

The Chubb Corporation

Directors

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Managing Partner
Beck, Mack & Oliver

PERCY CHUBB, III
Vice Chairman of the Corporation

JOEL J. COHEN
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Donaldson, Lufkin & Jenrette Securities Corp.

HENRY U. HARDER
Former Chairman of the Corporation

DAVID H. HOAG
Chairman, President and Chief Executive Officer
The LTV Corporation

ROBERT V. LINDSAY
Former President
J.P. Morgan & Co. Incorporated
and Morgan Guaranty Trust
Company of New York

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University of Virginia
Former Vice Chairman
Corning, Inc.

G. G. MICHELSON
Former Senior Advisor
R. H. Macy & Co., Inc.

DEAN R. O'HARE
Chairman, President and Chief Executive Officer
of the Corporation

WARREN B. RUDMAN
Partner
Paul, Weiss, Rifkind, Wharton
& Garrison

SIR DAVID G. SCHOLEY, CBE
Chairman, International Advisory Council
Swiss Bank Corporation

RAYMOND G.H. SEITZ
Senior Managing Director
Lehman Bros. International (Europe)
Former Ambassador of The United States of America

LAWRENCE M. SMALL
President and Chief Operating Officer
Federal National Mortgage Association

RICHARD D. WOOD
Former Chairman of the Board
Eli Lilly and Company

All of the above directors are also directors of Federal Insurance Company, Vigilant Insurance Company and Chubb Life Insurance Company of America. Certain are also directors of other subsidiaries of the Corporation.

Officers

Chairman, President and Chief Executive Officer
DEAN R. O'HARE

Vice Chairman
PERCY CHUBB, III

Executive Vice Presidents
ROBERT P. CRAWFORD, JR.

DONN H. NORTON
THERESA M. STONE

Senior Vice Presidents
JOHN J. DEGNAN

GAIL E. DEVLIN
EDWARD DUNLOP

DAVID S. FOWLER
BRIAN W. NOCCO

MICHAEL O'REILLY
HENRY B. SCHRAM

Senior Vice President and General Counsel
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Vice Presidents

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Vice President and Counsel
MICHAEL J. O'NEILL, JR.

Vice President and Secretary
HENRY G. GULICK

Vice President and Treasurer
PHILIP J. SEMPIER

To Our Shareholders:

The Chubb Corporation produced record results in 1995. Net income rose to \$697 million, or \$7.85 per share, from \$528 million, or \$5.95 per share, in 1994. Operating income, which excludes realized investment gains and is therefore an even better indicator of our performance, increased 25% to \$612 million. Our property and casualty business recorded an underwriting profit of \$56 million after taxes, reflecting a combined loss and expense ratio of 96.8%, our best in 17 years. Investment income climbed 7%. Earnings from life insurance and real estate operations also showed good gains.

In light of these strong results, the Board of Directors at its meeting today raised the quarterly dividend to \$0.54 per share from \$0.49 per share, an increase of 10%. The Board also declared a two for one stock split to be distributed in early May. The information presented in this report does not reflect the stock split.

Property and Casualty Insurance

We owe the extraordinary results in our property and casualty business to a superb underwriting performance by our people as well as to good fortune and gentle weather. Property and casualty premiums rose 9%, including 6% growth in the United States, 17% in Canada and 20% overseas. Our U.S. performance is especially gratifying. We grew faster than the market and recorded a combined ratio of 96.7% in a year when we also were implementing a major organizational reconfiguration. As we stated last year, this effort is enabling us to better meet the needs of our producers and customers. Our staff did an excellent job of furthering our business objectives while dealing with the inevitable concerns that accompany change.

We are pleased to report that we are already benefiting from the new structure. Our goal is simply to make it easier to do business with Chubb, and to offer agents, brokers and customers more versatile and flexible options in building an insurance program, whether local or global. While we will not complete the transition of our entire U.S. organization until later in 1996, the feedback received on our efforts to date from producers and customers alike has been positive.

Our international operations recorded an excellent year, with premiums exceeding \$1 billion and pre-tax operating earnings of more than \$100 million. Canada reported strong underwriting results, and our overseas operations continued to grow rapidly while also achieving underwriting profitability. In this year's essay, we describe how we are building Chubb's global property and casualty insurance capability, a capability we believe will represent an increasingly important advantage in the years ahead.

We could not have achieved the exceptional results of 1995 without the extraordinary contribution of our agents and brokers worldwide. Our producers are the essential link to our customers. We look forward to continuing to strengthen these vital partnerships in 1996 and beyond.

Two Year Financial Highlights

(in thousands except for per share amounts)

FOR THE YEAR	1995	1994
Revenues	\$ 6,089,191	\$ 5,709,535
Net Income	696,628	528,469
Net Income Per Share	\$7.85	\$5.95
Dividends Declared Per Share	1.96	1.84
AT YEAR END		
Assets	\$22,996,525	\$20,723,055
Shareholders' Equity	5,262,729	4,247,029
Shareholders' Equity Per Share	\$60.28	\$48.92

Life Insurance and Real Estate

Our life insurance and real estate operations also enjoyed successful years, albeit in the face of significant challenges. Chubb Life earned \$28 million after taxes in 1995, doubling its income from the previous year. Under the leadership of its new management team, Chubb Life has undertaken a strategic shift, emphasizing our successful personal insurance business. We have clearly defined our target customers as those individuals and business owners who seek the added value and service for which Chubb has long been known. We are providing these customers with attractive products designed to help them achieve their wealth-creation and financial planning objectives. A key part of this strategy is deriving synergy with our property and casualty distribution system. In 1995, the Chubb synergy program was responsible for generating some 20% of Chubb Life's new business from personal life insurance customers, and we expect this percentage to increase in future years in the context of overall strong sales momentum.

At the same time, we are scaling back our group health operations while we consider a number of alternatives with respect to our future in this business. In our two principal markets of New York and New Jersey, we have implemented aggressive rate increases to stem losses from community rated indemnity business. We continue to encourage conversion to managed care programs, and we provide our market of small group customers with a first-class managed care alternative through our ChubbHealth joint venture. In 1995, we made good progress in reducing group health losses; we will make further progress in 1996.

Bellemead Development Corporation, our real estate subsidiary, earned \$6 million in 1995, rebounding from a \$2 million loss in 1994. In response to the continued weak demand for office space in the past few years, Bellemead has concentrated on the management of

Becoming a leader in the Global Marketplace

Each Chubb office is a gateway to the world.

In less than a decade, we have transformed our property and casualty business from a predominantly North American enterprise to an international insurer capable of serving agents, brokers and customers virtually anywhere on the globe. With 100 offices worldwide, each sharing a common approach, philosophy and culture, Chubb offers a truly global insurance and risk management capability that few competitors can match.

The development of Chubb's global capability can be attributed to the skill and enthusiasm of our people in 28 countries around the world and to the strength of the strategy that ties them and our worldwide operations together. It can also be ascribed to the foresight a decade ago that saw demand for international risk protection beginning to grow at an increasing rate and the accompanying opportunity to create a profitable new specialization for Chubb. The following pages describe why our international expansion has been successful and define our priorities for Chubb's future in the global marketplace.

Since our founding in 1882 as the New York-based managing marine underwriter for the Sea Insurance Company of Liverpool, Chubb & Son has been active in international trade. With our roots in marine insurance, we have long cultivated relationships with merchants and insurance brokers in other countries.

While we have established individual offices in international markets throughout our history, the late 1980s marked the beginning of a concerted program of overseas expansion. More and more of our customers, including middle-market companies as well as established multinational corporations, were taking their businesses abroad and were looking for risk protection. As we organized to meet their emerging needs, we saw that there were also opportunities in many foreign markets to offer locally based businesses the kinds of coverages and services that Chubb was well known for in North America. To focus our efforts, we set a goal of deriving 25% of our property and casualty premiums from outside the United States by the year 2000, while maintaining our historic commitment to underwriting profitability.

From the beginning, our goal has been to serve the worldwide needs of customers by building a coordinated network of offices that share Chubb's standards, approach and culture. So we have invested in constructing our own network, branch by branch, rather than buying component parts from others. At the same time, we recognize and respect the individual qualities and culture of each country, province and city. We work closely with local agents and brokers to develop products that draw on our traditional strengths and expertise, but are shaped to address local market needs. As in the United States, we ensure the quality of the business we write by selecting the risks we assume our-

selves, rather than depending on third parties to make these critical decisions.

We attribute the steady, profitable growth of Chubb's business outside the United States to this strategy and to the characteristics that define our presence in every market worldwide:

- We know our strengths and specialties and build on them in each market.
- We view each market as unique in terms of its economy, culture, business and insurance environment.
- We compete first on quality, value and service, not on price.

Taken together, these capabilities provide a significant competitive advantage at home and abroad, and have enabled us to create a one-of-a-kind global capability. In 1995, our international premiums topped \$1 billion, and we recorded a combined ratio on this business of 97%. Pre-tax earnings from international operations were more than \$100 million. With international premiums exceeding 20% of the company's total, we are well on our way to meeting our 25% goal.

We build on our strengths

No matter where we establish a presence, we will always emphasize value-added service and the coverages in which we have demonstrated expertise. Our reputation as marine underwriters is well known. In commercial property markets, we differentiate ourselves through expert loss control consulting and fair and prompt claims settlement. For our U.S.-based multi-peril

customers expanding around the globe, we provide access to the breadth of coverage and level of service they are used to at home.

Consistent with our strategy in the United States, we also offer a number of specialized coverages internationally, including directors and officers liability insurance; customized coverages for financial institutions, energy companies and technology businesses; and personal insurance for affluent individuals. This selective approach has been integral to our success.

For many of our customers in Europe, for example, the difference that Chubb provides is expertise in specialized insurance programs for which they have growing needs. Directors and officers liability coverage, historically an American phenomenon, is one such area. As the liability climate in Europe begins to change and as European companies expand internationally, doing business in the United States or listing their securities on U.S. stock markets, the need to protect their directors and officers from liability exposure becomes more of a priority for these firms. European companies and their brokers are looking for help in evaluating risks and underwriting coverages with which they have limited experience.

Chubb's expertise positions us well to meet this growing demand, and we have built leading positions in several markets throughout Europe, including the United Kingdom, the largest D&O market outside



Chubb Property & Casualty Offices

ASIA/PACIFIC (Singapore)

Bangkok, Thailand
Beijing, China
Hong Kong
Melbourne, Australia
Seoul, Korea
Shanghai, China
Shenzhen, China
Singapore
Sydney, Australia
Taipei, Taiwan
Tokyo, Japan

CANADA (Toronto)

Calgary, AL
Montreal, QU
Oakville, ON
Toronto, ON
Vancouver, BC

CHUBB ATLANTIC INDEMNITY LTD.

Hamilton, Bermuda

EUROPE (London)

Amsterdam, Netherlands
Barcelona, Spain
Birmingham, England
Brussels, Belgium
Dublin, Ireland
Düsseldorf, Germany
Glasgow, Scotland
Hamburg, Germany
Lloyd's of London
London, England
Lyon, France
Madrid, Spain
Manchester, England
Milan, Italy
Munich, Germany
Paris, France
Reading, England

LATIN AMERICA (Miami)

Barranquilla, Colombia
Belo Horizonte, Brazil
Blumenau, Brazil
Bogotá, Colombia
Buenos Aires, Argentina
Cali, Colombia
Curitiba, Brazil
Medillin, Colombia
México City, México
Porto Alegre, Brazil
Recife, Brazil
Rio de Janeiro, Brazil
Santiago, Chile
San Juan, Puerto Rico
São Paulo, Brazil

UNITED STATES East

(Westchester, NY)
Albany, NY
Baltimore, MD
Boston, MA
Bridgewater Hills, NJ
Buffalo, NY
Fair Lawn, NJ
Harrisburg, PA
Hartford, CT
Long Island, NY
Murray Hill, NJ
New Haven, CT
New York, NY
Philadelphia, PA
Princeton, NJ
Richmond, VA
Rochester, NY
Washington, DC
Westchester, NY

North

(Pittsburgh, PA)
Chicago, IL
Cincinnati, OH
Cleveland, OH
Indianapolis, IN
Itasca, IL
Louisville, KY
Milwaukee, WI
Minneapolis, MN
Pittsburgh, PA
Troy, MI

South

(Dallas, TX)
Albuquerque, NM
Atlanta, GA
Birmingham, AL
Charlotte, NC
Dallas, TX
Denver, CO
Des Moines, IA
Fort Lauderdale, FL
Houston, TX
Kansas City, MO
Nashville, TN
San Antonio, TX
St. Louis, MO
Tampa, FL
Tulsa, OK

West

(Encino, CA)
Concord, CA
Fresno, CA
Los Angeles, CA
Newport Beach, CA
Phoenix, AZ
Portland, OR
San Diego, CA
San Francisco, CA
San Jose, CA
Seattle, WA

(Zone Administrative O, ce)

of North America, as well as France, Belgium and the Netherlands. We were the first insurer to write D&O coverage in Germany. Because we work closely with a company's senior management to put together a D&O program, there is often the opportunity to build upon this relationship in other areas.

In a similar fashion, our financial institutions group has drawn on our substantial experience in the U.S. to develop its international capability. It has been involved in the international banking marketplace for 30 years and has been an active participant in the London financial fidelity and computer crime markets since the 1970s. Today, Chubb is one of only a few insurers that provides errors and omissions and employee theft and fraud coverages developed specifically for financial services companies. In the UK, our financial institutions business has grown at an average annual rate of 20% for the last five years; we are enjoying considerable growth in newer markets such as Brussels and Amsterdam as well. With our success in such lines of business as D&O and financial fidelity, it is no surprise that our European business is weighted toward specialty commercial.

Similarly, almost half of our business in Canada, the foreign market where we have been active longest, is made up of specialty commercial and energy customers. Chubb Canada has built on our knowledge of financial services to establish leading positions among Canadian bank-

ing, life insurance and securities firms. We are now looking to extend this expertise into other rapidly growing financial service sectors. Another 30% of our Canadian premiums come from personal lines where we enjoy solid profitability and have successfully established Chubb as the market of choice among affluent home owners.

Since we began our major overseas expansion, we have been selective about the markets we choose to enter. We prefer industrialized economies and developed insurance markets because they are likely to evidence greater demand for sophisticated risk protection. We avoid countries that are experiencing political or economic disorder. While we see little opportunity in smaller economies whose prospects for development lie well into the future, we do seek to establish ourselves early in attractive, larger developing markets, hence our positions in such countries as Brazil, Mexico and Thailand. In countries with major long-term potential — China is one example, India potentially another — we are prepared to invest patiently for the future.

Wherever local laws and regulations permit, we seek to build rather than buy our way into new markets. To ensure that we speak the language of the marketplace, we staff our offices with local people. In the last five years, our staff outside the United States has virtually doubled to 1700 people. Three quarters of our branch managers in Europe are European. Expatriates represent less than 10% of the staff

volve quarterly visits, regular testing of mine infrastructure systems, and routine tours of mine tunnels. In addition to minimizing losses, these visits are valuable investments in long-term relationships with brokers and with the companies we insure.

Our specialized understanding of the risks that mining companies face and our reputation for careful underwriting has led to participation in mining insurance programs in Mexico, Colombia, Peru and Argentina, the most recent country to be added to our Latin American network.

Central to developing indigenous business is the cultivation of strong, long-term relationships. In many markets, brokers and customers view the arrival of a new foreign insurer with skepticism; they have seen numerous others enter the market with great fanfare only to depart a year or two later. We recognize that to develop local business, we must first put down the roots of a trusted local organization. We concentrate on building relationships with key brokers and commercial insurance customers. We introduce loss control services and make sure that we live up to our reputation for claims settlement. Most important, we build a local team to staff the operation.

Once we have established ourselves, we follow opportunities for expansion. We opened our Barcelona office in 1995, for example, building on relationships cultivated through our initial five years of doing business in Madrid. In the UK and Germany, the biggest insurance markets in

Europe, we are moving rapidly from our initial bases in London and Düsseldorf into other cities. In the last three years, we have opened offices in Glasgow, Manchester, Reading, Birmingham and Southeast London in the UK, and in Munich and Hamburg in Germany. Since 1990, we have opened 11 new offices in Europe; in 1995 these produced more than 30% of our European premium.

We are also seeing the success of our approach in the evolution of our customer base. Most of our multi-line customers in Europe, which include leading names in industries ranging from consumer products to financial services to telecommunications, began by buying one line of coverage from us. Now they purchase several. Between 1990 and 1995, Chubb Europe's average premium per office has grown by 50%, with much of this increase coming from the expansion of relationships with existing customers.

In Canada, we have seen a similar story develop. Among the top 1,000 Canadian companies, Chubb has an insurance relationship with 600. Many of these relationships are now in their sixth decade.

Service and our willingness to contribute to the development of the local market are important aspects of the relationship building process. Last summer in China, where Chubb is seeking a license, we established the Chubb School of Insurance with the Shanghai University of Finance and Economics. Located on the university's campus, the Chubb School offers courses

in risk management, loss control, marketing, specialty underwriting and catastrophe management to Chinese insurance industry regulators, local insurance agents and brokers, and the staffs of local insurers, including our own. Beyond our financial investment, we are also providing faculty and training materials. The Chubb School, and our three representative offices in Beijing, Shanghai and Shenzhen, not only enable us to lend our expertise to the development of the Chinese market, but also put us in touch with this singular market's special conditions and requirements.

In Asia/Pacific, a region that for Chubb stretches from Japan to Australia to India, we have enjoyed strong relationships that have grown steadily since 1972, when we opened for business in Australia and established a representative office in Tokyo. Today, we remain one of only a small group of foreign non-life insurers active in Japan. Similarly, when we opened an office in Seoul, South Korea, we were the first foreign insurance company to be licensed there in 20 years. Chubb is still one of only three foreign non-life companies in that country. Since 1991, Chubb's business in the Asia/Pacific region has grown at an annual rate of nearly 30%.

We compete on quality, value and service

Perhaps because we adhere to the same standards in the 1990s that our founders established in the 1880s, customers, brokers and regulators often look to us as the standard-setters for the industry. Even in newer, developing markets, where custom-

ers have yet to experience our claim service and are unfamiliar with insurer-sponsored loss control programs, we are frequently pleased to discover that our reputation precedes our actual presence.

The foundation of Chubb's reputation is prompt, fair claim settlements. But this reputation has other attributes as well, among them our underwriting expertise, our broader-than-usual coverages, the speed with which we can provide a quote or bind coverage, our loss control programs, our willingness to listen to our customers and producers, and our ability to develop innovative new products to meet emerging needs. These are all reasons customers come to Chubb, and as such, they represent powerful advantages in any market.

On one level, we provide value-added service simply by having people and resources available locally. At a time when many of our competitors are consolidating their field operations and withdrawing from local markets, we continue to expand. Local presence has been critical to our ability to underwrite the risks associated with major infrastructure projects such as portions of the Channel Tunnel, the Singapore and Hong Kong transportation systems, and the Sydney Harbor Tunnel. Increasingly in Asia, financial institutions and energy companies that have traditionally sought coverage in the London market are recognizing Chubb's growing local capabilities.

