

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
STATEMENT ON CLIMATE CHANGE:

I. Introduction

The Hartford Financial Services Group recognizes the clear consensus within the scientific community that climate change is of real and increasing concern. As an insurer, investor, employer, property owner and responsible corporate citizen, The Hartford is committed to understanding, managing and mitigating the risks associated with global climate change.

In July 2007, The Hartford convened a standing committee on climate change, composed of executives with a wide range of responsibilities and perspectives, including enterprise risk management, applied research & product development, actuarial and underwriting, corporate finance, workplace resources, law and government affairs. The committee has been tasked by Senior Management with examining the risks and opportunities presented by climate change, assessing The Hartford's current approach to climate change, and assisting in the development of climate change-related strategies going forward.

The following discussion examines The Hartford's current views concerning the science of climate change, public policy and legislation, the effect climate change may have on our company and steps The Hartford is taking in response to climate change. This statement, in conjunction with The Hartford's recent submission to the Carbon Disclosure Project (5), represents an early but important step in The Hartford's efforts to address the growing challenge of global climate change.

II. The Reality of Climate Change

While The Hartford cannot claim to be an authority on the science of climate change, or to endorse independently any specific publications on the science of climate change, The Hartford monitors the scientific literature with great interest. The most recent and comprehensive demonstration of the growing scientific consensus concerning the existence, causes and potential consequences of climate change can be found in the recently-published *Fourth Assessment Report of the Intergovernmental Panel on Climate change*. The Report indicates that the rate of warming has been accelerating over the past decade, with the net effect of warming over the past five years 20% higher than the decade of the 1990s, and that greenhouse gas emissions, such as carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O), have been driving this increase¹.

¹ IPCC, 2007: Summary for Policymakers, in ed., Solomon, S., D. Qin, M. Manning, Z. Chen, M. Marquis, K.B. Averyt, M. Tignor and H.L. Miller, Climate change 2007: The Physical Science Basis: Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate change, Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

III. The Forecasted Consequences of Climate Change

Climate models indicate that rising temperatures will likely result in rising sea levels over the decades to come. On a regional level, the projected effects of climate change are also concerning. As a U.S. property-casualty insurance company, The Hartford takes particular note of the following forecast changes in North America²:

- Warming in the United States is expected to exceed the average global mean temperature by all models, with the greatest temperature increases in the higher northern latitudes in the central U.S. during the winter months and in arid areas of the Southwest during the summer months. While warming may mitigate winter storm and winter freeze losses in some regions, warmer temperatures will allow for melting and re-freezing, which leads to ice damage, in other regions.
- Research indicates that future heat waves, such as those that gripped Chicago in 1995 and Paris in 2003, are likely to become more severe, more frequent, and of greater durations in North American and Europe³. Although property losses from heat wave events tend to be minor, business interruption losses and health/life loss would be of concern. At the same time, models project a 50-100% decline in the frequency of cold air outbreaks.
- Current research points to a continued shift in precipitation away from the southwest and (possibly) southeast United States, with a slight increase in precipitation in the northeast. At the same time, climate models continue to forecast a significant increase in large precipitation events in all areas of the country. If realized, the natural implications of these trends include an increase in flash flood risk across the United States, an increase in forest fire risk in the southwest and southeast United States, and the potential for population migration away from increasingly arid regions in the southwest to escape severe drought conditions.
- There is evidence of an increase in the intensity of tropical cyclones (hurricanes) with larger peak wind speeds and precipitation, but an overall decrease in frequency. While the impact of global warming on the frequency and severity of tropical cyclones is a hotly debated and largely unresolved issue, the prospect of increasingly intense cyclone activity is of great concern.

² Christensen, J.H., B. Hewitson, A. Busuioc, A. Chen, X. Gao, I. Held, R. Jones, R.K.Kolli, W.-T Kwon, R. Laprise, V. Magana Rueda, L. Mearns, C.G., Menendez, J. Raisanen, A. Rink, A. Sarr and P. Whetton, "Regional Climate Projections," in ed., Solomon, S., D. Qin, M. Manning, Z. Chen, M. Marquis, K.B. Averyt, M. Tignor and H.L. Miller, Climate change 2007: The Physical Science Basis. Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate change , Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

³ Meehl, Gerald A. and Claudia Tebaldi, "More Intense, More Frequent and Longer Lasting Heat Waves in the 21st Century," Science, Volume 305, August 13, 2005.

- Extra-tropical storm tracks are projected to move poleward, with consequent changes in wind, precipitation and temperature patterns – continuing a trend observed over the past half century.

While the forecasts considered above serve as powerful illustrations of the range of the potential consequences of climate change, it is important to keep in mind the tremendous uncertainty underlying the forecasts. In light of such uncertainty, the findings must be considered as indicative findings, not matters of fact. Because effective insurance pooling requires that the underlying risks are finite and well understood, however, such uncertainty is itself of great significance to the insurance industry.

