CHUBB CORP
Form 10-K
February 28, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission File No. 1-8661

The Chubb Corporation

(Exact name of registrant as specified in its charter)

New Jersey	**13-2595722**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
15 Mountain View Road, P.O. Box 1615 Warren, New Jersey	**07061-1615**
(Address of principal executive offices)	*(Zip Code)*

(908) 903-2000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	*(Name of each exchange on which registered)*
Common Stock, par value $1 per share	New York Stock Exchange
Series B Participating Cumulative Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ü] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [ü]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ü] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ü] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [ü]

The aggregate market value of common stock held by non-affiliates of the registrant was $20,459,271,207 as of June 30, 2006, computed on the basis of the closing sale price of the common stock on that date.

408,589,297

Number of shares of common stock outstanding as of February 15, 2007

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the 2007 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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PART I.

Item 1. ***Business***

General

The Chubb Corporation (Chubb) was incorporated as a business corporation under the laws of the State of New Jersey in June 1967. Chubb and its subsidiaries are referred to collectively as the Corporation. Chubb is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the P&C Group). Since 1882, the P&C Group has provided property and casualty insurance to businesses and individuals around the world. According to A.M. Best, the P&C Group is the 11th largest U.S. property and casualty insurance group based on 2005 net written premiums.

At December 31, 2006, the Corporation had total assets of $50 billion and shareholders equity of $14 billion. Revenues, income before income tax and assets for each operating segment for the three years ended December 31, 2006 are included in Note (15) of the Notes to Consolidated Financial Statements. The Corporation employed approximately 10,800 persons worldwide on December 31, 2006.

The Corporation s principal executive offices are located at 15 Mountain View Road, Warren, New Jersey 07059, and our telephone number is (908) 903-2000.

The Corporation s internet address is www.chubb.com. The Corporation s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on this website as soon as reasonably practicable after they have been electronically filed with or furnished to the Securities and Exchange Commission. Chubb s Corporate Governance Guidelines, charters of certain key committees of its Board of Directors, Restated Certificate of Incorporation, By-Laws, Code of Business Conduct and Code of Ethics for CEO and Senior Financial Officers are also available on the Corporation s website or by writing to the Corporation s Corporate Secretary.

Property and Casualty Insurance

The P&C Group is divided into three strategic business units. Chubb Commercial Insurance offers a full range of commercial customer insurance products, including coverage for multiple peril, casualty, workers compensation and property and marine. Chubb Commercial Insurance is known for writing niche business, where our expertise can add value for our agents, brokers and policyholders. Chubb Specialty Insurance offers a wide variety of specialized professional liability products for privately and publicly owned companies, financial institutions, professional firms and healthcare organizations. Chubb Specialty Insurance also includes our surety business. Chubb Personal Insurance offers products for individuals with fine homes and possessions who require more coverage choices and higher limits than standard insurance policies.

In December 2005, the Corporation transferred its ongoing reinsurance assumed business to Harbor Point Limited. Other than pursuant to certain arrangements entered into with Harbor Point, the P&C Group generally no longer engages directly in the reinsurance assumed business. Harbor Point has the right for a transition period of up to two years to underwrite specific reinsurance business on the P&C Group s behalf. The P&C Group retains a portion of any such business and cedes the balance to Harbor Point.

The P&C Group provides insurance coverages principally in the United States, Canada, Europe, Australia, and parts of Latin America and Asia. Revenues of the P&C Group by geographic area for the three years ended December 31, 2006 are included in Note (15) of the Notes to Consolidated Financial Statements.

The principal members of the P&C Group are Federal Insurance Company (Federal), Pacific Indemnity Company (Pacific Indemnity), Vigilant Insurance Company (Vigilant), Great Northern Insurance Company (Great Northern), Chubb Custom Insurance Company (Chubb Custom), Chubb National Insurance Company (Chubb National), Chubb Indemnity Insurance Company (Chubb

Indemnity), Chubb Insurance Company of New Jersey (Chubb New Jersey), Texas Pacific Indemnity Company, Northwestern Pacific Indemnity Company, Executive Risk Indemnity Inc. (Executive Risk Indemnity) and Executive Risk Specialty Insurance Company (Executive Risk Specialty) in the United States, as well as Chubb Atlantic Indemnity Ltd. (a Bermuda company), Chubb Insurance Company of Canada, Chubb Insurance Company of Europe, S.A., Chubb Insurance Company of Australia Limited, Chubb Argentina de Seguros, S.A. and Chubb do Brasil Companhia de Seguros.

Federal is the manager of Vigilant, Pacific Indemnity, Great Northern, Chubb National, Chubb Indemnity, Chubb New Jersey, Executive Risk Indemnity and Executive Risk Specialty. Federal also provides certain services to other members of the P&C Group. Acting subject to the supervision and control of the boards of directors of the members of the P&C Group, Federal provides day to day executive management and operating personnel and makes available the economy and flexibility inherent in the common operation of a group of insurance companies.

Premiums Written

A summary of the P&C Group s premiums written during the past three years is shown in the following table:

Year	Direct Premiums Written	Reinsurance Premiums Assumed(a)	Reinsurance Premiums Ceded(a)	Net Premiums Written
		(in millions)		
2004	$12,001	$1,398	$1,346	$12,053
2005	12,180	1,120	1,017	12,283
2006	12,224	954	1,204	11,974

(a) Intercompany items eliminated.

The net premiums written during the last three years for major classes of the P&C Group s business are included in the Property and Casualty Insurance Underwriting Results section of Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

One or more members of the P&C Group are licensed and transact business in each of the 50 states of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, Canada, Europe, Australia, and parts of Latin America and Asia. In 2006, approximately 80% of the P&C Group s direct business was produced in the United States, where the P&C Group s businesses enjoy broad geographic distribution with a particularly strong market presence in the Northeast. The four states accounting for the largest amounts of direct premiums written were New York with 12%, California with 9%, Texas with 5% and New Jersey with 5%. No other state accounted for 5% of such premiums. Approximately 10% of the P&C Group s direct premiums written was produced in Europe and 5% was produced in Canada.

Underwriting Results

A frequently used industry measurement of property and casualty insurance underwriting results is the combined loss and expense ratio. The P&C Group uses the combined loss and expense ratio calculated in accordance with statutory accounting principles applicable to property and casualty insurance companies. This ratio is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of statutory underwriting expenses to premiums written (expense ratio) after reducing both premium amounts by dividends to policyholders. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the combined ratio is over 100%, underwriting results are generally considered unprofitable. Investment income is not reflected in the combined ratio. The profitability of property and casualty insurance companies depends on the results of both underwriting operations and investments.

The combined loss and expense ratios during the last three years in total and for the major classes of the P&C Group s business are included in the Property and Casualty Insurance Underwriting Operations section of MD&A.

Another frequently used measurement in the property and casualty insurance industry is the ratio of statutory net premiums written to policyholders surplus. At December 31, 2006 and 2005, the ratio for the P&C Group was 1.05 and 1.37, respectively.

Producing and Servicing of Business

The P&C Group does not utilize a significant in-house distribution model for its products. Instead, in the United States, the P&C Group is represented by approximately 5,000 independent insurance agencies and accepts business on a regular basis from approximately 500 insurance brokers. In most instances, these agencies and brokers also represent other companies that compete with the P&C Group. The P&C Group s branch and service offices assist these agencies and brokers in producing and servicing the P&C Group s business. In addition to the administrative offices in Warren and Whitehouse Station, New Jersey, the P&C Group has zone, branch and service offices throughout the United States.

The P&C Group is represented by approximately 3,000 insurance agencies and brokers outside the United States. Local branch offices of the P&C Group assist the agencies and brokers in producing and servicing the business. In conducting its foreign business, the P&C Group reduces the risks relating to currency fluctuations by generally maintaining investments in those foreign currencies in which the P&C Group has loss reserves and other liabilities. Such investments generally have characteristics similar to the liabilities in those currencies. The net asset or liability exposure to the various foreign currencies is regularly reviewed.

Business for the P&C Group is also produced through participation in certain underwriting pools and syndicates. Such pools and syndicates provide underwriting capacity for risks which an individual insurer cannot prudently underwrite because of the magnitude of the risk assumed or which can be more effectively handled by one organization due to the need for specialized loss control and other services.

Reinsurance Ceded

In accordance with the normal practice of the insurance industry, the P&C Group cedes reinsurance to other insurance companies. Reinsurance is ceded to provide greater diversification of risk and to limit the P&C Group s maximum net loss arising from large risks or from catastrophic events.

A large portion of the P&C Group s ceded reinsurance is effected under contracts known as treaties under which all risks meeting prescribed criteria are automatically covered. Most of the P&C Group s treaty reinsurance arrangements consist of excess of loss and catastrophe contracts that protect against a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. In certain circumstances, reinsurance is also effected by negotiation on individual risks. The amount of each risk retained by the P&C Group is subject to maximum limits that vary by line of business and type of coverage. Retention limits are regularly reviewed and are revised periodically as the P&C Group s capacity to underwrite risks changes. For a discussion of the P&C Group s reinsurance program and the cost and availability of reinsurance, see the Property and Casualty Insurance Underwriting Results section of MD&A.

Ceded reinsurance contracts do not relieve the P&C Group of the primary obligation to its policyholders. Thus, an exposure exists with respect to reinsurance recoverable to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities assumed under the reinsurance contracts. The collectibility of reinsurance is subject to the solvency of the reinsurers, coverage interpretations and other factors. The P&C Group is selective in regard to its reinsurers, placing

reinsurance with only those reinsurers with strong balance sheets and superior underwriting ability. The P&C Group monitors the financial strength of its reinsurers on an ongoing basis.

Unpaid Losses and Loss Adjustment Expenses and Related Amounts Recoverable from Reinsurers

Insurance companies are required to establish a liability in their accounts for the ultimate costs (including loss adjustment expenses) of claims that have been reported but not settled and of claims that have been incurred but not reported. Insurance companies are also required to report as assets the portion of such liability that will be recovered from reinsurers.

The process of establishing the liability for unpaid losses and loss adjustment expenses is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an integral component of our loss reserving process.

The anticipated effect of inflation is implicitly considered when estimating liabilities for unpaid losses and loss adjustment expenses. Estimates of the ultimate value of all unpaid losses are based in part on the development of paid losses, which reflect actual inflation. Inflation is also reflected in the case estimates established on reported open claims which, when combined with paid losses, form another basis to derive estimates of reserves for all unpaid losses. There is no precise method for subsequently evaluating the adequacy of the consideration given to inflation, since claim settlements are affected by many factors.

The P&C Group continues to emphasize early and accurate reserving, inventory management of claims and suits, and control of the dollar value of settlements. The number of outstanding claims at year-end 2006 was approximately 14% lower than the number at year-end 2005, due in part to fewer outstanding catastrophe claims. The number of new arising claims during 2006 was 5% lower than in the prior year.

Additional information related to the P&C Group s estimates related to unpaid losses and loss adjustment expenses and the uncertainties in the estimation process is presented in the Property and Casualty Insurance Loss Reserves section of MD&A.

The table on page 7 presents the subsequent development of the estimated year-end liability for unpaid losses and loss adjustment expenses, net of reinsurance recoverable, for the ten years prior to 2006. The Corporation acquired Executive Risk Inc. in 1999. The amounts in the table for the years 1996 through 1998 do not include Executive Risk s unpaid losses and loss adjustment expenses.

The top line of the table shows the estimated net liability for unpaid losses and loss adjustment expenses recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid at the balance sheet date, including losses that had been incurred but not yet reported to the P&C Group.

The upper section of the table shows the reestimated amount of the previously recorded net liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of losses for each individual year. The increase or decrease is reflected in operating results of the period in which the estimate is changed. The cumulative deficiency (redundancy) as shown in the table represents the aggregate change in the reserve estimates from the original balance sheet dates through December 31, 2006. The amounts noted are cumulative in nature; that is, an increase in a loss estimate that is related to a prior period occurrence generates a deficiency in each intermediate year. For example, a deficiency recognized in 2006 relating to losses incurred prior to December 31, 1996 would be included in the cumulative deficiency amount for each year in the period 1996 through 2005. Yet, the deficiency would be reflected in operating results only in 2006. The effect of changes in estimates of the liabilities for losses occurring in prior years on income before income taxes in each of the past three years is shown in the reconciliation of the beginning and ending liability for unpaid losses and loss adjustment expenses in the Property and Casualty Insurance Loss Reserves section of MD&A.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT

	December 31										
Year Ended	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
						(in millions)					
Net Liability for Unpaid Losses and Loss Adjustment Expenses	$7,756	$8,564	$ 9,050	$ 9,749	$10,051	$11,010	$12,642	$14,521	$16,809	$18,713	$19,699
Net Liability Reestimated as of:											
One year later	7,691	8,346	8,855	9,519	9,856	11,799	13,039	14,848	16,972	18,417	
Two years later	7,420	7,900	8,517	9,095	10,551	12,143	13,634	15,315	17,048		
Three years later	6,986	7,565	8,058	9,653	10,762	12,642	14,407	15,667			
Four years later	6,719	7,145	8,527	9,740	11,150	13,246	14,842				
Five years later	6,409	7,571	8,656	9,999	11,605	13,676					
Six years later	6,887	7,694	8,844	10,373	11,936						
Seven years later	7,052	7,822	9,119	10,602							
Eight years later	7,197	8,061	9,324								
Nine years later	7,411	8,247									
Ten years later	7,601										
Total Cumulative Net Deficiency (Redundancy)	(155)	(317)	274	853	1,885	2,666	2,200	1,146	239	(296)	
Cumulative Net Deficiency Related to Asbestos and Toxic Waste Claims (Included in Above Total)	1,457	1,332	1,264	1,217	1,186	1,125	384	134	59	24	
Cumulative Amount of Net Liability Paid as of:											
One year later	1,418	1,798	2,520	2,483	2,794	3,085	3,399	3,342	4,031	3,948	
Two years later	2,488	3,444	3,708	4,079	4,669	5,354	5,671	6,095	6,594		
Three years later	3,757	4,161	4,653	5,286	5,981	6,932	7,753	8,039			
Four years later	4,195	4,711	5,351	6,139	7,012	8,390	9,147				
Five years later	4,556	5,133	5,894	6,829	7,894	9,378					
Six years later	4,857	5,481	6,326	7,382	8,635						
Seven years later	5,137	5,807	6,680	7,926							
Eight years later	5,420	6,060	7,040								
Nine years later	5,641	6,335									
Ten years later	5,879										
Gross Liability, End of Year	$9,524	$9,772	$10,357	$11,435	$11,904	$15,515	$16,713	$17,948	$20,292	$22,482	$22,293
Reinsurance Recoverable, End of Year	1,768	1,208	1,307	1,686	1,853	4,505	4,071	3,427	3,483	3,769	2,594
Net Liability, End of Year	$7,756	$8,564	$ 9,050	$ 9,749	$10,051	$11,010	$12,642	$14,521	$16,809	$18,713	$19,699
Reestimated Gross Liability	$9,493	$9,581	$10,830	$12,962	$14,709	$19,119	$19,526	$19,321	$20,397	$21,975	
Reestimated Reinsurance Recoverable	1,892	1,334	1,506	2,360	2,773	5,443	4,684	3,654	3,349	3,558	

Reestimated Net Liability	$7,601	$8,247	$ 9,324	$10,602	$11,936	$13,676	$14,842	$15,667	$17,048	$18,417
Cumulative Gross Deficiency (Redundancy)	$ (31)	$ (191)	$ 473	$ 1,527	$ 2,805	$ 3,604	$ 2,813	$ 1,373	$ 105	$ (507)

The amounts for the years 1996 through 1998 do not include Executive Risk s unpaid losses and loss adjustment expenses. Executive Risk was acquired in 1999.

The subsequent development of the net liability for unpaid losses and loss adjustment expenses as of year-ends 1996 through 2003 was adversely affected by substantial unfavorable development related to asbestos and toxic waste claims. The cumulative net deficiencies experienced related to asbestos and toxic waste claims were the result of: (1) an increase in the actual number of claims filed; (2) an increase in the estimated number of potential claims; (3) an increase in the severity of actual and potential claims; (4) an increasingly adverse litigation environment; and (5) an increase in litigation costs associated with such claims. For the years 1996 through 1999, the unfavorable development related to asbestos and toxic waste claims was offset in varying degrees by favorable loss experience in the professional liability classes, particularly directors and officers liability and fiduciary liability. For 2000, in addition to the unfavorable development related to asbestos and toxic waste claims, there was significant unfavorable development in the commercial casualty and workers compensation classes. For the years 2001 through 2003, in addition to the unfavorable development related to asbestos and toxic waste claims, there was significant unfavorable development in the professional liability classes principally directors and officers liability and errors and omissions liability, due in large part to adverse loss trends related to corporate failures and allegations of management misconduct and accounting irregularities and the commercial casualty classes and, to a lesser extent, workers compensation.

Conditions and trends that have affected development of the liability for unpaid losses and loss adjustment expenses in the past will not necessarily recur in the future. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on the data in this table.

The middle section of the table on page 7 shows the cumulative amount paid with respect to the reestimated net liability as of the end of each succeeding year. For example, in the 1996 column, as of December 31, 2006 the P&C Group had paid $5,879 million of the currently estimated $7,601 million of net losses and loss adjustment expenses that were unpaid at the end of 1996; thus, an estimated $1,722 million of net losses incurred through 1996 remain unpaid as of December 31, 2006, approximately 55% of which relates to asbestos and toxic waste claims.

The lower section of the table on page 7 shows the gross liability, reinsurance recoverable and net liability recorded at the balance sheet date for each of the indicated years and the reestimation of these amounts as of December 31, 2006.

The liability for unpaid losses and loss adjustment expenses, net of reinsurance recoverable, reported in the accompanying consolidated financial statements prepared in accordance with generally accepted accounting principles (GAAP) comprises the liabilities of U.S. and foreign members of the P&C Group as follows:

	December 31	
	2006	**2005**
	(in millions)	
U.S. subsidiaries	$16,492	$15,928
Foreign subsidiaries	3,207	2,785
	$19,699	$18,713

Members of the P&C Group are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). The difference between the liability for unpaid losses and loss expenses reported in the statutory basis financial statements of the U.S. members of the P&C Group and such liability reported on a GAAP basis in the consolidated financial statements is not significant.

Investments

Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the respective boards of directors for each company in the P&C Group.

Additional information about the Corporation s investment portfolio as well as its approach to managing risks is presented in the Invested Assets section of MD&A, the Investment Portfolio section of Quantitative and Qualitative Disclosures About Market Risk and Note (4) of the Notes to Consolidated Financial Statements.

The investment results of the P&C Group for each of the past three years are shown in the following table.

Year	Average Invested Assets(a)	Investment Income(b)	Percent Earned	
			Before Tax	After Tax
	(in millions)			
2004	$26,778	$1,184	4.42%	3.55%
2005	30,570	1,315	4.30	3.45
2006	33,492	1,454	4.34	3.48

(a) Average of amounts for the years presented with fixed maturity securities at amortized cost and equity securities and other invested assets at market value.

(b) Investment income after deduction of investment expenses, but before applicable income tax.

Competition

The property and casualty insurance industry is highly competitive both as to price and service. Members of the P&C Group compete not only with other stock companies but also with mutual companies, other underwriting organizations and alternative risk sharing mechanisms. Some competitors obtain their business at a lower cost through the use of salaried personnel rather than independent agents and brokers. Rates are not uniform among insurers and vary according to the types of insurers, product coverage and methods of operation. The P&C Group competes for business not only on the basis of price, but also on the basis of financial strength, availability of coverage desired by customers and quality of service, including claim adjustment service. The P&C Group s products and services are generally designed to serve specific customer groups or needs and to offer a degree of customization that is of value to the insured. The P&C Group continues to work closely with its customers and to reinforce with them the stability, expertise and added value the P&C Group s products provide.

There are approximately 3,100 property and casualty insurance companies in the United States operating independently or in groups and no single company or group is dominant. However, the relatively large size and underwriting capacity of the P&C Group provide it opportunities not available to smaller companies.

Regulation and Premium Rates

Chubb is a holding company with subsidiaries primarily engaged in the property and casualty insurance business and is therefore subject to regulation by certain states as an insurance holding company. All states have enacted legislation that regulates insurance holding company systems such as the Corporation. This legislation generally provides that each insurance company in the system is required to register with the department of insurance of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance commissioners is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any person in its holding company system and, in addition, certain of such transactions cannot be consummated without the commissioners prior approval.

Companies within the P&C Group are subject to regulation and supervision in the respective states in which they do business. In general, such regulation is designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders and other investors. The extent of such regulation varies but generally has its source in statutes that delegate regulatory, supervisory and administrative powers to a department of insurance. The regulation, supervision and administration relate, among other things, to: the standards of solvency that must be met and maintained; the licensing of insurers and their agents; restrictions on insurance policy terminations; unfair trade practices; the nature of and limitations on investments; premium rates; restrictions on the size of risks that may be insured under a single policy; deposits of securities for the benefit of policyholders; approval of policy forms; periodic examinations of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of companies or for other purposes; limitations on dividends to policyholders and shareholders; and the adequacy of provisions for unearned premiums, unpaid losses and loss adjustment expenses, both reported and unreported, and other liabilities.

The extent of insurance regulation on business outside the United States varies significantly among the countries in which the P&C Group operates. Some countries have minimal regulatory requirements, while others regulate insurers extensively. Foreign insurers in many countries are subject to greater restrictions than domestic competitors. In certain countries, the P&C Group has incorporated insurance subsidiaries locally to improve its competitive position.

The National Association of Insurance Commissioners (NAIC) has a risk-based capital requirement for property and casualty insurance companies. The risk-based capital formula is used by state regulatory authorities to identify insurance companies that may be undercapitalized and that merit further regulatory attention. The formula prescribes a series of risk measurements to determine a minimum capital amount for an insurance company, based on the profile of the individual company. The ratio of a company s actual policyholders surplus to its minimum capital requirement will determine whether any state regulatory action is required. At December 31, 2006, each member of the P&C Group had more than sufficient capital to meet the risk-based capital requirement. The NAIC periodically reviews the risk-based capital formula and changes to the formula could be considered in the future.

Regulatory requirements applying to premium rates vary from state to state, but generally provide that rates cannot be excessive, inadequate or unfairly discriminatory. In many states, these regulatory requirements can impact the P&C Group s ability to change rates, particularly with respect to personal lines products such as automobile and homeowners insurance, without prior regulatory approval. For example, in certain states there are measures that limit the use of catastrophe models or credit scoring as well as premium rate freezes or limitations on the ability to cancel or nonrenew certain policies, which can affect the P&C Group s ability to charge adequate rates.

Subject to legislative and regulatory requirements, the P&C Group s management determines the prices charged for its policies based on a variety of factors including loss and loss adjustment expense experience, inflation, anticipated changes in the legal environment, both judicial and legislative, and tax law and rate changes. Methods for arriving at prices vary by type of business, exposure assumed and size of risk. Underwriting profitability is affected by the accuracy of these assumptions, by the willingness of insurance regulators to approve changes in those rates that they control and by certain other matters, such as underwriting selectivity and expense control.

In all states, insurers authorized to transact certain classes of property and casualty insurance are required to become members of an insolvency fund. In the event of the insolvency of a licensed insurer writing a class of insurance covered by the fund in the state, companies in the P&C Group, together with the other fund members, are assessed in order to provide the funds necessary to pay

certain claims against the insolvent insurer. Generally, fund assessments are proportionately based on the members written premiums for the classes of insurance written by the insolvent insurer. In certain states, the P&C Group can recover a portion of these assessments through premium tax offsets and policyholder surcharges. In 2006, assessments of the members of the P&C Group amounted to $14 million. The amount of future assessments cannot be reasonably estimated.

Insurance regulation in certain states requires the companies in the P&C Group, together with other insurers operating in the state, to participate in assigned risk plans, reinsurance facilities and joint underwriting associations, which are mechanisms that generally provide applicants with various basic insurance coverages when they are not available in voluntary markets. Such mechanisms are most prevalent for automobile and workers compensation insurance, but a majority of states also mandate that insurers, such as the P&C Group, participate in Fair Plans or Windstorm Plans, which offer basic property coverages to insureds where not otherwise available. Some states also require insurers to participate in facilities that provide homeowners, crime and other classes of insurance where periodic market constrictions may occur. Participation is based upon the amount of a company s voluntary written premiums in a particular state for the classes of insurance involved. These involuntary market plans generally are underpriced and produce unprofitable underwriting results.

In several states, insurers, including members of the P&C Group, participate in market assistance plans. Typically, a market assistance plan is voluntary, of limited duration and operates under the supervision of the insurance commissioner to provide assistance to applicants unable to obtain commercial and personal liability and property insurance. The assistance may range from identifying sources where coverage may be obtained to pooling of risks among the participating insurers. A few states require insurers, including members of the P&C Group, to purchase reinsurance from a mandatory reinsurance fund.

Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives often have an impact on the business in a variety of ways. Current and proposed federal measures that may significantly affect the P&C Group s business and the market as a whole include federal terrorism insurance, asbestos liability reform measures, tort reform, natural catastrophes, corporate governance including the increasing focus on public companies and public accounting firms, ergonomics, health care reform including the containment of medical costs, medical malpractice reform and patients rights, privacy, e-commerce, international trade, federal regulation of insurance companies and the taxation of insurance companies.

Companies in the P&C Group are also affected by a variety of state and federal legislative and regulatory measures as well as by decisions of their courts that define and extend the risks and benefits for which insurance is provided. These include: redefinitions of risk exposure in areas such as water damage, including mold, flood and storm surge; products liability and commercial general liability; credit scoring; and extension and protection of employee benefits, including workers compensation and disability benefits.

Chubb has entered into a settlement agreement with the Attorneys General of New York, Connecticut and Illinois in which, among other things, the Corporation has agreed to no longer pay compensation to agents and brokers in the form of contingent commissions on all lines of its business. A number of other property and casualty insurance carriers and a number of insurance producers also have agreed with various regulatory agencies to no longer pay or accept, as applicable, contingent commissions in some or all lines of business. In addition, a number of states have announced that they are looking at compensation arrangements and considering regulatory action or reform in this area. The rules that would be imposed if these actions or reforms were adopted range in nature from disclosure requirements to prohibition of certain forms of compensation to imposition of new duties on insurance agents, brokers and/or carriers in dealing with customers. A small number of states have enacted compensation disclosure rules; however, in the majority of states, these proposals are still being developed. Although the Corporation does not believe that its ceasing to pay contingent commissions will materially impact its business, the other possible regulatory actions or reforms, if

adopted, could have an impact on our ability to renew business or write new business. For additional information, see the Property and Casualty Insurance Regulatory Developments section of MD&A.

Legislative and judicial developments pertaining to asbestos and toxic waste exposures are discussed in the Property and Casualty Insurance Loss Reserves section of MD&A.

Real Estate

The Corporation s wholly owned subsidiary, Bellemead Development Corporation (Bellemead), and its subsidiaries were involved in commercial development activities primarily in New Jersey and residential development activities primarily in central Florida. The real estate operations are in run-off. Additional information related to the Corporation s real estate operations is included in the Corporate and Other Real Estate section of MD&A.

Chubb Financial Solutions

Chubb Financial Solutions (CFS) provided customized financial products to corporate clients. CFS s business was primarily structured credit derivatives, principally as a counterparty in portfolio credit default swaps. CFS has been in run-off since April 2003. Additional information related to CFS s operations is included in the Corporate and Other Chubb Financial Solutions section of MD&A.

Item 1A. ***Risk Factors***

The Corporation s business is subject to a number of risks, including those described below, that could have a material effect on the Corporation s results of operations, financial condition or liquidity and that could cause our operating results to vary significantly from period to period. References to we, us and our appearing in this Form 10-K under this heading should be read to refer to the Corporation.

If our property and casualty loss reserves are insufficient, our results could be adversely affected.

The process of establishing loss reserves is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an integral component of our loss reserving process. Variations between our loss reserve estimates and the actual emergence of losses could be material and could have a material adverse effect on our results of operations and financial condition.

A further discussion of the risk factors related to our property and casualty loss reserves is presented in the Property and Casualty Insurance Loss Reserves section of MD&A.

The effects of emerging claim and coverage issues on our business are uncertain.

We price and establish the terms and conditions of policies based upon an intended scope of policy coverage. However, as industry practices and legal, judicial, social, environmental and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent for some time after we have issued the insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance policies may not be known for many years after the policies are issued. Emerging claim and coverage issues could have a material adverse effect on our results of operations and financial condition.

Catastrophe losses could materially and adversely affect our business.

As a property and casualty insurance holding company, our insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various natural perils, including

hurricanes and other windstorms, earthquakes, winter storms and brush fires. Catastrophes can also be man-made, such as a terrorist attack. The frequency and severity of catastrophes are inherently unpredictable. It is possible that both the frequency and severity of natural and man-made catastrophic events will increase.

The extent of losses from a catastrophe is a function of both the total amount of exposure under our insurance policies in the area affected by the event and the severity of the event. Most catastrophes are restricted to relatively small geographic areas; however, hurricanes and earthquakes may produce significant damage in larger areas, especially those that are heavily populated. Natural or man-made catastrophic events could cause claims under our insurance policies to be higher than we anticipated and could cause substantial volatility in our financial results for any fiscal quarter or year. Our ability to write new business could also be affected. We believe that increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from catastrophic events in the future. In addition, states have from time to time passed legislation that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from withdrawing from catastrophe-exposed areas.

As a result of the foregoing, it is possible that the occurrence of any natural or man-made catastrophic event could have a material adverse effect on our business, results of operations, financial condition and liquidity. A further discussion of the risk factors related to catastrophes is presented in the Property and Casualty Insurance Catastrophe Risk Management section of MD&A.

The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations.

We utilize a number of strategies to mitigate our risk exposure, such as:

engaging in vigorous underwriting;

carefully evaluating terms and conditions of our policies;

focusing on our risk aggregations by geographic zones, industry type, credit exposure and other bases; and

ceding reinsurance.

However, there are inherent limitations in all of these tactics and no assurance can be given that an event or series of unanticipated events will not result in loss levels in excess of our probable maximum loss models, which could have a material adverse effect on our financial condition or results of operations.

The availability of reinsurance coverage and our inability to collect amounts due from reinsurers could have a material adverse effect on our financial condition or results of operations.

The availability and cost of reinsurance are subject to prevailing market conditions. In recent years, for certain coverages, we have elected not to renew reinsurance treaties that we believed were no longer economical. We also have increased the amount of the risk we retain in many of the treaties that we have renewed. In addition, the lack of private sector catastrophe reinsurance for terrorism losses and the potential increases in reinsurance prices generally attributable to the continued threat of terrorism could cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. Accordingly, our net exposure to liability has increased, and may continue to increase. This, in turn, could have a material adverse effect on our financial condition or results of operations.

With respect to reinsurance coverages we have purchased, our ability to recover amounts due from reinsurers may be affected by the creditworthiness and willingness to pay of the reinsurers from whom we have purchased coverage. The inability or unwillingness of any of our reinsurers to meet their obligations to us could have a material adverse effect on our results of operations.

Cyclicality of the property and casualty insurance industry may cause fluctuations in our results.

The property and casualty insurance business historically has been cyclical, experiencing periods characterized by intense price competition, relatively low premium rates and less restrictive underwriting standards followed by periods of relatively low levels of competition, high premium rates and more selective underwriting standards. We expect this cyclicality to continue. The periods of intense price competition in the cycle could adversely affect our financial condition, profitability or cash flows.

A number of factors, including many that are volatile and unpredictable, can have a significant impact on cyclical trends in the property and casualty insurance industry and the industry s profitability. These factors include:

an apparent trend of courts to grant increasingly larger awards for certain damages;

catastrophic hurricanes, windstorms, earthquakes and other natural disasters, as well as the occurrence of man-made disasters (e.g., a terrorist attack);

availability, price and terms of reinsurance;

fluctuations in interest rates;

changes in the investment environment that affect market prices of and income and returns on investments; and

inflationary pressures that may tend to affect the size of losses experienced by insurance companies.

We cannot predict whether or when market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to write insurance at rates that we consider appropriate relative to the risk assumed. If we cannot write insurance at appropriate rates, our ability to transact business would be materially and adversely affected.

Payment of obligations under surety bonds could adversely affect our future operating results.