Expanded scope of coverage is another Chubb hallmark. We typically offer

broader coverage terms than our competitors and are generally the first in any market to push beyond the boundaries of traditional coverages. In Germany, Chubb was the first company to introduce an “all-risk” property policy. Similarly, we have successfully introduced a Spanish language package policy in Chile, Colombia and Mexico. In Australia, we introduced liability coverage for directors and officers. We have broken new ground in the United States with a global insurance contract that is capable of providing one or more lines of coverage worldwide.

Already, our global network is giving us a real edge in head-to-head competition with national and regional insurers in the United States and with large and otherwise formidable local insurance companies in overseas markets. These firms often have long-standing local relationships, but they lack the reach outside their home countries, a capability that their customers increasingly seek.

The true test of any global network, particularly in a service industry, is the ability of its components to collaborate to serve the needs of its customers. This means overcoming the size of the corporation, differences between cultures, and the logistics of long distances and time zones to enable teams of individuals in disparate locations to build and service global accounts.

We are seeing more and more of our branch offices embrace global teamwork.

One recent example involves our Minneapolis branch, which has provided coverages for a mid-western-based U.S. manufacturer of recreational equipment for more than 10 years. When the company acquired a new subsidiary based in Scandinavia, our customer found itself needing to insure administrative, manufacturing, warehousing and distribution facilities in continental Europe, the UK, Taiwan, Japan and the United States. Working with the company’s agent, Chubb underwriters and loss control experts from four offices combined their efforts to win us the entire account by producing a global insurance program that includes many of the commercial coverages we offer worldwide. Our future success lies in being known for relationships and solutions such as these.

Collaboration does not come easy, especially to large, multi-national organizations. It requires a cohesive corporate culture and an understanding of what we are trying to achieve that extends across all offices and operations. We continually seek ways to reinforce this understanding and to communicate throughout the Chubb organization that we regard collaboration as one of the most important skills our employees have — and the most powerful attribute that they can demonstrate to our agents, brokers and customers. Many of our branch managers, including those from Charlotte and Singapore, Boston and Milan, and Chicago and Brussels, have participated in an exchange program established with this in mind. By “shadowing” their counterparts in other

countries, these managers gain first-hand knowledge of a marketplace other than their own. With exchanges such as these, we are creating a collective, global consciousness among senior Chubb executives that will influence the way we conduct business and serve our customers for years to come.

The Chubb global capability

We are well on our way toward establishing a new specialization for Chubb, that of the global insurer. This global capability represents a combination of expertise, infrastructure and experience that takes years to put together and is difficult to replicate. This may be why few property and casualty insurers are vying for the global market, and fewer still will capture a significant share of it.

Chubb's global capability has five elements:

1. We have profitable and growing offices — each staffed by Chubb experts doing business in the Chubb manner — in the major and secondary insurance markets that are attractive to us worldwide.
2. In these markets, we become an insurer of choice, known for our service in commercial and personal lines, and a market leader in the specialty lines that Chubb has traditionally emphasized in the United States.
3. We develop a book of business in each country that is balanced between multinational insurance programs and local, indigenous customers.
4. We are the insurer that agents, brokers and their customers worldwide look to for multinational risk management advice, service and protection, wherever these producers and customers do business.
5. We achieve our 25% international premium goal and establish it as a platform for future growth.

We are close to meeting all five criteria. Our integrated infrastructure is largely in place. While our competition will assume different forms in different parts of the world, no other insurer can match our combination of resources, reputation, service and commitment on a global basis. These attributes will increasingly distinguish Chubb around the world for the balance of this century and into the next as we continue to build on our success.

Board and Management Changes

During 1995, several changes occurred among the Directors and Officers of the Corporation and its principal subsidiaries.

At The Chubb Corporation, Ernesta G. Procope and Robert G. Stone, Jr. retired as Directors. Mrs. Procope had served as a Director since 1977 and Mr. Stone had served as a Director since 1972. Their counsel and wisdom will be missed by all who had the pleasure of working with them.

Theresa M. Stone was elected an Executive Vice President and John J. Degnan and Edward Dunlop were elected Senior Vice Presidents.

At Chubb & Son Inc., Edward O. Darwin, Robert C. Reiss and William W. Roper, III retired as Managing Directors and Senior Vice Presidents, and David S. Decker, James D. Dixon, Albert H. Hayes, John P. Madigan, Jr. and Verle A. Petri retired as Vice Presidents. Each of them had long, distinguished careers at Chubb.

Emelia M. Accardi, John L. Angerami, Jimmy R. Deaderick, Baxter W. Graham, Donna M. Griffin, John Pacheco, Jr. and Gary C. Petrosino were elected Managing Directors. John P. Cavoeres was elected an Executive Vice President and George F. Breuer, Alan C. Brown, Paul J. Krump, Donald B. Lawson, Michael J. Marchio, Gerardo G. Mauriz, John Pacheco, Jr., Kenneth C. Simmons and Gary J. Tully were elected Senior Vice Presidents during 1995.

Twenty Vice Presidents were elected. They are: J. Michael Baldwin, Deborah L. Bronson, R. Jeffrey Brown, Robert E. Callard, William S. Crowley, Gardner R. Cunningham, Jr., Robert S. Holley, Jr., Kathleen S. Langner, Kirk H. Larsen, Robert A. Lippert, Kevin F. Madden, Lisa M. McGee, Judy Merante, Daniel A. Pacicco, Robert J. Pellegrinelli, Roger E. Pickard, Victor J. Sordillo, Richard W. Spaulding, Clifton E. Thomas and Katherine M. Tusa. Donna M. Lombardi was elected Vice President and Associate Counsel.

At Chubb Life Insurance Company of America, Frederick N. Bailey, M.D., Richard A. Croak and Donald L. Stevens retired as Vice Presidents. Each had distinguished careers with Chubb Life. Charles C. Cornelio and Michael O'Reilly were elected Senior Vice Presidents. Arthur V. Anderson was elected Vice President and Corporate Actuary and J. Michael Gannon was elected Vice President and Counsel. Sandra M. MacIntyre and Edward C. Mackenzie were elected Vice Presidents.

At Bellemead Development Corporation, Andrew A. McElwee, Jr. was elected an Executive Vice President and Joseph Adamo was elected a Senior Vice President. Joanne F. Meisler was elected Senior Vice President, General Counsel and Secretary. Kirby White was elected a Vice President.

Supplementary Financial Data

	In Thousands Years Ended December 31		
	1995	1994	1993
Property and Casualty Insurance			
Underwriting			
Net Premiums Written	\$4,305,992	\$3,951,209	\$3,521,295
Increase in Unearned Premiums	(158,830)	(174,926)	(141,457)
Premiums Earned	4,147,162	3,776,283	3,379,838
Claims and Claim Expenses	2,669,981	2,519,359	2,204,098
Operating Costs and Expenses	1,393,373	1,288,692	1,181,316
Increase in Deferred Policy Acquisition Costs	(29,223)	(39,751)	(34,726)
Dividends to Policyholders	18,877	16,294	14,242
Underwriting Income (Loss) Before Increase in Unpaid Claims for Asbestos-Related Settlement and Return Premium for Medical Malpractice Commutation	94,154	(8,311)	14,908
Increase in Unpaid Claims for Asbestos-Related Settlement	—	—	(675,000)
Return Premium for Medical Malpractice Commutation	—	—	125,000
Underwriting Income (Loss) Before Income Tax	94,154	(8,311)	(535,092)
Federal and Foreign Income Tax (Credit)	38,500	(500)	(197,600)
Underwriting Income (Loss)	<u>55,654</u>	<u>(7,811)</u>	<u>(337,492)</u>
Investments			
Investment Income Before Expenses and Income Tax	613,242	570,531	541,749
Investment Expenses	10,255	10,050	8,040
Investment Income Before Income Tax	602,987	560,481	533,709
Federal and Foreign Income Tax	95,800	85,500	78,300
Investment Income	<u>507,187</u>	<u>474,981</u>	<u>455,409</u>
Property and Casualty Income	<u>\$ 562,841</u>	<u>\$ 467,170</u>	<u>\$ 117,917</u>
Life and Health Insurance			
Premiums and Policy Charges	\$ 622,937	\$ 836,293	\$ 801,236
Investment Income	232,950	208,745	205,891
Total Revenues	855,887	1,045,038	1,007,127
Benefits	549,219	752,205	669,422
Operating Costs and Expenses	265,403	274,079	248,976
Life and Health Income Before Income Tax	41,265	18,754	88,729
Federal Income Tax	13,225	4,251	26,212
Life and Health Income	<u>\$ 28,040</u>	<u>\$ 14,503</u>	<u>\$ 62,517</u>
Real Estate			
Revenues	\$ 287,795	\$ 204,849	\$ 160,650
Cost of Sales and Expenses	280,099(a)	210,799	158,599
Real Estate Income (Loss) Before Income Tax	7,696	(5,950)	2,051
Federal Income Tax (Credit)	1,686	(3,913)	4,244
Real Estate Income (Loss)	<u>\$ 6,010</u>	<u>\$ (2,037)</u>	<u>\$ (2,193)</u>
Corporate, Net of Tax	<u>\$ 14,809</u>	<u>\$ 7,661</u>	<u>\$ 14,357</u>
Realized Investment Gains, Net of Tax	<u>\$ 84,928</u>	<u>\$ 41,172</u>	<u>\$ 151,619</u>
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>\$ 696,628</u>	<u>\$ 528,469</u>	<u>\$ 344,217</u>

(a) Includes an increase of \$10,000,000 to the allowance for uncollectible receivables resulting from the initial application of Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan.

The above federal and foreign income tax provisions represent allocations of the consolidated provision.

Property and Casualty Underwriting Results

Net Premiums Written (In Millions of Dollars)

	1995	1994	1993	1992	1991
Personal Insurance					
Automobile	\$ 199.7	\$ 187.7	\$ 191.7	\$ 190.9	\$ 189.5
Homeowners	449.8	429.7	428.4	416.9	432.2
Other	<u>202.1</u>	<u>196.3</u>	<u>194.4</u>	<u>188.6</u>	<u>193.0</u>
	<u>851.6</u>	<u>813.7</u>	<u>814.5</u>	<u>796.4</u>	<u>814.7</u>
Standard Commercial Insurance					
Multiple Peril	678.5	604.0	528.8	483.2	482.6
Casualty	565.9	544.3	626.0(a)	481.7	456.1
Workers' Compensation	<u>212.1</u>	<u>190.2</u>	<u>172.0</u>	<u>168.6</u>	<u>177.1</u>
	<u>1,456.5</u>	<u>1,338.5</u>	<u>1,326.8(a)</u>	<u>1,133.5</u>	<u>1,115.8</u>
Specialty Commercial Insurance					
Fidelity and Surety	757.4	706.7	618.7	585.1	538.0
Other	<u>869.6</u>	<u>769.1</u>	<u>650.8</u>	<u>566.6</u>	<u>496.7</u>
	<u>1,627.0</u>	<u>1,475.8</u>	<u>1,269.5</u>	<u>1,151.7</u>	<u>1,034.7</u>
Reinsurance Assumed	<u>370.9</u>	<u>323.1</u>	<u>235.5</u>	<u>160.9</u>	<u>147.1</u>
Total	<u><u>\$4,306.0</u></u>	<u><u>\$3,951.1</u></u>	<u><u>\$3,646.3(a)</u></u>	<u><u>\$3,242.5</u></u>	<u><u>\$3,112.3</u></u>

(a) Includes a \$125 million return premium to the Corporation's property and casualty insurance subsidiaries related to the commutation of a medical malpractice reinsurance agreement. Excluding this return premium, net premiums written were \$501.0 million for Casualty, \$1,201.8 million for Standard Commercial and \$3,521.3 million in Total.

Combined Loss and Expense Ratios

Personal Insurance					
Automobile	87.5%	96.5%	97.6%	100.2%	106.2%
Homeowners	93.7	110.7	100.2	113.3	106.0
Other	<u>73.6</u>	<u>81.3</u>	<u>84.2</u>	<u>89.9</u>	<u>93.5</u>
	<u>87.5</u>	<u>100.3</u>	<u>95.8</u>	<u>104.6</u>	<u>103.1</u>
Standard Commercial Insurance					
Multiple Peril	104.3	109.6	110.6	112.8	109.0
Casualty	118.7	106.2	190.6(b)	94.2	86.2
Workers' Compensation	<u>95.0</u>	<u>104.5</u>	<u>117.9</u>	<u>118.7</u>	<u>130.6</u>
	<u>108.8</u>	<u>107.6</u>	<u>149.7(b)</u>	<u>105.7</u>	<u>102.6</u>
Specialty Commercial Insurance					
Fidelity and Surety	82.9	79.2	78.1	81.3	82.4
Other	<u>97.0</u>	<u>103.4</u>	<u>103.4</u>	<u>100.2</u>	<u>98.9</u>
	<u>90.4</u>	<u>91.7</u>	<u>91.0</u>	<u>90.5</u>	<u>90.3</u>
Reinsurance Assumed	<u>99.1</u>	<u>100.2</u>	<u>111.8</u>	<u>126.9</u>	<u>119.3</u>
Total	<u><u>96.8%</u></u>	<u><u>99.5%</u></u>	<u><u>114.8%(b)</u></u>	<u><u>101.1%</u></u>	<u><u>99.5%</u></u>

(b) Includes the effects of a \$675 million increase in unpaid claims related to an agreement for the settlement of asbestos-related litigation and the \$125 million return premium related to the commutation of a medical malpractice reinsurance agreement. Excluding the effects of these items, the combined loss and expense ratio was 100.7% for Casualty, 107.6% for Standard Commercial and 99.0% in Total.

The combined loss and expense ratio, expressed as a percentage, is the key measure of underwriting profitability traditionally used in the property and casualty insurance business. It is the sum of the ratio of losses to premiums earned plus the ratio of underwriting expenses to premiums written after reducing both premium amounts by dividends to policyholders.

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

The following discussion presents our past results and our expectations for the near term future. Separately, we present our consolidated financial statements and related notes on pages 44 to 66 and other supplementary financial information on pages 15, 16, 42 and 43, all of which are integral parts of the following analysis of our results and our financial position.

Net income amounted to \$697 million in 1995 compared with \$528 million in 1994 and \$324 million in 1993. Net income in 1993 reflected a net charge of \$357 million after taxes related to an agreement for the settlement of asbestos-related litigation as well as the Corporation's decision to exercise its option to commute an unrelated medical malpractice reinsurance agreement. Net income in 1993 also reflected a one-time charge of \$20 million for the cumulative effect of adopting new accounting requirements for postretirement benefits other than pensions and for income taxes.

Net income included realized investment gains after taxes of \$85 million, \$41 million and \$152 million in 1995, 1994 and 1993, respectively. Decisions to sell securities are governed principally by considerations of investment opportunities and tax consequences. Thus, realized investment gains and losses may vary significantly from year to year. As a result, net income may not be indicative of our operating performance for the period.

Property and Casualty Insurance

Property and casualty income was significantly higher in 1995 than in 1994; such 1994 income was significantly higher than that in 1993. Results in 1993 were adversely affected by a \$675 million increase in loss reserves related to an agreement for the settlement of asbestos-related litigation (the "\$675 million charge"), which is further described under Loss Reserves. The \$675 million charge was partially offset by a \$125 million return premium to our property and casualty insurance subsidiaries related to the Corporation's decision to exercise its option to commute a medical malpractice reinsurance agreement (the "\$125 million return premium").

Property and casualty income after taxes was \$563 million in 1995 compared with \$467 million in 1994 and \$118 million in 1993. Excluding the effects of the \$675 million charge and the \$125 million return premium, property and casualty income after taxes was \$475 million in 1993. Earnings in 1995 benefited from highly profitable underwriting results and an increase in investment income compared with 1994. Earnings in 1994 were adversely affected by higher catastrophe losses, resulting from the earthquake in California and the winter storms in the eastern and midwestern parts of the United States in the first quarter. Investment income increased modestly in 1994 compared with the prior year.

the \$125 million return premium discussed below from the 1993 premium amounts. Market competition has continued to place significant pressure on prices. Premium growth in both years was due primarily to the selective writing of new accounts and exposure growth on existing business. Premium growth in 1994 and 1995 for multiple peril was particularly strong outside the United States.

Medical malpractice business, which we stopped writing in 1984, was reinsured effective year-end 1985. The reinsurance agreement included a commutation provision under which our property and casualty subsidiaries had an option to reassume the remaining liability of the reinsurer as of December 31, 1995 and receive payment of an amount determined by a formula based on experience under the agreement. The property and casualty subsidiaries exercised this option, which resulted in an amount due from the reinsurer of \$191 million and a reduction in reinsurance recoverable from the reinsurer of \$66 million. The difference of \$125 million represents a return premium to our property and casualty subsidiaries, which was recognized in 1993 at the time the Corporation announced its intention to exercise the commutation option. The amount due from the reinsurer was received in January 1996.

Our standard commercial results were unprofitable in each of the past three years. The combined loss and expense ratio was 108.8% in 1995 compared with 107.6% in 1994 and 149.7% in 1993.

Results were extremely unprofitable in 1993 due to the adverse effect of the \$675 million charge. Excluding the effects of that charge and the \$125 million return premium, the combined loss and expense ratio was 107.6% in 1993.

Casualty results in 1993 included the effects of the \$675 million charge and the \$125 million return premium. Excluding the effects of these items, casualty results deteriorated in 1994. Casualty results deteriorated further in 1995. In each of the past three years, casualty results have been adversely affected in varying degrees by increases in loss reserves for asbestos-related and toxic waste claims. The substantial deterioration in 1995 was due to a larger increase in such reserves compared with the prior year. The excess liability component of our casualty coverages has remained profitable due to favorable loss experience in this class. Results in the automobile component were also profitable in each of the last three years.

Multiple peril results improved in 1995 but remained unprofitable. Results in the property component of this business improved in 1995 due to an absence of catastrophe losses. Results in 1994 were adversely affected by significant catastrophe losses, primarily from the earthquake in California. Catastrophe losses for this class represented 0.9 of a percentage point of the loss ratio for 1995 compared with 8.4 percentage points in 1994 and 3.6 percentage points in 1993. The liability component of this business was particularly unprofitable in 1993 due to an increased frequency and severity of losses.

ses were unprofitable in 1993 due primarily to an increased frequency of large losses.

Reinsurance Assumed

Premiums from reinsurance assumed, which is primarily treaty reinsurance assumed from Sun Alliance, increased 15% in 1995 compared with 37% in 1994. The growth in both years was primarily due to an increase in our participation in the business of Sun Alliance. Premium growth in 1994 also benefited from a firming of rates, primarily in the United Kingdom.

Underwriting results for this segment were near breakeven in 1995 and 1994 compared with unprofitable results in 1993. The combined loss and expense ratio was 99.1% in 1995 compared with 100.2% in 1994 and 111.8% in 1993. Results in 1995 and 1994 benefited from rating measures taken by Sun Alliance as well as favorable weather conditions in the United Kingdom.

Regulatory Initiatives

In 1988, voters in California approved Ballot Proposition 103, an insurance reform initiative affecting most property and casualty insurers writing business in the state. Provisions of Proposition 103 would have required insurers to roll back property and casualty rates for certain lines of business to 20 percent below November 1987 levels and would have required an additional 20 percent reduction in automobile rates by November 1989.

