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Hartford Life, Inc. 1998 Annual Report

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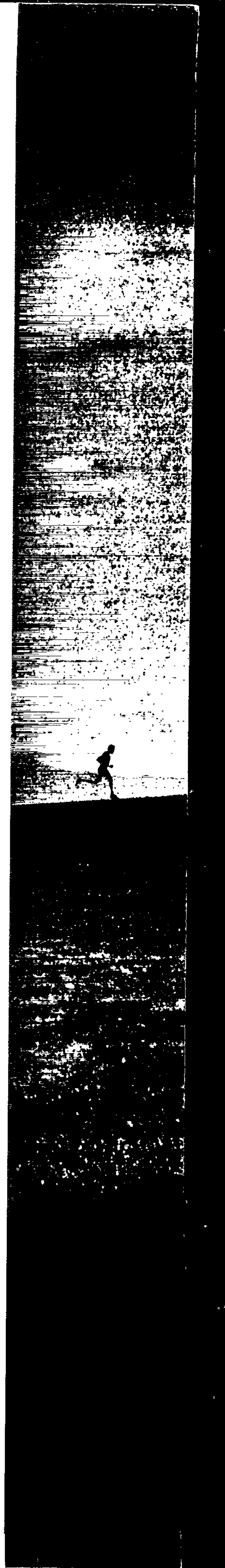


every American is on a journey.


their needs are our opportunities.
Financial protection. Two-thirds of U.S. workers travel through life with little or no disability protection...
Retirement planning. 58 million baby boomers are fast approaching age 50...
Wealth preservation. $10 trillion in estate assets will soon change hands...

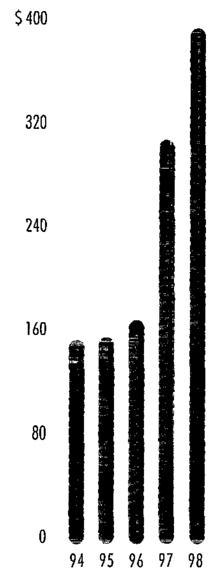
and we are the nation's #2 seller of group disability insurance and #3 seller of group life insurance.

and we are the nation's #1 seller of individual annuities and a major force in employer-sponsored retirement plans.

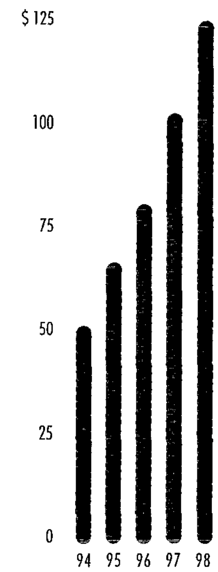
and we are among the fastest-growing providers of life insurance for the tax-efficient transfer of wealth.

## financial highlights

Operating Income
$ in millions




Assets Under Management
$ in billions




| $ in millions (except for per share data) | 1998 | 1997 |
|---|---|---|
| **For the year** | | |
| Operating income[1] | $ 386 | $ 306 |
| Net income | 386 | 306 |
| **At year end** | | |
| Assets under management | $ 124,528 | $ 101,952 |
| Stockholders' equity | 2,493 | 2,144 |
| **Per common share[2]** | | |
| Operating income | $ 2.75 | $ 2.18 |
| Net income | $ 2.75 | $ 2.18 |
| Book value | $ 17.78 | $ 15.30 |
| Weighted average shares outstanding | 140.0 | 140.0 |
| Adjusted weighted average shares considering dilutive potential common shares[2] | 140.2 | 140.1 |

[1] Operating income is defined as after-tax operating income excluding, as applicable, net realized capital gains or losses.
[2] Amounts have been determined considering dilutive potential common shares and 140 million weighted average shares outstanding for the period prior to the Company's Initial Public Offering (May 22, 1997), which is the measurement standard management uses to measure comparable performance.

During 1998 we • officially moved from 6th to 4th largest life insurance group in the U.S. • purchased the nation's leading annuity wholesaler • achieved double-digit sales growth in group disability, group life, individual life, 401(k)s and mutual funds • won our 3rd consecutive DALBAR Award • ended our year with record earnings and $125 billion in assets under management

Lon Smith (left), President and CEO, with Ramani Ayer, Chairman

**we want to be "the official supplier of America's financial journey.℠"**

## to our shareholders

At Hartford Life,* we know that where there is universal need, there is enormous opportunity. And as Americans journey through life, we all feel the need to build, protect and preserve our financial resources.

That's why Hartford Life's goal is to be the "official supplier" of that journey – the preferred source of financial solutions for both individuals and employers, as well as the financial professionals who serve them. Along the way, we have focused on building a dominant presence in three specific areas where the needs – and the potential for growth – are immense:

- Investment products – in particular, retirement products and mutual funds
- Individual life insurance – especially in the upscale, estate-planning market
- Employee benefits – encompassing both income and asset protection

We've been progressing rapidly toward that goal.

### We have the speed.

**Already the fastest-growing major life insurance group of the decade, we continued to sprint forward in 1998.**

Since 1990, Hartford Life has been the fastest-growing major life insurance group in the United States. In fact, last July, A.M. Best data established us as the 4th largest life insurance organization in the nation based on year-end 1997 statutory assets. This marks the seventh consecutive year we've leapfrogged the competition in terms of asset size.

During 1998, we made even further progress along our chosen path. We achieved record earnings of $386 million. We increased our total assets under management to more than $124.5 billion. We remain number one in individual annuity sales, number two in sales of

*Hartford Life refers to Hartford Life, Inc. and its subsidiaries. All statements regarding Hartford Life are based on the latest data available as of the publication of this report.


For the entrepreneur's journey
Salary continuation plans
Business continuation plans
✓ Employee incentive plans

group disability insurance and among the top five in 457 retirement plan assets. Our retail mutual funds, managed by Wellington Management Company, LLP, experienced an 83 percent sales increase. Our 401(k) sales increased 61 percent. And we are particularly proud of our 30 percent sales growth in variable life insurance – a product that holds enormous future potential due to the aging of the population and corresponding need for estate planning.

We didn't achieve these results by standing still, but by rapidly improving our products, distribution, service and operational structure across the board.

*In investment products,* we made two major moves to strengthen our already formidable competitive position. First, we combined our individual annuity, mutual fund and group retirement units to form our new Investment Products Division. By unifying these operations, we can better leverage the powerful infrastructure we've already built in individual annuities to expand our market share in group retirement products.

Second, we purchased PLANCO, the nation's largest annuity wholesaler. As an independent entity, PLANCO had been a long-valued partner of ours and played a major role in catapulting us to the top of the annuity industry. Now, as a wholly owned subsidiary of Hartford Life, PLANCO will be utilized not only to ensure continued success in annuities, but to introduce additional product lines into PLANCO's markets.

*In employee benefits,* we achieved another year of record earnings and strengthened our competitive stance through a series of key product introductions. Example: our new Ability LTD (long-term disability) contract. It brings powerful new solutions to employers seeking to control the cost of their plans. And our new group Long-Term Care product gives us an important foothold in a market where, given Americans' increasing longevity, the need grows greater each year.


For the investor's journey
Mutual funds
Individual annuities
401(k) plans

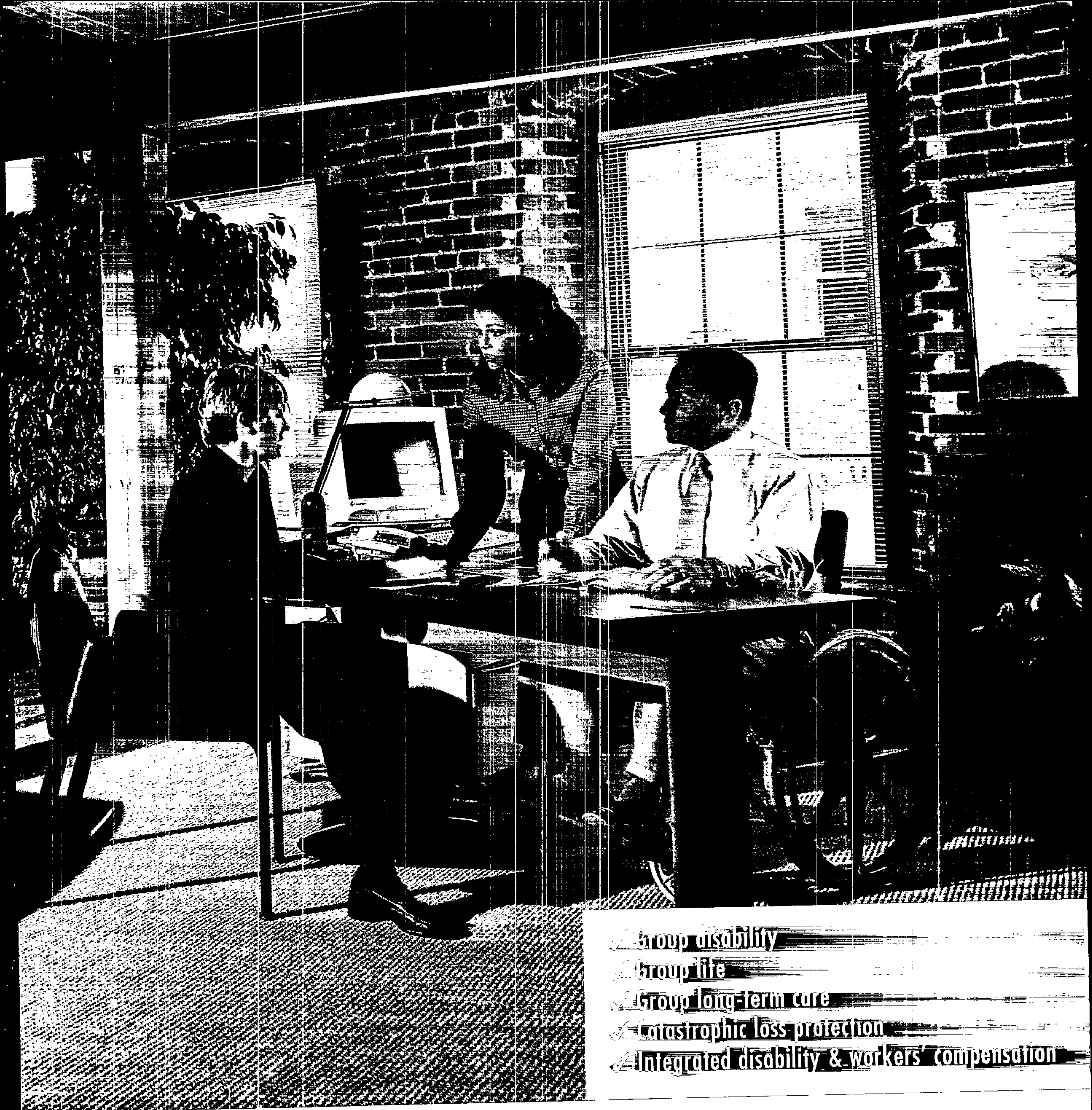
Along with expanding our product line, we continue to expand the public's awareness of what individuals with disabilities can achieve. For example, we were the 1998 title sponsor of the World Disabled Sailing Championships in Newport, Rhode Island, which enjoyed extensive coverage on ESPN. And at our annual Ski Spectacular in Breckinridge, Colorado, we hosted several individuals disabled by international terrorism – including a five-year-old Oklahoma City bombing survivor – in an event that focused widespread attention on how people can lead active lives despite their disabilities.

*In individual life,* we acknowledged the tremendous strategic importance of this business by making it an independent operating division of Hartford Life. With the aging of the population and the growing need to preserve wealth for future generations, we see enormous potential for life insurance geared to the high-end, estate-planning client.

As exemplified by our impressive sales growth, we're already beginning to capitalize on that potential and we intend to accelerate our success even further. To do so, we will continue to expand our network of wholesalers specializing in estate planning and other complex financial planning needs – a network which grew from 128 to 160 wholesalers during 1998. We are also introducing several new products and sales concepts, while committing to a significant upgrade of our service technology.

*In other areas,* just as Hartford Life offers a spectrum of financial "supplies" for the journey of Americans, we're also reaching out to customers beyond our borders. By partnering with Banco de Galicia, we are the second largest life insurer in Argentina. Through a similar partnership with Icatu Group, we are one of Brazil's leading providers of innovative savings products. Back on the home front, we continue to be a leading niche marketer of special life insurance products for corporations. And this year, Hartford Life has enjoyed widespread national exposure thanks to a promotional deal with golfer Casey Martin, an individual whose accomplishments speak volumes about not letting anything – not even a disabling disease – prevent you from making the most of life's journey.


As we move into 1999, these accomplishments and strategies will further strengthen our competitive posture. In our view, growing "organically" – by effectively penetrating new distribution channels and new markets, as well as investing in our own infrastructure – is still the surest route to shareholder value. We realize that some competitors are taking a different route toward growth. Recent mergers and acquisitions have resulted in huge competitors




with extensive resources. However, history shows that large acquisitions have not always proved the best path for organizations like ours. In fact, they can take one's eye off the ball. As some of our competitors shift their focus from managing their business to merging new systems and cultures, we see the opportunity to gain market share.


- ✓ 457 retirement plans
- ✓ 403(b) retirement plans

Will we acquire? Yes, if it makes financial and strategic sense. But acquisitions are not imperative to our continued growth. What *is* imperative is leveraging and expanding upon two strengths that exist in all three of our core business segments: product positioning and widespread distribution.