The surety business tends to be characterized by infrequent but potentially high severity losses. The majority of our surety obligations are intended to be performance-based guarantees. When losses occur, they may be mitigated, at times, by the customer s balance sheet, contract proceeds, collateral and bankruptcy recovery. We have substantial commercial and construction surety exposure for current and prior customers. In that regard, we have exposures related to surety bonds issued on behalf of companies that have experienced or may experience deterioration in creditworthiness. If the economy were to worsen and impact any of these companies or if the financial results of these companies were otherwise adversely affected, we may experience an increase in filed claims and may incur high severity losses, which could have a material adverse effect on our results of operations.

A downgrade in our financial strength and credit ratings could adversely impact the competitive positions of our operating businesses.

Financial strength and credit ratings can be important factors in establishing our competitive position in the insurance markets. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. If our credit ratings were downgraded in the future, we could incur higher borrowing costs and may have more limited means to access capital. In addition, a downgrade in our financial strength ratings could adversely affect the competitive positions of our insurance operations, including a possible reduction in demand for our products in certain markets.

Our businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth.

Our insurance subsidiaries are subject to extensive regulation and supervision in the jurisdictions in which they conduct business. This regulation is generally designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders or other investors. The regulation relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and nonfinancial components of an insurance company s business.

Virtually all states in which we operate require us, together with other insurers licensed to do business in that state, to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. In addition, in various states, our insurance subsidiaries must participate in mandatory arrangements to provide various types of insurance coverage to individuals or other entities that otherwise are unable to purchase that coverage from private insurers. A few states require us to purchase reinsurance from a mandatory reinsurance fund. Such reinsurance funds can create a credit risk for insurers if not adequately funded by the state and, in some cases, the existence of a reinsurance fund could affect the prices charged for our policies. The effect of these and similar arrangements could reduce our profitability in any given period or limit our ability to grow our business.

In recent years, the state insurance regulatory framework has come under increased scrutiny, including scrutiny by federal officials, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations. Any proposed or future legislation or NAIC initiatives, if adopted, may be more restrictive on our ability to conduct business than current regulatory requirements or may result in higher costs.

There are a number of investigations underway into business practices in the property and casualty insurance industry by various U.S. state and federal authorities as well as by regulators in jurisdictions outside the U.S. We cannot predict the outcome of these investigations or related legal proceedings, including any potential amounts that we may be required to pay.

Attorneys General and regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities continue to investigate certain business practices in the property and casualty insurance industry involving, among other things, (1) the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. We have received, and may continue to receive, subpoenas and other information requests from Attorneys General or other regulatory agencies regarding similar issues.

Although no regulatory action has been initiated against us and we have settled matters arising out of the investigations into business practices in the property and casualty insurance market by the Attorneys General of Connecticut, Illinois and New York, it is possible that one or more regulatory authorities will bring an action against us with respect to some or all of the issues that are the focus of the ongoing investigations. In addition, Chubb and certain of its subsidiaries have been named in legal proceedings brought by private plaintiffs arising out of these investigations. We cannot predict the ultimate outcome of these investigations or legal proceedings, including any potential amounts that we may be required to pay in connection with them.

Intense competition for our products could harm our ability to maintain or increase our profitability and premium volume.

The property and casualty insurance industry is highly competitive. We compete not only with other stock companies but also with mutual companies, other underwriting organizations and alternative risk sharing mechanisms. We compete for business not only on the basis of price, but also on the basis of financial strength, availability of coverage desired by customers and quality of service, including claim adjustment service. We may have difficulty in continuing to compete successfully on any of these bases in the future.

If competition limits our ability to write new business at adequate rates, our results of operations would be adversely affected.

We are dependent on a distribution network comprised of independent insurance brokers and agents to distribute our products.

We generally do not use salaried employees to promote or distribute our insurance products. Instead, we rely on a large number of independent insurance brokers and agents. Accordingly, our business is dependent on the willingness of these brokers and agents to recommend our products to their customers. Deterioration in relationships with our broker and agent distribution network could materially and adversely affect our ability to sell our products, which, in turn, could have a material adverse effect on our results of operations and financial condition.

The inability of our insurance subsidiaries to pay dividends in sufficient amounts would harm our ability to meet our obligations and to pay future dividends.

As a holding company, Chubb relies primarily on dividends from its insurance subsidiaries to meet its obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders. The ability of our insurance subsidiaries to pay dividends in the future will depend on their statutory surplus, on earnings and on regulatory restrictions. We are subject to regulation by some states as an insurance holding company system. Such regulation generally provides that transactions between companies within the holding company system must be fair and equitable. Transfers of assets among affiliated companies, certain dividend payments from insurance subsidiaries and certain material transactions between companies within the system may be subject to prior notice to, or prior approval by, state regulatory authorities. The ability of our insurance subsidiaries to pay dividends is also restricted by regulations that set standards of solvency that must be met and maintained, the nature of and limitations on investments and the nature of and limitations on dividends to shareholders. These regulations may affect Chubb s insurance subsidiaries ability to provide Chubb with dividends.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The executive offices of the Corporation are in Warren, New Jersey. The administrative offices of the P&C Group are located in Warren and Whitehouse Station, New Jersey. The P&C Group maintains zone administrative and branch offices in major cities throughout the United States and also has offices in Canada, Europe, Australia, Latin America and Asia. Office facilities are leased with the exception of buildings in Whitehouse Station, New Jersey and Simsbury, Connecticut. Management considers its office facilities suitable and adequate for the current level of operations.

Item 3. ***Legal Proceedings***

As previously disclosed, beginning in December 2002, Chubb Indemnity was named in a series of actions commenced by various plaintiffs against Chubb Indemnity and other non-affiliated insurers in

the District Courts in Nueces, Travis and Bexar Counties in Texas. The plaintiffs generally allege that Chubb Indemnity and the other defendants breached duties to asbestos product end-users and conspired to conceal risks associated with asbestos exposure. The plaintiffs seek to impose liability on insurers directly. The plaintiffs seek unspecified monetary damages and punitive damages. Pursuant to the asbestos reform bill passed by the Texas legislature in May 2005, these actions were transferred to the Texas state asbestos Multidistrict Litigation on December 1, 2005. Chubb Indemnity is vigorously defending all of these actions and has been successful in getting a number of them dismissed through summary judgment, special exceptions, or voluntary withdrawal by the plaintiff.

Beginning in June 2003, Chubb Indemnity was also named in a number of similar cases in Cuyahoga, Mahoning, and Trumbull Counties in Ohio. The allegations and the damages sought in the Ohio actions are substantially similar to those in the Texas actions. In May 2005, the Ohio Court of Appeals sustained the trial court s dismissal of a group of nine cases for failure to state a claim. Following the appellate court s decision, Chubb Indemnity and other non-affiliated insurers were dismissed from the remaining cases filed in Ohio, except for a single case which had been removed to federal court and transferred to the federal asbestos Multidistrict Litigation. There has been no activity in that case since its removal.

As previously disclosed, Chubb and certain of its subsidiaries have been involved in the ongoing investigations of certain market practices in the property and casualty insurance industry by various Attorneys General and other regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities with respect to, among other things, (1) potential conflicts of interest and anti-competitive behavior arising from the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. In connection with these investigations, Chubb and certain of its subsidiaries have received subpoenas and other requests for information from various regulators. The Corporation has been cooperating fully with these investigations. Although no regulatory action has been initiated against the Corporation, it is possible that one or more regulatory authorities will bring an action against the Corporation with respect to some or all of the issues that are the focus of these ongoing investigations.

On December 21, 2006, Chubb entered into an Assurance of Discontinuance with the Attorneys General of New York, Connecticut and Illinois, resolving all issues arising out of those officials investigations of the market practices described above. As part of this agreement, the Corporation agreed to contribute $15 million to a settlement fund established for the benefit of certain customers. The Corporation also agreed to pay $2 million to help defray the costs of the investigations by the Attorneys General. In addition, the Corporation agreed to implement certain business reforms, including discontinuing the payment of contingent commissions in the United States on all insurance lines, beginning in 2007.

As previously disclosed, purported class actions arising out of the investigations into the payment of contingent commissions to brokers and agents have been filed in a number of federal and state courts. On August 1, 2005, Chubb and certain of its subsidiaries were named in a putative class action entitled *In re Insurance Brokerage Antitrust Litigation* in the U.S. District Court for the District of New Jersey. This action, brought against several brokers and insurers on behalf of a class of persons who purchased insurance through the broker defendants, asserts claims under the Sherman Act and state law and the Racketeer Influenced and Corrupt Organizations Act (RICO) arising from the alleged unlawful use of contingent commission agreements.

Chubb and certain of its subsidiaries have also been named as defendants in two purported class actions relating to allegations of unlawful use of contingent commission arrangements that were originally filed in state court. The first was filed on February 16, 2005 in Seminole County, Florida. The second was filed on May 17, 2005 in Essex County, Massachusetts. Both cases were removed to federal court and then transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District Court for the District of New Jersey for consolidation with the *In re Insurance Brokerage Antitrust Litigation*. In December 2005, Chubb and certain of its subsidiaries were named in an action similar to the *In re*

Insurance Brokerage Antitrust Litigation. The action is pending in the same court and has been assigned to the judge who is presiding over the *In re Insurance Brokerage Antitrust Litigation*. The complaint has not yet been served in this matter. Separately, in April 2006, Chubb and one of its subsidiaries were named in an action similar to the *In re Insurance Brokerage Antitrust Litigation*. This action was filed in the U.S. District Court for the Northern District of Georgia and subsequently was transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District for the District of New Jersey for consolidation with the *In re Insurance Brokerage Antitrust Litigation*.

In these actions, the plaintiffs generally allege that the defendants unlawfully used contingent commission agreements. The actions seek treble damages, injunctive and declaratory relief, and attorneys fees. The Corporation believes it has substantial defenses to all of the aforementioned legal proceedings and intends to defend the actions vigorously. It is possible that the Corporation may become involved in additional litigation of this sort.

Information regarding certain litigation to which the P&C Group is a party is included in the Property and Casualty Insurance Loss Reserves section of MD&A.

Chubb and its subsidiaries are also defendants in various lawsuits arising out of their businesses. It is the opinion of management that the final outcome of these matters will not materially affect the Corporation s results of operations or financial condition.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of the shareholders during the quarter ended December 31, 2006.

Executive Officers of the Registrant

	Age(a)	Year of Election(b)
John D. Finnegan, Chairman, President and Chief Executive Officer	58	2002
Maureen A. Brundage, Executive Vice President and General Counsel	50	2005
Robert C. Cox, Executive Vice President of Chubb & Son, a division of Federal	48	2003
John J. Degnan, Vice Chairman and Chief Administrative Officer	62	1994
Paul J. Krump, Executive Vice President of Chubb & Son, a division of Federal	47	2001
Andrew A. McElwee, Jr., Executive Vice President of Chubb & Son, a division of Federal	52	1997
Thomas F. Motamed, Vice Chairman and Chief Operating Officer	58	1997
Dino E. Robusto, Executive Vice President of Chubb & Son, a division of Federal	48	2006
Michael O Reilly, Vice Chairman and Chief Financial Officer	63	1976
Henry B. Schram, Senior Vice President and Chief Accounting Officer	60	1985

(a) Ages listed above are as of April 24, 2007.

(b) Date indicates year first elected or designated as an executive officer.

All of the foregoing officers serve at the pleasure of the Board of Directors of the Corporation and have been employees of the Corporation for more than five years except for Mr. Finnegan and Ms. Brundage.

Before joining the Corporation in 2002, Mr. Finnegan was Executive Vice President of General Motors Corporation and Chairman, President and Chief Executive Officer of General Motors Acceptance Corporation (GMAC). Previously, he had also served as President, Vice President and Group Executive of GMAC.

Before joining the Corporation in 2005, Ms. Brundage was a partner in the law firm of White & Case LLP, where she headed the securities practice in New York and co-chaired its global securities practice.

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PART II.

Item 5. ***Market for the Registrant s Common Stock and Related Stockholder Matters***

The common stock of Chubb is listed and principally traded on the New York Stock Exchange (NYSE) under the trading symbol CB . The following are the high and low closing sale prices as reported on the NYSE Composite Tape and the quarterly dividends declared per share for each quarter of 2006 and 2005. The per share amounts have been retroactively adjusted to reflect the two-for-one stock split effective March 31, 2006.

	2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock prices				
High	$49.45	$52.55	$52.55	$54.65
Low	46.80	47.60	47.40	51.35
Dividends declared	.25	.25	.25	.25

	2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock prices				
High	$ 40.48	$ 43.14	$ 45.31	$ 49.07
Low	36.67	38.51	42.72	41.93
Dividends declared	.21 1/2	.21 1/2	.21 1/2	.21 1/2

At February 15, 2007, there were approximately 5,100 common shareholders of record.

The declaration and payment of future dividends to Chubb s shareholders will be at the discretion of Chubb s Board of Directors and will depend upon many factors, including the Corporation s operating results, financial condition and capital requirements, and the impact of regulatory constraints discussed in Note (19)(g) of the Notes to Consolidated Financial Statements.

The following table summarizes the stock repurchased by Chubb during each month in the quarter ended December 31, 2006.

Period	Total Number of Shares Purchased(a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(b)
October 2006	754,830	$53.09	754,830	636,638
November 2006				636,638
December 2006	790,700	53.21	790,700	19,845,938
Total	1,545,530	53.15	1,545,530	

(a) The stated amounts exclude 7,616 shares, 13,391 shares and 188,046 shares delivered to Chubb during the months of October 2006, November 2006 and December 2006, respectively, by employees of the Corporation to cover option exercise prices and withholding taxes in connection with the Corporation s stock-based compensation plans.

(b) On December 8, 2005, the Board of Directors authorized the repurchase of up to 28,000,000 shares of common stock. No shares remain under the 2005 share repurchase authorization. On December 7, 2006, the Board of Directors authorized the repurchase of up to 20,000,000 additional shares of common stock. The authorization has no expiration date.

Stock Performance Graph

The following performance graph compares the performance of Chubb s common stock during the five-year period from December 31, 2001 through December 31, 2006 with the performance of the Standard & Poor s 500 Index and the Standard & Poor s Property & Casualty Insurance Index. The graph plots the changes in value of an initial $100 investment over the indicated time periods, assuming all dividends are reinvested.

Cumulative Total Return

Based upon an initial investment of $100 on December 31, 2001
with dividends reinvested

	December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Chubb	$100	$77	$103	$119	$155	$171
S&P 500	100	78	100	111	117	135
S&P 500 Property & Casualty Insurance	100	89	112	124	143	161

Our filings with the Securities and Exchange Commission (SEC) may incorporate information by reference, including this Form 10-K. Unless we specifically state otherwise, the information under this heading Stock Performance Graph shall not be deemed to be soliciting materials and shall not be deemed to be filed with the SEC or incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Item 6. ***Selected Financial Data***

	2006	2005	2004	2003	2002
			(in millions except for per share amounts)		
FOR THE YEAR					
Revenues					
Property and Casualty Insurance					
Premiums Earned	$11,958	$12,176	$11,636	$10,183	$ 8,085
Investment Income	1,485	1,342	1,207	1,083	952
Corporate and Other	315	181	116	44	69
Realized Investment Gains	245	384	218	84	34
Total Revenues	$14,003	$14,083	$13,177	$11,394	$ 9,140
Income					
Property and Casualty Insurance					
Underwriting Income (Loss)(a)	$ 1,905	$ 921(b)	$ 846	$ 105	$ (626)
Investment Income	1,454	1,315	1,184	1,058	929
Other Income (Charges)	10	(1)	(4)	(30)	(25)
Property and Casualty Insurance Income	3,369	2,235	2,026	1,133	278
Corporate and Other	(89)	(172)	(176)	(283)	(144)
Realized Investment Gains	245	384	218	84	34
Income Before Income Tax	3,525	2,447	2,068	934	168
Federal and Foreign Income Tax (Credit)	997	621	520	125	(55)
Net Income	$ 2,528	$ 1,826	$ 1,548	$ 809	$ 223
Per Share*					
Net Income	$ 5.98	$ 4.47	$ 4.01	$ 2.23	$ .64
Dividends Declared on Common Stock	1.00	.86	.78	.72	.70
AT DECEMBER 31					
Total Assets	$50,277	$48,061	$44,260	$38,361	$34,081
Long Term Debt	2,466	2,467	2,814	2,814	1,959
Total Shareholders Equity	13,863	12,407	10,126	8,522	6,826
Book Value Per Share*	33.71	29.68	26.28	22.67	19.93

(a) Underwriting income reflected net losses of $24 million ($16 million after-tax or $0.04 per share) in 2006, $35 million ($23 million after-tax or $0.06 per share) in 2005, $75 million ($49 million after-tax or $0.13 per share) in 2004, $250 million ($163 million after-tax or $0.45 per share) in 2003 and $741 million ($482 million after-tax or $1.39 per share) in 2002 related to asbestos and toxic waste claims.

(b) Underwriting income in 2005 reflected net costs of $462 million ($300 million after-tax or $.74 per share) related to Hurricane Katrina.

* Per share amounts have been retroactively adjusted to reflect the two-for-one stock split effective March 31, 2006.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Management s Discussion and Analysis of Financial Condition and Results of Operations addresses the financial condition of the Corporation as of December 31, 2006 compared with December 31, 2005 and the results of operations for each of the three years in the period ended December 31, 2006. This discussion should be read in conjunction with the consolidated financial statements and related notes and the other information contained in this report.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this document are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements are made pursuant to the safe harbor provisions of the PSLRA and include statements regarding expectations as to our loss reserve and reinsurance recoverable estimates, including our estimated gross and net losses from Hurricane Katrina; the impact of future catastrophes on our financial condition and results of operations; asbestos liability developments; the number and severity of surety-related claims; the cost and availability of reinsurance in 2007; premium volume, rates and competition; the impact of investigations into market practices in the property and casualty insurance industry and any resulting business reforms; changes to our producer compensation program; our expected income stream from the transaction with Harbor Point Limited; estimates with respect to our credit derivatives exposure; the run-off of our real estate portfolio; and our capital adequacy and funding of liquidity needs. Forward-looking statements are made based upon management s current expectations and beliefs concerning trends and future developments and their potential effects on us. These statements are not guarantees of future performance. Actual results may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties, which include, among others, those discussed or identified from time to time in our public filings with the Securities and Exchange Commission and those associated with:

- global political conditions and the occurrence of terrorist attacks, including any nuclear, biological, chemical or radiological events;
- the effects of the outbreak or escalation of war or hostilities;
- premium pricing and profitability or growth estimates overall or by lines of business or geographic area, and related expectations with respect to the timing and terms of any required regulatory approvals;
- adverse changes in loss cost trends;
- the ability to retain existing business;
- our expectations with respect to cash flow projections and investment income and with respect to other income;
- the adequacy of loss reserves, including:
  - our expectations relating to reinsurance recoverables;
  - the willingness of parties, including us, to settle disputes;
  - developments in judicial decisions or regulatory or legislative actions relating to coverage and liability, in particular, for asbestos, toxic waste and other mass tort claims;
  - development of new theories of liability;
  - our estimates relating to ultimate asbestos liabilities;
  - the impact from the bankruptcy protection sought by various asbestos producers and other related businesses;
  - the effects of proposed asbestos liability legislation, including the impact of claims patterns arising from the possibility of legislation and those that may arise if legislation is not passed;
- the availability of reinsurance coverage;
- the occurrence of significant weather-related or other natural or human-made disasters, particularly in locations where we have concentrations of risk;
- the impact of economic factors on companies on whose behalf we have issued surety bonds, and in particular, on those companies that have filed for bankruptcy or otherwise experienced deterioration in creditworthiness;

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the effects of disclosures by, and investigations of, public companies relating to possible accounting irregularities, practices in the financial services industry and other corporate governance issues, including:

- claims and litigation arising out of stock option backdating, spring loading and other option grant practices by public companies;
- the effects on the capital markets and the markets for directors and officers and errors and omissions insurance;
- claims and litigation arising out of actual or alleged accounting or other corporate malfeasance by other companies;
- claims and litigation arising out of practices in the financial services industry;
- legislative or regulatory proposals or changes;

the effects of investigations into market practices, in particular contingent commissions and loss mitigation and finite reinsurance arrangements, in the property and casualty insurance industry together with any legal or regulatory proceedings, related settlements and industry reform or other changes with respect to contingent commissions or otherwise arising therefrom;

the impact of legislative and regulatory developments on our business, including those relating to terrorism and catastrophes;

any downgrade in our claims-paying, financial strength or other credit ratings;

the ability of our subsidiaries to pay us dividends;

general economic and market conditions including:

- changes in interest rates, market credit spreads and the performance of the financial markets;
- the effects of inflation;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and pricing environments;
- regional or general changes in asset valuations;
- the inability to reinsure certain risks economically;
- changes in the litigation environment; and

our ability to implement management s strategic plans and initiatives.

The Corporation assumes no obligation to update any forward-looking information set forth in this document, which speak as of the date hereof.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The consolidated financial statements include amounts based on informed estimates and judgments of management for transactions that are not yet complete. Such estimates and judgments affect the reported amounts in the financial statements. Those estimates and judgments that were most critical to the preparation of the financial statements involved the determination of loss reserves and the recoverability of related reinsurance recoverables. These estimates and judgments, which are discussed within the following analysis of our results of operations, require the use of assumptions about matters that are highly uncertain and therefore are subject to change as facts and circumstances develop. If different estimates and judgments had been applied, materially different amounts might have been reported in the financial statements.

OVERVIEW

The following highlights do not address all of the matters covered in the other sections of Management s Discussion and Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to Chubb s shareholders or the investing public. This overview should be read in conjunction with the other sections of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Net income was $2.5 billion in 2006 compared with $1.8 billion in 2005 and $1.5 billion in 2004. The significant increase in net income in 2006 was driven by substantially higher underwriting income in our property and casualty insurance business.

Results in 2005 included a pre-tax realized investment gain of $171 million from a transaction we completed in December 2005 involving a new reinsurance company, Harbor Point Limited. As part of the transaction, we transferred our continuing reinsurance assumed business and certain related assets, including renewal rights, to Harbor Point.

Underwriting results were exceptionally profitable in 2006 compared with highly profitable results in 2005 and 2004. Our combined loss and expense ratio was 84.2% in 2006 compared with 92.3% in both 2005 and 2004. The impact of catastrophes accounted for 1.4 percentage points of the combined ratio in 2006 compared with 5.6 percentage points in 2005 and 2.3 percentage points in 2004. The greater catastrophe impact in 2005 was due to costs of $462 million related to Hurricane Katrina, including estimated net losses of $403 million and net reinsurance reinstatement premium costs of $59 million.

Total net premiums written decreased by 3% in 2006 after increasing by 2% in 2005. Net premiums written in our insurance business increased 2% in 2006 and 4% in 2005. The relatively low growth in our insurance business in both years reflected our continued emphasis on underwriting discipline in an increasingly competitive market environment. In the reinsurance assumed business, net premiums written decreased 57% in 2006 and 21% in 2005. The decrease in 2006 was in line with our expectations following the sale of the ongoing business in December 2005.

During 2006, we experienced overall favorable development of $296 million on loss reserves established as of the previous year end, due primarily to the lower than expected emergence of losses in the homeowners and commercial property classes.

In December 2006, we entered into a settlement agreement with the Attorneys General of New York, Connecticut and Illinois resolving all issues arising out of those officials investigations with respect to property and casualty insurance market practices. The settlement did not require that we pay a fine or penalty. Our cost under the settlement was $17 million.

Property and casualty investment income after tax increased by 10% in 2006 and 11% in 2005. The growth was due to an increase in invested assets over the period. For more information on this non-GAAP financial measure, see Property and Casualty Insurance Investment Results.

A summary of our consolidated net income is as follows:

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Property and casualty insurance	$3,369	$2,235	$2,026
Corporate and other	(89)	(172)	(176)
Realized investment gains	245	384	218
Consolidated income before income tax	3,525	2,447	2,068
Federal and foreign income tax	997	621	520
Consolidated net income	$2,528	$1,826	$1,548

PROPERTY AND CASUALTY INSURANCE

A summary of the results of operations of our property and casualty insurance business is as follows:

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Underwriting			
Net premiums written	$11,974	$12,283	$12,053
Increase in unearned premiums	(16)	(107)	(417)
Premiums earned	11,958	12,176	11,636
Losses and loss expenses	6,574	7,813	7,321
Operating costs and expenses	3,467	3,436	3,516
Increase in deferred policy acquisition costs	(19)	(17)	(76)
Dividends to policyholders	31	23	29
Underwriting income	1,905	921	846
Investments			
Investment income before expenses	1,485	1,342	1,207
Investment expenses	31	27	23
Investment income	1,454	1,315	1,184
Other income (charges)	10	(1)	(4)
Property and casualty income before tax	$ 3,369	$ 2,235	$ 2,026
Property and casualty investment income after tax	$ 1,166	$ 1,056	$ 949

Property and casualty income before tax in 2006 was substantially higher than in 2005 which, in turn, was higher than in 2004. Income in all three years benefited from highly profitable underwriting results. Underwriting income in 2006 was substantially higher than in 2005, due largely to significantly lower catastrophe losses and improvement in our specialty insurance business unit. Underwriting income increased modestly in 2005 compared with 2004 despite significantly higher catastrophe losses, primarily from Hurricane Katrina. Results in 2006 and 2005 also benefited from significant increases in investment income.

The profitability of the property and casualty insurance business depends on the results of both underwriting operations and investments. We view these as two distinct operations since the underwriting functions are managed separately from the investment function. Accordingly, in assessing our performance, we evaluate underwriting results separately from investment results.

Underwriting Operations

Underwriting Results

We evaluate the underwriting results of our property and casualty insurance business in the aggregate and also for each of our separate business units.

Net Premiums Written

Net premiums written amounted to $12.0 billion in 2006, a decrease of 3% compared with 2005. A modest increase in premiums from our insurance business was more than offset by a decline in premiums from our reinsurance assumed business. Net premiums written increased 2% in 2005 over 2004, as an increase in premiums from our insurance business was partially offset by a decline in premiums from our reinsurance assumed business.

Net premiums written by business unit were as follows:

	Years Ended December 31				
	2006	% Increase (Decrease) 2006 vs. 2005	2005	% Increase (Decrease) 2005 vs. 2004	2004
	(dollars in millions)				
Personal insurance	$ 3,518	6%	$ 3,307	6%	$ 3,116
Commercial insurance	5,125	2	5,030	2	4,938
Specialty insurance	2,941	(3)	3,042	6	2,860
Total insurance	11,584	2	11,379	4	10,914
Reinsurance assumed	390	(57)	904	(21)	1,139
Total	$11,974	(3)	$12,283	2	$12,053

Net premiums written from our insurance business grew 2% in 2006 and 4% in 2005. Premiums in 2005 were reduced by reinsurance reinstatement premium costs of $102 million related to Hurricane Katrina. Premiums in 2006 benefited from a $20 million reduction of previously accrued reinsurance reinstatement premium costs. Premiums in the United States, which represent almost 80% of our insurance premiums, grew by 1% in 2006 and 3% in 2005. Insurance premiums outside the U.S. grew 4% in 2006 and 8% in 2005. In local currencies, such growth was 3% and 6% in 2006 and 2005, respectively.

The modest overall growth in net written premiums in our insurance business in both 2006 and 2005 reflected our continued emphasis on underwriting discipline in an increasingly competitive market environment. Rates were generally stable, but were under competitive pressure that varied by class of business and geographic territory. In both years, we retained a high percentage of our existing customers and renewed these accounts at prices we believe to be appropriate relative to the exposure. In addition, while we continued to be selective, we found opportunities to write new business at acceptable rates. We expect to see a rate environment in 2007 for each of our business units similar to that we saw in 2006. Accordingly, we expect that overall premiums in our insurance business will be flat in 2007 compared with 2006, with low-to-mid-single digit growth for personal insurance, flat premiums for commercial insurance and a modest decline in specialty insurance premiums.

Net reinsurance assumed premiums written decreased by 57% in 2006 and 21% in 2005. Premiums in 2005 included net reinstatement premium revenue of $43 million related to Hurricane Katrina. As discussed below, we sold our ongoing assumed reinsurance business to Harbor Point Limited in December 2005.

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Reinsurance Ceded

Our premiums written are net of amounts ceded to reinsurers who assume a portion of the risk under the insurance policies we write that are subject to the reinsurance.

Our overall ceded reinsurance premiums in 2005 were lower than those in 2004. During 2005, we discontinued our professional liability per risk treaty. Underwriting actions we have taken in recent years have resulted in lower average limits on those large risks we write, which we believe made this treaty no longer economical. On our casualty clash treaty, which operates like a catastrophe treaty, we increased our retention from $50 million to $75 million. We did not renew a high excess surety per risk treaty as we believe the cost was not justified. On our commercial property per risk treaty, our retention remained at $15 million. Our property catastrophe treaty for events in the United States was modified to increase the coverage in the northeastern part of the country by $100 million. Our property catastrophe treaty for events outside the United States was modified to increase our retention from $25 million to $50 million.

As a result of the substantial losses incurred by reinsurers from the catastrophes in 2004 and 2005, the cost of property catastrophe reinsurance increased significantly in 2006 and there were capacity restrictions in the marketplace.

Although property catastrophe reinsurance rates increased in 2006, our overall ceded reinsurance premiums for our insurance business, excluding the impact of reinstatement premiums related to Hurricane Katrina, were only modestly higher than in 2005 due to modifications to certain of our reinsurance treaties. On our casualty clash treaty, our initial retention remained at $75 million. We reduced our reinsurance coverage at the top of the program by $50 million and increased our participation in the program. This treaty now provides coverage of approximately 55% of losses between $75 million and $150 million per insured event. On our commercial property per risk treaty, we increased our retention from $15 million to $25 million. This treaty now provides $425 million of coverage per risk in excess of our retention. Our property catastrophe treaty for events in the United States was modified to increase our initial retention from $250 million to $350 million and to increase our participation in the program. At the same time, we increased the reinsurance coverage in the northeastern part of the country by $400 million, enhancing our protection in the region where we have our greatest concentration of exposure. The treaty now provides coverage of approximately 75% of losses (net of recoveries from other available reinsurance) between $350 million and $1.3 billion, with additional coverage of 80% of losses between $1.3 billion and $2.05 billion in the northeastern part of the country. Our property catastrophe treaty for events outside the United States was modified to increase our initial retention from $50 million to $75 million. The treaty now provides coverage of approximately 90% of losses (net of recoveries from other available reinsurance) between $75 million and $275 million. Our property reinsurance treaties generally contain terrorism exclusions for acts perpetrated by foreign terrorists.

We do not expect the changes we made to our reinsurance program during 2005 and 2006 to have a material effect on the Corporation s results of operations, financial condition or liquidity.

Our casualty clash treaty and our property reinsurance treaties expire on April 1, 2007. While we expect that reinsurance rates may rise somewhat in 2007, particularly as they relate to property risks, the final structure and amount of coverage purchased will be determinants of our ceded reinsurance premium cost in 2007. We expect that the availability of reinsurance for certain coverages, such as terrorism, will continue to be very limited in 2007.

Most of our ceded reinsurance arrangements consist of excess of loss and catastrophe contracts that protect against a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. Therefore, unless we incur losses that exceed our initial retention under these contracts, we do not receive any loss recoveries. As a result, in certain years, we cede premiums to other insurance companies and receive few, if any, loss recoveries. However, in a year in which there is a significant catastrophic event (such as Hurricane Katrina) or a series of large individual losses, we may receive substantial loss recoveries. The impact of ceded reinsurance on net premiums written and earned and on net losses and loss expenses incurred for the three years ended December 31, 2006 is presented in Note (10) of the Notes to Consolidated Financial Statements.

Profitability

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. Management evaluates the performance of our underwriting operations and of each of our business units using, among other measures, the combined loss and expense ratio calculated in accordance with statutory accounting principles. It is the sum of the ratio of losses and loss expenses to premiums earned (loss ratio) plus the ratio of statutory underwriting expenses to premiums written (expense ratio) after reducing both premium amounts by dividends to policyholders. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the combined ratio is over 100%, underwriting results are generally considered unprofitable.

