

ALLEGHANY CORP /DE  
Form 10-Q  
May 05, 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 MARCH 31, 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.**

**7 TIMES SQUARE TOWER, 17TH FLOOR, NY, NY 10036**

**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.

15,438,632 SHARES, PAR VALUE \$1.00 PER SHARE, AS OF MAY 1, 2016

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ALLEGHANY CORPORATION

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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Balance Sheets**

	March 31, 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 \$2,637,787; 2015 \$2,740,984)	\$ 2,889,055	\$ 3,005,908
Debt securities (amortized cost: 2016 \$13,385,266; 2015 \$13,529,923)	13,618,212	13,605,963
Short-term investments	493,614	365,810
	17,000,881	16,977,681
Commercial mortgage loans	279,906	177,947
Other invested assets	694,607	676,811
Total investments	17,975,394	17,832,439
Cash	509,743	475,267
Accrued investment income	114,681	115,313
Premium balances receivable	755,811	752,103
Reinsurance recoverables	1,203,188	1,249,948
Ceded unearned premiums	190,366	190,368
Deferred acquisition costs	449,645	419,448
Property and equipment at cost, net of accumulated depreciation and amortization	99,958	101,306
Goodwill	141,015	141,015
Intangible assets, net of amortization	209,704	212,790
Current taxes receivable	31,030	12,129
Net deferred tax assets	344,294	468,440
Other assets	1,030,514	868,513
Total assets	\$ 23,055,343	\$ 22,839,079
<b>Liabilities, Redeemable Noncontrolling Interests and Stockholders Equity</b>		
Loss and loss adjustment expenses	\$ 10,758,730	\$ 10,799,242
Unearned premiums	2,170,059	2,076,061
Senior Notes	1,383,572	1,383,086

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Reinsurance payable	88,164	69,297
Other liabilities	857,216	930,967
Total liabilities	15,257,741	15,258,653
Redeemable noncontrolling interests	25,866	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	3,611,715	3,611,631
Accumulated other comprehensive income	229,376	116,273
Treasury stock, at cost (2016 2,022,329 shares; 2015 1,915,884 shares)	(798,447)	(747,784)
Retained earnings	4,711,632	4,557,127
Total stockholders equity attributable to Alleghany stockholders	7,771,736	7,554,707
Total liabilities, redeemable noncontrolling interest and stockholders equity	\$ 23,055,343	\$ 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 March 31,	
	2016	2015
	(in thousands, except per share amounts)	
<b>Revenues</b>		
Net premiums earned	\$ 1,221,565	\$ 1,017,171
Net investment income	104,863	113,382
Net realized capital gains	35,893	43,151
Other than temporary impairment losses	(20,759)	(52,281)
Other revenue	137,388	36,200
<b>Total revenues</b>	<b>1,478,950</b>	<b>1,157,623</b>
<b>Costs and Expenses</b>		
Net loss and loss adjustment expenses	664,644	546,916
Commissions, brokerage and other underwriting expenses	406,733	343,609
Other operating expenses	162,164	67,405
Corporate administration	9,734	12,678
Amortization of intangible assets	3,085	(1,660)
Interest expense	20,269	23,092
<b>Total costs and expenses</b>	<b>1,266,629</b>	<b>992,040</b>
Earnings before income taxes	212,321	165,583
Income taxes	57,668	40,163
Net earnings	154,653	125,420
Net earnings attributable to noncontrolling interest	148	211
Net earnings attributable to Alleghany stockholders	\$ 154,505	\$ 125,209
Net earnings	\$ 154,653	\$ 125,420
Other comprehensive income:		
Change in unrealized gains, net of deferred taxes of \$54,981 and \$33,141 for 2016 and 2015, respectively	102,107	61,548
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of (\$5,297) and \$3,196 for 2016 and 2015,	(9,837)	5,935

respectively

Change in unrealized currency translation adjustment, net of deferred taxes of \$11,077 and (\$5,791) for 2016 and 2015, respectively	20,571	(10,755)
Retirement plans	262	(522)
Comprehensive income	267,756	181,626
Comprehensive income attributable to noncontrolling interest	148	211
Comprehensive income attributable to Alleghany stockholders	\$ 267,608	\$ 181,415
Basic earnings per share attributable to Alleghany stockholders	\$ 10.00	\$ 7.82
Diluted earnings per share attributable to Alleghany stockholders	9.96	7.82

See accompanying Notes to Unaudited Consolidated Financial Statements.