## We have the endurance.

### Our strategically diverse product lines and well-known brand are the keys to sustained success.

Just as our competition is changing, so is the way in which our products are sold. This, in turn, has implications for the kinds of organizations that will enjoy sustained success in our industry.

In the investment products and individual life markets, our offerings are increasingly sold as part of a total financial plan. Think of the implications. A good financial plan covers a lifetime of needs. It must be constantly updated as the client continues through life's journey.

This underscores the growing importance of "brand reputation" in the ongoing success of financial organizations. Today's independent agents, brokers and banks are not just shopping for products, they're shopping for *partners* – companies that can consistently offer top-notch financial solutions throughout every phase of a client's life. Hartford Life benefits from the brand of The Hartford Financial Services Group. The Hartford owns more than 81 percent of Hartford Life and has had an uninterrupted reputation for quality for almost two centuries.

But while brand is a powerful door opener, companies like ours must also deliver on product quality – that is, products that deliver the best value for customers – as well as product line diversity. Both are areas in which Hartford Life shines. In the investment products and life insurance arenas, we already offer leading products that are widely recognized for their innovative, value-added features and competitive cost. And with the introduction of our extremely successful Hartford mutual fund family just two years ago, our products truly provide solutions for all major stages of an individual's financial needs.


For a journey with a lasting source of income
Immediate variable annuities
Fixed annuities
Structured settlements

In the employee benefits arena, brand is also a powerful advantage. But the true sales winners will be those companies that realize the impact that today's tight job market is having on virtually every industry in America. Employers are looking not only to attract and retain talent through quality benefits but to control the cost of those benefits as well.

Of course, a key to controlling costs for customers is to find innovative ways to control our own costs. In the disability arena, our unique "electronic triage" system provides a sophisticated way to do just that. The system's on-line clinical guidelines add speed, efficiency and effectiveness to claim management decisions by quickly establishing estimated return-to-work dates and accelerating the process of locating appropriate specialty resources (e.g., doctors, nurses, counselors, therapists) for complex case management situations. The result: better, faster claim outcomes for our customers. Similarly, our aggressive fraud management program is yielding growing cost savings, and we will continue to expand our efforts in this area during 1999.

## We are everywhere along the road.

**Our purchase of the nation's largest annuity wholesaler strengthens our already formidable distribution network.**

Of course, not even the most powerful product line will succeed unless it can be brought to market in an equally powerful way.

At Hartford Life, the key to our marketing power is our ability to forge mutually beneficial relationships with a wide range of independent distribution sources. In the early 90's, Hartford Life was a pioneer in this regard. Today, our reputation as a great financial partner is well known. As a result, our strong alliances with virtually all the major wirehouses, banks and independent broker-dealers, as well as leading independent financial planners and third-party administrators, continue to grow. In fact, during 1998, 157,000 agents, brokers and registered representatives sold our products nationwide.


For those thinking of the next generation's journey
✓Estate planning
✓Variable and universal life

Certainly, our purchase of PLANCO – an organization renowned for its rock-solid relationships with brokerage houses and other financial services firms – was a major step in strengthening our partnerships with independent distributors of investment products. In individual life, our continued focus on distributor expansion will give us additional strength in a market where we've already grown many times faster than the average insurer. And in employee benefits, we are on a similarly aggressive campaign to expand both existing and alternate distribution. After all, the potential, particularly in the group disability arena, is extremely promising. Today, only 1 in 3 American workers is covered by group long-term disability insurance – and through our innovative products and programs we have an enormous advantage in penetrating this largely untapped market.

## We have a keen sense of direction.

### For Hartford Life, the path looks bright ahead.

1998 was another year in which Hartford Life proved its ability to generate strong, reliable earnings across all three of our major business segments. Despite intensifying competition and stock market fluctuations, our own journey – a journey that has produced an impressive 26 percent compound annual net income growth over the past five years – continued to produce major rewards for our investors, our business partners and for every individual and employer who turns to us for solutions to financial needs.

Looking down the road, we have every confidence that our success – and our record-breaking momentum – will continue. Where do we get that confidence?

- *From our strong market positions,* which span all phases of America's financial needs.
- *From our widely recognized, well-regarded brand,* which provides us key leverage in entering new markets and recruiting new distribution.
- *From our diverse, innovative product line,* focused on those segments of the financial services landscape that hold the most promise for future growth.

- *From our impressive list of business partners* – today's most prominent independent agents, banks, brokers and wirehouses – which have played such a key role in making us the decade's fastest-growing major life insurance organization in the nation in terms of assets.
- *From our superior technology and service capabilities,* which, in 1998, earned us our third consecutive DALBAR Award for annuity service excellence.
- *And from the diversity of our three major business segments,* all of which are in various stages of growth ... all of which are enviably positioned for future opportunity.

This is a powerful combination of strengths. And as a growing number of Americans progress further along their financial journey, we believe they are exactly the strengths we need to reach our ultimate goal. We want to be the official supplier of America's financial journey – the preferred source for accumulation, protection, longevity and wealth transfer needs.

Our success to date is exciting and encouraging. But we're not about to rest. *Our* journey has just begun.

Ramani Ayer

Ramani Ayer
Chairman

Lon Smith

Lon Smith
President and CEO


along the journey, may you prosper.

## Protection

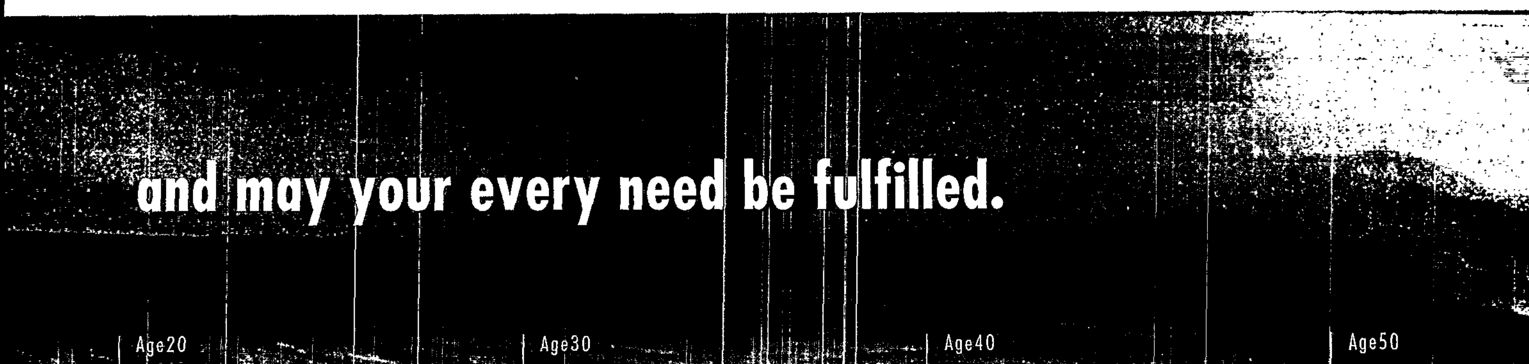
The need to protect yourself, your family and your business from the financial consequences of:
- Accidents or disability
- Catastrophic illness
- Premature death

Hartford Life offers:
- Group short- and long-term disability insurance
- Integrated disability and workers' compensation
- Group and individual life insurance

## Accumulation

The need to accumulate assets for:
- College
- Retirement
- Other major goals

Hartford Life offers:
- Individual annuities
- Mutual funds
- 401(k), 457 and 403(b) retirement plans




Our business strategy:
To capitalize on trends such as the tight job market, employers' growing cost-control needs and the population's lack of adequate long-term disability coverage, we will gain further market share by:
- Continuing to leverage our "Ability" brand differentiation
- Creating further differentiation through our deep expertise in pricing and risk selection
- Building on our existing distribution strengths while growing alternate distribution channels in both the group and individual markets

Our business strategy:
To capitalize on the growing need for retirement savings and other investment products, we will leverage our industry-leading position in individual annuities to expand our share of the group retirement and mutual fund businesses, taking full advantage of our:
- Strategic partnerships with outstanding money managers
- Widespread access to independent distribution
- Industry-leading wholesaling network
- Unique, value-added product designs
- Award-winning, world-class customer service

## Longevity

The need to provide for a comfortable life throughout:
- Retirement
- Extended illness

Hartford Life offers:
- Immediate variable annuities
- Group long-term care insurance
- Structured settlements
- Medicare supplement insurance

## Wealth Transfer

The need to preserve what you've earned for:
- Your family
- Your heirs

Hartford Life offers:
- Estate planning
- Variable and universal life insurance


Our business strategy:
To capitalize on the needs of a growing segment of the population which are shifting from (1) accumulating wealth to generating a lasting income from that wealth and (2) protecting income to safeguarding assets, we will grow our market presence by:
- Offering competitive product designs that anticipate consumer needs
- Leveraging our multi-faceted distribution system to make these products widely available
- Utilizing our brand differentiation to strengthen our advantage in this market

Our business strategy:
To capitalize on the expanding population of mature Americans who need to protect their assets and facilitate the tax-efficient transfer of wealth, we will continue to strengthen our position as a growing leader in this market by:
- Leveraging our unique abilities to assist producers with the sale and service of advanced estate-planning
- Penetrating broader segments of the population
- Significantly expanding our life distribution
- Further utilizing our extensive access to distribution

# financial report

Five-Year Summary 23

Management's Discussion and Analysis 24

Report of Management 54

Report of Independent Public Accountants 55

Consolidated Financial Statements 56

Notes to Consolidated Financial Statements 60

Board of Directors 86

Senior Management 88

Shareholder Information 90

## Five-Year Summary of Selected Financial Data

| *(In millions, except for per share data)* | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **Balance Sheet Data**[1] | | | | | |
| General account invested assets | $ 24,882 | $ 20,970 | $ 19,830 | $ 20,072 | $ 18,078 |
| Separate account assets[2] | 90,628 | 69,362 | 49,770 | 36,296 | 22,847 |
| All other assets | 6,512 | 10,648 | 10,333 | 9,594 | 9,324 |
| Total assets | $ 122,022 | $ 100,980 | $ 79,933 | $ 65,962 | $ 50,249 |
| Policy liabilities | $ 25,484 | $ 26,078 | $ 26,239 | $ 26,318 | $ 25,208 |
| Separate account liabilities[2] | 90,628 | 69,362 | 49,770 | 36,296 | 22,847 |
| Allocated advances from parent[3] | – | – | 893 | 732 | 525 |
| Debt[3] | 650 | 700 | – | – | – |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely parent junior subordinated debentures[4] | 250 | – | – | – | – |
| All other liabilities | 2,517 | 2,696 | 1,757 | 1,439 | 1,283 |
| Total liabilities | $ 119,529 | $ 98,836 | $ 78,659 | $ 64,785 | $ 49,863 |
| Total stockholders' equity | $ 2,493 | $ 2,144 | $ 1,274 | $ 1,177 | $ 386 |
| **Income Statement Data**[1] | | | | | |
| Total revenues | $ 5,788 | $ 4,699 | $ 4,384 | $ 4,090 | $ 3,543 |
| Total expenses | 5,402 | 4,393 | 4,360 | 3,940 | 3,392 |
| Net income[5] | $ 386 | $ 306 | $ 24 | $ 150 | $ 151 |
| **Earnings Per Share Data** | | | | | |
| Basic earnings per share[6] | $ 2.76 | $ 2.28 | $ 0.19 | $ – | $ – |
| Diluted earnings per share[6] | $ 2.75 | $ 2.28 | $ 0.19 | $ – | $ – |
| Dividends declared per common share[7] | $ 0.36 | $ 0.18 | $ – | $ – | $ – |

[1] On November 10, 1998, the Company recaptured an in force block of corporate owned life insurance (COLI) business from MBL Life Assurance Co. of New Jersey (MBL Life). For additional information, see the COLI section as well as the MBL Recapture discussion under "Purchases of Affiliates and Other" within the Capital Resources and Liquidity section of the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

[2] Includes both non-guaranteed and guaranteed separate accounts.

[3] For financial reporting purposes, the Company has treated certain amounts previously allocated by The Hartford Financial Services Group, Inc. (The Hartford) to the Company's life insurance subsidiaries as allocated advances from parent. Cash received in respect of allocated advances from parent was used to support the growth of the life insurance subsidiaries. For additional information, see Note 7 of Notes to Consolidated Financial Statements.

[4] On June 29, 1998, Hartford Life Capital I, a special purpose Delaware trust formed by Hartford Life, issued 10,000,000, 7.2% Trust Preferred Securities, Series A (Series A Preferred Securities). The proceeds from the sale of the Series A Preferred Securities were used to acquire $250 of 7.2% Series A Junior Subordinated Deferrable Interest Debentures (Junior Subordinated Debentures) issued by Hartford Life. For additional information, see Note 8 of Notes to Consolidated Financial Statements.

[5] 1996 includes realized losses of $225 primarily resulting from actions taken in the third quarter of 1996 related to the Company's guaranteed investment contract business. For additional information, see the Investment Products section of the MD&A.

[6] Pro forma effect on basic and diluted earnings per share has been given for the 1997 and 1996 periods presented for the conversion of 1,000 shares of common stock into 114 million shares of Class B Common Stock, which occurred on April 3, 1997, prior to the Company's initial public offering (IPO). For information regarding the IPO and earnings per share data, see Notes 3 and 10 of Notes to Consolidated Financial Statements, respectively.

