CHUBB CORP
Form 10-Q
August 07, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 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, WARREN, NEW JERSEY	07059
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (908) 903-2000

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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES þ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO þ

The number of shares of common stock outstanding as of June 30, 2014 was 240,483,744.

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Part I. FINANCIAL INFORMATION

Item 1 Financial Statements

THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

PERIODS ENDED JUNE 30

(in millions)

	Second Quarter		Six Months	
	2014	2013	2014	2013
Revenues				
Premiums Earned	$ 3,064	$ 2,995	$ 6,093	$ 5,999
Investment Income	351	368	709	740
Other Revenues	2	9	5	12
Realized Investment Gains (Losses), Net				
Total Other-Than-Temporary Impairment Losses on Investments	(5)	(5)	(5)	(7)
Other Realized Investment Gains, Net	130	184	246	324
Total Realized Investment Gains, Net	125	179	241	317
Total Revenues	3,542	3,551	7,048	7,068
Losses and Expenses				
Losses and Loss Expenses	1,792	1,694	3,637	3,262
Amortization of Deferred Policy Acquisition Costs	630	617	1,252	1,204
Other Insurance Operating Costs and Expenses	366	358	722	717
Investment Expenses	9	13	20	26
Other Expenses	5	11	10	17
Corporate Expenses	62	62	126	130
Total Losses and Expenses	2,864	2,755	5,767	5,356
Income Before Federal and Foreign Income Tax	678	796	1,281	1,712
Federal and Foreign Income Tax	179	217	333	477
Net Income	$ 499	$ 579	$ 948	$ 1,235
Net Income Per Share				

Basic	$ 2.03	$ 2.22	$ 3.84	$ 4.72
Diluted	2.03	2.21	3.83	4.69
Dividends Declared Per Share	.50	.44	1.00	.88

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PERIODS ENDED JUNE 30

(in millions)

	Second Quarter		Six Months	
	2014	2013	2014	2013
Net Income	$ 499	$ 579	$ 948	$ 1,235
Other Comprehensive Income (Loss), Net of Tax				
Change in Unrealized Appreciation of Investments	238	(700)	473	(696)
Change in Postretirement Benefit Costs Not Yet Recognized in Net Income	5	14	11	31
Foreign Currency Translation Gains (Losses)	4	28	(15)	(22)
	247	(658)	469	(687)
Comprehensive Income (Loss)	$ 746	$ (79)	$ 1,417	$ 548

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions)

	June 30 2014	December 31 2013
Assets		
Invested Assets		
Short Term Investments	$ 1,845	$ 2,114
Fixed Maturities (cost $36,313 and $35,959)	38,062	37,091
Equity Securities (cost $1,106 and $1,057)	1,969	1,810
Other Invested Assets	1,595	1,598
TOTAL INVESTED ASSETS	43,471	42,613
Cash	55	52
Accrued Investment Income	417	418
Premiums Receivable	2,420	2,284
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	1,729	1,802
Prepaid Reinsurance Premiums	278	290
Deferred Policy Acquisition Costs	1,286	1,255
Deferred Income Tax		47
Goodwill	467	467
Other Assets	1,317	1,205
TOTAL ASSETS	$ 51,440	$ 50,433
Liabilities		
Unpaid Losses and Loss Expenses	$ 23,127	$ 23,146
Unearned Premiums	6,588	6,423
Long Term Debt	3,300	3,300
Dividend Payable to Shareholders	122	110
Deferred Income Tax	259	
Accrued Expenses and Other Liabilities	1,546	1,357
TOTAL LIABILITIES	34,942	34,336

Shareholders Equity

Common Stock - $1 Par Value; 371,980,460 Shares	372	372
Paid-In Surplus	129	171
Retained Earnings	22,604	21,902
Accumulated Other Comprehensive Income	1,504	1,035
Treasury Stock, at Cost - 131,496,716 and 123,673,969 Shares	(8,111)	(7,383)
TOTAL SHAREHOLDERS EQUITY	16,498	16,097
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 51,440	$ 50,433

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

SIX MONTHS ENDED JUNE 30

(in millions)