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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

(unaudited)

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
<b>Cash flows from operating activities</b>		
Net earnings	\$ 154,653	\$ 125,420
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	34,905	42,083
Net realized capital (gains) losses	(35,893)	(43,151)
Other than temporary impairment losses	20,759	52,281
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	65,627	215
(Increase) decrease in premium balance receivable	(3,708)	44,282
(Increase) decrease in ceded unearned premiums	2	(12,756)
(Increase) decrease in deferred acquisition costs	(30,197)	(16,662)
(Increase) decrease in unearned premiums	93,998	68,644
(Increase) decrease in loss and loss adjustment expenses	(40,512)	(182,881)
Change in unrealized foreign exchange losses (gains)	45,552	154,741
Other, net	(265,606)	(14,895)
Net adjustments	(115,073)	91,901
Net cash provided by (used in) operating activities	39,580	217,321
<b>Cash flows from investing activities</b>		
Purchases of debt securities	(1,844,101)	(2,122,464)
Purchases of equity securities	(551,815)	(1,385,109)
Sales of debt securities	1,800,873	1,596,406
Maturities and redemptions of debt securities	237,162	353,149
Sales of equity securities	665,994	1,132,816
Net (purchase) sale in short-term investments	(142,622)	230,725
Purchases of property and equipment	(2,088)	(10,609)
Purchase of subsidiary, net of cash acquired	(1,020)	(43,900)
Other, net	(122,288)	1,232
Net cash provided by (used in) investing activities	40,095	(247,754)
<b>Cash flows from financing activities</b>		
Treasury stock acquisitions	(53,288)	(26,632)

Other, net	5,734	7,344
Net cash provided by (used in) financing activities	(47,554)	(19,288)
Effect of exchange rate changes on cash	2,355	(18,053)
Net increase (decrease) in cash	34,476	(67,774)
Cash at beginning of period	475,267	605,259
Cash at end of period	\$ 509,743	\$ 537,485

**Supplemental disclosures of cash flow information**
**Cash paid during period for:**

Interest paid	\$ 16,115	\$ 16,406
Income taxes paid (refund received)	11,737	(1,787)

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) 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) an approximately 40 percent equity interest in ORX Exploration, Inc. (ORX), a regional oil and gas exploration and production company, headquartered in New Orleans, Louisiana; and (vi) a 30 percent equity interest in Jazwares, LLC (Jazwares), a toy and consumer electronics company, headquartered in Sunrise, Florida. ORX and Jazwares are accounted for under the equity method of accounting. On April 15, 2016, Alleghany Capital acquired an additional 50 percent equity interest in Jazwares, bringing its equity interest in Jazwares to 80 percent, and as of that date, the results of Jazwares will be included in Alleghany's consolidated results. 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 ( GAAP ). All significant inter-company balances and transactions have been eliminated in consolidation. The results of IPS have been included in Alleghany s consolidated results beginning with its acquisition by Alleghany Capital on October 31, 2015.

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 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 three months of 2016, Bourn & Koch had approximately 12 percent noncontrolling interests outstanding, Kentucky Trailer had approximately 20 percent noncontrolling interests outstanding and IPS had approximately 16 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 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.

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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 the new 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 is 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 the new 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. The new 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. The new 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. The new 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. The new 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, the new 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. 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

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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 the new guidance, a lessee is required to recognize assets and liabilities for leases with lease 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. The new 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.