IV. Implications for Public Policy

The foregoing review of the developing science of climate change points to several key implications from a public policy perspective:

- **Flood Insurance:** The risk of flooding, both flash floods from heavy precipitation events and storm surge from tropical cyclones, will continue to be difficult risk to understand and insure – placing even more emphasis on federal flood insurance policy and programs.
- **Coastal Land Use Planning and Building Standards:** The Hartford is concerned with the trends in hurricane activity, as discussed above. The Hartford is equally concerned, however, with non-storm factors that may determine the actual losses from hurricane events. Research has consistently demonstrated that the principal factor underlying the rapid increase in economic and insurance losses from hurricanes continues to be the build-up of population and property-values in hurricane exposed areas of the country⁴. Consequently, land use planning, building code standards and building code enforcement will be of critical importance to protect life and property from cyclones.
- **Land Use Planning & Forest Management:** Forest management and land use planning may take on new significance with respect to fire risks if the risk of wild fires continues to increase in the Southwest and Southeast.
- **Price Flexibility:** To ensure that individual decision-making properly reflect risks to the policyholder and to society, it will become increasingly important that regulators recognize the insurance industry's need to set prices on the basis of (i) the actuarial costs of the insurance, (ii) the risk associated with coverage provided and (iii) the uncertainty surrounding an insurance company's knowledge of the

⁴ Pielke, Roger A.; Joel Gratz, Christopher Landsea, Douglas Collins, Mark Saunders, and Rade Muslim, "Normalized Hurricane Damages in the United States: 1900-2005", Natural Hazards Review, (In Press) and Valverde and Andrews (2006); Pielke, R. A, Jr., R. Klein, and D. Sarewitz, "Turning the Big Knob: Energy policy as a means to reduce weather impacts," Energy Environment, Volume 11, pps. 255-276.

underlying risk.⁵ Absent this fair-market pricing, the uncertainty created by climate change may lead to a contraction in coverage.

- **Support for Climate Change Science:** Finally, there is a continued need for scientific research to support informed decision-making on all issues related to climate change.

V. Investment and Risk

The foregoing discussion has focused primarily on the climate change-related risks to which The Hartford is exposed through the sale of insurance products. As a diversified financial services company with \$406 Billion in total assets under management as of June 30, 2007, The Hartford is exposed to both climate change-related risks and opportunities in its capacity as an investor.

The Hartford's general account investment portfolio holds predominately fixed-income assets. Therefore, its primary risks are credit-related: corporate and sovereign debt obligations, commercial real estate mortgage loans, and a variety of asset-backed fixed-income securities. Nonetheless, the global and regional consequences of climate change can play a role in our evaluation of the creditworthiness of specific issuers and industries. Risk (and opportunity) factors include the following:

- Changes in regulatory regimes (e.g., emissions controls, technology mandates);
- Changes in supply and demand for fuel (e.g., coal, oil, natural gas);
- Advances in low-carbon technology and renewable energy development; and
- Effects of extreme weather events on the physical and operational exposure of industries and issuers.

Such risk factors may influence investment strategies and decisions in a variety of ways. As noted, government regulation may have negative or positive consequences for certain industries. For example, increasingly stringent regulation on stack emissions of coal-fired technologies will increase the costs of existing technologies and affect coal economics. More generally, government legislation toward polluting industries must be scrutinized for the impact on each industry's economics. As polluting industries become more expensive to finance, other low-carbon and renewable energy sources will benefit from increased demand and potential government subsidies.

Climate change may have a direct impact on certain investments. For example, commercial real estate in certain locations may become less desirable due to climate

⁵ Valverde, L. James and Marcellus Andrews, "Global Climate change and Extreme Weather: An Exploration of Scientific Uncertainty and the Economics of Insurance," Insurance Information Institute Working Paper Series, June 2006.

change effects (e.g., rising sea levels, increased hurricane severity), negatively affecting the property's value as collateral for a commercial mortgage loan. Similarly, climate changes of a regional nature can influence the inflation outlook and/or creditworthiness of specific emerging market issuers (e.g. reduction in rainfall can cause food prices to rise, increasing inflation).

Finally, The Hartford recognizes that the combination of consumer demand, legislative and regulatory activity and technological advancement may create substantial opportunities to promote environmentally responsible activity while at the same time enhancing value for The Hartford's shareholders.

VI. The Hartford as Emitter and as Advocate

Although The Hartford is not a significant direct emitter of greenhouse gases [GHGs], The Hartford recognizes that the reduction of GHG emissions must be the responsibility of all global citizens, individual and corporate. The Hartford takes that responsibility seriously, and the reduction of GHG emissions is an objective for The Hartford's operations management team. The Hartford believes that responsible and innovative approaches to energy efficiency will help to reduce operational costs over the long term and – most importantly – establish The Hartford as an insurer and employer of choice.

Current and existing efforts to promote energy efficiency include the following:

- The Hartford is presently participating in the EPA Energy Star program, designed to help reduce energy usage in commercial and residential buildings. The Hartford's "Building 100" in Southington, CT, is one of seven Energy Star Office Buildings in Connecticut.
- The Hartford is taking into account LEED energy efficiency standards in the construction of a new office building located in Windsor, CT. The Windsor building will incorporate "daylight harvesting" systems, high efficiency HVAC, insulated glass, minimization of water usage, as well as efficient layout and gradation.
- The Hartford is an EPA Climate Leader.

