

ALLEGHANY CORP /DE  
Form 10-Q  
August 02, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016**

**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 1-9371**

**ALLEGHANY CORPORATION**  
**EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER**

**DELAWARE**

**STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION**

**51-0283071**

**I.R.S. EMPLOYER IDENTIFICATION NO.**

**1411 BROADWAY, 34TH FLOOR, NY, NY 10018**

**ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE**

**212-752-1356**

**REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE**

**NOT APPLICABLE**

**FORMER NAME, FORMER ADDRESS, AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT**

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  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 (SECTION 232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES). YES  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  ACCELERATED FILER   
NON-ACCELERATED FILER  (DO NOT CHECK IF A 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

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LAST PRACTICABLE DATE.

15,439,250 SHARES, PAR VALUE \$1.00 PER SHARE, AS OF JULY 27, 2016

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ALLEGHANY CORPORATION

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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Balance Sheets**

	June 30, 2016 (unaudited)	December 31, 2015
	(\$ in thousands, except share amounts)	
<b>Assets</b>		
Investments:		
Available-for-sale securities at fair value:		
Equity securities (cost: 2016 \$2,639,732; 2015 \$2,740,984)	\$ 2,804,129	\$ 3,005,908
Debt securities (amortized cost: 2016 \$13,257,465; 2015 \$13,529,923)	13,681,224	13,605,963
Short-term investments	621,715	365,810
	17,107,068	16,977,681
Commercial mortgage loans	414,144	177,947
Other invested assets	632,823	676,811
Total investments	18,154,035	17,832,439
Cash	510,819	475,267
Accrued investment income	112,189	115,313
Premium balances receivable	873,178	752,103
Reinsurance recoverables	1,220,516	1,249,948
Ceded unearned premiums	202,838	190,368
Deferred acquisition costs	465,724	419,448
Property and equipment at cost, net of accumulated depreciation and amortization	104,977	101,306
Goodwill	271,816	141,015
Intangible assets, net of amortization	346,407	212,790
Current taxes receivable	-	12,129
Net deferred tax assets	326,028	468,440
Funds held under reinsurance agreements	479,417	234,549
Other assets	746,844	633,964
Total assets	\$ 23,814,788	\$ 22,839,079
<b>Liabilities, Redeemable Noncontrolling Interests and Stockholders Equity</b>		
Loss and loss adjustment expenses	\$ 11,043,794	\$ 10,799,242
Unearned premiums	2,264,488	2,076,061

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Senior Notes	1,383,628	1,383,086
Reinsurance payable	92,872	69,297
Current taxes payable	41,326	-
Other liabilities	997,165	930,967
Total liabilities	15,823,273	15,258,653
Redeemable noncontrolling interests	73,719	25,719
Common stock (shares authorized: 2016 and 2015 22,000,000; shares issued: 2016 and 2015 17,459,961)	17,460	17,460
Contributed capital	3,611,489	3,611,631
Accumulated other comprehensive income	297,952	116,273
Treasury stock, at cost (2016 2,020,711 shares; 2015 1,915,884 shares)	(797,808)	(747,784)
Retained earnings	4,788,703	4,557,127
Total stockholders equity attributable to Alleghany stockholders	7,917,796	7,554,707
Total liabilities, redeemable noncontrolling interest and stockholders equity	\$ 23,814,788	\$ 22,839,079

See accompanying Notes to Unaudited Consolidated Financial Statements.

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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Earnings and Comprehensive Income**

(unaudited)

	Three Months Ended June 30,	
	2016	2015
	(\$ in thousands, except per share amounts)	
<b>Revenues</b>		
Net premiums earned	\$ 1,261,516	\$ 1,074,723
Net investment income	106,860	103,087
Net realized capital gains	54,012	86,160
Other than temporary impairment losses	(5,728)	(7,317)
Other revenue	165,371	43,785
<b>Total revenues</b>	<b>1,582,031</b>	<b>1,300,438</b>
<b>Costs and Expenses</b>		
Net loss and loss adjustment expenses	815,312	595,455
Commissions, brokerage and other underwriting expenses	408,937	363,954
Other operating expenses	184,955	63,812
Corporate administration	13,459	9,841
Amortization of intangible assets	5,397	(1,051)
Interest expense	20,433	23,375
<b>Total costs and expenses</b>	<b>1,448,493</b>	<b>1,055,386</b>
Earnings before income taxes	133,538	245,052
Income taxes	56,278	61,905
Net earnings	77,260	183,147
Net earnings attributable to noncontrolling interest	189	669
Net earnings attributable to Alleghany stockholders	\$ 77,071	\$ 182,478
Net earnings	\$ 77,260	\$ 183,147
Other comprehensive income:		
Change in unrealized gains (losses), net of deferred taxes of \$48,275 and (\$58,871) for 2016 and 2015, respectively	89,654	(109,332)
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of (\$12,279) and (\$27,595) for 2016 and 2015, respectively	(22,805)	(51,248)
	1,632	2,888

Change in unrealized currency translation adjustment, net of deferred taxes of \$879 and \$1,555 for 2016 and 2015, respectively		
Retirement plans	95	137
Comprehensive income	145,836	25,592
Comprehensive income attributable to noncontrolling interest	189	669
Comprehensive income attributable to Alleghany stockholders	\$ 145,647	\$ 24,923
Basic earnings per share attributable to Alleghany stockholders	\$ 4.99	\$ 11.41
Diluted earnings per share attributable to Alleghany stockholders	4.99	11.40

See accompanying Notes to Unaudited Consolidated Financial Statements.



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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Earnings and Comprehensive Income**

(unaudited)

	Six Months Ended June 30,	
	2016	2015
	(\$ in thousands, except per share amounts)	
<b>Revenues</b>		
Net premiums earned	\$ 2,483,081	\$ 2,091,894
Net investment income	211,723	216,469
Net realized capital gains	89,905	129,311
Other than temporary impairment losses	(26,487)	(59,598)
Other revenue	302,759	79,985
<b>Total revenues</b>	<b>3,060,981</b>	<b>2,458,061</b>
<b>Costs and Expenses</b>		
Net loss and loss adjustment expenses	1,479,956	1,142,371
Commissions, brokerage and other underwriting expenses	815,670	707,563
Other operating expenses	347,119	131,217
Corporate administration	23,193	22,519
Amortization of intangible assets	8,482	(2,711)
Interest expense	40,702	46,467
<b>Total costs and expenses</b>	<b>2,715,122</b>	<b>2,047,426</b>
Earnings before income taxes	345,859	410,635
Income taxes	113,946	102,068
Net earnings	231,913	308,567
Net earnings attributable to noncontrolling interest	337	880
Net earnings attributable to Alleghany stockholders	\$ 231,576	\$ 307,687
Net earnings	\$ 231,913	\$ 308,567
Other comprehensive income:		
Change in unrealized gains (losses), net of deferred taxes of \$103,256 and (\$25,730) for 2016 and 2015, respectively	191,761	(47,785)
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of (\$17,576) and (\$24,400) for	(32,642)	(45,313)

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2016 and 2015, respectively

Change in unrealized currency translation adjustment, net of deferred taxes of \$11,955 and (\$4,236) for 2016 and 2015, respectively	22,203	(7,867)
Retirement plans	357	(385)
Comprehensive income	413,592	207,217
Comprehensive income attributable to noncontrolling interest	337	880
Comprehensive income attributable to Alleghany stockholders	\$ 413,255	\$ 206,337
Basic earnings per share attributable to Alleghany stockholders	\$ 14.99	\$ 19.22
Diluted earnings per share attributable to Alleghany stockholders	14.99	19.22

See accompanying Notes to Unaudited Consolidated Financial Statements.

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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

(unaudited)

	Six Months Ended June 30,	
	2016	2015
	(\$ in thousands)	
<b>Cash flows from operating activities</b>		
Net earnings	\$ 231,913	\$ 308,567
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	74,753	86,493
Net realized capital (gains) losses	(89,905)	(129,311)
Other than temporary impairment losses	26,487	59,598
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	53,007	(28,472)
(Increase) decrease in premium balance receivable	(121,075)	(159,195)
(Increase) decrease in ceded unearned premiums	(12,470)	(14,702)
(Increase) decrease in deferred acquisition costs	(46,276)	(32,215)
(Increase) decrease in funds held under reinsurance agreements	(244,868)	41,428
Increase (decrease) in unearned premiums	188,427	145,139
Increase (decrease) in loss and loss adjustment expenses	244,552	(133,655)
Change in unrealized foreign exchange losses (gains)	91,281	106,318
Other, net	(74,203)	78,977
Net adjustments	89,710	20,403
Net cash provided by (used in) operating activities	321,623	328,970
<b>Cash flows from investing activities</b>		
Purchases of debt securities	(3,578,694)	(4,145,599)
Purchases of equity securities	(999,284)	(2,461,698)
Sales of debt securities	3,263,695	3,100,866
Maturities and redemptions of debt securities	588,638	794,611
Sales of equity securities	1,125,114	2,155,293
Net (purchase) sale in short-term investments	(286,695)	109,187
Purchases of property and equipment	(9,043)	(13,355)
Purchase of subsidiary, net of cash acquired	(122,365)	(47,469)
Other, net	(213,160)	273,495
Net cash provided by (used in) investing activities	(231,794)	(234,669)

<b>Cash flows from financing activities</b>		
Treasury stock acquisitions	(53,288)	(40,546)
Other, net	(6,699)	259
Net cash provided by (used in) financing activities	(59,987)	(40,287)
Effect of exchange rate changes on cash	5,710	(11,372)
Net increase (decrease) in cash	35,552	42,642
Cash at beginning of period	475,267	605,259
Cash at end of period	\$ 510,819	\$ 647,901
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during period for:		
Interest paid	\$ 40,307	\$ 51,283
Income taxes paid (refund received)	15,197	31,036

See accompanying Notes to Unaudited Consolidated Financial Statements.

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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Notes to Unaudited Consolidated Financial Statements****1. Summary of Significant Accounting Principles*****(a) Principles of Financial Statement Presentation***

This Quarterly Report on Form 10-Q (this Form 10-Q) should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 10-K) and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 of Alleghany Corporation (Alleghany).