**2. Fair Value of Financial Instruments**

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

	March 31, 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>	\$ 17,029.3	\$ 17,029.3	\$ 17,007.6	\$ 17,007.6
<b>Liabilities</b>				
Senior Notes <sup>(2)</sup>	\$ 1,383.6	\$ 1,535.4	\$ 1,383.1	\$ 1,535.4

(1) This table includes available-for-sale ( 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 March 31, 2016 and December 31, 2015 were as follows:

	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
<b>As of March 31, 2016</b>				
Equity securities:				
Common stock	\$ 2,888.1	\$ -	\$ 1.0	\$ 2,889.1
Preferred stock	-	-	-	-
<b>Total equity securities</b>	<b>2,888.1</b>	<b>-</b>	<b>1.0</b>	<b>2,889.1</b>
Debt securities:				
U.S. Government obligations	-	1,166.2	-	1,166.2
Municipal bonds	-	4,419.9	-	4,419.9
Foreign government obligations	-	1,091.4	-	1,091.4
U.S. corporate bonds	-	1,961.4	50.0	2,011.4
Foreign corporate bonds	-	1,063.5	-	1,063.5
Mortgage and asset-backed securities:				
Residential mortgage-backed securities (RMBS <sup>1</sup> )	-	1,299.2	14.3	1,313.5
Commercial mortgage-backed securities (CMBS)	-	997.7	19.8	1,017.5
Other asset-backed securities <sup>(2)</sup>	-	610.4	924.4	1,534.8
<b>Total debt securities</b>	<b>-</b>	<b>12,609.7</b>	<b>1,008.5</b>	<b>13,618.2</b>
Short-term investments	-	493.6	-	493.6
Other invested assets <sup>(3)</sup>	-	-	28.4	28.4
<b>Total investments (excluding equity method investments and loans)</b>	<b>\$ 2,888.1</b>	<b>\$ 13,103.3</b>	<b>\$ 1,037.9</b>	<b>\$ 17,029.3</b>
Senior Notes	\$ -	\$ 1,535.4	\$ -	\$ 1,535.4

	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 \$913.9 million and \$946.7 million of collateralized loan obligations as of March 31, 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 months ended March 31, 2016, there were no material transfers of securities out of Level 3.

In the three months ended March 31, 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 months ended March 31, 2016.

In the three months ended March 31, 2015, there were transfers of \$10.4 million 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 \$10.4 million, \$6.8 million related to U.S. corporate bonds and \$3.6 million related to foreign corporate bonds.

In the three months ended March 31, 2015, there were no transfers of securities into Level 3. There were no other significant transfers between Levels 1, 2 or 3 in the three months ended March 31, 2015.

The following tables present reconciliations of the changes during the three months ended March 31, 2016 and 2015 in Level 3 assets measured at fair value:

Three Months Ended March 31, 2016	Common Stock	U.S. Corporate Bonds	Debt Securities Mortgage and asset-backed		Other Asset- backed Securities	Other Invested Assets <sup>(1)</sup>	Tot
			RMBS	CMBS			
(\$ in millions)							
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	0.1	(0.1)	1.0	1.5	2.6
Other comprehensive income	-	0.2	(0.2)	(0.1)	(14.3)	(1.3)	(15.7)
Purchases	-	0.3	-	-	10.3	-	10.6
Sales	-	(1.2)	-	-	(25.3)	(1.5)	(27.0)
Issuances	-	-	-	-	-	-	-
Settlements	-	(0.9)	(0.5)	(0.2)	(0.3)	-	(1.9)
Transfers into Level 3	1.0	1.7	-	-	-	-	2.7
Transfers out of Level 3	-	-	-	-	-	(0.2)	(0.2)
Balance as of March 31, 2016	\$ 1.0	\$ 50.0	\$ 14.3	\$ 19.8	\$ 924.4	\$ 28.4	\$ 1,037.9

Three Months Ended March 31, 2015	U.S. Corporate Bonds	Foreign Corporate Bonds	Debt Securities Mortgage and asset-backed		Other Asset- backed Securities	Other Invested Assets <sup>(1)</sup>	Tot
			RMBS	CMBS			
(\$ in millions)							
Balance as of January 1, 2015	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4
Net realized/unrealized gains (losses) included in:							
Net earnings <sup>(2)</sup>	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-
Purchases	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-
Issuances	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-
Balance as of March 31, 2015	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4	\$ 10.4