[7] Dividends per common share represent amounts declared subsequent to the Company's IPO on May 22, 1997. (For information regarding the IPO, see Note 3 of Notes to Consolidated Financial Statements.) The table does not include dividends paid to the parent in periods prior to the IPO.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and related Notes beginning on page 54.

Certain statements contained in this discussion, other than statements of historical fact, are forward-looking statements. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond the Company's control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect on Hartford Life, Inc. and subsidiaries ("Hartford Life" or the "Company"). There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on Hartford Life will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the outcome of certain factors, including those described in the forward-looking statements.

Certain reclassifications have been made to prior year financial information to conform to the current year presentation.

**Index**


Consolidated Results of Operations **25**
Investment Products **27**
Individual Life **29**
Employee Benefits **30**
Corporate Owned Life Insurance (COLI) **32**
Reserves **33**
Investments **33**
Capital Markets Risk Management **36**
Capital Resources and Liquidity **47**
Regulatory Initiatives and Contingencies **51**
Effect of Inflation **53**
Accounting Standards **53**

## Consolidated Results of Operations

Hartford Life is a leading financial services and insurance company providing investment products such as variable and fixed annuities, retirement plan services and mutual funds; individual and corporate owned life insurance; and, employee benefit products such as group life and disability insurance.

The Company derives its revenues principally from: (a) asset management fees on separate accounts and mutual fund assets and mortality and expense fees; (b) fully insured premiums; (c) net investment income on general account assets; and, (d) certain other fees earned by the Company. Asset management fees and mortality and expense fees are primarily generated from separate account assets which are deposited with the Company through the sale of variable annuity and variable life products and from mutual fund sales. Premium revenues are derived primarily from the sale of group life and group disability insurance products. Hartford Life's operating expenses primarily consist of interest credited to policyholders on general account liabilities, insurance benefits provided, dividends to policyholders, costs of selling and servicing the various products offered by the Company, and other general business expenses. Hartford Life's profitability depends largely on the amount of assets under management, the level of fully insured premiums, the adequacy of product pricing and underwriting discipline, and its ability to earn target spreads between earned investment rates on general account assets and credited rates to customers.

## Operating Summary

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Premiums and other considerations | $ 3,833 | $ 3,163 | $ 3,069 |
| Net investment income | 1,955 | 1,536 | 1,534 |
| Net realized capital losses | – | – | (219) |
| Total revenues | 5,788 | 4,699 | 4,384 |
| Benefits, claims and claim adjustment expenses | 3,227 | 2,671 | 2,727 |
| Amortization of deferred policy acquisition costs | 441 | 345 | 241 |
| Dividends to policyholders | 330 | 241 | 635 |
| Other expenses | 1,205 | 962 | 750 |
| Total benefits, claims and expenses | 5,203 | 4,219 | 4,353 |
| Income before income tax expense | 585 | 480 | 31 |
| Income tax expense | 199 | 174 | 7 |
| Net income | $ 386 | $ 306 | $ 24 |

Hartford Life has the following reportable segments: Investment Products, Individual Life, Employee Benefits and Corporate Owned Life Insurance (COLI). The Company reports in "Other" corporate items not directly allocable to any of its segments, principally interest expense, as well as its international operations, which are primarily located in Latin America. For information regarding the Company's reportable segments as they relate to SFAS No. 131, see Note 17 of Notes to Consolidated Financial Statements.

Revenues increased $1.1 billion, or 23%, to $5.8 billion in 1998 from $4.7 billion in 1997.

The increase was due in part to the continued growth in revenues in Investment Products of $274 and Individual Life of $57 as a result of higher aggregate fees earned on growth in account values due to strong sales and equity market appreciation. Additionally, Employee Benefits revenues increased $109 primarily due to strong sales and good persistency. Also contributing to the increase were COLI revenues which grew $587 primarily due to the recapture of an in force block of COLI business (referred to as "MBL Recapture") previously ceded to MBL Life Assurance Co. of New Jersey (MBL Life) transacted in the fourth quarter 1998.

Total benefits, claims and expenses increased $984, or 23%, to $5.2 billion in 1998 from $4.2 billion in 1997. Benefits, claims and claim adjustment expenses increased $556 and dividends to policyholders increased $89 which were primarily attributable to the COLI segment where benefits, claims and claim adjustment expenses increased $485 and dividends to policyholders increased $89 primarily related to the MBL Recapture. In addition, increased benefits, claims and claim adjustment expenses in Employee Benefits of $34 and Individual Life of $18 were associated with the growth in these segments. Higher amortization of deferred policy acquisition costs (DPAC) of $96 in 1998 was a result of the large volume of sales in Investment Products and Individual Life in the past several years. Also, other expenses increased $243 in 1998 as a result of higher commissions and operating expenses in Investment Products and Employee Benefits primarily related to the growth in these segments.

Revenues increased $315, or 7%, to $4.7 billion in 1997 from $4.4 billion in 1996. This increase was primarily due to Investment Products, where revenues increased $503 in 1997 from 1996 as a result of fee income earned on growth in separate account assets due to strong annuity sales and equity market appreciation. Investment Products revenues were also impacted by the guaranteed investment contract (GIC) business, where revenues increased $205, primarily as a result of net realized capital losses in the third quarter of 1996. Additionally, revenues in Employee Benefits increased $237 due to sales growth. Higher revenues in Individual Life of $38, reflecting the impact of applying cost of insurance charges and variable life fees to a larger block of business, also contributed to the increase. Partially offsetting these increases was a decrease in COLI revenues of $380 due to the Health Insurance Portability and Accountability Act of 1996 (HIPA Act of 1996), which phased out the deductibility of interest expense on policy loans by the end of 1998, virtually eliminating all new sales of leveraged COLI.

Total benefits, claims and expenses decreased $134 in 1997 as compared to 1996. This decrease was primarily driven by COLI, where dividends to policyholders declined $394 in 1997 due to the HIPA Act of 1996, as discussed above. Partially offsetting this decrease was an increase in benefits, claims and expenses of $215 in Employee Benefits associated with the growth in this segment. Additionally, benefits, claims and expenses increased $67 in Investment Products primarily related to individual annuity products, partially offset by declines related to GIC business.

Net income totaled $386 in 1998 as compared to $306 in 1997 and $24 in 1996. The improvement in earnings for both comparative periods was primarily driven by higher aggregate fee income earned on growth in the Company's account values due to strong sales and equity market appreciation in Investment Products and Individual Life. Additionally, the improvement in earnings for these comparative periods was impacted by strong sales and favorable mortality and morbidity experience in Employee Benefits. Also contributing to the improvement in 1997 was the reduction in losses resulting from actions taken in the third quarter of 1996 related to the Company's GIC business.

## Outlook

Management believes that it has developed and implemented strategies to maintain and enhance its position as a market leader within the financial services industry, to continue the Company's asset and fully insured premium growth and to maximize shareholder value. Hartford Life's strong market position in each of its primary businesses, coupled with the growth potential management believes exists in its markets, provides opportunities to increase sales of the Company's products and services as individuals increasingly save and plan for retirement, protect themselves and their families against disability or death and prepare their estates for an efficient transfer of wealth between generations.

Certain proposed legislative initiatives which could impact Hartford Life are discussed in the Regulatory Initiatives and Contingencies section.

## Segment Results

Below is a summary of net income (loss) by segment.

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Investment Products | $ 266 | $ 202 | $ (80) |
| Individual Life | 65 | 56 | 44 |
| Employee Benefits | 71 | 58 | 45 |
| Corporate Owned Life Insurance | 24 | 27 | 26 |
| Other | (40) | (37) | (11) |
| Net income | $ 386 | $ 306 | $ 24 |

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

Reserves and Investments are discussed in separate sections.

## Investment Products

### Operating Summary

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Premiums and other considerations | $ 1,045 | $ 771 | $ 541 |
| Net investment income | 739 | 739 | 685 |
| Net realized capital losses | – | – | (219) |
| Total revenues | 1,784 | 1,510 | 1,007 |
| Benefits, claims and claim adjustment expenses | 671 | 677 | 748 |
| Amortization of deferred policy acquisition costs | 326 | 250 | 175 |
| Other expenses | 376 | 269 | 206 |
| Total benefits, claims and expenses | 1,373 | 1,196 | 1,129 |
| Income (loss) before income tax expense (benefit) | 411 | 314 | (122) |
| Income tax expense (benefit) | 145 | 112 | (42) |
| Net income (loss) | $ 266 | $ 202 | $ (80) |

The Investment Products segment focuses on the savings and retirement needs of the growing number of individuals who are preparing for retirement or have already retired through the sale of individual annuities and other investment products. The individual annuity products offered include individual variable annuities, fixed market value adjusted (MVA) annuities and fixed and variable immediate annuities. The other investment products offered include retail mutual funds, deferred compensation and retirement plan services for municipal governments, teachers, hospitals and corporations; structured settlement contracts and other special purpose annuity contracts; and, investment management services. The Company sells both variable and fixed individual annuity products through a wide distribution network of national and regional broker-dealer organizations, banks and other financial institutions, and independent financial advisors. The Company was ranked the number one writer of individual variable annuities in the United States for 1998 according to Variable Annuity and Research Data Service (VARDS) and the number one seller of individual variable annuities through banks, according to Kenneth Kehrer and Associates.

Revenues increased $274, or 18%, to $1.8 billion in 1998 from $1.5 billion in 1997. Driven primarily by the individual annuity operation, this improvement was a result of higher aggregate fees earned on growth in account values due to strong net cash flow resulting from a high volume of sales and favorable persistency as well as significant equity market appreciation in the Company's separate accounts. Fee income related to individual variable annuity products increased $236 as related average account values grew $14.9 billion, or 38%, to $54.6 billion in 1998 from $39.7 billion in 1997. This growth was a result of strong individual variable annuity sales of $9.9 billion in 1998 as well as equity market appreciation. In addition, fee income from other investment products increased $60 primarily as a result of growth in the Company's mutual fund operations, where assets under management increased $1.5 billion in 1998 to $2.5 billion as compared to $972 in 1997.

Total benefits, claims and expenses increased $177, or 15%, to $1.4 billion in 1998 from $1.2 billion in 1997 as a result of the continued growth in this segment. Other expenses increased $107 in 1998 as compared to 1997 primarily due to growth in the mutual funds and individual annuity operations. Amortization of DPAC grew $76 primarily due to individual annuity products as sales remained strong. A 38% growth in average variable annuity account value in 1998, coupled with a reduction in individual annuity operating expenses as a percentage of total individual annuity account value to 23 basis points in 1998 from 25 basis points in 1997, contributed to the increase in net income of $64, or 32%, to $266 in 1998 from $202 in 1997.

Revenues increased $503, or 50%, to $1.5 billion in 1997 from $1.0 billion in 1996. This increase was primarily driven by the individual annuity operation, whose revenues increased $253, reflecting a substantial improvement in aggregate fees earned as a result of this segment's growing account values. Average individual variable annuity account values increased $13.1 billion, or 49%, to $39.7 billion in 1997 from $26.6 billion in 1996, primarily due to strong net cash flow resulting from a high volume of sales and favorable persistency as well as significant equity market appreciation in the Company's separate accounts. In addition, within other investment products, $205 of the segment's increase in revenues was related to GIC business, which was primarily impacted by $219 of net realized capital losses primarily resulting from actions taken in the third quarter of 1996. Associated with strong sales and continued growth in this segment, benefits, claims and expenses grew $67, or 6%, over the prior year. A 27% growth in total average account value in 1997, coupled with operating efficiencies and a reduction in losses of $225 primarily as a result of actions taken in the third quarter of 1996 related to the Company's GIC business, increased net income $282 to $202 in 1997 from $(80) in 1996.

### Outlook

The market for retirement products continues to expand as individuals increasingly save and plan for retirement. Demographic trends suggest that as the baby boom generation matures, a significant portion of the United States population will allocate a greater percentage of their disposable incomes to saving for their retirement years due to uncertainty surrounding the Social Security system and increases in average life expectancy. As this market grows, particularly for variable annuities and mutual funds, new companies are continually entering the market and aggressively seeking distribution capabilities and pursuing market share. This trend is not expected to subside, particularly in light of pending legislation to deregulate the financial services industry.

Management believes that it has developed and implemented strategies to maintain and enhance its position as a market leader in the financial services industry.

## Individual Life

### Operating Summary

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Premiums and other considerations | $378 | $339 | $313 |
| Net investment income | 189 | 171 | 159 |
| Total revenues | 567 | 510 | 472 |
| Benefits, claims and claim adjustment expenses | 269 | 251 | 266 |
| Amortization of deferred policy acquisition costs | 108 | 87 | 63 |
| Dividends to policyholders | 1 | 1 | 1 |
| Other expenses | 88 | 84 | 74 |
| Total benefits, claims and expenses | 466 | 423 | 404 |
| Income before income tax expense | 101 | 87 | 68 |
| Income tax expense | 36 | 31 | 24 |
| Net income | $ 65 | $ 56 | $ 44 |

The Individual Life segment, which focuses on the high end estate and business planning markets, sells a variety of life insurance products, including variable life, universal life, interest-sensitive whole life and term life insurance.