	2014	2013
Common Stock		
Balance, Beginning of Year and End of Period	$ 372	$ 372
Paid-In-Surplus		
Balance, Beginning of Year	171	178
Changes Related to Stock-Based Employee Compensation (includes tax benefit of $14 and $27)	(42)	(52)
Balance, End of Period	129	126
Retained Earnings		
Balance, Beginning of Year	21,902	20,009
Net Income	948	1,235
Dividends Declared (per share $1.00 and $.88)	(246)	(229)
Balance, End of Period	22,604	21,015
Accumulated Other Comprehensive Income (Loss)		
Unrealized Appreciation of Investments Including Unrealized Other-Than-Temporary Impairment Losses		
Balance, Beginning of Year	1,225	2,013
Change During Period, Net of Tax	473	(696)
Balance, End of Period	1,698	1,317
Postretirement Benefit Costs Not Yet Recognized in Net Income		
Balance, Beginning of Year	(253)	(717)
Change During Period, Net of Tax	11	31
Balance, End of Period	(242)	(686)
Foreign Currency Translation Gains		
Balance, Beginning of Year	63	135
Change During Period, Net of Tax	(15)	(22)
Balance, End of Period	48	113

Accumulated Other Comprehensive Income, End of Period	1,504	744
Treasury Stock, at Cost		
Balance, Beginning of Year	(7,383)	(6,163)
Repurchase of Shares	(784)	(649)
Shares Issued Under Stock-Based Employee Compensation Plans	56	78
Balance, End of Period	(8,111)	(6,734)
TOTAL SHAREHOLDERS EQUITY	$ 16,498	$ 15,523

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30

(in millions)

	2014	2013
Cash Flows from Operating Activities		
Net Income	$ 948	$ 1,235
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Increase (Decrease) in Unpaid Losses and Loss Expenses, Net	87	(299)
Increase in Unearned Premiums, Net	192	158
Increase in Premiums Receivable	(136)	(130)
Amortization of Premiums and Discounts on Fixed Maturities	93	91
Depreciation	27	28
Realized Investment Gains, Net	(241)	(317)
Other, Net	(192)	(202)
Net Cash Provided by Operating Activities	778	564
Cash Flows from Investing Activities		
Proceeds from Fixed Maturities		
Sales	2,377	1,138
Maturities, Calls and Redemptions	2,067	2,353
Proceeds from Sales of Equity Securities	136	273
Purchases of Fixed Maturities	(4,884)	(4,053)
Purchases of Equity Securities	(97)	(92)
Investments in Other Invested Assets, Net	112	280
Decrease in Short Term Investments, Net	259	514
Change in Receivable or Payable from Security Transactions Not Settled, Net	278	165
Purchases of Property and Equipment, Net	(26)	(25)
Other, Net	(3)	
Net Cash Provided by Investing Activities	219	553
Cash Flows from Financing Activities		
Repayment of Long Term Debt		(275)
Decrease in Funds Held Under Deposit Contracts	(1)	(4)
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	15	36
Repurchase of Shares	(774)	(634)
Dividends Paid to Shareholders	(234)	(223)

Net Cash Used in Financing Activities		(994)		(1,100)
Net Increase in Cash		3		17
Cash at Beginning of Year		52		50
Cash at End of Period	$	55	$	67

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) General

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

The amounts included in this report are unaudited but include those adjustments, consisting of normal recurring items, that management considers necessary for a fair presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Notes to Consolidated Financial Statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2013.

2) Invested Assets

(a) The amortized cost and fair value of fixed maturities and equity securities were as follows:

	June 30, 2014			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
	(in millions)			
Fixed maturities				
Tax exempt	$ 18,168	$ 1,088	$ 36	$ 19,220
Taxable				
U.S. government and government agency and authority obligations	1,245	43	2	1,286
Corporate bonds	8,809	405	20	9,194
Foreign government and government agency obligations	6,682	236	13	6,905
Residential mortgage-backed securities	229	22	1	250
Commercial mortgage-backed securities	1,180	28	1	1,207
	18,145	734	37	18,842
Total fixed maturities	$ 36,313	$ 1,822	$ 73	$ 38,062
Equity securities	$ 1,106	$ 878	$ 15	$ 1,969

	December 31, 2013			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
		(in millions)		
Fixed maturities				
Tax exempt	$ 17,808	$ 802	$ 189	$ 18,421
Taxable				
U.S. government and government agency and authority obligations	784	27	9	802
Corporate bonds	9,032	370	88	9,314
Foreign government and government agency obligations	6,719	206	35	6,890
Residential mortgage-backed securities	277	23	1	299
Commercial mortgage-backed securities	1,339	29	3	1,365
	18,151	655	136	18,670
Total fixed maturities	$ 35,959	$ 1,457	$ 325	$ 37,091
Equity securities	$ 1,057	$ 756	$ 3	$ 1,810