In May 1995, our property and casualty subsidiaries reached an agreement

with the California Insurance Department to refund premiums, with interest, totaling \$6.7 million related to business written during the rollback period. The agreement settles all rollback refund obligations of the property and casualty subsidiaries related to Proposition 103. A consumer group challenged the rollback settlement. In December 1995, an administrative law judge affirmed the rollback settlement. The California Insurance Commissioner has adopted the judge's decision and the period during which the Commissioner's action could be appealed has expired.

Loss Reserves

Loss reserves are our property and casualty subsidiaries' largest liability. At the end of 1995, gross loss reserves totaled \$9.6 billion compared with \$8.9 billion and \$8.2 billion at year-end 1994 and 1993, respectively. Reinsurance recoverable on such loss reserves was \$2.0 billion at year-end 1995 and 1994 compared with \$1.8 billion at the end of 1993. Loss reserves, net of reinsurance recoverable, increased 10% in 1995 compared with 7% in 1994. Loss reserves included \$1.0 billion, \$1.05 billion and \$1.2 billion at year-end 1995, 1994 and 1993, respectively, related to the settlement of asbestos-related claims against Fibreboard Corporation, which is discussed below. Excluding such reserves, loss reserves, net of reinsurance recoverable, increased 12% in both 1995 and 1994. Substantial reserve growth has occurred

each year in those liability coverages, primarily excess liability and executive protection, that are characterized by delayed loss reporting and extended periods of settlement.

During 1995, we experienced overall favorable development of \$36 million on loss reserves established as of the previous year-end. This compares with favorable development of \$30 million in 1994 and unfavorable development of \$665 million in 1993. Such redundancies and deficiency were reflected in operating results in these respective years. Excluding the effect of the \$675 million increase in loss reserves related to the Fibreboard settlement, we experienced favorable development of \$10 million in 1993. Each of the past three years benefited from favorable claim severity trends for certain liability classes; this was offset each year in varying degrees by increases in loss reserves relating to asbestos and toxic waste claims.

The process of establishing loss reserves is an imprecise science and reflects significant judgmental factors. In many liability cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured loss, the reporting of the loss and the settlement of the loss. In fact, approximately 50% of our loss reserves at December 31, 1995 were for claims that had not yet been reported to us, some of which were not yet known to the insured, and for future development on reported claims.

Judicial decisions and legislative actions continue to broaden liability and policy definitions and to increase the severity of claim payments. As a result of this and other societal and economic developments, the uncertainties inherent in estimating ultimate claim costs on the basis of past experience have increased significantly, further complicating the already difficult loss reserving process.

The uncertainties relating to asbestos and toxic waste claims on insurance policies written many years ago are exacerbated by judicial and legislative interpretations of coverage that in some cases have tended to erode the clear and express intent of such policies and in others have expanded theories of liability. The industry is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its effort to quantify these exposures.

Our most costly asbestos exposure relates to an insurance policy issued to Fibreboard Corporation by Pacific Indemnity Company in 1956. In 1993, Pacific Indemnity Company, a subsidiary of the Corporation, entered into a global settlement agreement with Continental Casualty Company (a subsidiary of CNA Financial Corporation), Fibreboard Corporation, and attorneys representing claimants against Fibreboard for all future asbestos-related bodily injury claims against Fibreboard. This agreement is subject to

final appellate court approval. Pursuant to the global settlement agreement, a \$1.525 billion trust fund will be established to pay future claims, which are claims that were not filed in court before August 27, 1993. Pacific Indemnity will contribute approximately \$538 million to the trust fund and Continental Casualty will contribute the remaining amount. In December 1993, upon execution of the global settlement agreement, Pacific Indemnity and Continental Casualty paid their respective shares into an escrow account. Upon final court approval of the settlement, the amount in the escrow account, including interest earned thereon, will be transferred to the trust fund. All of the parties have agreed to use their best efforts to seek final court approval of the global settlement agreement.

Pacific Indemnity and Continental Casualty have reached a separate agreement for the handling of all asbestos-related bodily injury claims pending on August 26, 1993 against Fibreboard. In February 1995, the agreement was amended to extend for several years the period over which Pacific Indemnity will pay its remaining obligation, plus interest, under this agreement. Pacific Indemnity's obligation under this agreement is not expected to exceed \$635 million, of which approximately \$450 million remained unpaid at December 31, 1995. The agreement further provides that the total responsibility of both insurers with respect to pending and future asbestos-related bodily injury

claims against Fibreboard will be shared between Pacific Indemnity and Continental Casualty on an approximate 35% and 65% basis, respectively.

Pacific Indemnity, Continental Casualty and Fibreboard have entered into a trilateral agreement, subject to final appellate court approval, to settle all present and future asbestos-related bodily injury claims resulting from insurance policies that were, or may have been, issued to Fibreboard by the two insurers. The trilateral agreement will be triggered if the global settlement agreement is disapproved by an appellate court. Pacific Indemnity's obligation under the trilateral agreement is therefore similar to, and not duplicative of, that under those agreements described above.

The trilateral agreement reaffirms portions of an agreement reached in March 1992 between Pacific Indemnity and Fibreboard. Among other matters, that 1992 agreement eliminates any Pacific Indemnity liability to Fibreboard for asbestos-related property damage claims.

In July 1995, the United States District Court of the Eastern District of Texas approved the global settlement agreement and the trilateral agreement. The judgments approving these agreements have been appealed to the United States Court of Appeal for the Fifth Circuit. The appeals are scheduled to be argued in early March 1996. The period of ultimate judicial review continues to lengthen and may well extend into 1997.

Management is optimistic that the approval of the settlement will be upheld. However, if both the global settlement agreement and the trilateral agreement are disapproved by an appellate court, there can then be no assurance that the loss reserves established for future claims would be sufficient to pay all amounts which ultimately could become payable in respect of future asbestos-related bodily injury claims against Fibreboard.

Pacific Indemnity, Continental Casualty and Fibreboard have requested a California Court of Appeal to delay its decisions regarding asbestos-related insurance coverage issues, which are currently before it and involve the three parties exclusively, while the approval of the global settlement is pending in court. Continental Casualty and Pacific Indemnity have dismissed disputes against each other which involved Fibreboard and were in litigation.

Prior to the settlement, the Corporation's property and casualty subsidiaries had existing loss reserves of \$545 million to cover a portion of their obligation under these agreements. This amount included \$300 million of general liability incurred but not reported (IBNR) reserves which were not previously classified as specific reserves for asbestos claims since it was management's belief that doing so would increase the demands of plaintiffs' attorneys. Additional loss reserves of \$675 million were provided in the third quarter of

1993 at the time the settlement was negotiated. Loss and expense payments related to the settlement aggregated \$60 million and \$204 million in 1995 and 1994, respectively.

We have additional potential asbestos exposure on insureds for which we wrote excess liability coverages. Such exposure has increased due to the erosion of much of the underlying limits. The number of claims against such insureds and the value of such claims have increased in recent years due in part to the non-viability of other defendants.

Our other remaining asbestos exposures are mostly peripheral defendants, including a mix of manufacturers and distributors of certain products that contain asbestos as well as premises owners. Generally, these insureds are named defendants on a regional rather than a nationwide basis. We continue to receive notices of new asbestos claims and new exposures on existing claims as more peripheral parties are drawn into litigation to replace the now defunct mines and bankrupt manufacturers.

The courts have been engaged in developing guidelines regarding coverage for asbestos claims and have begun to articulate more consistent standards regarding the extent of the obligation of insurers to provide coverage and the method of allocation of costs among insurers. However, we still do not know the universe of potential claims. Therefore, uncertainty remains as

to our ultimate liability for asbestos-related claims.

Hazardous waste sites are another significant potential exposure. Under the "Superfund" law and similar state statutes, when potentially responsible parties (PRPs) fail to handle the clean-up, regulators have the work done and then attempt to establish legal liability against the PRPs. The PRPs, with proper government authorization in many instances, disposed of toxic materials at a waste dump site or transported the materials to the site. Most sites have multiple PRPs.

Insurance policies issued to PRPs were not intended to cover the clean-up costs of pollution and, in many cases, did not intend to cover the pollution itself. Pollution was not a recognized hazard at the time many of these policies were written. In more recent cases, however, policies specifically excluded such exposures.

As the cost of environmental clean-up continues to grow, PRPs and others have increasingly filed claims with their insurance carriers. Ensuing litigation extends to issues of liability, coverage and other policy provisions.

There is great uncertainty involved in estimating our liabilities related to these claims. First, the underlying liabilities of the claimants are extremely difficult to estimate. At any given clean-up site, the allocation of remediation costs among governmental authorities and the PRPs varies greatly. Second, different courts have addressed liability and coverage issues re-

garding pollution claims and have reached inconsistent conclusions in their interpretation of several issues. These significant uncertainties are not likely to be resolved in the near future.

Uncertainties also remain as to the Superfund law itself, which has generated far more litigation than it has brought about the cleanup of hazardous waste sites. Superfund's taxing authority expired on December 31, 1995. Notwithstanding continued pressure by the insurance industry and other interested parties to achieve a legislative solution to rewrite this law, the Superfund issue may not be addressed until after the 1996 elections. It is currently not possible to predict the direction that any reforms may take, when they may occur or the effect that any changes may have on the insurance industry. In addition, the Superfund law does not address non-Superfund toxic sites. For that reason, it does not cover all existing toxic waste exposures, such as those involving sites that are subject to state law only. Such sites could prove even more numerous and thus more costly than Superfund sites.

Litigation costs continue to escalate, particularly for toxic waste claims. A substantial portion of the funds expended to date by us has been for legal fees incurred in the prolonged litigation of coverage issues. Primary policies provide a limit on indemnity payments but many do not on defense costs. This language in the policy sometimes leads to the payment of defense costs in multiples of the policy limits.

Reserves for asbestos and toxic waste claims cannot be estimated with traditional loss reserving techniques. We have established case reserves and expense reserves for costs of related litigation where sufficient information has been developed to indicate the involvement of a specific insurance policy. In addition, IBNR reserves have been established to cover additional exposures on both known and unasserted claims. These reserves are continually reviewed and updated. Loss reserve increases relating to asbestos and toxic waste claims were \$182 million in 1995, \$115 million in 1994 and \$1,076 million in 1993. Excluding the \$675 million increase in loss reserves related to the Fibreboard settlement and the reclassification of \$300 million of general liability IBNR reserves as specific reserves for this settlement, the increase in loss reserves relating to asbestos and toxic waste claims was \$101 million in 1993. Further increases in such reserves in 1996 and future years are possible as legal and factual issues concerning these claims are clarified, although the amounts cannot be reasonably estimated.

Management believes that the aggregate loss reserves of the property and casualty subsidiaries at December 31, 1995 were adequate to cover claims for losses which had occurred, including both those known to us and those yet to be reported. In establishing such reserves, management considers facts currently known and the present state of the law and coverage litigation. However, given the expansion of

coverage and liability by the courts and the legislatures in the past and the possibilities of similar interpretations in the future, particularly as they relate to asbestos and toxic waste claims, as well as the uncertainty in determining what scientific standards will be deemed acceptable for measuring hazardous waste site clean-up, additional increases in loss reserves may emerge which would adversely affect results in future periods. The amount cannot reasonably be estimated at the present time.

Investments and Liquidity

Investment income after taxes increased 7% in 1995 compared with 4% in 1994. Growth was primarily due to increases in invested assets, which reflected strong cash flow from operations over the period. Growth was tempered in 1994 by the \$538 million paid in December 1993 into an escrow account related to the Fibreboard settlement. Similarly, 1995 growth was tempered as a result of the February 1995 amendment to the 1993 agreement between Pacific Indemnity and Continental Casualty, whereby an additional \$480 million of the Corporation's assets were designated as funds held for asbestos-related settlement. These assets accrue income for the benefit of participants in the class settlement of asbestos-related bodily injury claims against Fibreboard.

The effective tax rate on our investment income was 15.9% in 1995 compared with 15.3% in 1994 and 14.7% in 1993. The effective tax rate increased in 1995

with approximately half rated AAA. Taxable bonds have an average maturity of 7½ years while tax-exempt bonds mature on average in 9 years. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations. Common stocks are high quality and readily marketable.

At December 31, 1995, the property and casualty subsidiaries held foreign investments of \$1.4 billion supporting their international operations. Such foreign investments have quality and maturity characteristics similar to our domestic portfolio. We reduce the risks relating to currency fluctuations by maintaining investments in those foreign currencies in which we transact business, with characteristics similar to the liabilities in those currencies.

The property and casualty subsidiaries maintain sufficient investments in highly liquid, short-term securities at all times to provide for immediate cash needs. At year-end 1994, such investments were at a higher than normal level so that funds would be readily available to pay amounts related to the Fibreboard settlement. Short-term securities were reduced to a more normal level in 1995 as the expected payout period for Fibreboard related amounts has been extended. The Corporation maintains bank credit facilities that are available to respond to unexpected cash demands.

Life and Health Insurance

Life and health insurance earnings after taxes were \$28 million in 1995 compared

with \$14 million in 1994 and \$62 million in 1993. Premiums and policy charges were \$623 million in 1995 compared with \$836 million in 1994 and \$801 million in 1993.

Personal Insurance

Earnings from personal insurance were \$37 million in 1995 compared with \$33 million in 1994 and \$37 million in 1993. Earnings in 1995 benefited from favorable mortality. The earnings decrease in 1994 was primarily due to a decrease in the spread between interest earned on our invested assets and interest credited to policyholders on interest-sensitive products.

Premiums and policy charges amounted to \$311 million in 1995 compared with \$272 million in 1994 and \$240 million in 1993. New sales of personal insurance as measured by annualized premiums were \$112 million in 1995 compared with \$97 million in 1994 and \$88 million in 1993.

Our strategy is to focus on the affluent individual interested in estate planning and wealth creation utilizing equity-linked products as well as on financial planning for business owners. Our ability to increase revenues has been enhanced through marketing initiatives conducted with our property and casualty producers.

We have taken a number of steps to increase operating efficiencies in order to improve the competitive position of our personal insurance business. We reduced field office staffing levels 55% by consolidating the 40 offices as of the beginning of

metropolitan office building projects. We develop real estate properties ourselves rather than through third party developers. We are distinguished from most other real estate developers in that we coordinate all phases of the development process from concept to completion. Upon completion of development, the properties may be either owned and operated for our own account or sold to third parties. We directly manage virtually all of the properties which we either own or have sold and retained interests in through secured loans.

Our continuing investment interests in joint ventures generally consist of the ownership and lease of the underlying land and the management and operation of the buildings. Our agreements with joint ventures to manage all aspects of the joint venture properties, including debt structures, tenant leasing, and building improvements and maintenance, have put us in a strong position to protect our ongoing financial interests in the current difficult real estate environment.

The commercial real estate industry continues to suffer from a reduced demand for real estate investment. For the past several years, the supply of available office space has exceeded the demand. Corporate restructurings and downsizings have exacerbated the problem as businesses consolidated their facilities, increasing the supply of available space. While selected real estate markets have experienced increases in leasing activity and some stability in rental rates, the oversupply of available office space for lease in most

markets and the resultant low rental rates will continue to cause pressure on the earnings of the real estate development industry.

In consideration of the difficult environment in most real estate markets, we have curtailed our construction of new office buildings in recent years. We have focused instead on leasing newly constructed facilities and maintaining established properties at high occupancy levels. Current development activities consist almost exclusively of preconstruction type efforts such as site planning, zoning and similar activities. As a consequence, we expect revenues from our commercial real estate activities for the next several years to come from ongoing income from owned properties and from management and financing activities related to previously sold properties or properties held in joint ventures. This does not preclude us from entertaining proposals to purchase our properties when such offers provide a reasonable return.

Our vacancy rates are better than the average in substantially all markets in which we operate. We have been successful in both retaining existing tenants and securing new ones and have not had significant credit problems with tenants. During 1995, a total of 2,320,000 square feet was leased compared with 2,420,000 square feet in 1994 and 1,710,000 square feet in 1993. At December 31, 1995, we owned or had interests in 10,450,000 square feet of office and industrial space. Our vacancy rate was 6% at year-end 1995 compared

with 7% at year-end 1994 and 10% at year-end 1993. The lower vacancy rates in 1995 and 1994 were due to our ability to market space as it became available despite the difficult leasing market.

In certain markets, renewing leases in established buildings has been difficult as newly constructed space is available nearby at competitive rates. While we have experienced significant leasing activity in recent years, we have had to enter into multiple year leases at low market rental rates. This, together with the lack of construction and transaction based activity, will place continued pressure on our real estate earnings for the next several years.

Ultimate realizable value for real estate properties is determined based on our ability to fully recover costs through a future revenue stream. In many instances, there currently is not an active market for commercial real estate. Therefore, the prices which might be realized if we were forced to liquidate such properties on an immediate sale basis would probably be less than the carrying values. In light of current market conditions and our intent and ability to hold properties for the long term, our primary focus is to ensure that we can recover our costs through ownership and operation rather than sale.

We analyze both individual buildings and development sites on a continuing basis. Estimates are made of both additional costs to be incurred to complete development where necessary and the revenues and operating costs of the property in

the future. The time value of money is not considered in assessing revenues versus costs. Revenue assumptions take into account local market conditions with respect to the lease-up periods, occupancy rates, and current and future construction activity. There are uncertainties as to the actual realization of the assumptions relative to future revenues and future costs. However, management does not believe there is any permanent impairment in real estate carrying values.

The Corporation will adopt SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, in the first quarter of 1996. SFAS No. 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets. The adoption of SFAS No. 121 is not expected to have a significant impact on net income in 1996. This pronouncement is discussed further in Note (1) (p) of the Notes to Consolidated Financial Statements on page 51.

Loans receivable, which were issued in connection with our joint venture activities and other property sales, are primarily purchase money mortgages. Such loans, which represent only 2% of consolidated assets, are generally collateralized by buildings and land. We continuously evaluate the ultimate collectibility of such loans, of which no significant amounts are due in the near term, and establish appropriate reserves. Our agreements to manage all

aspects of the joint venture properties have played a significant role in enabling us to control potential collectibility issues related to these receivables. The reserve for possible uncollectible receivables was increased by charges against income of \$18 million in 1995, \$29 million in 1994 and \$22 million in 1993, principally related to loans on selected properties with operating income at levels which may not fully meet debt service requirements. The 1995 charge includes the \$10 million from the initial application of SFAS No. 114. During 1995 and 1994, such reserve was reduced by writedowns aggregating \$4 million and \$10 million, respectively, related to specific loans that are uncollectible. Management believes the reserve of \$88 million at December 31, 1995 adequately reflects the current condition of the portfolio. If conditions in the real estate market do not improve, however, additional reserves may be required.

The fair value of these loans receivable is estimated through the use of valuation techniques which consider current yield factors applied to the lesser of the value of the discounted future cash flows of the loan or the discounted future net cash flows from the properties serving as the underlying collateral for the loan. The fair value of the loans represents a point-in-time estimate that is not relevant in predicting future earnings or cash flows related to such loans. At December 31, 1995, the aggregate fair value of the loans was \$405 million and the carrying value was \$410 million.

Our Florida residential development activities continued during 1995. Construction of a 171 unit oceanfront high-rise condominium project, commenced during 1994, is expected to be completed in 1996. At year-end 1995, 156 units were under contract. During 1995, construction of a 214 unit mid-rise condominium project was completed. At year-end, 123 units were sold and 22 units were under contract.