Revenues in 1998 increased $57, or 11%, to $567 from $510 in 1997, reflecting the impact of applying cost of insurance charges and variable life fees on the growing block of variable life insurance. Variable life average account values increased $562, or 67%, to $1.4 billion in 1998 from $840 in 1997 due to strong sales and equity market appreciation. In 1998, higher variable life sales of $29, or 30%, constituted the majority of increased total sales over 1997. Total benefits, claims and expenses increased $43, or 10%, to $466 in 1998 from $423 in 1997. This increase was the result of an increase in amortization of DPAC of $21 and benefits, claims and claim adjustment expenses of $18 in 1998 related to the growth in this segment. As a result of growth in account values, primarily variable life, net income increased $9, or 16%, in 1998 as compared to 1997.

Revenues in 1997 increased $38, or 8%, to $510 from $472 in 1996. In the first quarter of 1996, a block of business was assumed from Investors Equity Life Insurance Company (IEL) which increased 1996 revenues by $9. Excluding this transaction, 1997 revenues increased $47, or 10%, as compared to 1996, reflecting the impact of applying cost of insurance charges and variable life fees to a larger block of business. Total account values increased $555, or 17%, to $3.8 billion in 1997 from $3.2 billion in 1996. Sales were $140 in 1997, an increase of 8% over 1996. Variable life sales constituted 70%, or $98, of total 1997 sales and grew $23, or 31%, over 1996 levels. Total benefits, claims and expenses increased $19, or 5%, to $423 in 1997 from $404 in 1996. Total benefits, claims and expenses, excluding IEL, increased $28, or 7%, in 1997. This increase was primarily driven by an increase in amortization of DPAC of $24 in 1997 related to the growth in new variable life business. The growth in this segment's account values, particularly variable life, along with favorable mortality experience, contributed to an increase in net income of $12, or 27%, in 1997 from 1996.

### Outlook

Management believes that the Company's strong market position will provide opportunities for growth in this segment as individuals increasingly prepare their estates for an efficient transfer of wealth between generations.

## Employee Benefits

### Operating Summary

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Premiums and other considerations | $ 1,629 | $ 1,538 | $ 1,329 |
| Net investment income | 180 | 162 | 134 |
| **Total revenues** | **1,809** | **1,700** | **1,463** |
| Benefits, claims and claim adjustment expenses | 1,335 | 1,301 | 1,140 |
| Amortization of deferred policy acquisition costs | 7 | 6 | 4 |
| Other expenses | 369 | 303 | 251 |
| **Total benefits, claims and expenses** | **1,711** | **1,610** | **1,395** |
| **Income before income tax expense** | **98** | **90** | **68** |
| Income tax expense | 27 | 32 | 23 |
| **Net income** | **$ 71** | **$ 58** | **$ 45** |

The Employee Benefits segment primarily sells group life and group disability insurance as well as other products, including stop loss and supplementary medical coverage to employers and employer sponsored plans, accidental death and dismemberment, travel accident, long-term care insurance and other special risk coverages to employers and associations. The Company also offers disability underwriting, administration, claims processing services and reinsurance to other insurers and self-funded employer plans. According to the latest results published by Life Insurance Marketing and Research Association (LIMRA), the Company was the second largest provider of group disability insurance and the third largest writer of group life insurance in the United States for the nine months ended September 30, 1998.

Revenues increased $109, or 6%, to $1.8 billion in 1998 as compared to $1.7 billion in 1997. This increase was driven by growth in fully insured premiums, excluding buyouts, which increased $181, or 13%, in 1998. This increase was primarily due to group life and group disability, where ongoing premiums increased $69 and $55, respectively, in 1998 as compared to 1997 due to strong sales and good persistency. Sales of fully insured business, excluding buyouts, were $397 in 1998, an increase of $68, or 21%, over 1997; of which, group life and group disability business were each $148 in 1998, an increase of $26 and $23, respectively, as compared to 1997.

Total benefits, claims and expenses increased $101, or 6%, to $1.7 billion in 1998 from $1.6 billion in 1997. The increase was the result of higher benefits, claims and claim adjustment expenses, which, excluding buyouts, increased $121 due to the growth in this segment; however, the ratio of benefits, claims and claim adjustment expenses as a percentage of premiums and other considerations (excluding buyouts) improved to 81.5% in 1998 from 83.2% in 1997. This improvement was partially offset by an increase in other expenses of $66, whereby other expenses as a percentage of premiums and other considerations, excluding buyouts, increased to 23.3% in 1998 from 21.5% in 1997. This trend is due to the Company's continued investment in claims management initiatives which result in higher operating expenses, but improve benefits, claims and claim adjustment expenses.

The segment's effective income tax rate was reduced to 28% in 1998 as compared to 36% in 1997 as a result of increasing the level of investment in tax-exempt securities, which resulted in an improvement in the after-tax investment yield to 5.2% in 1998 from 5.0% in 1997, even though the rate of interest for marketable securities decreased during 1998.

As a result of increased premium revenue, an improved after-tax investment yield and favorable mortality and morbidity experience, Employee Benefits net income grew $13, or 22%, to $71 in 1998 from $58 in 1997.

Revenues increased $237, or 16%, to $1.7 billion in 1997 as compared to $1.5 billion in 1996. This increase was due to growth in fully insured premiums, excluding buyouts, attributable to group disability business of $107, or 25%, and group life business of $79, or 19%, in 1997 as compared to 1996. Sales of fully insured business, excluding buyouts, increased $91, or 38%, to $329 in 1997 as compared to 1996. Included in the 1997 results are group disability and group life premiums of $89 and $16, respectively, as a result of the acquisition of a block of business from the United States branch of Confederation Life Insurance Company. The 1996 results include $78 of group disability premiums and $23 of group life premiums related to the acquisition of a block of business from North American Life Assurance Company of Toronto. Benefits, claims and expenses increased $215, or 15%, to $1.6 billion in 1997 from $1.4 billion in 1996 primarily attributable to growth in the Company's group life and group disability business. As a result of the premium growth in this segment, net income grew $13, or 29%, to $58 in 1997 from $45 in 1996.

### Outlook

As employers continue to offer benefit plans in order to attract and retain valued employees, management expects that the need for group life and group disability insurance will continue to expand and believes the Company is well positioned to take advantage of this growth potential.

## Corporate Owned Life Insurance (COLI)

### Operating Summary

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Premiums and other considerations | $ 774 | $ 551 | $ 880 |
| Net investment income | 793 | 429 | 480 |
| Total revenues | 1,567 | 980 | 1,360 |
| Benefits, claims and claim adjustment expenses | 924 | 439 | 545 |
| Dividends to policyholders | 329 | 240 | 634 |
| Other expenses | 278 | 259 | 144 |
| Total benefits, claims and expenses | 1,531 | 938 | 1,323 |
| Income before income tax expense | 36 | 42 | 37 |
| Income tax expense | 12 | 15 | 11 |
| Net income | $ 24 | $ 27 | $ 26 |

Hartford Life is a leader in the COLI market, which includes life insurance policies purchased by a company on the lives of its employees, with the company named as the beneficiary under the policy. Until the HIPA Act of 1996, the Company sold two principal types of COLI business, leveraged and variable products. Leveraged COLI is a fixed premium life insurance policy owned by a company or a trust sponsored by a company. The HIPA Act of 1996 phased out the deductibility of interest on policy loans under leveraged COLI at the end of 1998, virtually eliminating all future sales of this product. Variable COLI continues to be a product used by employers to fund non-qualified benefits or other post-employment benefit liabilities. Products marketed in this segment also include coverage owned by employees under business sold through corporate sponsorship.

Revenues in this operation increased $587, or 60%, to $1.6 billion in 1998 from $980 in 1997. This increase was primarily related to the recapture of an in force block of COLI business, previously ceded to MBL Life, which was transacted in the fourth quarter 1998. (For additional information regarding the MBL Recapture, see "Purchases of Affiliates and Other" under the Capital Resources and Liquidity section.) The MBL Recapture, which was retroactive to January 1, 1998, resulted in an increase in COLI revenues of $624 and is comprised of $245 of premiums and other considerations and $379 of net investment income. Higher fee income on the segment's growing block of variable COLI account values also contributed to the increase in revenues. Partially offsetting these increases was a decline in premiums and other considerations on leveraged COLI as that block of business continues to decline due to the implications of the HIPA Act of 1996 (discussed above).

Benefits, claims and expenses increased $593, or 63%, to $1.5 billion in 1998 from $938 in 1997. The MBL Recapture resulted in an increase in benefits, claims and expenses of $624 and is comprised of $478 of benefits, claims and other expenses and $146 of dividends to policyholders. The increase in benefits, claims and expenses was also a result of the growth in the segment's variable COLI block of business, which was partially offset by a decrease in benefits, claims and expenses related to leveraged COLI.

Net income declined $3, or 11%, to $24 in 1998 from $27 in 1997 as the growth in the Company's variable COLI business was offset by the declining block of leveraged COLI the Company had prior to passage of the HIPA Act of 1996. The MBL Recapture had no impact on earnings in 1998.

COLI revenues decreased $380, or 28%, to $980 in 1997 from $1.4 billion in 1996. COLI expenses also declined, primarily due to a $394 decrease in dividends to policyholders. These decreases were primarily the result of the HIPA Act of 1996 discussed on the previous page. Net income of $27 in 1997 was consistent with 1996 results.

### Outlook

The focus of this segment is variable COLI, which continues to be a product generally used by employers to fund non-qualified benefits or other post-employment benefit liabilities. The leveraged COLI product has been an important contributor to Hartford Life's profitability in recent years and will continue to contribute to the profitability of Hartford Life in the future, although the level of profit is expected to decline. COLI is subject to a changing legislative and regulatory environment that could have a material adverse affect on its business.

Certain proposed legislative initiatives which could impact Hartford Life are discussed in the Regulatory Initiatives and Contingencies section.

### Reserves

In accordance with applicable insurance regulations under which Hartford Life operates, life insurance subsidiaries of the Company establish and carry as liabilities actuarially determined reserves which are calculated to meet Hartford Life's future obligations. Reserves for life insurance and disability contracts are based on actuarially recognized methods using prescribed morbidity and mortality tables in general use in the United States, which are modified to reflect Hartford Life's actual experience when appropriate. These reserves are computed at amounts that, with additions from premiums to be received and with interest on such reserves compounded annually at certain assumed rates, are expected to be sufficient to meet the Company's policy obligations at their maturities or in the event of an insured's death. Reserves include unearned premiums, premium deposits, claims incurred but not reported and claims reported but not yet paid. Reserves for assumed reinsurance are computed on bases essentially comparable to direct insurance reserves.

### Investments

### General

The Company's investments are managed by its investment strategy group, which consists of a risk management unit and a portfolio management unit and reports directly to senior management of the Company. The risk management unit is responsible for monitoring and managing the Company's asset/liability profile and establishing investment objectives and guidelines. The port-folio management unit is responsible for determining, within specified risk tolerances and investment guidelines, the appropriate asset allocation, duration, and convexity characteristics of the Company's general account and guaranteed separate account investment portfolios. The Hartford Investment Management Company, a wholly owned subsidiary of The Hartford Financial Services Group, Inc., executes the investment plan of the investment strategy group, including the identification and purchase of securities that fulfill the objectives of the strategy group.

The primary investment objective of the Company's general account and guaranteed separate accounts is to maximize after-tax returns consistent with acceptable risk parameters (including the management of the interest rate sensitivity of invested assets relative to that of policyholder obligations). The Company does not hold any financial instruments purchased for trading purposes. The Company is exposed to two primary sources of investment risk: credit risk, relating to the uncertainty associated with an obligor's continued ability to make timely payment of principal and/or interest, and interest rate risk, relating to the market price and/or cash flow variability associated with changes in market yield curves. See the Capital Markets Risk Management section for further discussion of the Company's approach to managing these investment risks.

The Company's separate accounts reflect two categories of risk assumption: non-guaranteed separate accounts totaling $80.6 billion and $58.7 billion as of December 31, 1998 and 1997, respectively, wherein the policyholder assumes substantially all the investment risk and reward, and guaranteed separate accounts totaling $10.0 billion and $10.7 billion as of December 31, 1998 and, 1997, respectively, wherein Hartford Life contractually guarantees either a minimum return or account value to the policyholder. Non-guaranteed separate account products include variable annuities, variable life insurance contracts and COLI. Guaranteed separate account products primarily consist of modified guaranteed individual annuities and modified guaranteed life insurance and generally include market value adjustment features to mitigate the risk of disintermediation.

The Company's general account consists of a diversified portfolio of investments. Although all the assets of the general account support all the Company's liabilities, the Company's investment strategy group has developed separate investment portfolios for specific classes of product liabilities within the general account. The strategy group works closely with the business lines to develop specific investment guidelines, including duration targets, asset allocation and convexity constraints, asset/liability mismatch tolerances and return objectives for each product line in order to achieve each product line's individual risk and return objectives.

Invested assets in the Company's general account totaled $24.9 billion as of December 31, 1998 and were comprised of $17.7 billion of fixed maturities, $6.7 billion of policy loans and other investments of $503. As of December 31, 1997, general account invested assets totaled $21.0 billion and were comprised of $16.8 billion of fixed maturities, $3.8 billion of policy loans and other investments of $363. Policy loans, which had a weighted-average interest rate of 9.9% and 11.2%, as of December 31, 1998 and 1997, respectively, increased primarily as a result of the MBL Recapture. These loans are secured by the cash value of the underlying life insurance policies and do not mature in a conventional sense, but expire in conjunction with the related policy liabilities.