Statutory accounting principles applicable to property and casualty insurance companies differ in certain respects from generally accepted accounting principles (GAAP). Under statutory accounting principles, policy acquisition and other underwriting expenses are recognized immediately, not at the time premiums are earned. Management uses underwriting results determined in accordance with GAAP, among other measures, to assess the overall performance of our underwriting operations. To convert statutory underwriting results to a GAAP basis, policy acquisition expenses are deferred and amortized over the period in which the related premiums are earned. Underwriting income determined in accordance with GAAP is defined as premiums earned less losses incurred and GAAP underwriting expenses incurred.

Underwriting results in 2006 were exceptionally profitable compared with highly profitable results in 2005 and 2004. The combined loss and expense ratio for our overall property and casualty business was as follows:

	Years Ended December 31		
	2006	**2005**	**2004**
Loss ratio	55.2%	64.3%	63.1%
Expense ratio	29.0	28.0	29.2
Combined loss and expense ratio	84.2%	92.3%	92.3%

The loss ratio was significantly lower in 2006 than in 2005, reflecting the favorable loss experience resulting from our disciplined underwriting in recent years as well as lower catastrophe losses. The loss ratio was modestly higher in 2005 than in 2004 due to higher catastrophe losses, primarily from Hurricane Katrina.

At the end of 2005, we estimated that our net losses from Hurricane Katrina were $403 million and our net reinsurance reinstatement premium costs related to the hurricane were $59 million. In our insurance business, estimated net losses were $335 million and reinstatement premium costs were $102 million, for an aggregate cost of $437 million. In our reinsurance assumed business, estimated net losses were $68 million and net reinstatement premium revenue was $43 million, for a net cost of $25 million. At the end of 2005, we estimated that our gross losses from Hurricane Katrina were about $1.2 billion. Almost all of the losses were from property exposure and business interruption claims. Our net losses of $403 million were significantly lower than the gross amount due to a property per risk treaty that limited our net loss per risk and our property catastrophe treaty.

During 2006, a large percentage of our claims from Hurricane Katrina were settled. As a result, there were many adjustments, both favorable and unfavorable, to our loss estimates for individual claims related to this event. These adjustments produced a reduction in our estimates for gross losses and reinsurance recoverable of $190 and $175 million, respectively, as well as a $20 million reduction of previously accrued reinsurance reinstatement premium costs. We still have over $500 million of reinsurance available for this event under our catastrophe treaty if our gross losses are higher than our current estimate. Therefore, while it is possible that our estimate of ultimate losses related to

Hurricane Katrina may change in the future, we do not expect that any such change would have a material effect on the Corporation s results of operations, financial condition or liquidity.

Other than the reinsurance recoverable related to Hurricane Katrina, we did not have any recoveries from our catastrophe reinsurance treaties during the three year period ended December 31, 2006 because there were no other individual catastrophes for which our losses exceeded our initial retention under the treaties.

Our net catastrophe losses incurred in 2006 were $173 million, which were offset in part by the $20 million reduction in previously accrued reinsurance reinstatement premium costs related to Hurricane Katrina. The net impact of catastrophes in 2006 accounted for 1.4 percentage points of the loss ratio. In 2005, we incurred $630 million of net catastrophe losses and $59 million in related net reinsurance reinstatement premium costs, which in the aggregate accounted for 5.6 percentage points of the loss ratio. Losses from catastrophes were $270 million in 2004, which represented 2.3 percentage points of the loss ratio. The 2004 catastrophe loss amount reflected an $80 million reduction in loss reserves related to the September 11, 2001 attack, which reduced the loss ratio for the year by 0.7 of a percentage point.

Our expense ratio increased in 2006 as net premiums written decreased whereas compensation and other operating costs increased. The decrease in the expense ratio in 2005 was due primarily to lower contingent commission expenses. To a lesser extent, the 2005 decrease was due to flat overhead expenses compared with 2004 and the discontinuation of a professional liability per risk reinsurance treaty that resulted in an increase in net premiums written without a commensurate increase in expenses.

Review of Underwriting Results by Business Unit

Personal Insurance

Net premiums written from personal insurance, which represented 29% of our premiums written in 2006, increased by 6% in both 2006 and 2005. Net premiums written for the classes of business within the personal insurance segment were as follows:

	Years Ended December 31				
	2006	% Increase 2006 vs. 2005	2005	% Increase 2005 vs. 2004	2004
	(dollars in millions)				
Automobile	$ 670	4%	$ 645	2%	$ 629
Homeowners	2,268	8	2,104	8	1,951
Other	580	4	558	4	536
Total personal	$3,518	6	$3,307	6	$3,116

In 2006 and 2005, premium growth was driven by our homeowners business. The growth in our homeowners business in both years was due to increased insurance-to-value and, to a lesser extent, modestly higher rates. The in-force policy count for this class of business had minimal growth in both years. Homeowners premiums in 2005 were reduced by reinsurance reinstatement premium costs of $17 million related to Hurricane Katrina. Premium growth in our personal automobile business in 2006 and 2005 was due to selective initiatives outside the United States. Premiums in the U.S. declined in both years due to our maintaining underwriting discipline in an increasingly competitive marketplace. Growth in our other personal business, which includes insurance for excess liability, yacht and accident coverages, was similar in both years.

Our personal insurance business produced profitable underwriting results in each of the last three years. Overall results have shown substantial improvement in each succeeding year, driven largely by

our homeowners results. The combined loss and expense ratios for the classes of business within the personal insurance segment were as follows:

	Years Ended December 31		
	2006	2005	2004
Automobile	90.4%	95.3%	93.3%
Homeowners	74.6	81.2	91.3
Other	98.6	96.2	96.0
Total personal	81.7%	86.6%	92.5%

Our personal automobile results were profitable in each of the past three years. Results in 2006 were more profitable than in 2005 due to lower claim frequency and favorable loss development related to prior accident years. Results in 2005 were slightly less profitable than in 2004 due to reserve strengthening in the liability component related to prior accident years.

Homeowners results were profitable in each of the last three years. Results improved significantly in 2005 and again in 2006. The improvement was largely the result of better pricing and a reduction in water damage losses primarily through contract wording changes related to mold coverage and loss remediation measures that we have implemented over the past few years as well as lower catastrophe losses. The impact of catastrophes accounted for 5.7 percentage points of the combined loss and expense ratio for this class in 2006 compared with 9.8 percentage points in 2005 and 12.6 percentage points in 2004.

Other personal business produced profitable results in each of the past three years. Results in 2006 were less profitable than those in 2005 and 2004. Our excess liability business has deteriorated in each of the past two years due to inadequate pricing and unfavorable loss development related to prior accident years. Our yacht business was highly profitable in 2006 compared with unprofitable results in 2005 and 2004. Our accident business was highly profitable in all three years.

Commercial Insurance

Net premiums written from commercial insurance, which represented 43% of our premiums written in 2006, increased by 2% in both 2006 and 2005. Net premiums written for the classes of business within the commercial insurance segment were as follows:

	Years Ended December 31				
	2006	% Increase (Decrease) 2006 vs. 2005	2005	% Increase (Decrease) 2005 vs. 2004	2004
	(dollars in millions)				
Multiple peril	$1,290	%	$1,286	(1)%	$1,302
Casualty	1,731	(1)	1,755	4	1,682
Workers compensation	901	(3)	930	5	881
Property and marine	1,203	14	1,059	(1)	1,073
Total commercial	$5,125	2	$5,030	2	$4,938

Growth in our commercial classes in 2006 and 2005 was limited due to a competitive marketplace. Rates were generally stable but were under competitive pressure in some classes of business, particularly non-catastrophe exposed property risks and certain casualty risks. Multiple

peril and property and marine premiums in 2005 were reduced by reinsurance reinstatement premium costs of $19 million and $66 million, respectively, related to Hurricane Katrina. In 2006, property and marine premiums benefited from a $20 million reduction of previously accrued reinsurance reinstatement premium costs. Excluding the reinsurance reinstatement premiums, multiple peril premiums declined

1% in 2006 and were flat in 2005 compared with the respective prior years and property and marine premiums grew 5% in both 2006 and 2005.

Retention levels of our existing customers remained steady over the last three years. New business volume was slightly higher in 2006 compared with 2005, with the increase coming from outside the U.S. New business volume in 2005 was significantly lower than in 2004 due to decreased submission activity, which was the result of our competitors working to retain their better accounts. We have continued to maintain our underwriting discipline in the competitive market, renewing business and writing new business only where we believe we are securing acceptable rates and appropriate terms and conditions for the exposures.

Our commercial insurance business produced profitable underwriting results in each of the past three years, particularly in 2006 and 2004. These profitable results were due in large part to the cumulative effect of price increases in prior years, better terms and conditions and more stringent risk selection. Results in each year also benefited from low non-catastrophe property losses. Results in 2005 were less profitable than in 2006 and 2004, largely due to substantially higher catastrophe losses, primarily from Hurricane Katrina. The impact of catastrophes accounted for 8.3 percentage points of the combined loss and expense ratio for our commercial insurance business in 2005 whereas such impact was negligible in 2006 and 2004.

The combined loss and expense ratios for the classes of business within commercial insurance were as follows:

	Years Ended December 31		
	2006	**2005**	**2004**
Multiple peril	75.8%	87.8%	76.8%
Casualty	96.8	96.1	89.8
Workers compensation	80.4	84.8	90.9
Property and marine	72.5	98.8	72.7
Total commercial	83.1%	92.4%	82.5%

Multiple peril results were highly profitable in each of the past three years. Results in 2005 were less profitable than in 2006 and 2004 largely due to higher catastrophe losses. The impact of catastrophes accounted for 2.9 percentage points of the combined loss and expense ratio for this class in 2006 compared with 9.1 percentage points in 2005. Catastrophe losses were negligible for this class in 2004 due to a $30 million reduction in net loss reserves related to the September 11, 2001 attack. The property component of this business benefited from low non-catastrophe losses in all three years. Results in the liability component improved in 2005 and again in 2006.

Results for our casualty business were less profitable in 2006 and 2005 compared with the highly profitable results in 2004. The automobile component of our casualty business was highly profitable in each of the past three years. Results in the primary liability component were less profitable in each succeeding year. Results in the excess liability component were unprofitable in 2006 and 2005 compared with profitable results in 2004. Results in 2004 for this component benefited from a $30 million reduction in net loss reserves related to the September 11, 2001 attack. In 2006 and 2005, excess liability results and, to a lesser extent, primary liability results were adversely affected by unfavorable loss development related to older accident years.

Workers compensation results were highly profitable in each of the past three years. Results were more profitable in each succeeding year due to favorable claim cost trends. Results in all three years benefited from our disciplined risk selection during the past several years.

Property and marine results were highly profitable in 2006 and 2004 compared with marginally profitable results in 2005. The less profitable results in 2005 were due to substantially higher catastrophe losses, primarily from Hurricane Katrina. Results in each year benefited from relatively

few large non-catastrophe losses. The impact of catastrophes was negligible in 2006. Catastrophes accounted for 27.2 percentage points of the combined loss and expense ratio in 2005 and 1.8 percentage points in 2004. The impact of catastrophes in 2004 reflects a $20 million reduction in net loss reserves related to the September 11, 2001 attack.

Specialty Insurance

Net premiums written from specialty insurance, which represented 25% of our premiums written in 2006, decreased by 3% in 2006 compared with a 6% increase in 2005. Net premiums written for the classes of business within the specialty insurance segment were as follows:

	Years Ended December 31				
	2006	% Increase (Decrease) 2006 vs. 2005	2005	% Increase 2005 vs. 2004	2004
	(dollars in millions)				
Professional liability	$2,641	(6)%	$2,798	5%	$2,654
Surety	300	23	244	18	206
Total specialty	$2,941	(3)	$3,042	6	$2,860

Growth in net premiums written for the professional liability classes of business was constrained in both 2006 and 2005 by the continued competitive pressure on rates that began in the latter half of 2003 and our commitment to maintain underwriting discipline in this environment. Growth in both years was also dampened by the sale of renewal rights, effective July 1, 2005, on our hospital medical malpractice and managed care errors and omissions business. The net premium growth in 2005 in the professional liability classes was due to the non-renewal of a per risk reinsurance treaty.

Rates were generally stable in 2006 and 2005 for most professional liability classes but were lower in the for-profit directors and officers liability component. Retention levels remained strong over the last three years. New business volume declined in each of the past two years due to the increased competition in the marketplace and, in 2005, our exiting the hospital medical malpractice and managed care errors and omissions business. We continued to get what we believe are acceptable rates and appropriate terms and conditions on both new business and renewals. In line with our strategy in recent years of directing our focus to small and middle market publicly traded and privately held companies, the percentage of our book of business represented by large public companies has decreased.

The growth in net premiums written for our surety business was substantial in both 2006 and 2005. About half of the growth in both years was due to the non-renewal of a high excess reinsurance treaty during 2005.

Our specialty insurance business produced highly profitable underwriting results in 2006 compared with modestly profitable results in 2005 and unprofitable results in 2004. The combined loss and expense ratios for the classes of business within specialty insurance were as follows:

	Years Ended December 31		
	2006	2005	2004
Professional liability	91.8%	99.8%	112.0%
Surety	44.2	62.9	57.2
Total specialty	87.5%	97.3%	108.2%

Our professional liability business improved substantially in 2005 and again in 2006, producing profitable results in 2006 compared with near breakeven results in 2005 and highly unprofitable results in 2004. The fidelity component of our professional liability business was highly profitable in each of the past three years due to favorable loss experience. The results of the directors and officers liability,

errors and omissions liability and fiduciary liability components improved in 2005 and again in 2006, benefiting from the cumulative effect of price increases in prior years, lower policy limits and better terms and conditions. Results in 2006 also benefited from modest favorable loss development related to prior accident years. Conversely, results in 2005 and 2004, but more so in 2004, were adversely affected by unfavorable loss development related to accident years prior to 2003. This adverse development was predominantly from claims that have arisen due to corporate failures and allegations of management misconduct and accounting irregularities. Adverse development was particularly significant in 2004 due to an increase of about $160 million in errors and omissions liability loss reserves in the second quarter related to investment banks.

Our surety business produced highly profitable results in each of the past three years due to favorable loss experience.

Our surety business tends to be characterized by infrequent but potentially high severity losses. We continue to manage our exposure on an absolute basis and by specific bond type. The majority of our obligations are intended to be performance-based guarantees. When losses occur, they are mitigated, at times, by the customer s balance sheet, contract payments, collateral and bankruptcy recoveries.

We continue to have substantial commercial and construction surety exposure for current and prior customers, including exposures related to surety bonds issued on behalf of companies that have experienced deterioration in creditworthiness since we issued bonds to them. We therefore may experience an increase in filed claims and may incur high severity losses. Such losses would be recognized if and when claims are filed and determined to be valid, and could have a material adverse effect on the Corporation s results of operations and liquidity.

Reinsurance Assumed

In December 2005, we completed a transaction involving a new Bermuda-based reinsurance company, Harbor Point Limited. As part of the transaction, we transferred our continuing reinsurance assumed business and certain related assets, including renewal rights, to Harbor Point. Harbor Point generally did not assume our reinsurance liabilities relating to reinsurance contracts incepting prior to December 31, 2005. We retained those liabilities and the related assets.

Other than pursuant to certain arrangements entered into with Harbor Point, we generally no longer engage directly in the reinsurance assumed business. However, Harbor Point has the right for a transition period of up to two years to underwrite specific reinsurance business on our behalf. We retain a portion of any such business and cede the balance to Harbor Point in return for a fronting commission. We will receive additional payments based on the amount of business renewed by Harbor Point, which will be recognized when earned.

Net premiums written from our reinsurance assumed business, which represented 3% of our premiums written in 2006, decreased by 57% in 2006 and 21% in 2005. The significant decrease in premiums in 2006 was expected in light of the sale of our continuing reinsurance assumed business to Harbor Point. The decrease in premiums in 2005 was in line with our expectations as we had anticipated fewer attractive opportunities in the reinsurance market. Premiums in 2005 included net reinsurance reinstatement premium revenue of $43 million related to Hurricane Katrina.

Our reinsurance assumed business was profitable in 2006, 2005 and 2004. Results in 2006 were particularly profitable. While the volume of business was substantially lower than in the previous two years, results in 2006 benefited from significant favorable loss development related to prior accident years. Results in 2005 were similar to those in 2004 despite higher catastrophe losses.

Regulatory Developments

To promote and distribute our insurance products, we rely on independent brokers and agents. Accordingly, our business is dependent on the willingness of these brokers and agents to recommend our products to their customers. Prior to 2007, we had agreements in place with certain insurance agents and brokers under which, in addition to the standard commissions that we pay, we agreed to pay commissions that were contingent on the volume and/or the profitability of business placed with us.

We have been involved in the ongoing investigations of certain business practices in the property and casualty insurance industry by various Attorneys General and other regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities with respect to, among other things, (1) potential conflicts of interest and anti-competitive behavior arising from the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. In connection with these investigations, we have received subpoenas and other requests for information from various regulators. We have been cooperating fully with these investigations. Although no regulatory action has been initiated against us, it is possible that one or more regulatory authorities will bring an action against us with respect to some or all of the issues that are the focus of these ongoing investigations.

On December 21, 2006, we entered into an Assurance of Discontinuance with the Attorneys General of New York, Connecticut and Illinois, resolving all issues arising out of those officials investigations of the market practices described above. As part of this agreement, we agreed to contribute $15 million to a settlement fund established for the benefit of certain customers. We also agreed to pay $2 million to help defray the costs of the investigations by the Attorneys General. In addition, we agreed to implement certain business reforms, including discontinuing the payment of contingent commissions in the United States on all insurance lines beginning in 2007. The settlement did not require that we pay a fine or penalty.

In lieu of paying contingent commissions, we will pay, beginning in 2007, guaranteed supplemental compensation to all agents and brokers with whom we previously had contingent commission agreements. Under this arrangement, agents and brokers will be paid a percentage of written premiums on eligible lines of business in a calendar year based upon their prior performance. We do not believe that our payment of guaranteed supplemental compensation in lieu of contingent commissions or any of the other business reforms that we are implementing will have a material adverse effect on the Corporation s business, results of operations or financial condition.

Chubb and certain of its subsidiaries have been named in legal proceedings brought by private plaintiffs arising out of the investigations into the payment of contingent commissions to brokers and agents. These legal proceedings are further described in Note (14) of the Notes to Consolidated Financial Statements.

We cannot predict at this time the ultimate outcome of the ongoing investigations and legal proceedings referred to above, including any potential amounts that we may be required to pay in connection with them.

A number of states have announced that they are looking at compensation arrangements in the insurance industry and are considering regulatory action or reform in this area. Such actions or reforms range in nature from disclosure requirements to prohibition of certain forms of compensation to imposition of new duties on agents, brokers or insurance companies in dealing with customers. Such actions or reforms, if adopted, could have an impact on our ability to renew business or write new business.

Catastrophe Risk Management

Our property and casualty subsidiaries have exposure to losses caused by natural perils such as hurricanes and other windstorms, earthquakes, winter storms and brush fires and from man-made catastrophic events such as terrorism. The frequency and severity of catastrophes are unpredictable.

Natural Catastrophes

The extent of losses from a natural catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. We regularly assess our concentration of risk exposures in catastrophe exposed areas globally and have strategies and underwriting standards to manage this exposure through individual risk selection, subject to regulatory constraints, and through the purchase of catastrophe reinsurance. We have invested in modeling technologies and a risk concentration management tool that allow us to monitor and control our accumulations of potential losses in catastrophe exposed areas in the United States, such as California and the gulf and east coasts, as well as in such areas in other countries. Actual results may differ materially from those suggested by the model. We also continue to actively explore and analyze credible scientific evidence, including the impact of global climate change, that may affect our ability to manage exposure under the insurance policies we issue.

Despite these efforts, the occurrence of one or more severe natural catastrophic events in heavily populated areas could have a material adverse effect on the Corporation s results of operations, financial condition or liquidity.

Terrorism Risk and Legislation

The September 11, 2001 attack changed the way the property and casualty insurance industry views catastrophic risk. That tragic event demonstrated that numerous classes of business we write are subject to terrorism related catastrophic risks in addition to the catastrophic risks related to natural occurrences. This, together with the limited availability of terrorism reinsurance, has required us to change how we identify and evaluate risk accumulations. We have licensed a terrorism model that provides loss estimates under numerous event scenarios. Also, the above noted risk concentration management tool enables us to identify locations and geographic areas that are exposed to risk accumulations. The information provided by the model and the tracking tool has resulted in our non-renewing some accounts and has restricted us from writing others. Actual results may differ materially from those suggested by the model.

The Terrorism Risk Insurance Act of 2002 (TRIA) established a temporary program under which the federal government will share the risk of loss from certain acts of international terrorism with the insurance industry. The program, which was applicable to most lines of commercial business, was scheduled to terminate on December 31, 2005. In December 2005, the federal government extended TRIA through December 31, 2007. Under the terms of the amended law, certain lines of business previously subject to the provisions of TRIA, including commercial automobile, surety and professional liability insurance, other than directors and officers liability, are excluded from the program. As a precondition to recovery under TRIA, insurance companies with direct commercial insurance exposure in the United States for TRIA lines of business are required to make insurance for covered acts of terrorism available under their policies. Each insurer has a separate deductible that it must meet in the event of an act of terrorism before federal assistance becomes available. The deductible is based on a percentage of direct U.S. earned premiums for the covered lines of business in the previous calendar year. For 2007, that deductible is 20% of direct premiums earned in 2006 for these lines of business. For losses above the deductible, the federal government will pay for 85% of covered losses, while the insurer retains 15%. There is a combined annual aggregate limit for the federal government and all insurers of $100 billion. If acts of terrorism result in covered losses exceeding the $100 billion annual limit, insurers are not liable for additional losses. While the provisions of TRIA will serve to mitigate our exposure in the event of a large-scale terrorist attack, our deductible is substantial, approximating $1 billion in 2007.

For certain classes of business, such as workers compensation, terrorism insurance is mandatory. For those classes of business where it is not mandatory, policyholders may choose not to accept terrorism insurance, which would, subject to other statutory or regulatory restrictions, reduce our exposure.

It is unclear at this time whether Congress will reauthorize TRIA for periods subsequent to December 31, 2007. Regardless of whether or not TRIA is extended, we will continue to manage this type of catastrophic risk by monitoring terrorism risk aggregations. Nevertheless, given the unpredictability of the targets, frequency and severity of potential terrorist events as well as the very limited terrorism reinsurance coverage available in the market, the occurrence of any such events could have a material adverse effect on the Corporation s results of operations, financial condition or liquidity.

We also have exposure outside the United States to risk of loss from acts of terrorism. In some jurisdictions, we have access to government mechanisms that would mitigate our exposure.

Loss Reserves

Unpaid losses and loss expenses, also referred to as loss reserves, are the largest liability of our property and casualty subsidiaries.

Our loss reserves include case estimates for claims that have been reported and estimates for claims that have been incurred but not reported as well as estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries. Estimates are based upon past loss experience modified for current trends as well as prevailing economic, legal and social conditions. Our loss reserves are not discounted to present value.

We regularly review our loss reserves using a variety of actuarial techniques. We update the reserve estimates as historical loss experience develops, additional claims are reported and/or settled and new information becomes available. Any changes in estimates are reflected in operating results in the period in which the estimates are changed.

Our gross case and incurred but not reported (IBNR) loss reserves and related reinsurance recoverable by class of business were as follows:

	Gross Loss Reserves				
December 31, 2006	**Case**	**IBNR**	**Total**	**Reinsurance Recoverable**	**Net Loss Reserves**
			(in millions)		
Personal insurance					
Automobile	$ 261	$ 178	$ 439	$ 14	$ 425
Homeowners	421	298	719	54	665
Other	443	459	902	245	657
Total personal	1,125	935	2,060	313	1,747
Commercial insurance					
Multiple peril	702	965	1,667	74	1,593
Casualty	1,668	3,922	5,590	377	5,213
Workers compensation	827	1,223	2,050	310	1,740
Property and marine	821	393	1,214	536	678
Total commercial	4,018	6,503	10,521	1,297	9,224
Specialty insurance					
Professional liability	2,542	5,598	8,140	852	7,288
Surety	22	56	78	19	59
Total specialty	2,564	5,654	8,218	871	7,347
Total insurance	7,707	13,092	20,799	2,481	18,318
Reinsurance assumed	464	1,030	1,494	113	1,381

Total	$8,171	$14,122	$22,293	$2,594	$19,699

December 31, 2005	Gross Loss Reserves			Reinsurance Recoverable	Net Loss Reserves
	Case	IBNR	Total		
			(in millions)		
Personal insurance					
Automobile	$ 260	$ 170	$ 430	$ 12	$ 418
Homeowners	510	307	817	120	697
Other	430	382	812	232	580
Total personal	1,200	859	2,059	364	1,695
Commercial insurance					
Multiple peril	830	939	1,769	173	1,596
Casualty	1,645	3,570	5,215	378	4,837
Workers compensation	825	1,064	1,889	338	1,551
Property and marine	1,381	549	1,930	1,175	755
Total commercial	4,681	6,122	10,803	2,064	8,739
Specialty insurance					
Professional liability	2,886	5,131	8,017	1,240	6,777
Surety	10	55	65	19	46
Total specialty	2,896	5,186	8,082	1,259	6,823
Total insurance	8,777	12,167	20,944	3,687	17,257
Reinsurance assumed	408	1,130	1,538	82	1,456
Total	$9,185	$13,297	$22,482	$3,769	$18,713

Loss reserves, net of reinsurance recoverable, increased by $1.0 billion or 5% in 2006. The most significant increases occurred in the commercial casualty, workers compensation and professional liability classes of business. The decreases in gross loss reserves and reinsurance recoverable during 2006 in the property and marine, multiple peril and homeowners classes were due to payments and reductions in our loss estimates related to Hurricane Katrina. The decrease in reinsurance recoverable in the professional liability classes was due primarily to significant recoveries related to older accident years and the discontinuation of the per risk treaty in 2005.

In establishing the loss reserves of our property and casualty subsidiaries, we consider facts currently known and the present state of the law and coverage litigation. Based on all information currently available, we believe that the aggregate loss reserves at December 31, 2006 were adequate to cover claims for losses that had occurred as of that date, including both those known to us and those yet to be reported. However, as described below, there are significant uncertainties inherent in the loss reserving process. It is therefore possible that management s estimate of the ultimate liability for losses that had occurred as of December 31, 2006 may change, which could have a material effect on the Corporation s results of operations and financial condition.

Estimates and Uncertainties

The process of establishing loss reserves is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to our ultimate exposure to losses are an integral component of our loss reserving process.

Due to the inherent complexity of the loss reserving process and the potential variability of the assumptions used, the actual emergence of losses could vary, perhaps substantially, from the estimate of losses included in our financial statements, particularly when settlements may not occur until well into the future. Our net loss reserves at December 31, 2006 were $19.7 billion. Therefore, a relatively small percentage change in the estimate of net loss reserves would have a material effect on the Corporation s results of operations.

Reserves Other than Those Relating to Asbestos and Toxic Waste Claims. Our loss reserves include amounts related to short tail and long tail classes of business. Tail refers to the time period between the occurrence of a loss and the settlement of the claim. The longer the time span between the incidence of a loss and the settlement of the claim, the more the ultimate settlement amount can vary.

Short tail classes consist principally of homeowners, commercial property and marine business. For these classes, the estimation of loss reserves is less complex because claims are generally reported and settled shortly after the loss occurs and the claims relate to tangible property.

Most of our loss reserves relate to long tail liability classes of business. Long tail classes include directors and officers liability, errors and omissions liability and other professional liability coverages, commercial primary and excess liability, workers compensation and other liability coverages. For many liability claims significant periods of time, ranging up to several years or more, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim. As a result, loss experience in the more recent accident years for the long tail liability classes has limited statistical credibility because a relatively small proportion of losses in these accident years are reported claims and an even smaller proportion are paid losses. An accident year is the calendar year in which a loss is incurred or, in the case of claims-made policies, the calendar year in which a loss is reported. Liability claims are also more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment. Consequently, the estimation of loss reserves for these classes is more complex and typically subject to a higher degree of variability than for short tail classes.

Most of our reinsurance assumed business is long tailed casualty reinsurance. Reserve estimates for this business are therefore subject to the variability caused by extended loss emergence periods. The estimation of loss reserves for this business is further complicated by delays between the time the claim is reported to the ceding insurer and when it is reported by the ceding insurer to us and by our dependence on the quality and consistency of the loss reporting by the ceding company.

Our actuaries perform a comprehensive annual review of loss reserves for each of the numerous classes of business we write prior to the determination of the year end carried reserves. The review process takes into consideration the variety of trends that impact the ultimate settlement of claims in each particular class of business. A similar, but somewhat less comprehensive, review is performed for the major classes of business prior to the determination of the June 30 carried reserves. At the end of the first and third quarters, our actuaries review the emergence of paid and reported losses relative to expectations and, as necessary, conduct reserve reviews for particular classes of business.

The loss reserve estimation process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for predicting future outcomes. As part of that process, our actuaries use a variety of actuarial methods that analyze experience, trends and other relevant factors. The principal standard actuarial methods used by our actuaries in the loss reserve reviews include loss development factor methods, expected loss ratio methods, Bornheutter-Ferguson methods and frequency/severity methods.

Loss development factor methods generally assume that the losses yet to emerge for an accident year are proportional to the paid or reported loss amount observed so far. Reported losses include cumulative paid losses plus case reserves. Historical patterns of the development of paid and reported losses by accident year are applied to current paid and reported losses to generate estimated ultimate losses by accident year.

Expected loss ratio methods use loss ratios for prior accident years, adjusted to reflect our evaluation of recent loss trends, the current risk environment, changes in our book of business and changes in our pricing and underwriting, to determine the appropriate expected loss ratio for a given accident year. The accident year expected loss ratio is multiplied by the calendar year earned premiums to calculate estimated ultimate losses.

Bornheutter-Ferguson methods are combinations of an expected loss ratio method and a loss development factor method, where the loss development factor method is given more weight as an accident year matures.

Frequency/severity methods first project ultimate claim counts (using one or more of the other methods described above) and then multiply those counts by an estimated average claim cost to estimate ultimate losses. The average claims costs are often estimated by fitting historical severity data to an observed trend.

Using the various actuarial methods, our actuaries estimate the ultimate cost of all claims by accident year for each class of business. From this amount, cumulative paid losses and loss expenses and case reserves are subtracted to estimate the IBNR reserve for each class of business. The IBNR reserve includes a provision for claims that have occurred but have not yet been reported to us, some of which are not yet known to the insured, as well as a provision for future development on reported claims. A relatively large proportion of our net loss reserves, particularly for long tail liability classes, are reserves for IBNR losses. In fact, more than 65% of our aggregate net loss reserves at December 31, 2006 were for IBNR losses.

In completing their loss reserve analysis, our actuaries are required to determine the most appropriate actuarial methods to employ for each class of business. Within each class, the business is further segregated by accident year and generally by jurisdiction. Each estimation method has its own pattern, parameter and/or judgmental dependencies, with no estimation method being better than the others in all situations. The relative strengths and weaknesses of the various estimation methods can also change over time. In many cases, multiple estimation methods will be valid for the particular facts and circumstances of the relevant class of business. The manner of application and the degree of reliance on a given method will vary by class of business, by accident year and by jurisdiction based on our actuaries evaluation of the above dependencies and the potential volatility of the loss frequency and severity patterns. The estimation methods selected or given weight by our actuaries at a particular valuation date are those that are believed to produce the most reliable indication for the loss reserves being evaluated. These selections incorporate input from claims personnel, pricing actuaries and underwriting management on loss cost trends and other factors that could affect the reserve estimates.

For short tail classes, the emergence of paid and incurred losses is likely indicative of ultimate losses. For these classes, the loss development factor method is generally relatively straightforward to apply and usually requires only modest extrapolation. For long tail classes, applying the loss development factor method often requires more judgment in selecting development factors as well as more significant extrapolation. For those long tail classes with high frequency and relatively low per-loss severity (e.g. workers compensation), volatility will often be sufficiently modest for the loss development factor method to be given significant weight, except in the most recent accident years.

For certain long tail classes of business, however, anticipated loss experience is less predictable because of the small number of claims and/or erratic claim severity patterns. These classes include directors and officers liability, errors and omissions liability and commercial excess liability, among others. For these classes, the actuarial estimates for the most recent accident years are based on less extrapolatory methods, such as expected loss ratio and Bornheutter-Ferguson methods. Over time, as a greater number of claims are reported and the statistical credibility of loss experience increases, loss development factor methods are given increasingly more weight.