The fair value and amortized cost of fixed maturities at June 30, 2014 by contractual maturity were as follows:

	Fair Value	Amortized Cost
	(in millions)	
Due in one year or less	$ 1,967	$ 1,946
Due after one year through five years	14,182	13,577
Due after five years through ten years	12,348	11,661
Due after ten years	8,108	7,720
	36,605	34,904
Residential mortgage-backed securities	250	229
Commercial mortgage-backed securities	1,207	1,180
	$ 38,062	$ 36,313

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

The Corporation s equity securities comprise a diversified portfolio of primarily U.S. publicly-traded common stocks.

The Corporation is involved in the normal course of business with variable interest entities (VIEs) primarily as a passive investor in residential mortgage-backed securities, commercial mortgage-backed securities and private equity limited partnerships issued by third party VIEs. The Corporation is not the primary beneficiary of these VIEs. The Corporation s maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Corporation s consolidated balance sheet and any unfunded partnership commitments.

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(b) The components of unrealized appreciation or depreciation, including unrealized other-than-temporary impairment losses, of investments carried at fair value were as follows:

	June 30 2014	December 31 2013
	(in millions)	
Fixed maturities		
Gross unrealized appreciation	$ 1,822	$ 1,457
Gross unrealized depreciation	73	325
	1,749	1,132
Equity securities		
Gross unrealized appreciation	878	756
Gross unrealized depreciation	15	3
	863	753
	2,612	1,885
Deferred income tax liability	914	660
	$ 1,698	$ 1,225

The following table summarizes, for all investment securities in an unrealized loss position at June 30, 2014, the aggregate fair value and gross unrealized depreciation, including unrealized other-than-temporary impairment losses, 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	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
			(in millions)			
Fixed maturities						
Tax exempt	$ 441	$ 5	$ 1,069	$ 31	$ 1,510	$ 36
Taxable						
U.S. government and government agency and authority obligations	510		36	2	546	2
Corporate bonds	502	2	1,097	18	1,599	20
Foreign government and government agency obligations	465	2	500	11	965	13
Residential mortgage-backed securities	2		6	1	8	1
Commercial mortgage-backed securities	55		40	1	95	1
	1,534	4	1,679	33	3,213	37
Total fixed maturities	1,975	9	2,748	64	4,723	73

Equity securities	62	15			62	15
	$ 2,037	$ 24	$ 2,748	$ 64	$ 4,785	$ 88

At June 30, 2014, approximately 570 individual fixed maturities and 10 individual equity securities were in an unrealized loss position. The Corporation does not have the intent to sell and it is not more likely than not that the Corporation will be required to sell these fixed maturities before the securities recover to their amortized cost value. In addition, the Corporation believes that none of the declines in the fair values of these fixed maturities relate to credit losses. The Corporation has the intent and ability to hold the equity securities in an unrealized loss position for a period of time sufficient to allow for the recovery of cost. The Corporation believes that none of the declines in the fair value of these fixed maturities and equity securities were other than temporary at June 30, 2014.

The following table summarizes, for all investment securities in an unrealized loss position at December 31, 2013, the aggregate fair value and gross unrealized depreciation, including unrealized other-than-temporary impairment losses, 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	
	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
			(in millions)			
Fixed maturities						
Tax exempt	$ 3,417	$ 144	$ 307	$ 45	$ 3,724	$ 189
Taxable						
U.S. government and government agency and authority obligations	213	6	35	3	248	9
Corporate bonds	2,526	76	222	12	2,748	88
Foreign government and government agency obligations	1,735	32	75	3	1,810	35
Residential mortgage-backed securities	4		14	1	18	1
Commercial mortgage-backed securities	153	1	39	2	192	3
	4,631	115	385	21	5,016	136
Total fixed maturities	8,048	259	692	66	8,740	325
Equity securities	41	3			41	3
	$ 8,089	$ 262	$ 692	$ 66	$ 8,781	$ 328

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The change in unrealized appreciation or depreciation of investments carried at fair value, including the change in unrealized other-than-temporary impairment losses, was as follows:

	Periods Ended June 30			
	Second Quarter		Six Months	
	2014	2013	2014	2013
	(in millions)			
Change in unrealized appreciation of fixed maturities	$ 255	$ (1,019)	$ 617	$ (1,215)
Change in unrealized appreciation of equity securities	111	(57)	110	145
	366	(1,076)	727	(1,070)
Deferred income tax (credit)	128	(376)	254	(374)
	$ 238	$ (700)	$ 473	$ (696)

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

	Periods Ended June 30			
	Second Quarter		Six Months	
	2014	2013	2014	2013
	(in millions)			
Fixed maturities				
Gross realized gains	$ 69	$ 14	$ 77	$ 27
Gross realized losses	(17)	(8)	(28)	(10)
Other-than-temporary impairment losses	(4)		(4)	
	48	6	45	17
Equity securities				
Gross realized gains	23	119	89	174
Other-than-temporary impairment losses	(1)	(5)	(1)	(7)
	22	114	88	167
Other invested assets	55	59	108	133
	$ 125	$ 179	$ 241	$ 317

(d) As of June 30, 2014 and December 31, 2013, fixed maturities still held by the Corporation for which a portion of their other-than-temporary impairment losses were recognized in other comprehensive income had cumulative credit-related losses of $19 million and $20 million, respectively, recognized in net income.

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3) 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 or loss, which for the Corporation consists of changes in unrealized appreciation or depreciation of investments carried at fair value, changes in unrealized other-than-temporary impairment losses of fixed maturities, changes in postretirement benefit costs not yet recognized in net income and changes in foreign currency translation gains or losses.

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

	Periods Ended June 30, 2014					
	Second Quarter			Six Months		
	Before Tax	Income Tax	Net of Tax	Before Tax	Income Tax	Net of Tax
			(in millions)			
Net unrealized holding gains arising during the period	$ 436	$ 153	$ 283	$ 860	$ 301	$ 559
Reclassification adjustment for net realized gains included in net income	70	25	45	133	47	86
Net unrealized gains recognized in other comprehensive income	366	128	238	727	254	473
Reclassification adjustment for the amortization of net actuarial loss and prior service cost included in net income (a)	(8)	(3)	(5)	(17)	(6)	(11)
Net change in postretirement benefit costs not yet recognized in net income	8	3	5	17	6	11
Foreign currency translation gains (losses)	6	2	4	(22)	(7)	(15)
Total other comprehensive income	$ 380	$ 133	$ 247	$ 722	$ 253	$ 469

(a) Postretirement benefit costs recognized in net income during the period are included among several of the loss and expense components presented in the consolidated statements of income.

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	Periods Ended June 30, 2013					
	Second Quarter			Six Months		
	Before Tax	Income Tax	Net of Tax	Before Tax	Income Tax	Net of Tax
			(in millions)			
Net unrealized holding losses arising during the period	$ (956)	$ (334)	$ (622)	$ (886)	$ (310)	$ (576)
Reclassification adjustment for net realized gains included in net income	120	42	78	184	64	120
Net unrealized losses recognized in other comprehensive loss	(1,076)	(376)	(700)	(1,070)	(374)	(696)
Postretirement benefit gain (loss) not yet recognized in net income arising during the period	(1)	(1)		1		1
Reclassification adjustment for the amortization of net actuarial loss and prior service cost included in net income (a)	(23)	(9)	(14)	(47)	(17)	(30)
Net change in postretirement benefit costs not yet recognized in net income	22	8	14	48	17	31
Foreign currency translation gains (losses)	42	14	28	(35)	(13)	(22)
Total other comprehensive loss	$ (1,012)	$ (354)	$ (658)	$ (1,057)	$ (370)	$ (687)

(a) Postretirement benefit costs recognized in net income during the period are included among several of the loss and expense components presented in the consolidated statements of income.

4) 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 property and casualty insurance subsidiaries underwrite 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 has been in runoff since the transfer of the ongoing reinsurance assumed business to a reinsurance company in 2005.

Corporate and other includes investment income earned on corporate invested assets, corporate expenses and the results of the Corporation s non-insurance subsidiaries.

