and credit management, as well as tactical changes to the

portfolio as a result of changing market conditions.

Net OTTI Losses

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

Variable Annuity Hedge Program

- For the six months ended June 30, 2016, the net loss related to the combined GMWB hedging program which includes the GMWB product, reinsurance, and hedging derivatives, was primarily due to losses of $15 driven by an increase in the U.S. equity markets.
- For the three months and six months ended June 30, 2016, the losses on the macro hedge program were primarily due to losses of $22 and $33, respectively, driven by an increase in equity markets and losses of $11 and $21, respectively, driven by time decay on options, partially offset by gains of $5 and $20, respectively, driven by a decline in interest rates and gains of $9 and $4, respectively, driven by an increase in equity volatility.
- For the three and six months ended June 30, 2015, the losses on the macro hedge program were primarily due to losses of $11 and $23, respectively, driven by time decay on options, and losses of $9 and $2, respectively, driven by an increase in interest rates.

Other, Net

- Other, net losses for the three and six months ended June 30, 2016, included losses of $25 and $47, respectively, associated with modified coinsurance reinsurance contracts driven by a decline in interest rates and tightening of credit spreads. Modified coinsurance reinsurance contracts are accounted for as embedded derivatives and transfer to the reinsurer the investment experience related to the assets supporting the reinsured policies. Additional losses for the six months ended June 30, 2016, were due to losses of $27 on equity derivatives which were hedging against a decline in the equity market on the investment portfolio, losses of $13 on interest rate derivatives driven by a decline in interest rates, and losses of $12 related to the fixed payout annuity hedge driven by a decline in U.S. interest rates.
- Other, net gains for the three and six months ended June 30, 2015, were primarily due to gains of $37 and $26, respectively, associated with modified coinsurance reinsurance contracts, primarily driven by an increase in long-term interest rates. For the six months ended June 30, 2015, these gains were partially offset by losses of $15 related to the fixed payout annuity hedge driven by a decline in short term U.S. interest rates and the depreciation of the Japanese yen in relation to the U.S. dollar.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ, and in the past have differed, from those estimates.

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

- property and casualty insurance product reserves, net of reinsurance;
- estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts;
- evaluation of other-than-temporary impairments on available-for-sale securities and valuation allowances on mortgage loans;
- living benefits required to be fair valued (in other policyholder funds and benefits payable);
- evaluation of goodwill for impairment;
- valuation of investments and derivative instruments;
- valuation allowance on deferred tax assets; and
- contingencies relating to corporate litigation and regulatory matters.

Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the Condensed Consolidated Financial Statements. In developing these estimates, management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available upon compilation of the financial statements.

The Company’s critical accounting estimates are discussed in Part II, Item 7 MD&A in the Company’s 2015 Form 10-K Annual Report. The following discussion updates certain of the Company’s critical accounting estimates as of June 30, 2016.

Property & Casualty Insurance Product Reserves, Net of Reinsurance
Reserve Roll Forwards and Development
Based on the results of the quarterly reserve review process, the Company determines the appropriate reserve adjustments, if any, to record. Recorded reserve estimates are adjusted after consideration of numerous factors, including but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, adjustments are made more quickly to more mature accident years and less volatile lines of business. Such adjustments of reserves are referred to as "prior accident year development". Increases in previous estimates of ultimate loss costs are referred to as either an increase in prior accident year reserves or as unfavorable reserve development. Decreases in previous estimates of ultimate loss costs are referred to as either a decrease in prior accident year reserves or as favorable reserve development. Reserve development can influence the comparability of year over year underwriting results and is set forth in the paragraphs and tables that follow.
A roll-forward of property and casualty insurance product liabilities for unpaid losses and loss adjustment expenses follows:
Six Months Ended June 30, 2016

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$ 16,559	$ 1,845	$ 3,421	$ 21,825
Reinsurance and other recoverables	2,293	19	570	2,882
Beginning liabilities for unpaid losses and loss adjustment expenses, net	14,266	1,826	2,851	18,943
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	1,851	1,321	—	3,172
Current accident year catastrophes [3]	124	151	—	275
Prior accident year development	(14)	128	270	384
Total provision for unpaid losses and loss adjustment expenses	1,961	1,600	270	3,831
Less: payments	1,739	1,471	406	3,616
Ending liabilities for unpaid losses and loss adjustment expenses, net	14,488	1,955	2,715	19,158
Reinsurance and other recoverables	2,184	18	544	2,746
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$ 16,672	$ 1,973	$ 3,259	$ 21,904
Earned premiums	$ 3,273	$ 1,951		
Loss and loss expense paid ratio [1]	53.1	75.4		
Loss and loss expense incurred ratio	59.9	82.0		
Prior accident year development (pts) [2]	(0.4)	6.6		

[1] The "loss and loss expense paid ratio" represents the ratio of paid losses and loss adjustment expenses to earned premiums.
[2] "Prior accident year development (pts)" represents the ratio of prior accident year development to earned premiums.
[3] Contributing to the current accident year catastrophes losses were the following events:
Six Months Ended June 30, 2016

Category	Commercial Lines	Personal Lines	Total Property & Casualty Insurance
Wind and hail [1]	$ 98	$ 144	$ 242
Winter storms [1]	26	7	$ 33

Total	$ 124	$ 151	$ 275

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

Prior accident year development recorded in 2016

Included within prior accident year development were the following increases (decreases) to reserves:

Three Months Ended June 30, 2016

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance
Auto liability	$ (8)	$ 75	$ —	$ 67
Homeowners	—	1	—	1
Package business	7	—	—	7
General liability	34	—	—	34
Commercial property	(1)	—	—	(1)
Net asbestos reserves	—	—	197	197
Net environmental reserves	—	—	71	71
Workers’ compensation	(4)	—	—	(4)
Workers’ compensation discount accretion	7	—	—	7
Catastrophes	1	1	—	2
Uncollectible reinsurance	(30)	—	—	(30)
Other reserve re-estimates, net	—	(1)	1	—
Total prior accident year development	$ 6	$ 76	$ 269	$ 351

Six Months Ended June 30, 2016

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance
Auto liability	$ 1	$ 140	$ —	$ 141
Homeowners	—	(5)	—	(5)
Professional liability	(33)	—	—	(33)
Package business	52	—	—	52
General liability	66	—	—	66
Bond	(6)	—	—	(6)
Commercial property	(3)	—	—	(3)
Net asbestos reserves	—	—	197	197
Net environmental reserves	—	—	71	71
Workers’ compensation	(83)	—	—	(83)
Workers’ compensation discount accretion	14	—	—	14
Catastrophes	(1)	(4)	—	(5)
Uncollectible reinsurance	(30)	—	—	(30)
Other reserve re-estimates, net	9	(3)	2	8
Total prior accident years development	$ (14)	$ 128	$ 270	$ 384

During the three and six months ended June 30, 2016, the Company’s re-estimates of prior accident year reserves included the following significant reserve changes:

- Increased reserves in personal lines auto liability in the three month period, primarily due to higher than expected emerged severity of bodily injury claims and higher than expected emerged frequency of uninsured and under-insured motorist claims related to accident year 2015. For the six month period, unfavorable reserve development primarily related to increased bodily injury frequency and severity for the 2015 accident year and increased bodily injury severity for the 2014 accident year. Increases in auto liability loss costs were across both the direct and agency distribution channels.
-

Decreased reserves in professional liability for claims made years 2008-2013, primarily for large accounts, including on non-securities class action cases. Claim costs have emerged favorably as these years have matured and management has placed more weight on the emerged experience.

- Increased reserves in small commercial package business due to higher than expected severity on liability claims, principally for accident years 2013-2015. Severity for these accident years has developed unfavorably and management has placed more weight on emerged experience.

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- Increased reserves in general liability for accident years 2012-2015 primarily due to higher severity losses incurred on a class of business that insures service and maintenance contractors and, in second quarter 2016, increased reserves in general liability for accident years 2008 and 2010 primarily due to indemnity losses and legal costs associated with a litigated claim.
- Decreased reserves in workers' compensation for accident years 2013-2015 due to favorable frequency and, to a lesser extent, lower medical severity trends. Loss costs for these accident years continued to emerge favorably and management has been placing additional weight on this favorable experience as it becomes more credible.
- Decreased reserves for uncollectible reinsurance as a result of giving greater weight to favorable collectability experience in recent calendar periods in estimating future collections.
- Refer to the Property & Casualty Other Operations sections for discussion of the increase in net asbestos, net environmental and other reserve re-estimates, net.

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

Six Months Ended June 30, 2015

	Commercial Lines [3]	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance
Beginning liabilities for unpaid losses and loss adjustment expenses, gross	$ 16,465	$ 1,874	$ 3,467	$ 21,806
Reinsurance and other recoverables	2,459	18	564	3,041
Beginning liabilities for unpaid losses and loss adjustment expenses, net	14,006	1,856	2,903	18,765
Provision for unpaid losses and loss adjustment expenses				
Current accident year before catastrophes	1,837	1,234	—	3,071
Current accident year catastrophes [3]	100	122	—	222
Prior accident year development	19	(4)	203	218
Total provision for unpaid losses and loss adjustment expenses	1,956	1,352	203	3,511
Less: payments	1,838	1,342	143	3,323
Ending liabilities for unpaid losses and loss adjustment expenses, net	14,124	1,866	2,963	18,953
Reinsurance and other recoverables	2,427	17	596	3,040
Ending liabilities for unpaid losses and loss adjustment expenses, gross	$ 16,551	$ 1,883	$ 3,559	$ 21,993
Earned premiums	$ 3,206	$ 1,918		
Loss and loss expense paid ratio [1]	57.3	70.0		
Loss and loss expense incurred ratio	61.0	70.5		
Prior accident year development (pts) [2]	0.6	(0.2)		

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

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

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

Six Months Ended June 30, 2015

Category	Commercial Lines	Personal Lines	Total Property & Casualty Insurance
Wind and hail [1]	$ 21	$ 69	$ 90
Winter storms [1]	62	24	86
Tornadoes [1]	14	28	42
Other	3	1	4
Total	$ 100	$ 122	$ 222

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

Prior accident year development recorded in 2015

Included within prior accident year development were the following increases (decreases) to reserves:

Three Months Ended June 30, 2015

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance
Auto liability	$ 5	$ —	$ —	$ 5
Homeowners	—	6	—	6
Package business	4	—	—	4
General liability	(3)	—	—	(3)
Commercial property	1	—	—	1
Net asbestos reserves	—	—	146	146
Net environmental reserves	—	—	52	52
Workers' compensation discount accretion	7	—	—	7
Catastrophes	4	(4)	—	—
Other reserve re-estimates, net	3	(2)	1	2
Total prior accident year development	$ 21	$ —	$ 199	$ 220

Six Months Ended June 30, 2015

	Commercial Lines	Personal Lines	Property & Casualty Other Operations	Total Property & Casualty Insurance
Auto liability	$ 30	$ —	$ —	$ 30
Homeowners	—	7	—	7
Professional liability	(17)	—	—	(17)
Package business	5	—	—	5
General liability	(16)	—	—	(16)
Commercial property	(6)	—	—	(6)
Net asbestos reserves	—	—	146	146
Net environmental reserves	—	—	55	55
Workers' compensation discount accretion	15	—	—	15
Catastrophes	(2)	(16)	—	(18)
Other reserve re-estimates, net	10	5	2	17
Total prior accident years development	$ 19	$ (4)	$ 203	$ 218

During the three and six months ended June 30, 2015, the Company's re-estimates of prior accident year reserves included the following significant reserve changes:

- Increased reserves in commercial auto liability due to increased frequency of large claims.
- Decreased reserves in professional liability for accident years 2009-2011 primarily for large accounts. Claim costs for these accident years have emerged favorably as these years have matured and management has placed more weight on the emerged experience.
- Decreased reserves in general liability primarily for accident years 2012 and 2013 due to lower frequency in late emerging claims.
- Overall, net workers compensation reserves were largely unchanged as favorable emergence due to claim closure rates improving across several accident years was offset by a decrease in reserve discount and case reserves emerging higher than previous expectations for accident years 2008-2011. The reduction in the amount of workers' compensation loss reserve discount was driven by the improvement in claim closure rates which resulted in a decrease in the number of outstanding claims for permanently disabled claimants.
-

Decreased catastrophe reserves primarily for accident year 2014 as fourth quarter 2014 catastrophes have developed favorably.

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

Property & Casualty Other Operations Claims
Reserve Activity
Reserves and reserve activity in Property & Casualty Other Operations are categorized and reported as asbestos, environmental, or “all other”. The “all other” category of reserves covers a wide range of insurance and assumed reinsurance coverages, including, but not limited to, potential liability for construction defects, lead paint, silica, pharmaceutical products, molestation and other long-tail liabilities.
The following tables present reserve activity, inclusive of estimates for both reported and incurred but not reported claims, net of reinsurance, for Property & Casualty Other Operations, categorized by asbestos, environmental and all other claims.
Property & Casualty Other Operations Losses and Loss Adjustment Expenses

Three Months Ended June 30, 2016	Asbestos		Environmental	All Other [1]	Total
Beginning liability—net [2][3]	$ 1,678		$ 238	$ 873	$ 2,789
Losses and loss adjustment expenses incurred	197		71	1	$ 269
Less: Losses and loss adjustment expenses paid	310	[4]	7	26	$ 343
Ending liability – net [2][3][6]	$ 1,565	[5]	$ 302	$ 848	$ 2,715

Six Months Ended June 30, 2016	Asbestos		Environmental	All Other [1]	Total
Beginning liability—net [2][4]	$ 1,712		$ 247	$ 892	$ 2,851
Losses and loss adjustment expenses incurred	197		71	2	270
Less: losses and loss adjustment expenses paid	344	[4]	16	46	406
Ending liability – net [2][3][6]	$ 1,565	[5]	$ 302	$ 848	$ 2,715

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

[2] Excludes amounts reported in Commercial Lines and Personal Lines reporting segments (collectively “Ongoing Operations”) for asbestos and environmental net liabilities of $14 and $9, respectively, as of December 31, 2015 and $16 and $9, respectively, as of June 30, 2016. Total net losses and loss adjustment expenses incurred for the three and six months ended June 30, 2016 includes $7 and $13, respectively, related to asbestos and environmental claims. Total net losses and loss adjustment expenses paid for the three and six months ended June 30, 2016 includes $7 and $11, respectively, related to asbestos and environmental claims.

[3] Gross of reinsurance, asbestos and environmental reserves, including liabilities in Ongoing Operations, were $2,222 and $287, respectively, as of December 31, 2015 and $2,059 and $343 as of June 30, 2016.

[4] Includes direct payment of $315 related to the settlement of PPG Industries, Inc. ("PPG") asbestos liabilities, net of $53 billed to third-party reinsurers.

[5] The one year and average three year net paid amounts for asbestos claims, including claims in Ongoing Operations, were $432 and $281, respectively, resulting in a one year net survival ratio of 3.7 and a three year net survival ratio of 5.6. Excluding the impact of the PPG settlement, the average one year and three year paid amounts were $170 and $193 respectively, resulting in a one year net survival ratio of 9.3 and a three year net survival ratio of 8.2. Net survival ratio is the quotient of the net carried reserves divided by the average annual payment amount and is an indication of the number of years that the net carried reserve would last (i.e. survive) if the future annual claim payments were consistent with the calculated historical average.

[6] The ending liability - net includes $209 of U.S. asbestos, $42 of U.S. environmental and $243 of all other reserves related to the Company’s U.K. property and casualty run-off business, Hartford Financial Products International Limited.

Three Months Ended June 30, 2015	Asbestos		Environmental	All Other	Total
Beginning liability—net [1][2]	$ 1,667		$ 228	$ 919	$2,814
Losses and loss adjustment expenses incurred	146		52	1	199
Less : losses and loss adjustment expenses paid	36		9	5	50
Ending liability – net [1][2]	$ 1,777	[3]	$ 271	$ 915	$2,963

Six Months Ended June 30, 2015	Asbestos		Environmental	All Other	Total
Beginning liability—net [1][2]	$ 1,710		$ 241	$ 952	$2,903
Losses and loss adjustment expenses incurred	146		55	2	203
Less: losses and loss adjustment expenses paid	79		25	39	143
Ending liability – net [1][2]	$ 1,777	[3]	$ 271	$ 915	$2,963

[1] Excludes amounts reported in Commercial Lines and Personal Lines reporting segments (collectively “Ongoing Operations”) for asbestos and environmental net liabilities of $16 and $6, respectively, as of December 31, 2014 and $17 and $5, respectively, as of June 30, 2015. Total net losses and loss adjustment expenses incurred for the three and six months ended June 30, 2015 includes $4 and $6, respectively, related to asbestos and environmental claims. Total net losses and loss adjustment expenses paid for the three and six months ended June 30, 2015 includes $3 and $6, respectively, related to asbestos and environmental claims.

[2] Gross of reinsurance, asbestos and environmental reserves, including liabilities in Ongoing Operations, were $2,193 and $267, respectively, as of December 31, 2014 and $2,291 and $308 as of June 30, 2015.

[3] The one year and average three year net paid amounts for asbestos claims, including Ongoing Operations, were $201 and $200, respectively, resulting in a one year net survival ratio of 8.9 and a three year net survival ratio of 9.0. Net survival ratio is the quotient of the net carried reserves divided by the average annual payment amount and is an indication of the number of years that the net carried reserve would last (i.e. survive) if the future annual claim payments were consistent with the calculated historical average.