Using all the available data, our actuaries select an indicated loss reserve amount for each class of business based on the various assumptions, projections and methods. The total indicated reserve amount determined by our actuaries is an aggregate of the indicated reserve amounts for the individual classes of business. The ultimate outcome is likely to fall within a range of potential outcomes around this indicated amount, but the indicated amount is not expected to be precisely the ultimate liability.

Senior management meets with the actuaries at the end of each quarter to review the results of the latest loss reserve analysis. Based on this review, management determines the carried reserve for

each class of business. In making the determination, management considers numerous factors, such as changes in actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular class of business. Such an assessment requires considerable judgment. It is often not possible to determine whether a change in the data represents credible actionable information or an anomaly. Even if a change is determined to be permanent, it is not always possible to determine the extent of the change until sometime later. As a result, there can be a time lag between the emergence of a change and a determination that the change should be reflected in the carried loss reserves. In general, changes are made more quickly to more mature accident years and less volatile classes of business.

Among the numerous factors that contribute to the inherent uncertainty in the process of establishing loss reserves are the following:

changes in the inflation rate for goods and services related to covered damages such as medical care and home repair costs,

changes in the judicial interpretation of policy provisions relating to the determination of coverage,

changes in the general attitude of juries in the determination of liability and damages,

legislative actions,

changes in the medical condition of claimants,

changes in our estimates of the number and/or severity of claims that have been incurred but not reported as of the date of the financial statements,

changes in our book of business,

changes in our underwriting standards, and

changes in our claim handling procedures.

In addition, we must consider the uncertain effects of emerging or potential claims and coverage issues that arise as legal, judicial and social conditions change. These issues can have a negative effect on our loss reserves by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims. Recent examples of such issues include the number of directors and officers liability claims arising out of stock option backdating practices by certain public companies, the number and size of directors and officers liability and errors and omissions liability claims arising out of investment banking practices and accounting and other corporate malfeasance, and exposure to claims asserted for bodily injury as a result of long-term exposure to harmful products or substances. As a result of issues such as these, the uncertainties inherent in estimating ultimate claim costs on the basis of past experience have grown, further complicating the already complex loss reserving process.

As part of our loss reserving analysis, we take into consideration the various factors that contribute to the uncertainty in the loss reserving process. Those factors that could materially affect our loss reserve estimates include loss development patterns and loss cost trends, rate and exposure level changes, the effects of changes in coverage and policy limits, re-underwriting efforts and business mix shifts, the effects of regulatory and legislative developments, the effects of changes in judicial interpretations, the effects of emerging claims and coverage issues, and the effects of changes in claim handling practices. In making estimates of reserves, however, we do not necessarily make an explicit assumption for each of these factors. Moreover, all estimation methods do not utilize the same assumptions and typically no single method is determinative in the reserve analysis for a class of business. Consequently, changes in our loss reserve estimates generally are not the result of changes in any one assumption. Instead, the variability will be affected by the interplay of changes in multiple assumptions, many of which are implicit to the approaches used.

For each class of business, we regularly adjust the assumptions and actuarial methods used in the estimation of loss reserves in response to our actual loss experience as well as our judgments regarding changes in trends and/or emerging patterns. In those instances where we primarily utilize analyses of historical patterns of the development of paid and reported losses, this may be reflected, for example, in the selection of revised loss development factors. In those long tail classes of business professional liability and commercial casualty that comprise a majority of our loss reserves and for which loss experience is less predictable due to potential changes in judicial interpretations, potential legislative actions and potential claims issues, this may be reflected in a judgmental change in our estimate of ultimate losses for particular accident years.

The future impact of the various factors that contribute to the uncertainty in the loss reserving process is extremely difficult to predict. There is potential for significant variation in the development of loss reserves, particularly for long tail classes of business. We do not derive statistical loss distributions or outcome confidence levels around our loss reserve estimate. Actuarial ranges of reasonable estimates are not a true reflection of the potential volatility between carried loss reserves and the ultimate settlement amount of losses incurred prior to the balance sheet date. This is due, among other reasons, to the fact that actuarial ranges are developed based on known events as of the valuation date whereas the ultimate disposition of losses is subject to the outcome of events and circumstances that were unknown as of the valuation date.

The following discussion includes disclosure of possible variation from current estimates of loss reserves due to a change in certain key assumptions for particular classes of business. These impacts are estimated individually, without consideration for any correlation among such assumptions or among lines of business. Therefore, it would be inappropriate to take the amounts and add them together in an attempt to estimate volatility for our loss reserves in total. We believe that the estimated variation in reserves detailed below is a reasonable estimate of the possible variation that may occur in the future. However, if such variation did occur, it would likely occur over a period of several years and therefore its impact on the Corporation s results of operations would be spread over the same period. It is important to note, however, that there is the potential for future variation greater than the amounts discussed below.

Two of the larger components of our loss reserves relate to the professional liability classes other than fidelity and commercial excess liability. The respective reported loss development patterns are key assumptions in estimating loss reserves for these classes of business, both as applied directly to more mature accident years and as applied indirectly (e.g., via Bornheutter-Ferguson methods) to less mature accident years.

Reserves for the professional liability classes other than fidelity were $6.9 billion, net of reinsurance, at December 31, 2006. Based on a review of our loss experience, if the loss development factor for each accident year changed such that the cumulative loss development factor for the most recent accident year changed by 10%, we estimate that the net reserves for the professional liability classes other than fidelity would change by approximately $600 million, in either direction. This degree of change in the reported loss development pattern is within the historical variation around the averages in our data.

Reserves for commercial excess liability (excluding asbestos and toxic waste claims) were $2.7 billion, net of reinsurance, at December 31, 2006. These reserves are included within commercial casualty. Based on a review of our loss experience, if the loss development factor for each accident year changed such that the cumulative loss development factor for the most recent accident year changed by 15%, we estimate that the net reserves for commercial excess liability would change by approximately $250 million, in either direction. This degree of change in the reported loss development pattern is within the historical variation around the averages in our data.

Reserves Relating to Asbestos and Toxic Waste Claims. The estimation of loss reserves relating to asbestos and toxic waste claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial

interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability. The insurance industry as a whole is engaged in extensive litigation over coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

Reserves for asbestos and toxic waste claims cannot be estimated with traditional actuarial loss reserving techniques that rely on historical accident year loss development factors. Instead, we rely on an exposure-based analysis that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, we generally evaluate our exposure on a policyholder-by-policyholder basis, considering a variety of factors that are unique to each policyholder. Quantitative techniques have to be supplemented by subjective considerations including management s judgment.

We establish 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 are established to cover additional exposures on both known and unasserted claims.

We believe that the loss reserves carried at December 31, 2006 for asbestos and toxic waste claims were adequate. However, given the judicial decisions and legislative actions that have broadened the scope of coverage and expanded theories of liability in the past and the possibilities of similar interpretations in the future, it is possible that our estimate of loss reserves relating to these exposures may increase in future periods as new information becomes available and as claims develop.

Asbestos Reserves. Asbestos remains the most significant and difficult mass tort for the insurance industry in terms of claims volume and dollar exposure. Asbestos claims relate primarily to bodily injuries asserted by those who came in contact with asbestos or products containing asbestos. Until recently, judicial interpretations and legislative actions attempted to maximize insurance availability from both a coverage and liability standpoint. Early court cases established the continuous trigger theory with respect to insurance coverage. Under this theory, insurance coverage is deemed to be triggered from the time a claimant is first exposed to asbestos until the manifestation of any disease. This interpretation of a policy trigger can involve insurance companies over many years and increases their exposure to liability.

New asbestos claims and new exposures on existing claims have continued despite the fact that usage of asbestos has declined since the mid-1970 s. Each claim filing typically names dozens of defendants. The plaintiffs bar has solicited new claimants through extensive advertising and through asbestos medical screenings. A vast majority of asbestos bodily injury claims have been filed by claimants who do not show any signs of asbestos related disease. New asbestos cases are often filed in those jurisdictions with a reputation for judges and juries that are extremely sympathetic to plaintiffs.

Approximately 80 manufacturers and distributors of asbestos products have filed for bankruptcy protection as a result of asbestos-related liabilities. A bankruptcy sometimes involves an agreement to a plan between the debtor and its creditors, including current and future asbestos claimants. Although the debtor is negotiating in part with its insurers money, insurers are generally given only limited opportunity to be heard. In addition to contributing to the overall number of claims, bankruptcy proceedings have also caused increased settlement demands against remaining solvent defendants.

There have been several recent positive events in the asbestos environment:

Various challenges to mass screening claimants have been mounted, including a June 2005 U.S. District Court decision in Texas. Many believe that this decision is leading to higher medical evidentiary standards. For example, several asbestos injury settlement trusts have refused new claims that were based on the diagnosis of physicians or screening companies named in the case, citing questions regarding their reliability. Further investigations of the medical screening process for asbestos claims are underway.

A number of states have implemented legislative and judicial reforms that focus the courts attention on the claims of the most seriously injured. Legislation that sets medical criteria that must be met for plaintiffs to proceed with their claims has been enacted in several states and is pending in others. Similarly, judicial reforms such as inactive dockets, which preserve the right to sue for those who do not currently meet the specific medical criteria, have been established in several jurisdictions.

A number of key jurisdictions have adopted venue reform that requires plaintiffs to have a connection to the jurisdiction in order to file a complaint.

In recognition that many aspects of bankruptcy plans are unfair to certain classes of claimants and to the insurance industry, these plans are beginning to be closely scrutinized by the courts and rejected when appropriate.

Our most significant individual asbestos exposures involve products liability on the part of traditional defendants who were engaged in the manufacture, distribution or installation of asbestos products. We wrote excess liability and/or general liability coverages for these insureds. While these insureds are relatively few in number, their exposure has become substantial due to the increased volume of claims, the erosion of the underlying limits and the bankruptcies of target defendants.

Our other asbestos exposures involve products and non-products liability on the part of peripheral defendants, including a mix of manufacturers, distributors and installers of certain products that contain asbestos in small quantities and owners or operators of properties where asbestos was present. Generally, these insureds are named defendants on a regional rather than a nationwide basis. As the financial resources of traditional asbestos defendants have been depleted, plaintiffs are targeting these viable peripheral parties with greater frequency and, in many cases, for larger awards.

Asbestos claims against the major manufacturers, distributors or installers of asbestos products were typically presented under the products liability section of primary general liability policies as well as under excess liability policies, both of which typically had aggregate limits that capped an insurer s exposure. In recent years, a number of asbestos claims by insureds are being presented as non-products claims, such as those by installers of asbestos products and by property owners or operators who allegedly had asbestos on their property, under the premises or operations section of primary general liability policies. Unlike products exposures, these non-products exposures typically had no aggregate limits on coverage, creating potentially greater exposure. Further, in an effort to seek additional insurance coverage, some insureds with installation activities who have substantially eroded their products coverage are presenting new asbestos claims as non-products operations claims or attempting to reclassify previously settled products claims as non-products claims to restore a portion of previously exhausted products aggregate limits. It is difficult to predict whether insureds will be successful in asserting claims under non-products coverage or whether insurers will be successful in asserting additional defenses. Accordingly, the ultimate cost to insurers of the claims for coverage not subject to aggregate limits is uncertain.

In establishing our asbestos reserves, we evaluate the exposure presented by each insured. As part of this evaluation, we consider a variety of factors including: the available insurance coverage; limits and deductibles; the jurisdictions involved; past settlement values of similar claims; the potential role of other insurance, particularly underlying coverage below our excess liability policies; potential bankruptcy impact; and applicable coverage defenses, including asbestos exclusions. We have assumed a continuing unfavorable legal environment with no benefit from any federal asbestos reform legislation. Proposed legislation that would have created a $140 billion asbestos trust fund but would have provided neither certainty nor finality was not adopted and the future of federal legislation remains uncertain.

Our actuaries and claim personnel perform periodic analyses of our asbestos related exposures. The analyses during 2004 noted that both the number of peripheral asbestos defendants for whom we established reserves and the average severity of these claims were somewhat higher than expected. In

addition, there was an increase in our estimate of the ultimate liabilities for one of our traditional asbestos defendants. The analyses during 2005 noted an increase in our estimate of the ultimate liabilities for two of our asbestos defendants. The analyses during 2006 noted positive developments, including several settlements, related to certain of our traditional asbestos defendants. At the same time, the analyses indicated that our exposure to loss from claims against our peripheral defendants was somewhat higher than previously expected. Based on these analyses, which were supported by our outside actuarial consultants, we increased our net asbestos loss reserves by $75 million in 2004, $35 million in 2005 and $18 million in 2006.

The following table presents a reconciliation of the beginning and ending loss reserves related to asbestos claims.

	Years Ended December 31		
	2006	2005	2004
	(in millions)		
Gross loss reserves, beginning of year	$930	$961	$1,068
Reinsurance recoverable, beginning of year	50	55	56
Net loss reserves, beginning of year	880	906	1,012
Net incurred losses	18	35	75
Net losses paid	109	61	181
Net loss reserves, end of year	789	880	906
Reinsurance recoverable, end of year	52	50	55
Gross loss reserves, end of year	$841	$930	$ 961

The following table presents the number of policyholders for whom we have open asbestos case reserves and the related net loss reserves at December 31, 2006 as well as the net losses paid during 2006 by component.

	Number of Policyholders	Net Loss Reserves	Net Losses Paid
		(in millions)	
Traditional defendants	22	$203	$ 43
Peripheral defendants	392	451	66
Future claims from unknown policyholders		135	
		$789	$109

Significant uncertainty remains as to our ultimate liability related to asbestos related claims. This uncertainty is due to several factors including:

the long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims;

plaintiffs increased focus on peripheral defendants;

the volume of claims by unimpaired plaintiffs and the extent to which they can be precluded from making claims;

the efforts by insureds to obtain coverage not subject to aggregate limits;

the number of insureds seeking bankruptcy protection as a result of asbestos-related liabilities;

the ability of claimants to bring a claim in a state in which they have no residency or exposure;

the impact of the exhaustion of primary limits and the resulting increase in claims on excess liability policies we have issued;

inconsistent court decisions and diverging legal interpretations; and

the possibility, however remote, of federal legislation that would address the asbestos problem.

These significant uncertainties are not likely to be resolved in the near future. While there have been some positive legislative and judicial developments in the asbestos arena over the past three years, it is too early to call it a trend.

Toxic Waste Reserves. Toxic waste claims relate primarily to pollution and related cleanup costs. Our insureds have two potential areas of exposure hazardous waste dump sites and pollution at the insured site primarily from underground storage tanks and manufacturing processes.

The federal Comprehensive Environmental Response Compensation and Liability Act of 1980 (Superfund) has been interpreted to impose strict, retroactive and joint and several liability on potentially responsible parties (PRPs) for the cost of remediating hazardous waste sites. Most sites have multiple PRPs.

Most PRPs named to date are parties who have been generators, transporters, past or present landowners or past or present site operators. These PRPs had proper government authorization in many instances. However, relative fault has not been a factor in establishing liability. 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. In more recent years, however, policies specifically excluded such exposures.

As the costs of environmental clean-up became substantial, PRPs and others increasingly filed claims with their insurance carriers. Litigation against insurers extends to issues of liability, coverage and other policy provisions.

There is substantial uncertainty involved in estimating our liabilities related to these claims. First, the liabilities of the claimants are extremely difficult to estimate. At any given waste site, the allocation of remediation costs among governmental authorities and the PRPs varies greatly depending on a variety of factors. 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 definitively in the near future.

Uncertainties also remain as to the Superfund law itself. Superfund s taxing authority expired on December 31, 1995 and has not been re-enacted. Federal legislation appears to be at a standstill. At this time, it is 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.

Without federal movement on Superfund reform, the enforcement of Superfund liability has occasionally shifted to the states. States are being forced to reconsider state-level cleanup statutes and regulations. As individual states move forward, the potential for conflicting state regulation becomes greater. In a few states, we have seen cases brought against insureds or directly against insurance companies for environmental pollution and natural resources damages. To date, only a few natural resource claims have been filed and they are being vigorously defended. Significant uncertainty remains as to the cost of remediating the state sites. Because of the large number of state sites, such sites could prove even more costly in the aggregate than Superfund sites.

In establishing our toxic waste reserves, we evaluate the exposure presented by each insured. As part of this evaluation, we consider a variety of factors including: the probable liability, available insurance coverage, relevant judicial interpretations, past settlement values of similar claims as well as facts that are unique to each insured.

Uncertainty remains as to our ultimate liability relating to toxic waste claims. However, toxic waste losses appear to be developing as expected due to relatively stable claim trends. In many cases, claims are being settled for less than initially anticipated due to more efficient site remediation efforts.

In other cases, we have been successful at buying back our policies, thus removing the threat of additional losses in the future.

The following table presents a reconciliation of our beginning and ending loss reserves, net of reinsurance recoverable, related to toxic waste claims. There are virtually no reinsurance recoveries related to these claims.

	Years Ended December 31		
	2006	**2005**	**2004**
		(in millions)	
Reserves, beginning of year	$191	$208	$226
Incurred losses	6		
Losses paid	28	17	18
Reserves, end of year	$169	$191	$208

Of the net toxic waste loss reserves at December 31, 2006, $82 million was for IBNR losses.

Reinsurance Recoverable. Reinsurance recoverable is the estimated amount recoverable from reinsurers related to the losses we have incurred. At December 31, 2006, reinsurance recoverable included $621 million recoverable with respect to paid losses and loss expenses, which is included in other assets, and $2.6 billion recoverable on unpaid losses and loss expenses.

Reinsurance recoverable on unpaid losses and loss expenses represents an estimate of the portion of our gross loss reserves that will be recovered from reinsurers. Such reinsurance recoverable is estimated as part of our loss reserving process using assumptions that are consistent with the assumptions used in estimating the gross loss reserves. Consequently, the estimation of reinsurance recoverable is subject to similar judgments and uncertainties as the estimation of gross loss reserves.

Ceded reinsurance contracts do not relieve our primary obligation to our policyholders. Consequently, an exposure exists with respect to reinsurance recoverable to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities assumed under the reinsurance contracts. We are selective in regard to our reinsurers, placing reinsurance with only those reinsurers with strong balance sheets and superior underwriting ability, and we monitor the financial strength of our reinsurers on an ongoing basis. Nevertheless, in recent years, certain of our reinsurers have experienced financial difficulties or exited the reinsurance business. In addition, we may become involved in coverage disputes with our reinsurers. A provision for estimated uncollectible reinsurance is recorded based on periodic evaluations of balances due from reinsurers, the financial condition of the reinsurers, coverage disputes and other relevant factors.

Prior Year Loss Development

Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development or reserve releases.

A reconciliation of our beginning and ending loss reserves, net of reinsurance, for the three years ended December 31, 2006 is as follows:

	2006	2005	2004
		(in millions)	
Net loss reserves, beginning of year	$18,713	$16,809	$14,521
Net incurred losses and loss expenses related to			
Current year	6,870	7,650	6,994
Prior years	(296)	163	327
	6,574	7,813	7,321
Net payments for losses and loss expenses related to			
Current year	1,640	1,878	1,691
Prior years	3,948	4,031	3,342
	5,588	5,909	5,033
Net loss reserves, end of year	$19,699	$18,713	$16,809

During 2006, we experienced overall favorable prior year development of $296 million, which represented 1.6% of the net loss reserves as of December 31, 2005. This compares with unfavorable prior year development of $163 million during 2005, which represented 1.0% of the net loss reserves at December 31, 2004, and $327 million during 2004, which represented 2.3% of the net loss reserves at December 31, 2003. Such development was reflected in operating results in these respective years.

The net favorable development of $296 million in 2006 was due to various factors. The most significant factors were:

We experienced favorable development of about $190 million in the short tail homeowners and commercial property classes, primarily related to the 2005 accident year. This favorable development arose from the lower than expected emergence of losses during 2006 relative to expectations used to establish our loss reserves at the end of 2005. The severity of late reported property claims that emerged during 2006 was lower than expected and case development, including salvage recoveries, on previously reported claims was better than expected. Because the incidence of property losses is subject to a considerable element of fortuity, reserve estimates for these classes are based on an analysis of past loss experience on average over a period of years. As a result, the favorable development in 2006 was recognized but had a relatively modest effect on our determination of carried property loss reserves at December 31, 2006.

We experienced favorable development of about $70 million in the fidelity classes due to lower than expected reported loss emergence, mainly related to more recent accident years. Loss reserve estimates in these classes include an expectation of more large late reported losses than actually occurred in 2006. However, since we would still expect such losses to occur in a typical year, the favorable development in 2006 was given only modest weight in our determination of carried fidelity loss reserves at December 31, 2006.

We experienced favorable development of about $65 million in the run-off of our reinsurance assumed business due primarily to better than expected reported loss activity from cedants.

We experienced favorable development of about $45 million in the professional liability classes other than fidelity. Favorable development in the 2004 and 2005 accident years more than offset continued unfavorable development in accident years 2000 through 2002. Reported loss activity related to accident years 2004 and 2005 was less than expected due to a favorable business climate, lower policy limits and better terms and conditions. While these accident years are somewhat immature, we concluded that there was sufficient evidence to modestly decrease the

expected loss ratios for these accident years. On the other hand, we continued to experience significant reported loss activity related to the 2000 through 2002 accident years, largely from claims related to corporate failures and allegations of management misconduct and accounting irregularities. As a result, we increased the expected loss ratios for these accident years. The fact that our initial estimates for accident years 2003 and subsequent are developing favorably was recognized as one among several factors in the determination of loss reserves for the 2006 accident year for these classes. Other factors included the specific aspects of the current claim environment and the recent downward trend in prices.

We experienced favorable development of about $25 million in the personal automobile class. Case development during 2006 on previously reported claims was better than expected, reflecting improved case management. Also, the number of late reported claims was less than expected, reflecting a continuation of recent generally favorable frequency trends. Both of these factors were reflected in the determination of the carried loss reserves for this class at December 31, 2006.

We experienced adverse development of about $100 million in the commercial liability classes, including $24 million related to asbestos and toxic waste claims. The adverse development was primarily due to reported loss activity in accident years prior to 1997 that was worse than expected. Modestly adverse development in the 1997 through 2002 accident years was offset by favorable development in the more recent accident years. The loss activity in accident years prior to 1997 primarily related to specific individual excess liability and other liability claims, which are inherently volatile. Therefore, this adverse development had little overall effect on our determination of carried loss reserves for these classes at December 31, 2006.

The net unfavorable development of $163 million in 2005 was due to various factors. The most significant were:

We experienced adverse development of about $200 million in the professional liability classes other than fidelity. The adverse development resulted from continued significant reported loss activity related to accident years 1998 through 2002, largely from claims related to corporate failures and allegations of management misconduct and accounting irregularities. As a result, we increased the expected loss ratios for these accident years. Conversely, reported loss activity related to accident years 2003 and 2004 was less than expected due to a favorable business climate, lower policy limits and better terms and conditions. While these accident years are somewhat immature, we concluded that there was sufficient evidence to modestly decrease the expected loss ratios for these accident years.

We experienced adverse development of about $175 million related to accident years prior to 1996, including $35 million related to asbestos claims. The adverse development was due largely to our strengthening loss reserves for commercial liability classes, primarily commercial excess liability. There was significant reported loss activity during 2005 related to these older accident years, which caused us to extend the expected loss emergence period.

We experienced favorable development of about $160 million in the short tail homeowners and commercial property classes, primarily related to the 2004 accident year. The favorable development arose from the lower than expected emergence of late reported losses during 2005 relative to expectations used to establish our loss reserves at the end of 2004.

We experienced favorable development of about $60 million in the fidelity classes due to lower than expected reported loss emergence, mainly related to more recent accident years.

The net unfavorable development of $327 million in 2004 was also the result of various factors. The most significant factors were:

We experienced adverse development of about $415 million in the professional liability classes other than fidelity. The adverse development resulted from significant reported loss activity in

accident years 1998 through 2002 due in large part to claims related to corporate failures and allegations of management misconduct and accounting irregularities, especially those involving investment banks and other financial institutions. As a result, we increased the expected loss ratios for these accident years.

We experienced adverse development of about $185 million related to accident years prior to 1995, including $75 million related to asbestos claims. We strengthened loss reserves for certain commercial liability classes due to significant reported loss activity during 2004 related to these older accident years.

We experienced adverse development of about $50 million in the workers compensation class due primarily to higher average severity of the medical portion of these claims.

We experienced favorable development of about $270 million related to the 2003 accident year, due in large part to an unusually low amount of late reported homeowners and commercial property losses.

We experienced favorable development of $80 million due to a reduction of loss reserves related to the September 11 attack.

In Item 1 of this report, we present an analysis of our consolidated loss reserve development on a calendar year basis for each of the ten years prior to 2006. The variability in reserve development over the ten year period illustrates the uncertainty of the loss reserving process.

Our U.S. property and casualty subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities. These annual statements include an analysis of loss reserves, referred to as Schedule P, that presents accident year loss development information by line of business for the nine years prior to 2006. It is our intention to post the Schedule P for our combined U.S. property and casualty subsidiaries on our website as soon as it becomes available.

Investment Results

Property and casualty investment income before taxes increased by 11% in both 2006 and 2005 compared with the respective prior years. Growth in both years was due to an increase in invested assets, which reflected substantial cash flow from operations over the period. The after-tax annualized yield on the investment portfolio that supports our property and casualty insurance business was 3.48% in 2006 compared with 3.45% in 2005 and 3.55% in 2004.

The effective tax rate on our investment income was 19.8% in 2006 compared with 19.7% in 2005 and 19.8% in 2004. The effective tax rate fluctuates as the result of our holding a different proportion of our investment portfolio in tax-exempt securities during each year.

On an after-tax basis, property and casualty investment income increased by 10% in 2006 and 11% in 2005. Management uses property and casualty investment income after-tax, a non-GAAP financial measure, to evaluate its investment performance because it reflects the impact of any change in the proportion of the investment portfolio invested in tax-exempt securities and is therefore more meaningful for analysis purposes than investment income before income tax.

Other Income and Charges

Other income and charges, which include miscellaneous income and expenses of the property and casualty subsidiaries, were not significant in the last three years.

CORPORATE AND OTHER

Corporate and other includes investment income earned on corporate invested assets, interest expense and other expenses not allocated to the operating subsidiaries, and the results of our real

estate and other non-insurance subsidiaries. The results of Chubb Financial Solutions (CFS), which were previously reported separately, are now included in corporate and other. CFS, which provided customized financial products to corporate clients, has been in run-off since April 2003.

Corporate and other also included income from our investment in a corporate joint venture, Allied World Assurance Company, Ltd. We acquired an interest in Allied World in 2001 and used the equity method of accounting for this investment. Income from this investment did not have a material effect on the Corporation s results of operations in any year but did fluctuate significantly from quarter to quarter. In July 2006, Allied World sold previously unissued shares of common stock through an initial public offering. As a result of the public offering, we no longer consider Allied World to be a corporate joint venture. Accordingly, the equity method of accounting is no longer used for this investment. Instead, our investment in Allied World is now classified as an equity security. As such, it is carried at market value as of the balance sheet date with unrealized appreciation or depreciation credited or charged to comprehensive income. Consequently, income from our investment in Allied World will now only include any dividends we receive and gains or losses from any sale of our investment.

Corporate and other produced a loss before taxes of $89 million in 2006 compared with losses of $172 million and $176 million in 2005 and 2004, respectively. The lower loss in 2006 compared with 2005 was primarily due to a significantly smaller loss in our real estate operations and higher investment income. Corporate and other results were similar in 2005 and 2004 as an increase in investment income in 2005 was substantially offset by a larger loss in our real estate operations. The growth in investment income in 2006 and 2005 was due to an increase in corporate invested assets over the period, resulting from the issuance of Chubb s common stock upon the settlement of equity unit warrants and purchase contracts and under stock-based employee compensation plans.

Real Estate

Real estate operations resulted in a loss before taxes of $3 million in 2006 compared with losses of $41 million in 2005 and $25 million in 2004. The improvement in real estate results in 2006 was due to a significant decrease in impairment losses compared with 2005. During 2005, we committed to a plan to sell a parcel of land in New Jersey that we had previously intended to hold and develop. The decision to sell the property was based on our assessment of the real estate market and our concern about zoning issues. As a result of our decision to sell this property, we reassessed the recoverability of its carrying value. Based on our reassessment, we recognized an impairment loss of $48 million during the year to reduce the carrying value of the property to its estimated fair value. The loss in 2004 was due primarily to the recognition of impairment losses on two commercial properties.

Real estate revenues were $202 million in 2006, $115 million in 2005 and $70 million in 2004. The higher revenues in 2006 were due to the sale of one commercial property for approximately $110 million.

At December 31, 2006, we owned approximately $145 million of land and $30 million of commercial properties and land parcels under lease. Management believes that it has made adequate provisions for impairment of real estate assets.

Chubb Financial Solutions

CFS s business was primarily structured credit derivatives, principally as a counterparty in portfolio credit default swap contracts. Chubb guaranteed all of these obligations. In April 2003, the Corporation announced its intention to exit CFS s business. Since that date, CFS has negotiated the early termination of most of its contractual obligations within its financial products portfolio. The few remaining contracts will likely be run off over their remaining lives.

In a typical portfolio credit default swap, CFS participated in the senior layer of a structure designed to replicate the performance of a portfolio of corporate or asset-backed securities. The

structure of these portfolio credit default swaps generally would require CFS to make payment to counterparties to the extent cumulative losses, related to credit events of the referenced entities within a portfolio, exceed a specified threshold.

Portfolio credit default swaps are derivatives and are carried in the financial statements at estimated fair value, which represents management s best estimate of the cost to exit our positions. Credit default swaps tend to be unique transactions and there is no market for trading such exposures. To estimate the fair value of the obligation in each credit default swap, we use internal valuation models that are similar to external valuation models. Changes in fair value are included in income in the period of the change.

CFS produced near breakeven results in 2006 compared with a loss before taxes of $9 million in 2005 and $19 million in 2004. The loss in 2005 related to the termination of a principal and interest guarantee contract. The loss in 2004 related to the termination of CFS s obligations under several portfolio credit default swaps.

CFS s aggregate exposure, or retained risk, from each of its remaining in-force portfolio credit default swaps is referred to as notional amount. Notional amounts are used to express the extent of involvement in swap transactions. These amounts are used to calculate the exchange of contractual cash flows and are not necessarily representative of the potential for gain or loss. The notional amounts are not recorded on the balance sheet.

Since we decided to exit this business, CFS has terminated certain portfolio credit default swaps with the original counterparties at negotiated settlement amounts. CFS has also entered into credit default swaps with third parties that effectively offset existing credit default swaps. As of December 31, 2006, the notional amount of such offsetting credit default swaps was approximately $1.7 billion.

The notional amount of CFS s remaining credit default swaps was $1.1 billion at December 31, 2006. Our realistic loss exposure is a very small portion of the $1.1 billion notional amount as our position is senior to subordinated interests of about $600 million in the aggregate. In addition, using our internal ratings models, we estimate that the credit ratings of the remaining individual portfolio credit default swaps at December 31, 2006 were AAA.

In addition to portfolio credit default swaps, CFS entered into a derivative contract linked to an equity market index that terminates in 2012 and a few other insignificant transactions.

The notional amount and fair value of our future obligations under derivative contracts were as follows:

	December 31			
	Notional Amount		Fair Value	
	2006	2005	2006	2005
	(in billions)		(in millions)	
Credit default swaps	$1.1	$1.0	$ 2	$ 2
Other	.3	.3	6	7
	$1.4	$1.3	$ 8	$ 9

REALIZED INVESTMENT GAINS AND LOSSES

Net investment gains realized were as follows:

	Years Ended December 31		
	2006	**2005**	**2004**
		(in millions)	
Net realized gains (losses)			
Equity securities	$ 51	$ 75	$ 70
Fixed maturities	(2)	(35)	24
Other invested assets	209	162	155
Transfer of reinsurance assumed business		171	
Personal Lines Insurance Brokerage		16	
Chubb Institute			(31)
	258	389	218
Other-than-temporary impairment losses			
Equity securities	10	1	
Fixed maturities	3	4	
	13	5	
Realized investment gains before tax	$245	$384	$218
Realized investment gains after tax	$161	$248	$146

The net realized gains on other invested assets represent our share of changes in the estimated fair value of limited partnerships in which we have an interest.