Alleghany, a Delaware corporation, which was initially incorporated in Delaware in 1929, owns and manages certain operating subsidiaries and investments, anchored by a core position in property and casualty reinsurance and insurance. Through its wholly-owned subsidiary Alleghany Insurance Holdings LLC (AIHL) and its subsidiaries, Alleghany is engaged in the property and casualty insurance business. AIHL's insurance operations are principally conducted by its subsidiaries RSUI Group, Inc. (RSUI), CapSpecialty, Inc. (CapSpecialty) and Pacific Compensation Corporation (PacificComp). CapSpecialty has been a subsidiary of AIHL since January 2002, RSUI has been a subsidiary of AIHL since July 2003 and PacificComp has been a subsidiary of AIHL since July 2007. AIHL Re LLC (AIHL Re), a captive reinsurance company which provides reinsurance to Alleghany's insurance operating subsidiaries and affiliates, has been a wholly-owned subsidiary of Alleghany since its formation in May 2006. Alleghany's reinsurance operations commenced on March 6, 2012 when Alleghany consummated a merger with Transatlantic Holdings, Inc. (TransRe) and TransRe became one of Alleghany's wholly-owned subsidiaries. Alleghany's public equity investments, including those held by TransRe's and AIHL's operating subsidiaries, are managed primarily through Alleghany's wholly-owned subsidiary Roundwood Asset Management LLC.

Although Alleghany's primary sources of revenues and earnings are its reinsurance and insurance operations and investments, Alleghany also manages, sources, executes and monitors certain private capital investments primarily through its wholly-owned subsidiary Alleghany Capital Corporation (Alleghany Capital). Alleghany Capital's private capital investments are included in other activities for segment reporting purposes and include: (i) Stranded Oil Resources Corporation (SORC), an exploration and production company focused on enhanced oil recovery, headquartered in Golden, Colorado; (ii) Bourn & Koch, Inc. (Bourn & Koch), a manufacturer and remanufacturer/retrofitter of precision machine tools and supplier of replacement parts, headquartered in Rockford, Illinois; (iii) R.C. Tway Company, LLC (Kentucky Trailer), a manufacturer of custom trailers and truck bodies for the moving and storage industry and other markets, headquartered in Louisville, Kentucky; (iv) IPS-Integrated Project Services, LLC (IPS), a technical service provider focused on the global pharmaceutical and biotechnology industries, headquartered in Blue Bell, Pennsylvania, acquired on October 31, 2015; (v) Jazwares, LLC (together with its affiliates, Jazwares), a toy and consumer electronics company, headquartered in Sunrise, Florida; and (vi) an approximately 15 percent equity interest in ORX Exploration, Inc. (ORX), a regional oil and gas exploration and production company, headquartered in New Orleans, Louisiana. The results of IPS have been included in Alleghany's consolidated results beginning with its acquisition by Alleghany Capital on October 31, 2015. On April 15, 2016, Alleghany Capital acquired an additional 50 percent of Jazwares' outstanding equity, bringing its equity ownership interest to 80 percent, and as of that date, the results of Jazwares have been included in Alleghany's consolidated results. Prior to April 15, 2016, Jazwares was accounted for under the equity method of accounting. In the second quarter of 2016, Alleghany Capital's equity interest in ORX was reduced from approximately 40 percent to approximately 15 percent pursuant to an ORX recapitalization. ORX continues to be accounted for under the equity method of accounting. In addition, Alleghany owns and manages properties in the Sacramento, California region through its wholly-owned subsidiary Alleghany Properties Holdings LLC (Alleghany Properties).

Unless the context otherwise requires, references to Alleghany include Alleghany together with its subsidiaries.

The accompanying consolidated financial statements include the results of Alleghany and its wholly-owned and majority-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). All material inter-company balances and transactions have been eliminated in consolidation.

The portion of stockholders' equity, net earnings and accumulated other comprehensive income that is not attributable to Alleghany stockholders is presented on the Consolidated Balance Sheets and the Consolidated Statements of Earnings and Comprehensive Income as noncontrolling interest. Because all noncontrolling interests have the option to sell their ownership interests to Alleghany in the future (generally through 2023), the portion of stockholders' equity that is not attributable to Alleghany stockholders is presented on the Consolidated Balance Sheets as redeemable noncontrolling interest for all periods presented. During the first six months of 2016, Bourn & Koch had approximately 11 percent noncontrolling interests outstanding, Kentucky Trailer had approximately 20 percent noncontrolling interests outstanding, IPS had approximately 16 percent noncontrolling interests outstanding and, beginning April 15, 2016, Jazwares had approximately 20 percent noncontrolling interests outstanding.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Alleghany relies on historical experience and on various other assumptions that it believes to be reasonable under the circumstances to make judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may

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differ materially from those reported results to the extent that those estimates and assumptions prove to be inaccurate. Changes in estimates are reflected in the consolidated statement of earnings and comprehensive income in the period in which the change is made.

***(b) Other Significant Accounting Principles***

Alleghany's significant accounting principles can be found in Note 1 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, "Financial Statements and Supplementary Data" of the 2015 10-K.

***(c) Recent Accounting Standards******Recently Adopted***

In February 2015, the Financial Accounting Standards Board (the "FASB") issued guidance that amended the analysis that must be performed to determine whether an entity should consolidate certain types of legal entities. Under this guidance, the evaluation of whether limited partnerships and similar entities are variable interest entities or voting interest entities is modified, the presumption that general partners should consolidate limited partnerships is eliminated and the process to determine the primary beneficiary of a variable interest entity is modified. This guidance was effective in the first quarter of 2016. Alleghany adopted this guidance in the first quarter of 2016 and the implementation did not have a material impact on its results of operations and financial condition.

In April 2015, the FASB issued guidance that requires debt issuance costs related to debt liabilities be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, which is consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. This guidance was effective in the first quarter of 2016. Alleghany adopted this guidance on a retrospective basis in the first quarter of 2016 and the implementation resulted in a reduction of other assets and a corresponding decrease in senior notes of approximately \$7 million as of March 31, 2016 and December 31, 2015.

***Future Application of Accounting Standards***

In May 2014, the FASB, together with the International Accounting Standards Board, issued guidance on the recognition of revenue from contracts with customers. Under this guidance, revenue is recognized as the transfer of goods and services to customers takes place, and in amounts that reflect the payment or payments that are expected to be received from the customers for those goods and services. This guidance also requires new disclosures about revenue. Revenues related to insurance and reinsurance are not impacted by this guidance. In July 2015, the FASB decided to delay the effective date of the new revenue standard by a year. This guidance is now effective in the first quarter of 2018 for public entities, with early adoption permitted in 2017. Alleghany will adopt this guidance in the first quarter of 2018 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

In May 2015, the FASB issued guidance that requires disclosures related to short-duration insurance contracts. The guidance applies to property and casualty insurance and reinsurance entities, among others, and requires the following annual disclosure related to the liability for loss and loss adjustment expenses ("LAE"): (i) net incurred and paid claims development information by accident year for up to ten years; (ii) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for loss and LAE; (iii) incurred-but-not-reported liabilities by accident year and in total; (iv) a description of reserving methodologies (as well as any changes to those methodologies); (v) quantitative information about claim frequency by accident year; and (vi) the average annual percentage payout of incurred claims by age by accident year. In addition, the guidance

requires insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for loss and LAE. This guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. Alleghany will adopt this guidance as of December 31, 2016 and does not currently believe that the implementation will have an impact on its results of operations and financial condition.

In January 2016, the FASB issued guidance that changes the recognition and measurement of certain financial instruments. This guidance requires investments in equity securities (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. For equity securities that do not have readily determinable fair values, measurement may be at cost, adjusted for any impairment and changes resulting from observable price changes for a similar investment of the same issuer. This guidance also changes the presentation and disclosure of financial instruments by: (i) requiring that financial instrument disclosures of fair value use the exit price notion; (ii) requiring separate presentation of financial assets and financial liabilities by measurement category and form, either on the balance sheet or the accompanying notes to the financial statements; (iii) requiring separate presentation in other comprehensive income for the portion of the change in a liability's fair value resulting from instrument-specific credit risk when an election has been made to measure the liability at fair value; and (iv) eliminating the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. This guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the change in presentation for instrument-specific credit risk, this guidance does not permit early adoption. Alleghany will adopt this guidance in the first quarter of 2018. As of January 1, 2018, unrealized gains or losses of equity securities, net of deferred taxes, will be reclassified from accumulated other comprehensive income to retained earnings.



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Subsequently, all changes in unrealized gains or losses of equity securities, net of deferred taxes, will be presented in the consolidated statement of earnings, rather than the consolidated statement of comprehensive income. Alleghany does not currently believe that the implementation will have a material impact on its financial condition.

In February 2016, the FASB issued guidance on leases. Under this guidance, a lessee is required to recognize assets and liabilities for leases with terms of more than one year, whereas under current guidance, a lessee is only required to recognize assets and liabilities for those leases qualifying as capital leases. This guidance also requires new disclosures about the amount, timing and uncertainty of cash flows arising from leases. The accounting by lessors is to remain largely unchanged. This guidance is effective in the first quarter of 2019 for public entities, with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2019 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

In June 2016, the FASB issued guidance on credit losses. Under this guidance, a company is required to measure all expected credit losses on loans, reinsurance recoverables and other financial assets accounted for at cost or amortized cost, as applicable. Estimates of expected credit losses are to be based on historical experience, current conditions and reasonable and supportable forecasts. Credit losses for securities accounted for on an available-for-sale ( AFS ) basis are to be measured in a manner similar to GAAP as currently applied and cannot exceed the amount by which fair value is less than the amortized cost. Credit losses for all financial assets are to be recorded through an allowance for credit losses. Subsequent reversals in credit loss estimates are permitted and are to be recognized in earnings. This guidance also requires new disclosures about the significant estimates and judgments used in estimating credit losses, as well as the credit quality of financial assets. This guidance is effective in the first quarter of 2020 for public entities, with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2020 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

**2. Fair Value of Financial Instruments**

The carrying values and estimated fair values of Alleghany's consolidated financial instruments as of June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(\$ in millions)			
<b>Assets</b>				
Investments (excluding equity method investments and loans) <sup>(1)</sup>	\$ 17,134.9	\$ 17,134.9	\$ 17,007.6	\$ 17,007.6
<b>Liabilities</b>				
Senior Notes <sup>(2)</sup>	\$ 1,383.6	\$ 1,580.2	\$ 1,383.1	\$ 1,488.7

(1) This table includes AFS investments (debt and equity securities, as well as partnership and non-marketable equity investments carried at fair value that are included in other invested assets). This table excludes investments accounted for using the equity method and commercial mortgage loans that are carried at unpaid principal balance. The fair value of short-term investments approximates amortized cost. The fair value of all other categories of investments is discussed in Note 1(c) to Notes to Consolidated Financial Statements set forth in Part II, Item 8,

Financial Statements and Supplementary Data of the 2015 10-K.