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

Assumed insurance exposures are less predictable than direct insurance exposures because the Company does not generally receive notice of a reinsurance claim until the underlying direct insurance claim is mature. This causes a delay in the receipt of information at the reinsurer level and adds to the uncertainty of estimating related reserves.

London Market exposures are the most uncertain of the three categories of claims. As a participant in the London Market (comprised of both Lloyd's of London and London Market companies), certain subsidiaries of the Company wrote business on a subscription basis, with those subsidiaries' involvement being limited to a relatively small percentage of a total contract placement. Claims are reported, via a broker, to the “lead” underwriter and, once agreed to, are presented to the following markets for concurrence. This reporting and claim agreement process makes estimating liabilities for this business the most uncertain of the three categories of claims.

During the second quarter of 2016, the Company completed its annual evaluation of the collectability of reinsurance recoverables and the adequacy of the allowance for uncollectible reinsurance associated with older, long-term casualty liabilities reported in the Property & Casualty Other Operations segment. In conducting this evaluation, the Company used its most recent detailed evaluations of ceded liabilities reported in the segment. The evaluation in the second quarter of 2016 and 2015 resulted in no material adjustments to the Property & Casualty Other Operations' overall ceded reinsurance reserves, including the allowance for uncollectible reinsurance. As of June 30, 2016 and December 31, 2015, the allowance for uncollectible reinsurance for Property & Casualty Other Operations totaled $200 and

$220, respectively. Due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables become due, particularly for older, long-term casualty liabilities, it is possible that future adjustments to the segment's reinsurance recoverables, net of the allowance, could be required. Within the ongoing operations of Property & Casualty, the Company reduced its estimated allowance for uncollectible reinsurance by $30 in second quarter 2016.

The following table sets forth paid and incurred loss activity by the three categories of claims for asbestos and environmental.

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

Three Months Ended June 30, 2016	Asbestos [1]		Environmental [1]	
	Paid Losses & LAE	Incurred Losses & LAE	Paid Losses & LAE	Incurred Losses & LAE
Gross				
Direct	$370	$ 257	$ 10	$ 77
Assumed Reinsurance	5	—	1	—
London Market	9	—	1	—
Total	384	257	12	77
Ceded	(74)	(60)	(5)	(6)
Net	$310	$ 197	$ 7	$ 71

Six Months Ended June 30, 2016	Paid Losses & LAE	Incurred Losses & LAE	Paid Losses & LAE	Incurred Losses & LAE
Gross				
Direct	$394	$ 257	$ 17	$ 77
Assumed Reinsurance	16	—	2	—
London Market	10	—	3	—
Total	420	257	22	77
Ceded	(76)	(60)	(6)	(6)
Net	$344	$ 197	$ 16	$ 71

[1] Excludes asbestos and environmental paid and incurred loss and LAE reported in Ongoing Operations. Total gross losses and LAE incurred in Ongoing Operations for the three and six months ended June 30, 2016 includes $8 and $14, respectively, related to asbestos and environmental claims. Total gross losses and LAE paid in Ongoing Operations for the three and six months ended June 30, 2016 includes $7 and $11, respectively, related to asbestos and environmental claims.

During the second quarter of 2016, the Company completed its annual ground-up asbestos reserve evaluation. As part of this evaluation, the Company reviewed all of its open direct domestic insurance accounts exposed to asbestos liability, as well as assumed reinsurance accounts. Based on this evaluation, the Company increased its net asbestos reserves by $197. A substantial majority of the Company’s direct accounts have trended as expected, and the Company has observed no material changes in the underlying legal environment during the past year. However, mesothelioma claims filings have not declined as expected for a small subset of peripheral defendants with a high concentration of asbestos filings in specific, adverse jurisdictions. As a result, aggregate indemnity and defense costs have not declined as expected. While the mesothelioma and adverse jurisdiction claim trends observed in the 2016 reserve study were similar to the 2015 study, most of the defendants that had reserve increases in the 2016 study did not have a material impact in the 2015 study. The Company expects to continue to perform an evaluation of its asbestos liabilities annually.

During the second quarter of 2016, the Company completed its annual ground-up environmental reserve evaluation. As part of this evaluation, the Company reviewed all of its open direct domestic insurance accounts exposed to environmental liability, as well as assumed reinsurance accounts. Based on this evaluation, the Company increased its net environmental reserves by $71. A substantial majority of the Company's direct environmental accounts have trended as expected. However, a small percentage of the Company's direct accounts have exhibited deterioration associated with the tendering of new sites for coverage, increased defense costs stemming from individual bodily injury liability suits, and increased clean-up costs associated with waterways. The Company expects to continue to

perform an evaluation of its environmental liabilities annually.

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

- Major Asbestos Defendants represent the "Top 70" accounts in Tillinghast's published Tiers 1 and 2 and Wellington accounts. Major Asbestos Defendants have the fewest number of asbestos accounts. In May 2016, the Company pre-paid its funding obligation in the amount of $315 as permitted under the settlement agreement, arising from participation in a 2002 settlement of asbestos liabilities of PPG. The Company's funding obligation approximated the amount reserved for this exposure. Major Asbestos Defendants gross asbestos reserves account for approximately 3% of the Company's total Direct gross asbestos reserves as of June 30, 2016.

- Non-Major Accounts are all other open direct asbestos accounts and largely represent smaller and more peripheral defendants. These exposures represent 1,088 accounts and contain approximately 58% of the Company's total Direct gross asbestos reserves as of June 30, 2016.
- Unallocated Direct Accounts includes an estimate of the reserves necessary for asbestos claims related to direct insureds that have not previously tendered asbestos claims to the Company and exposures related to liability claims that may not be subject to an aggregate limit under the applicable policies.

A summary of asbestos and environmental reserves in Ongoing Operations and Other Operations by category is presented in the following table.

Summary of A&E Reserves

	As of June 30, 2016		
	Asbestos [1]	Environmental [2]	Total A&E [3]
Gross			
Direct	$1,547	$ 284	$1,831
Assumed Reinsurance	214	10	224
London Market	298	49	347
Total	2,059	343	2,402
Ceded	(478)	(32)	(510)
Net [4]	$1,581	$ 311	$1,892

[1] The one year gross paid amount for total asbestos claims is $552, resulting in a one year gross survival ratio of 3.7. The three year average gross paid amount for total asbestos claims is $367, resulting in a three year gross survival ratio of 5.6. Excluding the impact of the PPG settlement, the average one year and three year paid amounts are $237 and $262, respectively, resulting in a one year gross survival ratio of 8.7 and a three year gross survival ratio of 7.9.

[2] The one year gross paid amount for total environmental claims is $65, resulting in a one year gross survival ratio of 5.3. The three year average gross paid amount for total environmental claims is $68, resulting in a three year gross survival ratio of 5.0.

[3] Includes asbestos and environmental reserves reported in Ongoing Operations of $16 and $9, respectively, as of June 30, 2016.

[4] The net reserves include $209 of U.S. asbestos and $42 of U.S. environmental reserves related to the Company's U.K. property and casualty run-off business, Hartford Financial Products International Limited.

Uncertainties Regarding Adequacy of Asbestos and Environmental Reserves

A number of factors affect the variability of estimates for asbestos and environmental reserves including assumptions with respect to the frequency of claims, the average severity of those claims settled with payment, the dismissal rate of claims with no payment, resolution of coverage disputes with our policyholders and the expense to indemnity ratio. The uncertainty with respect to the underlying reserve assumptions for asbestos and environmental adds a greater degree of variability to these reserve estimates than reserve estimates for more traditional exposures. While this variability is reflected in part in the size of the range of reserves developed by the Company, that range may still not be indicative of the potential variance between the ultimate outcome and the recorded reserves. The recorded net reserves as of June 30, 2016 of approximately $1.9 billion ($1.6 billion and $0.3 billion for asbestos and environmental, respectively) are within an estimated range, unadjusted for covariance, of $1.4 billion to $2.3 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of uncertainties, which are detailed in the Company's 2015 Form 10-K Annual Report. The Company believes that its current asbestos and environmental reserves are appropriate. However, analyses of future developments could cause the Company to change its estimates and ranges of its asbestos and environmental reserves, and the effect of these changes could be material to the Company's consolidated operating results and liquidity.

Consistent with the Company's long-standing reserve practices, the Company will continue to review and monitor its reserves in Property & Casualty Other Operations regularly, including its annual reviews of asbestos liabilities, reinsurance recoverables and the allowance for uncollectible reinsurance, and environmental liabilities, and where

future developments indicate, make appropriate adjustments to the reserves. For a discussion of the Company's reserving practices, see MD&A - Critical Accounting Estimates, Property & Casualty Insurance Product Reserves, Net of Reinsurance in the Company's 2015 Form 10-K Annual Report.

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

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

The most significant EGP based balances are as follows:

	Talcott Resolution	
	As of June 30, 2016	As of December 31, 2015
DAC	$989	$ 1,180
SIA	$53	$ 56
Death and Other Insurance Benefit Reserves, net of reinsurance [1]	$334	$ 340

[1] For additional information on death and other insurance benefit reserves, see Note 6 - Separate Accounts, Death Benefits and Other Insurance Benefit Features of Notes to Condensed Consolidated Financial Statements.

Unlocks

The benefit to income net of tax as a result of the Unlocks is as follow:

	Talcott Resolution			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
DAC	$11	$ 2	$12	$ 12
SIA	—	—	1	1
Death and Other Insurance Benefit Reserves	7	45	18	63
Total (before tax)	$18	$ 47	$31	$ 76
Income tax effect	7	16	11	26
Total (after-tax)	$11	$ 31	$20	$ 50

The Unlock benefit, after-tax for the three and six months ended June 30, 2016 was primarily due to separate account returns being above our aggregated estimated returns during the period largely due to an increase in equity markets. The Unlock benefit, after-tax, for the three and six months ended June 30, 2015 was primarily due to an off-cycle assumption change related to benefit utilization and, to a lesser extent, separate account returns being above our aggregated estimated returns during the period.

An Unlock revises EGPs, on a quarterly basis, to reflect the Company’s current best estimate assumptions and market updates of policyholder account value. Modifications to the Company’s hedging programs may impact EGPs, and correspondingly impact DAC recoverability. After each quarterly Unlock, the Company also tests the aggregate recoverability of DAC by comparing the DAC balance to the present value of future EGPs. The margin between the DAC balance and the present value of future EGPs for variable annuities was 41% as of June 30, 2016. If the margin between the DAC asset and the present value of future EGPs is exhausted, then further reductions in EGPs would cause portions of DAC to be unrecoverable and the DAC asset would be written down to equal future EGPs.

Valuation Allowance on Deferred Tax Assets

Deferred tax assets represent the tax benefit of future deductible temporary differences and tax carryforwards. Deferred tax assets are measured using the enacted tax rates expected to be in effect when such benefits are realized if there is no change in tax law. Under U.S. GAAP, we test the value of deferred tax assets for impairment on a quarterly basis at the entity level within each tax jurisdiction, consistent with our filed tax returns. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The determination of the valuation allowance for our deferred tax assets requires management to make certain judgments and assumptions. In evaluating the ability to recover deferred tax assets, we have considered all available evidence as of June 30, 2016, including past operating results, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In the event we determine it is not more likely than not that we will be able to realize all or part of our deferred tax assets in the future, an increase to the valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance and specific industry and investment market conditions.

As of June 30, 2016, the deferred tax asset valuation allowance was reduced to $1 relating to limitations on the use of losses for one subsidiary. In assessing the need for a valuation allowance, management considered future taxable temporary difference reversals, future taxable income exclusive of reversing temporary differences and carryovers, taxable income in open carry back years and other tax planning strategies. From time to time, tax planning strategies could include holding a portion of debt securities with market value losses until recovery, altering the level of tax exempt securities held, making investments which have specific tax characteristics, and business considerations such as asset-liability matching. Management views such tax planning strategies as prudent and feasible, and would implement them, if necessary, to realize the deferred tax assets.

KEY PERFORMANCE MEASURES AND RATIOS

The Company considers the measures and ratios in the following discussion to be key performance indicators for its businesses. Management believes that these ratios and measures are useful in understanding the underlying trends in The Hartford's businesses. However, these key performance indicators should only be used in conjunction with, and not in lieu of, the results presented in the segment discussions that follow in this MD&A. These ratios and measures may not be comparable to other performance measures used by the Company's competitors.

Definitions of Non-GAAP and other Measures and Ratios

Account Value

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

Assets Under Management

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

Catastrophe Ratio

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

Combined Ratio

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

Combined Ratio before Catastrophes and Prior Accident Year Development

The combined ratio before catastrophes and prior accident year development, a non-GAAP financial measure, represents the combined ratio for the current accident year, excluding the impact of catastrophes. Combined ratio is the most directly comparable U.S. GAAP measure. A reconciliation of combined ratio to combined ratio before prior accident year development is set forth in MD&A - Commercial Lines and Personal Lines.

Core Earnings

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

evaluate both net income (loss) and core earnings when reviewing the Company's performance.

A reconciliation of net income to core earnings is set forth in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$216	$413	$539	$880
Less: Unlock benefit, before tax	18	47	31	76
Less: Net realized capital gains (losses) including DAC, excluded from core earnings, before tax	51	6	(97)	9
Less: Restructuring and other costs, before tax	—	(2)	—	(12)
Less: Loss on extinguishment of debt, before tax	—	(21)	—	(21)
Less: Net reinsurance gain on dispositions, before tax	—	8	—	8
Less: Tax benefit (expense) [1]	25	(14)	98	(21)
Core earnings	$122	$389	$507	$841

[1] The three and six months ended June 30, 2016 included federal income tax benefits of $53 and $78, respectively, from the reduction of the deferred tax valuation allowance on capital loss carryovers. The remainder represents federal income tax benefit (expense) related to before tax items not included in core earnings.

Core Earnings Margin

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

Current Accident Year Loss and Loss Adjustment Expense Ratio before Catastrophes

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

Expense Ratio

The expense ratio for the underwriting segments of Commercial Lines and Personal Lines is the ratio of underwriting expenses to earned premiums. Underwriting expenses include the amortization of deferred policy acquisition costs and insurance operating costs and expenses, including certain centralized services and bad debt expense. Deferred policy acquisition costs include commissions, taxes, licenses and fees and other underwriting expenses and are amortized over the policy term.

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

Fee Income

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

income. Conversely, either negative net flows or net sales, or unfavorable market performance will reduce fee income.

Full Surrender Rates

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

Loss and Loss Adjustment Expense Ratio

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

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

Loss Ratio, excluding Buyouts

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

Mutual Fund Assets

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

New Business Written Premium

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

Policies in Force

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

Policy Count Retention

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

Policyholder Dividend Ratio

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

Prior Accident Year Loss and Loss Adjustment Expense Ratio

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

Reinstatement Premiums

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

Renewal Earned Price Increase (Decrease)
Written premiums are earned over the policy term, which is six months for certain Personal Lines auto business and twelve months for substantially all of the remainder of the Company's Property and Casualty business. Since the Company earns premiums over the six to twelve month term of the policies, renewal earned price increases (decreases) lag renewal written price increases (decreases) by six to twelve months.
Renewal Written Price Increase (Decrease)
Renewal written price increase (decrease) represents the combined effect of rate changes, amount of insurance and individual risk pricing decisions per unit of exposure since the prior year. The rate component represents the change in rate filings during the period and the amount of insurance represents the change in the value of the rating base, such as model year/vehicle symbol for auto, building replacement costs for property and wage inflation for workers' compensation. A number of factors affect renewal written price increases (decreases) including expected loss costs as projected by the Company's pricing actuaries, rate filings approved by state regulators, risk selection decisions made by the Company's underwriters and marketplace competition. Renewal written price changes reflect the property and casualty insurance market cycle. Prices tend to increase for a particular line of business when insurance carriers have incurred significant losses in that line of business in the recent past or the industry as a whole commits less of its capital to writing exposures in that line of business. Prices tend to decrease when recent loss experience has been favorable or when competition among insurance carriers increases. Renewal written price statistics are subject to change from period to period, based on a number of factors, including changes in actuarial estimates and the effect of subsequent cancellations and non-renewals on rate achieved, and modifications made to better reflect ultimate pricing achieved.
Return on Assets ("ROA"), Core Earnings
ROA, core earnings, is a non-GAAP financial measure that the Company uses to evaluate, and believes is an important measure of, certain of the segment's operating performance. ROA is the most directly comparable U.S. GAAP measure. The Company believes that ROA, core earnings, provides investors with a valuable measure of the performance of certain of the Company's on-going businesses because it reveals trends in our businesses that may be obscured by the effect of realized gains (losses). ROA, core earnings, should not be considered as a substitute for ROA and does not reflect the overall profitability of our businesses. Therefore, the Company believes it is important for investors to evaluate both ROA, core earnings, and ROA when reviewing the Company's performance. ROA, core earnings is calculated by dividing core earnings by a two-point average AUM.
Underwriting Gain (Loss)
The Company's management evaluates profitability of the P&C businesses primarily on the basis of underwriting gain (loss). Underwriting gain (loss) is a before-tax measure that represents earned premiums less incurred losses, loss adjustment expenses and underwriting expenses. Underwriting gain (loss) is influenced significantly by earned premium growth and the adequacy of the Company's pricing. Underwriting profitability over time is also greatly influenced by the Company's pricing and underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio, which it accomplishes through economies of scale and its management of acquisition costs and other underwriting expenses. Net income (loss) is the most directly comparable GAAP measure. The Company believes that underwriting gain (loss) provides investors with a valuable measure of before-tax profitability derived from underwriting activities, which are managed separately from the Company's investing activities. A reconciliation of underwriting gain (loss) to net income (loss) for Commercial Lines, Personal Lines and Property & Casualty Other Operations is set forth in segment sections of MD&A.
Written and Earned Premiums
Written premium represents the amount of premiums charged for policies issued, net of reinsurance, during a fiscal period. Premiums are considered earned and are included in the financial results on a pro rata basis over the policy period. Written and earned premium are recorded net of ceded reinsurance premium.
Traditional life insurance type products, such as those sold by Group Benefits, collect premiums from policyholders in exchange for financial protection for the policyholder from a specified insurable loss, such as death or disability. These premiums together with net investment income earned from the overall investment strategy are used to pay the

contractual obligations under these insurance contracts. Two major factors, new sales and persistency, impact premium growth. Sales can increase or decrease in a given year based on a number of factors, including but not limited to, customer demand for the Company's product offerings, pricing competition, distribution channels and the Company's reputation and ratings. Persistency refers to the percentage of policies remaining in-force from year-to-year.