During 1994, we began development of residential projects in northern New Jersey. Our first project is a 178 unit townhome project which we expect to complete in 1996. At year-end 1995, 131 units were sold and 19 units were under contract. During 1995, we entered into a joint venture for the construction of 84 townhomes.

Real estate activities are funded with short-term credit instruments, primarily commercial paper, and debt issued by Chubb Capital Corporation as well as term loans and mortgages. The weighted average interest cost on short-term credit instruments approximated 6% in 1995 compared with 4½% in 1994 and 3¼% in 1993. In 1995, the range of interest rates for term loans was 6% to 9½% and for mortgages the range was 5% to 12%.

We expect to refinance, under similar terms, most of the term loans and mortgages which become due in 1996. Cash from operations combined with the ability to utilize the Corporation's borrowing facilities will provide sufficient funds for 1996.

Corporate

The Corporation filed a shelf registration statement which the Securities and Exchange Commission declared effective in June 1995, under which up to \$400 million of various types of securities may be issued by the Corporation or Chubb Capital. No securities have been issued under this registration.

In February 1994, the Board of Directors authorized the repurchase of up to 5,000,000 shares of common stock. During 1994, the Corporation repurchased approximately 1,000,000 shares in open-market transactions at a cost of \$72 million.

The Corporation has outstanding \$120 million of unsecured 8¾% notes due in 1999. In each of the years 1996 through 1998, the Corporation will pay as a mandatory sinking fund an amount sufficient to redeem \$30 million of principal.

Chubb Capital has outstanding in the Eurodollar market \$250 million of 6% subordinated notes due in 1998. The notes are guaranteed by the Corporation and exchangeable into its common stock. The proceeds have been used to support our real estate operations.

Chubb Capital has outstanding \$150 million of 6% notes due in 1998 and \$100 million of 6⅞% notes due in 2003. The notes are unsecured and are guaranteed by the Corporation. A substantial portion of the proceeds has been used to support our real estate operations.

The Corporation has a revolving credit agreement with a group of banks that provides for unsecured borrowings of up to \$300 million. The agreement terminates on July 15, 1997 at which time any loans then outstanding become payable. There have been no borrowings under this agreement. The Corporation had additional unused lines of credit of approximately \$178 million at December 31, 1995.

Investment income earned on corporate invested assets and interest and other expenses not allocable to the operating subsidiaries are reflected in the corporate segment. Corporate income after taxes was \$15 million in 1995, \$8 million in 1994 and \$14 million in 1993.

Investment Gains and Losses

Net investment gains were realized by the Corporation and its insurance subsidiaries in 1995, 1994 and 1993. Such gains before taxes consisted of the following:

	1995	1994	1993
	(in millions)		
Equity securities	\$100	\$125	\$ 60
Fixed maturities	<u>31</u>	<u>(62)</u>	<u>173</u>
	<u>\$131</u>	<u>\$ 63</u>	<u>\$233</u>

In 1995 and 1994, a redistribution of invested assets from equity securities to fixed maturities resulted in significant realized investment gains. A restructuring of the equity security portfolio begun in 1992 resulted in significant realized investment gains in 1993.

A primary reason for the sale of fixed maturities in each of the last three years

has been to improve our after-tax portfolio return without sacrificing quality, where market opportunities have existed to do so. The substantial gains realized in 1993 were due to the sale of fixed maturities in the first half of the year as part of the realignment of our portfolio and in the latter part of the year to realize gains to partially offset the reduction in statutory surplus of our property and casualty subsidiaries resulting from the decrease in income related to the Fibreboard settlement.

Fixed maturities which the Corporation and its insurance subsidiaries have the ability and intent to hold to maturity are classified as held-to-maturity. The remaining fixed maturities, which may be sold prior to maturity to support our investment strategies, such as in response to changes in interest rates and the yield curve or to maximize after-tax returns, are classified as available-for-sale.

Effective January 1, 1994, the Corporation adopted SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. SFAS No. 115 established more stringent criteria for classifying fixed maturity securities as held-to-maturity. Thus, upon adopting SFAS No. 115, the Corporation reclassified \$4.2 billion of fixed maturities as available-for-sale which were previously classified as held-to-maturity. At December 31, 1995, 27% of our fixed maturity portfolio was classified as held-to-maturity compared with 35% at December 31, 1994 and 79% at December 31, 1993.

At December 31, 1995 and 1994, in accordance with the requirements of SFAS No. 115, fixed maturities classified as held-to-maturity were carried at amortized cost while fixed maturities classified as available-for-sale were carried at market value. At December 31, 1993, all fixed maturities were carried at amortized cost.

The unrealized appreciation or depreciation of investments carried at market value, which includes equity securities and fixed maturities classified as available-for-sale, is reflected in a separate component of shareholders' equity, net of applicable deferred income tax.

The unrealized market appreciation before tax of those fixed maturities carried at amortized cost was \$209 million, \$13 million and \$736 million at December 31, 1995, 1994 and 1993, respectively. Such unrealized appreciation was not reflected in the consolidated financial statements. The changes in unrealized market appreciation of fixed maturities were due to fluctuations in interest rates.

Federal Income Taxes

The Omnibus Budget Reconciliation Act of 1993, enacted in August 1993, increased the federal corporate tax rate from 34% to 35%, retroactive to January 1, 1993. In addition to applying the higher tax rate to pre-tax income for 1993, the federal income tax provision for 1993 reflects the effect of the rate increase on deferred income tax assets and liabilities. This effect was a tax benefit of approximately \$5 mil-

lion. The effect on the various business segments was as follows:

	Tax Provision (Benefit) <u>(in millions)</u>
Property and casualty insurance	
Underwriting	\$(11)
Investment income	2
Life and health insurance	1
Real estate	3

In 1993, life and health insurance income after taxes included a benefit of \$5 million resulting from a reversal of income tax reserves based on a settlement of prior years' taxes.

Changes in Accounting Principles

In 1995, the Corporation adopted SFAS No. 114, Accounting by Creditors for Impairment of a Loan. In 1994, the Corporation adopted SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. In 1993, the Corporation adopted SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and SFAS No. 109, Accounting for Income Taxes. These pronouncements and their effect on the consolidated financial statements are discussed in Note (2) of the Notes to Consolidated Financial Statements on page 51.

Financial Reporting Responsibility

Management is responsible for the integrity of the financial information included in this annual report and for ascertaining that such information presents fairly the financial position and operating results of the Corporation. The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Such statements include informed estimates and judgments of management for those transactions that are not yet complete or for which the ultimate effects cannot be precisely determined. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

The accounting systems and internal accounting controls of the Corporation are designed to provide reasonable assurance that assets are safeguarded against losses from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. Qualified personnel throughout the organization maintain and monitor these internal accounting controls on an ongoing basis. In addition, the Corporation's Internal Audit Department systematically reviews these controls, evaluates their adequacy and effectiveness and reports thereon.

The Corporation engages Ernst & Young LLP as independent auditors to

audit its financial statements and express their opinion thereon. They have full access to each member of management in conducting their audits. Such audits are conducted in accordance with generally accepted auditing standards and include a review and evaluation of the system of internal accounting controls, tests of the accounting records and other auditing procedures they consider necessary to express their opinion on the consolidated financial statements.

The Corporation's accounting policies and internal controls are under the general oversight of the Board of Directors acting through its Audit Committee. This Committee is composed entirely of Directors who are not officers or employees of the Corporation. The Committee meets regularly with management, the internal auditors and the independent auditors to review the accounting principles and practices employed by the Corporation and to discuss auditing, internal control and financial reporting matters. Both the internal and independent auditors have, at all times, unrestricted access to the Audit Committee, without members of management present, to discuss the results of their audits, their evaluations of the adequacy of the Corporation's internal accounting controls and the quality of the Corporation's financial reporting, and any other matter that they believe should be brought to the attention of the Committee.

Ten Year Financial Summary

(in thousands except for per share amounts)

FOR THE YEAR	1995	1994	1993	1992
Revenues				
Property and Casualty Insurance				
Premiums Earned	\$ 4,147,162	\$ 3,776,283	\$ 3,504,838 (a)	\$ 3,163,288
Investment Income	613,242	570,531	541,749	501,140
Life and Health Insurance				
Premiums and Policy Charges	622,937	836,293	801,236	689,173
Investment Income	232,950	208,745	205,891	192,748
Real Estate	287,795	204,849	160,650	149,945
Corporate Investment Income	54,445	49,405	52,706	57,176
Realized Investment Gains (Losses) ...	130,660	63,429	232,638	187,349
Total Revenues	6,089,191	5,709,535	5,499,708	4,940,819
Components of Net Income*				
Property and Casualty Insurance				
Underwriting Income (Loss) (b)	55,654	(7,811)	(337,492) (c)	(15,352)
Investment Income	507,187	474,981	455,409	422,755
Life and Health Insurance	28,040	14,503	62,517	56,221
Real Estate Income (Loss)	6,010 (e)	(2,037)	(2,193)	10,050
Corporate	14,809	7,661	14,357	19,794
Realized Investment Gains (Losses) ...	84,928	41,172	151,619	123,631
Income Before Cumulative Effect of Changes in Accounting Principles	696,628	528,469	344,217	617,099
Per Share (b)	7.85 (e)	5.95	3.91 (c)	6.96
Net Income	696,628	528,469	324,217 (f)	617,099
Per Share	7.85	5.95	3.69 (f)	6.96
Dividends Declared on Common Stock ..	170,665	161,055	150,784	139,612
Per Share	1.96	1.84	1.72	1.60
Change in Unrealized Appreciation or Depreciation of Investments, Net	470,233	(487,951)	46,534	(82,082)
AT YEAR END				
Total Assets	22,996,525	20,723,055	19,436,870	17,559,182
Invested Assets				
Property and Casualty Insurance	10,013,557	8,938,752	8,403,141	7,767,462
Life and Health Insurance	2,967,259	2,560,184	2,473,253	2,208,803
Corporate	906,597	879,475	965,715	955,828
Property and Casualty Unpaid Claims ...	9,588,141	8,913,220	8,235,442	7,220,919
Life and Health Policy Liabilities	2,943,138	2,659,583	2,446,620	2,193,486
Long Term Debt	1,156,044	1,285,614	1,273,830	1,072,841
Shareholders' Equity	5,262,729	4,247,029	4,196,129	3,954,402
Per Common Share	60.28	48.92	47.84	45.18

* The federal and foreign income tax provided for each component of net income represents its allocated portion of the consolidated provision.

Amounts for 1995 and 1994 reflect the accounting changes prescribed by Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. Restatement of prior year amounts was not permitted. The change in unrealized appreciation or depreciation of investments for 1994 excludes the increase in unrealized appreciation, as of January 1, 1994, of \$220,519,000 resulting from the change in accounting principle.

1991	1990	1989	1988	1987	1986
\$ 3,037,168	\$ 2,836,135	\$ 2,693,553	\$ 2,705,560	\$ 2,615,866	\$2,250,758
476,984	463,413	426,267	364,126	266,230	216,558
634,016	561,961	496,405	426,992	384,108	323,293
177,654	171,570	159,828	144,264	124,640	104,934
140,957	174,846	221,338	155,170	143,381	181,184
46,400	39,555	25,167	17,806	17,531	18,329
65,718	46,317	46,942	(17,987)	(22,561)	97,710
4,578,897	4,293,797	4,069,500	3,795,931	3,529,195	3,192,766
18,594	20,709 (d)	(25,040)	15,818	62,394	(29,837)
397,595	371,351	330,096	290,647	226,546	177,146
51,119	45,081	42,103	31,458	23,889	36,573
25,007	40,015	42,021	40,018	36,079	32,756
16,325	14,760	705	(5,357)	(4,229)	(2,203)
43,344	30,193	30,932	(12,959)	(14,619)	53,506
551,984	522,109	420,817	359,625	330,060	267,941
6.32	6.07 (d)	4.91	4.27	3.97	3.53
551,984	522,109	420,817	359,625	330,060	267,941
6.32	6.07	4.91	4.27	3.97	3.53
127,757	109,136	96,515	87,766	71,443	60,485
1.48	1.32	1.16	1.08	.89	.80
12,163	(19,425)	70,330	29,815	12,294	12,878
16,163,605	14,510,750	13,384,850	11,507,145	10,167,250	8,486,643
7,086,572	6,297,825	5,793,656	5,153,027	4,519,268	3,574,360
2,063,518	1,928,687	1,752,532	1,582,962	1,401,553	1,127,695
840,291	688,380	647,817	366,237	256,397	295,617
6,591,305	6,016,396	5,605,006	4,585,848	3,888,485	3,069,083
2,072,727	1,959,568	1,806,325	1,645,195	1,430,119	1,067,290
1,053,550	820,825	612,874	362,779	325,049	391,801
3,541,605	2,882,639	2,603,739	2,238,447	1,937,033	1,559,138
40.74	35.19	30.84	27.54	23.85	20.06

- (a) Premiums earned have been increased by a \$125,000,000 return premium to the Corporation's property and casualty insurance subsidiaries related to the commutation of a medical malpractice reinsurance agreement.
- (b) Net income has been increased by tax benefits of \$6,400,000 or \$.07 per share in 1992, \$7,200,000 or \$.08 per share in 1991, \$10,800,000 or \$.12 per share in 1990, \$19,200,000 or \$.22 per share in 1989, \$20,400,000 or \$.24 per share in 1988 and \$28,800,000 or \$.34 per share in 1987 relating to the exclusion from taxable income of a portion of the "fresh start" discount on property and casualty unpaid claims as a result of the Tax Reform Act of 1986.
- (c) Net income has been reduced by a net charge of \$357,500,000 or \$3.95 per share for the after-tax effects of a \$675,000,000 increase in unpaid claims related to an agreement for the settlement of asbestos-related litigation and the \$125,000,000 return premium related to the commutation of a medical malpractice reinsurance agreement.
- (d) Net income has been increased by the one-time benefit of a \$14,000,000 or \$.16 per share elimination of deferred income taxes relating to estimated property and casualty salvage and subrogation recoverable as a result of the Revenue Reconciliation Act of 1990.
- (e) Net income has been reduced by a charge of \$6,500,000 or \$.07 per share for the after-tax effect of a \$10,000,000 increase to the allowance for uncollectible receivables resulting from the initial application of Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan.
- (f) Net income has been reduced by a one-time charge of \$20,000,000 or \$.22 per share for the cumulative effect of changes in accounting principles resulting from the Corporation's adoption of Statements of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and No. 109, Accounting for Income Taxes.

The Chubb Corporation
Consolidated Statements of Income

	In Thousands		
	Years Ended December 31		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Revenues			
Premiums Earned and Policy Charges (Notes 12 and 13) ..	\$4,770,099	\$4,612,576	\$4,306,074
Investment Income (Note 3)	900,637	828,681	800,346
Real Estate	287,795	204,849	160,650
Realized Investment Gains (Note 3)	130,660	63,429	232,638
TOTAL REVENUES	<u>6,089,191</u>	<u>5,709,535</u>	<u>5,499,708</u>
Benefits, Claims and Expenses			
Insurance Claims and Policyholders' Benefits (Notes 13 and 14)	3,219,200	3,271,564	3,548,520
Amortization of Deferred Policy Acquisition Costs (Note 4) ..	1,198,400	1,113,495	1,012,105
Other Insurance Operating Costs and Expenses	447,170	423,389	395,605
Real Estate Cost of Sales and Expenses	280,099	210,799	158,599
Investment Expenses	14,747	14,047	11,091
Corporate Expenses	29,504	36,877	29,296
TOTAL BENEFITS, CLAIMS AND EXPENSES ...	<u>5,189,120</u>	<u>5,070,171</u>	<u>5,155,216</u>
INCOME BEFORE FEDERAL AND FOREIGN INCOME TAX	900,071	639,364	344,492
Federal and Foreign Income Tax (Note 8)	203,443	110,895	275
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES ...	696,628	528,469	344,217
Cumulative Effect of Changes in Accounting Principles, Net of Tax (Note 2)	—	—	(20,000)
NET INCOME	<u>\$ 696,628</u>	<u>\$ 528,469</u>	<u>\$ 324,217</u>
Per Share Data (Notes 1 and 18)			
Income Before Cumulative Effect of Changes in Accounting Principles	\$ 7.85	\$ 5.95	\$ 3.91
Cumulative Effect of Changes in Accounting Principles	—	—	(.22)
Net Income	<u>\$ 7.85</u>	<u>\$ 5.95</u>	<u>\$ 3.69</u>

See accompanying notes.

The Chubb Corporation
Consolidated Balance Sheets

	In Thousands	
	December 31	
	1995	1994
Assets		
Invested Assets (Note 3)		
Short Term Investments	\$ 484,439	\$ 810,873
Fixed Maturities		
Held-to-Maturity		
Tax Exempt (market \$3,004,775 and \$3,177,097)	2,826,737	3,149,479
Taxable (market \$433,883 and \$604,077)	402,488	619,095
Available-for-Sale		
Tax Exempt (cost \$3,607,925 and \$2,524,446)	3,860,630	2,530,186
Taxable (cost \$5,282,675 and \$4,604,182)	5,512,955	4,423,946
Equity Securities (cost \$493,416 and \$609,535)	587,825	642,153
Policy and Mortgage Loans	212,339	202,679
TOTAL INVESTED ASSETS	<u>13,887,413</u>	<u>12,378,411</u>
Cash (Note 7)	11,950	5,599
Accrued Investment Income	245,319	215,703
Premiums Receivable	872,912	787,177
Reinsurance Recoverable on Property and Casualty Unpaid Claims (Note 12) ..	1,973,666	1,980,340
Prepaid Reinsurance Premiums	484,358	455,051
Funds Held for Asbestos-Related Settlement (Note 14)	1,038,149	558,141
Deferred Policy Acquisition Costs (Note 4)		
Property and Casualty Insurance	558,676	529,453
Life and Health Insurance	612,709	606,493
Real Estate Assets (Notes 5 and 7)	1,742,580	1,740,287
Deferred Income Tax (Note 8)	159,674	314,720
Other Assets	1,409,119	1,151,680
TOTAL ASSETS	<u>\$22,996,525</u>	<u>\$20,723,055</u>
Liabilities		
Property and Casualty Unpaid Claims (Note 14)	\$ 9,588,141	\$ 8,913,220
Life and Health Policy Liabilities	2,943,138	2,659,583
Unearned Premiums	2,570,682	2,382,545
Short Term Debt (Note 7)	187,600	153,340
Long Term Debt (Note 7)	1,156,044	1,285,614
Dividend Payable to Shareholders	42,741	40,035
Accrued Expenses and Other Liabilities	1,245,450	1,041,689
TOTAL LIABILITIES	<u>17,733,796</u>	<u>16,476,026</u>
Commitments and Contingent Liabilities (Notes 11 and 14)		
Shareholders' Equity (Notes 10, 17 and 18)		
Preferred Stock — Authorized 4,000,000 Shares;		
\$1 Par Value; Issued — None	—	—
Common Stock — Authorized 300,000,000 Shares;		
\$1 Par Value; Issued 87,819,355 and 87,798,286 Shares	87,819	87,798
Paid-In Surplus	778,239	786,596
Retained Earnings	4,206,517	3,680,554
Foreign Currency Translation Gains (Losses), Net of Income Tax	(3,433)	9,766
Unrealized Appreciation (Depreciation) of Investments, Net (Note 3)	345,894	(124,339)
Receivable from Employee Stock Ownership Plan	(114,998)	(122,999)
Treasury Stock, at Cost — 518,468 and 977,580 Shares	(37,309)	(70,347)
TOTAL SHAREHOLDERS' EQUITY	<u>5,262,729</u>	<u>4,247,029</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$22,996,525</u>	<u>\$20,723,055</u>

See accompanying notes.

