

Rating Action: [Hartford Financial Services Group, Inc. \(The\)](#)

Moody's downgrades The Hartford's senior debt to Baa1; negative outlook

\$6.2 billion of securities affected.

New York, February 06, 2009 -- Moody's Investors Service lowered the credit ratings of The Hartford Financial Services Group, Inc. (The Hartford; NYSE: HIG) and its key operating subsidiaries and placed a negative outlook on the ratings because of continued weakness in earnings and reduced capitalization resulting from investment losses and substantial business exposure to variable annuities. Moreover, the risk of further investment losses and diminished earnings is meaningful in view of unsettled markets and deteriorating economic conditions. These rating actions follow The Hartford's recent release of full year results, which included a \$2.7 billion net loss.

The Hartford's long-term senior debt rating was downgraded to Baa1 from A3. In the same action, Moody's downgraded the insurance financial strength (IFS) ratings for the company's lead property and casualty (P&C) and life insurance operating subsidiaries to A1 from Aa3.

Life Insurance:

According to Moody's, the downgrade of the life insurance subsidiaries and the negative outlook reflect the entities' diminished stand-alone credit profile due to the potential for further losses from the investment portfolio and the variable annuity business.

The life insurance subsidiaries hold material levels of structured securities relative to capital. The expectation of higher investment losses for the life insurance subsidiaries is consistent with Moody's recent upward revision to cumulative expected loss rates on a variety of asset backed securities.

"Given the company's large variable annuity business, further deterioration in equity markets could have a magnified impact on capital and profitability at The Hartford vis-à-vis other highly rated insurers," said Moody's Vice President/ Senior Credit Officer Scott Robinson.

The rating agency noted that the companies' A1 IFS rating benefits from implicit support provided by the property & casualty companies. The IFS rating also reflects the benefit of the capital raise from last October currently retained at the parent level, which is available to support NAIC Risk-Based Capital (RBC) levels at the life companies.

Moody's noted that a further downgrade of the life companies could occur if (1) material additional investment losses were to occur over the next several quarters (i.e. - impairments in the life companies in excess of \$750 million pre-tax), (2) prospective organic capital generation is diminished due to materially lower profitability (i.e. - 25% decline in core earnings), or (3) the group fails to address regulatory capital stress associated with the variable annuity business and RBC levels fall below 325%. Conversely, the outlook for the life companies could return to stable if investment losses are moderate, organic capital generation reemerges, and the group addresses regulatory capital volatility with sustained RBC levels above 325%.

P&C Insurance:

According to Moody's, the downgrade and negative outlook of the P&C insurance subsidiaries reflects (1) the actual and potential capital strain associated with the support of the life insurance operations, and (2) recent investment losses which contributed to the material reduction in statutory capital and the risk of further significant losses from investment exposures. Moody's notes that the core underwriting profitability remains very good, as accident year performance excluding catastrophes improved.

"Moody's believes continued support would be forthcoming from the P&C operations should additional capital be needed by the life operations," said Jeff Berg, Moody's Senior Vice President. "Further deterioration in the stand-alone credit profile of the life companies could therefore result in a further downgrade of the P&C operations if extraordinary support were provided," Berg added.

In addition, investment losses in the P&C operating subsidiaries in excess of \$750 million pre-tax, which would inhibit organic capital generation, could also result in a downgrade. The P&C subsidiaries do not have the same level of investment risk exposure as the life operations; however, the rating agency noted that in

addition to structured securities, they have above average holdings relative to other P&C peers in corporate debt and preferred stock -- asset classes likely to see increased defaults during the current economic recession.

Moody's said the outlook for the P&C companies could return to stable if investment losses are moderate and dividends to the parent, which ultimately support life operations, are less than \$500 million, thus enabling the P&C companies to retain capital.

The Hartford:

The downgrade of The Hartford's holding company debt ratings was driven primarily by the credit deterioration of the life insurance subsidiaries, as well as a reduction in financial flexibility.

Moody's positively noted The Hartford's 4Q08 capital raise, shareholder dividend reduction, meaningful liquid securities at the holding company, and considerable alternative liquidity (in terms of bank lines and contingent capital facilities). However, the rating agency said that the group's financial leverage and earnings coverage are still expected to be constrained over the medium term due to potential realized losses and reduced earnings capacity at the operating units.