COMMERCIAL LINES
Results of Operations

Underwriting Summary	Three Months Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Written premiums	$1,669	$1,655	1 %	$3,395	$3,377	1 %
Change in unearned premium reserve	19	32	(41 %)	122	171	(29 %)
Earned premiums	1,650	1,623	2 %	3,273	3,206	2 %
Losses and loss adjustment expenses						
Current accident year before catastrophes	938	909	3 %	1,851	1,837	1 %
Current accident year catastrophes	80	42	90 %	124	100	24 %
Prior accident year development	6	21	(71 %)	(14)	19	(174 %)
Total losses and loss adjustment expenses	1,024	972	5 %	1,961	1,956	— %
Amortization of DAC	242	237	2 %	484	471	3 %
Underwriting expenses	298	284	5 %	593	579	2 %
Dividends to policyholders	4	4	— %	8	9	(11 %)
Underwriting gain	82	126	(35 %)	227	191	19 %
Net servicing income [1]	5	4	25 %	9	8	13 %
Net investment income	226	239	(5 %)	435	496	(12 %)
Net realized capital gains (losses)	25	(7)	NM	(8)	1	NM
Other income (expense)	—	2	(100 %)	1	3	(67 %)
Income before income taxes	338	364	(7 %)	664	699	(5 %)
Income tax expense	98	105	(7 %)	196	200	(2 %)
Net income	$240	$259	(7 %)	$468	$499	(6 %)

[1] Includes servicing revenues of $23 and $20 for the three months ended June 30, 2016 and 2015, and $43 and $42 for the six months ended June 30, 2016 and 2015, respectively.

Premium Measures [1]	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
New business premium	$287	$289	$562	$579
Standard commercial lines policy count retention	83 %	83 %	83 %	84 %
Standard commercial lines renewal written pricing increases	2 %	3 %	2 %	3 %
Standard commercial lines renewal earned pricing increases	2 %	4 %	2 %	4 %
Standard commercial lines policies in-force as of end of period (in thousands)			1,320	1,311

[1] Standard commercial lines consists of small commercial and middle market. Standard commercial premium measures exclude middle market specialty programs and livestock lines of business.

Underwriting Ratios	Three Months Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Loss and loss adjustment expense ratio						
Current accident year before catastrophes	56.8	56.0	(0.8)	56.6	57.3	0.7
Current accident year catastrophes	4.8	2.6	(2.2)	3.8	3.1	(0.7)
Prior accident year development	0.4	1.3	0.9	(0.4)	0.6	1.0
Total loss and loss adjustment expense ratio	62.1	59.9	(2.2)	59.9	61.0	1.1
Expense ratio	32.7	32.1	(0.6)	32.9	32.8	(0.1)
Policyholder dividend ratio	0.2	0.2	—	0.2	0.3	0.1
Combined ratio	95.0	92.2	(2.8)	93.1	94.0	0.9
Current accident year catastrophes and prior year development	5.2	3.9	(1.3)	3.4	3.7	0.3

Combined ratio before catastrophes and prior year development	89.8	88.4	(1.4)	89.7	90.3	0.6

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Three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015

Overview

Net income for the three months ended June 30, 2016, as compared to the prior year period, decreased primarily due to lower underwriting gain and lower net investment income, partially offset by a change to net realized capital gains in the current year period from net realized capital losses in the prior year period. The decrease in underwriting gain was primarily due to higher losses and loss adjustment expenses and higher underwriting expenses, partially offset by earned premium growth.

Net income for the six months ended June 30, 2016, as compared to the prior year period, decreased primarily due to lower net investment income, partially offset by a higher underwriting gain. The increase in underwriting gain was driven by earned premium growth and favorable prior accident year reserve development, partially offset by higher current accident year catastrophes.

Revenues - Earned and Written Premiums

Earned premiums for the three and six months ended June 30, 2016, as compared to the prior year period, increased reflecting written premium growth over the preceding twelve months.

Written premiums, as compared to the prior year period, increased slightly for the three months ended June 30, 2016 primarily due to growth in small commercial. The written premium increase in small commercial was primarily due to higher renewal premium, driven by stable retention and the effect of low single-digit renewal written pricing increases. For the three months ended June 30, 2016 renewal written pricing increases averaged 2% in standard commercial, which includes 3% for small commercial and 1% for middle market.

Written premiums, as compared to the prior year period, increased slightly for the six months ended June 30, 2016 as growth in small commercial was largely offset by a decrease in middle market. Written premium increases in small commercial were driven primarily by higher renewal and audit premium, as well as modest new business premium growth and renewal written pricing increases. Written premium decreases in middle market were primarily the result of lower new business premium.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses for the three months ended June 30, 2016, as compared to the prior year period, increased reflecting higher current accident year losses and loss adjustment expenses, including higher catastrophes.

Losses and loss adjustment expenses for the six months ended June 30, 2016, as compared to the prior year period, increased slightly reflecting higher current accident year losses and loss adjustment expenses, including higher catastrophes, partially offset by favorable prior accident year reserve development.

- The increase in the current accident year loss and loss adjustment expense ratio before catastrophes for the three months ended June 30, 2016, as compared to the prior year period, was primarily due to higher non-catastrophe property losses and a higher loss and loss adjustment expense ratio in small commercial package business, partially offset by a lower loss and loss adjustment expense ratio in workers' compensation. Accordingly, the current accident year loss and loss adjustment expense ratio before catastrophes increased by 0.8 points to 56.8 in 2016 from 56.0 in 2015.

The decrease in the current accident year loss and loss adjustment expense ratio before catastrophes for the six months ended June 30, 2016, as compared to the prior year period, was primarily due to a lower loss and loss adjustment expense ratio in workers' compensation. Accordingly, the current accident year loss and loss adjustment expense ratio before catastrophes decreased by 0.7 points to 56.6 in 2016 from 57.3 in 2015.

- Current accident year catastrophe losses totaled $80, before tax, for the three months ended June 30, 2016, compared to $42 before tax, for the three months ended June 30, 2015. Catastrophe losses for 2016 were primarily due to multiple wind and hail events concentrated in Texas and the central plains. Catastrophe losses for 2015 were primarily due to multiple wind and hail events across various U.S. geographic regions. For additional information, see MD&A - Critical Accounting Estimates, Property & Casualty Insurance Product Reserves, Net of Reinsurance.

Current accident year catastrophe losses totaled $124, before tax, for the six months ended June 30, 2016, compared to $100, before tax, for the six months ended June 30, 2015. Catastrophe losses for both periods were primarily due to wind and hail events and winter storms across various U.S. geographic regions. For additional information, see MD&A - Critical Accounting Estimates, Property & Casualty Insurance Product Reserves, Net of Reinsurance.

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- Unfavorable prior accident year reserve development of $6, before tax, for the three months ended June 30, 2016, compared to unfavorable reserve development of $21, before tax, for the three months ended June 30, 2015. The net reserve increase for the three months ended June 30, 2016 related primarily to increases in general liability reserves, partially offset by decreased reserves for uncollectible reinsurance. Net reserve increases for the three months ended June 30, 2015 related primarily to worker's compensation, commercial auto liability and 2012 accident year catastrophes. For additional information, see MD&A - Critical Accounting Estimates, Reserve Roll-forwards and Development.

Favorable prior accident year reserve development of $14, before tax, for the six months ended June 30, 2016, compared to unfavorable reserve development of $19, before tax, for the six months ended June 30, 2015. Net reserve decreases for the six months ended June 30, 2016 were primarily related to decreases in workers' compensation, professional liability, and uncollectible reinsurance, partially offset by increases in reserves related to small commercial package business, and in general liability for a class of business that insures service and maintenance contractors. Net reserve increases for the six months ended June 30, 2015 were primarily related to worker's compensation and commercial auto liability, partially offset by reductions in reserves for professional and general liability reserves. For additional information, see MD&A - Critical Accounting Estimates, Reserve Roll-forwards and Development.

Underwriting Ratios

The combined ratio increased 2.8 points to 95.0 in the three month period primarily due to an increase in the combined ratio before catastrophes and prior year development and an increase in catastrophes. The combined ratio, before catastrophes and prior year development, increased 1.4 points to 89.8 for the three months ended June 30, 2016 from 88.4 for the three months ended June 30, 2015. The increase was primarily due to an increase in the current accident year loss and loss adjustment expense ratio before catastrophes as well as a higher expense ratio.

The combined ratio decreased 0.9 points to 93.1 in the six month period primarily due to a decrease in the combined ratio before catastrophes and prior year development. The combined ratio, before catastrophes and prior year development, decreased 0.6 points to 89.7 for the six months ended June 30, 2016 from 90.3 for the six months ended June 30, 2015. The decrease was primarily due to a decrease in the current accident year loss and loss adjustment expense ratio before catastrophes.

Investment Results

Investment income decreased for the three and six months ended June 30, 2016, as compared to the prior year period. For discussion of consolidated investment results, see MD&A - Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses).

Income Taxes

The effective tax rates in 2016 and 2015 differ from the U.S. federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For discussion of income taxes, see Note 7 - Income Taxes of Notes to Condensed Consolidated Financial Statements.

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PERSONAL LINES

Results of Operations

Underwriting Summary	Three Months Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Written premiums	$992	$1,009	(2 %)	$1,945	$1,948	— %
Change in unearned premium reserve	16	43	(63 %)	(6)	30	(120 %)
Earned premiums	976	966	1 %	1,951	1,918	2 %
Losses and loss adjustment expenses						
Current accident year before catastrophes	689	616	12 %	1,321	1,234	7 %
Current accident year catastrophes	104	97	7 %	151	122	24 %
Prior accident year development	76	—	NM	128	(4)	NM
Total losses and loss adjustment expenses	869	713	22 %	1,600	1,352	18 %
Amortization of DAC	89	90	(1 %)	178	180	(1 %)
Underwriting expenses	141	155	(9 %)	295	303	(3 %)
Underwriting gain (loss)	(123)	8	NM	(122)	83	NM
Net servicing income	—	2	(100 %)	—	3	(100 %)
Net investment income	33	34	(3 %)	64	69	(7 %)
Net realized capital gains (losses)	4	(1)	NM	(1)	—	NM
Other income	—	18	(100 %)	—	17	(100 %)
Income (loss) before income taxes	(86)	61	NM	(59)	172	(134)%
Income tax expense (benefit)	(33)	20	NM	(26)	55	(147 %)
Net income (loss)	$(53)	$41	NM	$(33)	$117	(128)%

Written Premiums	Three Months Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Product Line						
Automobile	$686	$688	— %	$1,376	$1,359	1 %
Homeowners	306	321	(5 %)	569	589	(3 %)
Total	$992	$1,009	(2 %)	$1,945	$1,948	— %
Earned Premiums						
Product Line						
Automobile	$680	$665	2 %	$1,358	$1,320	3 %
Homeowners	296	301	(2 %)	593	598	(1 %)
Total	$976	$966	1 %	$1,951	$1,918	2 %

Premium Measures	Three Months Ended June 30, 2016		2015		Six Months Ended June 30, 2016		2015	
Policies in-force end of period (in thousands)								
Automobile					2,053		2,049	
Homeowners					1,239		1,296	
New business written premium								
Automobile	$83		$96		$193		$197	
Homeowners	$21		$29		$44		$56	
Policy count retention								
Automobile	84	%	84	%	84	%	84	%
Homeowners	84	%	86	%	84	%	85	%
Renewal written pricing increase								
Automobile	7	%	6	%	7	%	6	%
Homeowners	9	%	8	%	9	%	8	%
Renewal earned pricing increase								
Automobile	6	%	6	%	6	%	6	%
Homeowners	9	%	8	%	8	%	8	%

Underwriting Ratios	Three Months Ended June 30, 2016	2015	Change		Six Months Ended June 30, 2016	2015	Change	
Loss and loss adjustment expense ratio								
Current accident year before catastrophes	70.6	63.8	(6.8	)	67.7	64.3	(3.4	)
Current accident year catastrophes	10.7	10.0	(0.7	)	7.7	6.4	(1.3	)
Prior year development	7.8	—	(7.8	)	6.6	(0.2)	(6.8	)
Total loss and loss adjustment expense ratio	89.0	73.8	(15.2	)	82.0	70.5	(11.5	)
Expense ratio	23.6	25.4	1.8		24.2	25.2	1.0	
Combined ratio	112.6	99.2	(13.4	)	106.3	95.7	(10.6	)
Current accident year catastrophes and prior year development	18.5	10.0	(8.5	)	14.3	6.2	(8.1	)
Combined ratio before catastrophes and prior year development	94.2	89.1	(5.1	)	92.0	89.5	(2.5	)

Product Combined Ratios	Three Months Ended June 30, 2016	2015	Change		Six Months Ended June 30, 2016	2015	Change	
Automobile								
Combined ratio	117.0	98.3	(18.7	)	111.8	96.9	(14.9	)
Combined ratio before catastrophes and prior year development	102.7	96.6	(6.1	)	99.4	95.6	(3.8	)
Homeowners								
Combined ratio	102.4	100.7	(1.7	)	93.5	92.9	(0.6	)
Combined ratio before catastrophes and prior year development	74.2	72.6	(1.6	)	74.7	76.1	1.4	

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Three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015

Overview

The Company had net losses for the three and six months ended June 30, 2016 compared with net income in both prior year periods primarily due to unfavorable auto liability prior accident year development as well as higher catastrophes and higher current accident year losses and loss adjustment expenses before catastrophes, partially offset by lower underwriting expenses.

Revenues - Earned and Written Premiums

Earned premiums for the three and six months ended June 30, 2016, as compared to the prior year periods, increased reflecting written premium growth in 2015. Written premiums for the three and six months ended June 30, 2016, as compared to the prior year periods, decreased primarily due to a decline in new business. Policy count retention for homeowners was lower for the three and six months ended June 30, 2016, as compared to the prior year periods, driven in part by renewal written pricing increases.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses for the three and six months ended June 30, 2016, as compared to the prior year periods, increased primarily due to higher current accident year losses and loss adjustment expenses before catastrophes, higher current accident year catastrophe losses and higher unfavorable prior accident year development.

- Current accident year losses and loss adjustment expenses before catastrophes increased for the three months ended June 30, 2016, compared to the prior year period, as a result of higher auto liability frequency and severity trends and higher homeowners non-catastrophe fire-related claims, and to a lesser extent, the effect of an increase in earned premiums. The current accident year loss and loss adjustment expense ratio before catastrophes of 70.6 in 2016 increased 6.8 points from 63.8 in 2015.

Current accident year losses and loss adjustment expenses before catastrophes increased for the six months ended June 30, 2016, compared to the prior year period, as a result of higher auto liability frequency trends, and to a lesser extent, the effect of an increase in earned premiums. The current accident year loss and loss adjustment expense ratio before catastrophes of 67.7 in 2016 increased 3.4 points from 64.3 in 2015.

- Current accident year catastrophe losses of $104 before tax, for the three months ended June 30, 2016 compared to $97, before tax, for the prior year period. Catastrophe losses for the three months ended June 30, 2016 were primarily due to multiple wind and hail events across various U.S. geographic regions, concentrated in Texas and the central plains. Catastrophe losses in 2015 were primarily due to multiple wind and hail events across various U.S. geographic regions.

Current accident year catastrophe losses of $151 before tax, for the six months ended June 30, 2016 compared to $122, before tax, for the prior year period. Catastrophe losses for the six months ended June 30, 2016 were primarily due to multiple wind and hail events across various U.S. geographic regions, concentrated in Texas and the central and southern plains. Catastrophe losses in 2015 were primarily due to multiple wind and hail events across various U.S. geographic regions.

- Unfavorable prior accident year development of $76, before tax, for the three months ended June 30, 2016 compared to prior accident year development of $0, before tax, for the prior year period. The net reserve increase for three months ended June 30, 2016 was primarily due to higher than expected emerged severity of bodily injury claims and higher than expected emerged frequency of uninsured and under-insured motorist claims related to accident year 2015.

Unfavorable prior accident year development of $128, before tax, for the six months ended June 30, 2016 compared to favorable prior accident year development of $4, before tax, for the prior year period. The net reserve increase for 2016 was primarily related to increased bodily injury frequency and severity for the 2015 accident year and increased bodily injury severity for the 2014 accident year. Increases in auto liability loss costs were across both the direct and agency distribution channels. The net reserve decrease for 2015 was related to 2014 catastrophes offset by unfavorable development on accident year 2014 auto physical damage and homeowners claims. For additional information, see MD&A - Critical Accounting Estimates, Property & Casualty Insurance Product Reserves, Net of Reinsurance.