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Balance as of January 1, 2015	\$ 36.7	\$ 6.0	\$ 18.2	\$ 23.3	\$ 933.1	\$ 24.1	\$ 1,04
Net realized/unrealized gains (losses) included in:							
Net earnings <sup>(2)</sup>	0.1	-	0.1	(0.1)	0.6	-	
Other comprehensive income	0.4	-	-	(0.4)	7.8	0.3	
Purchases	6.7	-	-	0.9	35.0	-	4
Sales	(0.5)	(0.2)	-	-	(53.1)	-	(5
Issuances	-	-	-	-	-	-	
Settlements	(4.0)	-	(0.7)	(0.5)	(0.5)	-	(
Transfers into Level 3	-	-	-	-	-	-	
Transfers out of Level 3	(6.8)	(3.6)	-	-	-	-	(1
Balance as of March 31, 2015	\$ 32.6	\$ 2.2	\$ 17.6	\$ 23.2	\$ 922.9	\$ 24.4	\$ 1,02

(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 March 31, 2016 and 2015.

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Net unrealized losses related to Level 3 investments as of March 31, 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 March 31, 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 March 31, 2016</b>				
Equity securities:				
Common stock	\$ 2,637.8	\$ 307.7	\$ (56.4)	\$ 2,889.1
Preferred stock	-	-	-	-
<b>Total equity securities</b>	<b>2,637.8</b>	<b>307.7</b>	<b>(56.4)</b>	<b>2,889.1</b>
Debt securities:				
U.S. Government obligations	1,147.7	19.2	(0.7)	1,166.2
Municipal bonds	4,268.9	159.4	(8.4)	4,419.9
Foreign government obligations	1,061.7	29.9	(0.2)	1,091.4
U.S. corporate bonds	1,979.7	50.2	(18.5)	2,011.4
Foreign corporate bonds	1,035.2	32.0	(3.7)	1,063.5
Mortgage and asset-backed securities:				
RMBS	1,296.7	18.8	(2.0)	1,313.5
CMBS	1,009.7	16.0	(8.2)	1,017.5
Other asset-backed securities <sup>(1)</sup>	1,585.7	1.5	(52.4)	1,534.8
<b>Total debt securities</b>	<b>13,385.3</b>	<b>327.0</b>	<b>(94.1)</b>	<b>13,618.2</b>
Short-term investments	493.6	-	-	493.6
<b>Total</b>	<b>\$ 16,516.7</b>	<b>\$ 634.7</b>	<b>\$ (150.5)</b>	<b>\$ 17,000.9</b>

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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</b>	<b>\$ 16,636.7</b>	<b>\$ 573.8</b>	<b>\$ (232.8)</b>	<b>\$ 16,977.7</b>

(1) Includes \$913.9 million and \$946.7 million of collateralized loan obligations as of March 31, 2016 and December 31, 2015, respectively.

**(b) Contractual Maturity**

The amortized cost and estimated fair value of debt securities by contractual maturity as of March 31, 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	\$ 493.6	\$ 493.6

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Mortgage and asset-backed securities <sup>(1)</sup>	3,892.1	3,865.8
Debt securities with maturity dates:		
One year or less	416.2	418.1
Over one through five years	2,851.5	2,895.3
Over five through ten years	3,079.9	3,176.6
Over ten years	3,145.6	3,262.4
Total debt securities	13,385.3	13,618.2
Equity securities	2,637.8	2,889.1
Total	\$ 16,516.7	\$ 17,000.9

(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 months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,	
	2016	2015
	(\$ in millions)	
Interest income	\$ 101.2	\$ 94.7
Dividend income	12.1	14.5
Investment expenses	(6.9)	(7.3)
Equity in results of Pillar Investments <sup>(1)</sup>	3.1	6.6
Equity in results of Ares <sup>(1)</sup>	0.4	2.3
Equity in results of ORX	-	(1.0)
Other investment results	(5.0)	3.6
Total	\$ 104.9	\$ 113.4

(1) See Note 3(g) for discussion of the Pillar Investments and the investment in Ares as defined therein. As of March 31, 2016, non-income producing invested assets were insignificant.