The Chubb Corporation
Consolidated Statements of Shareholders' Equity

	In Thousands		
	Years Ended December 31		
	1995	1994	1993
Preferred Stock			
Balance, Beginning and End of Year	\$ —	\$ —	\$ —
Common Stock			
Balance, Beginning of Year	87,798	87,709	87,520
Shares Issued under Option and Incentive Plans	21	89	189
Balance, End of Year	87,819	87,798	87,709
Paid-In Surplus			
Balance, Beginning of Year	786,596	782,186	772,815
Additions (Reductions) Resulting from Shares Issued under Option and Incentive Plans	(8,357)	4,410	9,371
Balance, End of Year	778,239	786,596	782,186
Retained Earnings			
Balance, Beginning of Year	3,680,554	3,313,140	3,139,707
Net Income	696,628	528,469	324,217
Dividends Declared (per share \$1.96, \$1.84 and \$1.72)	(170,665)	(161,055)	(150,784)
Balance, End of Year	4,206,517	3,680,554	3,313,140
Foreign Currency Translation Gains (Losses)			
Balance, Beginning of Year	9,766	327	(5,164)
Change During Year, Net of Income Tax (Note 16)	(13,199)	9,439	5,491
Balance, End of Year	(3,433)	9,766	327
Unrealized Appreciation (Depreciation) of Investments			
Balance, Beginning of Year	(124,339)	143,093	96,559
Cumulative Effect, as of January 1, 1994, of Change in Accounting Principle, Net (Note 2)	—	220,519	—
Change During Year, Net (Note 3)	470,233	(487,951)	46,534
Balance, End of Year	345,894	(124,339)	143,093
Receivable from Employee Stock Ownership Plan			
Balance, Beginning of Year	(122,999)	(130,326)	(137,035)
Principal Repayments	8,001	7,327	6,709
Balance, End of Year	(114,998)	(122,999)	(130,326)
Treasury Stock, at Cost			
Balance, Beginning of Year	(70,347)	—	—
Repurchase of Shares	—	(72,052)	—
Shares Issued under Option and Incentive Plans	33,038	—	—
Shares Issued — Other	—	1,705	—
Balance, End of Year	(37,309)	(70,347)	—
TOTAL SHAREHOLDERS' EQUITY	<u>\$5,262,729</u>	<u>\$4,247,029</u>	<u>\$4,196,129</u>

See accompanying notes.

The Chubb Corporation
Consolidated Statements of Cash Flows

	In Thousands		
	Years Ended December 31		
	1995	1994	1993
Cash Flows from Operating Activities			
Net Income	\$ 696,628	\$ 528,469	\$ 324,217
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Increase in Property and Casualty Unpaid Claims, Net ..	681,595	482,834	1,182,432
Increase (Decrease) in Life and Health Policy Liabilities, Net.....	(24,163)	(10,769)	55,841
Increase in Unearned Premiums, Net	158,830	174,926	141,457
Increase in Premiums Receivable	(85,735)	(67,055)	(49,329)
Increase in Funds Held for Asbestos-Related Settlement ..	(480,008)	(19,969)	(538,172)
Increase in Medical Malpractice Reinsurance Related Receivable	(66,194)	—	(125,000)
Increase in Deferred Policy Acquisition Costs.....	(107,671)	(96,718)	(82,977)
Deferred Income Tax Credit	(25,023)	(18,588)	(116,720)
Realized Investment Gains	(130,660)	(63,429)	(232,638)
Cumulative Effect of Changes in Accounting Principles ..	—	—	20,000
Other, Net	96,693	(13,026)	116,410
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>714,292</u>	<u>896,675</u>	<u>695,521</u>
Cash Flows from Investing Activities			
Proceeds from Sales of Fixed Maturities	4,552,855	2,906,535	4,051,247
Proceeds from Maturities of Fixed Maturities	782,566	577,131	671,229
Proceeds from Sales of Equity Securities	411,993	623,482	298,790
Purchases of Fixed Maturities	(6,524,918)	(4,265,835)	(5,005,539)
Purchases of Equity Securities	(195,950)	(397,749)	(357,254)
Decrease (Increase) in Short Term Investments, Net	326,434	(279,591)	(268,077)
Additions to Real Estate Assets, Net	(34,305)	(43,216)	(69,552)
Purchases of Fixed Assets	(75,388)	(71,778)	(47,332)
Other, Net	(20,766)	(9,009)	(27,436)
NET CASH USED IN INVESTING ACTIVITIES ..	<u>(777,479)</u>	<u>(960,030)</u>	<u>(753,924)</u>
Cash Flows from Financing Activities			
Deposits Credited to Policyholder Funds	442,934	336,765	295,189
Withdrawals from Policyholder Funds	(138,071)	(122,502)	(108,116)
Proceeds from Issuance of Long Term Debt	173,900	33,225	255,045
Repayment of Long Term Debt	(303,470)	(21,441)	(55,928)
Increase (Decrease) in Short Term Debt, Net	34,260	58,500	(193,668)
Dividends Paid to Shareholders	(167,959)	(158,735)	(148,070)
Repurchase of Shares	—	(72,052)	—
Other, Net	27,944	10,608	11,793
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>69,538</u>	<u>64,368</u>	<u>56,245</u>
Net Increase (Decrease) in Cash	6,351	1,013	(2,158)
Cash at Beginning of Year	5,599	4,586	6,744
CASH AT END OF YEAR.....	<u>\$ 11,950</u>	<u>\$ 5,599</u>	<u>\$ 4,586</u>
Supplemental Cash Flow Information			
Cash Paid During the Year for			
Interest (Net of Amounts Capitalized)	\$ 86,041	\$ 78,272	\$ 56,156
Federal and Foreign Income Taxes	218,446	135,187	126,955

See accompanying notes.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of The Chubb Corporation (Corporation) and its property and casualty insurance, life and health insurance and real estate subsidiaries. Significant intercompany transactions have been eliminated in consolidation.

The consolidated financial statements reflect estimates and judgments made by management which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In 1995, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan. SFAS No. 114 may not be retroactively applied to prior years' financial statements; accordingly, the 1994 and 1993 consolidated financial statements have not been restated for this accounting change. This accounting change and the accounting changes adopted in 1994 and 1993 are further described in Note (2).

Certain amounts in the financial statements for prior years have been reclassified to conform with the 1995 presentation.

(b) Investments

Short term investments, which have an original maturity of one year or less, are carried at amortized cost.

Fixed maturities, which include bonds and redeemable preferred stocks, are purchased to support the investment strategies of the Corporation and its insurance subsidiaries. These strategies are developed based on many factors including rate of return, maturity, credit risk, tax considerations and regulatory requirements. Those fixed maturities which the Corporation and its insurance subsidiaries have the ability and positive intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. Fixed maturities which may be sold prior to maturity to support the investment strategies of the Corporation and its insurance subsidiaries are classified as available-for-sale and carried at market value as of the balance sheet date.

Equity securities, which include common stocks and non-redeemable preferred stocks, are carried at market value as of the balance sheet date.

Policy and mortgage loans of the insurance subsidiaries are carried at unpaid principal balances.

Realized gains and losses on the sale of investments are determined on the basis of the cost of the specific investments sold and are credited or charged to income. Unrealized appreciation or depreciation of investments carried at market value, net of applicable deferred income tax, is excluded from income and credited or charged directly to a separate component of shareholders' equity.

(c) Premium Revenues and Related Expenses

Property and casualty insurance premiums are earned on a monthly pro rata basis over the terms of the policies. Revenues include estimates of audit premiums and premiums on retrospectively rated policies. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of policies in force. Acquisition costs, consisting of commissions, premium taxes and other costs that vary with and are primarily related to the production of business, are deferred by major product groups and amortized over the period in which the related premiums are earned.

Receipts from universal life and other interest-sensitive life insurance contracts are not reported as revenues, but established as policyholder account balances. Revenues for these contracts consist of policy charges assessed against the policyholder account balances for the cost of insurance, policy administration and surrenders. Benefits include claims incurred in excess of the related policyholder account balances and interest credited to the policyholder account balances.

Premiums for traditional life insurance contracts under which the premiums and benefits are fixed and guaranteed are recognized as revenues when due. Benefits and expenses are provided against such revenues so as to recognize profits over the estimated lives of the contracts. This is accomplished by means of the provision for future policy benefits and the deferral and subsequent amortization of acquisition costs.

Health insurance premiums are earned on a monthly pro rata basis over the terms of the policies.

Certain costs of acquiring life insurance contracts, principally commissions, underwriting costs and certain variable agency costs, are deferred. Deferred policy acquisition costs for universal life and other interest-sensitive life insurance contracts are amortized over the lives of the contracts in relation to the present value of estimated gross profits expected to be realized. Beginning in 1994, deferred policy acquisition costs related to such contracts are also adjusted to reflect the effects that unrealized gains or losses on investments classified as available-for-sale would have had on the present value of estimated gross profits had such gains or losses actually been realized. This adjustment is excluded from income and charged or credited directly to the unrealized appreciation

or depreciation of investments component of shareholders' equity, net of applicable deferred income tax. Deferred policy acquisition costs for traditional life insurance contracts are amortized over the premium payment period of the related contracts using assumptions consistent with those used in computing policy liabilities.

Deferred policy acquisition costs for all insurance operations are reviewed to determine that they do not exceed recoverable amounts, after considering anticipated investment income.

(d) *Property and Casualty Unpaid Claims*

Liabilities for unpaid claims include the accumulation of individual case estimates for claims reported and estimates of unreported claims and claim settlement expenses less estimates of anticipated salvage and subrogation recoveries. Estimates are based upon past claim experience modified for current trends as well as prevailing economic, legal and social conditions. Such estimates are continually reviewed and updated. Any resulting adjustments are reflected in current operating results.

(e) *Life and Health Policy Liabilities*

Liabilities for universal life and other interest-sensitive life insurance contracts represent the policyholder account balances before surrender charges. Interest crediting rates ranged from 3½% to 8% in 1995.

Liabilities for traditional life insurance contracts consist of future policy benefits which are computed by the net level premium method based upon estimated future investment yield, expected mortality and estimated withdrawals. Assumptions generally vary by plan, age at issue and year of issue. Interest rate assumptions ranged from 3% to 9% in 1995. Mortality is calculated principally on an experience multiple applied to select and ultimate tables in common usage in the industry. Estimated withdrawals are determined principally based on industry tables.

Liabilities for health insurance include estimates for claims reported and for claims incurred but not reported.

(f) *Reinsurance*

In the ordinary course of business, the Corporation's insurance subsidiaries assume and cede reinsurance with other insurance companies and are members of various pools and associations. These arrangements provide greater diversification of business and minimize the maximum net loss potential arising from large risks. A large portion of the reinsurance is effected under contracts known as treaties and in some instances by negotiation on individual risks. Certain of these arrangements consist of excess of loss and catastrophe contracts which protect against losses over stipulated amounts arising from any one occurrence or event. Reinsurance contracts do not relieve the Corporation's insurance subsidiaries of their obligation to the policyholders.

Prepaid reinsurance premiums represent the portion of property and casualty insurance premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force.

Commissions received related to reinsurance premiums ceded are considered in determining net acquisition costs eligible for deferral.

Reinsurance recoverable on unpaid claims and policy liabilities represent estimates of the portion of such liabilities that will be recovered from reinsurers, determined in a manner consistent with the liabilities associated with the reinsured policies.

(g) *Funds Held for Asbestos-Related Settlement*

Funds held for asbestos-related settlement are assets of the Corporation's property and casualty insurance subsidiaries that accrue income for the benefit of participants in the class settlement of asbestos-related bodily injury claims against Fibreboard Corporation (see Note (14)).

(h) *Real Estate*

Real estate properties are carried at cost and include real estate taxes, interest and other carrying costs incurred prior to completion of the assets for their intended use. Costs incurred during the initial leasing of income producing properties are capitalized until the project is substantially complete, subject to a maximum time period subsequent to completion of major construction activity.

The carrying value of real estate properties does not exceed their ultimate realizable value. Impairment would be recognized to the extent ultimate realizable value for a property was less than its carrying value. Ultimate realizable value is the undiscounted expected future net cash flows from the property.

Depreciation of real estate properties is calculated using the straight-line method over the estimated useful lives of the properties.

Real estate mortgages and notes receivable are carried at unpaid principal balances less an allowance for uncollectible amounts.

The equity method of accounting is used for joint ventures in which the Corporation's real estate subsidiaries own an interest of less than 50%.

Rental revenues are recognized on a straight-line basis over the term of the lease. Profits on land, townhome and commercial building sales are recognized at closing, subject to compliance with applicable accounting guidelines. Profits on high-rise condominium unit sales are recognized using the percentage of completion method, subject to achievement of a minimum level of unit sales. Profits on construction contracts are recognized using the percentage of completion method.

(i) *Property and Equipment*

Property and equipment used in operations are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

(j) *Goodwill*

Goodwill, which represents the excess of the purchase price over the fair value of net assets of subsidiaries acquired, is amortized using the straight-line method over periods not exceeding 40 years. Total unamortized goodwill included in other assets was \$74,591,000 and \$72,041,000 at December 31, 1995 and 1994, respectively.

(k) *Income Taxes*

The Corporation and its domestic subsidiaries file a consolidated federal income tax return.

Deferred income tax assets and liabilities are recognized for the expected future tax effects attributable to temporary differences between the financial reporting and tax bases of assets and liabilities, based on enacted tax rates and other provisions of tax law. The effect of a change in tax laws or rates is recognized in income in the period in which such change is enacted.

U. S. federal income taxes are accrued on undistributed earnings of foreign subsidiaries.

(l) *Foreign Exchange*

Assets and liabilities relating to foreign operations are translated into U. S. dollars using current exchange rates; revenues and expenses are translated into U. S. dollars using the average exchange rates for each year.

The functional currency of most foreign operations is the currency of the local operating environment since their business is primarily transacted in such local currencies. Translation gains and losses, net of applicable income tax, are excluded from income and accumulated in a separate component of shareholders' equity.

(m) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted market prices where available. Fair values of financial instruments for which quoted market prices are not available are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. Accordingly, the derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that could be realized in immediate settlement of the instrument. Certain financial instruments, particularly insurance contracts, are excluded from fair value disclosure requirements.

The methods and assumptions used to estimate the fair value of financial instruments are as follows:

(i) The carrying value of short term investments approximates fair value due to the short maturities of these investments.

(ii) Fair values of fixed maturities with active markets are based on quoted market prices. For fixed maturities that trade in less active markets, fair values are obtained from independent pricing services. Fair values of fixed maturities are principally a function of current interest rates. Care should be used in evaluating the significance of these estimated market values.

(iii) Fair values of equity securities are based on quoted market prices.

(iv) Fair values of policy and mortgage loans of the insurance subsidiaries are estimated using discounted cash flow analyses and approximate the carrying values.

(v) Fair values of real estate mortgages and notes receivable are estimated individually as the lesser of (1) the value of the discounted future cash flows of the loan or (2) the estimated value of the collateral, which is based on the discounted future net cash flows from such collateral. The cash flows are discounted at rates based on a U.S. Treasury security with a maturity similar to the loan, adjusted for credit risk.

(vi) The carrying value of short term debt approximates fair value due to the short maturities of this debt.

(vii) Long term debt consists of term loans, mortgages payable and long term notes. Fair values of term loans approximate the carrying values because such loans consist primarily of variable-rate debt that reprices frequently. Fair values of mortgages payable are estimated using discounted cash flow analyses. Fair values of long term notes are based on prices quoted by dealers.

The carrying values and fair values of financial instruments were as follows:

	December 31			
	1995		1994	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
ASSETS				
Invested assets				
Short term investments	\$ 484,439	\$ 484,439	\$ 810,873	\$ 810,873
Fixed maturities (Note 3)				
Held-to-maturity	3,229,225	3,438,658	3,768,574	3,781,174
Available-for-sale	9,373,585	9,373,585	6,954,132	6,954,132
Equity securities	587,825	587,825	642,153	642,153
Policy and mortgage loans . .	212,339	212,339	202,679	202,679
Real estate mortgages and notes receivable (Note 5) . .	409,564	405,400	395,490	353,800
LIABILITIES				
Short term debt (Note 7)	187,600	187,600	153,340	153,340
Long term debt (Note 7)	1,156,044	1,219,634	1,285,614	1,255,892

(n) *Earnings Per Share*

Earnings per share amounts are based on the weighted average number of common and common equivalent shares outstanding during each year, which were 89,942,341, 90,449,577 and 90,548,534 in 1995, 1994 and 1993, respectively. The 6% guaranteed exchangeable subordinated notes are considered to be common equivalent shares. The computation assumes the addition to income of the after-tax interest expense applicable to such notes. The allocated and unallocated shares held by the Corporation's Employee Stock Ownership Plan are considered common shares outstanding.

(o) *Cash Flow Information*

In the statement of cash flows, short term investments are not considered to be cash equivalents. The effect of changes in foreign exchange rates on cash balances was immaterial.

(p) *Accounting Pronouncements Not Yet Adopted*

In March 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets. Under SFAS No. 121, an impairment loss is recognized if the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset. Measurement of impairment should be based on the fair value of the asset. SFAS No. 121 is effective for years beginning after December 15, 1995. Restatement of prior years' financial statements is not permitted. The Corporation will adopt SFAS No. 121 in the first quarter of 1996. The adoption of SFAS No. 121 is not expected to have a significant impact on net income in 1996.

In October 1995, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 encourages but does not require entities to adopt the fair value based method of accounting for all employee stock compensation plans, under which compensation cost is measured based on the fair value of the award at the grant date and recognized over the service period. Entities may continue to account for these plans using the intrinsic value based method of accounting, under which compensation cost is measured as the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. Entities not adopting the fair value based method must present pro forma disclosures of net income and earnings per share as if this method had been applied. SFAS No. 123 is effective for years beginning after December 15, 1995. The Corporation plans to continue to use the intrinsic value based method to measure compensation cost for these plans.

(2) Adoption of New Accounting Pronouncements

Effective January 1, 1995, the Corporation adopted SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Under SFAS No. 114, a loan is considered impaired and a valuation allowance is established when it is probable that a creditor will be unable to collect all principal and interest amounts due according to the contractual terms of the loan agreement. SFAS No. 114 requires creditors to measure impairment of a loan based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, based on the market price of the loan or the fair value of the collateral if the loan is collateral dependent. Prior to 1995, the Corporation measured impairment of a loan based on undiscounted expected future cash flows. SFAS No. 114 may not be retroactively applied to prior years' financial statements. The initial application of SFAS No. 114 resulted in an increase of \$10,000,000 to the allowance for uncollectible receivables.