- (2) See Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2015 10-K for additional information on the senior notes.

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Alleghany's financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of June 30, 2016 and December 31, 2015 were as follows:

	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
<b>As of June 30, 2016</b>				
Equity securities:				
Common stock	\$ 2,799.5	\$ 2.9	\$ 1.7	\$ 2,804.1
Preferred stock	-	-	-	-
<b>Total equity securities</b>	<b>2,799.5</b>	<b>2.9</b>	<b>1.7</b>	<b>2,804.1</b>
Debt securities:				
U.S. Government obligations	-	1,207.6	-	1,207.6
Municipal bonds	-	4,566.5	-	4,566.5
Foreign government obligations	-	1,136.3	-	1,136.3
U.S. corporate bonds	-	1,881.7	44.1	1,925.8
Foreign corporate bonds	-	1,108.3	-	1,108.3
Mortgage and asset-backed securities:				
Residential mortgage-backed securities (RMBS <sup>1</sup> )	-	1,189.4	13.8	1,203.2
Commercial mortgage-backed securities (CMBS)	-	949.3	15.8	965.1
Other asset-backed securities <sup>(2)</sup>	-	617.4	951.0	1,568.4
<b>Total debt securities</b>	<b>-</b>	<b>12,656.5</b>	<b>1,024.7</b>	<b>13,681.2</b>
Short-term investments	-	621.7	-	621.7
Other invested assets <sup>(3)</sup>	-	-	27.9	27.9
<b>Total investments (excluding equity method investments and loans)</b>	<b>\$ 2,799.5</b>	<b>\$ 13,281.1</b>	<b>\$ 1,054.3</b>	<b>\$ 17,134.9</b>
Senior Notes	\$ -	\$ 1,580.2	\$ -	\$ 1,580.2
	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
<b>As of December 31, 2015</b>				
Equity securities:				
Common stock	\$ 3,001.2	\$ 4.7	\$ -	\$ 3,005.9
Preferred stock	-	-	-	-
<b>Total equity securities</b>	<b>3,001.2</b>	<b>4.7</b>	<b>-</b>	<b>3,005.9</b>

Debt securities:				
U.S. Government obligations	-	1,074.7	-	1,074.7
Municipal bonds	-	4,339.6	-	4,339.6
Foreign government obligations	-	941.4	-	941.4
U.S. corporate bonds	-	2,126.9	49.8	2,176.7
Foreign corporate bonds	-	1,230.3	-	1,230.3
Mortgage and asset-backed securities:				
RMBS <sup>(1)</sup>	-	1,238.5	14.9	1,253.4
CMBS	-	1,003.2	20.2	1,023.4
Other asset-backed securities <sup>(2)</sup>	-	613.5	953.0	1,566.5
Total debt securities	-	12,568.1	1,037.9	13,606.0
Short-term investments	-	365.8	-	365.8
Other invested assets <sup>(3)</sup>	-	-	29.9	29.9
Total investments (excluding equity method investments and loans)				
	\$ 3,001.2	\$ 12,938.6	\$ 1,067.8	\$ 17,007.6
Senior Notes	\$ -	\$ 1,488.7	\$ -	\$ 1,488.7

(1) Primarily includes government agency pass-through securities guaranteed by a government agency or government-sponsored enterprise, among other types of RMBS.

(2) Includes \$947.2 million and \$946.7 million of collateralized loan obligations as of June 30, 2016 and December 31, 2015, respectively.

(3) Includes partnership and non-marketable equity investments accounted for on an AFS basis, and excludes investments accounted for using the equity method.

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In the three and six months ended June 30, 2016, there were no material transfers of securities out of Level 3.

In the six months ended June 30, 2016, there were transfers of \$2.7 million of securities into Level 3 principally due to a decrease in observable inputs related to the valuation of such assets. Of the \$2.7 million of transfers, \$1.7 million related to U.S. corporate bonds and \$1.0 million related to common stock. There were no other material transfers between Levels 1, 2 or 3 in the three and six months ended June 30, 2016.

In the three and six months ended June 30, 2015, there were transfers of \$5.8 million and \$16.2 million, respectively, of debt securities out of Level 3 that were principally due to an increase in observable inputs related to the valuation of such assets. Of the \$16.2 million, \$10.7 million related to U.S. corporate bonds and \$5.5 million related to foreign corporate bonds.

In the three and six months ended June 30, 2015, there were transfers of \$9.6 million of securities into Level 3 that were principally due to a decrease in observable inputs related to the valuation of such assets. Of the \$9.6 million of transfers, \$5.0 million related to other invested assets, \$3.9 million related to U.S. corporate bonds and \$0.7 million related to foreign corporate bonds. There were no other material transfers between Levels 1, 2 or 3 in the three months ended June 30, 2015.

The following tables present reconciliations of the changes during the six months ended June 30, 2016 and 2015 in Level 3 assets measured at fair value:

Six Months Ended June 30, 2016	Debt Securities Mortgage and asset-backed						Total
	U.S. Common Stock	U.S. Corporate Bonds	RMBS	CMBS	Other Asset- backed Securities	Other Invested Assets <sup>(1)</sup>	
Balance as of January 1, 2016	\$ -	\$ 49.8	\$ 14.9	\$ 20.2	\$ 953.0	\$ 29.9	\$ 1,067.8
Net realized/unrealized gains (losses) included in:							
Net earnings <sup>(2)</sup>	(0.1)	(0.2)	0.2	-	1.5	2.3	3.7
Other comprehensive income	0.6	1.0	(0.2)	0.7	3.7	(1.7)	4.1
Purchases	0.2	1.3	-	-	19.3	-	20.8
Sales	-	(7.8)	-	(4.8)	(26.0)	(2.3)	(40.9)
Issuances	-	-	-	-	-	-	-
Settlements	-	(1.7)	(1.1)	(0.3)	(0.5)	-	(3.6)
Transfers into Level 3	1.0	1.7	-	-	-	-	2.7
Transfers out of Level 3	-	-	-	-	-	(0.3)	(0.3)
Balance as of June 30, 2016	\$ 1.7	\$ 44.1	\$ 13.8	\$ 15.8	\$ 951.0	\$ 27.9	\$ 1,054.3

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Six Months Ended June 30, 2015	Debt Securities						Total
	U.S. Corporate Bonds	Foreign Corporate Bonds	RMBS	CMBS	Mortgage and asset-backed Other Asset-backed Securities	Other Invested Assets <sup>(1)</sup>	
Balance as of January 1, 2015	\$ 36.7	\$ 6.0	\$ 18.2	\$ 23.3	\$ 933.1	\$ 24.1	\$ 1,041.4
Net realized/unrealized gains (losses) included in:							
Net earnings <sup>(2)</sup>	0.3	-	0.3	(0.2)	1.4	0.2	2.0
Other comprehensive income	(0.6)	0.8	(0.5)	(1.1)	8.1	0.6	7.3
Purchases	8.8	-	-	-	132.5	1.6	142.9
Sales	(0.5)	(1.3)	-	-	(119.8)	(0.2)	(121.8)
Issuances	-	-	-	-	-	-	-
Settlements	(12.7)	-	(1.4)	(1.0)	(6.3)	-	(21.4)
Transfers into Level 3	3.9	0.7	-	-	-	5.0	9.6
Transfers out of Level 3	(10.7)	(5.5)	-	-	-	-	(16.2)
Balance as of June 30, 2015	\$ 25.2	\$ 0.7	\$ 16.6	\$ 21.0	\$ 949.0	\$ 31.3	\$ 1,043.8

(1) Includes partnership and non-marketable equity investments accounted for on an AFS basis.

(2) There were no other than temporary impairment ( OTTI ) losses recorded in net earnings related to Level 3 investments still held as of June 30, 2016 and 2015.

Net unrealized losses related to Level 3 investments as of June 30, 2016 and December 31, 2015 were not material.

See Note 1(c) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2015 10-K for Alleghany's accounting policy on fair value.