The following table sets forth by type the fixed maturity securities held in the Company's general account as of December 31, 1998 and 1997.

| | 1998 | | 1997 | |
|---|---|---|---|---|
| **Fixed Maturities by Type** | **Fair Value** | **Percent** | **Fair Value** | **Percent** |
| Corporate | $ 7,898 | 44.6% | $ 7,970 | 47.3% |
| Asset backed securities | 2,465 | 13.9% | 3,199 | 19.0% |
| Short-term | 2,119 | 12.0% | 1,395 | 8.3% |
| Commercial mortgage backed securities | 2,036 | 11.5% | 1,606 | 9.5% |
| Municipal – tax-exempt | 916 | 5.2% | 171 | 1.0% |
| Collateralized mortgage obligations | 831 | 4.7% | 978 | 5.8% |
| Government/Government agencies – foreign | 530 | 3.0% | 502 | 3.0% |
| Mortgage backed securities – agency | 503 | 2.9% | 514 | 3.1% |
| Municipal – taxable | 223 | 1.3% | 267 | 1.6% |
| Government/Government agencies – U.S. | 166 | 0.9% | 241 | 1.4% |
| Redeemable preferred stock | 5 | – | 5 | – |
| Total fixed maturities | $ 17,692 | 100.0% | $ 16,848 | 100.0% |

During 1998, the Company, in executing its investment strategy, increased its allocation to municipal tax-exempt securities with the objective of increasing after-tax yields, and also increased its allocation to commercial mortgage backed securities while decreasing its allocation to asset backed securities. The increase in short-term investments as of December 31, 1998 as compared to 1997 was impacted by the settlement of the MBL Recapture in the fourth quarter 1998 (as discussed in the COLI section), which resulted in short-term investment proceeds of approximately $300.

Approximately 22.8% and 22.6% of the Company's fixed maturity portfolio was invested in private placement securities (including Rule 144A offerings) as of December 31, 1998 and 1997, respectively. Private placement securities are generally less liquid than public securities; however, covenants for private placements are designed to mitigate liquidity risk. Most of the private placement securities in the Company's portfolio are rated by nationally recognized rating organizations. For further discussion of the Company's investment credit policies, see the Capital Markets Risk Management section under "Credit Risk."

### Investment Results

The table below summarizes Hartford Life's investment results for the past three years.

| *(Before-tax)* | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net investment income – excluding policy loan income | $ 1,166 | $ 1,111 | $ 1,057 |
| Policy loan income | 789 | 425 | 477 |
| Net investment income – total | $ 1,955 | $ 1,536 | $ 1,534 |
| Yield on average invested assets[1] | 7.9% | 7.6% | 7.7% |
| Net realized capital losses | $ – | $ – | $ (219) |

[1] Represents net investment income (excluding net realized capital losses) divided by average invested assets at cost (fixed maturities at amortized cost). In 1998, average invested assets were calculated assuming the MBL Recapture proceeds were received on January 1, 1998.

Total net investment income, before-tax, increased $419, or 27%, to $2.0 billion in 1998 from $1.5 billion in 1997, principally due to an increase in policy loan income of $364 which is primarily due to the MBL Recapture. (For additional information on the MBL Recapture, see the COLI section.) Yields on average invested assets, before-tax, increased to 7.9% in 1998 from 7.6% in 1997 primarily due to the increase in policy loan income that resulted from the MBL Recapture as well as an increase in fixed maturites rated BBB. There were no net realized capital gains or losses for the years ended December 31, 1998 and 1997. During 1998, realized capital gains from the sale of fixed maturities and equity securities were offset by realized capital losses, including $21, after-tax, related to the other than temporary impairment charge associated with asset backed securities securitized and serviced by Commercial Financial Services, Inc. (CFS). (For additional information on CFS, see Note 16, Commitments and Contingencies, of Notes to Consolidated Financial Statements.)

Total net investment income, before-tax, totaled $1.5 billion in 1997, unchanged from 1996. Total yields on average invested assets, before-tax, decreased to 7.6% in 1997 from 7.7% in 1996 primarily attributable to declining market interest rates. In 1996, net realized capital losses of $219 were primarily attributable to the writedown and sale of certain securities within the Company's GIC business.

### Capital Markets Risk Management

As described below, credit risk and market risk are the primary sources of investment risk to the Company. The following discussion identifies the Company's policies and procedures for managing these risks and monitoring the results of the Company's risk management activities.

### Credit Risk

Hartford Life has established investment credit policies that focus on the credit quality of obligors and counterparties, limit credit concentrations, encourage diversification and require frequent creditworthiness reviews. Investment activity, including setting of policy and defining acceptable risk levels, is subject to regular review and approval by senior management and frequent review by Hartford Life's Finance Committee.

The Company invests primarily in securities rated investment grade and has established exposure limits, diversification standards and review procedures for all credit risks including borrower, issuer and counterparty. Creditworthiness of specific obligors is determined by an internal credit evaluation supplemented by consideration of external determinants of creditworthiness, typically ratings assigned by nationally recognized ratings agencies. Obligor, asset sector and industry concentrations are subject to established limits and monitored at regular intervals.

The following table identifies fixed maturity securities for the Company's operations by credit quality. The ratings referenced in the tables are based on the ratings of nationally recognized rating organizations or, if not rated, assigned based on the Company's internal analysis of such securities.

As of December 31, 1998 and 1997, over 98% of the fixed maturity portfolio, including guaranteed separate accounts, was invested in investment-grade securities.

| | 1998 | | 1997 | |
|---|---|---|---|---|
| **Fixed Maturities by Credit Quality** | **Fair Value** | **Percent** | **Fair Value** | **Percent** |
| U.S. Government/Government agencies | $ 2,596 | 9.5% | $ 2,907 | 10.7% |
| AAA | 3,542 | 12.9% | 3,974 | 14.6% |
| AA | 2,674 | 9.7% | 2,967 | 10.9% |
| A | 8,878 | 32.3% | 9,351 | 34.3% |
| BBB | 7,019 | 25.6% | 5,966 | 21.9% |
| BB & below | 492 | 1.8% | 205 | 0.7% |
| Short-term | 2,265 | 8.2% | 1,869 | 6.9% |
| Total fixed maturities | $ 27,466 | 100.0% | $ 27,239 | 100.0% |

The Company also maintains credit policies regarding the financial stability and credit standing of its major derivatives' counterparties and typically requires credit enhancement provisions to further reduce its credit risk. Credit risk for derivatives contracts is limited to the amounts calculated to be due to the Company on such contracts based on current market conditions and potential payment obligations between the Company and its counterparties. Credit exposures are quantified weekly and netted, and collateral is pledged to or held by the Company to the extent the current value of derivatives exceeds exposure policy thresholds.

## Market Risk

Hartford Life's general and guaranteed separate account exposure to market risk relates to the market price and/or cash flow variability associated with changes in market interest rates. The following discussion focuses on the Company's exposure to interest rate risk, asset/liability management strategies utilized to manage this risk, and characteristics of the Company's insurance liabilities and their sensitivity to movements in interest rates.

### Interest Rate Risk

Changes in interest rates can potentially impact the Company's profitability. Under certain circumstances of interest rate volatility, the Company could be exposed to disintermediation risk and reduction in net interest rate spread or profit margins. For non-guaranteed separate accounts, the Company's exposure is not significant since the policyholder assumes substantially all of the investment risk.

The Company's general account and guaranteed separate account investment portfolios primarily consist of investment grade, fixed maturity securities, including corporate bonds, asset backed securities, collateralized mortgage obligations and mortgage backed securities. The fair value of these and the Company's other invested assets fluctuates depending on the interest rate environment and other general economic conditions. During periods of declining interest rates, paydowns on mortgage backed securities and collateralized mortgage obligations increase as the underlying mortgages are prepaid. In addition, during such periods, the Company generally will not be able to reinvest the proceeds of any such prepayments at comparable yields. Conversely, during periods of rising interest rates, the rate of prepayments generally declines exposing the Company to the possibility of asset/liability cash flow and yield mismatch. For a discussion of the Company's risk management techniques to manage this market risk, see "Asset/Liability Management Strategies Used to Manage Market Risk" discussion on page 40.

As described above, the Company holds a significant fixed maturity portfolio, which includes both fixed and variable rate features. The following table reflects the principal amounts of the fixed and variable rate fixed maturity portfolio, along with the respective weighted average coupons by estimated maturity year as of December 31, 1998. Comparative totals are included for December 31, 1997. Expected maturities differ from contractual maturities due to call or prepayment provisions. The weighted average coupon on variable rate securities is based on spot rates as of December 31, 1998 and 1997, and is primarily based on the London Interbank Offered Rate (LIBOR). Callable bonds and notes are distributed to either call dates or maturity, depending on which date produces the most conservative yield. Asset backed securities, collateralized mortgage obligations and mortgage backed securities are distributed to maturity year based on estimates of the rate of future prepayments of principal over the remaining life of the securities. These estimates are developed using prepayment speeds provided in broker consensus data. Such estimates are derived from prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Actual prepayment experience may vary from these estimates. Financial instruments with certain leverage features have been included in each of the fixed maturity categories. These instruments have not been separately displayed because they were immaterial to the Company's investment portfolio.

| | 1999 | 2000 | 2001 | 2002 | 2003 | Thereafter | **1998 Total** | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| **Bonds and Notes – Callable** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Par value | $ 49 | $ 31 | $ 53 | $ 40 | $ 56 | $ 854 | $ 1,083 | $ 706 |
| Weighted average coupon | 7.8% | 7.3% | 5.8% | 7.1% | 8.4% | 5.1% | 5.6% | 6.0% |
| Fair value | | | | | | | $ 1,080 | $ 668 |
| *Variable Rate* | | | | | | | | |
| Par value | $ 40 | $ 52 | $ 39 | $ 14 | $ – | $ 937 | $ 1,082 | $ 1,167 |
| Weighted average coupon | 6.7% | 7.3% | 5.4% | 5.9% | – | 5.9% | 6.0% | 6.5% |
| Fair value | | | | | | | $ 982 | $ 1,106 |
| **Bonds and Notes – Other** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Par value | $ 2,871 | $1,352 | $1,291 | $ 988 | $1,087 | $ 7,701 | $ 15,290 | $14,999 |
| Weighted average coupon | 6.6% | 7.0% | 7.4% | 7.5% | 6.8% | 5.7% | 6.3% | 5.9% |
| Fair value | | | | | | | $ 15,315 | $14,815 |
| *Variable Rate* | | | | | | | | |
| Par value | $ 90 | $ 176 | $ 14 | $ 81 | $ 90 | $ 702 | $ 1,153 | $ 1,309 |
| Weighted average coupon | 5.1% | 5.9% | 5.4% | 5.4% | 5.4% | 5.9% | 5.8% | 5.3% |
| Fair value | | | | | | | $ 1,114 | $ 1,352 |
| **Asset Backed Securities** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Par value | $ 472 | $ 442 | $ 436 | $ 209 | $ 145 | $ 449 | $ 2,153 | $ 2,288 |
| Weighted average coupon | 6.7% | 6.9% | 6.8% | 6.7% | 6.4% | 6.9% | 6.8% | 7.0% |
| Fair value | | | | | | | $ 2,074 | $ 2,325 |
| *Variable Rate* | | | | | | | | |
| Par value | $ 187 | $ 256 | $ 356 | $ 208 | $ 193 | $ 530 | $ 1,730 | $ 1,959 |
| Weighted average coupon | 6.1% | 6.1% | 6.3% | 5.9% | 6.6% | 6.0% | 6.1% | 6.4% |
| Fair value | | | | | | | $ 1,683 | $ 1,959 |
| **Collateralized Mortgage Obligations** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Par value | $ 456 | $ 400 | $ 167 | $ 129 | $ 88 | $ 185 | $ 1,425 | $ 1,739 |
| Weighted average coupon | 6.0% | 6.0% | 6.0% | 6.7% | 7.0% | 7.2% | 6.5% | 5.9% |
| Fair value | | | | | | | $ 1,371 | $ 1,695 |
| *Variable Rate* | | | | | | | | |
| Par value | $ 43 | $ 20 | $ 8 | $ 6 | $ 6 | $ 183 | $ 266 | $ 446 |
| Weighted average coupon | 6.3% | 6.8% | 7.2% | 8.4% | 8.4% | 6.0% | 6.2% | 7.3% |
| Fair value | | | | | | | $ 264 | $ 424 |
| **Commercial Mortgage Backed Securities** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Par value | $ 53 | $ 112 | $ 133 | $ 139 | $ 96 | $ 1,234 | $ 1,767 | $ 1,448 |
| Weighted average coupon | 7.6% | 6.7% | 7.6% | 7.1% | 6.8% | 7.1% | 7.1% | 7.3% |
| Fair value | | | | | | | $ 1,784 | $ 1,441 |
| *Variable Rate* | | | | | | | | |
| Par value | $ 109 | $ 235 | $ 50 | $ 135 | $ 132 | $ 499 | $ 1,160 | $ 810 |
| Weighted average coupon | 6.7% | 6.6% | 7.0% | 6.3% | 6.9% | 6.9% | 6.7% | 7.0% |
| Fair value | | | | | | | $ 1,075 | $ 821 |
| **Mortgage Backed Securities** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Par value | $ 88 | $ 82 | $ 73 | $ 60 | $ 52 | $ 368 | $ 723 | $ 576 |
| Weighted average coupon | 7.1% | 6.9% | 6.7% | 6.7% | 6.7% | 8.3% | 7.6% | 7.3% |
| Fair value | | | | | | | $ 682 | $ 590 |
| *Variable Rate* | | | | | | | | |
| Par value | $ 1 | $ 2 | $ 1 | $ 1 | $ 1 | $ 5 | $ 11 | $ 24 |
| Weighted average coupon | 7.8% | 8.4% | 8.6% | 8.6% | 8.6% | 8.8% | 8.6% | 6.5% |
| Fair value | | | | | | | $ 10 | $ 24 |

The table below provides information as of December 31, 1998 and 1997 on debt obligations and reflects principal cash flows and related weighted average interest rate by maturity year.

| | 1999 | 2000 | 2001 | 2002 | 2003 | Thereafter | **1998 Total** | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| **Short-Term Debt** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Amount | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $ 50 |
| Weighted average effective interest rate | – | – | – | – | – | – | – | 5.8% |
| Fair value | | | | | | | $ – | $ 50 |
| **Long-Term Debt** | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Amount | $ – | $ – | $ – | $ – | $ – | $ 650 | $ 650 | $ 650 |
| Weighted average effective interest rate | – | – | – | – | – | 7.4% | 7.4% | 7.4% |
| Fair value | | | | | | | $ 710 | $ 674 |
| **TruPS**[1] | | | | | | | | |
| *Fixed Rate* | | | | | | | | |
| Amount | $ – | $ – | $ – | $ – | $ – | $ 250 | $ 250 | $ – |
| Weighted average effective interest rate | – | – | – | – | – | 7.4% | 7.4% | – |
| Fair value | | | | | | | $ 254 | $ – |

[1] Represents company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely parent junior subordinated debentures.