**(d) Realized Gains and Losses**

The proceeds from sales of AFS securities were \$2.5 billion and \$2.7 billion for the three months ended March 31, 2016 and 2015, respectively.

Realized capital gains and losses for the three months ended March 31, 2016 and 2015 primarily reflect sales of equity and debt securities. Gross realized capital gains and gross realized capital losses for the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,	
	2016	2015
	(\$ in millions)	
Gross realized capital gains	\$ 82.4	\$ 114.4
Gross realized capital losses	(46.5)	(71.3)
Net realized capital gains	\$ 35.9	\$ 43.1

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 any individual security's decline in value is performed in its functional currency. If the decline of a particular security 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 debt securities 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 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 one year 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

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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 longer); (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 quarter of 2016 reflect \$20.8 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 \$20.8 million of OTTI losses, \$5.3 million related to equity securities, primarily in the financial services, technology and chemical sectors, and \$15.5 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.

OTTI losses in the first quarter of 2015 reflect \$52.3 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. All of the OTTI losses incurred in the first quarter of 2015 related to equity securities, primarily in the energy and gaming sectors. The determination that unrealized losses on such 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.

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 March 31, 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 (for example, no equity security was in a continuous unrealized loss position for 12 months or more as of March 31, 2016); (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 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.

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

As of March 31, 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		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(\$ in millions)					
<b>As of March 31, 2016</b>						
Equity securities:						
Common stock	\$ 1,030.5	\$ 56.4	\$ -	\$ -	\$ 1,030.5	\$ 56.4
Preferred stock	-	-	-	-	-	-
<b>Total equity securities</b>	<b>1,030.5</b>	<b>56.4</b>	<b>-</b>	<b>-</b>	<b>1,030.5</b>	<b>56.4</b>
Debt securities:						
U.S. Government obligations	110.0	0.7	4.3	-	114.3	0.7
Municipal bonds	203.0	1.0	155.4	7.4	358.4	8.4
Foreign government obligations	152.9	0.2	2.6	-	155.5	0.2
U.S. corporate bonds	300.6	15.0	157.3	3.5	457.9	18.5
Foreign corporate bonds	122.2	1.4	72.7	2.3	194.9	3.7
Mortgage and asset-backed securities:						
RMBS	7.9	0.1	334.1	1.9	342.0	2.0
CMBS	372.8	6.5	35.1	1.7	407.9	8.2
Other asset-backed securities	950.8	35.7	275.3	16.7	1,226.1	52.4
<b>Total debt securities</b>	<b>2,220.2</b>	<b>60.6</b>	<b>1,036.8</b>	<b>33.5</b>	<b>3,257.0</b>	<b>94.1</b>
<b>Total temporarily impaired securities</b>	<b>\$ 3,250.7</b>	<b>\$ 117.0</b>	<b>\$ 1,036.8</b>	<b>\$ 33.5</b>	<b>\$ 4,287.5</b>	<b>\$ 150.5</b>

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

**As of December 31, 2015**

Equity securities:

Common stock	\$ 1,355.6	\$ 87.0	\$ -	\$ -	\$ 1,355.6	\$ 87.0
Preferred stock	-	-	-	-	-	-

Total equity securities	1,355.6	87.0	-	-	1,355.6	87.0
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
Total debt securities	5,201.8	110.5	729.4	35.3	5,931.2	145.8
Total temporarily impaired securities	\$ 6,557.4	\$ 197.5	\$ 729.4	\$ 35.3	\$ 7,286.8	\$ 232.8

As of March 31, 2016, Alleghany held a total of 587 debt securities and equity securities that were in an unrealized loss position, of which 155 securities, all debt securities, were in an unrealized loss position continuously for 12 months or more. The

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unrealized losses associated with the 155 debt securities consisted primarily of losses related to other asset-backed securities, municipal bonds and U.S. corporate bonds.