Underwriting Ratios

The combined ratio increased 13.4 points and 10.6 points for the three and six months ended June 30, 2016, respectively, reflecting an increase in the current accident year losses and loss adjustment expenses before catastrophes ratio, an increase in the current accident year catastrophe ratio and an increase in the prior accident year development ratio partially offset by a decrease in the expense ratio.
The combined ratio, before current accident year catastrophes and prior year development, increased 5.1 points to 94.2 for the three months ended June 30, 2016 reflecting an increase in the current accident year losses and loss adjustment expenses before catastrophes ratio of 6.8 points, partially offset by a decrease in the expense ratio of 1.8 points. The combined ratio, before current accident year catastrophes and prior year development, increased 2.5 points to 92.0 for the six months ended June 30, 2016.

Based on an increase in emerged auto liability claim frequency and severity, the Company expects the full year 2016 combined ratio before catastrophes and prior accident year development will be in the range of 93.0 to 94.0. For auto, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to be higher for full year 2016 than in 2015 driven by higher auto liability frequency and severity, partially offset by earned pricing increases and the expected benefit of underwriting and claims initiatives. For homeowners, the current accident year loss and loss adjustment expense ratio before catastrophes is expected to be lower for full year 2016 than in 2015, driven by earned pricing increases partially offset by increased average claim severity, though subject to uncertainty with the volatility of weather and non-weather related claims.

Investment Results

Investment income decreased for the three and six months ended June 30, 2016, as compared to the prior year periods. For discussion of consolidated investment results, see MD&A - Investment Results, Net Investment Income (Loss) and Net Realized Capital Gains (Losses).

Income Taxes

The effective tax rates in 2016 and 2015 differ from the U.S. federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For discussion of income taxes, see Note 7 - Income Taxes of Notes to Condensed Consolidated Financial Statements.

PROPERTY & CASUALTY OTHER OPERATIONS

Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
Underwriting Summary	2016	2015	Change	2016	2015	Change
Losses and loss adjustment expenses						
Prior accident year development	$269	$199	35 %	$270	$203	33 %
Total losses and loss adjustment expenses	269	199	35 %	270	203	33 %
Underwriting expenses	6	7	(14 %)	13	13	— %
Underwriting loss	(275)	(206)	(33 %)	(283)	(216)	(31 %)
Net investment income	33	34	(3 %)	65	69	(6 %)
Net realized capital gains	6	2	NM	3	6	(50 %)
Other income	—	1	(100%)	2	2	— %
Income before income taxes	(236)	(169)	(40 %)	(213)	(139)	(53 %)
Income tax expense	(82)	(58)	(41 %)	(76)	(51)	(49 %)
Net loss	$(154)	$(111)	(39 %)	$(137)	$(88)	(56 %)

Three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015

Net loss for the three and six months ended June 30, 2016, as compared to the prior year period, increased primarily due to higher unfavorable net asbestos and environmental reserve development associated with the Company's annual ground-up reserve evaluations.

Total losses and loss adjustment expenses in 2016 and 2015 included prior accident year development of $197 and $146, before tax, respectively, related to asbestos reserves and $71 and $52, respectively, related to environmental reserves.

Asbestos reserves increased in 2016 as mesothelioma claims filings have not declined as expected in specific, adverse jurisdictions. As a result, aggregate indemnity and defense costs have not declined as expected resulting in unfavorable net asbestos reserve development. Environmental reserves increased in 2016 primarily due to deterioration associated with the tendering of new sites for policy coverage, increased defense costs stemming from individual bodily injury liability suits, and increased clean-up costs associated with waterways.

The annual reviews of asbestos and environmental liabilities occur in the second quarter of the year. For information on asbestos and environmental reserves, see MD&A - Critical Accounting Estimates, Property & Casualty Other Operations Claims, Property & Casualty Insurance Product Reserves, Net of Reinsurance.

For discussion of income taxes, see Note 7 - Income Taxes of Notes to Condensed Consolidated Financial Statements.

GROUP BENEFITS

Results of Operations

Operating Summary	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Premiums and other considerations	$808	$796	2 %	$1,603	$1,576	2 %
Net investment income	88	95	(7)%	176	192	(8)%
Net realized capital gains (losses)	16	2	NM	18	1	NM
Total revenues	912	893	2 %	1,797	1,769	2 %
Benefits, losses and loss adjustment expenses	634	618	3 %	1,252	1,216	3 %
Amortization of deferred policy acquisition costs	7	8	(13)%	15	16	(6)%
Insurance operating costs and other expenses	196	191	3 %	390	391	— %
Total benefits, losses and expenses	837	817	2 %	1,657	1,623	2 %
Income before income taxes	75	76	(1)%	140	146	(4)%
Income tax expense	20	20	— %	35	38	(8)%
Net income	$55	$56	(2)%	$105	$108	(3)%

Premiums and other considerations	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Fully insured – ongoing premiums	$790	$780	1 %	$1,562	$1,543	1 %
Buyout premiums	—	—	— %	6	—	NM
Other	18	16	13 %	35	33	6 %
Total premiums and other considerations	$808	$796	2 %	$1,603	$1,576	2 %
Fully insured ongoing sales, excluding buyouts	$80	$58	38 %	$346	$358	(3)%

Ratios, excluding buyouts	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Group disability loss ratio	79.9%	80.8%	0.9	81.1%	81.3%	0.2
Group life loss ratio	78.1%	76.2%	(1.9)	76.0%	74.8%	(1.2)
Total loss ratio	78.5%	77.6%	(0.9)	78.0%	77.2%	(0.8)
Expense ratio	25.1%	25.0%	(0.1)	25.4%	25.8%	0.4

Margin	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Net income margin	6.0%	6.3%	(0.3)	5.9%	6.1%	(0.2)
Effect of net capital realized gains (losses), net of tax on after-tax margin	0.9%	— %	0.9	0.6%	— %	0.6
Core earnings margin	5.1%	6.3%	(1.2)	5.3%	6.1%	(0.8)

Three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015

Net income decreased for the three and six months ended June 30, 2016, as compared to the prior year periods, primarily due to higher benefits, losses and loss adjustment expenses and lower net investment income, partially offset by higher premiums and other considerations and higher net realized capital gains.

Premiums and other considerations for the three and six months ended June 30, 2016, increased 2% compared to the prior year period. Fully insured ongoing premiums increased 1% for the three and six months ended June 30, 2016, compared to the prior year periods due to strong persistency and improved pricing. Insurance operating costs and other expenses increased 3% for the three months ended June 30, 2016, compared to the prior year period, due primarily to increased administrative expenses. Insurance operating costs and other expenses for the six months ended June 30, 2016 were consistent with the prior year period.

Fully insured ongoing sales, excluding buyouts, increased by 38% for the three months ended June 30, 2016, as compared to the prior year period, due to one new account. Fully insured ongoing sales, excluding buyouts, decreased 3% for the six months ended June 30, 2016, compared to the prior year period.

The total loss ratio increased 0.9 points to 78.5% for the three months ended June 30, 2016 and 0.8 points to 78.0% for the six months ended June 30, 2016, as compared to the prior year period, primarily due to a higher group life loss ratio. The group life loss ratio increased 1.9 points for the three months ended June 30, 2016 and 1.2 points for the six months ended June 30, 2016, compared to the prior year period, due to higher severity. The group disability loss ratio decreased 0.9 points for the three months ended June 30, 2016 and 0.2 points for the six months ended June 30, 2016, compared to the prior year period, primarily driven by increased pricing and improved incidence trends, partially offset by an increase in long term disability claim severity. Included in the disability loss ratio for the three months and six months ended June 30, 2016 were favorable changes in long term disability reserve estimates of 1.6 points and 0.8 points, respectively.

The expense ratio for the three months ended June 30, 2016 was flat to prior year period and improved 0.4 points for the six months ended June 30, 2016, compared to the prior year period, reflecting premium growth.

Investment income for the three and six months ended June 30, 2016 decreased as compared to the prior year period. For discussion of consolidated investment results, see MD&A - Investment Results, Investment Income (Loss) and Net Realized Capital Gains (Losses).

The effective tax rates in 2016 and 2015 differ from the U.S. federal statutory rate of 35% primarily due to permanent differences related to investments in tax exempt securities. For discussion of income taxes, see Note 7 - Income Taxes of Notes to Condensed Consolidated Financial Statements.

MUTUAL FUNDS
Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
Operating Summary	2016	2015	Change	2016	2015	Change
Fee income and other	$172	$184	(7)%	$339	$363	(7)%
Net investment income	1	—	NM	1	—	NM
Total revenues	173	184	(6)%	340	363	(6)%
Amortization of DAC	6	6	— %	11	11	— %
Insurance operating costs and other expenses	135	144	(6)%	266	284	(6)%
Total benefits, losses and expenses	141	150	(6)%	277	295	(6)%
Income before income taxes	32	34	(6)%	63	68	(7)%
Income tax expense	12	12	— %	23	24	(4)%
Net income	$20	$22	(9)%	$40	$44	(9)%
Average Total Mutual Funds segment AUM	$90,919	$95,797	(5)%	$91,693	$94,638	(3)%
Return on Assets						
Net income	8.8	9.2	(4)%	8.7	9.3	(6)%
Core earnings	8.8	9.2	(4)%	8.7	9.3	(6)%
Mutual Funds segment AUM						
Mutual Fund AUM - beginning of period	$73,619	$75,696	(3)%	$74,413	$73,035	2 %
Sales	4,087	3,989	2 %	8,786	8,699	1 %
Redemptions	(4,506)	(3,739)	(21)%	(9,391)	(7,920)	(19)%
Net flows	(419)	250	NM	(605)	779	(178)%
Change in market value and other	1,741	305	NM	1,133	2,437	(54)%
Mutual Fund AUM - end of period	$74,941	$76,251	(2)%	$74,941	$76,251	(2)%
Talcott AUM [1]	$16,482	$19,406	(15)%	$16,482	$19,406	(15)%
Total Mutual Funds segment AUM	$91,423	$95,657	(4)%	$91,423	$95,657	(4)%
Mutual Fund AUM by Asset Class						
Equity	$46,808	$47,841	(2)%	$46,808	$47,841	(2)%
Fixed Income	12,491	13,844	(10)%	12,491	13,844	(10)%
Multi-Strategy Investments [2]	15,642	14,566	7 %	15,642	14,566	7 %
Mutual Fund AUM	$74,941	$76,251	(2)%	$74,941	$76,251	(2)%

[1] Talcott AUM consists of Company-sponsored mutual fund assets held in separate accounts supporting variable insurance and investment products.
[2] Includes balanced, allocation, and alternative investment products.

Three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015
Net income decreased for the three and six months ended June 30, 2016, compared to the prior year period, due to lower fee income from a decrease in average AUM. Average total Mutual funds segment AUM decreased to $90.9 billion for the six months ended June 30, 2016, compared to $95.8 billion in the prior year period, primarily due to the steady runoff of Talcott AUM.
Sales for the three and six months ended June 30, 2016 were consistent with the prior year period. Mutual Fund net flows for the three and six months ended June 30, 2016 decreased compared to prior year period due to higher redemptions of equity funds.

TALCOTT RESOLUTION
Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
Operating Summary	2016	2015	Change	2016	2015	Change
Earned premiums	$28	$22	27 %	$56	$46	22 %
Fee income and other	231	266	(13 %)	472	527	(10 %)
Net investment income	348	390	(11 %)	673	772	(13 %)
Realized capital gains (losses):						
Total other-than-temporary impairment (“OTTI”) losses	(2)	(2)	— %	(9)	(7)	(29 %)
Other net realized capital gains (losses)	5	13	(62 %)	(100)	(7)	NM
Net realized capital gains (losses)	3	11	(73 %)	(109)	(14)	NM
Total revenues	610	689	(11 %)	1,092	1,331	(18 %)
Benefits, losses and loss adjustment expenses	346	310	12 %	700	648	8 %
Amortization of DAC	24	50	(52 %)	54	100	(46 %)
Insurance operating costs and other expenses	115	119	(3 %)	220	240	(8 %)
Reinsurance gain on dispositions [3]	—	(8)	100 %	—	(8)	100 %
Total benefits, losses and expenses	485	471	3 %	974	980	(1 %)
Income before income taxes	125	218	(43 %)	118	351	(66 %)
Income tax expense [1]	21	1	NM	(3)	23	(113 %)
Net income	$104	$217	(52 %)	$121	$328	(63 %)
Assets Under Management (end of period)						
Variable annuity account value	$41,738	$49,359	(15 %)			
Fixed market value adjusted and payout annuities	7,901	8,516	(7 %)			
Institutional annuity account value	15,279	15,286	— %			
Other account value [2]	86,320	90,572	(5 %)			
Total account value	$151,238	$163,733	(8 %)			
Variable Annuity Account Value						
Account value, beginning of period	$42,500	$51,500	(17 %)	$44,245	$52,861	(16 %)
Net outflows	(1,496)	(2,079)	28 %	(2,962)	(4,375)	32 %
Change in market value and other	734	(62)	NM	455	873	(48)%
Account value, end of period	$41,738	$49,359	(15 %)	$41,738	$49,359	(15 %)

[1] The three and six months ended June 30, 2015 included a federal income tax benefit of $48 related to conclusion of the 2007 to 2011 IRS audit.

[2] Other account value included $31.4 billion, $14.5 billion, and $40.5 billion as of June 30, 2016 for the Retirement Plans, Individual Life and Private Placement Life Insurance businesses, respectively. Other account value included $35.5 billion, $15.0 billion, and $40.1 billion at June 30, 2015 for the Retirement Plans, Individual Life and Private Placement Life Insurance businesses, respectively. Account values associated with the Retirement Plans and Individual Life businesses no longer generate asset-based fee income due to the sales of these businesses through reinsurance transactions.

[3] Amounts pertain to the Individual Life business sold in 2013.

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Three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015

Net income for the three and six months ended June 30, 2016, as compared to the prior year period, decreased primarily due to lower net investment income due to a decrease in income from limited partnerships and alternative investments, lower fee income due to the continued runoff of the variable annuity block, a reduced unlock benefit and the effect of a $48 tax benefit recognized in the prior year period. This was partially offset by lower DAC amortization and lower insurance operating costs and other expenses due to the continued run off of the variable annuity block. In addition, higher net realized capital losses driven by a modified coinsurance reinsurance contract related to the Individual Life business contributed to a decrease in net income for the six months ended June 30, 2016 as compared to the prior year period.

Account values for Talcott Resolution decreased to approximately $151 billion at June 30, 2016 from approximately $164 billion at June 30, 2015 primarily due to net outflows in variable annuity account value and a reduction in Retirement Plans' account value. For the three months ended June 30, 2016 and the six months ended June 30, 2016, variable annuity net outflows were approximately $1.5 billion and $3.0 billion due to the continued runoff of the business.

For the three months ended June 30, 2016, the annualized full surrender rate on variable annuities declined to 7.7% compared to 9.9% for the three months ended June 30, 2015. For the six months ended June 30, 2016, the annualized full surrender rate on variable annuities declined to 7.2% compared to 10.5% for the six months ended June 30, 2015. This decrease was primarily due to lower surrender activity and no in-force management initiatives in 2016. In addition, lower surrender activity for the six months ended June 30, 2016 was due to market declines in the first two months of 2016 resulting in increased value of guarantees which causes fewer policyholders to surrender.

Contract counts decreased 10% for variable annuities at June 30, 2016 compared to June 30, 2015 primarily due to the continued runoff of the block.

The effective tax rates in 2016 and 2015 differ from the U.S. federal statutory rate of 35% primarily due to permanent differences related to separate account DRD. For discussion of income taxes, see Note 7 - Income Taxes of Notes to Condensed Consolidated Financial Statements.

CORPORATE

Results of Operations

Operating Summary	Three Months Ended June 30, 2016	2015	Change	Six Months Ended June 30, 2016	2015	Change
Fee income [1]	$1	$3	(67 %)	$2	$5	(60 %)
Net investment income	6	4	50 %	17	7	143 %
Net realized capital gains (losses)	(1)	2	(150%)	(5)	20	(125%)
Total revenues	6	9	(33 %)	14	32	(56 %)
Insurance operating costs and other expenses [1]	(1)	13	(108%)	5	30	(83 %)
Loss on extinguishment of debt	—	21	(100%)	—	21	(100%)
Interest expense	85	89	(4 %)	171	183	(7 %)
Total benefits, losses and expenses	84	123	(32 %)	176	234	(25 %)
Loss before income taxes	(78)	(114)	32 %	(162)	(202)	20 %
Income tax benefit	(82)	(43)	(91 %)	(137)	(74)	(85 %)
Net income (loss)	$4	$(71)	106 %	$(25)	$(128)	80 %

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

Three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015

Net income for the three months ended June 30, 2016 improved from a net loss in the prior year period primarily due to a federal income tax benefit of $53 related to the reduction of the deferred tax valuation allowance on capital loss carryovers, a decrease in insurance operating costs and other expenses and a loss on extinguishment of debt in the second quarter 2015. The reduction in the deferred tax valuation allowance was due to taxable gains on the termination of certain derivatives during the period.

Net loss for the six months ended June 30, 2016 compared to the prior year period decreased primarily due to a federal income tax benefit of $78 related to the partial reduction of the deferred tax valuation allowance on capital loss carryovers, and an increase in net investment income partially offset by a decrease in net realized capital gains (losses). Also contributing to the decrease in net loss was the loss on extinguishment of debt in 2015, lower insurance operating costs and expenses and lower interest expense due to a reduction in debt outstanding.

For discussion of income taxes, see Note 7 Income Taxes of Notes to Condensed Consolidated Financial Statements. For a discussion of investment results, see MD&A - Investment Results, Net Investment Income (loss) and Net Realized Capital Gains (losses).