### Asset/Liability Management Strategies Used to Manage Market Risk

The Company employs several risk management tools to quantify and manage market risk arising from its investments and interest sensitive liabilities. For certain portfolios, management monitors the changes in present value between assets and liabilities resulting from various interest rate scenarios using integrated asset/liability measurement systems and a proprietary system that simulates the impacts of parallel and non-parallel yield curve shifts. Based on this current and prospective information, management implements risk reducing techniques to improve the match between assets and liabilities.

Derivatives play an important role in facilitating the management of interest rate risk, creating opportunities to efficiently fund obligations, hedge against risks that affect the value of certain liabilities and adjust broad investment risk characteristics as a result of any significant changes in market risks. The Company uses a variety of derivatives, including swaps, caps, floors, forwards and exchange-traded financial futures and options, in order to hedge exposure primarily to interest rate risk on anticipated investment purchases or existing assets and liabilities. The Company does not make a market or trade derivatives for the express purpose of earning trading profits. The Company's derivative program is monitored by an internal compliance unit and is reviewed frequently by senior management and reported to Hartford Life's Finance Committee. The notional amounts of derivative contracts, which represent the basis upon which pay or receive amounts are calculated and are not reflective of credit risk, totaled $11.2 billion as of December 31, 1998 ($6.0 billion related to insurance investments and $5.2 billion related to life insurance liabilities). As of December 31, 1997, the notional amounts pertaining to derivatives totaled $10.9 billion ($6.6 billion related to insurance investments and $4.3 billion related to life insurance liabilities).

The strategies described below are used to manage the aforementioned risks.

*Anticipatory Hedging* – For certain liabilities, the Company commits to the price of the product prior to receipt of the associated premium or deposit. Anticipatory hedges are routinely executed to offset the impact of changes in asset prices arising from interest rate changes pending the receipt of premium or deposit and the subsequent purchase of an asset. These hedges involve taking a long position in interest rate futures or entering into an interest rate swap with duration characteristics equivalent to the associated liabilities or anticipated investments. The notional amount of anticipatory hedges as of December 31, 1998 and 1997 was $712 and $255, respectively.

*Liability Hedging* – Several products obligate the Company to credit a return to the contract holder which is indexed to a market rate. To hedge risks associated with these products, the Company typically enters into interest rate swaps to convert the contract rate into a rate that trades in a more liquid and efficient market. This hedging strategy enables the Company to customize contract terms and conditions to customer objectives and satisfies the operation's asset/liability matching policy. Additionally, interest rate swaps are used to convert certain fixed contract rates into floating rates, thereby allowing them to be appropriately matched against floating rate assets. The notional amount of derivatives used for liability hedges as of December 31, 1998 and 1997 was $5.2 billion and $4.3 billion, respectively.

*Asset Hedging* – To meet the various policyholder obligations and to provide cost effective prudent investment risk diversification, the Company may combine two or more financial instruments to achieve the investment characteristics of a fixed maturity security or that match an associated liability. The use of derivative instruments in this regard effectively transfers unwanted investment risks or attributes to others. The selection of the appropriate derivative instruments depends on the investment risk, the liquidity and efficiency of the market, and the asset and liability characteristics. The notional amount of asset hedges as of December 31, 1998 and 1997 was $3.8 billion and $3.2 billion, respectively.

*Portfolio Hedging* – The Company periodically compares the duration and convexity of its portfolios of assets to their corresponding liabilities and enters into portfolio hedges to reduce any difference to desired levels. Portfolio hedges reduce the mismatch between assets and liabilities and offset the potential impact to cash flows caused by changes in interest rates. The notional amount of portfolio hedges as of December 31, 1998 and 1997 was $1.5 billion and $3.1 billion, respectively.

The following tables provide information as of December 31, 1998, with comparative totals for December 31, 1997, on derivative instruments used in accordance with the aforementioned hedging strategies. For interest rate swaps, caps and floors, the tables present notional amounts with weighted average pay and received rates for swaps and weighted average strike rates for caps and floors by maturity year. For interest rate futures, the table presents contract amount and weighted average settlement price by expected maturity year.

| | 1999 | 2000 | 2001 | 2002 | 2003 | Thereafter | 1998 Total | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| **Interest Rate Swaps** | | | | | | | | |
| *Pay Fixed/Receive Variable* | | | | | | | | |
| Notional value | $125 | $ 96 | $148 | $222 | $110 | $ 682 | $1,383 | $ 874 |
| Weighted average pay rate | 6.1% | 5.0% | 6.1% | 5.1% | 5.9% | 6.1% | 5.9% | 6.5% |
| Weighted average receive rate | 5.7% | 5.4% | 5.3% | 5.4% | 5.4% | 5.4% | 5.4% | 6.1% |
| Fair value | | | | | | | $ (66) | $ (19) |
| *Pay Variable/Receive Fixed* | | | | | | | | |
| Notional value | $975 | $552 | $274 | $379 | $605 | $2,140 | $4,925 | $4,212 |
| Weighted average pay rate | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% | 5.3% | 5.9% |
| Weighted average receive rate | 6.5% | 6.5% | 7.2% | 6.4% | 5.8% | 6.2% | 6.3% | 6.9% |
| Fair value | | | | | | | $ 160 | $ 172 |
| *Pay Variable/Receive Different Variable* | | | | | | | | |
| Notional value | $157 | $210 | $ 91 | $235 | $ 83 | $ 627 | $1,403 | $1,581 |
| Weighted average pay rate | 5.4% | 5.5% | 5.4% | 5.0% | 4.9% | 5.5% | 5.2% | 6.4% |
| Weighted average receive rate | 6.8% | 5.5% | 7.3% | 5.2% | 4.9% | 5.8% | 5.8% | 6.7% |
| Fair value | | | | | | | $ (2) | $ (3) |
| **Interest Rate Caps – LIBOR Based[1]** | | | | | | | | |
| *Purchased* | | | | | | | | |
| Notional value | $ – | $ – | $ 5 | $ – | $ 11 | $ 26 | $ 42 | $ 43 |
| Weighted average strike rate (4.0 – 5.9%) | – | – | 5.9% | – | 5.3% | 5.1% | 5.2% | 5.2% |
| Fair value | | | | | | | $ 1 | $ 3 |
| Notional value | $ – | $ – | $ – | $ – | $ – | $ 35 | $ 35 | $ 85 |
| Weighted average strike rate (6.0 – 7.9%) | – | – | – | – | – | 6.6% | 6.6% | 6.8% |
| Fair value | | | | | | | $ 1 | $ 1 |
| Notional value | $ – | $ – | $ – | $ 10 | $ 68 | $ 122 | $ 200 | $ 260 |
| Weighted average strike rate (8.0 – 9.9%) | – | – | – | 8.9% | 8.6% | 8.4% | 8.5% | 8.5% |
| Fair value | | | | | | | $ 1 | $ 2 |
| Notional value | $ 5 | $ 10 | $ – | $ 26 | $ – | $ – | $ 41 | $ 52 |
| Weighted average strike rate (10.0 – 11.9%) | 11.8% | 11.5% | – | 10.1% | – | – | 10.7% | 10.9% |
| Fair value | | | | | | | $ – | $ – |
| *Issued* | | | | | | | | |
| Notional value | $ – | $ – | $ – | $ – | $ – | $ 13 | $ 13 | $ 63 |
| Weighted average strike rate (6.0 – 7.9%) | – | – | – | – | – | 7.2% | 7.2% | 7.0% |
| Fair value | | | | | | | $ – | $ – |
| Notional value | $ – | $ – | $ – | $ – | $ 7 | $ 6 | $ 13 | $ 17 |
| Weighted average strike rate (8.0 – 9.9%) | – | – | – | – | 8.2% | 8.6% | 8.3% | 8.5% |
| Fair value | | | | | | | $ – | $ – |

[1] LIBOR represents the London Interbank Offered Rate.

| | 1999 | 2000 | 2001 | 2002 | 2003 | Thereafter | 1998 Total | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| **Interest Rate Caps – CMT Based**[1] | | | | | | | | |
| *Purchased* | | | | | | | | |
| Notional value | $ – | $344 | $ – | $ – | $250 | $ 17 | $611 | $561 |
| Weighted average strike rate (6.0 – 7.9%) | – | 7.8% | – | – | 7.7% | 7.0% | 7.7% | 7.6% |
| Fair value | | | | | | | $ – | $ – |
| Notional value | $ – | $ – | $100 | $100 | $250 | $ 500 | $950 | $295 |
| Weighted average strike rate (8.0 – 9.9%) | – | – | 8.0% | 9.5% | 8.7% | 8.7% | 8.7% | 8.5% |
| Fair value | | | | | | | $ 1 | $ – |
| *Issued* | | | | | | | | |
| Notional value | $ – | $344 | $ – | $ – | $ – | $ 17 | $361 | $361 |
| Weighted average strike rate (6.0 – 7.9%) | – | 7.8% | – | – | – | 7.5% | 7.8% | 7.8% |
| Fair value | | | | | | | $ – | $ – |
| Notional value | $ – | $ – | $100 | $100 | $ – | $ – | $200 | $200 |
| Weighted average strike rate (8.0 – 9.9%) | – | – | 8.0% | 9.5% | – | – | 8.8% | 8.8% |
| Fair value | | | | | | | $ – | $ – |

[1] CMT represents the Constant Maturity Treasury rate.

| | 1999 | 2000 | 2001 | 2002 | 2003 | Thereafter | 1998 Total | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| **Interest Rate Floors – LIBOR Based** | | | | | | | | |
| *Purchased* | | | | | | | | |
| Notional value | $100 | $ – | $ – | $ – | $ – | $ – | $100 | $100 |
| Weighted average strike rate (4.0 – 5.9%) | 4.2% | – | – | – | – | – | 4.2% | 4.2% |
| Fair value | | | | | | | $ – | $ – |
| Notional value | $ – | $ – | $ – | $ – | $ – | $ 65 | $ 65 | $ 65 |
| Weighted average strike rate (6.0 – 7.9%) | – | – | – | – | – | 7.0% | 7.0% | 7.0% |
| Fair value | | | | | | | $ 7 | $ 5 |
| *Issued* | | | | | | | | |
| Notional value | $ – | $ 10 | $ 10 | $ 36 | $ 68 | $ 116 | $240 | $263 |
| Weighted average strike rate (4.0 – 5.9%) | – | 5.1% | 4.9% | 5.3% | 5.4% | 5.3% | 5.3% | 5.3% |
| Fair value | | | | | | | $ (7) | $ (4) |
| Notional value | $ – | $ – | $ – | $ – | $ – | $ 27 | $ 27 | $ 27 |
| Weighted average strike rate (6.0 – 7.9%) | – | – | – | – | – | 7.8% | 7.8% | 7.8% |
| Fair value | | | | | | | $ (4) | $ (3) |

| | 1999 | 2000 | 2001 | 2002 | 2003 | Thereafter | **1998 Total** | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| **Interest Rate Floors – CMT Based** | | | | | | | | |
| *Purchased* | | | | | | | | |
| Notional value | $ – | $100 | $ – | $ – | $150 | $ – | $250 | $550 |
| Weighted average strike rate (4.0 – 5.9%) | – | 5.8% | – | – | 5.5% | – | 5.6% | 5.7% |
| Fair value | | | | | | | $ 8 | $ 4 |
| Notional value | $ 40 | $ 10 | $ – | $ – | $ – | $ – | $ 50 | $631 |
| Weighted average strike rate (6.0 – 7.9%) | 6.5% | 6.0% | – | – | – | – | 6.4% | 6.1% |
| Fair value | | | | | | | $ 1 | $ 9 |
| *Issued* | | | | | | | | |
| Notional value | $ – | $ – | $ – | $ – | $ – | $ – | $ – | $540 |
| Weighted average strike rate (4.0 – 5.9%) | – | – | – | – | – | – | – | 5.0% |
| Fair value | | | | | | | $ – | $ (2) |
| **Interest Rate Futures** | | | | | | | | |
| *Long* | | | | | | | | |
| Contract amount/Notional | $ 12 | $ – | $ – | $ – | $ – | $ – | $ 12 | $ 19 |
| Weighted average settlement price | $106 | $ – | $ – | $ – | $ – | $ – | $106 | $121 |
| *Short* | | | | | | | | |
| Contract amount/Notional | $220 | $ 20 | $ – | $ – | $ – | $ – | $240 | $ 50 |
| Weighted average settlement price | $127 | $ 95 | $ – | $ – | $ – | $ – | $124 | $ 94 |

Note: Fair value is not applicable.