**3. Investments****(a) Unrealized Gains and Losses**

The amortized cost or cost and the fair value of AFS securities as of June 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(\$ in millions)				
<b>As of June 30, 2016</b>				
Equity securities:				
Common stock	\$ 2,639.7	\$ 247.4	\$ (83.0)	\$ 2,804.1
Preferred stock	-	-	-	-

Total equity securities	2,639.7	247.4	(83.0)	2,804.1
Debt securities:				
U.S. Government obligations	1,169.6	38.2	(0.2)	1,207.6
Municipal bonds	4,347.9	226.3	(7.7)	4,566.5
Foreign government obligations	1,097.9	38.6	(0.2)	1,136.3
U.S. corporate bonds	1,854.3	77.2	(5.7)	1,925.8
Foreign corporate bonds	1,072.7	37.0	(1.4)	1,108.3
Mortgage and asset-backed securities:				
RMBS	1,177.9	25.8	(0.5)	1,203.2
CMBS	941.1	27.9	(3.9)	965.1
Other asset-backed securities <sup>(1)</sup>	1,596.1	6.0	(33.7)	1,568.4
Total debt securities	13,257.5	477.0	(53.3)	13,681.2
Short-term investments	621.7	-	-	621.7
Total investments	\$ 16,518.9	\$ 724.4	\$ (136.3)	\$ 17,107.0

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	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(\$ in millions)			
<b>As of December 31, 2015</b>				
Equity securities:				
Common stock	\$ 2,741.0	\$ 351.9	\$ (87.0)	\$ 3,005.9
Preferred stock	-	-	-	-
<b>Total equity securities</b>	<b>2,741.0</b>	<b>351.9</b>	<b>(87.0)</b>	<b>3,005.9</b>
Debt securities:				
U.S. Government obligations	1,086.8	1.9	(14.0)	1,074.7
Municipal bonds	4,213.6	134.8	(8.8)	4,339.6
Foreign government obligations	924.1	18.6	(1.3)	941.4
U.S. corporate bonds	2,201.3	23.4	(48.0)	2,176.7
Foreign corporate bonds	1,219.0	24.0	(12.7)	1,230.3
Mortgage and asset-backed securities:				
RMBS	1,255.1	10.7	(12.4)	1,253.4
CMBS	1,024.8	8.2	(9.6)	1,023.4
Other asset-backed securities <sup>(1)</sup>	1,605.2	0.3	(39.0)	1,566.5
<b>Total debt securities</b>	<b>13,529.9</b>	<b>221.9</b>	<b>(145.8)</b>	<b>13,606.0</b>
Short-term investments	365.8	-	-	365.8
<b>Total investments</b>	<b>\$ 16,636.7</b>	<b>\$ 573.8</b>	<b>\$ (232.8)</b>	<b>\$ 16,977.7</b>

(1) Includes \$947.2 million and \$946.7 million of collateralized loan obligations as of June 30, 2016 and December 31, 2015, respectively.

**(b) Contractual Maturity**

The amortized cost and estimated fair value of debt securities by contractual maturity as of June 30, 2016 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost or Cost	Fair Value
	(\$ in millions)	
Short-term investments due in one year or less	\$ 621.7	\$ 621.7
Mortgage and asset-backed securities <sup>(1)</sup>	3,715.1	3,736.7



Debt securities with maturity dates:		
One year or less	387.0	388.4
Over one through five years	2,899.7	2,960.8
Over five through ten years	2,993.6	3,131.7
Over ten years	3,262.1	3,463.6
Total debt securities	13,257.5	13,681.2
Equity securities	2,639.7	2,804.1
Total	\$ 16,518.9	\$ 17,107.0

(1) Mortgage and asset-backed securities by their nature do not generally have single maturity dates.

**Table of Contents****(c) Net Investment Income**

Net investment income for the three and six months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(\$ in millions)			
Interest income	\$ 98.7	\$ 92.5	\$ 200.0	\$ 187.2
Dividend income	11.2	11.9	23.3	26.4
Investment expenses	(6.7)	(6.1)	(13.6)	(13.3)
Equity in results of Pillar Investments <sup>(1)</sup>	3.9	1.0	7.0	7.6
Equity in results of Ares <sup>(1)</sup>	0.1	3.3	0.5	5.6
Equity in results of ORX	-	(3.7)	-	(4.7)
Other investment results	(0.3)	4.2	(5.5)	7.7
Total	\$ 106.9	\$ 103.1	\$ 211.7	\$ 216.5

(1) See Note 3(g) for discussion of the Pillar Investments and the investment in Ares as defined therein. As of June 30, 2016, non-income producing invested assets were insignificant.

**(d) Realized Gains and Losses**

The proceeds from sales of AFS securities were \$1.9 billion and \$2.5 billion for the three months ended June 30, 2016 and 2015, respectively, and \$4.4 billion and \$5.3 billion for the six months ended June 30, 2016 and 2015, respectively.

Realized capital gains and losses for the three and six months ended June 30, 2016 and 2015 primarily reflect sales of equity and debt securities. In addition, Alleghany Capital recognized a gain of \$13.2 million on April 15, 2016 in connection with its acquisition of an additional 50 percent equity ownership in Jazwares, when its pre-existing 30 percent equity ownership was remeasured at estimated fair value (the Jazwares Remeasurement Gain). Realized capital gains from equity securities for the three and six months ended June 30, 2015 include the sales of certain equity securities resulting from a partial restructuring of the equity portfolio, as well as the sales of certain equity securities which had their cost basis reduced in earlier periods for the recognition of OTTI losses.

Gross realized capital gains and gross realized capital losses for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015

	(\$ in millions)			
Gross realized capital gains	\$ 102.6	\$ 101.7	\$ 185.1	\$ 216.1
Gross realized capital losses	(48.6)	(15.5)	(95.2)	(86.8)
Net realized capital gains	\$ 54.0	\$ 86.2	\$ 89.9	\$ 129.3

Gross realized loss amounts exclude OTTI losses, as discussed below.

***(e) OTTI Losses***

Alleghany holds its equity and debt securities as AFS, and as such, these securities are recorded at fair value. Alleghany continually monitors the difference between cost and the estimated fair value of its equity and debt investments, which involves uncertainty as to whether declines in value are temporary in nature. The analysis of a security's decline in value is performed in its functional currency. If the decline is deemed temporary, Alleghany records the decline as an unrealized loss in stockholders' equity. If the decline is deemed to be other than temporary, Alleghany writes its cost-basis or amortized cost-basis down to the fair value of the security and records an OTTI loss on its statement of earnings. In addition, any portion of such decline related to a debt security that is believed to arise from factors other than credit is recorded as a component of other comprehensive income rather than charged against earnings.

Management's assessment of equity securities initially involves an evaluation of all securities that are in an unrealized loss position, regardless of the duration or severity of the loss, as of the applicable balance sheet date. Such initial review consists primarily of assessing whether: (i) there has been a negative credit or news event with respect to the issuer that could indicate the

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existence of an OTTI; and (ii) Alleghany has the ability and intent to hold an equity security for a period of time sufficient to allow for an anticipated recovery (generally considered to be 12 months from the balance sheet date).

To the extent that an equity security in an unrealized loss position is not impaired based on the initial review described above, Alleghany then further evaluates such equity security and deems it to be other than temporarily impaired if it has been in an unrealized loss position for 12 months or more or if its unrealized loss position is greater than 50 percent of its cost, absent compelling evidence to the contrary.

Alleghany then evaluates those equity securities where the unrealized loss is at least 20 percent of cost as of the balance sheet date or which have been in an unrealized loss position continuously for six months or more preceding the balance sheet date. This evaluation takes into account quantitative and qualitative factors in determining whether such securities are other than temporarily impaired including: (i) market valuation metrics associated with the equity security (such as dividend yield and price-to-earnings ratio); (ii) current views on the equity security, as expressed by either Alleghany's internal stock analysts and/or by third-party stock analysts or rating agencies; and (iii) credit or news events associated with a specific issuer, such as negative news releases and rating agency downgrades with respect to the issuer of the equity security.

Debt securities in an unrealized loss position are evaluated for OTTI if they meet any of the following criteria: (i) they are trading at a discount of at least 20 percent to amortized cost for an extended period of time (nine consecutive months or more); (ii) there has been a negative credit or news event with respect to the issuer that could indicate the existence of an OTTI; or (iii) Alleghany intends to sell, or it is more likely than not that Alleghany will sell, the debt security before recovery of its amortized cost basis.

If Alleghany intends to sell, or it is more likely than not that Alleghany will sell, a debt security before recovery of its amortized cost basis, the total amount of the unrealized loss position is recognized as an OTTI loss in earnings. To the extent that a debt security that is in an unrealized loss position is not impaired based on the preceding, Alleghany will consider a debt security to be impaired when it believes it to be probable that Alleghany will not be able to collect the entire amortized cost basis. For debt securities in an unrealized loss position as of the end of each quarter, Alleghany develops a best estimate of the present value of expected cash flows. If the results of the cash flow analysis indicate Alleghany will not recover the full amount of its amortized cost basis in the debt security, Alleghany records an OTTI loss in earnings equal to the difference between the present value of expected cash flows and the amortized cost basis of the debt security. If applicable, the difference between the total unrealized loss position on the debt security and the OTTI loss recognized in earnings is the non-credit related portion and is recorded as a component of other comprehensive income.

In developing the cash flow analyses for debt securities, Alleghany considers various factors for the different categories of debt securities. For municipal bonds, Alleghany takes into account the taxing power of the issuer, source of revenue, credit risk and credit enhancements and pre-refunding. For mortgage and asset-backed securities, Alleghany discounts its best estimate of future cash flows at an effective rate equal to the original effective yield of the security or, in the case of floating rate securities, at the current coupon. Alleghany's models include assumptions about prepayment speeds, default and delinquency rates and underlying collateral (if any), as well as credit ratings, credit enhancements and other observable market data. For corporate bonds, Alleghany reviews business prospects, credit ratings and available information from asset managers and rating agencies for individual securities.

OTTI losses in the first six months of 2016 reflect \$26.5 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Upon the ultimate disposition of the securities for which OTTI losses have been recorded, a portion of the loss may be recoverable depending on market conditions at the time of disposition. Of the \$26.5 million of OTTI losses, \$7.3 million related to equity securities,

primarily in the financial services, technology and chemical sectors, and \$19.2 million related to debt securities, primarily in the energy sector. The determination that unrealized losses on equity and debt securities were other than temporary was primarily due to the severity and duration of the decline in the fair value of equity and debt securities relative to their costs. Of the \$26.5 million of OTTI losses, \$5.7 million was incurred in the second quarter of 2016.

OTTI losses in the first six months of 2015 reflect \$59.6 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the \$59.6 million of OTTI losses, \$58.8 million related to equity securities, primarily in the energy, gaming and mining sectors, and \$0.8 million related to debt securities, primarily in the energy sector. The determination that unrealized losses on equity and debt securities were other than temporary was primarily based on the duration of the decline in the fair value of equity securities relative to their costs. Of the \$59.6 million of OTTI losses, \$7.3 million was incurred in the second quarter of 2015.

After adjusting the cost basis of securities for the recognition of OTTI losses, the remaining gross unrealized investment losses for debt and equity securities as of June 30, 2016 were deemed to be temporary, based on, among other factors: (i) the duration of time and the relative magnitude to which the fair value of these investments had been below cost were not indicative of an OTTI loss; (ii) the absence of compelling evidence that would cause Alleghany to call into question the financial condition or near-term business prospects of the issuer of the security; and (iii) Alleghany's ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery.