While Moody's publishes The Hartford's financial leverage metric excluding the effects of unrealized losses on investments, thereby moderating the increase in this ratio over the past year, the rating agency remains concerned about the substantial level of gross unrealized losses driven by adverse credit conditions.

THE FOLLOWING RATINGS WERE DOWNGRADED AND THE OUTLOOK IS NEGATIVE:

Hartford Financial Services Group, Inc. -- senior long-term unsecured debt to Baa1 from A3; junior subordinated notes to Baa2 from Baa1; provisional senior unsecured debt shelf to (P)Baa1 from (P)A3; provisional subordinated debt shelf to (P)Baa2 from (P)Baa1; provisional preferred shelf to (P)Baa3 from (P)Baa2;

Hartford Capital III - preferred stock to Baa2 from Baa1;

Hartford Capital IV -- provisional preferred shelf to (P)Baa2 from (P)Baa1;

Hartford Capital V -- provisional preferred shelf to (P)Baa2 from (P)Baa1;

Hartford Capital VI -- provisional preferred shelf to (P)Baa2 from (P)Baa1;

Hartford Life, Inc. -- senior long-term unsecured debt to Baa1 from A3;

Glen Meadow Pass-Through Trust -- senior secured debt to Baa2 from Baa1;

Hartford Life & Accident Insurance Company -- insurance financial strength to A1 from Aa3;

Hartford Life Insurance Company -- insurance financial strength to A1 from Aa3; senior unsecured medium term note program to A2 from A1;

Hartford Life & Annuity Insurance Company -- insurance financial strength to A1 from Aa3;

Hartford Life Global Funding Trusts—senior secured funding agreement-backed notes to A1 from Aa3;

Hartford Life Institutional Funding -- senior secured funding agreement-backed notes to A1 from Aa3;

Hartford Fire Insurance Company -- insurance financial strength to A1 from Aa3;

Hartford Accident & Indemnity Co. -- insurance financial strength to A1 from Aa3;

Hartford Casualty Insurance Co. -- insurance financial strength to A1 from Aa3;

Trumbull Insurance Company -- insurance financial strength to A1 from Aa3;

Hartford Insurance Company of Illinois -- insurance financial strength to A1 from Aa3;

Hartford Insurance Company of Midwest -- insurance financial strength to A1 from Aa3;

Hartford Insurance Company of Southeast -- insurance financial strength to A1 from Aa3;

Hartford Lloyd's Insurance Company -- insurance financial strength to A1 from Aa3;

Hartford Underwriters Insurance Company -- insurance financial strength to A1 from Aa3;

Nutmeg Insurance Company -- insurance financial strength to A1 from Aa3;

Pacific Insurance Company, Limited -- insurance financial strength to A1 from Aa3;

Property & Casualty Insurance Company of Hartford -- insurance financial strength to A1 from Aa3;

Sentinel Insurance Company -- insurance financial strength to A1 from Aa3;

Twin City Fire Insurance Company -- insurance financial strength to A1 from Aa3.

THE FOLLOWING RATINGS WERE AFFIRMED WITH A STABLE OUTLOOK:

Hartford Life Insurance Company -- short-term insurance financial strength at Prime-1;

Hartford Financial Services Group, Inc. -- commercial paper at Prime-2.

The Hartford is an insurance and financial services organization that offers a wide variety of property and casualty as well as life and annuity insurance products through its insurance operating subsidiaries. For the year ended December 31, 2008, The Hartford reported revenues of \$9.2 billion and a net loss of \$2.7 billion. As of December 31, 2008, shareholders' equity was \$9.3 billion.

The last rating action occurred on November 3, 2008 when Moody's downgraded the senior debt ratings of The Hartford to A3 from A2.

The principal methodologies used in rating The Hartford are "Moody's Global Rating Methodology for Property and Casualty Insurers" and "Moody's Global Rating Methodology for Life Insurers", which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating Allstate can also be found in the Credit Policy & Methodologies directory.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to pay punctually senior policyholder claims and obligations.

Visit Moody's website at www.moody.com/insurance.com for more information.

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