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

	Periods Ended June 30			
	Second Quarter		Six Months	
	2014	2013	2014	2013
	(in millions)			
Revenues				
Property and casualty insurance				
Premiums earned				
Personal insurance	$ 1,102	$ 1,050	$ 2,178	$ 2,081
Commercial insurance	1,305	1,299	2,605	2,607
Specialty insurance	656	645	1,309	1,311
Total insurance	3,063	2,994	6,092	5,999
Reinsurance assumed	1	1	1	
	3,064	2,995	6,093	5,999
Investment income	345	361	696	724
Total property and casualty insurance	3,409	3,356	6,789	6,723
Corporate and other	8	16	18	28
Realized investment gains, net	125	179	241	317
Total revenues	$ 3,542	$ 3,551	$ 7,048	$ 7,068
Income (loss) before income tax				
Property and casualty insurance				
Underwriting				
Personal insurance	$ 45	$ 75	$ 47	$ 225
Commercial insurance	71	124	182	319
Specialty insurance	140	96	222	191
Total insurance	256	295	451	735
Reinsurance assumed	1	6	1	10
	257	301	452	745
Increase in deferred policy acquisition costs	21	16	34	57

Underwriting income	278	317	486	802
Investment income	336	349	677	700
Other income (charges)	(2)	9	(4)	14
Total property and casualty insurance	612	675	1,159	1,516
Corporate and other	(59)	(58)	(119)	(121)
Realized investment gains, net	125	179	241	317
Total income before income tax	$ 678	$ 796	$ 1,281	$ 1,712

5) Fair Values of Financial Instruments

Fair values of financial instruments are determined by management using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical assets or liabilities or other inputs, such as quoted prices for similar assets or liabilities, that are observable either directly or indirectly. In those instances where observable inputs are not available, fair values are measured using unobservable inputs for the asset or liability. Unobservable inputs reflect the Corporation s own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. 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 values 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 are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service or, in the case of securities for which prices are not provided by a pricing service, from third party brokers. For fixed maturities that have quoted prices in active markets, market quotations are provided. For fixed maturities that do not trade on a daily basis, the pricing service and brokers provide fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment rates and measures of volatility. Management reviews on an ongoing basis the reasonableness of the methodologies used by the relevant pricing service and brokers. In addition, management, using the prices received for the securities from the pricing service and brokers, determines the aggregate portfolio price performance and reviews it against applicable indices. If management believes that significant discrepancies exist, it will discuss these with the relevant pricing service or broker to resolve the discrepancies.

(iii) Fair values of equity securities are determined by management, utilizing quoted market prices.

(iv) Fair values of long term debt issued by Chubb are determined by management, utilizing prices obtained from a third party, nationally recognized pricing service.

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

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(in millions)		
Assets				
Invested assets				
Short term investments	$ 1,845	$ 1,845	$ 2,114	$ 2,114
Fixed maturities	38,062	38,062	37,091	37,091
Equity securities	1,969	1,969	1,810	1,810
Liabilities				
Long term debt	3,300	3,989	3,300	3,806

At June 30, 2014 and December 31, 2013, a pricing service provided fair value amounts for approximately 99% of the Corporation s fixed maturities. The prices obtained from a pricing service and brokers generally are non-binding, but are reflective of current market transactions in the applicable financial instruments.

At June 30, 2014 and December 31, 2013, the Corporation held an insignificant amount of financial instruments in its investment portfolio for which a lack of market liquidity impacted the determination of fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 Unadjusted quoted prices in active markets for identical financial instruments.

Level 2 Other inputs that are observable for the financial instrument, either directly or indirectly.

Level 3 Significant unobservable inputs.

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The fair value of financial instruments categorized based upon the lowest level of input that was significant to the fair value measurement was as follows:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets				
Short term investments	$ 284	$ 1,561	$	$ 1,845
Fixed maturities				
Tax exempt		19,216	4	19,220
Taxable				
U.S. government and government agency and authority obligations		1,286		1,286
Corporate bonds		9,066	128	9,194
Foreign government and government agency obligations		6,896	9	6,905
Residential mortgage-backed securities		246	4	250
Commercial mortgage-backed securities		1,196	11	1,207
		18,690	152	18,842
Total fixed maturities		37,906	156	38,062
Equity securities	1,963		6	1,969
	$ 2,247	$ 39,467	$ 162	$ 41,876
Liabilities				
Long term debt	$	$ 3,989	$	$ 3,989