ENTERPRISE RISK MANAGEMENT

The Company has an enterprise risk management function (“ERM”) that is charged with providing analysis of the Company’s risks on an individual and aggregated basis and with ensuring that the Company’s risks remain within its risk appetite and tolerances. The Company has established the Enterprise Risk and Capital Committee (“ERCC”) that includes the Company’s CEO, President, Chief Financial Officer (“CFO”), Chief Investment Officer (“CIO”), Chief Risk Officer, General Counsel and others as deemed necessary by the committee chair. The ERCC is responsible for managing the Company’s risks and overseeing the enterprise risk management program.

The Company categorizes its main risks as follows:

- Insurance Risk
- Operational Risk
- Financial Risk

Refer to the MD&A in The Hartford’s 2015 Form 10-K Annual Report for an explanation of the Company’s Operational Risk.

Insurance Risk Management

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

Reinsurance as a Risk Management Strategy

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

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

Reinsurance for Catastrophes

The Company has several catastrophe reinsurance programs, including reinsurance treaties that cover property and workers' compensation losses aggregating from single catastrophe events. The following table summarizes the primary catastrophe treaty reinsurance coverages that the Company has in place as of June 30, 2016:

Coverage	Treaty Term	% of Layer(s) Reinsurance	Per Occurrence Limit	Retention
Principal property catastrophe program covering property catastrophe losses from a single event [1]	1/1/2016 to 1/1/2017	90%	$ 850	$ 350
Reinsurance with the FHCF covering Florida Personal Lines property catastrophe losses from a single event	6/1/2016 to 6/1/2017	90%	$ 121 [2]	$ 38
Workers compensation losses arising from a single catastrophe event [3]	7/1/2016 to 7/1/2017	80%	$ 350	$ 100

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

[2] The per occurrence limit on the Florida Hurricane Catastrophe Fund (“FHCF”) treaty is $121 for the 6/1/2016 to 6/1/2017 treaty year based on the Company's election to purchase the required coverage from FHCF. Coverage is based on the best available information from FHCF, which was updated in June 2016.

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

In addition to the property catastrophe reinsurance coverage described in the above table, the Company has other catastrophe and working layer treaties and facultative reinsurance agreements that cover property catastrophe losses on an aggregate excess of loss and on a per risk basis. The principal property catastrophe reinsurance program and certain other reinsurance programs include a provision to reinstate limits in the event that a catastrophe loss exhausts

limits on one or more layers under the treaties. In addition, covering the period from January 1, 2014 to December 31, 2016, the Company has an aggregate loss treaty in place which provides one limit of $200 over the three-year period of aggregate qualifying property catastrophe losses in excess of a net retention of $860.

Reinsurance Recoverables
Reinsurance Security
To manage reinsurer credit risk, a reinsurance security review committee evaluates the credit standing, financial performance, management and operational quality of each potential reinsurer. Through this process, the Company maintains a centralized list of reinsurers approved for participation in reinsurance transactions. Only reinsurers approved through this process are eligible to participate in new reinsurance transactions. The Company's approval designations reflect the differing credit exposure associated with various classes of business. Participation eligibility is categorized based upon the nature of the risk reinsured, including the expected liability payout duration. In addition to defining participation eligibility, the Company regularly monitors credit risk exposure to each reinsurance counterparty and has established limits tiered by counterparty credit rating. For further discussion on how the Company manages and mitigates third party credit risk, see MD&A - Enterprise Risk Management, Credit Risk.
Property & Casualty Insurance Product Reinsurance Recoverables
Property & Casualty insurance product reinsurance recoverables represent loss and loss adjustment expense recoverables from a number of entities, including reinsurers and pools.
The components of the gross and net reinsurance recoverables are summarized as follows:

Reinsurance Recoverables	As of June 30, 2016	As of December 31, 2015
Paid loss and loss adjustment expenses [1]	$170	$ 119
Unpaid loss and loss adjustment expenses	2,519	2,662
Gross reinsurance recoverables	$2,689	$ 2,781
Less: Allowance for uncollectible reinsurance	(228)	(266)
Net reinsurance recoverables	$2,461	$ 2,515

[1] As of June 30, 2016 included $53 of recoverables from reinsurers for losses paid on the PPG settlement. For additional information, see MD&A - Critical Accounting Estimates, Property & Casualty Other Operations Claims, Reserve Activity.
Life Insurance Product Reinsurance Recoverables
Life insurance product reinsurance recoverables represent future policy benefits and unpaid loss and loss adjustment expenses and other policyholder funds and benefits payable that are recoverable from a number of reinsurers.
The components of the gross and net reinsurance recoverables are as follows:

Reinsurance Recoverables	As of June 30, 2016	As of December 31, 2015
Future policy benefits and unpaid loss and loss adjustment expenses and other policyholder funds and benefits payable	$20,691	$ 20,674
Gross reinsurance recoverables	$20,691	$ 20,674
Less: Allowance for uncollectible reinsurance [1]	—	—
Net reinsurance recoverables	$20,691	$ 20,674

[1] No allowance for uncollectible reinsurance is required as of June 30, 2016 and December 31, 2015.
As of June 30, 2016, the Company has reinsurance recoverables from MassMutual and Prudential of $8.4 billion and $10.9 billion, respectively. As of December 31, 2015, the Company had reinsurance recoverables from MassMutual and Prudential of $8.6 billion and $10.8 billion, respectively. The Company's obligations to its direct policyholders that have been reinsured to Mass Mutual and Prudential are secured by invested assets held in trust. Net of invested assets held in trust, as of June 30, 2016, the Company has no reinsurance-related concentrations of credit risk greater than 10% of the Company’s Condensed Consolidated Stockholders’ Equity.
For further explanation of the Company's Insurance Risk Management strategy, see MD&A Enterprise Risk Management Insurance Risk Management in The Hartford's 2015 Form 10-K Annual Report.
Financial Risk Management
The Company identifies the following categories of financial risk:

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

Financial risks include direct, and indirect risks to the Company’s financial objectives coming from events that impact market conditions or prices. Financial risk also includes exposure to events that may cause correlated movement in multiple risk factors. The primary source of financial risks are the Company’s general account assets and the liabilities that those assets back, together with the guarantees which the company has written over various liability products, particularly its portfolio of variable annuities. The Company assesses its financial risk on a U.S. GAAP, statutory and economic basis. The Hartford has developed a disciplined approach to financial risk management that is well integrated into the Company’s underwriting, pricing, hedging, claims, asset and liability management, new product, and capital management processes. Consistent with its risk appetite, the Company establishes financial risk limits to control potential loss. Exposures are actively monitored, and mitigated where appropriate. The Company uses various risk management strategies, including reinsurance and over-the-counter and exchange traded derivatives with counterparties meeting the appropriate regulatory and due diligence requirements. Derivatives are utilized to achieve one of four Company-approved objectives: to hedge risk arising from interest rate, equity market, commodity market, credit spread and issuer default, price or currency exchange rate risk or volatility; to manage liquidity; to control transaction costs; or to enter into synthetic replication transactions.

Liquidity Risk

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

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

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

Interest Rate Risk

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

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

particular its ability to utilize tax benefits of previously recognized realized capital losses.

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

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

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

The Company is also exposed to interest rate risk based upon the sensitivity of the present value of the Company's pension and other postretirement benefit obligations to changes in liability discount rates. The discount rate assumption is based upon an interest rate yield curve that reflects high-quality fixed income investments consistent with the maturity profile of the expected liability cash flows. For further discussion of discounting pension and other postretirement benefit obligations, refer to Note 16- Employee Benefit Plans of Notes to Consolidated Financial Statements in The Hartford's 2015 Form 10-K Annual Report. In addition, management evaluates performance of certain Talcott Resolution products based on net investment spread which is, in part, influenced by changes in interest rates.

The investments and liabilities primarily associated with interest rate risk are included in the following discussion. Certain product liabilities, including those containing GMWB or GMDB, expose the Company to interest rate risk but also have significant equity risk. These liabilities are discussed as part of the Variable Product Guarantee Risks and Risk Management section.

Foreign Currency Exchange Risk

Foreign currency exchange risk is defined as the risk of financial loss due to changes in the relative value between currencies. The Company's foreign currency exchange risk is related to non-U.S. dollar denominated investments, which primarily consist of fixed maturity investments, a yen denominated fixed payout annuity and changes in equity of a P&C runoff entity in the United Kingdom. In addition, Talcott Resolution formerly issued non-U.S. dollar denominated funding agreement liability contracts. A significant portion of the Company's foreign currency exposure is mitigated through the use of derivatives.

Fixed Maturity Investments

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

Liabilities

The Company has foreign currency exchange risk associated with yen denominated fixed payout annuities under a reinsurance contract. The Company has entered into pay U.S. dollar, receive yen swap contracts to hedge the currency exposure between the U.S. dollar denominated assets and the yen denominated fixed liability reinsurance payments. In addition, during 2015, the Company entered into certain foreign currency forwards to hedge the currency impacts on changes in equity of a P&C runoff entity in the United Kingdom.

Talcott Resolution previously issued non-U.S. dollar denominated funding agreement liability contracts that remain outstanding. The Company hedged the foreign currency risk associated with these liability contracts with currency rate swaps.

Equity Risk

Equity risk is defined as the risk of financial loss due to changes in the value of global equities or equity indices. The Company has exposure to equity risk from assets under management, embedded derivatives within the Company's variable annuities and assets that support the Company's pension plans and other post retirement benefit plans. Equity Risk on the Company's variable annuity products is mitigated through various hedging programs. (See the Variable Annuity Hedging Program Section).

The Company's exposure to equity risk includes the potential for lower earnings associated with certain businesses such as mutual funds and variable annuities where fee income is earned based upon the value of the assets under management. For further discussion of equity risk, see the following Variable Product Guarantee Risks and Risk Management section. In addition, Talcott Resolution includes certain guaranteed benefits, primarily associated with variable annuity products, which increase the Company's potential benefit exposure in the periods that equity markets decline.

The Company is also subject to equity risk based upon the assets that support its pension plans and other post retirement benefit plans. The asset allocation mix is reviewed on a periodic basis. In order to minimize risk, the pension plans maintain a listing of permissible and prohibited investments. In addition, the pension plans have certain concentration limits and investment quality requirements imposed on permissible investment options.

Variable Product Guarantee Risks and Risk Management

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

Generally, declines in equity markets will:

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

Generally, increases in equity markets will have the inverse impact of those listed in the preceding discussion. For additional information, see Risk Hedging - Variable Annuity Hedging Program section.

Variable Annuity Guaranteed Benefits

The Company’s variable annuities include GMDB and certain contracts include GMWB features. Declines in the equity markets will increase the Company’s liability for these benefits. Many contracts with a GMDB include a maximum anniversary value ("MAV"), which in rising markets resets the guarantee on anniversary to be ‘at the money’. As the MAV increases, it can increase the NAR for subsequent declines in account value. Generally, a GMWB contract is ‘in the money’ if the contractholder’s guaranteed remaining balance (“GRB”) becomes greater than the account value.

The NAR is generally defined as the guaranteed minimum benefit amount in excess of the contractholder’s current account value. Variable annuity account values with guarantee features were $41.7 billion and $44.2 billion as of June 30, 2016 and December 31, 2015, respectively.

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

Total Variable Annuity Guarantees

As of June 30, 2016

($ in billions)	Account Value	Gross Net Amount at Risk	Retained Net Amount at Risk	% of Contracts In the Money [2]	% In the Money [2] [3]
Variable Annuity [1]					
GMDB	$ 41.7	$ 3.9	$ 1.0	48 %	10 %
GMWB	$ 19.0	$ 0.2	$ 0.2	10 %	10 %

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Total Variable Annuity Guarantees
As of December 31, 2015

($ in billions)	Account Value	Gross Net Amount at Risk	Retained Net Amount at Risk	% of Contracts In the Money [2]	% In the Money [2] [3]
Variable Annuity [1]					
GMDB	$ 44.2	$ 4.2	$ 1.1	55 %	9 %
GMWB	$ 20.2	$ 0.2	$ 0.2	11 %	9 %

[1] Policies with a guaranteed living benefit also have a guaranteed death benefit. The NAR for each benefit is shown; however these benefits are not additive. When a policy terminates due to death, any NAR related to GMWB is released. Similarly, when a policy goes into benefit status on a GMWB, the GMDB NAR is reduced to zero.
[2] Excludes contracts that are fully reinsured.
[3] For all contracts that are “in the money”, this represents the percentage by which the average contract was in the money.

Many policyholders with a GMDB also have a GMWB. Policyholders that have a product that offers both guarantees can only receive the GMDB or GMWB. The GMDB NAR disclosed in the preceding tables is a point in time measurement and assumes that all participants utilize the GMDB benefit on that measurement date. For additional information on the Company’s GMDB liability, see Note 6 - Separate Accounts, Death Benefits and Other Insurance Benefit Features of Notes to Condensed Consolidated Financial Statements.
The Company expects to incur GMDB payments in the future only if the policyholder has an “in the money” GMDB at their death. For policies with a GMWB rider, the Company expects to incur GMWB payments in the future only if the account value is reduced over time to a specified level through a combination of market performance and periodic withdrawals, at which point the contractholder will receive an annuity equal to the GRB which is generally equal to premiums less withdrawals. For the Company’s “life-time” GMWB products, this annuity can exceed the GRB. As the account value fluctuates with equity market returns on a daily basis and the “life-time” GMWB payments may exceed the GRB, the ultimate amount to be paid by the Company, if any, is uncertain and could be significantly more or less than the Company’s current carried liability. For additional information on the Company’s GMWB liability, see Note 4 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.
Variable Annuity Market Risk Exposures
The following table summarizes the broad Variable Annuity Guarantees offered by the Company and the market risks to which the guarantee is most exposed from a U.S. GAAP accounting perspective:

Variable Annuity Guarantees [1]	U.S. GAAP Treatment [1]	Primary Market Risk Exposures [1]
GMDB and life-contingent component of the GMWB	Accumulation of the portion of fees required to cover expected claims, less accumulation of actual claims paid	Equity Market Levels
GMWB (excluding life-contingent portions)	Fair Value	Equity Market Levels / Implied Volatility / Interest Rates

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

Risk Hedging
Variable Annuity Hedging Program
The Company’s variable annuity hedging is primarily focused, through the use of reinsurance and capital market derivative instruments, on reducing the economic exposure to market risks associated with guaranteed benefits that are embedded in our variable annuity contracts. The variable annuity hedging also considers the potential impacts on statutory accounting results.
Reinsurance

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

Capital Market Derivatives

GMWB Hedge Program

The Company enters into derivative contracts to hedge market risk exposures associated with the GMWB liabilities that are not reinsured. These derivative contracts include customized swaps, interest rate swaps and futures, and equity swaps, options, and futures, on certain indices including the S&P 500 index, EAFE index, and NASDAQ index.

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Additionally, the Company holds customized derivative contracts to provide protection from certain capital market risks for the remaining term of specified blocks of non-reinsured GMWB riders. These customized derivative contracts are based on policyholder behavior assumptions specified at the inception of the derivative contracts. The Company retains the risk for differences between assumed and actual policyholder behavior and between the performance of the actively managed funds underlying the separate accounts and their respective indices.

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

Macro Hedge Program

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

Variable Annuity Hedging Program Sensitivities

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

The following table presents our estimates of the potential instantaneous impacts from sudden market stresses related to equity market prices, interest rates, and implied market volatilities. The following sensitivities represent: (1) the net estimated difference between the change in the fair value of GMWB liabilities and the underlying hedge instruments of the dynamic program and (2) the estimated change in fair value of the hedge instruments for the macro program, before the impacts of amortization of DAC and taxes. As noted in the preceding discussion, certain hedge assets are used to hedge liabilities that are not carried at fair value and will not have a liability offset in the U.S. GAAP sensitivity analysis. All sensitivities are measured as of June 30, 2016 and are related to the fair value of liabilities and hedge instruments in place at that date for the Company's variable annuity hedge programs. The impacts presented in the table that follows are estimated individually and measured without consideration of any correlation among market risk factors.

GAAP Sensitivity Analysis	As of June 30, 2016					
(before tax and DAC) [1]	GMWB			Macro		
Equity Market Return	-20 %	-10 %	10 %	-20 %	-10 %	10 %
Potential Net Fair Value Impact	$(29)	$ (11)	$ 5	$193	$ 89	$ (61)
Interest Rates	-50bps	-25bps	+25bps	-50bps	-25bps	+25bps
Potential Net Fair Value Impact	$2	$ 2	$ (4)	$12	$ 6	$ (6)
Implied Volatilities	10 %	2 %	-10 %	10 %	2 %	-10 %
Potential Net Fair Value Impact	$(67)	$ (13)	$ 64	$85	$ 17	$ (82)

[1] These sensitivities are based on the following key market levels as of June 30, 2016: 1) S&P of 2,099; 2) 10yr US swap rate of 1.38%; 3) S&P 10yr volatility of 27.59%.