In 2005, we transferred our ongoing reinsurance business and certain related assets to Harbor Point Limited. In exchange, we received from Harbor Point $200 million of 6% convertible notes and warrants to purchase common stock of Harbor Point. The notes and warrants represent in the aggregate on a fully diluted basis approximately 16% of the new company. The transaction resulted in a pre-tax gain of $204 million, of which $171 million was recognized as a realized investment gain in 2005. The remaining gain of $33 million was deferred and will be recognized based on the timing of the ultimate disposition of our economic interest in Harbor Point.

In 2005, we completed the sale of Personal Lines Insurance Brokerage, Inc. Based on the terms of the sale, we recognized a gain of $16 million.

In 2004, we sold The Chubb Institute. Under the terms of the sale, we recognized a loss of $31 million.

Decisions to sell equity securities and fixed maturities are governed principally by considerations of investment opportunities and tax consequences. As a result, realized gains and losses on the sale of these investments may vary significantly from period to period. However, such gains and losses generally have little, if any, impact on shareholders equity as almost all of these investments are carried at fair value, with the unrealized appreciation or depreciation reflected in comprehensive income.

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. In addition, in the fourth quarter of 2005, to reduce our income tax liability, we engaged in a program to sell taxable and tax-exempt fixed maturities to generate realized losses to offset a portion of the gain related to the Harbor Point transaction.

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We regularly review those invested assets whose fair value is less than cost to determine if an other-than-temporary decline in value has occurred. In evaluating whether a decline in value of any investment is temporary or other than temporary, we consider various quantitative criteria and qualitative factors including the length of time and the extent to which the fair value has been less than the cost, the financial condition and near term prospects of the issuer, whether the issuer is current on contractually obligated interest and principal payments, our intent and ability to hold the investment for a period of time sufficient to allow us to recover our cost, general market conditions and industry or sector specific factors. If a decline in the fair value of an individual security is deemed to be other than temporary, the difference between cost and estimated fair value is charged to income as a realized investment loss. The fair value of the investment becomes its new cost basis.

Information related to investment securities in an unrealized loss position at December 31, 2006 and 2005 is included in Note (4)(b) of the Notes to Consolidated Financial Statements.

INCOME TAXES

As a result of progress toward the settlement of certain tax matters, we recognized a $10 million tax benefit in the third quarter of 2006.

In connection with the sale of a subsidiary a number of years ago, we agreed to indemnify the buyer for certain pre-closing tax liabilities. During the first quarter of 2005, we settled this obligation with the purchaser. Accordingly, we reduced our income tax liability, which resulted in the recognition of a benefit of $22 million.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources and liquidity represent a company s overall financial strength and its ability to generate cash flows, borrow funds at competitive rates and raise new capital to meet operating and growth needs.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. At December 31, 2006, the Corporation had shareholders equity of $13.9 billion and total debt of $2.5 billion.

The Board of Directors approved a two-for-one stock split in the form of a stock dividend payable to shareholders of record on March 31, 2006. Share and per share amounts have been adjusted to reflect the stock split.

In 2003, Chubb issued $460 million of unsecured 2.25% senior notes due in 2008 and 18.4 million purchase contracts to purchase its common stock. The notes and purchase contracts were issued together in the form of 7% equity units, each of which initially represented $25 principal amount of notes and one purchase contract. In May 2006, the notes were successfully remarketed as required by their terms. The interest rate on the notes was reset to 5.472% from 2.25%, effective May 16, 2006. The remarketed notes mature on August 16, 2008. Each purchase contract obligated the holder to purchase, on or before August 16, 2006, for a settlement price of $25, a variable number of shares of Chubb s common stock. The number of shares purchased was determined based on a formula that considered the market price of Chubb s common stock immediately prior to the time of settlement in relation to the $29.75 per share sale price of the common stock at the time the equity units were offered. Upon settlement of the purchase contracts, Chubb issued 12,883,527 shares of common stock and received proceeds of $460 million.

In 2002, Chubb issued $600 million of unsecured 4% senior notes due in 2007 and 24 million mandatorily exercisable warrants to purchase its common stock. The notes and warrants were issued together in the form of 7% equity units, each of which initially represented $25 principal amount of notes and one warrant. In August 2005, the notes were successfully remarketed as required by their

terms. The interest rate on the notes was reset to 4.934%, effective August 16, 2005. The remarketed notes mature on November 16, 2007. Each warrant obligated the holder to purchase, on or before November 16, 2005, for a settlement price of $25, a variable number of shares of Chubb s common stock. The number of shares purchased was determined based on a formula that considered the market price of Chubb s common stock immediately prior to the time of settlement in relation to the $28.32 per share sale price of the common stock at the time the equity units were offered. Upon settlement of the warrants, Chubb issued 17,366,234 shares of common stock and received proceeds of $600 million.

Chubb also has outstanding $225 million of unsecured 3.95% notes due in 2008, $400 million of unsecured 6% notes due in 2011, $275 million of unsecured 5.2% notes due in 2013, $100 million of unsecured 6.6% debentures due in 2018 and $200 million of unsecured 6.8% debentures due in 2031. Chubb Executive Risk Inc., a wholly owned subsidiary, has outstanding $75 million of unsecured 7 1/8% notes due in 2007, which are guaranteed by Chubb.

At December 31, 2006, Executive Risk Capital Trust, wholly owned by Chubb Executive Risk, had outstanding $125 million of 8.675% capital securities. The sole assets of the Trust were debentures issued by Chubb Executive Risk. The capital securities were subject to mandatory redemption in 2027 upon repayment of the debentures. The capital securities were also subject to mandatory redemption in certain other specified circumstances beginning in 2007. On February 1, 2007, the debentures were repaid and the Trust redeemed the capital securities at a price that included a make-whole premium of $5 million in the aggregate.

Management regularly monitors the Corporation s capital resources. In connection with our long-term capital strategy, Chubb from time to time contributes capital to its property and casualty subsidiaries. In addition, in order to satisfy capital needs as a result of any rating agency capital adequacy or other future rating issues, or in the event we were to need additional capital to make strategic investments in light of market opportunities, we may take a variety of actions, which could include the issuance of additional debt and/or equity securities. We believe that our strong financial position and conservative debt level provide us with the flexibility and capacity to obtain funds externally through debt or equity financings on both a short term and long term basis.

In June 2003, a shelf registration statement that Chubb filed in March 2003 was declared effective by the Securities and Exchange Commission. Under the registration statement, up to $2.5 billion of various types of securities could be issued. At December 31, 2006, approximately $650 million remained under the shelf registration statement.

In December 2005, the Board of Directors authorized the repurchase of up to 28,000,000 shares of Chubb s common stock. In December 2006, the Board of Directors authorized the repurchase of up to an additional 20,000,000 shares of common stock.

In 2005, we repurchased 2,787,800 shares of Chubb s common stock in open market transactions at a cost of $135 million. In January 2006, we repurchased 5,100,000 shares under an accelerated stock buyback program at an initial price of $48.91 per share, for a total cost of $249 million. The program was completed in March, at which time, under the terms of the agreement, we received a price adjustment based on the volume weighted average price of Chubb s common stock during the program period. The price adjustment could be settled, at our election, in Chubb s common stock or cash. We elected to have the counterparty deliver 125,562 additional shares in settlement of the price adjustment. During the remainder of 2006, we repurchased 20,140,700 shares in the open market. In the aggregate, in 2006, we repurchased 25,366,262 shares of Chubb s common stock at a cost of $1,257 million. As of December 31, 2006, 19,845,938 shares remained under the 2006 share repurchase authorization, which has no expiration date. Based on our outlook for 2007, we expect to repurchase all of the shares remaining under the 2006 authorization by the end of 2007.

Ratings

Chubb and its insurance subsidiaries are rated by major rating agencies. These ratings reflect the rating agency s opinion of our financial strength, operating performance, strategic position and ability to meet our obligations to policyholders.

Credit ratings assess a company s ability to make timely payments of interest and principal on its debt. The following table summarizes the Corporation s credit ratings from the major independent rating organizations as of February 26, 2007.

	A.M. Best	Standard & Poor s	Moody s	Fitch
Senior unsecured debt rating	aa-	A	A2	A+
Commercial paper	AMB-1+	A-1	P-1	F-1

Financial strength ratings assess an insurer s ability to meet its financial obligations to policyholders. The following table summarizes our property and casualty subsidiaries financial strength ratings from the major independent rating organizations as of February 26, 2007.

	A.M. Best	Standard & Poor s	Moody s	Fitch
Financial strength	**A++**	**AA**	**Aa2**	**AA**

Ratings are an important factor in establishing our competitive position in the insurance markets. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed.

It is possible that positive or negative rating actions by one or more of the rating agencies may occur in the future. If our ratings were downgraded, we may incur higher borrowing costs and may have more limited means to access capital. In addition, a downgrade in our financial strength ratings could adversely affect the competitive position of our insurance operations, including a possible reduction in demand for our products in certain markets.

Liquidity

Liquidity is a measure of a company s ability to generate sufficient cash flows to meet the short and long term cash requirements of its business operations.

The Corporation s liquidity requirements in the past have been met by funds from operations as well as the issuance of commercial paper and debt and equity securities. We expect that our liquidity requirements in the future will be met by these sources of funds or borrowings from our credit facility.

Our property and casualty operations provide liquidity in that premiums are generally received months or even years before losses are paid under the policies purchased by such premiums. Historically, cash receipts from operations, consisting of insurance premiums and investment income, have provided more than sufficient funds to pay losses, operating expenses and dividends to Chubb. After satisfying our cash requirements, excess cash flows are used to build the investment portfolio and thereby increase future investment income.

Our strong underwriting results continued to generate substantial new cash in 2006. New cash from operations available for investment by the property and casualty subsidiaries was approximately $2.7 billion in 2006 compared with $3.4 billion in 2005 and $3.8 billion in 2004. New cash available was lower in 2006 than in 2005 due primarily to substantially higher income tax payments and lower premium receipts. New cash available in 2005 was lower than in 2004 due to a significant increase in paid losses in 2005 whereas premium receipts were only modestly higher compared with 2004. The increase in paid losses in 2005 was due primarily to directors and officers liability payments related to accident years 2002 and prior, payments related to Hurricane Katrina and payments related to two surety claims.

Our property and casualty subsidiaries maintain investments in highly liquid, short-term and other marketable securities. Accordingly, we do not anticipate selling long-term fixed maturity investments to meet any liquidity needs.

Chubb s liquidity requirements primarily include the payment of dividends to shareholders and interest and principal on debt obligations. The declaration and payment of future dividends to Chubb s shareholders will be at the discretion of Chubb s Board of Directors and will depend upon many factors, including our operating results, financial condition, capital requirements and any regulatory constraints.

As a holding company, Chubb s ability to continue to pay dividends to shareholders and to satisfy its debt obligations relies on the availability of liquid assets, which is dependent in large part on the dividend paying ability of its property and casualty subsidiaries. Our property and casualty subsidiaries are subject to laws and regulations in the jurisdictions in which they operate that restrict the amount of dividends they may pay 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 2006, these subsidiaries paid to Chubb dividends totaling $650 million. The maximum dividend distribution that may be made by the property and casualty subsidiaries to Chubb during 2007 without prior approval is approximately $1.6 billion.

Chubb has a revolving credit agreement with a group of banks that provides for unsecured borrowings of up to $500 million. The revolving credit facility terminates on June 22, 2010. On the termination date of the agreement, any loans then outstanding become payable. There have been no borrowings under this agreement. Various interest rate options are available to Chubb, all of which are based on market interest rates. The agreement contains customary restrictive covenants including a covenant to maintain a minimum consolidated shareholders equity, as adjusted. At December 31, 2006, Chubb was in compliance with all such covenants. The facility is available for general corporate purposes and to support our commercial paper borrowing arrangement.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table provides our future payments due by period under contractual obligations as of December 31, 2006, aggregated by type of obligation.

	2007	2008 and 2009	2010 and 2011	There-after	Total
			(in millions)		
Principal due under long-term debt	$675	$685	$400	$ 700(a)	$2,460
Interest payments on long-term debt	133	156	136	482(a)	907
Future minimum rental payments under operating leases	87	149	116	219	571
Total	$895	$990	$652	$1,401	$3,938

(a) On February 1, 2007, $125 million of 8.675% capital securities due February 2027 were redeemed.

The above table excludes certain commitments totaling $1.5 billion at December 31, 2006 to fund limited partnership investments. These capital commitments can be called by the partnerships during the commitment period (on average, 1 to 5 years) to fund working capital needs or the purchase of new investments.

The above table also excludes estimated future cash flows related to our carried loss reserves at December 31, 2006. There is typically no stated contractual commitment associated with property and casualty insurance loss reserves. The obligation to pay a claim arises only when a covered loss event occurs and a settlement is reached. The vast majority of our loss reserves relate to claims for which

settlements have not yet been reached. Our loss reserves therefore represent estimates of future payments. These estimates are dependent on the outcome of claim settlements that will occur over many years. Accordingly, the payment of the loss reserves is not fixed as to either amount or timing.

Our gross liability for unpaid losses and loss expenses was $22.3 billion at December 31, 2006. Of this $22.3 billion liability, we estimate that approximately $5.1 billion will be paid in 2007, an aggregate $7.1 billion will be paid in 2008 and 2009, and an aggregate $3.8 billion will be paid in 2010 and 2011. The estimate is based on our historical loss payment patterns. The ultimate amount and timing of loss payments will likely differ from our estimate and the differences could be material. We expect that these loss payments will be funded, in large part, by future cash receipts from operations.

The Corporation does not have any off-balance sheet arrangements that are reasonably likely to have a material effect on the Corporation s financial condition, results of operations, liquidity or capital resources, other than as disclosed in Note (14) of the Notes to Consolidated Financial Statements.

INVESTED ASSETS

The main objectives in managing our investment portfolios are to maximize after-tax investment income and total investment returns while minimizing credit risks in order to provide maximum support to the insurance underwriting operations. Investment strategies are developed based on many factors including underwriting results and our resulting tax position, regulatory requirements, fluctuations in interest rates and consideration of other market risks. Investment decisions are centrally managed by investment professionals based on guidelines established by management and approved by the boards of directors of Chubb and the respective operating companies.

Our investment portfolio is primarily comprised of high quality bonds, principally tax-exempt, U.S. Treasury and government agency, mortgage-backed securities and corporate issues as well as foreign government and corporate bonds that support our international operations. In addition, the portfolio includes equity securities, primarily publicly traded common stocks, and other invested assets, primarily private equity limited partnerships, all of which are held with the objective of capital appreciation.

In our U.S. operations, during 2006, 2005 and 2004, we invested new cash in tax-exempt bonds and, to a lesser extent, equity securities. In 2005 and 2004, we also invested new cash in taxable bonds, whereas in 2006 we decreased our holdings of taxable bonds, principally U.S. Treasury securities. In 2005, the taxable bonds we invested in were primarily mortgage-backed securities and, to a lesser extent, corporate bonds. In 2004, the taxable bonds were primarily U.S. Treasury securities and mortgage-backed securities and, to a lesser extent, corporate bonds. Our objective is to achieve the appropriate mix of taxable and tax-exempt securities in our portfolio to balance both investment and tax strategies. At December 31, 2006, 65% of our U.S. fixed maturity portfolio was invested in tax-exempt bonds compared with 60% at December 31, 2005 and 59% at December 31, 2004.

Fixed maturity securities that we have the ability and intent to hold to maturity are classified as held-to-maturity. All our other 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. Fixed maturities classified as held-to-maturity are carried at amortized cost while fixed maturities classified as available-for-sale are carried at market value. About 1% of the fixed maturity portfolio was classified as held-to-maturity at December 31, 2006, 2005 and 2004.

Changes in the general interest rate environment affect the returns available on new fixed maturity investments. While a rising interest rate environment enhances the returns available on new investments, it reduces the market value of existing fixed maturity investments and thus the availability of gains on disposition. A decline in interest rates reduces the returns available on new investments but increases the market value of existing investments, creating the opportunity for realized investment gains on disposition.

The unrealized appreciation before tax of investments carried at market value, which includes fixed maturities classified as available-for-sale and equity securities, was $603 million, $478 million and $961 million at December 31, 2006, 2005 and 2004, respectively. Such unrealized appreciation is reflected in comprehensive income, net of applicable deferred income tax.

The unrealized market appreciation before tax of those fixed maturities carried at amortized cost was $7 million, $11 million and $21 million at December 31, 2006, 2005 and 2004, respectively. Such unrealized appreciation was not reflected in the consolidated financial statements.

Changes in unrealized market appreciation or depreciation of fixed maturities were due primarily to fluctuations in interest rates.

CHANGE IN ACCOUNTING PRINCIPLES

Effective December 31, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in the funded status in comprehensive income in the year in which the changes occur. Retrospective application is not permitted. The adoption of SFAS No. 158 reduced shareholders equity at December 31, 2006 by $281 million. Adoption of the Statement did not have any effect on the Corporation s net income in 2006 and will not in future years. The adoption of the SFAS No. 158 is discussed further in Note (2)(c) of the Notes to Consolidated Financial Statements.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. Our primary exposure to market risks relates to our investment portfolio, which is sensitive to changes in interest rates and, to a lesser extent, credit quality, prepayment, foreign currency exchange rates and equity prices. We also have exposure to market risks through our debt obligations. Analytical tools and monitoring systems are in place to assess each of these elements of market risk.

Investment Portfolio

Interest rate risk is the price sensitivity of a security that promises a fixed return to changes in interest rates. Changes in market interest rates directly affect the market value of our fixed income securities. We view the potential changes in price of our fixed income investments within the overall context of asset and liability management. Our actuaries estimate the payout pattern of our liabilities, primarily our property and casualty loss reserves, to determine their duration, which is the present value of the weighted average payments expressed in years. We set duration targets for our fixed income investment portfolios after consideration of the duration of these liabilities and other factors, which we believe mitigates the overall effect of interest rate risk for the Corporation.

The following table provides information about our fixed maturity investments, which are sensitive to changes in interest rates. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates at December 31, 2006 and 2005. The cash

flows are based on the earlier of the call date or the maturity date or, for mortgage-backed securities, expected payment patterns. Actual cash flows could differ from the expected amounts.

	At December 31, 2006							
							Total	
	2007	2008	2009	2010	2011	There-after	Amortized Cost	Estimated Market Value
	(in millions)							
Tax-exempt	$ 915	$ 868	$1,007	$1,094	$1,492	$12,073	$17,449	$17,755
Average interest rate	5.3%	5.2%	5.0%	4.7%	4.3%	4.1%		
Taxable other than mortgage-backed securities	757	1,151	1,834	1,278	1,053	3,831	9,904	9,879
Average interest rate	5.6%	4.8%	4.5%	4.8%	5.1%	5.0%		
Mortgage-backed securities	473	675	583	550	523	1,602	4,406	4,339
Average interest rate	4.5%	5.2%	4.7%	4.7%	4.8%	5.1%		
Total	$2,145	$2,694	$3,424	$2,922	$3,068	$17,506	$31,759	$31,973

	At December 31, 2005							
							Total	
	2006	2007	2008	2009	2010	There-after	Amortized Cost	Estimated Market Value
	(in millions)							
Tax-exempt	$ 742	$ 715	$ 942	$1,031	$1,092	$11,131	$15,653	$15,965
Average interest rate	5.5%	5.3%	5.1%	5.1%	4.8%	4.1%		
Taxable other than mortgage-backed securities	912	1,261	1,415	1,659	1,257	3,662	10,166	10,267
Average interest rate	4.6%	4.5%	4.6%	4.4%	4.8%	5.0%		
Mortgage-backed securities	411	446	704	579	539	1,671	4,350	4,302
Average interest rate	4.8%	4.6%	5.2%	4.7%	4.6%	4.9%		
Total	$2,065	$2,422	$3,061	$3,269	$2,888	$16,464	$30,169	$30,534

Credit risk is the potential loss resulting from adverse changes in the issuer s ability to repay the debt obligation. We have consistently invested in high quality marketable securities. As a result, we believe that we have minimal credit quality risk. About 75% of the taxable bonds in our portfolio are issued by the U.S. Treasury or U.S. government agencies or rated AA or better by Moody s or Standard and Poor s. Of the tax-exempt bonds, about 95% are rated AA or better with about 70% rated AAA. About 2% of our bond portfolio is below investment grade. Our taxable bonds have an average maturity of five years, while our tax-exempt bonds mature on average in nine years.

Prepayment risk refers to the changes in prepayment patterns related to decreases and increases in interest rates that can either shorten or lengthen the expected timing of the principal repayments and thus the average life of a security, potentially reducing or increasing its effective yield. Such risk exists primarily within our portfolio of mortgage-backed securities. We monitor such risk regularly.

Mortgage-backed securities comprised 31% and 30% of our taxable bond portfolio at year-end 2006 and 2005, respectively. About 67% of our mortgage-backed securities holdings at December 31, 2006 related to residential mortgages consisting of government agency pass-through securities, government agency collateralized mortgage obligations (CMOs) and AAA rated non-agency CMOs backed by government agency collateral or single family home mortgages. The majority of the CMOs are actively traded in liquid markets and market value information is readily available from broker/ dealers. An

additional 25% of our mortgage-backed securities were call protected, AAA rated commercial mortgage-backed securities. The remaining mortgage-backed holdings were all investment grade, predominantly commercial mortgage-backed securities.

Foreign currency risk is the sensitivity to foreign exchange rate fluctuations of the market value and investment income related to foreign currency denominated financial instruments. The functional currency of our foreign operations is generally the currency of the local operating environment since business is primarily transacted in such local currency. We reduce the risks relating to currency fluctuations by generally maintaining investments in those foreign currencies in which our property and casualty subsidiaries have loss reserves and other liabilities. Such investments generally have characteristics similar to our liabilities in those currencies. At December 31, 2006, the property and casualty subsidiaries held non-U.S. investments of $5.7 billion supporting their international operations. These investments have quality and maturity characteristics similar to our domestic portfolio. The principal currencies creating foreign exchange rate risk for the property and casualty subsidiaries are the Canadian dollar, the British pound sterling and the euro.

The following table provides information about those fixed maturity investments that are denominated in these currencies. The table presents cash flows of principal amounts in U.S. dollar equivalents by expected maturity dates at December 31, 2006. Actual cash flows could differ from the expected amounts.

	At December 31, 2006							
							Total	
	2007	2008	2009	2010	2011	There-after	Amortized Cost	Estimated Market Value
	(in millions)							
Canadian dollar	$112	$213	$211	$210	$214	$552	$1,512	$1,527
British pound sterling	28	123	244	243	124	565	1,327	1,309
Euro	76	50	180	94	170	589	1,159	1,151

Equity price risk is the potential loss in market value of our equity securities resulting from adverse changes in stock prices. In general, equities have more year-to-year price variability than intermediate term high grade bonds. However, returns over longer time frames have been consistently higher. Our publicly traded equity securities are high quality, diversified across industries and readily marketable. A hypothetical decrease of 10% in the market price of each of the equity securities held at December 31, 2006 and 2005 would have resulted in a decrease of $196 million and $117 million, respectively, in the fair value of the equity securities portfolio.

Our other invested assets comprise investments in private equity limited partnerships. Limited partnership investments by their nature are less liquid and involve more risk than other investments. We actively manage our market risk through type of asset class and domestic and international diversification. We review the performance of these investments on a quarterly basis and we obtain audited financial statements. A hypothetical decrease of 10% in the fair value of each of our limited partnership investments at December 31, 2006 and 2005 would have resulted in a decrease of $152 million and $104 million, respectively.

All of the above risks are monitored on an ongoing basis. A combination of in-house systems and proprietary models and externally licensed software are used to analyze individual securities as well as each portfolio. These tools provide the portfolio managers with information to assist them in the evaluation of the market risks of the portfolio.

Debt

We also have interest rate risk on our debt obligations. The following table provides information about our long term debt obligations and related interest rate swap at December 31, 2006. For debt obligations, the table presents expected cash flow of principal amounts and related weighted average interest rates by maturity date. For the interest rate swap, the table presents the notional amount and related average interest rates by maturity date.

	At December 31, 2006							
	2007	2008	2009	2010	2011	There-after	Total	Estimated Market Value
	(in millions)							
Long-term debt								
Expected cash flows of principal amounts	$675	$685	$	$	$400	$ 700(b)	$2,460	$2,504
Average interest rate	5.2%	5.0%			6.0%	6.5%		
Interest rate swap								
Notional amount	$	$	$	$	$	$ 125(b)	$ 125	$ 6
Variable pay rate						7.4%(a)		
Fixed receive rate						8.675%		

(a) 3 month LIBOR rate plus 204 basis points

(b) On February 1, 2007, $125 million of 8.675% capital securities due February 1, 2027 were redeemed and the interest rate swap was terminated.

Item 8. ***Consolidated Financial Statements and Supplementary Data***

Consolidated financial statements of the Corporation at December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006 and the report thereon of our independent registered public accounting firm, and the Corporation s unaudited quarterly financial data for the two-year period ended December 31, 2006 are listed in Item 15(a) of this report.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

As of December 31, 2006, an evaluation of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures was performed under the supervision and with the participation of the Corporation s management, including the chief executive officer and chief financial officer. Based on that evaluation, the chief executive officer and chief financial officer concluded that the Corporation s disclosure controls and procedures were effective as of the evaluation date.

During the three month period ended December 31, 2006, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Corporation s internal control over financial reporting was designed under the supervision of and with the participation of the Corporation s management, including Chubb s chief executive officer and chief financial officer, to provide reasonable assurance regarding the reliability of the Corporation s financial reporting and the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management conducted an assessment of the effectiveness of the Corporation s internal control over financial reporting as of December 31, 2006. In making this assessment, management used the framework set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that, as of December 31, 2006, the Corporation s internal control over financial reporting is effective.

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Corporation s consolidated financial statements. Their attestation report on management s assessment of the Corporation s internal control over financial reporting is shown on page 64.

Item 9B. ***Other Information***

None.

Report of Independent Registered Public Accounting Firm

Ernst & Young LLP

5 Times Square
New York, New York 10036

The Board of Directors and Shareholders

The Chubb Corporation

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that The Chubb Corporation maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Corporation s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that The Chubb Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, The Chubb Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Chubb Corporation as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders equity, cash flows and comprehensive income for each of the three years in the period ended December 31, 2006, and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

February 26, 2007

PART III.

Item 10. ***Directors and Executive Officers of the Registrant***

Information regarding Chubb s directors is incorporated by reference from Chubb s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders under the caption Our Board of Directors. Information regarding Chubb s executive officers is included in Part I of this report under the caption Executive Officers of the Registrant. Information regarding Section 16 reporting compliance of Chubb s directors, executive officers and 10% beneficial owners is incorporated by reference from Chubb s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders under the caption Section 16(a) Beneficial Ownership Reporting Compliance. Information regarding Chubb s Code of Ethics for CEO and Senior Financial Officers is included in Item 1 of this report under the caption Business General. Information regarding the Audit Committee of Chubb s Board of Directors and its Audit Committee financial experts is incorporated by reference from Chubb s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders under the captions Corporate Governance Audit Committee and Committee Assignments.

Item 11. ***Executive Compensation***

Incorporated by reference from Chubb s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, under the captions Corporate Governance Directors Compensation, Compensation Discussion and Analysis and Executive Compensation.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Incorporated by reference from Chubb s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, under the captions Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information.

Item 13. ***Certain Relationships and Related Transactions***

Incorporated by reference from Chubb s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, under the caption Certain Transactions and Other Matters.

Item 14. ***Principal Accountant Fees and Services***

Incorporated by reference from Chubb s definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, under the caption Proposal 3: Ratification of Appointment of Independent Auditor.

PART IV.

Item 15. ***Exhibits, Financial Statements and Schedules***

The financial statements and schedules listed in the accompanying index to financial statements and financial statement schedules are filed as part of this report.

The exhibits listed in the accompanying index to exhibits are filed as part of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CHUBB CORPORATION
(Registrant)

February 22, 2007

By /s/ John D. Finnegan

(John D. Finnegan Chairman, President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ John D. Finnegan	Chairman, President, Chief Executive Officer and Director	February 22, 2007
(John D. Finnegan)		
/s/ Zoë Baird	Director	February 22, 2007
(Zoë Baird)		
/s/ Sheila P. Burke	Director	February 22, 2007
(Sheila P. Burke)		
/s/ James I. Cash, Jr.	Director	February 22, 2007
(James I. Cash, Jr.)		
/s/ Joel J. Cohen	Director	February 22, 2007
(Joel J. Cohen)		
/s/ Klaus J. Mangold	Director	February 22, 2007
(Klaus J. Mangold)		

Signature	Title	Date
/s/ David G. Scholey	Director	February 22, 2007
(David G. Scholey)		
/s/ Raymond G.H. Seitz	Director	February 22, 2007
(Raymond G.H. Seitz)		
/s/ Lawrence M. Small	Director	February 22, 2007
(Lawrence M. Small)		
/s/ Daniel E. Somers	Director	February 22, 2007
(Daniel E. Somers)		
/s/ Karen Hastie Williams	Director	February 22, 2007
(Karen Hastie Williams)		
/s/ Alfred W. Zollar	Director	February 22, 2007
(Alfred W. Zollar)		
/s/ Michael O Reilly	Vice Chairman and Chief Financial Officer	February 22, 2007
(Michael O Reilly)		
/s/ Henry B. Schram	Senior Vice President and Chief Accounting Officer	February 22, 2007
(Henry B. Schram)		

THE CHUBB CORPORATION

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(Item 15(a))

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All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements and notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ERNST & YOUNG LLP
5 Times Square
New York, New York 10036
The Board of Directors and Shareholders
The Chubb Corporation

We have audited the accompanying consolidated balance sheets of The Chubb Corporation as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders equity, cash flows and comprehensive income for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Chubb Corporation at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note (2)(c) to the financial statements, in 2006, the Corporation changed its method of accounting for its defined benefit pension and other postretirement plans.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Chubb Corporation s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

February 26, 2007

THE CHUBB CORPORATION
Consolidated Statements of Income

	In Millions, Except For Per Share Amounts Years Ended December 31		
	2006	**2005**	**2004**
Revenues			
Premiums Earned	$11,958	$12,176	$11,636
Investment Income	1,580	1,408	1,256
Other Revenues	220	115	67
Realized Investment Gains	245	384	218
TOTAL REVENUES	14,003	14,083	13,177
Losses and Expenses			
Losses and Loss Expenses	6,574	7,813	7,321
Amortization of Deferred Policy Acquisition Costs	2,919	2,931	2,843
Other Insurance Operating Costs and Expenses	550	512	630
Investment Expenses	34	29	25
Other Expenses	207	161	111
Corporate Expenses	194	190	179
TOTAL LOSSES AND EXPENSES	10,478	11,636	11,109
INCOME BEFORE FEDERAL AND FOREIGN INCOME TAX	3,525	2,447	2,068
Federal and Foreign Income Tax	997	621	520
NET INCOME	$ 2,528	$ 1,826	$ 1,548
Net Income Per Share			
Basic	$ 6.13	$ 4.61	$ 4.08
Diluted	5.98	4.47	4.01

See accompanying notes.

THE CHUBB CORPORATION
Consolidated Balance Sheets

	In Millions December 31	
	2006	**2005**
Assets		
Invested Assets		
Short Term Investments	$ 2,254	$ 1,899
Fixed Maturities		
Held-to-Maturity Tax Exempt (market $142 and $216)	135	205
Available-for-Sale		
Tax Exempt (cost $17,314 and $15,449)	17,613	15,750
Taxable (cost $14,310 and $14,515)	14,218	14,568
Equity Securities (cost $1,561 and $1,045)	1,957	1,169
Other Invested Assets	1,516	1,043
TOTAL INVESTED ASSETS	37,693	34,634
Cash	38	36
Securities Lending Collateral	2,620	2,077
Accrued Investment Income	411	391
Premiums Receivable	2,314	2,319
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	2,594	3,769
Prepaid Reinsurance Premiums	354	244
Deferred Policy Acquisition Costs	1,480	1,445
Real Estate Assets	201	367
Investment in Partially Owned Company		260
Deferred Income Tax	591	623
Goodwill	467	467
Other Assets	1,514	1,429
TOTAL ASSETS	$50,277	$48,061
Liabilities		
Unpaid Losses and Loss Expenses	$22,293	$22,482
Unearned Premiums	6,546	6,361
Securities Lending Payable	2,620	2,077
Long Term Debt	2,466	2,467
Dividend Payable to Shareholders	104	90
Accrued Expenses and Other Liabilities	2,385	2,177
TOTAL LIABILITIES	36,414	35,654
Commitments and Contingent Liabilities (Note 9 and 14)		
Shareholders Equity		

Preferred Stock Authorized 8,000,000 Shares; $1 Par Value; Issued None		
Common Stock Authorized 1,200,000,000 Shares; $1 Par Value; Issued 411,276,940 and 420,864,596 Shares	411	210
Paid-In Surplus	1,539	2,364
Retained Earnings	11,711	9,600
Accumulated Other Comprehensive Income	202	368
Treasury Stock, at Cost 2,787,800 Shares in 2005		(135)
TOTAL SHAREHOLDERS EQUITY	13,863	12,407
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$50,277	$48,061

See accompanying notes.