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	December 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in millions)		
Assets				
Short term investments	$ 399	$ 1,715	$	$ 2,114
Fixed maturities				
Tax exempt		18,416	5	18,421
Taxable				
U.S. government and government agency and authority obligations		802		802
Corporate bonds		9,179	135	9,314
Foreign government and government agency obligations		6,881	9	6,890
Residential mortgage-backed securities		293	6	299
Commercial mortgage-backed securities		1,345	20	1,365
		18,500	170	18,670
Total fixed maturities		36,916	175	37,091
Equity securities	1,803		7	1,810
	$ 2,202	$ 38,631	$ 182	$ 41,015
Liabilities				
Long term debt	$	$ 3,806	$	$ 3,806

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6) Earnings Per Share

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

	Periods Ended June 30			
	Second Quarter		Six Months	
	2014	2013	2014	2013
	(in millions, except for per share amounts)			
Basic earnings per share:				
Net income	$ 499	$ 579	$ 948	$ 1,235
Weighted average shares outstanding	245.7	260.5	247.1	261.9
Basic earnings per share	$ 2.03	$ 2.22	$ 3.84	$ 4.72
Diluted earnings per share:				
Net income	$ 499	$ 579	$ 948	$ 1,235
Weighted average shares outstanding	245.7	260.5	247.1	261.9
Additional shares from assumed issuance of shares under stock-based compensation awards	.5	1.0	.6	1.3
Weighted average shares and potential shares assumed outstanding for computing diluted earnings per share	246.2	261.5	247.7	263.2
Diluted earnings per share	$ 2.03	$ 2.21	$ 3.83	$ 4.69

Item 2   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 June 30, 2014 compared with December 31, 2013 and the results of operations for the six months and three months ended June 30, 2014 and 2013. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes contained in this report and the consolidated financial statements and related notes and management s discussion and analysis of financial condition and results of operations included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2013.

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 market conditions in 2014, including premium volume, rate trends, the pricing environment and competition; the cost of our property reinsurance program in 2014; our loss reserve and reinsurance recoverable estimates; property and casualty investment income after taxes for the full year 2014; the repurchase of common stock under our share repurchase program; and our financial position, capital adequacy and funding of liquidity needs. Forward-looking statements frequently can be identified by words such as believe, expect, anticipate, intend, plan, will, should, could, would, likely, estimate, predict, potential, continue, or other similar expressions. Forward-looking statements are ma 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 in our Annual Report on Form 10-K for the year ended December 31, 2013 and from time to time in our other public filings with the Securities and Exchange Commission and those associated with:

global political, economic and market conditions, particularly in the jurisdictions in which we operate and/or invest, including:

- changes in credit ratings, interest rates, market credit spreads and the performance of the financial markets;
- currency fluctuations;
- 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; and

changes in the litigation environment;

the effects of the outbreak or escalation of war or hostilities;

the occurrence of terrorist attacks, including any nuclear, biological, chemical or radiological events;

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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;

our ability to retain existing business and attract new business at acceptable rates;

our expectations with respect to cash flow and investment income and with respect to other income;

the adequacy of our 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; and
- the impact from the bankruptcy protection sought by various asbestos producers and other related businesses;

the availability and cost 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 or changes to our estimates (or the assessments of rating agencies and other third parties) of our potential exposure to such events;

the impact of economic factors on companies on whose behalf we have issued surety bonds, and in particular, on those companies that file for bankruptcy or otherwise experience deterioration in creditworthiness;

the effects of disclosures by, and investigations of, companies we insure, particularly with respect to our lines of business that have a longer time span, or tail, between the incidence of a loss and the settlement of the claim;

the impact of legislative, regulatory, judicial and similar developments on companies we insure, particularly with respect to our longer tail lines of business;

the impact of legislative, regulatory, judicial and similar developments on our business, including those relating to insurance industry reform, terrorism, catastrophes, the financial markets, solvency standards, capital requirements, accounting guidance and taxation;

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

- the ability of our subsidiaries to pay us dividends;
- our plans to repurchase shares of our common stock, including as a result of changes in:
  - our financial position and financial results;
  - our capital position and/or capital adequacy levels required to maintain our existing ratings from independent rating agencies;
  - our share price;
  - investment opportunities;
  - opportunities to profitably grow our property and casualty insurance business; and
  - corporate and regulatory requirements; and
- our ability to implement management s strategic plans and initiatives.