As of March 31, 2016, the vast majority of Alleghany's debt securities were rated investment grade, with approximately 4.2 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 March 31, 2016, Alleghany's carrying value in the Pillar Investments, as determined under the equity method of accounting, was \$225.4 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 March 31, 2016, at Alleghany's discretion, half of these interests may be converted at any time, and the remaining half may be converted starting in May 2016. 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 March 31, 2016, AIHL's carrying value in Ares was \$222.5 million, which is net of returns of capital received from Ares.

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

As of March 31, 2016, the carrying value of the commercial loan portfolio was \$279.9 million, representing the unpaid principal balance on the loans. As of March 31, 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 2-10 years and the principal lent 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 (which covers catastrophe risks including, among others, windstorms and earthquakes) 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.

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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 May 1, 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 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: 34.0 percent of coverage limits expired on April 30, 2016 and was renewed May 1, 2016 with expiration on April 30, 2019; 33.0 percent of coverage limits will expire on April 30, 2017; and 33.0 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 40 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 three months of 2016 was 27.2 percent, compared with 24.3 percent for the first three months of 2015. The increase in the effective tax rate in the first quarter of 2016 from the first quarter of 2015 primarily reflects higher taxable income, primarily from higher underwriting profits, and lower tax-exempt interest income arising from municipal bond securities.

Alleghany believes that, as of March 31, 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 March 31, 2016.

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

In July 2014, the Alleghany Board of Directors authorized the repurchase of additional 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.

Pursuant to the 2014 Repurchase Program and the 2015 Repurchase Program, as applicable, Alleghany repurchased shares of Common Stock in the three months ended March 31, 2016 and 2015 as follows:

	Three Months Ended March 31,	
	2016	2015
Shares repurchased	113,100	58,950
Cost of shares repurchased (in millions)	\$ 53.3	\$ 26.6
Average price per share repurchased	\$ 471.15	\$ 451.77

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

The following table presents a reconciliation of the changes during the three months ended March 31, 2016 and 2015 in accumulated other comprehensive income attributable to Alleghany stockholders:

	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment (\$ in millions)	Retirement Plans	Total
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	102.1	20.6	0.2	122.9
Reclassifications from accumulated other comprehensive income	(9.8)	-	-	(9.8)
<b>Total</b>	<b>92.3</b>	<b>20.6</b>	<b>0.2</b>	<b>113.1</b>
Balance as of March 31, 2016	\$ 324.2	\$ (83.4)	\$ (11.4)	\$ 229.4

	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment (\$ in millions)	Retirement Plans	Total
Balance as of January 1, 2015	\$ 455.4	\$ (89.2)	\$ (12.6)	\$ 353.6
Other comprehensive income, net of tax:				
Other comprehensive income (loss) before reclassifications	61.6	(10.8)	(0.5)	50.3
Reclassifications from accumulated other comprehensive income	5.9	-	-	5.9
<b>Total</b>	<b>67.5</b>	<b>(10.8)</b>	<b>(0.5)</b>	<b>56.2</b>
Balance as of March 31, 2015	\$ 522.9	\$ (100.0)	\$ (13.1)	\$ 409.8

Reclassifications out of accumulated other comprehensive income attributable to Alleghany stockholders during the three months ended March 31, 2016 and 2015 were as follows:

Accumulated Other Comprehensive Income Component	Line in Consolidated Statement of Earnings	Three Months Ended March 31, 2016      2015 (\$ in millions)	

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Unrealized appreciation of investments:	Net realized capital gains	\$ (35.9)	\$ (43.1)
	Other than temporary impairment losses	20.8	52.3
	Income taxes	5.3	(3.3)
Total reclassifications:	Net earnings	\$ (9.8)	\$ 5.9

**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 months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(\$ in millions, except share amounts)	
Net earnings available to Alleghany stockholders	\$ 154.5	\$ 125.2
Effect of dilutive securities	(0.4)	-
Income available to common stockholders for diluted earnings per share	\$ 154.1	\$ 125.2
Weighted average common shares outstanding applicable to basic earnings per share	15,452,191	16,014,223
Effect of dilutive securities	12,298	-
Adjusted weighted average common shares outstanding applicable to diluted earnings per share	15,464,489	16,014,223

57,123 and 75,420 contingently issuable shares were potentially available during the first three months of 2016 and 2015, respectively, but were not included in the computations of diluted earnings per share 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) Indemnification Obligations***

On July 14, 2005, Alleghany completed the sale of its world-wide industrial minerals business. Pursuant to the terms of the sale, Alleghany undertook certain indemnification obligations, including a general indemnification for breaches of representations and warranties, and a special indemnification related to products liability claims arising from events that occurred during pre-closing periods, including the period of Alleghany ownership, that will expire on July 31, 2016. Additional information about these indemnification obligations can be found in Note 12(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2015 10-K.