Effective January 1, 1994, the Corporation adopted SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Similar to the Corporation's previous accounting policy for investments in fixed maturities and equity securities, SFAS No. 115 provides that the accounting for such securities depends on their classification as either held-to-maturity (previously referred to as held for investment), available-for-sale or trading. However, SFAS No. 115 establishes more stringent criteria for classifying fixed maturities as held-to-maturity. Therefore, the adoption of SFAS No. 115 resulted in an increase in the portion of the Corporation's fixed maturities classified as available-for-sale and a similar decrease in those classified as held-to-maturity. SFAS No. 115 also requires that fixed maturities classified as available-for-sale be carried at market value, with unrealized appreciation or depreciation excluded from income and credited or charged directly to a separate component of shareholders' equity. Prior to 1994, such fixed maturities were carried at the lower of the aggregate amortized cost or market value. In conjunction with the Corporation's adoption of SFAS No. 115, deferred policy acquisition costs related to universal life and other interest-sensitive life insurance contracts were adjusted to reflect the effects that would have been recognized had the unrealized gains relating to investments classified as available-for-sale actually been realized, with a corresponding charge directly to the separate component of shareholders' equity. SFAS No. 115 may not be retroactively applied to prior years' financial statements. The cumulative effect on shareholders' equity, as of January 1, 1994, of the change in accounting principle was as follows:

	(in thousands)
Unrealized appreciation of fixed maturities considered available-for-sale	\$399,980
Adjustment to deferred policy acquisition costs	<u>(60,720)</u>
	339,260
Deferred income tax	<u>118,741</u>
Increase in shareholders' equity	<u>\$220,519</u>

Adoption of the Statement did not have an impact on net income in 1994 or 1995 nor will it in future years.

Effective January 1, 1993, the Corporation adopted SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. SFAS No. 106 requires the Corporation to accrue the expected cost of providing postretirement benefits, principally health care and life insurance, to employees and their beneficiaries and covered dependents during the years that the employees render the necessary service. The transition obligation of \$89,400,000, which represents the unfunded and unrecognized accumulated postretirement benefit obligation as of January 1, 1993, was recognized in the first quarter of 1993 as the cumulative effect of a change in accounting principle. The cumulative effect, net of related income tax benefits of \$30,400,000, was a decrease in net income of \$59,000,000 or \$.65 per share.

Effective January 1, 1993, the Corporation also adopted SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 prescribes an asset and liability method of accounting for income taxes, the objective of which is to recognize an asset or liability for the expected future tax effects attributable to temporary differences between the financial reporting and tax bases of assets and liabilities. Under SFAS No. 109, deferred tax assets are to be recognized unless it is more likely than not that some portion or all of the deferred tax assets will not be realized. SFAS No. 109 was implemented by including the cumulative effect of the change in accounting principle in net income in the first quarter of 1993. Such cumulative effect was an increase in net income of \$39,000,000 or \$.43 per share.

(3) Invested Assets and Related Income

(a) The sources of net investment income were as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Fixed maturities	\$812,910	\$740,871	\$734,353
Equity securities	15,836	27,066	23,709
Short term investments	39,581	28,925	22,169
Other	32,310	31,819	20,115
Gross investment income	900,637	828,681	800,346
Investment expenses	14,747	14,047	11,091
	<u>\$885,890</u>	<u>\$814,634</u>	<u>\$789,255</u>

(b) Realized investment gains and losses were as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Gross realized investment gains			
Fixed maturities	\$ 81,665	\$ 68,613	\$193,738
Equity securities	108,430	138,432	62,274
	<u>190,095</u>	<u>207,045</u>	<u>256,012</u>
Gross realized investment losses			
Fixed maturities	50,929	130,547	20,627
Equity securities	8,506	13,069	2,747
	<u>59,435</u>	<u>143,616</u>	<u>23,374</u>
Realized investment gains	130,660	63,429	232,638
Income tax	45,732	22,257	81,019
	<u>\$ 84,928</u>	<u>\$ 41,172</u>	<u>\$151,619</u>

Proceeds from sales of fixed maturities considered available-for-sale were \$4,552,855,000, \$2,894,475,000 and \$3,471,404,000 in 1995, 1994 and 1993, respectively. Gross gains of \$81,665,000, \$68,553,000 and \$152,483,000 and gross losses of \$50,929,000, \$130,547,000 and \$12,542,000 were realized on such sales in 1995, 1994 and 1993, respectively.

(c) The components of unrealized appreciation (depreciation) of investments carried at market value were as follows:

	December 31	
	1995	1994
	(in thousands)	
Equity securities		
Gross unrealized appreciation	\$105,495	\$ 58,680
Gross unrealized depreciation	11,086	26,062
	<u>94,409</u>	<u>32,618</u>
Fixed maturities		
Gross unrealized appreciation	504,812	89,999
Gross unrealized depreciation	21,827	264,495
	<u>482,985</u>	<u>(174,496)</u>
Deferred policy acquisition cost adjustment	577,394	(141,878)
	<u>(45,250)</u>	<u>26,982</u>
	532,144	(114,896)
Deferred income tax liability, net of valuation allowance of \$49,657 in 1994	186,250	9,443
	<u>\$345,894</u>	<u>\$(124,339)</u>

The change in unrealized appreciation or depreciation of investments carried at market value was as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Change in unrealized appreciation of equity securities	\$ 61,791	\$(187,524)	\$73,841
Change in unrealized appreciation or depreciation of fixed maturities	657,481	(574,476)	—
Change in deferred policy acquisition cost adjustment	(72,232)	87,702	—
	647,040	(674,298)	73,841
Deferred income tax (credit)	226,464	(236,004)	27,307
Increase (decrease) in valuation allowance	(49,657)	49,657	—
	470,233	(487,951)	46,534
Cumulative effect, as of January 1, 1994, of change in accounting principle, net	—	220,519	—
	<u>\$470,233</u>	<u>\$(267,432)</u>	<u>\$46,534</u>

At December 31, 1995 and 1994, fixed maturities classified as held-to-maturity were carried at amortized cost while fixed maturities classified as available-for-sale were carried at market value. In prior years, all fixed maturities were carried at amortized cost. The unrealized appreciation or depreciation of fixed maturities carried at amortized cost is not reflected in the financial statements. The change in unrealized appreciation of fixed maturities carried at amortized cost was an increase of \$196,833,000, a decrease of \$723,889,000 and an increase of \$213,959,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

(d) The amortized cost and estimated market value of fixed maturities were as follows:

	December 31							
	1995				1994			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Market Value	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Market Value
	(in thousands)							
Held-to-maturity								
Tax exempt.....	\$ 2,826,737	\$178,997	\$ 959	\$ 3,004,775	\$ 3,149,479	\$ 72,939	\$ 45,321	\$ 3,177,097
Taxable								
U.S. Government and government agency and authority obligations	17,946	2,350	—	20,296	17,256	—	163	17,093
Corporate bonds.....	191,127	21,621	—	212,748	235,056	8,809	1,976	241,889
Foreign bonds.....	15,119	2,259	—	17,378	149	17	—	166
Mortgage-backed securities	178,296	5,211	46	183,461	366,634	2,316	24,021	344,929
	<u>402,488</u>	<u>31,441</u>	<u>46</u>	<u>433,883</u>	<u>619,095</u>	<u>11,142</u>	<u>26,160</u>	<u>604,077</u>
Total held-to-maturity.....	<u>3,229,225</u>	<u>210,438</u>	<u>1,005</u>	<u>3,438,658</u>	<u>3,768,574</u>	<u>84,081</u>	<u>71,481</u>	<u>3,781,174</u>
Available-for-sale								
Tax exempt.....	3,607,925	253,814	1,109	3,860,630	2,524,446	64,309	58,569	2,530,186
Taxable								
U.S. Government and government agency and authority obligations	976,411	38,763	27	1,015,147	1,000,325	1,221	59,891	941,655
Corporate bonds.....	1,106,876	67,734	7,213	1,167,397	1,269,054	14,083	46,099	1,237,038
Foreign bonds.....	1,451,162	68,598	10,351	1,509,409	980,900	3,016	38,692	945,224
Mortgage-backed securities	1,720,522	75,694	2,924	1,793,292	1,335,876	6,951	61,186	1,281,641
Redeemable preferred stocks	27,704	209	203	27,710	18,027	419	58	18,388
	<u>5,282,675</u>	<u>250,998</u>	<u>20,718</u>	<u>5,512,955</u>	<u>4,604,182</u>	<u>25,690</u>	<u>205,926</u>	<u>4,423,946</u>
Total available-for-sale	<u>8,890,600</u>	<u>504,812</u>	<u>21,827</u>	<u>9,373,585</u>	<u>7,128,628</u>	<u>89,999</u>	<u>264,495</u>	<u>6,954,132</u>
Total fixed maturities	<u>\$12,119,825</u>	<u>\$715,250</u>	<u>\$22,832</u>	<u>\$12,812,243</u>	<u>\$10,897,202</u>	<u>\$174,080</u>	<u>\$335,976</u>	<u>\$10,735,306</u>

In December 1995, fixed maturities classified as held-to-maturity with an aggregate amortized cost of \$232,167,000 and unrealized appreciation of \$4,019,000 were reclassified as available-for-sale. Such reclassifications resulted from the Corporation's reassessment of its classifications of fixed maturities as permitted under SFAS No. 115 implementation guidance issued by the FASB in November 1995.

The amortized cost and estimated market value of fixed maturities at December 31, 1995 by contractual maturity were as follows:

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
	(in thousands)			
Due in one year or less	\$ 131,301	\$ 133,083	\$ 93,793	\$ 96,013
Due after one year through five years	761,773	810,495	1,283,827	1,349,230
Due after five years through ten years	1,036,461	1,117,958	2,351,732	2,494,389
Due after ten years	1,121,394	1,193,661	3,440,726	3,640,661
	<u>3,050,929</u>	<u>3,255,197</u>	<u>7,170,078</u>	<u>7,580,293</u>
Mortgage-backed securities	178,296	183,461	1,720,522	1,793,292
	<u>\$3,229,225</u>	<u>\$3,438,658</u>	<u>\$8,890,600</u>	<u>\$9,373,585</u>

Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations.

(4) Deferred Policy Acquisition Costs

Policy acquisition costs deferred and the related amortization charged to income were as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Property and Casualty Insurance			
Balance, beginning of year . . .	\$ 529,453	\$ 489,702	\$ 454,976
Costs deferred during year			
Commissions and brokerage	592,687	544,733	463,977
Premium taxes and assessments	108,002	108,008	103,928
Salaries and overhead	449,477	428,255	415,788
	<u>1,150,166</u>	<u>1,080,996</u>	<u>983,693</u>
Amortization during year	(1,120,943)	(1,041,245)	(948,967)
Balance, end of year	<u>\$ 558,676</u>	<u>\$ 529,453</u>	<u>\$ 489,702</u>
Life and Health Insurance			
Balance, beginning of year . . .	\$ 606,493	\$ 522,544	\$ 474,293
Cumulative effect, as of January 1, 1994, of change in accounting principle	—	(60,720)	—
Costs deferred during year	155,905	129,217	111,389
Amortization during year	(77,457)	(72,250)	(63,138)
Change in adjustment to reflect the effects of unrealized (gains) losses on investments	(72,232)	87,702	—
Balance, end of year	<u>\$ 612,709</u>	<u>\$ 606,493</u>	<u>\$ 522,544</u>

(5) Real Estate Assets

The components of real estate assets were as follows:

	December 31	
	1995	1994
	(in thousands)	
Mortgages and notes receivable (net of allowance for uncollectible amounts of \$87,617 and \$73,863)	\$ 409,564	\$ 395,490
Income producing properties (net of accumulated depreciation of \$50,192 and \$36,069)	864,449	826,768
Construction in progress	87,870	86,125
Land under development and unimproved land	380,697	431,904
	<u>\$1,742,580</u>	<u>\$1,740,287</u>

Substantially all mortgages and notes receivable are secured by buildings and land. The ultimate collectibility of the receivables, of which no significant amounts are due in the near term, is evaluated continuously and an

appropriate allowance for uncollectible amounts established. Mortgages and notes receivable had an aggregate fair value of approximately \$405,400,000 and \$353,800,000 at December 31, 1995 and 1994, respectively. The fair value amounts represent point-in-time estimates that are not relevant in predicting future earnings or cash flows related to such receivables.

Depreciation expense related to income producing properties was \$14,123,000, \$12,086,000 and \$8,671,000 for 1995, 1994 and 1993, respectively.

(6) Property and Equipment

Property and equipment included in other assets were as follows:

	December 31	
	1995	1994
	(in thousands)	
Cost	\$437,073	\$385,610
Less accumulated depreciation	193,546	168,128
	<u>\$243,527</u>	<u>\$217,482</u>

Depreciation expense related to property and equipment was \$48,279,000, \$40,839,000 and \$31,280,000 for 1995, 1994 and 1993, respectively.

(7) Debt and Credit Arrangements

(a) Short term debt consisted of the following:

	December 31	
	1995	1994
	(in thousands)	
Commercial paper	\$177,600	\$143,340
Notes	10,000	10,000
	<u>\$187,600</u>	<u>\$153,340</u>

Short term debt is used primarily to support the real estate operations. The commercial paper is issued by Chubb Capital Corporation (Chubb Capital), a subsidiary of the Corporation, and is guaranteed by the Corporation. The notes are current obligations under revolving credit arrangements. Borrowings under these short term instruments are unsecured and are on terms and at interest rates generally extended to prime borrowers. The weighted average interest rate on short term debt approximated 5¾% and 6% at December 31, 1995 and 1994, respectively.

(b) Long term debt consisted of the following:

	December 31			
	1995		1994	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Term loans	\$ 331,023	\$ 331,023	\$ 324,413	\$ 324,413
Mortgages	205,021	205,607	211,201	196,104
8 ³ / ₄ % notes	120,000	133,104	150,000	151,125
8 ³ / ₈ % notes	—	—	100,000	100,000
6% notes	150,000	151,365	150,000	141,000
6 ⁷ / ₈ % notes	100,000	105,410	100,000	90,750
6% exchangeable subordinated notes	250,000	293,125	250,000	252,500
	<u>\$1,156,044</u>	<u>\$1,219,634</u>	<u>\$1,285,614</u>	<u>\$1,255,892</u>

The term loans and mortgages are obligations of the real estate subsidiaries, except for a \$5,212,000 mortgage loan of the life and health insurance subsidiaries. The term loans mature in varying amounts through 2000. Substantially all term loans are at an interest rate equivalent to the lower of the prime rate or a rate associated with the lender's cost of funds. The mortgages payable are due in varying amounts monthly through 2013. At December 31, 1995, the range of interest rates for term loans was 6% to 9¹/₂% and for mortgages payable the range was 5% to 12%. The term loans and mortgages payable are secured by real estate assets with a net book value of \$1,009,821,000 at December 31, 1995.

The Corporation has outstanding \$120,000,000 of unsecured 8³/₄% notes due November 15, 1999. The notes are subject to mandatory sinking fund payments in amounts sufficient to redeem \$30,000,000 of principal in each of the years 1996 through 1998. The notes are to be redeemed on a pro rata basis on November 15 of each of these years at a redemption price of 100% of their principal amount.

Chubb Capital has outstanding \$150,000,000 of 6% notes due February 1, 1998 and \$100,000,000 of 6⁷/₈% notes due February 1, 2003. These notes are unsecured and are guaranteed by the Corporation.

Chubb Capital has outstanding in the Eurodollar market \$250,000,000 of 6% exchangeable subordinated notes due May 15, 1998, which are guaranteed by the Corporation. The notes are exchangeable at the option of the holder into

11.628 shares of common stock of the Corporation for each \$1,000 of principal amount, equivalent to a conversion price of \$86.00 per share. The notes are redeemable, in whole or in part, at the option of Chubb Capital at redemption prices declining annually from 102.6% of the principal amount if redeemed before May 15, 1996 to 100.9% of the principal amount if redeemed on or after May 15, 1997.

The Corporation filed a shelf registration statement which the Securities and Exchange Commission declared effective in June 1995, under which up to \$400,000,000 of various types of securities may be issued by the Corporation or Chubb Capital. No securities have been issued under this registration.

The amounts of long term debt due annually during the five years subsequent to December 31, 1995 are as follows:

Years Ending December 31	Term Loans and Mortgages	Notes	Total
			(in thousands)
1996	\$167,737	\$ 30,000	\$197,737
1997	52,026	30,000	82,026
1998	46,875	430,000	476,875
1999	85,760	30,000	115,760
2000	149,917	—	149,917

(c) Interest costs of \$101,526,000, \$98,685,000 and \$92,905,000 were incurred in 1995, 1994 and 1993, respectively, of which \$16,352,000, \$19,407,000 and \$28,685,000 were capitalized.

(d) The Corporation has a revolving credit agreement with a group of banks that provides for unsecured borrowings of up to \$300,000,000. The agreement terminates on July 15, 1997 at which time any loans then outstanding become payable. Various interest rate options are available to the Corporation, all of which are based on market rates. The Corporation pays a facility fee of ¹/₁₀% per annum. There have been no borrowings under this agreement. The Corporation and its subsidiaries had additional unused lines of credit of approximately \$178,000,000 at December 31, 1995. These lines of credit generally have terms ranging from thirty days to one year and are paid for with a combination of fees and compensating bank balances. Unused credit facilities are available to support the commercial paper borrowing arrangement.

(8) Federal and Foreign Income Tax

(a) Income tax expense consisted of the following components:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Current tax			
United States	\$207,004	\$ 97,848	\$ 105,293
Foreign	21,462	31,635	11,702
Deferred tax credit, principally United States	(25,023)	(18,588)	(116,720)
	<u>\$203,443</u>	<u>\$110,895</u>	<u>\$ 275</u>

(b) The provision for federal and foreign income tax gives effect to permanent differences between income for financial reporting purposes and taxable income. Accordingly, the effective income tax rate is less than the statutory federal corporate tax rate. The reasons for the lower effective tax rate were as follows:

	Years Ended December 31					
	1995		1994		1993	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
	(in thousands)					
Income before federal and foreign income tax	\$ 900,071		\$ 639,364		\$ 344,492	
Tax at statutory federal income tax rate	\$ 315,025	35.0%	\$ 223,777	35.0%	\$ 120,572	35.0%
Tax exempt interest income	(115,165)	(12.8)	(109,980)	(17.2)	(110,297)	(32.0)
Other, net	3,583	.4	(2,902)	(.5)	(10,000)	(2.9)
Actual tax	<u>\$ 203,443</u>	<u>22.6%</u>	<u>\$ 110,895</u>	<u>17.3%</u>	<u>\$ 275</u>	<u>.1%</u>

(c) The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities were as follows:

	December 31	
	1995	1994
	(in thousands)	
Deferred income tax assets		
Property and casualty unpaid claims	\$523,535	\$478,166
Unearned premiums	130,226	121,269
Life and health policy liabilities	147,284	127,867
Unrealized depreciation of investments	—	49,657
Postretirement benefits	54,997	50,015
	856,042	826,974
Valuation allowance	—	(49,657)
Total	<u>856,042</u>	<u>777,317</u>
Deferred income tax liabilities		
Deferred policy acquisition costs	338,313	338,897
Real estate assets	118,225	116,056
Unrealized appreciation of investments	202,088	—
Other, net	37,742	7,644
Total	<u>696,368</u>	<u>462,597</u>
Net deferred income tax asset	<u>\$159,674</u>	<u>\$314,720</u>

The valuation allowance at December 31, 1994 was related to future tax benefits on unrealized depreciation of investments, the realization of which was uncertain. The valuation allowance had no impact on net income.