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

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

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Financial Risk on Statutory Capital

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

- In general, as equity market levels and interest rates decline, the amount and volatility of both our actual potential obligation, as well as the related statutory surplus and capital margin for death and living benefit guarantees associated with variable annuity contracts can be materially negatively affected, sometimes at a greater than linear rate. Other market factors that can impact statutory surplus, reserve levels and capital margin include differences in performance of variable subaccounts relative to indices and/or realized equity and interest rate volatilities. In addition, as equity market levels increase, generally surplus levels will increase. RBC ratios will also tend to increase when equity markets increase. However, as a result of a number of factors and market conditions, including the level of hedging costs and other risk transfer activities, reserve requirements for death and living benefit guarantees and RBC requirements could increase with rising equity markets, resulting in lower RBC ratios. Non-market factors, which can also impact the amount and volatility of both our actual potential obligation, as well as the related statutory surplus and capital margin, include actual and estimated policyholder behavior experience as it pertains to lapsation, partial withdrawals, and mortality.
- As the value of certain fixed-income and equity securities in our investment portfolio decreases, due in part to credit spread widening, statutory surplus and RBC ratios may decrease.
- As the value of certain derivative instruments that do not get hedge accounting decreases, statutory surplus and RBC ratios may decrease.
- Our statutory surplus is also impacted by widening credit spreads as a result of the accounting for the assets and liabilities in our fixed market value adjusted "MVA" annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, we are required to use current crediting rates. In many capital market scenarios, current crediting rates are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment asset may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. As actual credit spreads are not fully reflected in the current crediting rates the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in reductions in statutory surplus. This has resulted and may continue to result in the need to devote significant additional capital to support the product.
- With respect to our fixed annuity business, sustained low interest rates may decrease spread income and potentially increase required reserves which may result in a reduction in statutory surplus and an increase in NAIC required capital.

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

The Company has reinsured approximately 35% of its risk associated with GMWB and 75% of its risk associated with the aggregate GMDB exposure. These reinsurance agreements serve to reduce the Company’s exposure to changes in the statutory reserves and the related capital and RBC ratios associated with changes in the capital markets. The Company also continues to explore other solutions for mitigating the capital market risk effect on surplus, such as internal and external reinsurance solutions, modifications to our hedging program, changes in product design and expense management.

Credit Risk

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

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

The Company manages credit risk exposure from its inception to its maturity or sale. Both the investment and reinsurance areas have formulated procedures for counterparty approvals and authorizations. Although approval processes may vary by area and type of credit risk, approval processes establish minimum levels of creditworthiness and financial stability. Credits considered for investment are subjected to underwriting reviews. Within the investment portfolio, private securities are subject to committee review for approval.

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

Credit risk policies at the enterprise and operation level ensure comprehensive and consistent approaches to quantifying, evaluating, and managing credit risk under expected and stressed conditions. These policies define the scope of the risk, authorities, accountabilities, terms, and limits, and are regularly reviewed and approved by senior management. Aggregate counterparty credit quality and exposure is monitored on a daily basis utilizing an enterprise-wide credit exposure information system that contains data on issuers, ratings, exposures, and credit limits. Exposures are tracked on a current and potential basis. Credit exposures are reported regularly to the Company's Asset Liability Committee ("ALCO") and the ERCC. Exposures are aggregated by ultimate parent across investments, reinsurance receivables, insurance products with credit risk, and derivative counterparties.

The Company exercises various methods to mitigate its credit risk exposure within its investment and reinsurance portfolios. Some of the reasons for mitigating credit risk include financial instability or poor credit, avoidance of arbitration or litigation, future uncertainty of the counterparty, and exposure in excess of risk tolerances. Credit risk within the investment portfolio is most commonly mitigated through asset sales or the use of derivative instruments. Counterparty credit risk is mitigated through the practice of entering into contracts only with strong creditworthy institutions and through the practice of holding and posting of collateral. In addition, transactions cleared through a central clearing house reduce risk due to their ability to require daily variation margin, monitor the Company's ability to request additional collateral in the event of a counterparty downgrade, and be an independent valuation source. Systemic credit risk is mitigated through the construction of high-quality, diverse portfolios that are subject to regular underwriting of credit risks. For further discussion of the Company’s investment and derivative instruments, see the Portfolio Risks and Risk Management section and Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements. For further discussion on managing and mitigating credit risk from the

use of reinsurance via an enterprise security review process, see MD&A - Enterprise Risk Management, Insurance Risk Management, Reinsurance as a Risk Management Strategy.

As of June 30, 2016, the Company had no investment exposure to any credit concentration risk of a single issuer or counterparty greater than 10% of the Company's stockholders' equity, other than the U.S. government and certain U.S. government securities. For further discussion of concentration of credit risk in the investment portfolio, see MD&A - Enterprise Risk Management, Insurance Risk Management, Reinsurance as a Risk Management Strategy and the Concentration of Credit Risk section in Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

Derivative Instruments

The Company utilizes a variety of over-the-counter ("OTC"), OTC-cleared and exchange-traded derivative instruments as a part of its overall risk management strategy as well as to enter into replication transactions. Derivative instruments are used to manage risk associated with interest rate, equity market, commodity market, credit spread, issuer default, price, and currency exchange rate risk or volatility. Replication transactions are used as an economical means to synthetically replicate the characteristics and performance of assets that are permissible investments under the Company's investment policies. For further information on the Company's use of derivatives, see Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

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

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

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

For the company's derivative programs, the maximum uncollateralized threshold for a derivative counterparty for a single legal entity is a net market value of $10. The Company currently transacts OTC derivatives in five legal entities that have a threshold greater than zero; therefore, the maximum combined threshold for a single counterparty across all legal entities that use derivatives is a net market value of $50. In addition, the Company may have exposure to multiple counterparties in a single corporate family due to a common credit support provider. As of June 30, 2016, the maximum combined threshold for all counterparties under a single credit support provider across all legal entities that use derivatives was a net market value of $100. Based on the contractual terms of the collateral agreements, these thresholds may be immediately reduced due to a downgrade in either party's credit rating. For further discussion, see the Derivative Commitments section of Note 8 Commitments and Contingencies of Notes to Condensed Consolidated

Financial Statements.

For the six months ended June 30, 2016, the Company has incurred no losses on derivative instruments due to counterparty default.

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

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

Investment Portfolio Risks and Risk Management

Investment Portfolio Composition

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

Fixed Maturities by Credit Quality

	June 30, 2016			December 31, 2015		
	Amortized Cost	Fair Value	Percent of Total Fair Value	Amortized Cost	Fair Value	Percent of Total Fair Value
United States Government/Government agencies	$8,154	$8,887	14.5 %	$7,911	$8,179	13.8 %
AAA	7,467	7,883	12.9 %	6,980	7,195	12.2 %
AA	9,709	10,600	17.3 %	9,943	10,584	17.9 %
A	14,396	15,898	25.9 %	14,297	15,128	25.5 %
BBB	13,774	14,739	24.1 %	14,598	14,918	25.2 %
BB & below	3,222	3,234	5.3 %	3,236	3,192	5.4 %
Total fixed maturities, AFS	$56,722	$61,241	100 %	$56,965	$59,196	100 %

The value of securities increased, as compared to December 31, 2015, primarily related to a decline in interest rates and credit spread tightening. Also accounting for the increase were purchases within United States Government/Government agencies of agency commercial mortgage-backed securities ("CMBS") and residential mortgage-backed securities ("RMBS"), as well as purchases of AAA asset-backed securities ("ABS") and municipal bonds. These purchases were offset by sales of BBB corporate securities as the Company reallocated into higher credit quality investments. Fixed maturities, FVO, are not included in the preceding table. For further discussion on FVO securities, see Note 4 - Fair Value Measurements of Notes to Condensed Consolidated Financial Statements.

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

Securities by Type

	June 30, 2016					December 31, 2015				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total Fair Value
ABS										
Consumer loans	$2,336	$ 16	$ (36)	$2,316	3.8 %	$2,183	$ 6	$ (40)	$2,149	3.6 %
Small business	119	10	(5)	124	0.2 %	123	12	(4)	131	0.2 %
Other	327	10	—	337	0.6 %	214	6	(1)	219	0.4 %
Collateralized debt obligations ("CDOs")										
Collateralized loan obligations ("CLOs")	2,414	2	(25)	2,391	3.9 %	2,514	4	(21)	2,497	4.2 %
Commercial real estate ("CREs")	29	23	—	52	0.1 %	91	42	(1)	132	0.2 %
Other [1]	386	38	(1)	424	0.7 %	384	29	(1)	409	0.7 %
CMBS										
Agency backed [2]	1,463	66	(12)	1,517	2.5 %	1,224	34	(8)	1,250	2.1 %
Bonds	2,795	132	(10)	2,917	4.8 %	2,725	58	(29)	2,754	4.7 %
Interest only (“IOs”)	756	15	(10)	761	1.2 %	719	13	(19)	713	1.2 %
Corporate										
Basic industry	1,038	88	(7)	1,119	1.8 %	1,161	55	(45)	1,171	2.0 %
Capital goods	1,631	165	(5)	1,791	2.9 %	1,781	110	(15)	1,876	3.2 %
Consumer cyclical	1,839	134	(4)	1,969	3.2 %	1,848	68	(24)	1,892	3.2 %
Consumer non-cyclical	3,584	384	(2)	3,966	6.5 %	3,735	196	(24)	3,907	6.6 %
Energy	1,975	157	(27)	2,105	3.4 %	2,276	84	(111)	2,249	3.8 %
Financial services	5,713	375	(52)	6,036	9.9 %	6,083	246	(63)	6,266	10.6 %
Tech./comm.	3,419	372	(18)	3,773	6.2 %	3,553	229	(62)	3,720	6.3 %
Transportation	826	79	(5)	900	1.5 %	869	43	(10)	902	1.5 %
Utilities	4,734	510	(11)	5,233	8.5 %	4,395	299	(60)	4,634	7.8 %
Other	251	17	(2)	266	0.4 %	175	12	(2)	185	0.3 %
Foreign govt./govt. agencies	1,116	78	(6)	1,188	1.9 %	1,321	34	(47)	1,308	2.2 %
Municipal bonds										
Taxable	1,368	228	(1)	1,595	2.6 %	1,315	92	(9)	1,398	2.4 %
Tax-exempt	9,838	1,180	(2)	11,016	18.0 %	9,809	916	(2)	10,723	18.1 %
RMBS										
Agency	2,649	103	(1)	2,751	4.5 %	2,206	64	(6)	2,264	3.8 %
Non-agency	82	3	—	85	0.1 %	89	2	—	91	0.2 %
Alt-A	115	2	(1)	116	0.2 %	68	1	—	69	0.1 %
Sub-prime	1,877	15	(18)	1,874	3.1 %	1,623	15	(16)	1,622	2.7 %
U.S. Treasuries	4,042	577	—	4,619	7.5 %	4,481	222	(38)	4,665	7.9 %
Fixed maturities, AFS	56,722	4,779	(261)	61,241	100 %	56,965	2,892	(658)	59,196	100 %
Equity securities										
Financial services	140	8	(2)	146	17.7 %	159	1	(2)	158	18.8 %
Other	632	71	(22)	681	82.3 %	683	37	(39)	681	81.2 %
Equity securities, AFS	772	79	(24)	827	100 %	842	38	(41)	839	100 %

Total AFS securities	$57,494	$ 4,858	$ (285)	$62,068	$57,807	$ 2,930	$ (699)	$60,035
Fixed maturities, FVO				$411				$503
Equity, FVO [3]				$—				$348

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

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

[3] Included in equity securities, AFS on the Condensed Consolidated Balance Sheets. The Company did not hold any equity securities, FVO as of June 30, 2016.

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The increase in the fair value of AFS securities, as compared to December 31, 2015, was primarily attributable to a decline in interest rates and tighter credit spreads. The Company also reduced its allocation to corporate securities, including specific financial services and energy holdings, and funded purchases of agency CMBS and RMBS to enhance liquidity.

Financial Services

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

	June 30, 2016			December 31, 2015		
	Amortized Cost	Fair Value	Net Unrealized Gain/(Loss)	Amortized Cost	Fair Value	Net Unrealized Gain/(Loss)
AAA	$40	$43	$ 3	$40	$42	$ 2
AA	726	762	36	747	763	16
A	2,621	2,811	190	2,922	3,025	103
BBB	2,062	2,164	102	2,133	2,188	55
BB & below	404	402	(2)	400	406	6
Total [1]	$5,853	$6,182	$ 329	$6,242	$6,424	$ 182

[1] Included equity, AFS securities with an amortized cost and fair value of $140 and $146, respectively as of June 30, 2016 and an amortized cost and fair value of $159 and $158, respectively, as of December 31, 2015 included in the AFS by type table above.

The Company's investment in the financial services sector decreased, as compared to December 31, 2015, due to sales, partially offset by an increase in valuations as a result of a decline in interest rates.

Commercial Real Estate

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

CMBS – Bonds [1]

June 30, 2016

	AAA		AA		A		BBB		BB and Below		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
2005 & Prior	$119	$133	$49	$ 57	$3	$ 3	$5	$ 5	$ 2	$ 2	$178	$200
2006	69	70	92	92	124	124	38	39	4	4	327	329
2007	233	236	124	128	121	123	10	10	21	21	509	518
2008	36	38	—	—	—	—	—	—	—	—	36	38
2009	11	11	—	—	—	—	—	—	—	—	11	11
2010	18	20	8	8	—	—	—	—	—	—	26	28
2011	55	61	—	—	5	5	20	19	—	—	80	85
2012	40	42	6	6	30	30	38	37	—	—	114	115
2013	16	17	95	102	100	106	15	16	—	—	226	241
2014	301	324	59	63	75	76	6	6	—	—	441	469
2015	200	212	177	183	199	205	84	83	—	—	660	683
2016	51	54	45	47	63	70	28	29	—	—	187	200
Total	$1,149	$1,218	$655	$ 686	$720	$ 742	$244	$ 244	$ 27	$ 27	$2,795	$2,917

Credit protection	33.2%	23.7%	19.9%	16.5%	32.3%	26.1%

December 31, 2015

	AAA		AA		A		BBB		BB and Below		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
2005 & Prior	$110	$119	$77	$ 83	$5	$ 5	$5	$ 5	$ 2	$ 2	$199	$214
2006	149	151	102	104	140	141	61	62	22	22	474	480
2007	202	206	170	178	81	83	20	20	51	52	524	539
2008	37	38	—	—	—	—	—	—	—	—	37	38
2009	11	11	—	—	—	—	—	—	—	—	11	11
2010	18	19	8	8	—	—	—	—	—	—	26	27
2011	55	59	—	—	—	—	23	23	—	—	78	82
2012	40	40	6	6	26	26	33	32	—	—	105	104
2013	16	16	95	97	79	80	9	10	1	1	200	204
2014	329	335	58	58	69	68	6	6	2	2	464	469
2015	201	197	163	158	172	165	71	66	—	—	607	586
Total	$1,168	$1,191	$679	$ 692	$572	$ 568	$228	$ 224	$ 78	$ 79	$2,725	$2,754
Credit protection	32.9%		25.8%		18.4%		16.6%		18.7%		26.3%	

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

The Company also has exposure to CRE CDOs with an amortized cost and fair value of $29 and $52, respectively, as of June 30, 2016, and $91 and $132 respectively, as of December 31, 2015. These securities are comprised of diversified pools of commercial mortgage loans or equity positions of other CMBS securitizations. We continue to monitor these investments as economic and market uncertainties regarding future performance impact market liquidity and security premiums.

In addition to CMBS bonds and CRE CDOs, the Company has exposure to commercial mortgage loans as presented in the following table. These loans are collateralized by a variety of commercial properties and are diversified both geographically throughout the United States and by property type. These loans are primarily in the form of whole loans, where the Company is the sole lender, but may include participations. Loan participations are loans that the Company has purchased or retained a portion of an outstanding loan or package of loans and participates on a pro-rata basis in collecting interest and principal pursuant to the terms of the participation agreement. In general, A-Note participations have senior payment priority, followed by B-Note participations and then mezzanine loan participations. As of June 30, 2016, loans within the Company's mortgage loan portfolio that have had extensions or restructurings, other than what is allowable under the original terms of the contract, are immaterial.

Commercial Mortgage Loans

	June 30, 2016			December 31, 2015		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Agricultural	$19	$ (3)	$ 16	$33	$ (7)	$ 26
Whole loans	5,521	(16)	5,505	5,458	(16)	5,442
A-Note participations	138	—	138	139	—	139
B-Note participations	—	—	—	17	—	17
Total	$5,678	$ (19)	$ 5,659	$5,647	$ (23)	$ 5,624

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

The Company funded $175 of commercial whole loans with a weighted average loan-to-value ("LTV") ratio of 67% and a weighted average yield of 3.84% during the six months ended June 30, 2016. The Company continues to originate commercial whole loans within primary markets, such as office, industrial and multi-family, focusing on loans with strong LTV ratios and high quality property collateral. There were no mortgage loans held for sale as of June 30,

2016, or December 31, 2015.

Municipal Bonds

The following table summarizes the amortized cost, fair value, and weighted average credit quality of the Company's available-for-sale investments in municipal bonds.

	June 30, 2016			December 31, 2015		
	Amortized Cost	Fair Value	Weighted Average Credit Quality	Amortized Cost	Fair Value	Weighted Average Credit Quality
General Obligation	$1,947	$2,176	AA	$2,069	$2,243	AA
Pre-Refunded [1]	1,220	1,315	AAA	850	903	AAA
Revenue						
Transportation	1,624	1,888	A+	1,566	1,744	A+
Health Care	1,295	1,455	A-	1,371	1,499	AA-
Water & Sewer	1,152	1,277	AA	1,228	1,324	AA
Education	1,118	1,256	AA+	1,109	1,205	AA
Sales Tax	700	821	AA-	692	779	AA-
Leasing [2]	749	854	AA-	728	803	AA-
Power	604	682	A+	658	709	A+
Housing	103	112	A+	91	94	AA
Other	694	775	AA-	762	818	AA-
Total Revenue	8,039	9,120	AA-	8,205	8,975	AA-
Total Municipal	$11,206	$12,611	AA	$11,124	$12,121	AA-

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

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

As of June 30, 2016 and December 31, 2015, the largest issuer concentrations were the state of California, the Commonwealth of Massachusetts, and the New York Dormitory Authority, which each comprised less than 3% of the municipal bond portfolio and were comprised of general obligation and revenue bonds.