THE CHUBB CORPORATION
Consolidated Statements of Shareholders Equity

	In Millions Years Ended December 31 2006	2005	2004
Preferred Stock			
Balance, Beginning and End of Year	$	$	$
Common Stock			
Balance, Beginning of Year	210	196	196
Two-for-One Stock Split	210		
Treasury Shares Cancelled	(7)		
Repurchase of Shares	(21)		
Shares Issued Upon Settlement of Equity Unit Purchase Contracts and Warrants	13	9	
Shares Issued Under Stock-Based Employee Compensation Plans	6	5	
Balance, End of Year	411	210	196
Paid-In Surplus			
Balance, Beginning of Year	2,364	1,319	1,319
Two-for-One Stock Split	(210)		
Treasury Shares Cancelled	(377)		
Repurchase of Shares	(987)		
Shares Issued Upon Settlement of Equity Unit Purchase Contracts and Warrants	447	591	
Changes Related to Stock-Based Employee Compensation (includes tax benefit (charge) of $46, $84 and $(2))	302	454	
Balance, End of Year	1,539	2,364	1,319
Retained Earnings			
Balance, Beginning of Year	9,600	8,119	6,869
Net Income	2,528	1,826	1,548
Dividends Declared (per share $1.00, $.86 and $.78)	(417)	(345)	(298)
Balance, End of Year	11,711	9,600	8,119
Accumulated Other Comprehensive Income			
Unrealized Appreciation of Investments			
Balance, Beginning of Year	311	624	673
Change During Year, Net of Tax	81	(313)	(49)
Balance, End of Year	392	311	624
Foreign Currency Translation Gains			

Balance, Beginning of Year	57	79	12
Change During Year, Net of Tax	34	(22)	67
Balance, End of Year	91	57	79
Defined Benefit Postretirement Plans			
Balance, Beginning of Year			
Adjustment to Recognize Funded Status at December 31, 2006, Net of Tax	(281)		
Balance, End of Year	(281)		
Accumulated Other Comprehensive Income, End of Year	202	368	703
Treasury Stock, at Cost			
Balance, Beginning of Year	(135)	(211)	(529)
Repurchase of Shares	(249)	(135)	
Cancellation of Shares	384		
Shares Issued Under Stock-Based Employee Compensation Plans		211	318
Balance, End of Year		(135)	(211)
TOTAL SHAREHOLDERS EQUITY	$13,863	$12,407	$10,126

See accompanying notes.

THE CHUBB CORPORATION
Consolidated Statements of Cash Flows

	In Millions Years Ended December 31 2006	2005	2004
Cash Flows from Operating Activities			
Net Income	$ 2,528	$ 1,826	$ 1,548
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Increase in Unpaid Losses and Loss Expenses, Net	986	1,904	2,288
Increase in Unearned Premiums, Net	16	107	417
Decrease (Increase) in Premiums Receivable	5	17	(149)
Increase in Reinsurance Recoverable on Paid Losses	(225)	(51)	(44)
Increase in Deferred Policy Acquisition Costs	(19)	(17)	(76)
Deferred Income Tax	108	84	85
Amortization of Premiums and Discounts on Fixed Maturities	233	217	98
Depreciation	81	91	106
Realized Investment Gains	(245)	(384)	(218)
Other, Net	(126)	(38)	34
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,342	3,756	4,089
Cash Flows from Investing Activities			
Proceeds from Fixed Maturities			
Sales	3,623	7,481	3,920
Maturities, Calls and Redemptions	1,579	1,683	2,048
Proceeds from Sales of Equity Securities	186	330	402
Purchases of Fixed Maturities	(6,758)	(12,206)	(11,465)
Purchases of Equity Securities	(377)	(428)	(494)
Investments in Other Invested Assets, Net	(264)	(66)	12
Decrease (Increase) in Short Term Investments, Net	(355)	(591)	1,388
Increase (Decrease) in Net Payable from Security Transactions not Settled	50	(111)	127
Purchases of Property and Equipment, Net	(53)	(40)	(65)
Other, Net		97	(1)
NET CASH USED IN INVESTING ACTIVITIES	(2,369)	(3,851)	(4,128)
Cash Flows from Financing Activities			
Repayment of Long Term Debt		(301)	
Increase (Decrease) in Funds Held Under Deposit Contracts	(29)	(276)	44
Proceeds from Common Stock Issued Upon Settlement of Equity Unit Purchase Contracts and Warrants	460	600	
	229	531	258

Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans			
Repurchase of Shares	(1,228)	(135)	
Dividends Paid to Shareholders	(403)	(330)	(291)
Other, Net			18
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(971)	89	29
Net Increase (Decrease) in Cash	2	(6)	(10)
Cash at Beginning of Year	36	42	52
CASH AT END OF YEAR	$ 38	$ 36	$ 42

See accompanying notes.

THE CHUBB CORPORATION
Consolidated Statements of Comprehensive Income

	In Millions Years Ended December 31 2006	2005	2004
Net Income	$2,528	$1,826	$1,548
Other Comprehensive Income (Loss)			
Change in Unrealized Appreciation of Investments, Net of Tax	81	(313)	(49)
Foreign Currency Translation Gains (Losses), Net of Tax	34	(22)	67
	115	(335)	18
COMPREHENSIVE INCOME	$2,643	$1,491	$1,566

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The Chubb Corporation (Chubb) is a holding company with subsidiaries principally engaged in the property and casualty insurance business. The property and casualty insurance subsidiaries (the P&C Group) underwrite most lines of property and casualty insurance in the United States, Canada, Europe, Australia and parts of Latin America and Asia. The geographic distribution of property and casualty business in the United States is broad with a particularly strong market presence in the Northeast.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of Chubb and its subsidiaries (collectively, the Corporation). Significant intercompany transactions have been eliminated in consolidation.

The consolidated financial statements include amounts based on informed estimates and judgments of management for transactions that are not yet complete. Such estimates and judgments 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.

Certain amounts in the consolidated financial statements for prior years have been reclassified to conform with the 2006 presentation.

On March 3, 2006, the Board of Directors approved a two-for-one stock split payable to shareholders of record on March 31, 2006. All share and per share amounts have been retroactively adjusted to reflect the stock split.

(b) *Invested Assets*

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

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

Premiums and discounts arising from the purchase of fixed maturities are amortized using the interest method over the estimated remaining term of the securities. For mortgage-backed securities, prepayment assumptions are reviewed periodically and revised as necessary.

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

Unrealized appreciation or depreciation of equity securities and fixed maturities carried at market value is excluded from net income and credited or charged, net of applicable deferred income tax, directly to comprehensive income.

Other invested assets, which include private equity limited partnerships, are carried at estimated fair value. Fair value represents the Corporation s equity in the net assets of the partnerships. Changes in fair value are included in income as realized investment gains or losses.

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. When the market value of any investment is lower than its cost, an assessment is made to determine whether the decline is temporary or other-than-temporary. If the decline is deemed to be other-than-temporary, the investment is written down to market value and the amount of the writedown is charged to income as a realized investment loss. The market value of the investment becomes its new cost basis.

The Corporation engages in a securities lending program to generate additional income, whereby certain of its invested assets are loaned to other institutions for short periods of time. The Corporation maintains effective control over securities loaned and therefore continues to report such securities as invested assets. The market value of the loaned securities was $2,857 million and $2,801 million at December 31, 2006 and 2005, respectively. Of these amounts, $2,499 million and $2,511 million, respectively, comprised available-for-sale fixed maturities and the

balance comprised equity securities.

The Corporation s policy is to require initial collateral equal to at least 102% of the market value of the loaned securities. In those instances where cash collateral is obtained from the borrower, the collateral is invested by a lending agent in accordance with the Corporation s guidelines. The cash collateral is recognized as an asset with a corresponding liability for the obligation to return the collateral. In instances where non-cash collateral is obtained from the borrower, the Corporation does not recognize the receipt of the collateral held by the lending agent or the obligation to return the collateral as there exists no right to sell or repledge the collateral. The market value of the non-cash collateral held was $346 million and $863 million at December 31, 2006 and 2005, respectively. The Corporation retains a portion of the income earned from the cash collateral or receives a fee from the borrower. Under the terms of the securities lending program, the lending agent indemnifies the Corporation against borrower defaults.

(c) *Premium Revenues and Related Expenses*

Insurance premiums are earned on a monthly pro rata basis over the terms of the policies and include estimates of audit premiums and premiums on retrospectively rated policies. Assumed reinsurance premiums are earned over the terms of the reinsurance contracts. Unearned premiums represent the portion of direct and assumed premiums written applicable to the unexpired terms of the insurance policies and reinsurance contracts in force.

Ceded reinsurance premiums are charged to income over the terms of the reinsurance contracts. Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired terms of the reinsurance contracts in force.

Reinsurance reinstatement premiums are recognized in the same period as the loss event that gave rise to the reinstatement premiums.

Acquisition costs that vary with and are primarily related to the production of business are deferred and amortized over the period in which the related premiums are earned. Such costs include commissions, premium taxes and certain other underwriting and policy issuance costs. Commissions received related to reinsurance premiums ceded are considered in determining net acquisition costs eligible for deferral. Deferred policy acquisition costs are reviewed to determine whether they are recoverable from future income. If such costs are deemed to be unrecoverable, they are expensed. Anticipated investment income is considered in the determination of the recoverability of deferred policy acquisition costs.

(d) *Unpaid Losses and Loss Expenses*

Unpaid losses and loss expenses (also referred to as loss reserves) include the accumulation of individual case estimates for claims that have been reported and estimates of claims that have been incurred but not reported as well as estimates of the expenses associated with processing and settling all reported and unreported claims, less estimates of anticipated salvage and subrogation recoveries. Estimates are based upon past loss experience modified for current trends as well as prevailing economic, legal and social conditions. Loss reserves are not discounted to present value.

Loss reserves are regularly reviewed using a variety of actuarial techniques. Reserve estimates are updated as historical loss experience develops, additional claims are reported and/or settled and new information becomes available. Any changes in estimates are reflected in operating results in the period in which the estimates are changed.

Reinsurance recoverable on unpaid losses and loss expenses represents an estimate of the portion of gross loss reserves that will be recovered from reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the gross losses associated with the reinsured policies. A provision for estimated uncollectible reinsurance is recorded based on periodic evaluations of balances due from reinsurers, the financial condition of the reinsurers, coverage disputes and other relevant factors.

(e) *Financial Products*

Credit derivatives, principally portfolio credit default swaps, are carried at estimated fair value as of the balance sheet date. Changes in fair value are recognized in income in the period of the change and are included in other revenues.

Assets and liabilities related to the credit derivatives are included in other assets and other liabilities.

(f) *Real Estate*

Real estate properties are carried at cost less accumulated depreciation and any writedowns for impairment.

Real estate properties are reviewed for impairment whenever events or circumstances indicate that the carrying value of such properties may not be recoverable. In performing the review for recoverability of carrying value, estimates are made of the future undiscounted cash flows from each of the properties during the period the property will be held and upon its eventual disposition. If the expected future undiscounted cash flows are less than the carrying value of any property, an impairment loss is recognized, resulting in a writedown of the carrying value of the property. Measurement of such impairment is based on the fair value of the property.

Profits on land, residential unit and commercial building sales are recognized at closing, subject to compliance with applicable accounting guidelines.

(g) *Investment in Partially Owned Company*

Investment in partially owned company included the Corporation s minority interest in a corporate joint venture, Allied World Assurance Holdings, Ltd. The equity method of accounting was used for this investment.

In July 2006, Allied World sold previously unissued shares of common stock through an initial public offering. As a result of the public offering, the Corporation no longer considers Allied World to be a corporate joint venture. Accordingly, the equity method of accounting is no longer used for this investment. Instead, the investment in Allied World is now classified as an equity security. As such, it is carried at market value as of the balance sheet date.

(h) *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of net assets of entities acquired. Goodwill is tested for impairment at least annually.

(i) *Property and Equipment*

Property and equipment used in operations, including certain costs incurred to develop or obtain computer software for internal use, are capitalized and carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

(j) *Income Taxes*

Chubb 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 on deferred tax assets and liabilities of a change in tax laws or rates is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

The Corporation does not consider the earnings of its foreign subsidiaries to be permanently reinvested. Accordingly, provision has been made for the expected U.S. federal income tax liabilities applicable to undistributed earnings of foreign subsidiaries.

(k) *Stock-Based Employee Compensation*

The fair value method of accounting is used for stock-based employee compensation plans. Under the fair value method, compensation cost is measured based on the fair value of the award at the grant date and recognized over the service period.

(l) *Foreign Exchange*

Assets and liabilities relating to foreign operations are translated into U.S. dollars using current exchange rates as of the balance sheet date. Revenues and expenses are translated into U.S. dollars using the average exchange rates during the year.

The functional currency of foreign operations is generally the currency of the local operating environment since business is primarily transacted in such local currency. Translation gains and losses, net of applicable income tax, are excluded from net income and are credited or charged directly to comprehensive income.

(m) *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.

In 2005, the Corporation transferred its ongoing reinsurance assumed business and certain related assets to Harbor Point Limited (see Note (3)). In exchange, the Corporation received from Harbor Point $200 million of 6% convertible notes and warrants to purchase common stock of Harbor Point.

In 2005, a mortgage payable of $42 million was assumed by an unaffiliated joint venture in connection with the disposition of the Corporation s interest in a variable interest entity in which it was the primary beneficiary.

These noncash transactions have been excluded from the consolidated statement of cash flows.

(n) *Accounting Pronouncements Not Yet Adopted*

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial

statements. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for the Corporation for the year beginning January 1, 2007. The adoption of FIN 48 is not expected to have a significant effect on the Corporation s financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. The Statement does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for the Corporation for the year beginning January 1, 2008. The adoption of SFAS No. 157 is not expected to have a significant effect on the Corporation s financial position or results of operations.

(2) Adoption of New Accounting Pronouncements

(a) Effective January 1, 2006, the Corporation adopted SFAS No. 123 (revised 2004), Share-Based Payment, which revised SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) requires companies to adopt the fair value method of accounting for stock-based employee compensation plans. The fair value method of accounting for stock-based employee compensation plans as defined in SFAS No. 123(R) is similar in most respects to the fair value method defined in SFAS No. 123. Since the Corporation had previously adopted the fair value method of accounting for stock-based employee compensation plans, the adoption of SFAS No. 123(R) did not have a significant effect on the Corporation s financial position or results of operations.

(b) Effective January 1, 2006, the Corporation adopted FASB Staff Position (FSP) Nos. 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary and the measurement of an impairment loss. The FSP clarifies that an investor shall recognize an impairment loss when the impairment is deemed to be other-than-temporary even if a decision to sell the impaired security has not been made. The FSP nullifies certain requirements and carries forward other requirements of Emerging Issues Task Force Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The implementation of the guidance in the FSP did not have a significant effect on the Corporation s financial position or results of operations.

(c) Effective December 31, 2006, the Corporation adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in the funded status in comprehensive income in the year in which the changes occur. Retrospective application is not permitted. Any gains or losses and prior service cost that have not yet been included in net benefit costs as of the end of the year in which SFAS No. 158 is adopted shall be reported as an adjustment of the ending balance of accumulated other comprehensive income, net of tax.

The adoption of SFAS No. 158 as of December 31, 2006 increased other liabilities by $432 million, increased deferred income tax assets by $151 million and decreased accumulated other comprehensive income, a component of shareholders equity, by $281 million. Adoption of the Statement did not have any effect on the Corporation s results of operations in 2006 and will not in future years.

(3) Transfer of Ongoing Reinsurance Assumed Business

In December 2005, the Corporation completed a transaction involving a new Bermuda based reinsurance company, Harbor Point Limited.

As part of the transaction, the Corporation transferred its ongoing reinsurance assumed business and certain related assets, including renewal rights, to Harbor Point. In exchange, the Corporation received from Harbor Point $200 million of 6% convertible notes and warrants to purchase common stock of Harbor Point. The notes and warrants represent in the aggregate on a fully diluted basis approximately 16% of the new company.

Harbor Point generally did not assume the reinsurance liabilities relating to reinsurance contracts incepting prior to December 31, 2005. Those liabilities and the related assets were retained by the P&C Group.

Other than pursuant to certain arrangements entered into with Harbor Point, the P&C Group generally no longer engages directly in the reinsurance assumed business. Harbor Point has the right for a transition period of up to two years to underwrite specific reinsurance business on the P&C Group s behalf. The P&C Group retains a portion of any such business and cedes the balance to Harbor Point in return for a fronting commission.

The transaction resulted in a pre-tax gain of $204 million, of which $171 million was recognized in 2005 and $33 million was deferred. The portion of the gain that was deferred was based on the Corporation s economic interest in Harbor Point.

The Corporation will receive additional payments based on the amount of P&C Group business renewed by Harbor Point. The Corporation will recognize these amounts in income when earned.

(4) Invested Assets and Related Income

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

	December 31							
	2006				2005			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Market Value	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Market Value
	(in millions)							
Held-to-maturity Tax exempt	$ 135	$ 7	$	$ 142	$ 205	$ 11	$	$ 216
Available-for-sale								
Tax exempt	17,314	341	42	17,613	15,449	362	61	15,750
Taxable								
U.S. Government and government agency and authority obligations	1,936	1	26	1,911	2,770	6	17	2,759
Corporate bonds	2,379	42	24	2,397	2,608	56	35	2,629
Foreign bonds	5,589	39	57	5,571	4,747	107	17	4,837
Mortgage-backed securities	4,406	21	88	4,339	4,350	34	81	4,303
Redeemable preferred stocks					40			40
	14,310	103	195	14,218	14,515	203	150	14,568
Total available-for-sale	31,624	444	237	31,831	29,964	565	211	30,318
Total fixed maturities	$31,759	$ 451	$ 237	$31,973	$30,169	$ 576	$ 211	$30,534

The amortized cost and estimated market value of fixed maturities at December 31, 2006 by contractual maturity were as follows:

	Amortized Cost	Estimated Market Value
	(in millions)	

Held-to-maturity		
Due in one year or less	$ 35	$ 36
Due after one year through five years	56	57
Due after five years through ten years	43	48
Due after ten years	1	1
	$ 135	$ 142
Available-for-sale		
Due in one year or less	$ 944	$ 944
Due after one year through five years	7,725	7,736
Due after five years through ten years	10,378	10,483
Due after ten years	8,171	8,329
	27,218	27,492
Mortgage-backed securities	4,406	4,339
	$31,624	$31,831

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

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

	December 31	
	2006	2005
	(in millions)	
Equity securities		
Gross unrealized appreciation	$417	$162
Gross unrealized depreciation	21	38
	396	124
Fixed maturities		
Gross unrealized appreciation	444	565
Gross unrealized depreciation	237	211
	207	354
	603	478
Deferred income tax liability	211	167
	$392	$311

When the market value of any investment is lower than its cost, an assessment is made to determine whether the decline is temporary or other-than-temporary. The assessment is based on both quantitative criteria and qualitative information and considers a number of factors including, but not limited to, the length of time and the extent to which the market value has been less than the cost, the financial condition and near term prospects of the issuer, whether the issuer is current on contractually obligated interest and principal payments, the intent and ability of the Corporation to hold the investment for a period of time sufficient to allow for the recovery of cost, general market conditions and industry or sector specific factors. Based on a review of the securities in an unrealized loss position at December 31, 2006 and 2005, management believes that none of the declines in market value at those dates were other-than-temporary.

The following table summarizes, for all investment securities in an unrealized loss position at December 31, 2006, the aggregate market value and gross unrealized depreciation by investment category and length of time that individual securities have continuously been in an unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
	Estimated Market Value	Gross Unrealized Depreciation	Estimated Market Value	Gross Unrealized Depreciation	Estimated Market Value	Gross Unrealized Depreciation
	(in millions)					
Fixed maturities available-for-sale						
Tax exempt	$1,136	$ 4	$2,985	$ 38	$ 4,121	$ 42
Taxable						
U.S. Government and government agency and authority obligations	1,014	8	766	18	1,780	26
Corporate bonds	229	3	928	21	1,157	24
Foreign bonds	2,893	37	976	20	3,869	57
Mortgage-backed securities	584	4	2,763	84	3,347	88
	4,720	52	5,433	143	10,153	195
Total fixed maturities available-for-sale	5,856	56	8,418	181	14,274	237
Equity securities	148	12	68	9	216	21
	$6,004	$ 68	$8,486	$190	$14,490	$258

The total gross unrealized depreciation amount at December 31, 2006 comprised approximately 1,420 securities, of which 1,380 were fixed maturities. Almost all of the fixed maturities in an unrealized loss position were investment grade securities depressed due to changes in interest rates from the date of purchase. There were no securities with a market value less than 80% of the security s amortized cost for six continuous months. Securities in an unrealized loss position for less than twelve months comprised approximately 600 securities, of which 99% were securities with a

market value to amortized cost ratio at or greater than 95%. Securities in an unrealized loss position for twelve months or more comprised approximately 820 securities, of which 97% were securities with a market value to amortized cost ratio at or greater than 95%.

The following table summarizes, for all investment securities in an unrealized loss position at December 31, 2005, the aggregate market value and gross unrealized depreciation by investment category and length of time that individual securities have continuously been in an unrealized loss position.

	Less Than 12 Months		12 Months or More		Total	
	Estimated Market Value	Gross Unrealized Depreciation	Estimated Market Value	Gross Unrealized Depreciation	Estimated Market Value	Gross Unrealized Depreciation
	(in millions)					
Fixed maturities available-for-sale						
Tax exempt	$3,984	$ 40	$ 829	$ 21	$ 4,813	$ 61
Taxable						
U.S. Government and government agency and authority obligations	978	6	438	11	1,416	17
Corporate bonds	948	23	303	12	1,251	35
Foreign bonds	1,284	14	80	3	1,364	17
Mortgage-backed securities	1,804	32	1,319	49	3,123	81
	5,014	75	2,140	75	7,154	150
Total fixed maturities available-for-sale	8,998	115	2,969	96	11,967	211
Equity securities	186	26	67	12	253	38
	$9,184	$141	$3,036	$108	$12,220	$249

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

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Change in unrealized appreciation of equity securities	$ 272	$ (29)	$ 21
Change in unrealized appreciation of fixed maturities	(147)	(453)	(96)
	125	(482)	(75)
Deferred income tax (credit)	44	(169)	(26)
	$ 81	$(313)	$(49)

The unrealized appreciation 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 a decrease of $4 million, $10 million and $14 million for the years ended December 31, 2006, 2005 and 2004, respectively.

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

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Fixed maturities	$1,433	$1,296	$1,156
Equity securities	33	30	30
Short term investments	74	53	44
Other	40	29	26
Gross investment income	1,580	1,408	1,256
Investment expenses	34	29	25
	$1,546	$1,379	$1,231

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

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Fixed maturities			
Gross realized gains	$ 29	$ 74	$ 97
Gross realized losses	(31)	(109)	(73)
Other-than-temporary impairments	(3)	(4)	

	(5)	(39)	24
Equity securities			
Gross realized gains	60	84	92
Gross realized losses	(9)	(9)	(22)
Other-than-temporary impairments	(10)	(1)	
	41	74	70
Other invested assets	209	162	155
Transfer of reinsurance business		171	
Sale of Personal Lines Insurance Brokerage		16	
Sale of The Chubb Institute			(31)
	$245	$ 384	$218

In December 2005, the Corporation transferred its ongoing reinsurance assumed business and certain related assets to Harbor Point Limited. This transaction is further described in Note (3).

In September 2005, the Corporation sold Personal Lines Insurance Brokerage, Inc., an insurance brokerage subsidiary. In September 2004, the Corporation sold The Chubb Institute, Inc., its post secondary educational subsidiary.

(5) Deferred Policy Acquisition Costs

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

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Balance, beginning of year	$ 1,445	$ 1,435	$ 1,344
Costs deferred during year			
Commissions and brokerage	1,534	1,636	1,634
Premium taxes and assessments	265	260	256
Salaries and operating costs	1,139	1,052	1,029
	2,938	2,948	2,919
Increase (decrease) due to foreign exchange	16	(7)	15
Amortization during year	(2,919)	(2,931)	(2,843)
Balance, end of year	$ 1,480	$ 1,445	$ 1,435

(6) Real Estate

The components of real estate assets were as follows:

	December 31	
	2006	2005

	(in millions)	
Mortgages receivable	$ 1	$ 19
Income producing properties	32	144
Construction in progress	23	21
Land under development and unimproved land	145	183
	$201	$367

Impairment losses of $11 million, $66 million and $27 million were recognized in 2006, 2005 and 2004, respectively, to write down the carrying value of certain properties to their estimated fair value.

Depreciation expense related to income producing properties was $4 million in 2006 and $6 million in 2005 and 2004.

(7) Property and Equipment

Property and equipment included in other assets were as follows:

	December 31	
	2006	2005
	(in millions)	
Cost	$814	$804
Accumulated depreciation	451	419
	$363	$385

Depreciation expense related to property and equipment was $77 million, $85 million and $100 million for 2006, 2005 and 2004, respectively.

(8) Debt and Credit Arrangements

(a) Long term debt consisted of the following:

	December 31	
	2006	2005
	(in millions)	
4.934% notes due November 16, 2007	$ 600	$ 600
7 1/8% notes due December 15, 2007	75	75
3.95% notes due April 1, 2008	225	225
5.472% notes due August 16, 2008*	460	460
6% notes due November 15, 2011	400	400
5.2% notes due April 1, 2013	275	275
6.6% debentures due August 15, 2018	100	100
8.675% capital securities due February 1, 2027	125	125
6.8% debentures due November 15, 2031	200	200
	2,460	2,460
Fair value of interest rate swap	6	7
	$2,466	$2,467

* These notes bore an interest rate of 2.25% at December 31, 2005. The interest rate was reset to 5.472% in May 2006 pursuant to the remarketing of these notes as described below.

In June 2003, Chubb issued $460 million of unsecured 2.25% senior notes due August 16, 2008 and 18.4 million purchase contracts to purchase Chubb s common stock. The notes and purchase contracts were issued together in the form of 7% equity units. Each equity unit initially represented one purchase contract and $25 principal amount of notes. In May 2006, the notes were successfully remarketed as required by their terms. The interest rate on the notes was reset to 5.472% from 2.25%, effective May 16, 2006. The remarketed notes are due August 16, 2008. The purchase contracts are further described in Note (19)(c).

The 4.934% notes, the 3.95% notes, the 6% notes, the 5.2% notes, the 6.6% debentures and the 6.8% debentures are all unsecured obligations of Chubb.

The 7 1/8% notes are obligations of Chubb Executive Risk Inc., a wholly owned subsidiary, and are fully and unconditionally guaranteed by Chubb.

Executive Risk Capital Trust, wholly owned by Chubb Executive Risk, had outstanding $125 million of 8.675% capital securities at December 31, 2006. The proceeds from the issuance of the capital securities were used by the Trust to acquire $125 million of Chubb Executive Risk 8.675% junior subordinated deferrable interest debentures due February 1, 2027. The sole assets of the Trust were the debentures. The debentures and the related income effects were eliminated in the consolidated financial statements. The capital securities were subject to mandatory redemption on February 1, 2027, upon repayment of the debentures. The capital securities were also subject to mandatory redemption in certain other specified circumstances beginning in 2007. On February 1, 2007, the debentures were repaid and the Trust redeemed the capital securities at a price that included a make-whole premium of $5 million in the aggregate.

At December 31, 2006, Chubb was a party to a cancelable interest rate swap agreement with a notional amount of $125 million that replaced the fixed rate of the capital securities with the 3-month LIBOR rate plus 204 basis points. The swap agreement had a maturity date of February 1, 2027 and provided only for the exchange of interest on the notional amount. The fair value of the swap was included in other assets, offset by a corresponding increase to long

term debt. On February 1, 2007, the interest rate swap was terminated.

The amounts of long term debt due annually during the five years subsequent to December 31, 2006 are as follows:

Years Ending December 31	(in millions)
2007	$675
2008	685
2009	
2010	
2011	400

Chubb filed a shelf registration statement which the Securities and Exchange Commission declared effective in June 2003, under which up to $2.5 billion of various types of securities could be issued. At December 31, 2006, approximately $650 million remained under the shelf.

(b) Interest costs of $134 million, $135 million and $139 million were incurred in 2006, 2005 and 2004, respectively. Interest paid was $129 million, $138 million and $136 million in 2006, 2005 and 2004, respectively.

(c) Chubb has a revolving credit agreement with a group of banks that provides for unsecured borrowings of up to $500 million. The revolving credit facility terminates on June 22, 2010. On the termination date of the agreement, any loans then outstanding become payable. There have been no borrowings under this agreement. Various interest rate options are available to Chubb, all of which are based on market interest rates. Chubb pays a fee to have this revolving credit facility available. The agreement contains customary restrictive covenants including a covenant to maintain a minimum consolidated shareholders equity, as adjusted. At December 31, 2006, Chubb was in compliance with all such covenants. The facility is available for general corporate purposes and to support Chubb s commercial paper borrowing arrangement.

(9) Unpaid Losses and Loss Expenses

(a) The process of establishing loss reserves is complex and imprecise as it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments as to the P&C Group s ultimate exposure to losses are an integral component of the loss reserving process. The loss reserve estimation process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for predicting future outcomes.

Most of the P&C Group s loss reserves relate to long tail liability classes of business. For many liability claims significant periods of time, ranging up to several years or more, may elapse between the occurrence of the loss, the reporting of the loss and the settlement of the claim. The longer the time span between the incidence of a loss and the settlement of the claim, the more the ultimate settlement amount can vary.

There are numerous factors that contribute to the inherent uncertainty in the process of establishing loss reserves. Among these factors are changes in the inflation rate for goods and services related to covered damages such as medical care and home repair costs; changes in the judicial interpretation of policy provisions relating to the determination of coverage; changes in the general attitude of juries in the determination of liability and damages; legislative actions; changes in the medical condition of claimants; changes in the estimates of the number and/or severity of claims that have been incurred but not reported as of the date of the financial statements; and changes in the P&C Group s book of business, underwriting standards and/ or claim handling procedures.

In addition, the uncertain effects of emerging or potential claims and coverage issues that arise as legal, judicial and social conditions change must be taken into consideration. These issues can have a negative effect on loss reserves by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims. As a result of such issues, the uncertainties inherent in estimating ultimate claim costs on the basis of past experience have grown, further complicating the already complex loss reserving process.

Management believes that the aggregate loss reserves of the P&C Group at December 31, 2006 were adequate to cover claims for losses that had occurred as of that date, 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 significant uncertainties inherent in the loss reserving process, it is possible that management s estimate of the ultimate liability for losses that occurred as of December 31, 2006 may change, which could have a material effect on the Corporation s results of operations and financial condition.

(b) A reconciliation of the beginning and ending liability for unpaid losses and loss expenses, net of reinsurance recoverable, and a reconciliation of the net liability to the corresponding liability on a gross basis is as follows:

	2006	2005	2004
		(in millions)	
Gross liability, beginning of year	$22,482	$20,292	$17,948
Reinsurance recoverable, beginning of year	3,769	3,483	3,427
Net liability, beginning of year	18,713	16,809	14,521
Net incurred losses and loss expenses related to			
Current year	6,870	7,650	6,994
Prior years	(296)	163	327
	6,574	7,813	7,321
Net payments for losses and loss expenses related to			
Current year	1,640	1,878	1,691

Prior years	3,948	4,031	3,342
	5,588	5,909	5,033
Net liability, end of year	19,699	18,713	16,809
Reinsurance recoverable, end of year	2,594	3,769	3,483
Gross liability, end of year	$22,293	$22,482	$20,292

The gross liability for unpaid losses and loss expenses and reinsurance recoverable included $178 million and $107 million, respectively, at December 31, 2006 and $967 million and $756 million, respectively, at December 31, 2005 related to Hurricane Katrina. The gross liability for unpaid losses and loss expenses and reinsurance recoverable included $359 million and $316 million, respectively, at December 31, 2006, $413 million and $354 million, respectively, at December 31, 2005, and $700 million and $582 million, respectively, at December 31, 2004 related to the September 11, 2001 attack.

Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is required for changes in trends to be recognized and confirmed. During 2006, the P&C Group experienced overall favorable development of $296 million on net unpaid losses and loss expenses established as of the previous year end. This compares with unfavorable prior year development of $163 million in 2005 and $327 million in 2004. Such development was reflected in operating results in these respective years.

The net favorable development of $296 million in 2006 was due to various factors. Favorable development of about $190 million was experienced in the short tail homeowners and commercial property classes, primarily related to the 2005 accident year. This favorable development arose from the lower than expected emergence of losses during 2006 relative to expectations used to establish loss reserves at the end of 2005. Favorable development of about $70 million was experienced in the fidelity classes due to lower than expected reported loss emergence, mainly related to more recent accident years. Favorable development of about $65 million was experienced in the run-off of the reinsurance assumed business due primarily to better than expected reported loss

activity from cedants. Favorable development of about $45 million was experienced in the professional liability classes other than fidelity. Favorable development in the 2004 and 2005 accident years more than offset continued unfavorable development in the 2000 to 2002 accident years. Reported loss activity related to accident years 2004 and 2005 was less than expected due to a favorable business climate, lower policy limits and better terms and conditions. On the other hand, the P&C Group continued to experience significant reported loss activity related to the 2000 through 2002 accident years, largely from claims related to corporate failures and allegations of management misconduct and accounting irregularities. Favorable development of about $25 million was experienced in the personal automobile class. Case development during 2006 on previously reported claims was better than expected, reflecting improved case management. The number of late reported claims was also less than expected, reflecting a continuation of recent generally favorable frequency trends. Unfavorable development of about $100 million was experienced in the commercial liability classes, including $24 million related to asbestos and toxic waste claims. Reported loss activity in accident years prior to 1997 was worse than expected, primarily related to specific individual excess liability and other liability claims.

The net unfavorable development of $163 million in 2005 was the result of various factors. Unfavorable development of about $200 million was experienced in the professional liability classes other than fidelity. Adverse development related to accident years 1998 through 2002, largely from claims related to corporate failures and allegations of management misconduct and accounting irregularities, was offset in part by favorable development related to accident years 2003 and 2004. Reported loss activity related to accident years 2003 and 2004 was less than expected due to a favorable business climate, lower policy limits and better terms and conditions. Unfavorable development of about $175 million was experienced related to accident years prior to 1996, including $35 million related to asbestos claims. The adverse development was due largely to the strengthening of loss reserves for commercial liability classes, primarily commercial excess liability. There was significant reported loss activity during 2005 related to these older accident years, which resulted in a lengthening of the expected loss emergence period. Favorable development of about $160 million was experienced in the short tail homeowners and commercial property classes, primarily related to the 2004 accident year. The favorable development arose from the lower than expected emergence of late reported losses during 2005 relative to expectations used to establish loss reserves at the end of 2004. Favorable development of about $60 million was experienced in the fidelity classes due to lower than expected reported loss emergence, mainly related to more recent accident years.

The net unfavorable development of $327 million in 2004 was also the result of various factors. Unfavorable development of about $415 million was experienced in the professional liability classes other than fidelity. The adverse development resulted from significant reported loss activity in accident years 1998 through 2002 due in large part to claims related to corporate failures and allegations of management misconduct and accounting irregularities, especially those involving investment banks and other financial institutions. Unfavorable development of about $185 million was experienced related to accident years prior to 1995, including $75 million related to asbestos claims. Loss reserves for certain commercial liability classes were strengthened due to significant reported loss activity during 2004 related to these older accident years. Unfavorable development of about $50 million was experienced in the workers compensation class due primarily to higher average severity of the medical portion of these claims. Favorable development of about $270 million was experienced related to the 2003 accident year, due in large part to an unusually low amount of late reported homeowners and commercial property losses. Favorable development of $80 million was experienced due to a reduction of loss reserves related to the September 11 attack.

(c) The estimation of loss reserves relating to asbestos and toxic waste claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability. The insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

Asbestos remains the most significant and difficult mass tort for the insurance industry in terms of claims volume and dollar exposure. Asbestos claims relate primarily to bodily injuries asserted by those who came in contact with asbestos or products containing asbestos. Early court cases established the continuous trigger theory with respect to

insurance coverage. Under this theory, insurance coverage is deemed to be triggered from the time a claimant is first exposed to asbestos until the manifestation of any disease. This interpretation of a policy trigger can involve insurance companies over many years and increases their exposure to liability.

New asbestos claims and new exposures on existing claims have continued despite the fact that usage of asbestos has declined since the mid-1970 s. Each claim filing typically names dozens of defendants. The plaintiffs bar has solicited new claimants through extensive advertising and through asbestos medical screenings. A vast majority of asbestos bodily injury claims are filed by claimants who do not show any signs of asbestos related disease. New asbestos cases are often filed in those jurisdictions with a reputation for judges and juries that are extremely sympathetic to plaintiffs.

Approximately 80 manufacturers and distributors of asbestos products have filed for bankruptcy protection as a result of asbestos related liabilities. A bankruptcy sometimes involves an agreement to a plan between the debtor and its creditors, including current and future asbestos claimants. Although the debtor is negotiating in part with its insurers money, insurers are generally given only limited opportunity to be heard. In addition to contributing to the overall number of claims, bankruptcy proceedings have also caused increased settlement demands against remaining solvent defendants.

There have been several recent positive events in the asbestos environment. Various challenges to mass screening claimants have been mounted. Also, a number of states have implemented legislative and judicial reforms that focus the courts attention on the claims of the most seriously injured. Legislation that sets medical criteria that must be met for plaintiffs to proceed with their claims has been enacted in several states and is pending in others. Similarly, judicial reforms such as inactive dockets, which preserve the right to sue for those who do not currently meet the specific medical criteria, have been established in several jurisdictions. In addition, a number of key jurisdictions have adopted venue reform that requires plaintiffs to have a connection to the jurisdiction in order to file a complaint. Finally, in recognition that many aspects of bankruptcy plans are unfair to certain classes of claimants and to the insurance industry, these plans are beginning to be closely scrutinized by the courts and rejected when appropriate.

The P&C Group s most significant individual asbestos exposures involve products liability on the part of traditional defendants who were engaged in the manufacture, distribution or installation of asbestos products. The P&C Group wrote excess liability and/or general liability coverages for these insureds. While these insureds are relatively few in number, their exposure has become substantial due to the increased volume of claims, the erosion of the underlying limits and the bankruptcies of target defendants.

The P&C Group s other asbestos exposures involve products and non-products liability on the part of peripheral defendants, including a mix of manufacturers, distributors and installers of certain products that contain asbestos in small quantities and owners or operators of properties where asbestos was present. Generally, these insureds are named defendants on a regional rather than a nationwide basis. As the financial resources of traditional asbestos defendants have been depleted, plaintiffs are targeting these viable peripheral parties with greater frequency and, in many cases, for larger awards.

Asbestos claims against the major manufacturers, distributors or installers of asbestos products were typically presented under the products liability section of primary general liability policies as well as under excess liability policies, both of which typically had aggregate limits that capped an insurer s exposure. In recent years, a number of asbestos claims by insureds are being presented as non-products claims, such as those by installers of asbestos products and by property owners or operators who allegedly had asbestos on their property, under the premises or operations section of primary general liability policies. Unlike products exposures, these non-products exposures typically had no aggregate limits on coverage, creating potentially greater exposure. Further, in an effort to seek additional insurance coverage, some insureds with installation activities who have substantially eroded their products coverage are presenting new asbestos claims as non-products operations claims or attempting to reclassify previously settled products claims as non-products claims to restore a portion of previously exhausted products aggregate limits. It is difficult to predict whether insureds will be successful in asserting claims under non-products coverage or whether insurers will be successful in asserting additional defenses. Accordingly, the ultimate cost to insurers of the claims for coverage not subject to aggregate limits is uncertain.

In establishing asbestos reserves, the exposure presented by each insured is evaluated. As part of this evaluation, consideration is given to a variety of factors including the available insurance coverage; limits and deductibles; the jurisdictions involved; past settlement values of similar claims; the potential role of other insurance, particularly underlying coverage below excess liability policies; potential bankruptcy impact; and applicable coverage defenses, including asbestos exclusions.

Significant uncertainty remains as to the ultimate liability of the P&C Group related to asbestos related claims. This uncertainty is due to several factors including the long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims; plaintiffs increased focus on peripheral defendants; the volume of claims by unimpaired plaintiffs and the extent to which they can be precluded from making claims; the efforts by insureds to obtain coverage not subject to aggregate limits; the

number of insureds seeking bankruptcy protection as a result of asbestos related liabilities; the ability of claimants to bring a claim in a state in which they have no residency or exposure; the impact of the exhaustion of primary limits and the resulting increase in claims on excess liability policies that have been issued; inconsistent court decisions and diverging legal interpretations; and the possibility, however remote, of federal legislation that would address the asbestos problem. These significant uncertainties are not likely to be resolved in the near future.

Toxic waste claims relate primarily to pollution and related cleanup costs. The P&C Group s insureds have two potential areas of exposure: hazardous waste dump sites and pollution at the insured site primarily from underground storage tanks and manufacturing processes.

The federal Comprehensive Environmental Response Compensation and Liability Act of 1980 (Superfund) has been interpreted to impose strict, retroactive and joint and several liability on potentially responsible parties (PRPs) for the cost of remediating hazardous waste sites. Most sites have multiple PRPs.

Most PRPs named to date are parties who have been generators, transporters, past or present landowners or past or present site operators. 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 costs of environmental clean-up became substantial, PRPs and others increasingly filed claims with their insurance carriers. Litigation against insurers extends to issues of liability, coverage and other policy provisions.

There is substantial uncertainty involved in estimating the P&C Group s liabilities related to these claims. First, the liabilities of the claimants are extremely difficult to estimate. At any given waste site, the allocation of remediation costs among governmental authorities and the PRPs varies greatly depending on a variety of factors. 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 definitively in the near future.

Uncertainties also remain as to the Superfund law itself. Superfund s taxing authority expired on December 31, 1995 and has not been re-enacted. Federal legislation appears to be at a standstill. At this time, it is 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.

Without federal movement on Superfund reform, the enforcement of Superfund liability has occasionally shifted to the states. States are being forced to reconsider state-level cleanup statutes and regulations. As individual states move forward, the potential for conflicting state regulation becomes greater. In a few states, cases have been brought against insureds or directly against insurance companies for environmental pollution and natural resources damages. To date, only a few natural resources claims have been filed and they are being vigorously defended. Significant uncertainty remains as to the cost of remediating the state sites. Because of the large number of state sites, such sites could prove even more costly in the aggregate than Superfund sites.

In establishing toxic waste reserves, the exposure presented by each insured is evaluated. As part of this evaluation, consideration is given to the probable liability, available insurance coverage, relevant judicial interpretations, past settlement values of similar claims as well as facts that are unique to each insured.

Management believes that the loss reserves carried at December 31, 2006 for asbestos and toxic waste claims were adequate. However, given the judicial decisions and legislative actions that have broadened the scope of coverage and expanded theories of liability in the past and the possibilities of similar interpretations in the future, it is possible that the estimate of loss reserves relating to these exposures may increase in future periods as new information becomes available and as claims develop.

(10) Reinsurance

In the ordinary course of business, the P&C Group assumes and cedes reinsurance with other insurance companies. Reinsurance is ceded to provide greater diversification of risk and to limit the P&C Group s maximum net loss arising from large risks or catastrophic events.

A large portion of the P&C Group s ceded reinsurance is effected under contracts known as treaties under which all risks meeting prescribed criteria are automatically covered. Most of these arrangements consist of excess of loss and catastrophe contracts that protect against a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. In certain circumstances, reinsurance is also effected by negotiation on individual risks.

Ceded reinsurance contracts do not relieve the P&C Group of the primary obligation to its policyholders. Thus, an exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable or unwilling to meet its obligations assumed under the reinsurance contracts. The P&C Group monitors the financial strength of its reinsurers on an ongoing basis.

Premiums earned and insurance losses and loss expenses are reported net of reinsurance in the consolidated statements of income.

The effect of reinsurance on the premiums written and earned of the P&C Group was as follows:

Years Ended December 31

	2006	2005	2004
		(in millions)	
Direct premiums written	$12,224	$12,180	$12,001
Reinsurance assumed	954	1,120	1,398
Reinsurance ceded	(1,204)	(1,017)	(1,346)
Net premiums written	$11,974	$12,283	$12,053
Direct premiums earned	$12,084	$12,111	$11,664
Reinsurance assumed	971	1,175	1,368
Reinsurance ceded	(1,097)	(1,110)	(1,396)
Net premiums earned	$11,958	$12,176	$11,636

The ceded reinsurance premiums written and earned in 2006 included $283 million and $190 million, respectively, ceded to Harbor Point.

Ceded losses and loss expenses, which reduce losses and loss expenses incurred, were $86 million, $1,031 million and $803 million in 2006, 2005 and 2004, respectively. The 2005 ceded amount included $775 million related to Hurricane Katrina and the 2006 amount reflected a $175 million reduction of ceded losses and loss expenses related to the hurricane.

(11) Federal and Foreign Income Tax

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

	Years Ended December 31		
	2006	2005	2004
	(in millions)		
Current tax			
United States	$735	$421	$338
Foreign	154	116	97
Deferred tax expense, principally United States	108	84	85
	$997	$621	$520

Federal and foreign income taxes paid were $847 million, $409 million and $378 million in 2006, 2005 and 2004, respectively.

(b) The effective income tax rate is different than the statutory federal corporate tax rate. The reasons for the different effective tax rate were as follows:

	Years Ended December 31					
	2006		2005		2004	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
	(in millions)					
Income before federal and foreign income tax	$3,525		$2,447		$2,068	
Tax at statutory federal income tax rate	$1,234	35.0%	$ 856	35.0%	$ 724	35.0%
Tax exempt interest income	(215)	(6.1)	(195)	(8.0)	(174)	(8.4)
Other, net	(22)	(.6)	(40)	(1.6)	(30)	(1.5)
Actual tax	$ 997	28.3%	$ 621	25.4%	$ 520	25.1%

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

	December 31	
	2006	2005
	(in millions)	
Deferred income tax assets		

Unpaid losses and loss expenses	$ 690	$ 734
Unearned premiums	363	365
Foreign tax credits	524	388
Employee compensation	167	135
Postretirement benefits	132	13
Total	1,876	1,635
Deferred income tax liabilities		
Deferred policy acquisition costs	430	430
Unremitted earnings of foreign subsidiaries	487	319
Unrealized appreciation of investments	211	167
Other, net	157	96
Total	1,285	1,012
Net deferred income tax asset	$ 591	$ 623

Although realization of deferred income tax assets is not assured, management believes that it is more likely than not that the deferred tax assets will be realized. Accordingly, no valuation allowance was recorded at December 31, 2006 or 2005.

(d) The Corporation files income tax returns with the U.S. Internal Revenue Service (IRS) as well as with various state and foreign tax authorities. The U.S. income tax returns of the Corporation for years prior to 2002 are no longer subject to examination by the IRS. The examination of the Corporation s U.S. income tax returns for 2002 and 2003 is expected to be completed in 2007. Management does not anticipate any adjustments for tax years that remain subject to examination that would have a material effect on the Corporation s financial position or results of operations.

(12) Stock-Based Employee Compensation Plans

The Corporation has two stock-based employee compensation plans, the Long-Term Stock Incentive Plan and the Stock Purchase Plan. The compensation cost charged against income with respect to these plans was $88 million, $65 million and $66 million in 2006, 2005 and 2004, respectively. The total income tax benefit included in income with respect to these stock-based compensation arrangements was $31 million in 2006 and $22 million in 2005 and 2004.

As of December 31, 2006, there was $90 million of unrecognized compensation cost related to nonvested awards. That cost is expected to be charged against income over a weighted average period of 1.7 years.

(a) The Long-Term Stock Incentive Plan provides for the granting of restricted stock units, restricted stock, performance shares, stock options, and other stock-based awards to key employees. The maximum number of shares of Chubb s common stock in respect to which stock-based awards may be granted under the Plan is 15,834,000 shares. At December 31, 2006, 9,883,000 shares were available for grant under the Plan.

During 2004, the Corporation changed the emphasis of its equity compensation program from stock options to other equity awards.

Restricted Stock Units, Restricted Stock and Performance Shares

Restricted stock unit awards are payable in cash, in shares of Chubb s common stock, or in a combination of both. Restricted stock units are not considered to be outstanding shares of common stock, have no voting rights and are subject to forfeiture during the restriction period. Holders of restricted stock units may receive dividend equivalents. Restricted stock awards consist of shares of Chubb s common stock granted at no cost to the employees. Shares of restricted stock become outstanding when granted, receive dividends and have voting rights. The shares are subject to forfeiture and to restrictions that prevent their sale or transfer during the restriction period. Performance share awards are based on the achievement of performance goals over performance cycle periods. Performance share awards are payable in cash, in shares of Chubb s common stock or in a combination of both.

An amount equal to the fair value at the date of grant of restricted stock unit awards, restricted stock awards and performance share awards is expensed over the vesting period. The weighted average fair value per share of the restricted stock units and restricted stock granted was $47.54, $39.67 and $35.01 in 2006, 2005 and 2004, respectively. The weighted average fair value per share of the performance shares granted was $44.73, $37.02 and $32.74 in 2006, 2005 and 2004, respectively.

Additional information with respect to restricted stock units and restricted stock and performance shares is as follows:

	Restricted Stock Units and Restricted Stock		Performance Shares*	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested, January 1, 2006	3,516,096	$35.00	1,625,150	$34.84
Granted	1,136,270	47.54	689,880	44.73
Vested	(686,179)	27.01	(824,664)	32.74
Forfeited	(136,657)	39.83	(18,014)	40.58
Nonvested, December 31, 2006	3,829,530	39.98	1,472,352	40.58

* The number of shares earned may range from 0% to 200% of the performance shares shown in the table above. The performance shares earned in 2006 were 143% of the vested shares shown in the table, or 1,179,270 shares.

The total fair value of restricted stock units and restricted stock that vested during 2006, 2005 and 2004 was $34 million, $20 million and $15 million, respectively. The total fair value of performance shares that vested during 2006 and 2004 was $63 million and $14 million, respectively. No performance shares were granted that would have vested during 2005.

Stock Options

Stock options are granted at exercise prices not less than the fair market value of Chubb 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.

An amount equal to the fair market value of stock options at the date of grant is expensed over the period that such options become exercisable. The weighted average fair value per stock option granted during 2006, 2005 and 2004 was $7.65, $7.56 and $7.50, respectively. The fair value of each stock option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions.

	2006	2005	2004
Risk-free interest rate	4.8%	4.0%	3.4%
Expected volatility	15.9%	22.1%	25.9%
Dividend yield	2.0%	2.0%	2.2%
Expected average term (in years)	3.4	3.5	4.2

Additional information with respect to stock options is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding, January 1, 2006	17,355,796	$33.10		
Granted	564,411	50.97		
Exercised	(6,332,706)	33.08		
Forfeited	(79,445)	39.97		
Outstanding, December 31, 2006	11,508,056	33.94	4.1	$220
Exercisable, December 31, 2006	11,218,976	33.74	4.0	217

The total intrinsic value of the stock options exercised during 2006, 2005 and 2004 was $110 million, $229 million and $77 million, respectively. The Corporation received cash of $185 million, $528 million and $203 million during 2006, 2005 and 2004, respectively, from the exercise of stock options. The tax benefit realized with respect to stock options exercised during 2006, 2005 and 2004 was $40 million, $69 million and $23 million, respectively.

(b) Under the Stock Purchase Plan, substantially all employees are eligible to purchase shares of Chubb s common stock at a fixed price at the end of the offering period. The price is determined on the date the purchase rights are granted and the offering period cannot exceed 27 months. The number of shares an eligible employee may purchase is based on the employee s compensation. An amount equal to the fair market value of purchase rights at the date of grant is expensed over the offering period.

During 2004, 1,660,678 shares were issued with respect to purchase rights that were granted in 2002. The Corporation received cash of $55 million related to the issuance of such shares. The intrinsic value of the purchase rights exercised during 2004 and the tax benefit realized with respect to the exercise of the rights were insignificant. No purchase rights have been granted since 2002.

(13) Employee Benefits

(a) The Corporation has several non-contributory defined benefit pension plans covering substantially all employees. Prior to 2001, benefits were generally based on an employee s years of service and average compensation during the last five years of employment. Effective January 1, 2001, the Corporation changed the formula for providing pension benefits from the final average pay formula to a cash balance formula. Under the cash balance formula, a notional account is established for each employee, which is credited semi-annually with an amount equal to a percentage of eligible compensation based on age and years of service plus interest based on the account balance. Employees hired prior to 2001 will generally be eligible to receive vested benefits based on the higher of the final average pay or cash balance formulas.

The Corporation s funding policy is to contribute amounts that meet regulatory requirements plus additional amounts determined by management based on actuarial valuations, current market conditions and other factors. This may result in no contribution being made in a particular year.

The Corporation also provides certain other postretirement benefits, principally health care and life insurance, to retired employees and their beneficiaries and covered dependents. Substantially all employees hired before January 1, 1999 may become eligible for these benefits upon retirement if they meet minimum age and years of service requirements. 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 Corporation funds a portion of the health care benefits obligation where such funding can be accomplished on a tax effective basis. Benefits are paid as covered expenses are incurred.

The Corporation uses December 31 as the measurement date for its pension and other postretirement benefit plans.

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

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
		(in millions)		
Benefit obligation	$1,533	$1,293	$269	$275
Plan assets at fair value	1,304	1,031	26	22
Funded status at end of year	229	262	243	253
Unrecognized net loss		(391)		(55)
Unrecognized prior service cost		(13)		4
Net liability (asset) recognized	$ 229	$ (142)	$243	$202
Amounts in accumulated other comprehensive income not yet recognized as components of net benefit costs:				
Net loss	$ 393		$ 31	
Prior service cost	11		(3)	
	$ 404		$ 28	

The accumulated benefit obligation for the pension plans was $1,224 million and $1,000 million at December 31, 2006 and 2005, respectively. The accumulated benefit obligation is the present value of pension benefits earned as of the measurement date based on employee service and compensation prior to that date. It differs from the pension benefit obligation in the above table in that the accumulated benefit obligation includes no assumptions about future compensation levels.

The weighted average assumptions used to determine the benefit obligations were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Discount rate	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	4.5	4.5		

The Corporation made pension plan contributions of $109 million and $127 million during 2006 and 2005, respectively. The Corporation made other postretirement benefit plan contributions of $2 million and $8 million during 2006 and 2005, respectively.

The components of net pension and other postretirement benefit costs were as follows:

	Other Postretirement

	Pension Benefits			Benefits		
	2006	2005	2004	2006	2005	2004
	(in millions)					
Service cost	$ 67	$ 58	$ 50	$ 9	$ 8	$ 8
Interest cost	75	69	61	14	15	15
Expected return on plan assets	(85)	(74)	(67)	(2)	(1)	
Amortization of net loss and prior service cost	34	20	15	1		1
Net benefit costs	$ 91	$ 73	$ 59	$ 22	$ 22	$ 24

The estimated aggregate net loss and prior service cost that will be amortized from accumulated other comprehensive income into net benefit costs during 2007 for the pension and other postretirement benefit plans is $27 million.

The weighted average assumptions used to determine net pension and other postretirement benefit costs were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.75%	6.25%	6.5%	5.75%	6.25%	6.5%
Rate of compensation increase	4.5	4.5	4.5			
Expected long term rate of return on plan assets	8.0	8.25	8.5	8.0	8.25	8.5

The weighted average health care cost trend rate assumptions used to measure the expected cost of medical benefits were as follows:

	December 31	
	2006	2005
Health care cost trend rate for next year	9.5%	9.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2014	2013

The health care cost trend rate assumption has a significant effect on the amount of the accumulated other postretirement benefit obligation and the net other postretirement benefit cost reported. To illustrate, a one percent increase or decrease in the trend rate for each year would increase or decrease the accumulated other postretirement benefit obligation at December 31, 2006 by approximately $48 million and the aggregate of the service and interest cost components of net other postretirement benefit cost for the year ended December 31, 2006 by approximately $5 million.

Pension plan and other postretirement benefit plan assets are invested with the long term objective of earning sufficient amounts to cover expected benefit obligations, while assuming a prudent level of risk. The Corporation seeks to obtain a rate of return that over time equals or exceeds the returns of the broad markets in which the plan assets are invested. The target allocation of plan assets is 55% to 65% invested in equity securities, with the remainder invested in fixed maturities. The portfolio is rebalanced periodically to remain within the target allocation range. The Corporation determined the expected long term rate of return assumption for each asset class based on an analysis of the historical returns and the expectations for future returns. The expected long-term rate of return for the portfolio is a weighted aggregation of the expected returns for each asset class.

Plan assets are currently invested in a diversified portfolio of predominately U.S. equity securities and fixed maturities. The plan assets weighted average allocation was as follows:

	December 31	
	2006	2005
Equity securities	62%	60%
Fixed maturities	38	40
	100%	100%

The estimated benefits expected to be paid in each of the next five years and in the aggregate for the following five years are as follows:

Years Ending December 31	Pension Benefits	Other Postretirement Benefits
	(in millions)	
2007	$ 50	$ 8
2008	50	9
2009	61	10

2010	62	11
2011	67	12
2012-2016	483	79

(b) The Corporation has a defined contribution benefit plan, the Capital Accumulation Plan, in which substantially all employees are eligible to participate. Under this plan, the employer makes a matching contribution annually equal to 100% of each eligible employee s pre-tax elective contributions, up to 4% of the employee s eligible compensation. Contributions are invested at the election of the employee in Chubb s common stock or in various other investment funds. Employer contributions charged against income were $25 million in 2006 and 2005 and $24 million in 2004.

(14) Commitments and Contingent Liabilities

(a) Chubb and certain of its subsidiaries have been involved in the ongoing investigations of certain market practices in the property and casualty insurance industry by various Attorneys General and other regulatory authorities of several states, the U.S. Securities and Exchange Commission, the U.S. Attorney for the Southern District of New York and certain non-U.S. regulatory authorities with respect to, among other things, (1) potential conflicts of interest and anti-competitive behavior arising from the payment of contingent commissions to brokers and agents and (2) loss mitigation and finite reinsurance arrangements. In connection with these investigations, Chubb and certain of its subsidiaries have received subpoenas and other requests for information from various regulators. The Corporation has been cooperating fully with these investigations. Although no regulatory action has been initiated against the Corporation, it is possible that one or more regulatory authorities will bring an action against the Corporation with respect to some or all of the issues that are the focus of these ongoing investigations.

On December 21, 2006, Chubb entered into an Assurance of Discontinuance with the Attorneys General of New York, Connecticut and Illinois, resolving all issues arising out of those officials investigations of the market practices described above. As part of this agreement, the Corporation agreed to contribute $15 million to a settlement fund established for the benefit of certain customers. The Corporation also agreed to pay $2 million to help defray the costs of the investigations by the Attorneys General. In addition, the Corporation agreed to implement certain business reforms, including discontinuing the payment of contingent commissions in the United States on all insurance lines, beginning in 2007.

Purported class actions arising out of the investigations into the payment of contingent commissions to brokers and agents have been filed in a number of federal and state courts. On August 1, 2005, Chubb and certain of its subsidiaries were named in a putative class action entitled *In re Insurance Brokerage Antitrust Litigation* in the U.S. District Court for the District of New Jersey. This action, brought against several brokers and insurers on behalf of a class of persons who purchased insurance through the broker defendants, asserts claims under the Sherman Act and state law and the Racketeer Influenced and Corrupt Organizations Act (RICO) arising from the alleged unlawful use of contingent commission agreements.

Chubb and certain of its subsidiaries have also been named as defendants in two purported class actions relating to allegations of unlawful use of contingent commission arrangements that were originally filed in state court. The first was filed on February 16, 2005 in Seminole County, Florida. The second was filed on May 17, 2005 in Essex County, Massachusetts. Both cases were removed to federal court and then transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District Court for the District of New Jersey for consolidation with the *In re Insurance Brokerage Antitrust Litigation*.

In December 2005, Chubb and certain of its subsidiaries were named in an action similar to the *In re Insurance Brokerage Antitrust Litigation*. The action is pending in the same court and has been assigned to the judge who is presiding over the *In re Insurance Brokerage Antitrust Litigation*. The complaint has not yet been served in this matter. Separately, in April 2006, Chubb and one of its subsidiaries were named in an action similar to the *In re Insurance Brokerage Antitrust Litigation*. This action was filed in the U.S. District Court for the Northern District of Georgia and subsequently was transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District for the District of New Jersey for consolidation with the *In re Insurance Brokerage Antitrust Litigation*.

In these actions, the plaintiffs generally allege that the defendants unlawfully used contingent commission agreements. The actions seek treble damages, injunctive and declaratory relief, and attorneys fees. The Corporation believes it has substantial defenses to all of the aforementioned legal proceedings and intends to defend the actions vigorously.

The Corporation cannot at this time predict the ultimate outcome of the aforementioned ongoing investigations and legal proceedings, including any potential amounts that the Corporation may be required to pay in connection with them.

(b) Chubb Financial Solutions (CFS) participated in derivative financial instruments, principally as a counterparty in portfolio credit default swaps. CFS s participation in a typical portfolio credit default swap was designed to replicate the performance of a portfolio of corporate securities or a portfolio of asset-backed securities. Chubb has issued unconditional guarantees with respect to all obligations of CFS arising from these transactions. CFS has been in

run-off since April 2003.

CFS s aggregate exposure, or retained risk, from its in-force portfolio credit default swaps and other derivative financial instruments is referred to as notional amount. Notional amounts are used to express the extent of involvement in derivative transactions. The notional amounts are used to calculate the exchange of contractual cash flows and are not necessarily representative of the potential for gain or loss. Notional amounts are not recorded on the balance sheet.

Future obligations with respect to derivative financial instruments are carried at estimated fair value at the balance sheet date and are included in other liabilities. The notional amount and fair value of future obligations under CFS s derivative contracts were as follows:

	December 31			
	Notional Amount		Fair Value	
	2006	2005	2006	2005
	(in billions)		(in millions)	
Credit default swaps	$1.1	$1.0	$ 2	$ 2
Other	.3	.3	6	7
Total	$1.4	$1.3	$ 8	$ 9

(c) A property and casualty insurance subsidiary issued a reinsurance contract to an insurer that provides financial guarantees on debt obligations. At December 31, 2006, the aggregate principal commitments related to this contract for which the subsidiary was contingently liable amounted to approximately $350 million, net of reinsurance. These commitments expire by 2023.

(d) The Corporation occupies office facilities under lease agreements that expire at various dates through 2019; such leases are generally renewed or replaced by other leases. Most facility leases contain renewal options for increments ranging from two to ten years. The Corporation also leases data processing, office and transportation equipment. All leases are operating leases.

Rent expense was as follows:

	Years Ended December 31		
	2006	2005	2004
	(in millions)		
Office facilities	$89	$ 87	$ 90
Equipment	9	14	15
	$98	$101	$105

At December 31, 2006, future minimum rental payments required under non-cancellable operating leases were as follows:

Years Ending December 31	(in millions)
2007	$ 87
2008	80
2009	69

2010	59
2011	57
After 2011	219
	$571

(e) The Corporation had certain commitments totaling $1.5 billion at December 31, 2006 to fund limited partnership investments. These capital commitments can be called by the partnerships during the commitment period (on average, 1 to 5 years) to fund working capital needs or the purchase of new investments.

(15) Segments Information

The principal business of the Corporation is the sale of property and casualty insurance. The profitability of the property and casualty insurance business depends on the results of both underwriting operations and investments, which are viewed as two distinct operations. The underwriting operations are managed and evaluated separately from the investment function.