(9) Pensions and Other Postretirement Benefits

(a) The Corporation and its subsidiaries have several non-contributory defined benefit pension plans covering substantially all employees. The benefits are generally based on an employee's years of service and average compensation during the last five years of employment. Pension costs are determined using the projected unit credit method. The Corporation's policy is to make annual contributions that meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The components of net pension cost were as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Service cost of current period . . .	\$ 20,422	\$ 19,702	\$ 17,877
Interest cost on projected benefit obligation	23,822	21,232	19,598
Actual return on plan assets . . .	(68,542)	(523)	(30,767)
Net amortization and deferral . . .	42,730	(23,420)	10,706
Net pension cost	<u>\$ 18,432</u>	<u>\$ 16,991</u>	<u>\$ 17,414</u>

The following table sets forth the plans' funded status and amounts recognized in the balance sheets:

	December 31	
	1995	1994
	(in thousands)	
Actuarial present value of benefit obligation for service rendered to date:		
Accumulated benefit obligation based on current salary levels, including vested benefits of \$212,752 and \$180,407	\$224,821	\$190,100
Additional amount related to projected future salary increases	131,473	118,283
Projected benefit obligation for service rendered to date	356,294	308,383
Plan assets at fair value	341,112	269,349
Projected benefit obligation in excess of plan assets	15,182	39,034
Unrecognized net gain from past experience different from that assumed	36,196	10,209
Unrecognized prior service costs	(5,208)	(5,625)
Unrecognized net asset at January 1, 1985, being recognized principally over 19 years . . .	8,297	9,647
Pension liability included in other liabilities . . .	<u>\$ 54,467</u>	<u>\$ 53,265</u>

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation at December 31, 1995 and 1994 was 7½% and 7¾%, respectively, and the rate of increase in future compensation levels was 6% for both years. The expected long term rate of return on assets was 9% for both years.

Plan assets are principally invested in publicly traded stocks and bonds.

(b) The Corporation and its subsidiaries provide certain other postretirement benefits, principally health care and life insurance, to retired employees and their beneficiaries and covered dependents. Substantially all employees may become eligible for these benefits upon retirement if they meet minimum age and years of service requirements.

The Corporation does not fund these benefits in advance. Benefits are paid as covered expenses are incurred. Health care coverage is contributory. Retiree contributions vary based upon a retiree's age, type of coverage and years of service with the Corporation. Life insurance coverage is non-contributory.

The components of net postretirement benefit cost were as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Service cost of current period	\$ 5,687	\$ 5,153	\$ 4,384
Interest cost on accumulated benefit obligation	7,949	7,420	6,864
Net postretirement benefit cost . . .	<u>\$13,636</u>	<u>\$12,573</u>	<u>\$11,248</u>

The components of the accumulated postretirement benefit obligation were as follows:

	December 31	
	1995	1994
	(in thousands)	
Retirees	\$ 38,735	\$ 38,713
Fully eligible active plan participants	5,103	4,371
Other active plan participants	74,572	61,207
Accumulated postretirement benefit obligation . .	118,410	104,291
Unrecognized net gain (loss) from past experience different from that assumed	(933)	3,909
Postretirement benefit liability included in other liabilities	<u>\$117,477</u>	<u>\$108,200</u>

The weighted average discount rate used in determining the actuarial present value of the accumulated postretirement benefit obligation at December 31, 1995 and 1994 was 7½% and 7¾%, respectively. At December 31, 1995, the weighted average health care cost trend rate used to measure the accumulated postretirement cost for medical benefits was 11¾% for 1996 and was assumed to decrease gradually to 7½% for the year 2005 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amount of the accumulated postretirement benefit obligation and the net postretirement benefit cost reported. To illustrate, a one percent increase in the trend rate for each year would increase the accumulated postretirement benefit obligation at December 31, 1995 by \$15,674,000 and the aggregate of the service and interest cost components of net postretirement benefit cost for the year ended December 31, 1995 by \$2,017,000.

(10) Option and Incentive Plans

(a) The Long-Term Stock Incentive Plan provides for the granting of stock options, performance shares, restricted stock, convertible debentures and other stock based awards to key employees. The Long-Term Stock Incentive Plan succeeds a prior stock option plan which continues to govern awards made pursuant to it. The maximum number of shares of the Corporation's common stock in respect to which stock based awards may be granted under the plan is 4,400,000 shares. At December 31, 1995, 1,220,273 shares were available for grant under the Long-Term Stock Incentive Plan.

Stock options are granted at exercise prices not less than the fair market value of the Corporation's common stock on the date of grant. The terms and conditions upon which options become exercisable may vary among grants. Options expire no later than ten years from the date of grant.

Information concerning stock options granted under the Long-Term Stock Incentive Plan and the prior plan is as follows:

	1995		1994		1993	
	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share
Outstanding, beginning of year	2,724,809	\$24.50-92.63	2,083,758	\$13.23-92.63	1,558,484	\$13.23-74.06
Granted	997,115	82.06-98.75	754,525	81.94	678,461	83.56-92.63
Exercised	(369,166)	24.50-83.56	(76,034)	13.23-72.06	(136,888)	13.23-72.06
Cancelled	(70,241)	66.75-88.69	(37,440)	47.75-83.56	(16,299)	24.50-83.56
Outstanding, end of year	<u>3,282,517</u>	27.93-98.75	<u>2,724,809</u>	24.50-92.63	<u>2,083,758</u>	13.23-92.63
Exercisable, end of year	1,980,793	27.93-98.75	1,665,228	24.50-92.63	1,147,272	13.23-92.63

Performance share awards are based on the achievement of various goals over performance cycle periods. The cost of such awards is expensed over the performance cycle. Such awards are payable in cash, in shares of the Corporation's common stock or in a combination of both. Restricted stock awards consist of shares of common stock of the Corporation granted at no cost. Shares of restricted stock become outstanding when granted, receive dividends and have voting rights. The shares are subject to forfeiture and to restrictions which limit the sale or transfer during the restriction period. An amount equal to the fair market value of the shares at the date of grant is expensed over the restriction period. Convertible debenture awards are convertible into shares of common stock of the Corporation. The debentures and any shares of common stock issued upon conversion are subject to forfeiture and to restrictions which limit the sale or transfer during the restriction period. The cost of the debenture awards is expensed during the period the related service is performed. The aggregate amount charged against income with respect to these awards was \$8,626,000, \$5,213,000 and \$4,219,000 in 1995, 1994 and 1993, respectively.

(b) The Stock Option Plan for Non-Employee Directors provides for the granting of options to eligible directors to purchase shares of the Corporation's common stock. Options are granted at exercise prices equal to the fair market value of the Corporation's common stock on the date of grant. Options become exercisable immediately and expire no later than five years from the date of termination as an eligible director. The maximum number of shares in respect to which options may be granted under the plan is 300,000 shares. At December 31, 1995, 224,000 shares were available for grant under the Stock Option Plan for Non-Employee Directors.

Information concerning stock options granted under the Stock Option Plan for Non-Employee Directors is as follows:

	1995		1994		1993	
	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share
Outstanding, beginning of year	146,000	\$26.84-86.94	124,000	\$26.84-86.94	100,000	\$26.84-69.19
Granted	24,000	78.75	24,000	77.50	28,000	86.94
Exercised	(11,000)	26.84-69.19	(2,000)	34.22	(4,000)	26.84-44.19
Outstanding and exercisable, end of year	<u>159,000</u>	26.84-86.94	<u>146,000</u>	26.84-86.94	<u>124,000</u>	26.84-86.94

(c) The Corporation has a leveraged Employee Stock Ownership Plan (ESOP) in which substantially all employees are eligible to participate. At its inception in 1989, the ESOP used the proceeds of a \$150,000,000 loan from the Corporation to purchase 3,896,102 newly issued shares of the Corporation's common stock. The loan is due in September 2004 and bears interest at 9%. The Corporation has recorded the receivable from the ESOP as a separate reduction of shareholders' equity on the consolidated balance sheets. This balance is reduced as repayments are made on the loan principal.

The Corporation and its participating subsidiaries make semi-annual contributions to the ESOP in amounts determined at the discretion of the Corporation's Board of Directors. The contributions, together with the dividends on the unallocated shares of common stock in the ESOP, are used by the ESOP to make loan interest and principal payments to the Corporation. As interest and principal are paid, a portion of the common stock is allocated to eligible employees.

The Corporation uses the cash payment method of recognizing ESOP expense. In 1995, 1994 and 1993, cash contributions to the ESOP of \$12,307,000, \$12,146,000 and \$12,172,000, respectively, were charged against income. Dividends on unallocated shares used for debt service by the ESOP were \$4,468,000, \$4,615,000 and \$4,711,000 in 1995, 1994 and 1993, respectively.

The number of allocated and unallocated shares held by the ESOP at December 31, 1995 were 1,392,527 and 2,337,662, respectively.

(d) The Corporation has a savings plan, the Capital Accumulation Plan, in which substantially all employees are eligible to participate. Under this plan, the employer makes a matching contribution equal to 100% of each eligible employee's pre-tax elective contributions, up to 4% of the employee's compensation. Contributions are invested at the election of the employee in the Corporation's common stock or in various other investment funds. Employer contributions of \$13,443,000, \$13,026,000 and \$12,564,000 were charged against income in 1995, 1994 and 1993, respectively.

(e) The Corporation has a Stock Purchase Plan under which substantially all employees are eligible to purchase shares of the Corporation's common stock based on compensation. Shares are purchased at a price not less than 95% of the fair market value on the date of grant. At December 31, 1995, there were 369,365 subscribed shares at a price of \$70.69.

(11) Leases

The Corporation and its subsidiaries occupy office facilities under lease agreements which expire at various dates through 2009; such leases are generally renewed or replaced by other leases. In addition, the Corporation's subsidiaries lease data processing, office and transportation equipment.

Most leases contain renewal options for increments ranging from two to ten years; certain lease agreements provide for rent increases based on price-level factors. All leases are operating leases.

Rent expense was as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Office facilities	\$70,748	\$69,679	\$68,805
Equipment	14,596	16,240	20,794
	<u>\$85,344</u>	<u>\$85,919</u>	<u>\$89,599</u>

At December 31, 1995, future minimum rental payments required under non-cancellable operating leases were as follows:

Years Ending December 31	(in thousands)
1996	\$ 73,825
1997	67,970
1998	61,279
1999	52,364
2000	37,770
After 2000	<u>108,757</u>
	<u>\$401,965</u>

(12) Related Party Transactions

Sun Alliance Group plc (Sun Group), an insurance holding company organized under the laws of England, is the beneficial owner of 5.2% of the Corporation's common stock.

A portion of the U.S. insurance business written by the Corporation's property and casualty insurance subsidiaries is reinsured on a quota share basis with a subsidiary of the Sun Group. The Sun Group's premiums earned arising from such reinsurance were \$520,528,000, \$489,727,000 and \$457,321,000 in 1995, 1994 and 1993, respectively. Reinsurance recoverable on property and casualty unpaid claims included approximately \$775,000,000 and \$845,000,000 at December 31, 1995 and 1994, respectively, from the Sun Group.

A property and casualty insurance subsidiary of the Corporation assumes a portion of the Sun Group's property and casualty insurance business on a quota share basis. The assumed reinsurance premiums earned arising from this business were \$340,767,000, \$264,343,000 and \$170,131,000 in 1995, 1994 and 1993, respectively.

The property and casualty insurance subsidiaries of the Corporation entered into a stop loss reinsurance agreement with a subsidiary of the Sun Group, effective year end 1985, relating to medical malpractice unpaid claims. The agreement included a commutation provision under which the property and casualty insurance subsidiaries had an option to reassume the remaining liability of the Sun Group as of December 31, 1995 and receive payment of an amount determined by a formula based on experience under the agreement. The property and casualty insurance subsidiaries exercised this option, which resulted in an amount due from the Sun Group of \$191,194,000 and a reduction in reinsurance recoverable on unpaid claims from the Sun Group of \$66,194,000. The difference of \$125,000,000 represents a return premium to the property and casualty insurance subsidiaries, which was recognized in 1993 at the time the Corporation announced its intention to exercise the commutation option. The amount due from the Sun Group was received in January 1996.

The agreement also included a provision for contingent profit sharing payments to the property and casualty insurance subsidiaries based on calculations at specified dates during the period of the reinsurance agreement. Profit sharing accruals related to the agreement were \$11,062,000 and \$9,000,000 in 1994 and 1993, respectively. These amounts were reflected as reductions of other insurance operating costs and expenses.

The reinsurance amounts described in Note (13) include the effects of these transactions with the Sun Group.

(13) Reinsurance

The effect of reinsurance on the premiums earned of the property and casualty insurance subsidiaries was as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Direct	\$ 4,754,423	\$ 4,415,080	\$ 4,155,356
Reinsurance assumed	712,080	641,615	478,464
Reinsurance ceded	<u>(1,319,341)</u>	<u>(1,280,412)</u>	<u>(1,128,982)</u>
Premiums earned	<u>\$ 4,147,162</u>	<u>\$ 3,776,283</u>	<u>\$ 3,504,838</u>

Reinsurance recoveries by the property and casualty insurance subsidiaries which have been deducted from insurance claims and policyholders' benefits in the consolidated statements of income were \$936,080,000, \$962,332,000 and \$590,502,000 in 1995, 1994 and 1993, respectively.

The effect of reinsurance on the premiums and policy charges of the life and health insurance subsidiaries was as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Direct	\$652,035	\$862,085	\$831,849
Reinsurance assumed	1,766	2,056	2,784
Reinsurance ceded	<u>(30,864)</u>	<u>(27,848)</u>	<u>(33,397)</u>
Premiums and policy charges	<u>\$622,937</u>	<u>\$836,293</u>	<u>\$801,236</u>

Reinsurance recoveries by the life and health insurance subsidiaries which have been deducted from insurance claims and policyholders' benefits in the consolidated statements of income were \$50,537,000, \$53,141,000 and \$42,005,000 in 1995, 1994 and 1993, respectively.

(14) Property and Casualty Unpaid Claims

The process of establishing loss reserves is an imprecise science and reflects significant judgmental factors. In many liability cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured loss, the reporting of the loss and the settlement of the loss.

Judicial decisions and legislative actions continue to broaden liability and policy definitions and to increase the severity of claim payments. As a result of this and other societal and economic developments, the uncertainties inherent in estimating ultimate claim costs on the basis of past experience have increased significantly, further complicating the already difficult loss reserving process.

The uncertainties relating to asbestos and toxic waste claims on insurance policies written many years ago are exacerbated by judicial and legislative interpretations of coverage that in some cases have tended to erode the clear and express intent of such policies and in others have expanded theories of liability. The industry is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its effort to quantify these exposures.

In 1993, Pacific Indemnity Company, a subsidiary of the Corporation, entered into a global settlement agreement with Continental Casualty Company (a subsidiary of CNA Financial Corporation), Fibreboard Corporation, and attorneys representing claimants against Fibreboard for all future asbestos-related bodily injury claims against Fibreboard. This agreement is subject to final appellate court approval. Pursuant to the global settlement agreement, a \$1,525,000,000 trust fund will be established to pay future claims, which are claims that were not filed in court before August 27, 1993. Pacific Indemnity will contribute \$538,172,000 to the trust fund and Continental Casualty will contribute the remaining amount. In December 1993, upon execution of the global settlement agreement, Pacific Indemnity and Continental Casualty paid their respective shares into an escrow account. Pacific Indemnity's share is included in funds held for asbestos-related settlement. Upon final court approval of the settlement, the amount in the escrow account, including interest earned thereon, will be transferred to the trust fund. All of the parties have agreed to use their best efforts to seek final court approval of the global settlement agreement.

Pacific Indemnity and Continental Casualty have reached a separate agreement for the handling of all asbestos-related bodily injury claims pending on August 26, 1993 against Fibreboard. In February 1995, the agreement was amended to extend for several years the period over which Pacific Indemnity will pay its remaining obligation, plus interest, under this agreement. Pacific Indemnity's obligation under this agreement is not expected to exceed \$635,000,000, of which approximately \$450,000,000 remained unpaid at December 31, 1995. Assets to be used for the payment of this obligation have been designated as funds held for asbestos-related settlement. The agreement further provides that the total responsibility of both insurers with respect to pending and future asbestos-related bodily injury claims against Fibreboard will be shared between Pacific Indemnity and Continental Casualty on an approximate 35% and 65% basis, respectively.

Pacific Indemnity, Continental Casualty and Fibreboard have entered into a trilateral agreement, subject to final appellate court approval, to settle all present and future asbestos-related bodily injury claims resulting from insurance policies that were, or may have been, issued to Fibreboard by the two insurers. The trilateral agreement will be triggered if the global settlement agreement is disapproved by an appellate court. Pacific Indemnity's obligation under the trilateral agreement is therefore similar to, and not duplicative of, that under those agreements described above.

The trilateral agreement reaffirms portions of an agreement reached in March 1992 between Pacific Indemnity and Fibreboard. Among other matters, that 1992 agreement eliminates any Pacific Indemnity liability to Fibreboard for asbestos-related property damage claims.

Additional loss reserves of \$675,000,000 were provided in 1993 at the time the settlement was negotiated.

In July 1995, the United States District Court of the Eastern District of Texas approved the global settlement agreement and the trilateral agreement. The judgments approving these agreements have been appealed to the United States Court of Appeal for the Fifth Circuit. The appeals are scheduled to be argued in early March 1996. The period of ultimate judicial review continues to lengthen and may well extend into 1997.

Management is optimistic that the approval of the settlement will be upheld. However, if both the global settlement agreement and the trilateral agreement are disapproved by an appellate court, there can then be no assurance that the loss reserves established for future claims would be sufficient to pay all amounts which ultimately could become payable in respect of future asbestos-related bodily injury claims against Fibreboard.

Pacific Indemnity, Continental Casualty and Fibreboard have requested a California Court of Appeal to delay its decisions regarding asbestos-related insurance coverage issues, which are currently before it and involve the three parties exclusively, while the approval of the global settlement is pending in court. Continental Casualty and Pacific Indemnity have dismissed disputes against each other which involved Fibreboard and were in litigation.

The property and casualty insurance subsidiaries have additional potential asbestos exposure on insureds for which excess liability coverages were written. Such exposure has increased due to the erosion of much of the underlying limits. The number of claims against such insureds and the value of such claims have increased in recent years due in part to the non-viability of other defendants.

Other remaining asbestos exposures are mostly peripheral defendants, including a mix of manufacturers and distributors of certain products that contain asbestos as well as premises owners. Generally, these insureds are named defendants on a regional rather than a nationwide basis. Notices of new asbestos claims and new exposures on existing claims continue to be received as more peripheral parties are drawn into litigation to replace the now defunct mines and bankrupt manufacturers.

The courts have been engaged in developing guidelines regarding coverage for asbestos claims and have begun to articulate more consistent standards regarding the extent of the obligation of insurers to provide coverage and the method of allocation of costs among insurers. However, the universe of potential claims is still unknown. Therefore, uncertainty remains as to the property and casualty insurance subsidiaries' ultimate liability for asbestos-related claims.