Limited Partnerships and Other Alternative Investments

The following table presents the Company’s investments in limited partnerships and other alternative investments which include hedge funds, real estate funds, and private equity and other funds. Hedge funds are comprised of half equity and credit-related funds and half global macro funds. Real estate funds consist of investments primarily in real estate equity funds, including some funds with public market exposure, and real estate joint ventures. Private equity and other funds primarily consist of investments in funds whose assets typically consist of a diversified pool of investments in small to mid-sized non-public businesses with high growth potential as well as limited exposure to public markets.

	June 30, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
Hedge funds	$710	27.6 %	$1,034	36.0 %
Real estate funds	604	23.4 %	576	20.0 %
Private equity and other funds	1,264	49.0 %	1,264	44.0 %
Total	$2,578	100 %	$2,874	100 %

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Available-for-Sale Securities — Unrealized Loss Aging

Total gross unrealized losses were $285 as of June 30, 2016 and have decreased $414, or 59%, from December 31, 2015 primarily due to lower interest rates and tighter credit spreads. As of June 30, 2016, $247 of the gross unrealized losses were associated with securities depressed less than 20% of cost or amortized cost. The remaining $38 of gross unrealized losses were associated with securities depressed greater than 20%. The securities depressed more than 20% are primarily corporate securities and securities with exposure to commercial real estate, which are depressed primarily due to wider credit spreads and/or higher interest rates since the securities were purchased.

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

The following tables present the Company's unrealized loss aging for AFS securities by length of time the security was in a continuous unrealized loss position:

	June 30, 2016				December 31, 2015			
Consecutive Months	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]
Three months or less	928	$ 1,631	$1,608	$ (23)	2,094	$ 10,535	$10,398	$ (137)
Greater than three to six months	383	1,098	1,079	(20)	819	2,837	2,735	(102)
Greater than six to nine months	427	1,238	1,206	(32)	933	4,421	4,194	(227)
Greater than nine to eleven months	351	1,031	999	(32)	329	1,302	1,242	(60)
Twelve months or more	828	4,040	3,862	(178)	675	3,072	2,896	(173)
Total	2,917	$ 9,038	$8,754	$ (285)	4,850	$ 22,167	$21,465	$ (699)

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

The following table presents the Company's unrealized loss aging for AFS securities continuously depressed over 20% by length of time (included in the preceding table):

	June 30, 2016				December 31, 2015			
Consecutive Months	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]
Three months or less	152	$ 45	$ 35	$ (10)	240	$ 288	$ 212	$ (76)
Greater than three to six months	62	14	10	(4)	130	77	51	(26)
Greater than six to nine months	49	12	8	(4)	5	3	2	(1)
Greater than nine to eleven months	9	31	23	(8)	6	12	8	(4)
Twelve months or more	45	37	25	(12)	50	28	18	(10)
Total	317	$ 139	$ 101	$ (38)	431	$ 408	$ 291	$ (117)

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

Other-Than-Temporary Impairments

The following table presents the Company's impairments recognized in earnings by security type:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
CRE CDOs	$ —	$ —	$ —	$ 1
CMBS IOs	—	1	1	1
Corporate	6	7	25	12
Equity	1	—	4	1
Municipal	—	1	—	1
RMBS				
Sub-prime	—	—	—	1
Foreign government	—	—	—	4
Other	—	2	—	2
Total	$ 7	$ 11	$ 30	$ 23

Three and six months ended June 30, 2016

For the three and six months ended June 30, 2016, impairments recognized in earnings were comprised of credit impairments of $5 and $23, respectively, impairments on equity securities of $1 and $4, respectively, and securities that the Company intends to sell ("intent-to-sell impairments") of $1 and $3, respectively.

Credit impairments for the three months ended June 30, 2016 primarily related to one euro denominated corporate bond due to the strengthening of the U.S. dollar since purchase. Credit impairments for the six months ended June 30, 2016 were primarily related to corporate securities and were identified through security specific reviews and resulted from changes in the financial condition and near term prospects of certain issuers. The Company incorporates its best estimate of future performance using internal assumptions and judgments that are informed by economic and industry specific trends as well as our expectations with respect to security specific developments. Impairments on equity securities were comprised of securities in an unrealized loss position that the Company does not believe will recover in the foreseeable future. Intent-to-sell impairments for the three and six months ended June 30, 2016 were primarily comprised of securities in the corporate sector.

Non-credit impairments recognized in other comprehensive income were $1 and $5 for the three and six months ended June 30, 2016, respectively. These non-credit impairments represent the difference between fair value and the Company's best estimate of expected future cash flows discounted at the security's effective yield prior to impairment, rather than at current market implied credit spreads.

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

Three and six months ended June 30, 2015

For the three and six months ended June 30, 2015, impairments recognized in earnings were comprised of securities the Company intends to sell of $8 and $17, respectively, credit impairments of $1 and $4, respectively, and other impairments of $2 and $2, respectively. Impairments for the the three and six months ended June 30, 2015 were primarily impairments on securities the Company has made the decision to sell. Credit impairments for the three and six months ended June 30, 2015 were primarily identified through security specific reviews and resulted from changes in the financial condition and near term prospects of certain issuers. Non-credit impairments recognized in other comprehensive income were $2 for the three and six months ended June 30, 2015.

CAPITAL RESOURCES AND LIQUIDITY

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

Liquidity Requirements and Sources of Capital

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

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

As of June 30, 2016, HFSG Holding Company held fixed maturities, short-term investments and cash of $1.8 billion. Expected liquidity requirements of the HFSG Holding Company for the next twelve months include payments of 5.5% senior notes of $275 at maturity in October 2016 and 5.375% senior notes of $416 at maturity in March 2017, interest payments on debt of approximately $325 and common stockholder dividends, subject to the discretion of the Board of Directors, of approximately $325.

The Hartford has an intercompany liquidity agreement that allows for short-term advances of funds among the HFSG Holding Company and certain affiliates of up to $2 billion for liquidity and other general corporate purposes. The Connecticut Insurance Department ("CTDOI") granted approval for certain affiliated insurance companies that are parties to the agreement to treat receivables from a parent, including the HFSG Holding Company, as admitted assets for statutory accounting purposes. As of June 30, 2016, there were no amounts outstanding from the HFSG Holding Company.

Debt

In 2015, the Board of Directors authorized the extension of the existing debt capital management program through December 31, 2016. The Company has remaining authorization of approximately $180 under the program. Any debt capital management actions are dependent on market conditions and other factors.

Equity

During the six months ended June 30, 2016, the Company repurchased 16.2 million common shares for $700. During the period July 1, 2016 to July 27, 2016, the Company repurchased 2.0 million common shares for $89.

For further information about equity repurchases, see Part II. Other Information, Item 2.

Dividends

On July 21, 2016, The Hartford's Board of Directors declared a quarterly dividend of $0.21 per common share payable on October 3, 2016 to common shareholders of record as of September 1, 2016.

On May 19, 2016, The Hartford's Board of Directors declared a quarterly dividend of $0.21 per common share payable on July 1, 2016 to common shareholders of record as of June 1, 2016.

On February 25, 2016, The Hartford’s Board of Directors declared a quarterly dividend of $0.21 per common share payable on April 1, 2016 to common shareholders of record as of March 7, 2016.

There are no current restrictions on the HFSG Holding Company's ability to pay dividends to its shareholders.

For a discussion of restrictions on dividends to the HFSG Holding Company from its insurance subsidiaries, see the following "Dividends from Insurance Subsidiaries" discussion. For a discussion of potential restrictions on the HFSG Holding Company's ability to pay dividends, see the risk factor "Our ability to declare and pay dividends is subject to limitations" in Item 1A of Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Pension Plans and Other Postretirement Benefits

The Company does not have a 2016 required minimum funding contribution for the U.S. qualified defined benefit pension plan and the funding requirements for all pension plans are expected to be immaterial. The Company has not determined whether, and to what extent, contributions may be made to the U.S. qualified defined benefit pension plan in 2016. The Company will monitor the funded status of the U.S. qualified defined benefit pension plan during 2016 to make this determination.

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Dividends from Insurance Subsidiaries

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

In 2016, The Company’s property and casualty insurance subsidiaries are permitted to pay up to a maximum of approximately $1.6 billion in dividends to HFSG Holding Company without prior approval from the applicable insurance commissioner. During the first six months of 2016, HFSG Holding Company received approximately $400 in dividends from its property and casualty insurance subsidiaries.

In 2016, Hartford Life and Accident Insurance Company ("HLA") is permitted to pay up to a maximum of $165 in dividends without prior approval from the insurance commissioner. During the six months of 2016, HFSG Holding Company received approximately $120 in dividends from HLA.

During the first six months of 2016, HFSG Holding Company received approximately $500 in dividends from Hartford Life Insurance Company ("HLIC").

In July 2016, HFSG Holding Company received approximately $250 in dividends from a series of transactions with its property-casualty and life insurance subsidiaries. HLIC paid a $250 dividend to HLI which paid a $250 dividend to its parent, Hartford Holdings, Inc. (“HHI”) which used $200 of this amount to pay down principal under its intercompany note with Hartford Fire Insurance Company ("Hartford Fire") and used the remaining $50 to pay a dividend to the HFSG Holding Company. Hartford Fire paid a $200 dividend to the HFSG Holding Company reflecting the note payment from HHI.

Over the remainder of 2016, HSFG Holding Company anticipates receiving additional net dividends of approximately $400 from its property-casualty insurance subsidiaries and $120 from HLA, subject to regulatory approval. HLIC has no ordinary dividend capacity for the remainder of 2016.

Other Sources of Capital for the HFSG Holding Company

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

Shelf Registrations

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

and sell an unlimited amount of securities under the registration statement during the three-year life of the registration statement. The Company intends to file for a new automatic shelf registration with the SEC before the current shelf registration expires in August 2016.

Contingent Capital Facility

The Hartford is party to a put option agreement that provides The Hartford with the right to require the Glen Meadow ABC Trust, a Delaware statutory trust, at any time and from time to time, to purchase The Hartford's junior subordinated notes in a maximum aggregate principal amount not to exceed $500. Under the Put Option Agreement, The Hartford pays the Glen Meadow ABC Trust premiums on a periodic basis, calculated with respect to the aggregate principal amount of notes that The Hartford had the right to put to the Glen Meadow ABC Trust for such period. The Hartford has agreed to reimburse the Glen Meadow ABC Trust for certain fees and ordinary expenses. The Company holds a variable interest in the Glen Meadow ABC Trust where the Company is not the primary beneficiary. As a result, the Company did not consolidate the Glen Meadow ABC Trust. As of June 30, 2016, The Hartford has not exercised its right to require Glen Meadow ABC Trust to purchase the Notes. As a result, the Notes remain a source of capital for the HFSG Holding Company.

Commercial Paper and Revolving Credit Facility

Commercial Paper

The Hartford's maximum borrowings available under its commercial paper program are $1 billion. The Company is dependent upon market conditions to access short-term financing through the issuance of commercial paper to investors. As of June 30, 2016, there was no commercial paper outstanding.

Revolving Credit Facilities

The Company has a senior unsecured five-year revolving credit facility (the "Credit Facility") that provides for borrowing capacity up to $1 billion of unsecured credit through October 31, 2019 available in U.S. dollars, Euro, Sterling, Canadian dollars and Japanese Yen. As of June 30, 2016, no borrowings were outstanding under the Credit Facility. As of June 30, 2016, the Company was in compliance with all financial covenants within the Credit Facility.

Derivative Commitments

Certain of the Company's derivative agreements contain provisions that are tied to the financial strength ratings, as set by nationally recognized statistical rating agencies, of the individual legal entity that entered into the derivative agreement. If the legal entity's financial strength were to fall below certain ratings, the counterparties to the derivative agreements could demand immediate and ongoing full collateralization and in certain instances demand immediate settlement of all outstanding derivative positions traded under each impacted bilateral agreement. The settlement amount is determined by netting the derivative positions transacted under each agreement. If the termination rights were to be exercised by the counterparties, it could impact the legal entity's ability to conduct hedging activities by increasing the associated costs and decreasing the willingness of counterparties to transact with the legal entity. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position as of June 30, 2016 is $1.3 billion. Of this $1.3 billion, the legal entities have posted collateral of $1.6 billion in the normal course of business. In addition, the Company has posted collateral of $31 associated with a customized GMWB derivative. Based on derivative market values as of June 30, 2016, a downgrade of one or two levels below the current financial strength ratings by either Moody's or S&P would not require additional assets to be posted as collateral. These collateral amounts could change as derivative market values change, as a result of changes in our hedging activities or to the extent changes in contractual terms are negotiated. The nature of the collateral that we would post, if required, would be primarily in the form of U.S. Treasury bills, U.S. Treasury notes and government agency securities.

As of June 30, 2016, the aggregate notional amount and fair value of derivative relationships that could be subject to immediate termination in the event of rating agency downgrades to either BBB+ or Baa1 was $125 and $(14), respectively.

Insurance Operations

Current and expected patterns of claim frequency and severity or surrenders may change from period to period but continue to be within historical norms and, therefore, the Company's insurance operations' current liquidity position is considered to be sufficient to meet anticipated demands over the next twelve months, including any obligations related to the Company's restructuring activities. For a discussion and tabular presentation of the Company's current contractual obligations by period, refer to Off-Balance Sheet Arrangements and Aggregate Contractual Obligations within the Capital Resources and Liquidity section of the MD&A included in The Hartford's 2015 Form 10-K Annual

Report.

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

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

Property & Casualty Operations

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

Property & Casualty Operations' fixed maturities, short-term investments, and cash are summarized as follows:

	June 30, 2016
Fixed maturities	$26,647
Short-term investments	777
Cash	145
Less: Derivative collateral	269
Total	$27,300

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

Life Operations

Life Operations' total general account contractholder obligations are supported by $42 billion of cash and total general account invested assets, which included a significant short-term investment position to meet liquidity needs.

Life Operations' fixed maturities, short-term investments, and cash are summarized as follows:

	June 30, 2016
Fixed maturities	$33,671
Short-term investments	1,204
Cash	315
Less: Derivative collateral	1,408
Total	$33,782

Capital resources available to fund liquidity upon contractholder surrender or termination are a function of the legal entity in which the liquidity requirement resides. Generally, obligations of Group Benefits will be funded by Hartford Life and Accident Insurance Company. Obligations of Talcott Resolution will generally be funded by Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company.

HLIC, an indirect wholly-owned subsidiary, is a member of the Federal Home Loan Bank of Boston ("FHLBB"). Membership allows HLIC access to collateralized advances, which may be used to support various spread-based businesses and enhance liquidity management. FHLBB membership requires the company to own member stock and advances require the purchase of activity stock. The amount of advances that can be taken are dependent on the asset types pledged to secure the advances. The CTDOI will permit HLIC to pledge up to $1.2 billion in qualifying assets to secure FHLBB advances for 2016. The pledge limit is recalculated annually based on statutory admitted assets and capital and surplus. HLIC would need to seek the prior approval of the CTDOI in order to exceed these limits. As of June 30, 2016, HLIC had no advances outstanding under the FHLBB facility.

Contractholder Obligations	June 30, 2016
Total Life contractholder obligations	$169,541
Less: Separate account assets [1]	117,851
General account contractholder obligations	$51,690
Composition of General Account Contractholder Obligations	
Contracts without a surrender provision and/or fixed payout dates [2]	$25,370
U.S. Fixed MVA annuities [3]	5,371
Other [4]	20,949
General account contractholder obligations	$51,690

[1] In the event customers elect to surrender separate account assets, Life Operations will use the proceeds from the sale of the assets to fund the surrender, and Life Operations' liquidity position will not be impacted. In some

instances Life Operations will receive a percentage of the surrender amount as compensation for early surrender (surrender charge), increasing Life Operations' liquidity position. In addition, a surrender of variable annuity separate account or general account assets (see the following) will decrease Life Operations' obligation for payments on guaranteed living and death benefits.

[2] Relates to contracts such as payout annuities or institutional notes or surrenders of term life, group benefit contracts or death and living benefit reserves for which surrenders will have no current effect on Life Operations' liquidity requirements.

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

[4] Surrenders of, or policy loans taken from, as applicable, these general account liabilities, which include the general account option for Life Operations' individual variable annuities and the variable life contracts of the former Individual Life business, the general account option for annuities of the former Retirement Plans business and universal life contracts sold by the former Individual Life business, may be funded through operating cash flows of Life Operations, available short-term investments, or Life Operations may be required to sell fixed maturity investments to fund the surrender payment. Sales of fixed maturity investments could result in the recognition of realized losses and insufficient proceeds to fully fund the surrender amount. In this circumstance, Life Operations may need to take other actions, including enforcing certain contract provisions which could restrict surrenders and/or slow or defer payouts. The Company has ceded reinsurance in connection with the sales of its Retirement Plans and Individual Life businesses in 2013 to MassMutual and Prudential, respectively. These reinsurance transactions do not extinguish the Company's primary liability on the insurance policies issued under these businesses.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

There have been no material changes to the Company’s off-balance sheet arrangements and aggregate contractual obligations since the filing of the Company’s 2015 Form 10-K Annual Report.