Alleghany may ultimately record a realized loss after having originally concluded that the decline in value was temporary. Risks and uncertainties are inherent in the methodology. Alleghany's methodology for assessing other than temporary declines in value

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contains inherent risks and uncertainties which could include, but are not limited to, incorrect assumptions about financial condition, liquidity or future prospects, inadequacy of any underlying collateral and unfavorable changes in economic conditions or social trends, interest rates or credit ratings.

**(f) Aging of Gross Unrealized Losses**

As of June 30, 2016 and December 31, 2015, gross unrealized losses and related fair values for equity securities and debt securities, grouped by duration of time in a continuous unrealized loss position, were as follows:

	Less Than 12 Months Fair Value	Gross Unrealized Losses	12 Months or More Fair Value (\$ in millions)	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
<b>As of June 30, 2016</b>						
Equity securities:						
Common stock	\$ 1,070.5	\$ 83.0	\$ -	\$ -	\$ 1,070.5	\$ 83.0
Preferred stock	-	-	-	-	-	-
<b>Total equity securities</b>	<b>1,070.5</b>	<b>83.0</b>	<b>-</b>	<b>-</b>	<b>1,070.5</b>	<b>83.0</b>
Debt securities:						
U.S. Government obligations	73.7	0.2	-	-	73.7	0.2
Municipal bonds	71.6	0.5	129.2	7.2	200.8	7.7
Foreign government obligations	12.5	0.2	3.9	-	16.4	0.2
U.S. corporate bonds	163.9	2.3	74.6	3.4	238.5	5.7
Foreign corporate bonds	68.9	0.8	29.1	0.6	98.0	1.4
Mortgage and asset-backed securities:						
RMBS	19.9	0.1	96.2	0.4	116.1	0.5
CMBS	259.2	1.3	48.6	2.6	307.8	3.9
Other asset-backed securities	290.1	4.9	785.2	28.8	1,075.3	33.7
<b>Total debt securities</b>	<b>959.8</b>	<b>10.3</b>	<b>1,166.8</b>	<b>43.0</b>	<b>2,126.6</b>	<b>53.3</b>
<b>Total temporarily impaired securities</b>	<b>\$ 2,030.3</b>	<b>\$ 93.3</b>	<b>\$ 1,166.8</b>	<b>\$ 43.0</b>	<b>\$ 3,197.1</b>	<b>\$ 136.3</b>

	Less Than 12 Months Fair Value	Gross Unrealized Losses	12 Months or More Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
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(\$ in millions)

**As of December 31, 2015**

## Equity securities:

Common stock	\$ 1,355.6	\$ 87.0	\$ -	\$ -	\$ 1,355.6	\$ 87.0
Preferred stock	-	-	-	-	-	-
<b>Total equity securities</b>	<b>1,355.6</b>	<b>87.0</b>	<b>-</b>	<b>-</b>	<b>1,355.6</b>	<b>87.0</b>

## Debt securities:

U.S. Government obligations	818.4	13.9	7.9	0.1	826.3	14.0
Municipal bonds	276.2	2.4	108.3	6.4	384.5	8.8
Foreign government obligations	208.5	1.3	-	-	208.5	1.3
U.S. corporate bonds	1,149.8	39.0	70.0	9.0	1,219.8	48.0
Foreign corporate bonds	479.9	10.8	12.5	1.9	492.4	12.7
Mortgage and asset-backed securities:						
RMBS	511.1	6.5	250.6	5.9	761.7	12.4
CMBS	593.1	9.4	15.1	0.2	608.2	9.6
Other asset-backed securities	1,164.8	27.2	265.0	11.8	1,429.8	39.0
<b>Total debt securities</b>	<b>5,201.8</b>	<b>110.5</b>	<b>729.4</b>	<b>35.3</b>	<b>5,931.2</b>	<b>145.8</b>
<b>Total temporarily impaired securities</b>	<b>\$ 6,557.4</b>	<b>\$ 197.5</b>	<b>\$ 729.4</b>	<b>\$ 35.3</b>	<b>\$ 7,286.8</b>	<b>\$ 232.8</b>

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As of June 30, 2016, Alleghany held a total of 444 debt securities and equity securities that were in an unrealized loss position, of which 187 securities, all debt securities, were in an unrealized loss position continuously for 12 months or more. The unrealized losses associated with these debt securities consisted primarily of losses related to other asset-backed securities, municipal bonds and U.S. corporate bonds.

As of June 30, 2016, the vast majority of Alleghany's debt securities were rated investment grade, with 4.0 percent of debt securities having issuer credit ratings that were below investment grade or not rated, compared with 3.6 percent as of December 31, 2015.

***(g) Investments in Certain Other Invested Assets***

In December 2012, TransRe obtained an ownership interest in Pillar Capital Holdings Limited ( Pillar Holdings ), a Bermuda-based insurance asset manager focused on collateralized reinsurance and catastrophe insurance-linked securities. Additionally, TransRe invested \$175.0 million and AIHL invested \$25.0 million in limited partnership funds managed by Pillar Holdings (the Funds ). The objective of the Funds is to create portfolios with attractive risk-reward characteristics and low correlation with other asset classes, using the extensive reinsurance and capital market experience of the principals of Pillar Holdings. Alleghany has concluded that both Pillar Holdings and the Funds (collectively, the Pillar Investments ) represent variable interest entities and that Alleghany is not the primary beneficiary, as it does not have the ability to direct the activities that most significantly impact each entity's economic performance. Therefore, the Pillar Investments are not consolidated and are accounted for under the equity method of accounting. Alleghany's potential maximum loss in the Pillar Investments is limited to its cumulative net investment. As of June 30, 2016, Alleghany's carrying value in the Pillar Investments, as determined under the equity method of accounting, was \$227.6 million, which is net of returns of capital received from the Pillar Investments.

In July 2013, AIHL invested \$250.0 million in Ares Management LLC ( Ares ), an asset manager, in exchange for a 6.25 percent equity stake in Ares, with an agreement to engage Ares to manage up to \$1.0 billion in certain investment strategies. In May 2014, Ares completed an initial public offering of its common units. Upon completion of the initial public offering, Alleghany's equity investment in Ares converted to limited partner interests in certain Ares subsidiaries that are convertible into an aggregate 5.9 percent interest in Ares common units. As of June 30, 2016, at Alleghany's discretion, these interests may be converted at any time. Until Alleghany determines to convert its limited partner interests into Ares common units, Alleghany classifies its investment in Ares as a component of other invested assets, and accounts for its investment using the equity method of accounting. As of June 30, 2016, AIHL's carrying value in Ares was \$220.2 million, which is net of returns of capital received from Ares.

***(h) Investments in Commercial Mortgage Loans***

As of June 30, 2016, the carrying value of Alleghany's commercial loan portfolio was \$414.1 million, representing the unpaid principal balance on the loans. As of June 30, 2016, there was no allowance for loan losses. The commercial loan portfolio consists primarily of first mortgages on commercial properties in major metropolitan areas in the U.S. The loans earn interest at fixed- and floating-rates, mature in two to ten years and the principal amount of the loan was no more than approximately two-thirds of each property's appraised value at the time the loan was made.

**4. Reinsurance Ceded*****(a) Overview***

Alleghany's reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite in order to reduce the effect of individual or aggregate exposure to losses, manage capacity, protect capital resources, reduce volatility in



specific lines of business, improve risk-adjusted portfolio returns and enable them to increase gross premium writings and risk capacity without requiring additional capital. Alleghany's reinsurance and insurance subsidiaries purchase reinsurance and retrocessional coverages from highly-rated third-party reinsurers. If the assuming reinsurers are unable or unwilling to meet the obligations assumed under the applicable reinsurance agreements, Alleghany's reinsurance and insurance subsidiaries would remain liable for such reinsurance portion not paid by these reinsurers. As such, funds, trust agreements and letters of credit are held to collateralize a portion of Alleghany's reinsurance and insurance subsidiaries' reinsurance recoverables, and Alleghany's reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite or assume with multiple reinsurance programs.

***(b) Significant Reinsurance Contracts***

As discussed in Note 5(d) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2015 10-K, RSUI reinsures its property lines of business through a program consisting of surplus share treaties, facultative placements, per risk and catastrophe excess of loss treaties. RSUI's catastrophe reinsurance program and property per risk reinsurance program run on an annual basis from May 1 to the following April 30 and portions expired on April 30, 2016.

RSUI's catastrophe reinsurance program covers catastrophe risks including, among others, windstorms and earthquakes. Portions of the catastrophe reinsurance program include multi-year terms, some of which were entered into in 2014. As of June 30,

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2016, the catastrophe reinsurance program consisted of three layers, with portions of the first two layers placed on May 1, 2015 and May 1, 2016 and portions of the third layer placed on May 1, 2014 and May 1, 2016. The portions of the program expiring on April 30, 2016 were renewed on May 1, 2016. The catastrophe reinsurance program provides coverage for \$600.0 million of losses in excess of a \$200.0 million net retention after application of surplus share treaties and facultative reinsurance. The first layer provides coverage for \$300.0 million of losses, subject to a 5.0 percent co-participation by RSUI in excess of \$200.0 million, the second layer provides coverage for \$100.0 million of losses in excess of \$500.0 million, with no co-participation by RSUI, and the third layer provides coverage for \$200.0 million of losses in excess of \$600.0 million, with no co-participation by RSUI. The first and second layers of coverage include expiration terms as follows: approximately 34 percent of coverage limits expired on April 30, 2016 and was renewed May 1, 2016 with expiration on April 30, 2019; approximately 33 percent of coverage limits will expire on April 30, 2017; and approximately 33 percent of coverage limits will expire on April 30, 2018. The third layer of coverage was originally placed with expiration on April 30, 2017. However, effective May 1, 2016 approximately 39 percent of the third layer of coverage was cancelled and replaced with the same coverage for a three year period expiring on April 30, 2019. The remaining coverage will expire on April 30, 2017.