Hazardous waste sites are another significant potential exposure. Under the "Superfund" law and similar state statutes, when potentially responsible parties (PRPs) fail to handle the clean-up, regulators have the work done and then attempt to establish legal liability against the PRPs. The PRPs disposed of toxic materials at a waste dump site or transported the materials to the site. Insurance policies issued to PRPs were not intended to cover the clean-up costs of pollution and, in many cases, did not intend to cover the pollution itself. As the cost of environmental clean-up continues to grow, PRPs and others have increasingly filed claims with their insurance carriers. Ensuing litigation extends to issues of liability, coverage and other policy provisions. There is great uncertainty involved in estimating the property and casualty insurance subsidiaries' liabilities related to these claims. First, the underlying liabilities of the claimants are extremely difficult to estimate. At any given clean-up site, the allocation of remediation costs among governmental authorities and the PRPs varies greatly. Second, different courts have addressed liability and coverage issues regarding pollution claims and have reached inconsistent conclusions in their interpretation of several issues. These significant uncertainties are not likely to be resolved in the near future.

Uncertainties also remain as to the Superfund law itself. Superfund's taxing authority expired on December 31, 1995. It is currently not possible to predict the direction that any reforms may take, when they may occur or the effect that any changes may have on the insurance industry.

Reserves for asbestos and toxic waste claims cannot be estimated with traditional loss reserving techniques. Case reserves and expense reserves for costs of related litigation have been established where sufficient information has been developed to indicate the involvement of a specific insurance policy. In addition, incurred but not reported reserves have been established to cover additional exposures on both known and unasserted claims. These reserves are continually reviewed and updated.

A reconciliation of the beginning and ending liability for property and casualty unpaid claims, net of reinsurance recoverable, and a reconciliation of the net liability to the corresponding liability on a gross basis is as follows:

	1995	1994	1993
	(in thousands)		
Gross liability, beginning of year . . .	\$8,913,220	\$8,235,442	\$7,220,919
Reinsurance recoverable, beginning of year	1,980,340	1,785,396	1,953,305
Net liability, beginning of year	<u>6,932,880</u>	<u>6,450,046</u>	<u>5,267,614</u>
Net incurred claims and claim expenses related to:			
Current year	2,705,800	2,549,100	2,214,300
Prior years	(35,819)	(29,741)	664,798
	<u>2,669,981</u>	<u>2,519,359</u>	<u>2,879,098</u>
Net payments for claims and claim expenses related to:			
Current year	737,686	764,525	656,766
Prior years	1,250,700	1,272,000	1,039,900
	<u>1,988,386</u>	<u>2,036,525</u>	<u>1,696,666</u>
Net liability, end of year	7,614,475	6,932,880	6,450,046
Reinsurance recoverable, end of year	1,973,666	1,980,340	1,785,396
Gross liability, end of year	<u>\$9,588,141</u>	<u>\$8,913,220</u>	<u>\$8,235,442</u>

During 1995, the property and casualty insurance subsidiaries experienced overall favorable development of \$35,819,000 on net unpaid claims established as of the previous year-end. This compares with favorable development of \$29,741,000 in 1994 and unfavorable development of \$664,798,000 in 1993. Such redundancies and deficiency were reflected in operating results in these respective years. Excluding the effect of the \$675,000,000 increase in unpaid claims related to the Fibreboard settlement, the property and casualty insurance subsidiaries experienced favorable development of \$10,202,000 in 1993. Each of the past three years benefited from favorable claim severity trends for certain liability classes; this was offset each year in varying degrees by increases in unpaid claims relating to asbestos and toxic waste claims.

Management believes that the aggregate loss reserves of the property and casualty insurance subsidiaries at December 31, 1995 were adequate to cover claims for losses which had occurred, including both those known and those yet to be reported. In establishing such reserves, management considers facts currently known and the present state of the law and coverage litigation. However, given the expansion of coverage and liability by the courts and the legislatures in the past and the possibilities of similar interpretations in the future, particularly as they relate to asbestos and toxic waste claims, as well as the uncertainty in determining what scientific standards will be deemed acceptable for measuring hazardous waste site clean-up, additional increases in loss reserves may emerge which would adversely affect results in future periods. The amount cannot reasonably be estimated at the present time.

(15) Business Segments

The Corporation is a holding company and is principally engaged, through subsidiaries, in three industries: property and casualty insurance, life and health insurance and real estate. The property and casualty insurance subsidiaries underwrite most forms of property and casualty insurance in the United States, Canada, Europe, Australia and the Far East. The geographic distribution of property and casualty business in the United States is broad with a particularly strong market presence in the Northeast. The life and health insurance subsidiaries, which market a wide variety of insurance and investment products throughout the United States, are principally engaged in the sale of personal and group life and health insurance as well as annuity contracts. The real estate subsidiary is involved in commercial development activities primarily in New Jersey with additional operations in several other states as well as residential development activities in central Florida and northern New Jersey.

Revenues, income from operations before income tax and identifiable assets for each industry segment were as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Revenues			
Property and Casualty Insurance			
Premiums earned	\$ 4,147,162	\$ 3,776,283	\$ 3,504,838
Investment income	613,242	570,531	541,749
Life and Health Insurance			
Premiums and policy charges	622,937	836,293	801,236
Investment income	232,950	208,745	205,891
Real Estate	287,795	204,849	160,650
	<u>5,904,086</u>	<u>5,596,701</u>	<u>5,214,364</u>
Corporate investment income	54,445	49,405	52,706
Realized investment gains (losses)			
Property and Casualty Insurance	95,030	55,203	172,925
Life and Health Insurance	21,808	9,304	22,056
Corporate	13,822	(1,078)	37,657
Total revenues	<u>\$ 6,089,191</u>	<u>\$ 5,709,535</u>	<u>\$ 5,499,708</u>
Income (loss) from operations before income tax			
Property and Casualty Insurance	\$ 697,141	\$ 552,170	\$ (1,383)
Life and Health Insurance	41,265	18,754	88,729
Real Estate	7,696	(5,950)	2,051
	<u>746,102</u>	<u>564,974</u>	<u>89,397</u>
Corporate	23,309	10,961	22,457
Realized investment gains (losses)			
Property and Casualty Insurance	95,030	55,203	172,925
Life and Health Insurance	21,808	9,304	22,056
Corporate	13,822	(1,078)	37,657
Income before federal and foreign income tax	<u>\$ 900,071</u>	<u>\$ 639,364</u>	<u>\$ 344,492</u>
		<u>December 31</u>	
Identifiable assets			
Property and Casualty Insurance	\$16,157,688	\$14,435,933	\$13,372,599
Life and Health Insurance	4,275,365	3,760,079	3,529,802
Real Estate	1,842,831	1,796,706	1,745,212
Total identifiable assets	<u>22,275,884</u>	<u>19,992,718</u>	<u>18,647,613</u>
Corporate	959,384	945,397	1,047,606
Adjustments and eliminations	(238,743)	(215,060)	(258,349)
Total assets	<u>\$22,996,525</u>	<u>\$20,723,055</u>	<u>\$19,436,870</u>

The following additional information is with respect to the more significant groupings of classes of business for the property and casualty operations:

	Years Ended December 31		
	1995	1994	1993
Premiums earned	(in thousands)		
Personal	\$ 832,423	\$ 812,033	\$ 807,550
Standard Commercial	1,408,811	1,279,069	1,294,182
Specialty Commercial	1,556,473	1,404,793	1,208,672
Reinsurance Assumed	349,455	280,388	194,434
Total premiums earned	<u>\$4,147,162</u>	<u>\$3,776,283</u>	<u>\$3,504,838</u>
Income (loss) from operations before income tax			
Personal	\$ 92,686	\$ (7,475)	\$ 30,536
Standard Commercial	(135,095)	(106,126)	(642,747)
Specialty Commercial	132,187	106,557	101,584
Reinsurance Assumed	4,376	(1,267)	(24,465)
Underwriting income (loss)	<u>94,154</u>	<u>(8,311)</u>	<u>(535,092)</u>
Net investment income	602,987	560,481	533,709
Income (loss) from operations before income tax	<u>\$ 697,141</u>	<u>\$ 552,170</u>	<u>\$ (1,383)</u>

Standard Commercial premiums earned for 1993 include a \$125,000,000 return premium to the property and casualty insurance subsidiaries related to the commutation of a medical malpractice reinsurance agreement. Standard Commercial underwriting loss in 1993 reflects a \$675,000,000 increase in unpaid claims related to an agreement for the settlement of asbestos-related litigation and the \$125,000,000 return premium, resulting in a net charge of \$550,000,000.

The underwriting income or loss by class of business reflects allocations of certain significant underwriting expenses using allocation methods deemed reasonable. Other acceptable allocation methods could produce different results by groupings of classes of business. Property and casualty assets are available for payment of claims and expenses for all classes of business; therefore, such assets and the related investment income have not been identified with specific groupings of classes of business.

(16) International Operations

The international business of the property and casualty insurance segment is conducted through subsidiaries that operate solely outside of the United States and branch offices of domestic subsidiaries. The assets and liabilities related to such operations are located primarily in the countries in which the insurance risks are written. International business is also obtained from treaty reinsurance assumed, principally from the Sun Group.

Shown below is a summary of revenues, income from operations before income tax and identifiable assets of the property and casualty insurance subsidiaries by geographic area.

	Years Ended December 31		
	1995	1994	1993
Revenues	(in thousands)		
United States	\$ 3,715,023	\$ 3,508,243	\$ 3,397,825
International	1,045,381	838,571	648,762
Total	<u>\$ 4,760,404</u>	<u>\$ 4,346,814</u>	<u>\$ 4,046,587</u>
Income (loss) from operations before income tax			
United States	\$ 592,684	\$ 479,153	\$ 8,311
International	104,457	73,017	(9,694)
Total	<u>\$ 697,141</u>	<u>\$ 552,170</u>	<u>\$ (1,383)</u>
Identifiable assets	December 31		
United States	\$14,055,334	\$12,937,447	\$12,189,556
International	2,102,354	1,498,486	1,183,043
Total	<u>\$16,157,688</u>	<u>\$14,435,933</u>	<u>\$13,372,599</u>

Foreign currency translation gains or losses credited or charged directly to the separate component of shareholders' equity were as follows:

	Years Ended December 31		
	1995	1994	1993
	(in thousands)		
Gains (losses) on translation of foreign currencies	\$(15,931)	\$14,517	\$ 8,492
Income tax (credit)			
Current	(5,994)	4,633	8,546
Deferred	3,262	445	(5,545)
	<u>\$(13,199)</u>	<u>\$ 9,439</u>	<u>\$ 5,491</u>

(17) Shareholders' Equity

(a) The authorized but unissued preferred shares may be issued in one or more series and the shares of each series shall have such rights as fixed by the Board of Directors.

(b) The activity of the Corporation's common stock was as follows:

	Years Ended December 31		
	1995	1994	1993
	(number of shares)		
Common stock issued			
Balance, beginning of year	87,798,286	87,709,465	87,519,560
Shares issued under option and incentive plans	21,069	88,821	189,905
Balance, end of year	<u>87,819,355</u>	<u>87,798,286</u>	<u>87,709,465</u>
Treasury stock			
Balance, beginning of year	977,580	—	—
Repurchase of shares	—	1,001,500	—
Shares issued under option and incentive plans	(459,112)	—	—
Shares issued — other	—	(23,920)	—
Balance, end of year	<u>518,468</u>	<u>977,580</u>	<u>—</u>
Common stock outstanding, end of year	<u>87,300,887</u>	<u>86,820,706</u>	<u>87,709,465</u>

(c) The Corporation has a Shareholder Rights Plan under which each shareholder has one-half of a right for each share of common stock of the Corporation held. Each right entitles the holder to purchase from the Corporation one one-hundredth of a share of Series A Participating Cumulative Preferred Stock at an exercise price of \$225. The rights attach to all outstanding shares of common stock and trade with the common stock until the rights become exercisable. The rights are subject to adjustment to prevent dilution of the interests represented by each right.

The rights will become exercisable and will detach from the common stock ten days after a person or group either acquires 25% or more of the outstanding shares of the Corporation's common stock or announces a tender or exchange offer which, if consummated, would result in that person or group owning 25% or more of the outstanding shares of the Corporation's common stock.

In the event that any person or group acquires 25% or more of the outstanding shares of the Corporation's common stock, each right will entitle the holder, other than such person or group, to purchase that number of shares of the Corporation's common stock having a market value of two times the exercise price of the right. In the event that, following the acquisition of 25% or more of the Corporation's outstanding common stock by a person or group, the Corporation is acquired in a merger or other business combination transaction or 50% or more of the Corporation's assets or earning power is sold, each right will entitle the holder to purchase common stock of the acquiring company having a value equal to two times the exercise price of the right.

The rights do not have the right to vote or to receive dividends. The rights may be redeemed in whole, but not in part, at a price of \$.01 per right by the Corporation at any time until the tenth day after the acquisition of 25% or more of the Corporation's outstanding common stock by a person or group. The rights will expire at the close of business on June 12, 1999, unless previously redeemed by the Corporation.

(d) The Corporation's insurance subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). For such subsidiaries, generally accepted accounting principles (GAAP) differ in certain respects from statutory accounting practices.

A comparison of shareholders' equity on a GAAP basis and policyholders' surplus on a statutory basis is as follows:

	December 31			
	1995		1994	
	GAAP	Statutory	GAAP	Statutory
	(in thousands)			
Property and casualty insurance subsidiaries*	\$3,617,144	\$2,314,720	\$2,862,278	\$1,923,465
Life and health insurance subsidiaries	844,645	317,624	731,810	301,084
	<u>4,461,789</u>	<u>\$2,632,344</u>	<u>3,594,088</u>	<u>\$2,224,549</u>
Corporate and eliminations	800,940		652,941	
	<u>\$5,262,729</u>		<u>\$4,247,029</u>	

A comparison of GAAP and statutory net income (loss) is as follows:

	Years Ended December 31					
	1995		1994		1993	
	GAAP	Statutory	GAAP	Statutory	GAAP	Statutory
	(in thousands)					
Property and casualty insurance subsidiaries*	\$640,834	\$571,199	\$506,825	\$468,861	\$210,204**	\$ 96,965
Life and health insurance subsidiaries	42,216	26,828	20,551	(4,264)	76,853**	31,890
	<u>683,050</u>	<u>\$598,027</u>	<u>527,376</u>	<u>\$464,597</u>	<u>287,057</u>	<u>\$128,855</u>
Corporate and eliminations	13,578		1,093		57,160**	
Cumulative effect of changes in accounting principles, net of tax	—		—		(20,000)	
	<u>\$696,628</u>		<u>\$528,469</u>		<u>\$324,217</u>	

* A property and casualty subsidiary owns the real estate subsidiaries.

** Before cumulative effect of changes in accounting principles.

(e) The Corporation's ability to continue to pay dividends to shareholders and interest on debt obligations is affected by the availability of liquid assets held by the Corporation and by the dividend paying ability of its insurance subsidiaries. Various state insurance laws restrict the Corporation's insurance subsidiaries as to the amount of dividends they may pay to the Corporation without the prior approval of regulatory authorities. The restrictions are generally based on net income and on certain levels of policyholders' surplus as determined in accordance with statutory accounting practices. Dividends in excess of such thresholds are considered "extraordinary" and require prior regulatory approval. During 1995, these subsidiaries paid dividends to the Corporation totaling \$244,008,000.

The maximum dividend distribution that may be made by insurance subsidiaries to the Corporation during 1996 without prior approval is approximately \$465,000,000.

(18) Subsequent Event

On March 1, 1996, the Board of Directors approved a two-for-one stock split payable to shareholders of record on April 19, 1996. The share and per share amounts in the consolidated financial statements have not been adjusted to reflect the stock split. Net income per share and the weighted average number of common and common equivalent shares outstanding on a pro forma basis to reflect the stock split were as follows:

	Years Ended December 31		
	1995	1994	1993
Net income per share	\$3.93	\$2.98	\$1.84
Average common and common equivalent shares outstanding	179,884,682	180,899,154	181,097,068

At the same time, the Board of Directors approved an increase in the number of authorized shares of common stock of the Corporation from 300,000,000 shares to 600,000,000 shares.

Quarterly Financial Data

Summarized unaudited quarterly financial data (in millions except per share data) for 1995 and 1994 are shown below. In management's opinion, the interim financial data contain all adjustments, consisting of normal recurring items, necessary to present fairly the results of operations for the interim periods.

	Three Months Ended							
	March 31		June 30		September 30		December 31	
	1995	1994	1995	1994	1995	1994	1995	1994
Revenues	\$1,464.1	\$1,396.0	\$1,525.8	\$1,414.6	\$1,533.3	\$1,428.9	\$1,566.0	\$1,470.0
Benefits and expenses	1,280.1	1,326.3	1,285.2	1,232.1	1,312.0	1,236.6	1,311.8	1,275.1
Federal and foreign income tax (credit) ..	37.3	(3.5)	55.6	35.8	49.9	39.6	60.7	39.0
Net income.....	<u>\$ 146.7</u>	<u>\$ 73.2</u>	<u>\$ 185.0</u>	<u>\$ 146.7</u>	<u>\$ 171.4</u>	<u>\$ 152.7</u>	<u>\$ 193.5</u>	<u>\$ 155.9</u>
Net income per share	\$ 1.66	\$.83	\$ 2.09	\$ 1.65	\$ 1.93	\$ 1.71	\$ 2.17	\$ 1.76
Underwriting ratios								
Losses to premiums earned	63.3%	76.6%	64.5%	63.8%	65.4%	63.8%	65.5%	64.2%
Expenses to premiums written	33.0	33.3	31.9	32.5	31.5	32.1	32.1	32.3
Combined	<u>96.3%</u>	<u>109.9%</u>	<u>96.4%</u>	<u>96.3%</u>	<u>96.9%</u>	<u>95.9%</u>	<u>97.6%</u>	<u>96.5%</u>

Net income in the first quarter of 1994 was adversely affected by catastrophe losses of \$147.4 million, resulting primarily from the earthquake in California and the winter storms in the eastern and midwestern parts of the United States, which represented 16.3 percentage points of the combined ratio.

Common Stock Data

The common stock of the Corporation is listed and principally traded on the New York Stock Exchange (NYSE). The following are the high and low closing sale prices as reported on the NYSE Composite Tape and the quarterly dividends declared for each quarter of 1995 and 1994.

	1995			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Common stock prices				
High	\$81.00	\$85.13	\$96.88	\$100.50
Low	76.50	77.50	78.25	90.13
Dividends declared49	.49	.49	.49
	1994			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Common stock prices				
High	\$83.13	\$82.63	\$78.63	\$78.50
Low	70.75	72.00	69.50	68.63
Dividends declared46	.46	.46	.46

At March 1, 1996, there were approximately 8,375 common shareholders of record.

Chubb & Son Inc.

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FIRST CHICAGO TRUST COMPANY OF NEW YORK
P.O. Box 2500
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TELEPHONE (201) 324-0313
COMPANY CODE 1816

Stock Listing

THE COMMON STOCK OF THE CORPORATION
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UNDER THE SYMBOL CB.

The Chubb Corporation

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