## Life Insurance Liability Characteristics

Hartford Life's insurance liabilities, other than non-guaranteed separate accounts, are primarily related to accumulation vehicles such as fixed or variable annuities and investment contracts and other insurance products such as long-term disability and term life insurance.

*Asset Accumulation Vehicles*

While interest rate risk associated with these insurance products has been reduced through the use of market value adjustment features and surrender charges, the primary risk associated with these products is that the spread between investment return and credited rate may not be sufficient to earn targeted returns.

*Fixed Rate* – Products in this category require the Company to pay a fixed rate for a certain period of time. The cash flows are not interest-sensitive because the products are written with a market value adjustment feature and the liabilities have protection against the early withdrawal of funds through surrender charges. Product examples include fixed rate annuities with a market value adjustment and fixed rate guaranteed investment contracts. Contract duration is dependent on the policyholder's choice of guarantee period.

*Indexed* – Products in this category are similar to the fixed rate asset accumulation vehicles but require the Company to pay a rate that is determined by an external index. The amount and/or timing of cash flows will therefore vary based on the level of the particular index. The primary risks inherent in these products are similar to the fixed rate asset accumulation vehicles, with an additional risk that changes in the index may adversely affect profitability.

Product examples include indexed-guaranteed investment contracts with an estimated duration of up to two years.

*Interest Credited* – Products in this category credit interest to policyholders, subject to market conditions and minimum guarantees. Policyholders may surrender at book value but are subject to surrender charges for an initial period. Product examples include universal life contracts and the general account portion of the Company's variable annuity products. Liability duration is short- to intermediate-term.

*Other Insurance Products*

*Long-Term Pay Out Liabilities* – Products in this category are long-term in nature and may contain significant actuarial (including mortality and morbidity) pricing and cash flow risks. The cash flows associated with these policy liabilities are not interest rate sensitive but do vary based on the timing and amount of benefit payments. The primary risks associated with these products are that the benefits will exceed expected actuarial pricing and/or that the actual timing of the cash flows will differ from those anticipated resulting in an investment return lower than that assumed in pricing. Product examples include structured settlement contracts, on-benefit annuities (i.e., the annuitant is currently receiving benefits thereon) and long-term disability contracts. Contract duration is generally 6 to 10 years.

*Short-Term Pay Out Liabilities* – These liabilities are short-term in nature with a duration of less than one year. The primary risks associated with these products are determined by the non-investment contingencies such as mortality or morbidity and the variability in the timing of the expected cash flows. Liquidity is of greater concern than for the long-term pay out liabilities. Products include individual and group term life insurance contracts and short-term disability contracts.

Management of the duration of investments with respective policyholder obligations is an explicit objective of the Company's management strategy. The estimated cash flows of insurance policy liabilities based upon internal actuarial assumptions as of December 31, 1998 are reflected in the table below by expected maturity year. Comparative totals are included for December 31, 1997.

| *(Dollars in billions)* | 1999 | 2000 | 2001 | 2002 | 2003 | Thereafter | **1998 Total** | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| **Description**[1] | | | | | | | | |
| Fixed rate asset | | | | | | | | |
| accumulation vehicles | $ 2.1 | $1.8 | $1.3 | $0.7 | $1.4 | $3.6 | $10.9 | $12.7 |
| Weighted average credited rate | 6.6% | 7.0% | 6.8% | 6.4% | 5.4% | 7.0% | 6.6% | 6.8% |
| Indexed asset | | | | | | | | |
| accumulation vehicles | $ 0.2 | $0.1 | $ – | $ – | $ – | $ – | $ 0.3 | $ 0.2 |
| Weighted average credited rate | 5.2% | 5.1% | – | – | – | – | 5.1% | 5.9% |
| Interest credited asset | | | | | | | | |
| accumulation vehicles | $ 5.0 | $0.7 | $0.9 | $0.6 | $0.5 | $5.6 | $13.3 | $10.8 |
| Weighted average credited rate | 5.9% | 5.7% | 5.7% | 5.9% | 5.9% | 5.9% | 5.9% | 5.8% |
| Long-term pay out liabilities | $ 0.4 | $0.4 | $0.2 | $0.2 | $0.2 | $1.3 | $ 2.7 | $ 2.3 |
| Short-term pay out liabilities | $ 0.7 | $ – | $ – | $ – | $ – | $ – | $ 0.7 | $ 0.5 |

[1] As of December 31, 1998 and 1997, the fair value of the Company's investment contracts, including guaranteed separate accounts, was $21.7 billion and $21.9 billion, respectively.

### Currency Exchange Risk

Hartford Life's international holdings as of December 31, 1998 totaled approximately $100, which are primarily located in Latin America and are inherently affected by currency fluctuations. The Company's primary currency exposure relates to the Brazilian real and the Argentine peso and is not expected to have a material impact on the Company's liquidity or financial condition.

### Sensitivity to Changes in Interest Rates

For liabilities whose cash flows are not substantially affected by changes in interest rates (fixed liabilities) and where investment experience is substantially absorbed by the Company, the sensitivity of the net economic value (discounted present value of asset cash flows less the discounted present value of liability cash flows) of those portfolios to 100 basis point shifts in interest rates is shown in the table below. These fixed liabilities represent approximately 60% of the Company's general and guaranteed separate account liabilities at both December 31, 1998 and 1997. The remaining liabilities generally allow the Company significant flexibility to adjust credited rates to reflect actual investment experience and thereby pass through a substantial portion of actual investment experience to the policyholder. The fixed liability portfolios are managed and monitored relative to defined objectives and are analyzed regularly by management for internal risk management purposes using scenario simulation techniques, and evaluated annually consistent with regulatory requirements.

| | Change in Net Economic Value | |
|---|---|---|
| Basis Point Shift | -100 | +100 |
| **December 31, 1998** | | |
| Amount | $ 7 | $ (16) |
| Percent of liability value | 0.05% | (0.1)% |
| **December 31, 1997** | | |
| Amount | $ 5 | $ (10) |
| Percent of liability value | 0.03% | (0.06)% |

### Capital Resources and Liquidity

Capital resources and liquidity represent the overall financial strength of Hartford Life and its ability to generate strong cash flows from each of the business segments and borrow funds at competitive rates to meet operating and growth needs. The Company maintained cash and short-term investments totaling $2.2 billion, $1.5 billion and $837 as of December 31, 1998, 1997 and 1996, respectively. The capital structure of Hartford Life consists of debt and equity, and is summarized as follows:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Short-term debt | $ – | $ 50 | $ – |
| Long-term debt | 650 | 650 | – |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely parent junior subordinated debentures (TruPS) | 250 | – | – |
| Allocated advances from parent | – | – | 893 |
| **Total debt** | $ 900 | $ 700 | $ 893 |
| Equity excluding net unrealized capital gains on securities, net of tax | $ 2,230 | $ 1,907 | $ 1,245 |
| Net unrealized capital gains on securities, net of tax | 263 | 237 | 29 |
| **Total stockholders' equity** | $ 2,493 | $ 2,144 | $ 1,274 |
| **Total capitalization**[1] | $ 3,130 | $ 2,607 | $ 2,138 |
| Debt to equity[1] | 40% | 37% | 72% |
| Debt to capitalization[1] | 29% | 27% | 42% |

[1] Excludes net unrealized capital gains on securities, net of tax.

### Capitalization

The Company's total capitalization, excluding net unrealized capital gains on securities, net of tax, increased $523, or 20%, in 1998 and $469, or 22%, in 1997. In 1998, the increase was primarily the result of net income of $386 and the issuance of TruPS of $250, which were partially offset by the retirement of $50 in commercial paper, dividends declared of $50 and the repurchase of treasury stock, net of reissuances, of $8. In 1997, the increase was primarily the result of net income of $306 and net proceeds from the IPO of $687, which were partially offset by a net reduction in debt of $193 and dividends of $341. As a result, both the debt to equity and debt to capitalization ratios (both exclude net unrealized capital gains on securities, net of tax) increased to 40% and 29% as of December 31, 1998, respectively, from 37% and 27% as of December 31, 1997, respectively.

### Initial Public Offering

For a discussion of Hartford Life's IPO, see Note 3 of Notes to Consolidated Financial Statements.

### Debt

For a discussion of Debt, see Note 7 of Notes to Consolidated Financial Statements.

### Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Parent Junior Subordinated Debentures

For a discussion of Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Parent Junior Subordinated Debentures, see Note 8 of Notes to Consolidated Financial Statements.

### Dividends

In 1998, a total of $50 in dividends was declared to holders of Class A and Class B Common Stock. See "Debt" discussion above for 1997 dividend payments made prior to the IPO.

Dividend decisions will be based on, and affected by, a number of factors, including the operating results and financial requirements of Hartford Life on a stand-alone basis and the impact of the regulatory restrictions discussed in Liquidity Requirements on page 49.

As a holding company, Hartford Life, Inc. has no significant business operations of its own and, therefore, primarily relies on the dividends from its insurance company subsidiaries, which are primarily domiciled in Connecticut, as the principal source of cash to meet its obligations (primarily debt obligations) and pay stockholder dividends. Hartford Life, Inc. received dividends from its regulated life insurance subsidiaries of $76 in 1998. Statutory net income and statutory capital and surplus, key determinants in the amount of dividend capacity available in the insurance company subsidiaries, has grown significantly over the past several years. Statutory net income was $265 in 1998, 19% higher than in 1997 and more than three and one-half times the level in 1994. Statutory capital and surplus as of December 31, 1998 was $2.0 billion, more than 50% above the level as of December 31, 1996.

### Treasury Stock

During 1998, to make shares available to employees pursuant to stock-based benefit plans, the Company repurchased 285,000 shares of its Class A Common Stock in the open market at a total cost of $15. Shares repurchased in the open market are carried at cost and reflected as a reduction to stockholders' equity. Treasury shares subsequently reissued are reduced from treasury stock on a weighted average cost basis. The Company currently intends to purchase additional shares of its Class A Common Stock to make shares available for its various employee stock-based benefit plans.

### Ratings

The following table summarizes Hartford Life's significant U.S. member companies' financial ratings from the major independent rating organizations as of February 17, 1999:

| | A.M. Best | Duff & Phelps | Moody's | Standard & Poor's |
|---|---|---|---|---|
| *Insurance Ratings* | | | | |
| Hartford Life Insurance Company | A+ | AA+ | Aa3 | AA |
| Hartford Life and Accident | A+ | AA+ | Aa3 | AA |
| Hartford Life and Annuity | A+ | AA+ | Aa3 | AA |
| *Other Ratings* | | | | |
| Hartford Life, Inc. | | | | |
| Senior debt | a+ | A+ | A2 | A |
| Commercial paper | – | D-1 | P-1 | A-1 |
| Hartford Life Capital I | | | | |
| Trust preferred securities | a+ | A | a2 | BBB+ |

Ratings are an important factor in establishing the competitive position of an insurance company such as Hartford Life. 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 that the Company's ratings are downgraded, the level of sales or the persistency of the Company's block of in force business may be adversely impacted.

### Liquidity Requirements

The liquidity requirements of Hartford Life have been and will continue to be met by funds from operations as well as the issuance of commercial paper, debt securities and bank borrowings. The principal sources of funds are premiums and investment income as well as maturities and sales of invested assets. Hartford Life is a holding company which receives operating cash flow in the form of dividends from its subsidiaries, enabling it to service its debt.

Dividends to Hartford Life, Inc. from its subsidiaries are subject to restriction. The payment of dividends by Connecticut-domiciled insurers is limited under the insurance holding company laws of Connecticut. Hartford Life and Accident (HLA), a direct subsidiary of the Company, adheres to these laws, which 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 policies. 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 total amount of statutory dividends which may be paid by the insurance subsidiaries of the Company without prior approval in 1999 is estimated to be $201.

The insurance holding company laws of the other jurisdictions in which Hartford Life'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.

The primary uses of funds are to pay claims, policy benefits, operating expenses and commissions, and to purchase new investments. In addition, Hartford Life carries a significant short-term investment position and accordingly does not anticipate selling intermediate- and long-term fixed maturity investments to meet any liquidity needs. For a discussion of the Company's investment objectives and strategies, see the Investments section.

### Risk-Based Capital

The National Association of Insurance Commissioners (NAIC) adopted regulations establishing minimum capitalization requirements based on Risk-Based Capital (RBC) formulas for life insurance companies (effective December 31, 1993). The requirements consist of formulas which identify companies that are undercapitalized and require specific regulatory actions. The RBC formula for life insurance companies establishes capital requirements relating to insurance, business, asset and interest rate risks. The RBC ratios for each of the major life insurance subsidiaries are in excess of 200% as of December 31, 1998.