In addition, RSUI's property per risk reinsurance program runs on an annual basis from May 1 to the following April 30 and thus expired on April 30, 2016. On May 1, 2016, the property per risk program was renewed and will expire on April 30, 2017. For the 2016 to 2017 period, RSUI's property per risk reinsurance program provides coverage for \$90.0 million of losses, subject to a 10.0 percent co-participation by RSUI, in excess of a \$10.0 million net retention per risk after application of surplus share treaties and facultative reinsurance.

**5. Income Taxes**

The effective tax rate on earnings before income taxes for the first six months of 2016 was 32.9 percent, compared with 24.9 percent for the first six months of 2015. The increase in the effective tax rate in the first six months of 2016 from the first six months of 2015 primarily reflects prior period income tax adjustments and lower tax-exempt interest income arising from municipal bond securities, partially offset by lower taxable income. Prior period income tax expense adjustments for the second quarter and first six months of 2016 include \$19.7 million of out-of-period reductions to current and deferred TransRe tax assets recorded as of June 30, 2016 that relate primarily to periods prior to Alleghany's March 6, 2012 merger with TransRe.

Alleghany believes that, as of June 30, 2016, it had no material uncertain tax positions. Interest and penalties relating to unrecognized tax expenses (benefits) are recognized in income tax expense, when applicable. There were no material liabilities for interest or penalties accrued as of June 30, 2016.

**6. Stockholders' Equity*****(a) Common Stock Repurchases***

In July 2014, the Alleghany Board of Directors authorized the repurchase of shares of common stock, par value \$1.00 per share, of Alleghany (Common Stock), at such times and at prices as management determines to be advisable, up to an aggregate of \$350.0 million (the 2014 Repurchase Program). In November 2015, the Alleghany Board of Directors authorized, upon the completion of the 2014 Repurchase Program, the repurchase of additional shares of Common Stock, at such times and at prices as management determines to be advisable, up to an aggregate of \$400.0 million (the 2015 Repurchase Program). In the first quarter of 2016, Alleghany completed the 2014 Repurchase Program and subsequent repurchases have been made pursuant to the 2015 Repurchase Program.

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Pursuant to the 2014 Repurchase Program and the 2015 Repurchase Program, as applicable, Alleghany repurchased shares of Common Stock in the three and six months ended June 30, 2016 and 2015 as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Shares repurchased	-	29,233	113,100	88,183
Cost of shares repurchased (in millions)	\$ -	\$ 13.9	\$ 53.3	\$ 40.5
Average price per share repurchased	\$ -	\$ 475.97	\$ 471.15	\$ 459.80

**Table of Contents****(b) Accumulated Other Comprehensive Income**

The following table presents a reconciliation of the changes during the six months ended June 30, 2016 and 2015 in accumulated other comprehensive income attributable to Alleghany stockholders:

	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment	Retirement Plans	Total
	(\$ in millions)			
Balance as of January 1, 2016	\$ 231.9	\$ (104.0)	\$ (11.6)	\$ 116.3
Other comprehensive income, net of tax:				
Other comprehensive income before reclassifications	191.7	22.2	0.4	214.3
Reclassifications from accumulated other comprehensive income	(32.6)	-	-	(32.6)
<b>Total</b>	<b>159.1</b>	<b>22.2</b>	<b>0.4</b>	<b>181.7</b>
Balance as of June 30, 2016	\$ 391.0	\$ (81.8)	\$ (11.2)	\$ 298.0

	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment	Retirement Plans	Total
	(\$ in millions)			
Balance as of January 1, 2015	\$ 455.4	\$ (89.2)	\$ (12.6)	\$ 353.6
Other comprehensive income, net of tax:				
Other comprehensive loss before reclassifications	(47.8)	(7.9)	(0.4)	(56.1)
Reclassifications from accumulated other comprehensive income	(45.3)	-	-	(45.3)
<b>Total</b>	<b>(93.1)</b>	<b>(7.9)</b>	<b>(0.4)</b>	<b>(101.4)</b>
Balance as of June 30, 2015	\$ 362.3	\$ (97.1)	\$ (13.0)	\$ 252.2

Reclassifications out of accumulated other comprehensive income attributable to Alleghany stockholders during the three and six months ended June 30, 2016 and 2015 were as follows:

Accumulated Other Comprehensive Income Component	Line in Consolidated Statement of Earnings	Three Months Ended		Six Months Ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
(\$ in millions)					
Unrealized appreciation of investments:	Net realized capital gains <sup>(1)</sup>	\$ (40.8)	\$ (86.2)	\$ (76.7)	\$ (129.3)
	Other than temporary impairment losses	5.7	7.3	26.5	59.3

	Income taxes	12.3	27.6	17.6	24.3
Net earnings		\$ (22.8)	\$ (51.3)	\$ (32.6)	\$ (45.3)

(1) For the three and six month ended June 30, 2016, excludes Jazwares Remeasurement Gain of \$13.2 million.

**Table of Contents****7. Earnings Per Share of Common Stock**

The following is a reconciliation of the earnings and share data used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(\$ in millions, except share amounts)			
Net earnings available to Alleghany stockholders	\$ 77.1	\$ 182.5	\$ 231.6	\$ 307.7
Effect of dilutive securities	-	-	-	-
Income available to common stockholders for diluted earnings per share	\$ 77.1	\$ 182.5	\$ 231.6	\$ 307.7
Weighted average common shares outstanding applicable to basic earnings per share	15,438,859	15,994,969	15,445,525	16,004,596
Effect of dilutive securities	-	8,054	-	-
Adjusted weighted average common shares outstanding applicable to diluted earnings per share	15,438,859	16,003,023	15,445,525	16,004,596

70,738 and 77,131 contingently issuable shares were potentially available during the first six months of 2016 and 2015, respectively, but were not included in the diluted earnings per share computations because the impact was anti-dilutive to the earnings per share calculation.

**8. Commitments and Contingencies****(a) Legal Proceedings**

Certain of Alleghany's subsidiaries are parties to pending litigation and claims in connection with the ordinary course of their businesses. Each such subsidiary makes provisions for estimated losses to be incurred in such litigation and claims, including legal costs. In the opinion of management, such provisions are adequate.

**(b) Leases**

Alleghany and its subsidiaries lease certain facilities, furniture and equipment under long-term lease agreements. Additional information about leases can be found in Note 12(c) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2015 10-K.

**(c) Energy Holdings**

As of June 30, 2016, Alleghany had holdings in energy sector businesses of \$689.6 million, comprised of \$244.1 million of debt securities, \$231.4 million of equity securities and \$214.1 million of Alleghany's equity attributable to

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## 9. Segments of Business

### *(a) Overview*

Alleghany's segments are reported in a manner consistent with the way management evaluates the businesses. As such, Alleghany classifies its business into two reportable segments—reinsurance and insurance. Other activities include Alleghany Capital and corporate activities. In addition, reinsurance and insurance underwriting activities are evaluated separately from investment and other activities. Net realized capital gains and OTTI losses are not considered relevant in evaluating investment performance on an annual basis. Segment accounting policies are described in Note 1 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2015 10-K.

The reinsurance segment consists of property and casualty reinsurance operations conducted by TransRe's reinsurance operating subsidiaries and is further reported by major product lines—property and casualty & other. TransRe provides property and casualty reinsurance to insurers and reinsurers through brokers and on a direct basis to ceding companies. TransRe also writes a modest amount of insurance business, which is included in the reinsurance segment. Over one-third of the premiums earned by TransRe's operations are generated by offices located in Canada, Europe, Asia, Australia, Africa and those serving Latin America and the Caribbean. Although the majority of the premiums earned by these offices typically relate to the regions where they are located, a significant portion may be derived from other regions of the world, including the U.S. In addition, although a significant portion of the assets and liabilities of these foreign offices generally relate to the countries where ceding companies and reinsurers are located, most investments are located in the country of domicile of these offices.





rewriting profit												
(3)	\$ (3.3)	\$ 15.3	\$ 12.0	\$ 24.5	\$ 1.8	\$ (1.0)	\$ 25.3	37.3	-	-		
Investment income								105.1	-	1.8		10
Realized capital gains								41.0	13.0	-		5
Less than temporary impairment losses								(5.7)	-	-		6
Revenue								3.3	161.8	0.3		16
Operating expenses								19.5	164.9	0.6		18
Corporate administration								0.5	-	13.0		1
Amortization of intangible assets								(0.7)	6.1	-		
Interest expense								6.9	0.3	13.3		2
Earnings (losses) before income taxes								\$ 154.8	\$ 3.5	\$ (24.8)		\$ 13

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Months Ended 2015	Reinsurance Segment			RSUI	Insurance Segment			Total Segments	Other Activities		
	Property	Casualty & other <sup>(1)</sup>	Total		Specialty	Pacific Comp	Total		Alleghany Capital Activities <sup>(2)</sup>	Corporate Capital Activities <sup>(2)</sup>	Consolidated
(\$ in millions)											
Premiums written	\$ 302.4	\$ 587.8	\$ 890.2	\$ 339.7	\$ 61.4	\$ 24.1	\$ 425.2	\$ 1,315.4	\$ -	\$ (6.5)	\$ 1,308.9
Premiums written	252.4	578.2	830.6	233.7	57.9	23.8	315.4	1,146.0	-	-	1,146.0
Premiums earned	236.7	562.9	799.6	201.4	49.9	23.8	275.1	1,074.7	-	-	1,074.7
and LAE	67.2	361.7	428.9	114.3	33.9	18.3	166.5	595.4	-	-	595.4
Commissions, brokerage and underwriting expenses	76.6	201.1	277.7	55.1	21.8	9.4	86.3	364.0	-	-	364.0
Operating profit (loss) <sup>(3)</sup>	\$ 92.9	\$ 0.1	\$ 93.0	\$ 32.0	\$ (5.8)	\$ (3.9)	\$ 22.3	115.3	-	-	115.3
Investment income								103.3	(1.2)	1.0	103.1
Realized capital gains								86.2	0.1	(0.1)	86.2
Realized temporary impairment losses								(7.3)	-	-	(7.3)
Other revenue								1.0	42.5	0.3	43.8
Operating expenses								16.8	46.3	0.7	63.8
Corporate administration								0.2	-	9.6	9.8
Amortization of intangible assets								(1.1)	0.1	-	(1.0)
Other expense								9.7	0.4	13.3	23.4
Operating profit (losses) before income taxes								\$ 272.9	\$ (5.4)	\$ (22.4)	\$ 245.1