Capitalization

The capital structure of The Hartford consists of debt and stockholders’ equity, summarized as follows:

	June 30, 2016	December 31, 2015	Change
Short-term debt (includes current maturities of long-term debt)	$690	$ 275	151 %
Long-term debt	4,634	5,084	(9)%
Total debt [1]	5,324	5,359	(1)%
Stockholders’ equity excluding accumulated other comprehensive income (loss), net of tax (“AOCI”)	17,659	17,971	(2)%
AOCI, net of tax	900	(329)	NM
Total stockholders’ equity	$18,559	$ 17,642	5 %
Total capitalization including AOCI	$23,883	$ 23,001	4 %
Debt to stockholders’ equity	29 %	30 %	
Debt to capitalization	22 %	23 %	

[1] Total debt of the Company excludes $32 and $38 of consumer notes as of June 30, 2016 and December 31, 2015, respectively.

Total stockholders' equity increased in the second quarter of 2016 primarily due to an increase in net unrealized capital gains from securities within AOCI. Total capitalization increased $882, or 4%, as of June 30, 2016 compared to December 31, 2015 primarily due to increases in AOCI.

For additional information on AOCI, net of tax, and unrealized capital gains from securities, see Note 10 - Changes In and Reclassifications From Accumulated Other Comprehensive Income, and Note 5 - Investments and Derivative Instruments of Notes to Condensed Consolidated Financial Statements.

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Cash Flows

	Six Months Ended June 30,	
	2016	2015
Net cash provided by operating activities	$816	$1,109
Net cash provided by investing activities	$341	$468
Net cash used for financing activities	$(1,132)	$(1,468)
Cash – end of period	$461	$493

Cash provided by operating activities decreased in 2016 as compared to the prior year period primarily due to an increase in claims paid in the three months ended June 30, 2016, including the Company's payment of $315 related to the settlement of PPG asbestos liabilities. For more information related to this settlement, see MD&A - Critical Accounting Estimates, Property & Casualty Other Operations Claims.

Cash provided by investing activities in 2016 primarily relates to net proceeds from available-for-sale securities of $578 and net proceeds from derivatives of $295, partially offset by net payments for short-term investments of $666. Cash provided by investing activities in 2015 primarily relates to net proceeds from short-term investments of $1.6 billion, partially offset by net payments for available-for-sale securities of $567.

Cash used for financing activities in 2016 consists primarily of acquisition of treasury stock of $700 and net payments for deposits, transfers and withdrawals for investments and universal life products of $402. Cash used for financing activities in 2015 consists primarily of repayment of debt of $585, net payments for deposits, transfers and withdrawals for investments and universal life products of $546 and acquisition of treasury stock of $500, partially offset by $311 in proceeds from securities sold under repurchase agreements.

Operating cash flows for the six months ended June 30, 2016 have been adequate to meet liquidity requirements.

Equity Markets

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

Ratings

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

The following table summarizes The Hartford’s significant member companies’ financial ratings from the major independent rating organizations as of July 26, 2016.

Insurance Financial Strength Ratings:	A.M. Best	Standard & Poor’s	Moody’s
Hartford Fire Insurance Company	A+	A+	A1
Hartford Life and Accident Insurance Company	A	A	A2
Hartford Life Insurance Company	A-	BBB+	Baa2
Hartford Life and Annuity Insurance Company	A-	BBB+	Baa2
Other Ratings:			
The Hartford Financial Services Group, Inc.:			
Senior debt	a-	BBB+	Baa2
Commercial paper	AMB-1	A-2	P-2

These ratings are not a recommendation to buy or hold any of The Hartford’s securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

The agencies consider many factors in determining the final rating of an insurance company. One consideration is the relative level of statutory capital and surplus (referred to collectively as "statutory capital") necessary to support the business written and is reported in accordance with accounting practices prescribed by the applicable state insurance department.

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Statutory Capital

The table below sets forth statutory capital for the Company’s insurance subsidiaries.

	June 30, 2016	December 31, 2015
Life insurance subsidiaries	$6,276	$ 6,591
Property and casualty insurance subsidiaries	8,609	8,563
Total	$14,885	$ 15,154

Statutory capital for the life insurance subsidiaries decreased by $315 primarily due to dividends of $620, partially offset by net income from non-variable annuity business of $210 and variable annuity impacts of $159.

Statutory capital for property and casualty increased by $46, primarily due to statutory net income of $392 and a decrease in non-admitted assets of $45, partially offset by dividends to HFSG Holding Company of $400.

Contingencies

Legal Proceedings – For a discussion regarding contingencies related to The Hartford’s legal proceedings, please see the information contained under “Litigation” in Note 8 - Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements and Part II, Item 1 Legal Proceedings, which are incorporated herein by reference.

Legislative and Regulatory Developments

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”)

Since it was enacted in 2010, the Dodd-Frank Act has resulted in significant changes to the regulation of the financial services industry, including changes to the rules governing derivatives, restrictions on proprietary trading by certain entities, the creation of a Federal Insurance Office within the U.S. Treasury, and enhancements to corporate governance rules, among other things. The Dodd-Frank Act requires significant rulemaking across numerous agencies within the federal government. Rulemaking, and implementation of newly-adopted rules, is ongoing and may affect our operations and governance in ways that could adversely affect our financial condition and results of operations.

Patient Protection and Affordable Care Act of 2010 (the "Affordable Care Act")

On March 23, 2010, the President signed the Affordable Care Act. While many of the key provisions of the Affordable Care Act have become effective, there remains uncertainty with its implementation. Federal agencies continue rulemaking for certain provisions, along with being subject to legal and legislative challenges. In addition, certain provisions of the Affordable Care Act have been amended or delayed, such as the employer mandate which will continue to be phased in during 2016. The impact of the Affordable Care Act to The Hartford as an employer is consistent with other large employers. The Hartford’s core business does not involve the issuance of health insurance and we do not issue any products that insure customers under the Affordable Care Act’s individual mandate. To date, there have been certain limited impacts to The Hartford's group benefits businesses including additional opportunities to market our group benefit products and services through private exchanges. While we have not observed any material impacts on the Company's workers' compensation business or group benefits business, we continue to monitor the impact of the Affordable Care Act on consumer, broker and medical provider behavior for leading indicators of changes in medical costs or loss payments primarily on the Company's workers' compensation and disability liabilities.

Budget of the United States Government

On February 9, 2016, the Obama Administration released its “Fiscal Year 2017, Budget of the U.S. Government” (the “Budget”). The Budget includes proposals that if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts, which are eligible for the DRD. The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between the Company's actual tax expense and expected amount determined using the federal statutory tax rate of 35%. If this proposal were enacted, the Company's actual tax expense could increase, reducing earnings.

United States Department of Labor Fiduciary Rule

On April 6, 2016, the U.S. Department of Labor (“DOL”) issued a final regulation that expands the range of activities considered to be fiduciary investment advice under the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Internal Revenue Code. Implementation will be phased in, with the regulation in full effect by January 1, 2018. The regulation could have an adverse impact on our current offerings of mutual funds, along with contracts in our run-off lines of business, and may impact the way we provide investment-related information and support to financial advisors, plan sponsors, plan participants, plan beneficiaries and Individual Retirement Account owners. On June 1, 2016, a group of nine plaintiffs, including the U.S. Chamber of Commerce and the Securities Industry and Financial Markets Association (SIFMA), filed a lawsuit against the DOL challenging the fiduciary rule. In addition, other industry groups and insurers have filed separate lawsuits against DOL. Among the claims, the lawsuits allege the unconstitutionality of the fiduciary rule and that DOL exceeded its rulemaking authority. We are currently analyzing the potential effect of the regulation and subsequent litigation on our businesses.

IMPACT OF NEW ACCOUNTING STANDARDS

For a discussion of accounting standards, see Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Consolidated Financial Statements included in The Hartford’s 2015 Form 10-K Annual Report and Note 1 - Basis of Presentation and Significant Accounting Policies of Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in the Financial Risk Management section of Management’s Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company’s principal executive officer and its principal financial officer, based on their evaluation of the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) have concluded that the Company’s disclosure controls and procedures are effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e) as of June 30, 2016.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's current fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION
Item 1. LEGAL PROCEEDINGS
Litigation
The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties in the following discussion under the caption “Asbestos and Environmental Claims,” management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.
The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, and in addition to the matters in the following description, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, disability, life and inland marine. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims or other allegedly unfair or improper business practices. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company’s results of operations or cash flows in particular quarterly or annual periods.
In addition to the inherent difficulty of predicting litigation outcomes, the Mutual Funds Litigation identified below purports to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel applications of complex legal theories. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company’s experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. The application of the legal standard identified by the court for assessing the potentially available damages, as described below, is inherently unpredictable, and no legal precedent has been identified that would aid in determining a reasonable estimate of potential loss. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any.
Mutual Funds Litigation — In February 2011, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of New Jersey, alleging that Hartford Investment Financial Services, LLC (“HIFSCO”), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. HIFSCO moved to dismiss and, in September 2011, the motion was granted in part and denied in part, with leave to amend the complaint. In November 2011, plaintiffs filed an amended complaint on behalf of The Hartford Global Health Fund, The Hartford Conservative Allocation Fund, The Hartford Growth Opportunities Fund, The Hartford Inflation Plus Fund, The Hartford Advisors Fund, and The Hartford Capital Appreciation Fund. Plaintiffs seek to rescind the investment management agreements and distribution plans between HIFSCO and these funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received, in addition to lost earnings. HIFSCO filed a partial motion to dismiss the amended complaint and, in December 2012, the court dismissed without prejudice the claims regarding distribution fees and denied the motion with respect to the advisory fees claims. In March 2014, the plaintiffs filed a new complaint that, among other things, added as new plaintiffs The Hartford Floating Rate Fund and The Hartford Small Company Fund and named as a defendant Hartford Funds Management Company, LLC (“HFMC”), an indirect subsidiary of the Company which assumed the role as advisor to the funds as of January 2013. In June 2015, HFMC and HIFSCO moved for summary judgment, and plaintiffs

cross-moved for partial summary judgment with respect to The Hartford Capital Appreciation Fund. In March 2016, the court, in large part, denied summary judgment for all parties. The court granted judgment for HFMC and HIFSCO with respect to all claims made by The Hartford Small Company Fund and certain claims made by The Hartford Floating Rate Fund. The court further ruled that the appropriate measure of damages on the surviving claims is the difference, if any, between the actual advisory fees paid through trial and those that could have been paid under the applicable legal standard. There is currently no trial date, but the matter may be set for trial as early as September 2016.

Asbestos and Environmental Claims – As discussed in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance - Property & Casualty Other Operations Claims, The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford’s consolidated operating results and liquidity.

Item 1A. RISK FACTORS

Investing in The Hartford involves risk. The following should be read in conjunction with, and supplements and amends, the factors that may affect the Company’s business or operations described under “Risk Factors” in Part I, Item 1A, of the Company's Annual Report on Form 10-K ("2015 Annual Report). Other than as described in this Item 1A, there have been no other material changes to our risk factors from the risk factors previously disclosed in the 2015 Annual Report. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the SEC.

The amendments to the risk factor noted below are due to potential impacts of the referendum vote on June 23, 2016, by the United Kingdom (“UK”) to leave the European Union (“EU”) (commonly referred to as “Brexit”).

Risks Relating to Economic, Market and Political Conditions

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

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

Brexit has caused significant volatility in global stock markets and current exchange rates, and has deepened the political, economic and global market uncertainty. The geopolitical impacts of Brexit are unknown and may adversely affect long-term European and global economic growth and forecasts. The United States Federal Reserve and other major central banks may continue with the current accommodative monetary policy for a longer period of time due to increasingly higher levels of political and market turmoil that could persist until some clarity emerges around the UK’s exit process from the EU and the impact of the leave on the economies of the other European countries.

A sustained low interest rate environment would pressure our net investment income and could result in lower margins and lower estimated gross profits on certain products. New and renewal business for our property and casualty and group benefits products is priced based on prevailing interest rates. As interest rates decline, pricing targets will tend to increase to offset the lower anticipated investment income earned on invested premiums. Conversely, as interest rates rise, pricing targets will tend to decrease to reflect higher anticipated investment income. Our ability to effectively react to such changes in pricing may affect our competitiveness in the marketplace, and in turn, written premium and earnings margin achieved. In addition, due to the long-term nature of the liabilities within our Group Benefits and Talcott Resolution operations, such as structured settlements and guaranteed benefits on variable annuities, sustained declines in long-term interest rates subjects us to reinvestment risks, increased hedging costs, spread compression and capital volatility. A rise in interest rates, in the absence of other countervailing changes, will reduce the market value of our investment portfolio and, if long-term interest rates were to rise dramatically certain products within our Talcott Resolution segment might be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate assets in an unrealized loss position. An increase in interest rates can also impact our tax planning strategies and, in particular, our ability to utilize tax benefits to offset certain previously recognized realized capital losses.

One important exposure to equity risk relates to the potential for lower earnings associated with our operations in Mutual Funds and Talcott Resolution, such as variable annuities, where fee income is earned based upon the fair value of the assets under management. Should equity markets decline from current levels, assets under management and related fee income will be reduced. Certain of our products have guaranteed benefits that increase our potential

obligation and statutory capital exposure when equity markets decline. Sustained declines in equity markets may result in the need to utilize significant additional capital to support these products and adversely affect our ability to support our other businesses.

Our exposure to credit spreads primarily relates to changes in market price of fixed income instruments associated with changes in credit spreads. If issuer credit spreads widen significantly and remain at wide levels over an extended period of time, other-than-temporary impairments and decreases in the market value of our investment portfolio will likely result. In addition, losses may also occur due to volatility in credit spreads. When credit spreads widen, we incur losses associated with credit derivatives where the Company assumes exposure. When credit spreads tighten, we incur losses associated with derivatives where the Company has purchased credit protection. If credit spreads tighten significantly, the Company's net investment income associated with new purchases of fixed maturities may be reduced.

Our statutory surplus is also affected by widening credit spreads as a result of the accounting for the assets and liabilities on our fixed market value adjusted (“MVA”) annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities we are required to use current crediting rates. In many capital market scenarios, current crediting rates are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. As actual credit spreads are not fully reflected in current crediting rates, the calculation of statutory reserves may not substantially offset the change in fair value of the statutory separate account assets, resulting in reductions in statutory surplus. This may result in the need to devote significant additional capital to support the fixed MVA product.

In addition, a reduction in market liquidity can make it difficult to value certain of our securities when trading becomes less frequent. As such, valuations may include assumptions or estimates that may be more susceptible to significant period-to-period changes, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our exposure to commodity prices primarily relates to our investment portfolio. Our investment portfolio includes fixed maturities and equity securities issued by companies and sovereigns that derive a portion of their revenues from commodities, including oil, coal, natural gas, and precious and non-precious metals. In periods in which the prices of these and other commodities fall, absent other countervailing changes, decreases in the market value of our investment portfolio will likely result. If these declines in commodities prices are severe and persist over an extended period of time, other-than-temporary impairments may result.

Significant declines in equity prices, changes in U.S. interest rates, changes in credit spreads, inflation, or real estate market deterioration, individually or in combination, could have a material adverse effect on our business, financial condition, results of operations or liquidity. Our hedging assets seek to reduce the net economic sensitivity of our potential obligations from guaranteed benefits to equity market and interest rate fluctuations. Because of the accounting asymmetries between our hedging targets and statutory and GAAP accounting principles for our guaranteed benefits, rising equity markets and/or rising interest rates may result in statutory or GAAP losses.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

The Company’s repurchase authorization permits purchases of common stock, as well as warrants or other derivative securities. Repurchases may be made in the open market, through derivative, accelerated share repurchase and other privately negotiated transactions, and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The timing of any future repurchases will be dependent upon several factors, including the market price of the Company’s securities, the Company’s capital position, consideration of the effect of any repurchases on the Company’s financial strength or credit ratings, and other corporate considerations. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

The Company's total authorization for equity repurchases is $4.375 billion for the period January 1, 2014 through December 31, 2016. The following table summarizes the Company’s repurchases of its common stock during the three months ended June 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(in millions)
April 1, 2016 - April 30, 2016	2,553,633	$ 45.49	2,553,633	$ 864
May 1, 2016 - May 31, 2016	2,677,759	$ 44.62	2,677,759	$ 744
June 1, 2016 - June 30, 2016	2,595,937	$ 44.11	2,595,937	$ 630
Total	7,827,329	$ 44.74	7,827,329	

Item 6. EXHIBITS

See Exhibits Index on page 132.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		The Hartford Financial Services Group, Inc. (Registrant)
Date:	July 28, 2016	/s/ Scott R. Lewis
		Scott R. Lewis Senior Vice President and Controller (Chief accounting officer and duly authorized signatory)

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
FOR THE QUARTER ENDED JUNE 30, 2016
FORM 10-Q
EXHIBITS INDEX

Exhibit No.	Description	Form	File No.	Exhibit No	Filing Date
3.01	Amended and Restated By-Laws of The Hartford Financial Services Group, Inc. ("The Hartford"), amended effective on July 21, 2016.	8-K	001-13958	3.1	7/21/2016
15.01	Deloitte & Touche LLP Letter of Awareness.**				
31.01	Certification of Christopher J. Swift pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**				
31.02	Certification of Beth A. Bombara pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**				
32.01	Certification of Christopher J. Swift pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**				
32.02	Certification of Beth A. Bombara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**				
101.INS	XBRL Instance Document.**				
101.SCH	XBRL Taxonomy Extension Schema.**				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.**				
101.DEF	XBRL Taxonomy Extension Definition Linkbase.**				
101.LAB	XBRL Taxonomy Extension Label Linkbase.**				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.**				
**	Filed with the Securities and Exchange Commission as an exhibit to this report.				

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