## Cash Flow

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Cash provided by operating activities | $ 667 | $ 1,147 | $ 338 |
| Cash provided by (used for) investing activities | 87 | (650) | 58 |
| Cash used for financing activities | (803) | (480) | (394) |
| Cash – end of year | 36 | 88 | 72 |

In 1998, the change in cash provided by operating activities was primarily the result of timing in the settlement of receivables and payables as well as an increase in income taxes paid. The change in cash provided by or used for investing activities primarily reflects a decrease in policy loans resulting from the reduction of COLI account values in conjunction with the decline of the block of leveraged COLI offset by the investment of cash from operating and financing activities. The change in cash used for financing activities was primarily due to declines in GIC and COLI account values as well as proceeds from the IPO in May 1997, partially offset by changes in debt, dividends paid and proceeds from the TruPS offering.

During 1997, cash provided by operating activities increased from the prior year due primarily to growth in the Individual Life segment and the Employee Benefits segment. The change in cash used for investing activities primarily reflects the investment of cash from operating activities. The change in cash used for financing activities was primarily due to declines in investment-type contracts and changes in debt and dividends paid to the Company's parent, which were partially offset by proceeds from the IPO.

Operating cash flows in the periods presented have been more than adequate to meet liquidity requirements.

## Purchases of Affiliates and Other

*Planco* – On August 26, 1998, the Company completed the purchase of all outstanding shares of PLANCO Financial Services, Inc. and its affiliate, PLANCO, Incorporated (collectively, "PLANCO"). PLANCO, a primary distributor of the Company's annuities and mutual funds, is the nation's largest wholesaler of individual annuities and has played a significant role in Hartford Life's growth over the past decade. As a wholesaler, PLANCO distributes Hartford Life's fixed and variable annuities, mutual funds and single premium variable life insurance, as well as providing sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States. The acquisition has been accounted for as a purchase and accordingly, the results of PLANCO's operations have been included in the Company's consolidated financial statements from the closing date of the transaction.

*MBL Recapture* – On November 10, 1998, the Company recaptured an in force block of COLI business (referred to as "MBL Recapture") previously ceded to MBL Life Assurance Co. of New Jersey (MBL Life), as well as purchased the outstanding interest in International Corporate Marketing Group, Inc. (ICMG), which was previously 40% owned by MBL Life. The transaction was consummated through the assignment of a reinsurance arrangement between Hartford Life and MBL Life to a Hartford Life subsidiary. Hartford Life originally assumed the life insurance block in 1992 from Mutual Benefit Life, which was placed in court-supervised rehabilitation in 1991, and reinsured a portion of those polices back to MBL Life. MBL Life, previously a Mutual Benefit Life subsidiary, operates under the Rehabilitation Plan for Mutual Benefit Life. The MBL Recapture has been recorded retroactive to January 1, 1998 with respect to results of operations. The transaction resulted in a decrease in reinsurance recoverables of $4.5 billion with an offset primarily in policy loans and other investments.

### Regulatory Initiatives and Contingencies

#### Legislative Initiatives

Although the Federal government does not directly regulate the insurance business, Federal initiatives often have an impact on the insurance industry in a variety of ways. Current and proposed Federal measures which may significantly affect the life insurance business include tax law changes affecting the tax treatment of life insurance products and its impact on the relative desirability of various personal investment vehicles, medical testing for insurability, and proposed legislation to prohibit the use of gender in determining insurance and pension rates and benefits. In particular, President Clinton's 1999 Federal Budget Proposal currently contains certain recommendations for modifying tax rules related to the treatment of COLI by contract-holders which, if enacted as described, could have a material adverse impact on the Company's sales of these products. The budget proposal also includes provisions which would result in a significant increase in the "DAC tax" on certain of the Company's products and would apply a tax to the Company's policyholder surplus account. (For further discussion on policyholder surplus accounts and related tax treatment as of December 31, 1998, see Note 14 of Notes to Consolidated Financial Statements.) It is too early to determine whether these tax proposals will ultimately be enacted by Congress. Therefore, the potential impact to the Company's financial condition or results of operations cannot be reasonably estimated at this time.

### Insolvency Fund

See Note 16 (b) of Notes to Consolidated Financial Statements.

### NAIC Proposals

The NAIC has been developing several model laws and regulations, including a Model Investment Law and amendments to the Model Holding Company System Regulatory Act (the "Holding Act Amendments"). The Model Investment Law defines the investments which are permissible for life insurers to hold, and the Holding Act Amendments address the types of activities in which subsidiaries and affiliates may engage. The NAIC adopted these models in 1997 and 1996, but the laws have not been enacted for insurance companies domiciled in the State of Connecticut, such as Hartford Life. Even if enacted in Connecticut or other states in which Hartford Life's subsidiaries are domiciled, it is expected that these laws will neither significantly change Hartford Life's investment strategies nor have any material adverse effect on Hartford Life's liquidity or financial position.

The NAIC adopted the Codification of Statutory Accounting Principles (SAP) in March 1998. The proposed effective date for the statutory accounting guidance is January 1, 2001. It is expected that Hartford Life's domiciliary state will adopt the SAP and the Company will make the necessary changes required for implementation. These changes are not anticipated to have a material impact on the statutory financial statements of Hartford Life.

### Dependence on Certain Third Party Relationships

Hartford Life distributes its annuity and life insurance products through a variety of distribution channels, including broker-dealers, banks, wholesalers, its own internal sales force and other third party marketing organizations. The Company periodically negotiates provisions and renewals of these relationships and there can be no assurance that such terms will remain acceptable to the Company or such service providers. An interruption in the Company's continuing relationship with certain of these third parties could materially affect the Company's ability to market its products.

## Year 2000

*In General*

The Year 2000 issue relates to the ability or inability of computer hardware, software and other information technology (IT) systems, as well as non-IT systems, such as equipment and machinery with imbedded chips and microprocessors, to properly process information and data containing or related to dates beginning with the year 2000 and beyond. The Year 2000 issue exists because, historically, many IT and non-IT systems that are in use today were developed years ago when a year was identified using a two-digit date field rather than a four-digit date field. As information and data containing or related to the century date are introduced to date sensitive systems, these systems may recognize the year 2000 as "1900," or not at all, which may result in systems processing information incorrectly. This, in turn, may significantly and adversely affect the integrity and reliability of information databases of IT systems, may cause the malfunctioning of certain non-IT systems, and may result in a wide variety of adverse consequences to a company. In addition, Year 2000 problems that occur with third parties with which a company does business, such as suppliers, computer vendors, distributors and others, may also adversely affect any given company.

The integrity and reliability of Hartford Life's IT systems, as well as the reliability of its non-IT systems, are integral aspects of Hartford Life's business. Hartford Life issues insurance policies, annuities, mutual funds and other financial products to individual and business customers, nearly all of which contain date sensitive data, such as policy expiration dates, birth dates and premium payment dates. In addition, various IT systems support communications and other systems that integrate Hartford Life's various business segments and field offices, including Hartford Life's foreign operations. Hartford Life also has business relationships with numerous third parties that affect virtually all aspects of Hartford Life's business, including, without limitation, suppliers, computer hardware and software vendors, insurance agents and brokers, securities broker-dealers and other distributors of financial products, many of which provide date sensitive data to Hartford Life, and whose operations are important to Hartford Life's business.

*Internal Year 2000 Efforts and Timetable*

Beginning in 1990, Hartford Life began working on making its IT systems Year 2000 ready, either through installing new programs or replacing systems. Since January 1998, Hartford Life's Year 2000 efforts have focused on the remaining Year 2000 issues related to IT and non-IT systems in all of Hartford Life's business segments. These Year 2000 efforts include the following five main initiatives: (1) identifying and assessing Year 2000 issues; (2) taking actions to remediate IT and non-IT systems so that they are Year 2000 ready; (3) testing IT and non-IT systems for Year 2000 readiness; (4) deploying such remediated and tested systems back into their respective production environments; and (5) conducting internal and external integrated testing of such systems. As of December 31, 1998, Hartford Life substantially completed initiatives (1) through (4) of its internal Year 2000 efforts. Hartford Life has begun initiative (5) and management currently anticipates that such activity will continue into the fourth quarter of 1999.

*Third Party Year 2000 Efforts and Timetable*

Hartford Life's Year 2000 efforts include assessing the potential impact on Hartford Life of third parties' Year 2000 readiness. Hartford Life's third party Year 2000 efforts include the following three main initiatives: (1) identifying third parties which have significant business relationships with Hartford Life, including, without limitation, insurance agents, brokers, third party administrators, banks and other distributors and servicers of financial products, and inquiring of such third parties regarding their Year 2000 readiness; (2) evaluating such third parties' responses to Hartford Life's inquiries; and (3) based on the evaluation of third party responses (or a third party's failure to respond) and the significance of the business relationship, conducting additional activities with respect to third parties as determined to be necessary in each case. These activities may include conducting additional inquiries, more in-depth evaluations of Year 2000 readiness and plans, and integrated IT systems testing. Hartford Life has completed the first third party initiative and, as of early 1999, had substantially completed evaluating third party responses received. Hartford Life has begun conducting the additional activities described in initiative (3) and management currently anticipates that it will continue to do so through the end of 1999. However, notwithstanding these third party Year 2000 efforts, Hartford Life does not have control over these third parties and, as a result, Hartford Life cannot currently determine to what extent future operating results may be adversely affected by the failure of these third parties to adequately address their Year 2000 issues.

*Year 2000 Costs*

The costs of Hartford Life's Year 2000 program that were incurred through the year ended December 31, 1997 were not material to Hartford Life's financial condition or results of operations. The after-tax costs of Hartford Life's Year 2000 efforts for the year ended December 31, 1998 were approximately $4. Management currently estimates that after-tax costs related to the Year 2000 program to be incurred in 1999 will be less than $10. These costs are being expensed as incurred.

*Risks and Contingency Plans*

If significant Year 2000 problems arise, including problems arising with third parties, failures of IT and non-IT systems could occur, which in turn could result in substantial interruptions in Hartford Life's business. In addition, Hartford Life's investing activities are an important aspect of its business and Hartford Life may be exposed to the risk that issuers of investments held by it will be adversely impacted by Year 2000 issues. Given the uncertain nature of Year 2000 problems that may arise, especially those related to the readiness of third parties discussed above, management cannot determine at this time whether the consequences of Year 2000 related problems that could arise will have a material impact on Hartford Life's financial condition or results of operations.

Hartford Life is in the process of developing certain contingency plans so that if, despite its Year 2000 efforts, Year 2000 problems ultimately arise, the impact of such problems may be avoided or minimized. These contingency plans are being developed based on, among other things, known or reasonably anticipated circumstances and potential vulnerabilities. The contingency planning also includes assessing the dependency of Hartford Life's business on third parties and their Year 2000 readiness. Hartford Life currently anticipates that internal and external contingency plans will be substantially complete by the end of the second quarter of 1999. However, in many contexts, Year 2000 issues are dynamic, and ongoing assessments of business functions, vulnerabilities and risks must be made. As such, new contingency plans may be needed in the future and/or existing plans may need to be modified as circumstances warrant.

## Effect of Inflation

The rate of inflation as measured by the change in the average consumer price index has not had a material effect on the revenues or operating results of Hartford Life during the three most recent fiscal years.

## Accounting Standards

For a discussion of accounting standards, see Note 2 of Notes to Consolidated Financial Statements.

## Report of Management

The management of Hartford Life, Inc. (Hartford Life) is responsible for the preparation and integrity of information contained in the accompanying Consolidated Financial Statements and other sections of the Annual Report. The Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles, and, where necessary, include amounts that are based on management's informed judgments and estimates. Management believes these consolidated statements present fairly Hartford Life's financial position and results of operations, and, that any other information contained in the Annual Report is consistent with the Consolidated Financial Statements.

Management has made available Hartford Life's financial records and related data to Arthur Andersen LLP, independent public accountants, in order for them to perform an audit of Hartford Life's consolidated financial statements. Their report appears on page 55.

An essential element in meeting management's financial responsibilities is Hartford Life's system of internal controls. These controls, which include accounting controls and the internal auditing program, are designed to provide reasonable assurance that assets are safeguarded, and transactions are properly authorized, executed and recorded. The controls, which are documented and communicated to employees in the form of written codes of conduct and policies and procedures, provide for careful selection of personnel and for appropriate division of responsibility. Management continually monitors for compliance, while Hartford Life's internal auditors independently assess the effectiveness of the controls and make recommendations for improvement. Also, Arthur Andersen LLP took into consideration Hartford Life's system of internal controls in determining the nature, timing and extent of their audit tests.

Another important element is management's recognition of its responsibility for fostering a strong, ethical climate, thereby ensuring that Hartford Life's affairs are transacted according to the highest standards of personal and professional conduct. Hartford Life has a long-standing reputation of integrity in business conduct and utilizes communication and education to create and fortify a strong compliance culture.

The Audit Committee of the Board of Directors of Hartford Life (the "Committee"), composed of non-employee directors, meets periodically with the external and internal auditors to evaluate the effectiveness of work performed by them in discharging their respective responsibilities and to ensure their independence and free access to the Committee.