Months Ended 2016	Reinsurance Segment			RSUI	Insurance Segment			Total Segments	Other Activities		
	Property	Casualty & other <sup>(1)</sup>	Total		Specialty	Pacific Comp	Total		Alleghany Capital Activities <sup>(2)</sup>	Corporate Capital Activities <sup>(2)</sup>	Consolidated
(\$ in millions)											
Premiums written	\$ 773.1	\$ 1,471.6	\$ 2,244.7	\$ 564.6	\$ 132.9	\$ 68.1	\$ 765.6	\$ 3,010.3	\$ -	\$ (11.5)	\$ 2,998.8
Premiums written	624.6	1,441.9	2,066.5	398.1	124.5	67.4	590.0	2,656.5	-	-	2,656.5
Premiums earned	543.3	1,375.8	1,919.1	380.6	114.2	69.2	564.0	2,483.1	-	-	2,483.1
and LAE	297.3	878.2	1,175.5	194.2	57.9	52.4	304.5	1,480.0	-	-	1,480.0
Commissions, brokerage and underwriting expenses	170.2	465.9	636.1	107.9	52.4	19.3	179.6	815.7	-	-	815.7
Operating profit (loss) <sup>(3)</sup>	\$ 75.8	\$ 31.7	\$ 107.5	\$ 78.5	\$ 3.9	\$ (2.5)	\$ 79.9	187.4	-	-	187.4
Investment income								207.8	-	3.9	211.7
Realized capital gains								80.4	12.9	(3.4)	89.9
Realized temporary impairment losses								(26.5)	-	-	(26.5)
Other revenue								3.5	298.7	0.6	302.8
Operating expenses								41.5	304.4	1.2	347.1
Corporate administration								0.6	-	22.6	23.2
Amortization of intangible assets								(1.8)	10.2	-	8.4
Other expense								13.8	0.6	26.3	40.7

Losses) before income taxes										
\$ 398.5 \$ (3.6) \$(49.0)										
Ended 15	Reinsurance Segment			RSUI	Insurance Segment			Total Segments	Other Activities	
	Property	Casualty & other <sup>(1)</sup>	Total		Cap Specialty	Pacific Comp	Total		Alleghany Corporate Capital Activities <sup>(2)</sup>	Capital Activities <sup>(2)</sup>
(\$ in millions)										
Premiums written	\$ 574.0	\$ 1,218.4	\$ 1,792.4	\$ 627.9	\$ 115.9	\$ 45.6	\$ 789.4	\$ 2,581.8	\$ -	\$ (14.0)
Commissions written	462.4	1,196.9	1,659.3	424.3	108.5	45.0	577.8	2,237.1	-	-
Commissions earned	452.3	1,094.2	1,546.5	404.5	97.5	43.4	545.4	2,091.9	-	-
Net Loss and LAE	130.4	704.9	835.3	215.1	58.3	33.7	307.1	1,142.4	-	-
Commissions, brokerage and underwriting expenses	143.5	390.9	534.4	110.4	44.5	18.2	173.1	707.5	-	-
Underwriting profit (loss) <sup>(3)</sup>	\$ 178.4	\$ (1.6)	\$ 176.8	\$ 79.0	\$ (5.3)	\$ (8.5)	\$ 65.2	242.0	-	-
Investment income								214.0	(0.2)	2.7
Net realized capital gains								135.0	-	(5.7)
Other temporary impairment losses								(59.6)	-	-
Other revenue								2.5	77.1	0.3
Other operating expenses								43.5	86.5	1.2
Corporate administration								0.4	-	22.1
Amortization of intangible assets								(3.0)	0.2	0.1
Interest expense								19.5	0.8	26.2
Losses) before income taxes								\$ 473.5	\$ (10.6)	\$ (52.3)

- (1) Primarily consists of the following assumed reinsurance lines of business: directors and officers liability; errors and omissions liability; general liability; medical malpractice; ocean marine and aviation; auto liability; accident and health; surety; and credit.
- (2) Includes elimination of minor reinsurance activity between segments.
- (3) Underwriting profit represents net premiums earned less net loss and LAE and commissions, brokerage and other underwriting expenses, all as determined in accordance with GAAP, and does not include net investment income, net realized capital gains, OTTI losses, other revenue, other operating expenses, corporate administration, amortization of intangible assets or interest expense. Underwriting profit does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. Rather, Alleghany believes that underwriting profit enhances the understanding of its segments' operating results by highlighting net earnings attributable to their underwriting performance. Earnings before income taxes (a GAAP measure) may show a profit despite an underlying underwriting loss. Where underwriting losses persist over extended periods, a reinsurer's or an insurance company's ability to continue as an ongoing concern may be at risk. Therefore, Alleghany views underwriting profit as an important measure in the overall evaluation of performance.

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***(c) Identifiable assets and equity***

As of June 30, 2016, the identifiable assets of the reinsurance segment, insurance segment and other activities were \$16.0 billion, \$6.5 billion and \$1.3 billion, respectively, of which cash and invested assets represented \$13.4 billion, \$4.9 billion and \$0.4 billion, respectively. As of June 30, 2016, Alleghany's equity attributable to the reinsurance segment, insurance segment and other activities was \$5.3 billion, \$2.7 billion and (\$0.1) billion, respectively.

Included in other activities is debt associated with Alleghany Capital's operating subsidiaries. This includes \$28.7 million of debt at Kentucky Trailer as of June 30, 2016 related primarily to a mortgage loan, borrowings to finance small acquisitions and borrowings under its available credit facility, and \$5.0 million of borrowings by Jazwares under its available credit facility as of June 30, 2016. None of these liabilities are guaranteed by Alleghany or Alleghany Capital, and they are classified as a component of other liabilities on Alleghany's consolidated balance sheets.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following is a discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2016 and 2015. This discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q and our audited consolidated financial statements and Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the Annual Report on Form 10-K for the year ended December 31, 2015, or the 2015 10-K.

References in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, or this Form 10-Q, to the Company, Alleghany, we, us, and our refer to Alleghany Corporation and its consolidated subsidiaries unless the context otherwise requires. In addition, unless the context otherwise requires, references to

TransRe are to our wholly-owned reinsurance holding company subsidiary Transatlantic Holdings, Inc. and its subsidiaries,

AIHL are to our wholly-owned insurance holding company subsidiary Alleghany Insurance Holdings LLC,

RSUI are to our wholly-owned subsidiary RSUI Group, Inc. and its subsidiaries,

CapSpecialty are to our wholly-owned subsidiary CapSpecialty, Inc. and its subsidiaries,

PacificComp are to our wholly-owned subsidiary Pacific Compensation Corporation and its subsidiaries,

AIHL Re are to our wholly-owned subsidiary AIHL Re LLC,

Roundwood are to our wholly-owned subsidiary Roundwood Asset Management LLC,

Alleghany Capital are to our wholly-owned subsidiary Alleghany Capital Corporation and its subsidiaries,

SORC are to our wholly-owned subsidiary Stranded Oil Resources Corporation and its subsidiaries,

Bourn & Koch are to our majority-owned subsidiary Bourn & Koch, Inc.,

Kentucky Trailer are to our majority-owned subsidiary R.C. Tway Company, LLC,

IPS are to our majority-owned subsidiary IPS-Integrated Project Services, LLC and its subsidiaries,

Jazwares are to our majority-owned subsidiary Jazwares, LLC and its subsidiaries and affiliates, and

Alleghany Properties are to our wholly-owned subsidiary Alleghany Properties Holdings LLC and its subsidiaries.

### **Note on Forward-Looking Statements**

Certain statements contained in this report, including in Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk, may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements may be identified by the use of words such as may, will, expect, project, estimate, anticipate, plan, believe, potential, should or the negative versions of those words or other comparable words. Forward-looking statements do not relate solely to historical or current facts, rather are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time. These statements are not guarantees of future performance. These forward-looking statements are based upon Alleghany's current expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and Alleghany's future financial condition and results. Factors that could cause these forward-looking statements to differ, possibly materially, from that currently contemplated include:

significant weather-related or other natural or man-made catastrophes and disasters;

the cyclical nature of the property and casualty reinsurance and insurance industries;

changes in market prices of our significant equity investments and changes in value of our debt securities portfolio;

adverse loss development for events insured by our reinsurance and insurance subsidiaries in either the current year or prior years;

the long-tail and potentially volatile nature of certain casualty lines of business written by our reinsurance and insurance subsidiaries;

the cost and availability of reinsurance;

the reliance by our reinsurance operating subsidiaries on a limited number of brokers;

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increases in the levels of risk retention by our reinsurance and insurance subsidiaries;

changes in the ratings assigned to our reinsurance and insurance subsidiaries;

claims development and the process of estimating reserves;

exposure to terrorist acts and acts of war;

the willingness and ability of our reinsurance and insurance subsidiaries' reinsurers to pay reinsurance recoverables owed to our reinsurance and insurance subsidiaries;

legal, political, judicial and regulatory changes, including the federal financial regulatory reform of the insurance industry by the Dodd-Frank Wall Street Reform and Consumer Protection Act;

the uncertain nature of damage theories and loss amounts;

the loss of key personnel of our reinsurance or insurance operating subsidiaries;

fluctuation in foreign currency exchange rates;

the failure to comply with the restrictive covenants contained in the agreements governing our indebtedness;

the ability to make payments on, or repay or refinance, our debt;

risks inherent in international operations; and

difficult and volatile conditions in the global market.

Additional risks and uncertainties include general economic and political conditions, including the effects of a prolonged U.S. or global economic downturn or recession; changes in costs; variations in political, economic or other factors; risks relating to conducting operations in a competitive environment; effects of acquisition and disposition activities, inflation rates, or recessionary or expansive trends; changes in interest rates; extended labor disruptions, civil unrest, or other external factors over which we have no control; changes in our plans, strategies, objectives, expectations, or intentions, which may happen at any time at our discretion; and other factors discussed in Alleghany's most recent Annual Report on Form 10-K and subsequent filings with the Securities and Exchange Commission, or the SEC. All forward-looking statements speak only as of the date they are made and are based on information

available at that time. Alleghany does not undertake any obligation to update or revise any forward-looking statements to reflect subsequent circumstances or events.