Chubb 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 and the evaluation of whether a decline in value of any investment is temporary or other than temporary. These estimates and judgments, which are discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013 as supplemented 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.

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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 $948 million in the first six months of 2014 and $499 million in the second quarter compared with $1.2 billion and $579 million, respectively, in the same periods of 2013. Net income was lower in the first six months and second quarter of 2014 compared with the same periods of 2013 due to lower operating income and, to a lesser extent, lower net realized investment gains. We define operating income as net income excluding realized investment gains and losses after tax.

Operating income was $792 million in the first six months of 2014 and $418 million in the second quarter compared with $1.0 billion and $463 million, respectively, in the same periods of 2013. The lower operating income in the 2014 periods was due primarily to lower underwriting income in our property and casualty insurance business, particularly in the first six months and, to a lesser extent, a decrease in property and casualty investment income. Management uses operating income, a non-GAAP financial measure, among other measures, to evaluate its performance because the realization of investment gains and losses in any period could be discretionary as to timing and can fluctuate significantly, which could distort the analysis of operating trends.

Underwriting results were profitable in the first six months of 2014 compared with highly profitable results in the same period of 2013. Underwriting results were highly profitable in the second quarter of both years. Our combined loss and expense ratio was 91.6% in the first six months of 2014 and 90.0% in the second quarter compared with 86.7% and 88.8% in the respective periods of 2013. Results were less profitable in the first six months of 2014 compared to the same period of 2013 due primarily to a higher current accident year loss ratio excluding catastrophes and, to a lesser extent, a higher impact of catastrophes and a lower amount of favorable prior year loss development. Results were less profitable in the second quarter of 2014 compared to the same period of 2013 due primarily to a higher current accident year loss ratio excluding catastrophes and, to a lesser extent, a lower amount of favorable prior year loss development, offset in part by a lower impact of catastrophes. The impact of catastrophes accounted for 5.7 percentage points of the combined ratio in the first six months of 2014 and 4.8 percentage points in the second quarter compared with 4.3 and 7.9 percentage points, respectively, in the same periods of 2013.

During the first six months and second quarter of 2014, we estimate that we experienced overall favorable prior year loss development of about $325 million and $165 million, respectively, on loss reserves established as of the previous year end. We estimate that during the first six months and second quarter of 2013, we experienced overall favorable prior year loss development of about $405 million and $215 million, respectively. In each period we experienced favorable prior year loss development in each segment of our insurance business.

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Total net premiums written increased by 2% in the first six months of 2014 and 4% in the second quarter compared with the same periods of 2013. Net premiums written in the United States increased by 4% in the first six months of 2014 and 5% in the second quarter. Net premiums written outside the United States decreased by 3% in the first six months of 2014 and increased by 1% in the second quarter in U.S. dollars. When measured in local currencies, such premiums were flat in the first six months of 2014 and increased modestly in the second quarter.

Property and casualty investment income after tax decreased by 4% in the first six months and second quarter of 2014 compared with the same periods of 2013, due to a decline in the average yield on our investment portfolio. Management uses property and casualty investment income after tax, a non-GAAP financial measure, to evaluate its investment results because it reflects the impact of any change in the proportion of tax exempt investment income to total investment income and is therefore more meaningful for analysis purposes than investment income before income tax.

Net realized investment gains before tax were $241 million ($156 million after tax) in the first six months of 2014 and $125 million ($81 million after tax) in the second quarter compared with $317 million ($206 million after tax) and $179 million ($116 million after tax), respectively, in the same periods of 2013. The net realized gains in the first six months of 2014 were primarily related to investments in limited partnerships, which generally are reported on a one quarter lag, sales of equity securities and, to a lesser extent, sales of fixed maturity securities. The net realized gains in the second quarter of 2014 were primarily related to investments in limited partnerships, sales of fixed maturity securities and, to a lesser extent, sales of equity securities. In the first six months and second quarter of 2013, net realized investment gains included the recognition of a gain in connection with the business combination of an issuer in which we held equity securities and warrants. The remaining net realized gains in the 2013 periods were primarily related to investments in limited partnerships and sales of equity securities.

A summary of our consolidated net income is as follows:

	Periods Ended June 30			
	Six Months		Second Quarter	
	2014	2013	2014	2013
	(in millions)			
Property and casualty insurance	$ 1,159	$ 1,516		