In May of 2007, The Hartford reported its GHG emissions for calendar years 2004, 2005, and 2006 to the Carbon Disclosure Project (5). These emissions were calculated using the U.S. EPA Climate Leaders Greenhouse Gas Inventory Protocol, which is based on the WRI/WBCSD GHG Protocol. The emissions calculations have been reviewed by an EPA technical assistance contractor to determine consistency with Climate Leaders guidance and the GHG Protocol. Emissions calculations have also been submitted to the EPA for review.

Taking the benchmark developed for the CDP5 as a starting point, The Hartford is working to develop a strategic plan for ongoing GHG reduction. The Hartford has engaged an outside consultant to assist with the ongoing efforts to increase energy efficiency in all Hartford buildings and operations, and as part of its participation in the EPA's Climate Leaders program, The Hartford is considering the adoption of a 5- to 10-year goal for GHG reduction.

In addition to managing its own GHG emissions, which are relatively small as indicated above, The Hartford further recognizes the role that all public companies may play as advocates for sound and responsible public policy. The Hartford has acted as a public advocate through its membership in the American Insurance Association (AIA). Through AIA, we advocate for risk-based pricing, growth management and climate adaptation. We believe that the insurance mechanism can play a vital role in making informed land use decisions if the mechanism is allowed to function. Proper pricing will send appropriate risk signals to the most vulnerable areas. Beyond pricing, we work with AIA to advocate for land use planning and building codes that reflect risk exposure. Through AIA we continue to press for increased use of public transport and other non-motor vehicle transportation that will play a role in reducing greenhouse gas emissions.

VII. Corporate Governance: Accountability at The Hartford

At the Executive level, ultimate responsibility for development and oversight of the Company's climate change policy rests with the Office of the General Counsel. The General Counsel, through staff and in concert with representatives from the Company's underwriting, research & operations management departments, is responsible for periodically reporting to the Company's Office of the Chairman and the Legal & Public Affairs Committee of the Board on the Company's progress and status regarding climate change.

As stated in the introduction above, The Hartford convened in July, 2007, under the leadership of the General Counsel, a standing committee on climate change, tasked with examining the risks and opportunities presented by climate change, assessing The Hartford's current approach to climate change, and assisting in the development of climate change-related strategies going forward.

VIII. Opportunities

Even as climate change poses risk, increased knowledge and understanding of climate change may give rise to a number of opportunities for The Hartford. Greater understanding of the climate change mechanism will lead to more sensitive pricing capability, allowing The Hartford to more effectively match risk to price. In addition, greater understanding and public recognition of climate change may both (a) increase the demand for our insurance products and the willingness to meet our pricing terms and

conditions and (b) create opportunities for The Hartford to bring a wider variety of insurance products to market to meet customer needs.

As additional information is developed pointing to increased frequency and severity of weather-related catastrophes we expect to see more public policy attention paid to such risk mitigation techniques as better land use planning, improved building codes and more rigid enforcement combined with eliminating subsidies and other incentives that promote development in areas most exposed to natural disasters. The Hartford sees an opportunity in establishing itself as a recognized leader in the assessment and management of climate change-related risks.

As a variety of sectors seek to respond to the challenges and opportunities of climate change – for example, through the generation of renewable energy or through the provision of climate-related risk mitigation services – The Hartford may also benefit from these investment opportunities.

Finally, The Hartford sees opportunity in establishing itself as an employer and insurer of choice by demonstrating its commitment to responsible energy use and management and GHG reduction. The Hartford values its reputation as a responsible corporate citizen and will strive to preserve and enhance that reputation in the area of environmental stewardship.

IX. Conclusion

The Hartford Financial Services Group is an evaluator, underwriter and manager of risk. The evaluation of risk is fundamental to The Hartford's ability (a) to ensure that the price of our insurance products reflect the true cost of risk, providing appropriate signals and incentives to policyholders to manage their overall risk exposure (and hence the risk exposure to society), and (b) to ensure that The Hartford delivers strong risk-adjusted returns, while at all times being prepared to honor our obligations to policyholders should widespread claims occur. Consequently, The Hartford will continuously seek to advance its understanding of climate change as a risk factor that may influence the frequency and severity of natural disasters and other weather-related losses.

While The Hartford approaches the issue of climate change, first and foremost, as an underwriter and manager of risk, The Hartford also views climate change from a variety of additional perspectives – not only as insurer, but as investor, employer, property owner and responsible corporate citizen. In responding to the challenge of climate change, therefore, The Hartford embraces the following three commitments:

First, The Hartford will strongly advocate for better land use planning, in both coastal and non-coastal areas, improved building codes with more rigid enforcement, and the elimination of subsidies and other incentives that promote development in areas most exposed to natural disasters.

Second, recognizing that all forms of change present both risks and opportunities for leadership, The Hartford will seek to develop products and make investment decisions that promote environmentally responsible activity while enhancing The Hartford's competitive position.

Third and finally, understanding that energy conservation is a vital goal, and is a responsibility to be taken seriously and shared by all, The Hartford will continue to take measures to reduce its own energy consumption and encourage others to do likewise.