### **Comment on Non-GAAP Financial Measures**

Throughout this Form 10-Q, our analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Our results of operations have been presented in the way that we believe will be the most meaningful and useful to investors, analysts, rating agencies and others who use financial information in evaluating our performance. This presentation includes the use of underwriting profit and Adjusted EBITDA, which are non-GAAP financial measures, as such term is defined in Item 10(e) of Regulation S-K promulgated by the SEC. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. Also note that these measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. A discussion of our calculation and use of these financial measures is provided below.

Underwriting profit is a non-GAAP financial measure for our reinsurance and insurance segments. Underwriting profit represents net premiums earned less net loss and loss adjustment expenses, or LAE, and commissions, brokerage and other underwriting expenses, all as determined in accordance with GAAP and does not include net investment income, net realized capital gains, other than temporary impairment, or OTTI, losses, other revenue, other operating expenses, corporate administration, amortization of intangible assets or interest expense. We consistently use underwriting profit as a supplement to earnings before income taxes, the most comparable GAAP financial measure, to evaluate the performance of our segments and believe that underwriting profit provides useful additional information to investors because it highlights net earnings attributable to a segment's underwriting performance. Earnings before income taxes may show a profit despite an underlying underwriting loss, and when underwriting losses persist over extended periods, a reinsurance or an insurance company's ability to continue as an ongoing concern may be at risk. A reconciliation of underwriting profit to earnings before income taxes is presented within Consolidated Results of Operations.

Adjusted EBITDA is a non-GAAP financial measure for our non-insurance operating subsidiaries and investments held by Alleghany Capital. Adjusted EBITDA represents other revenue less certain other expenses, and does not include: (i) depreciation expense (a component of other operating expenses); (ii) amortization of intangible assets; (iii) interest expense; (iv) net realized capital gains; (v) OTTI losses; and (vi) income taxes. Because Adjusted EBITDA excludes interest, income taxes, depreciation and amortization, it provides an indication of economic performance that is not affected by levels of debt, interest rates, effective tax rates



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or levels of depreciation and amortization resulting from purchase accounting. We use Adjusted EBITDA as a supplement to earnings before income taxes, the most comparable GAAP financial measure, to evaluate the performance of certain of our non-insurance operating subsidiaries and investments. A reconciliation of Adjusted EBITDA to earnings before income taxes is presented within Consolidated Results of Operations.

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### Overview

*The following overview does 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 our stockholders 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 earnings attributable to Alleghany stockholders were \$77.1 million in the second quarter of 2016, compared with \$182.5 million in the second quarter of 2015, and \$231.6 million in the first six months of 2016, compared with \$307.7 million in the first six months of 2015.

Earnings before income taxes were \$133.5 million in the second quarter of 2016, compared with \$245.1 million in the second quarter of 2015, and \$345.9 million in the first six months of 2016, compared with \$410.6 million in the first six months of 2015.

Net investment income increased by 3.7 percent in the second quarter of 2016 from the second quarter of 2015, and decreased by 2.2 percent in the first six months of 2016 from the first six months of 2015.

Net premiums written increased by 16.4 percent and 18.7 percent in the second quarter and first six months of 2016, respectively, from the corresponding 2015 periods.

Underwriting profit was \$37.3 million in the second quarter of 2016, compared with \$115.3 million in the second quarter of 2015, and \$187.4 million in the first six months of 2016, compared with \$242.0 million in the first six months of 2015.

The combined ratio for our reinsurance and insurance segments was 97.0 percent in the second quarter of 2016, compared with 89.3 percent in the second quarter of 2015, and 92.4 percent in the first six months of 2016, compared with 88.4 percent in the first six months of 2015.

Catastrophe losses, net of reinsurance, were \$124.8 million in the second quarter of 2016, compared with \$14.6 million in the second quarter of 2015, and \$127.5 million in the first six months of 2016, compared with \$16.4 million in the first six months of 2015.

Net favorable prior accident year development on loss reserves was \$90.0 million in the second quarter of 2016, compared with \$54.8 million in the second quarter of 2015, and \$175.3 million in the first six months of 2016, compared with \$95.6 million in the first six months of 2015.

As of June 30, 2016, we had total assets of \$23.8 billion and total stockholders' equity attributable to Alleghany stockholders of \$7.9 billion. As of June 30, 2016, we had consolidated total investments of approximately \$18.2 billion, of which \$13.7 billion was invested in debt securities, \$2.8 billion was invested in equity securities, \$0.6

billion was invested in short-term investments, \$0.4 billion was invested in commercial mortgage loans and \$0.7 billion was invested in other invested assets.

Our principal executive offices are located in leased office space at 1411 Broadway, 34<sup>th</sup> Floor, New York, New York, and our telephone number is (212) 752-1356.

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The following table summarizes our consolidated revenues, costs and expenses and earnings.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(\$ in millions)			
<b>Revenues</b>				
Net premiums earned	\$ 1,261.5	\$ 1,074.7	\$ 2,483.1	\$ 2,091.9
Net investment income	106.9	103.1	211.7	216.5
Net realized capital gains	54.0	86.2	89.9	129.3
Other than temporary impairment losses	(5.7)	(7.3)	(26.5)	(59.6)
Other revenue	165.4	43.8	302.8	79.9
<b>Total revenues</b>	<b>1,582.1</b>	<b>1,300.5</b>	<b>3,061.0</b>	<b>2,458.0</b>
<b>Costs and Expenses</b>				
Net loss and loss adjustment expenses	815.3	595.4	1,480.0	1,142.4
Commissions, brokerage and other underwriting expenses	408.9	364.0	815.7	707.5
Other operating expenses	185.0	63.8	347.1	131.2
Corporate administration	13.5	9.8	23.2	22.5
Amortization of intangible assets	5.4	(1.0)	8.4	(2.7)
Interest expense	20.5	23.4	40.7	46.5
<b>Total costs and expenses</b>	<b>1,448.6</b>	<b>1,055.4</b>	<b>2,715.1</b>	<b>2,047.4</b>
Earnings before income taxes	133.5	245.1	345.9	410.6
Income taxes	56.2	61.9	114.0	102.0
Net earnings	77.3	183.2	231.9	308.6
Net earnings attributable to noncontrolling interest	0.2	0.7	0.3	0.9
Net earnings attributable to Alleghany stockholders	\$ 77.1	\$ 182.5	\$ 231.6	\$ 307.7

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Alleghany's segments are reported in a manner consistent with the way management evaluates the businesses. As such, we classify our businesses into two reportable segments—reinsurance and insurance. Other activities include Alleghany Capital and corporate activities. See Note 9 to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional detail on our segments and other activities. The results for our segments and for other activities for the three and six months ended June 30, 2016 and 2015 are shown in the tables below:

Three Months Ended June 30, 2016	Segments		Total Segments	Other Activities		Consolidated
	Reinsurance Segment	Insurance Segment		Alleghany Capital Activities	Corporate	
	(\$ in millions, except ratios)					
Gross premiums written	\$ 1,102.3	\$ 411.7	\$ 1,514.0	\$ -	\$ (4.7)	\$ 1,509.3
Net premiums written	1,010.5	323.8	1,334.3	-	-	1,334.3
Net premiums earned	980.1	281.4	1,261.5	-	-	1,261.5
Net loss and LAE:						
Current year (excluding catastrophe losses)	631.6	148.9	780.5	-	-	780.5
Current year catastrophe losses	95.8	29.0	124.8	-	-	124.8
Prior years	(78.0)	(12.0)	(90.0)	-	-	(90.0)
Total net loss and LAE	649.4	165.9	815.3	-	-	815.3
Commissions, brokerage and other underwriting expenses	318.7	90.2	408.9	-	-	408.9
Underwriting profit <sup>(2)</sup>	\$ 12.0	\$ 25.3	37.3	-	-	37.3
Net investment income			105.1	-	1.8	106.9
Net realized capital gains			41.0	13.0	-	54.0
Other than temporary impairment losses			(5.7)	-	-	(5.7)
Other revenue			3.3	161.8	0.3	165.4
Other operating expenses			19.5	164.9	0.6	185.0
Corporate administration			0.5	-	13.0	13.5
Amortization of intangible assets			(0.7)	6.1	-	5.4
Interest expenses			6.9	0.3	13.3	20.5
Earnings (losses) before income taxes			\$ 154.8	\$ 3.5	\$ (24.8)	\$ 133.5
Loss ratio <sup>(3)</sup> :						
Current year (excluding catastrophe losses)	64.5%	52.9%	61.9%			
Current year catastrophe losses	9.8%	10.3%	9.9%			
Prior years	(8.0%)	(4.3%)	(7.2%)			
Total net loss and LAE	66.3%	58.9%	64.6%			
Expense ratio <sup>(4)</sup>	32.5%	32.1%	32.4%			

Combined ratio<sup>(5)</sup>

98.8% 91.0% 97.0%

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Three Months Ended June 30, 2015	Segments		Total Segments (\$ in millions, except ratios)	Other Activities		Consolidated
	Reinsurance Segment	Insurance Segment		Alleghany Capital Activities <sup>(1)</sup>	Corporate Capital Activities <sup>(1)</sup>	
Gross premiums written	\$ 890.2	\$ 425.2	\$ 1,315.4	\$ -	\$ (6.5)	\$ 1,308.9
Net premiums written	830.6	315.4	1,146.0	-	-	1,146.0
Net premiums earned	799.6	275.1	1,074.7	-	-	1,074.7
Net loss and LAE:						
Current year (excluding catastrophe losses)	480.0	155.6	635.6	-	-	635.6
Current year catastrophe losses	-	14.6	14.6	-	-	14.6
Prior years	(51.1)	(3.7)	(54.8)	-	-	(54.8)
Total net loss and LAE	428.9	166.5	595.4	-	-	595.4
Commissions, brokerage and other underwriting expenses	277.7	86.3	364.0	-	-	364.0
Underwriting profit <sup>(2)</sup>	\$ 93.0	\$ 22.3	115.3	-	-	115.3

&amp;nbsp;nbsp;nbsp;