The P&C Group underwrites most lines of property and casualty insurance. Underwriting operations consist of four separate business units: personal insurance, commercial insurance, specialty insurance and reinsurance assumed. The personal segment targets the personal insurance market. The personal classes include automobile, homeowners and other personal coverages. The commercial segment includes those classes of business that are generally available in broad markets and are of a more commodity nature. Commercial classes include multiple peril, casualty, workers compensation and property and marine. The specialty segment includes those classes of business that are available in more limited markets since they require specialized underwriting and claim settlement. Specialty classes include professional liability coverages and surety. The reinsurance assumed business is effectively in runoff following the sale, in December 2005, of the ongoing business to Harbor Point (see Note (3)).

Corporate and other includes investment income earned on corporate invested assets, corporate expenses and the Corporation s real estate and other non-insurance subsidiaries. The results of CFS, which were previously reported separately, are now included in corporate and other.

Performance of the property and casualty underwriting segments is measured based on statutory underwriting results. Statutory underwriting profit is arrived at by reducing premiums earned by losses and loss expenses incurred and statutory underwriting expenses incurred. Under statutory accounting principles applicable to property and casualty insurance companies, policy acquisition and other underwriting expenses are recognized immediately, not at the time premiums are earned.

Management uses underwriting results determined in accordance with generally accepted accounting principles (GAAP) to assess the overall performance of the underwriting operations. Underwriting income determined in accordance with GAAP is defined as premiums earned less losses and loss expenses incurred and GAAP underwriting expenses incurred. To convert statutory underwriting results to a GAAP basis, policy acquisition expenses are deferred and amortized over the period in which the related premiums are earned.

Investment income performance is measured based on investment income net of investment expenses, excluding realized investment gains and losses.

Distinct investment portfolios are not maintained for each underwriting segment. Property and casualty invested assets are available for payment of losses and expenses for all classes of business. Therefore, such assets and the related investment income are not allocated to underwriting segments.

Revenues, income before income tax and assets of each operating segment were as follows:

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Revenues			
Property and casualty insurance			
Premiums earned			
Personal insurance	$ 3,409	$ 3,217	$ 2,997
Commercial insurance	5,079	5,020	4,766
Specialty insurance	2,953	2,981	2,762
Total insurance	11,441	11,218	10,525
Reinsurance assumed	517	958	1,111
	11,958	12,176	11,636
Investment income	1,485	1,342	1,207
Total property and casualty insurance	13,443	13,518	12,843
Corporate and other	315	181	116
Realized investment gains	245	384	218
Total revenues	$14,003	$14,083	$13,177
Income (loss) before income tax			
Property and casualty insurance			
Underwriting			
Personal insurance	$ 590	$ 405	$ 187
Commercial insurance	840	376	777
Specialty insurance	371	67	(249)
Total insurance	1,801	848	715
Reinsurance assumed	85	56	55
	1,886	904	770
Increase in deferred policy acquisition costs	19	17	76
Underwriting income	1,905	921	846
Investment income	1,454	1,315	1,184
Other income (charges)	10	(1)	(4)
Total property and casualty insurance	3,369	2,235	2,026
Corporate and other loss	(89)	(172)	(176)
Realized investment gains	245	384	218

Total income before income tax	$ 3,525	$ 2,447	$ 2,068

	December 31		
	2006	2005	2004
		(in millions)	
Assets			
Property and casualty insurance	$47,671	$45,110	$42,049
Corporate and other	2,811	3,054	2,226
Adjustments and eliminations	(205)	(103)	(15)
Total assets	$50,277	$48,061	$44,260

The international business of the property and casualty insurance segment is conducted primarily through subsidiaries that operate solely outside of the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written. International business is also written by branch offices of certain domestic subsidiaries.

Revenues of the P&C Group by geographic area were as follows:

	Years Ended December 31		
	2006	2005	2004
		(in millions)	
Revenues			
United States	$10,807	$11,013	$10,567
International	2,636	2,505	2,276
Total	$13,443	$13,518	$12,843

(16) Earnings Per Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share reflects the potential dilutive effect, using the treasury stock method, of outstanding awards under stock-based employee compensation plans and of outstanding purchase contracts and mandatorily exercisable warrants to purchase Chubb s common stock.

The following table sets forth the computation of basic and diluted earnings per share:

	Years Ended December 31		
	2006	2005	2004
	(in millions except for per share amounts)		
Basic earnings per share:			
Net income	$2,528	$1,826	$1,548
Weighted average number of common shares outstanding	412.5	396.4	379.7
Basic earnings per share	$ 6.13	$ 4.61	$ 4.08
Diluted earnings per share:			
Net income	$2,528	$1,826	$1,548
Weighted average number of common shares outstanding	412.5	396.4	379.7
Additional shares from assumed exercise of stock-based compensation awards	7.7	7.3	6.3
Additional shares from assumed issuance of common stock upon settlement of purchase contracts and mandatorily exercisable warrants	2.2	4.7	.4
Weighted average number of common shares and potential common shares assumed outstanding for computing diluted earnings per share	422.4	408.4	386.4
Diluted earnings per share	$ 5.98	$ 4.47	$ 4.01

In 2006, 2005 and 2004, options to purchase 0.1 million shares, 1.6 million shares and 15.2 million shares of common stock with weighted average exercise prices of $51.55 per share, $42.02 per share and $37.51 per share, respectively, were excluded from the computation of diluted earnings per share because the exercise price of these options was greater than the average market price of Chubb s common stock. For additional disclosure regarding the stock-based compensation awards, see Note (12).

(17) Comprehensive Income

Comprehensive income is defined as all changes in shareholders equity, except those arising from transactions with shareholders. Comprehensive income includes net income and other comprehensive income, which for the Corporation consisted of changes in unrealized appreciation or depreciation of investments carried at market value and changes in foreign currency translation gains or losses.

The components of other comprehensive income or loss were as follows:

	Years Ended December 31								
	2006			2005			2004		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
	(in millions)								
Unrealized holding gains (losses) arising during the year	$161	$ 55	$106	$(447)	$(157)	$(290)	$ 19	$ 3	$ 16
Reclassification adjustment for realized gains included in net income	36	11	25	35	12	23	94	29	65
Net unrealized gains (losses) recognized in other comprehensive income	125	44	81	(482)	(169)	(313)	(75)	(26)	(49)
Foreign currency translation gains (losses)	52	18	34	(35)	(13)	(22)	103	36	67
Total other comprehensive income (loss)	$177	$ 62	$115	$(517)	$(182)	$(335)	$ 28	$ 10	$ 18

(18) 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. In such instances, the derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange. 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 which can fluctuate based on such factors as interest rates, inflation, monetary policy and general economic conditions.

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

(iv) Fair values of limited partnerships represent the Corporations s equity in the net assets of the partnerships based on valuations provided by the manager of each partnership.

(v) Fair values of real estate mortgages receivable are estimated individually as the value of the discounted future cash flows of the loan, subject to the estimated fair value of the underlying collateral.

(vi) The fair value of the interest rate swap is based on a price quoted by a dealer.

(vii) Fair values of long term debt is based on prices quoted by dealers.

(viii) Fair values of credit derivatives, principally portfolio credit default swaps, are determined using internal valuation models that are similar to external valuation models.

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

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Assets				
Invested assets				
Short term investments	$ 2,254	$ 2,254	$ 1,899	$ 1,899
Fixed maturities (Note 4)				
Held-to-maturity	135	142	205	216
Available-for-sale	31,831	31,831	30,318	30,318

Equity securities	1,957	1,957	1,169	1,169
Other invested assets	1,516	1,516	1,043	1,043
Real estate mortgages receivable (Note 6)	1	1	19	19
Interest rate swap	6	6	7	7
Liabilities				
Long term debt (Note 8)	2,460	2,504	2,460	2,714
Credit derivatives (Note 14)	8	8	9	9

(19) Shareholders Equity

(a) In connection with the stock split approved by the Board of Directors on March 3, 2006, the Board of Directors approved a proportionate increase in the number of authorized shares of Chubb s common stock from 600 million shares to 1.2 billion shares and an increase in the authorized shares of Chubb s preferred stock from 4 million shares to 8 million shares.

(b) 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.

(c) On February 8, 2006, the Board of Directors authorized the cancellation of all treasury shares, which were thereupon restored to the status of authorized but unissued common shares. The change had no effect on total shareholders equity.

The activity of Chubb s common stock was as follows:

	Years Ended December 31		
	2006	2005	2004
		(number of shares)	
Common stock issued			
Balance, beginning of year	420,864,596	391,607,648	391,607,648
Treasury shares cancelled	(7,887,800)		
Repurchase of shares	(20,266,262)		
Shares issued upon settlement of equity unit purchase contracts and warrants	12,883,527	17,366,234	
Share activity under stock-based employee compensation plans	5,682,879	11,890,714	
Balance, end of year	411,276,940	420,864,596	391,607,648
Treasury stock			
Balance, beginning of year	2,787,800	6,254,564	15,680,896
Repurchase of shares	5,100,000	2,787,800	
Cancellation of shares	(7,887,800)		
Share activity under stock-based employee compensation plans		(6,254,564)	(9,426,332)
Balance, end of year		2,787,800	6,254,564
Common stock outstanding, end of year	411,276,940	418,076,796	385,353,084

In November 2002, Chubb issued 24 million mandatorily exercisable warrants to purchase its common stock and $600 million of senior notes due in 2007. The warrants and notes were issued together in the form of equity units. Each warrant obligated the holder to purchase, and obligated Chubb to sell, on or before the settlement date of November 16, 2005, for a settlement price of $25, a variable number of newly issued shares of Chubb s common stock. The number of shares of Chubb s common stock purchased was determined based on a formula that considered the market price of the common stock immediately prior to the time of settlement in relation to the $28.32 per share sale price of the common stock at the time the equity units were offered. Upon settlement of the warrants, Chubb issued 17,366,234 shares of common stock and received proceeds of $600 million.

In June 2003, Chubb issued 18.4 million purchase contracts to purchase its common stock and $460 million of senior notes due in 2008. The purchase contracts and notes were issued together in the form of equity units. Each purchase contract obligated the holder to purchase, and obligated Chubb to sell, on or before the settlement date of August 16, 2006, for a settlement price of $25, a variable number of newly issued shares of Chubb s common stock. The number of shares of Chubb s common stock purchased was determined based on a formula that considered the market price of the common stock immediately prior to the time of settlement in relation to the $29.75 per share sale price of the common stock at the time the equity units were offered. Upon settlement of the purchase contracts, Chubb issued 12,883,527 shares of common stock and received proceeds of $460 million.

(d) As of December 31, 2006, 19,845,938 shares remained under the current share repurchase authorization that was approved by the Board of Directors in December 2006. The authorization has no expiration date.

(e) Chubb has a shareholders rights plan under which each shareholder has one-half of a right for each share of Chubb s common stock held. Each right entitles the holder to purchase from Chubb one one-thousandth of a share of Series B Participating Cumulative Preferred Stock at an exercise price of $240. The rights are attached 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 20% or more of the outstanding shares of Chubb s common stock or announces a tender or exchange offer which, if consummated, would result in that person or group owning 20% or more of the outstanding shares of Chubb s common stock.

In the event that any person or group acquires 20% or more of the outstanding shares of Chubb s common stock, each right will entitle the holder, other than such person or group, to purchase that number of shares of Chubb s common stock having a market value of two times the exercise price of the right. In the event that, following the acquisition of 20% or more of Chubb 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. At any time after any person or group acquires 20% or more of Chubb s common stock, but before such person or group acquires 50% or more of such stock, Chubb may exchange all or part of the rights, other than the rights owned by such person or group, for shares of Chubb s common stock at an exchange ratio of one share of common stock per one-half of a 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 $0.01 per right by Chubb at any time until the tenth day after the acquisition of 20% or more of Chubb s outstanding common stock by a person or group. The rights will expire at the close of business on March 12, 2009, unless previously exchanged or redeemed by Chubb.

(f) The property and casualty 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, statutory accounting practices differ in certain respects from GAAP.

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

	December 31			
	2006		2005	
	GAAP	Statutory	GAAP	Statutory
	(in millions)			
P&C Group	$13,868	$11,357	$12,147	$8,910
Corporate and other	(5)		260	
	$13,863		$12,407	

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

	Years Ended December 31					
	2006		2005		2004	
	GAAP	Statutory	GAAP	Statutory	GAAP	Statutory

			(in millions)			
P&C Group	$2,637	$2,575	$1,963	$1,897	$1,799	$1,664
Corporate and other	(109)		(137)		(251)	
	$2,528		$1,826		$1,548	

(g) As a holding company, Chubb s ability to continue to pay dividends to shareholders and to satisfy its obligations, including the payment of interest and principal on debt obligations, relies on the availability of liquid assets, which is dependent in large part on the dividend paying ability of its property and casualty insurance subsidiaries. The Corporation s property and casualty insurance subsidiaries are subject to laws and regulations in the jurisdictions in which they operate that restrict the amount of dividends they may pay 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 2006, these subsidiaries paid dividends to Chubb totaling $650 million.

The maximum dividend distribution that may be made by the property and casualty insurance subsidiaries to Chubb during 2007 without prior regulatory approval is approximately $1.6 billion.

QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly financial data for 2006 and 2005 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	
	2006	2005	2006	2005	2006	2005(a)	2006	2005
	(in millions except for per share amounts)							
Revenues	$3,506	$3,449	$3,445	$3,452	$3,451	$3,479	$3,601	$3,703
Losses and expenses	2,554	2,837	2,611	2,768	2,620	3,175	2,693	2,856
Federal and foreign income tax	280	142	236	189	227	58	254	232
Net income	$ 672	$ 470	$ 598	$ 495	$ 604	$ 246	$ 654	$ 615
Basic earnings per share	$ 1.62	$ 1.22	$ 1.45	$ 1.26	$ 1.47	$ 0.62	$ 1.59	$ 1.50
Diluted earnings per share	$ 1.58	$ 1.18	$ 1.41	$ 1.23	$ 1.43	$ 0.60	$ 1.56	$ 1.46
Underwriting ratios								
Losses to premiums earned	53.8%	60.6%	56.7%	60.3%	56.9%	74.4%	53.2%	61.8%
Expenses to premiums written	29.1	28.8	28.5	28.0	28.6	27.8	29.9	27.5
Combined	82.9%	89.4%	85.2%	88.3%	85.5%	102.2%	83.1%	89.3%

(a) In the third quarter of 2005, revenues were reduced by net reinsurance reinstatement premium costs of $51 million and losses and expenses included net losses of $415 million related to Hurricane Katrina. Net income for the quarter was reduced by $303 million or $0.74 per diluted share ($0.76 per basic share) for the after-tax effect of the net costs. Excluding the impact of Hurricane Katrina, the losses to premiums earned ratio was 59.8%, the expenses to premiums written ratio was 27.3% and the combined ratio was 87.1%.

Per share amounts have been retroactively adjusted to reflect the two-for-one stock split effective March 31, 2006.

THE CHUBB CORPORATION

Schedule I

CONSOLIDATED SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

(in millions)

December 31, 2006

Type of Investment	Cost or Amortized Cost	Market Value	Amount at Which Shown in the Balance Sheet
Short term investments	$ 2,254	$ 2,254	$ 2,254
Fixed maturities			
United States Government and government agencies and authorities	4,699	4,604	4,604
States, municipalities and political subdivisions	17,482	17,785	17,778
Foreign	5,589	5,571	5,571
Public utilities	449	453	453
All other corporate bonds	3,540	3,560	3,560
Total fixed maturities	31,759	31,973	31,966
Equity securities			
Common stocks			
Public utilities	173	218	218
Banks, trusts and insurance companies	382	535	535
Industrial, miscellaneous and other	964	1,160	1,160
Total common stocks	1,519	1,913	1,913
Non-redeemable preferred stocks	42	44	44
Total equity securities	1,561	1,957	1,957
Other invested assets	1,516	1,516	1,516
Total invested assets	$37,090	$37,700	$37,693

THE CHUBB CORPORATION

Schedule II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS PARENT COMPANY ONLY

(in millions)

December 31

	2006	2005
Assets		
Invested Assets		
Short Term Investments	$ 748	$ 916
Taxable Fixed Maturities Available-for-Sale (cost $1,134 and $1,295)	1,113	1,278
Equity Securities (cost $289 and $5)	416	8
TOTAL INVESTED ASSETS	2,277	2,202
Cash	1	
Investment in Consolidated Subsidiaries	13,848	12,156
Investment in Partially Owned Company		260
Net Receivable from Consolidated Subsidiaries	19	141
Other Assets	243	149
TOTAL ASSETS	$16,388	$14,908
Liabilities		
Long Term Debt	$ 2,266	$ 2,267
Dividend Payable to Shareholders	104	90
Accrued Expenses and Other Liabilities	155	144
TOTAL LIABILITIES	2,525	2,501
Shareholders Equity		
Preferred Stock Authorized 8,000,000 Shares; $1 Par Value; Issued None		
Common Stock Authorized 1,200,000,000 Shares; $1 Par Value; Issued 411,276,940 and 420,864,596 Shares	411	210
Paid-In Surplus	1,539	2,364
Retained Earnings	11,711	9,600
Accumulated Other Comprehensive Income	202	368
Treasury Stock, at Cost 2,787,800 Shares in 2005		(135)
TOTAL SHAREHOLDERS EQUITY	13,863	12,407
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$16,388	$14,908

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

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THE CHUBB CORPORATION

Schedule II

(continued)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF INCOME PARENT COMPANY ONLY

(in millions)

Years Ended December 31

	2006	2005	2004
Revenues			
Investment Income	$ 111	$ 82	$ 65
Other Revenues	17	3	
Realized Investment Gains (Losses)		16	(41)
TOTAL REVENUES	128	101	24
Expenses			
Investment Expenses	3	2	2
Real Estate Impairment Loss		48	
Corporate Expenses	192	188	176
TOTAL EXPENSES	195	238	178
Loss before Federal and Foreign Income Tax and Equity in Net Income of Consolidated Subsidiaries	(67)	(137)	(154)
Federal and Foreign Income Tax (Credit)	16	(48)	53
Loss before Equity in Net Income of Consolidated Subsidiaries	(83)	(89)	(207)
Equity in Net Income of Consolidated Subsidiaries	2,611	1,915	1,755
NET INCOME	$2,528	$1,826	$1,548

Chubb and its domestic subsidiaries file a consolidated federal income tax return. The federal income tax provision represents an allocation under the Corporation s tax allocation agreements.

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

THE CHUBB CORPORATION

Schedule II

(continued)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS PARENT COMPANY ONLY

(in millions)

Years Ended December 31

	2006	2005	2004
Cash Flows from Operating Activities			
Net Income	$ 2,528	$ 1,826	$ 1,548
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Equity in Net Income of Consolidated Subsidiaries	(2,611)	(1,915)	(1,755)
Realized Investment Losses (Gains)		(16)	41
Other, Net	41	102	
NET CASH USED IN OPERATING ACTIVITIES	(42)	(3)	(166)
Cash Flows from Investing Activities			
Proceeds from Fixed Maturities			
Sales	121	548	190
Maturities, Calls and Redemptions	113	102	69
Proceeds from Sales of Equity Securities	1	1	7
Purchases of Fixed Maturities	(75)	(703)	(973)
Purchases of Equity Securities		(1)	
Decrease (Increase) in Short Term Investments, Net	168	(730)	517
Capital Contributions to Consolidated Subsidiaries	(10)	(200)	(20)
Dividends Received from Consolidated Insurance Subsidiaries	650	520	380
Distributions Received from Consolidated Non-Insurance Subsidiaries	17		11
Other, Net		100	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	985	(363)	181
Cash Flows from Financing Activities			
Repayment of Long Term Debt		(300)	
Proceeds from Common Stock Issued Upon Settlement of Equity Unit Purchase Contracts and Warrants	460	600	
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	229	531	258
Repurchase of Shares	(1,228)	(135)	
Dividends Paid to Shareholders	(403)	(330)	(291)
Other, Net			18
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(942)	366	(15)

Net Increase in Cash	1		
Cash at Beginning of Year			
CASH AT END OF YEAR	$ 1	$	$

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

In 2005, consolidated subsidiaries paid noncash dividends in the amount of $196 million to Chubb. These transactions have been excluded from the statement of cash flows.

THE CHUBB CORPORATION

Schedule III

CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION

(in millions)

	December 31			Year Ended December 31					
Segment	Deferred Policy Acquisition Costs	Unpaid Losses	Unearned Premiums	Premiums Earned	Net Investment Income*	Insurance Losses	Amortization of Deferred Policy Acquisition Costs	Other Insurance Operating Costs and Expenses**	Premiums Written
2006									
Personal	$ 478	$ 2,060	$1,848	$ 3,409		$1,735	$ 911	$145	$ 3,518
Commercial	591	10,521	2,716	5,079		2,726	1,215	290	5,125
Specialty	352	8,218	1,746	2,953		1,865	602	104	2,941
Reinsurance Assumed	59	1,494	236	517		248	191	21	390
Investments					$1,454				
	$1,480	$22,293	$6,546	$11,958	$1,454	$6,574	$2,919	$560	$11,974
2005									
Property and Casualty Insurance									
Personal	$ 445	$ 2,059	$1,730	$ 3,217		$1,822	$ 845	$123	$ 3,307
Commercial	576	10,803	2,615	5,020		3,187	1,180	269	5,030
Specialty	337	8,082	1,744	2,981		2,217	603	97	3,042
Reinsurance Assumed	87	1,538	272	958		587	303	22	904
Investments					$1,315				
	$1,445	$22,482	$6,361	$12,176	$1,315	$7,813	$2,931	$511	$12,283
2004									
Property and Casualty Insurance									
Personal	$ 424	$ 1,839	$1,625	$ 2,997		$1,830	$ 808	$154	$ 3,116
Commercial	573	9,550	2,631	4,766		2,509	1,134	323	4,938
Specialty	341	7,714	1,774	2,762		2,290	564	130	2,860
Reinsurance Assumed	97	1,189	326	1,111		692	337	19	1,139
Investments					$1,184				
	$1,435	$20,292	$6,356	$11,636	$1,184	$7,321	$2,843	$626	$12,053

* Property and casualty assets are available for payment of losses and expenses for all classes of business; therefore, such assets and the related investment income have not been allocated to the underwriting segments.

** Other insurance operating costs and expenses does not include other income and charges.

THE CHUBB CORPORATION

EXHIBITS INDEX

(Item 15(a))

Exhibit Number	Description
	Articles of incorporation and by-laws
3.1	Restated Certificate of Incorporation incorporated by reference to Exhibit (3) of the registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
3.2	Certificate of Amendment to the Restated Certificate of Incorporation incorporated by reference to Exhibit (3) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
3.3	Certificate of Correction of Certificate of Amendment to the Restated Certificate of Incorporation incorporated by reference to Exhibit (3) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
3.4	Certificate of Amendment to the Restated Certificate of Incorporation incorporated by reference to Exhibit (3.1) of the registrant s Current Report on Form 8-K filed on April 18, 2006.
3.5	By-Laws incorporated by reference to Exhibit (3.1) of the registrant s Current Report on Form 8-K filed on December 9, 2003.
	Instruments defining the rights of security holders, including indentures
	The registrant is not filing any instruments evidencing any indebtedness since the total amount of securities authorized under any single instrument does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.
4.1	Rights Agreement dated as of March 12, 1999 between The Chubb Corporation and First Chicago Trust Company of New York, as Rights Agent incorporated by reference to Exhibit (99.1) of the registrant s Current Report on Form 8-K filed on March 30, 1999.
	Material contracts
10.1	Five Year Revolving Credit Agreement, dated as of June 22, 2005, among The Chubb Corporation, the banks listed on the signature pages thereof, Deutsche Bank Securities Inc. and Citigroup Global Markets Inc., as Arrangers, Deutsche Bank AG New York Branch and Citicorp USA, Inc., as Swingline Lenders, Citicorp USA, Inc., as Syndication Agent, the Bank of New York and Wachovia Bank, National Association, as Documentation Agents, and Deutsche Bank AG New York Branch, as Administrative Agent, incorporated by reference to Exhibit (10.1) of the registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
10.2	The Chubb Corporation 2003 Producer Stock Incentive Plan incorporated by reference to Annex B of the registrant s definitive proxy statement for the Annual Meeting of Shareholders held on April 29, 2003.
10.3	The Chubb Corporation Producer Stock Incentive Program incorporated by reference to Exhibit (4.3) of Amendment No. 2 to the registrant s Registration Statement on Form S-3 (No. 333-67445) dated January 25, 1999.
10.4	The Chubb Corporation Asset Managers Incentive Compensation Plan (2005) incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 2004.

Exhibit Number	Description
10.5	Corporate Aircraft Policy incorporated by reference to Exhibit (10.12) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.6	The Chubb Corporation Annual Incentive Plan (2006) incorporated by reference to Annex A of the registrant s definitive proxy statement for the Annual Meeting of Shareholders held on April 25, 2006.
10.7	The Chubb Corporation Long-Term Stock Incentive Plan (2004) incorporated by reference to Annex B of the registrant s definitive proxy statement for the Annual Meeting of Shareholders held on April 27, 2004.
10.8	The Chubb Corporation Long-Term Stock Incentive Plan (2000) incorporated by reference to Exhibit A of the registrant s definitive proxy statement for the Annual Meeting of Shareholders held on April 25, 2000.
10.9	The Chubb Corporation Long-Term Stock Incentive Plan (1996), as amended, incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
10.10	The Chubb Corporation Long-Term Stock Incentive Plan (1992), as amended, incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
10.11	The Chubb Corporation Long-Term Stock Incentive Plan for Non-Employee Directors (2004) incorporated by reference to Annex C of the registrant s definitive proxy statement for the Annual Meeting of Shareholders held on April 27, 2004.
10.12	The Chubb Corporation Stock Option Plan for Non-Employee Directors (2001) incorporated by reference to Exhibit C of the registrant s definitive proxy statement for the Annual Meeting of Shareholders held on April 24, 2001.
10.13	The Chubb Corporation Stock Option Plan for Non-Employee Directors (1996), as amended, incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
10.14	The Chubb Corporation Stock Option Plan for Non-Employee Directors (1992), as amended, incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
10.15	Non-Employee Director Special Stock Option Agreement, dated as of December 5, 2002, between The Chubb Corporation and Joel J. Cohen, incorporated by reference to Exhibit (10.1) of the registrant s Current Report on Form 8-K filed on December 9, 2002.
10.16	Non-Employee Director Special Stock Option Agreement, dated as of December 5, 2002, between The Chubb Corporation and Lawrence M. Small, incorporated by reference to Exhibit (10.3) of the registrant s Current Report on Form 8-K filed on December 9, 2002.
10.17	The Chubb Corporation Key Employee Deferred Compensation Plan (2005) incorporated by reference to Exhibit (10.9) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.18	Amendment to the registrant s Key Employee Deferred Compensation Plan (2005) incorporated by reference to Exhibit (10.1) of the registrant s Current Report on Form 8-K filed on September 12, 2005.
10.19	The Chubb Corporation Executive Deferred Compensation Plan incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.

Exhibit Number	Description
10.20	The Chubb Corporation Deferred Compensation Plan for Directors, as amended, incorporated by reference to Exhibit (10.1) of the registrant s Current Report on Form 8-K filed on December 11, 2006.
10.21	The Chubb Corporation Estate Enhancement Program incorporated by reference to Exhibit (10) of the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
10.22	The Chubb Corporation Estate Enhancement Program for Non-Employee Directors incorporated by reference to Exhibit (10) of the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
10.23	Change in Control Employment Agreement, dated as of December 1, 2002, between The Chubb Corporation and John D. Finnegan, incorporated by reference to Exhibit (10) of the registrant s Current Report on Form 8-K filed on January 21, 2003.
10.24	Amendment, dated as of December 1, 2003, to Change in Control Employment Agreement, dated as of December 1, 2002, between The Chubb Corporation and John D. Finnegan, incorporated by reference to Exhibit (10.2) of the registrant s Current Report on Form 8-K filed on December 2, 2003.
10.25	Employment Agreement, dated as of December 1, 2002, between The Chubb Corporation and John D. Finnegan, incorporated by reference to Exhibit (10) of the registrant s Current Report on Form 8-K filed on January 21, 2003.
10.26	Amendment, dated as of December 1, 2003, to Employment Agreement, dated as of December 1, 2002, between The Chubb Corporation and John D. Finnegan, incorporated by reference to Exhibit (10.1) of the registrant s Current Report on Form 8-K filed on December 2, 2003.
10.27	Executive Severance Agreement, dated as of November 16, 1998, between The Chubb Corporation and Thomas F. Motamed, incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
10.28	Executive Severance Agreement, dated as of June 30, 1997, between The Chubb Corporation and Michael O Reilly, incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1997.
10.29	Executive Severance Agreement, dated as of December 8, 1995, between The Chubb Corporation and John J. Degnan, incorporated by reference to Exhibit (10) of the registrant s Annual Report on Form 10-K for the year ended December 31, 1995.
10.30	Schedule of 2006 Base Salary Increases for Named Executive Officers incorporated by reference to Exhibit (10.1) of the registrant s Current Report on Form 8-K filed on March 8, 2006.
10.31	Form of 2006 Performance Share Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (for Chief Executive Officer and Vice Chairmen) incorporated by reference to Exhibit (10.2) of the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.
10.32	Form of 2006 Performance Share Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (for Executive Vice Presidents and certain Senior Vice Presidents) incorporated by reference to Exhibit (10.3) of the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

Exhibit Number	Description
10.33	Form of 2006 Restricted Stock Unit Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (for Chief Executive Officer, Vice Chairmen, Executive Vice Presidents and certain Senior Vice Presidents) incorporated by reference to Exhibit (10.4) of the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.
10.34	Form of 2006 Performance Share Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan for Non-Employee Directors (2004) incorporated by reference to Exhibit (10.5) of the registrant s Current Report on Form 8-K filed on March 8, 2006.
10.35	Form of 2006 Stock Unit Agreement under The Chubb Corporation Long-Term Stock Incentive Plan for Non-Employee Directors (2004) incorporated by reference to Exhibit (10.6) of the registrant s Current Report on Form 8-K filed on March 8, 2006.
10.36	Form of Performance Share Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (for Chief Executive Officer and Vice Chairmen) incorporated by reference to Exhibit (10.3) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.37	Form of Performance Share Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (for Executive Vice Presidents and certain Senior Vice Presidents) incorporated by reference to Exhibit (10.4) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.38	Form of Performance Share Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (for recipients other than Chief Executive Officer, Vice Chairmen, Executive Vice Presidents and certain Senior Vice Presidents) incorporated by reference to Exhibit (10.5) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.39	Form of Restricted Stock Unit Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) incorporated by reference to Exhibit (10.6) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.40	Amendment to the form of restricted stock unit award agreement for all eligible participants in The Chubb Corporation Long-Term Stock Incentive Plan (2004) incorporated by reference to Exhibit (10.2) of the registrant s Current Report on Form 8-K filed on September 12, 2005.
10.41	Form of Non-Statutory Stock Option Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (three year vesting schedule) incorporated by reference to Exhibit (10.7) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.42	Form of Non-Statutory Stock Option Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan (2004) (four year vesting schedule) incorporated by reference to Exhibit (10.8) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.43	Form of Performance Share Award Agreement under The Chubb Corporation Long-Term Stock Incentive Plan for Non-Employee Directors (2004) incorporated by reference to Exhibit (10.10) of the registrant s Current Report on Form 8-K filed on March 9, 2005.
10.44	Form of Stock Unit Agreement under The Chubb Corporation Long-Term Stock Incentive Plan for Non-Employee Directors (2004) incorporated by reference to Exhibit (10.11) of the registrant s Current Report on Form 8-K filed on March 9, 2005.

Exhibit Number	Description
11.1	Computation of earnings per share included in Note (16) of the Notes to Consolidated Financial Statements.
21.1	Subsidiaries of the registrant filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm filed herewith.
	Rule 13a-14(a)/15d-14(a) Certifications.
31.1	Certification by John D. Finnegan filed herewith.
31.2	Certification by Michael O Reilly filed herewith.
	Section 1350 Certifications.
32.1	Certification by John D. Finnegan filed herewith.
32.2	Certification by Michael O Reilly filed herewith.