***(c) 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.

***(d) Energy Holdings***

As of March 31, 2016, Alleghany had holdings in energy sector businesses of \$658.8 million, comprised of \$278.6 million of debt securities, \$169.3 million of equity securities and \$210.9 million of Alleghany's equity attributable to SORC.

**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

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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.

The insurance segment consists of property and casualty insurance operations conducted in the U.S. by AIHL through its insurance operating subsidiaries RSUI, CapSpecialty and PacificComp. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment.

The components of other activities are Alleghany Capital and corporate activities. Alleghany Capital consists of manufacturing and service operations, oil and gas operations and corporate operations and investments at the Alleghany Capital parent level. Manufacturing and service operations are conducted through Bourn & Koch, Kentucky Trailer, IPS, beginning October 31, 2015, and Alleghany Capital's investment in Jazwares. Oil and gas operations are conducted through SORC and Alleghany Capital's investment in ORX. Jazwares and ORX are accounted for under the equity method of accounting.

The primary components of corporate activities are Alleghany Properties and other activities at the parent level.

In addition, corporate activities include interest expense associated with senior notes issued by Alleghany, whereas interest expense associated with senior notes issued by TransRe is included in Total Segments. Information related to Alleghany's and TransRe's senior notes can be found in 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.

**Table of Contents****(b) Results**

Segment results for Alleghany's two reportable segments and for other activities for the three months ended March 31, 2016 and 2015 are shown in the tables below:

Three Months Ended	Reinsurance Segment			Insurance Segment			Total
	Property	Casualty & other <sup>(1)</sup>	Total	RSUI	Cap Specialty	Pacific Comp (\$ in millions)	
March 31, 2016							
Gross premiums written	\$ 383.2	\$ 759.2	\$ 1,142.4	\$ 256.9	\$ 62.9	\$ 34.1	\$ 353.1
Net premiums written	309.5	746.4	1,055.9	173.6	58.9	33.8	266.3
Net premiums earned	253.1	685.9	939.0	192.3	55.4	34.8	282.5
Net loss and LAE	96.1	430.0	526.1	85.1	26.9	26.5	138.6
Commissions, brokerage and other underwriting expenses	77.9	239.5	317.4	53.2	26.4	9.7	89.3
Underwriting profit (loss) <sup>(3)</sup>	\$ 79.1	\$ 16.4	\$ 95.5	\$ 54.0	\$ 2.1	\$ (1.4)	\$ 54.6
Net investment income							
Net realized capital gains							
Other than temporary impairment losses							
Other revenue							
Other operating expenses							
Corporate administration							
Amortization of intangible assets							
Interest expense							
Earnings (losses) before income taxes							
Three Months Ended	Property	Reinsurance Segment Casualty & other <sup>(1)</sup>	Total	RSUI	Insurance Segment Cap Specialty	Pacific Comp	Total

March 31, 2015

	Cap		Specialty		(\$ in millions)		
Gross premiums written	\$ 271.6	\$ 630.6	\$ 902.2	\$ 288.2	\$ 54.5	\$ 21.5	\$ 364.7
Net premiums written	210.1	618.7	828.8	190.5	50.6	21.2	262.3
Net premiums earned	215.6	531.3	746.9	203.1	47.6	19.6	270.2
Net loss and LAE	63.2	343.2	406.4	100.8	24.4	15.3	140.7
Commissions, brokerage and other underwriting expenses	66.9	189.8	256.7	55.3	22.8	8.8	86.8
Underwriting profit (loss) <sup>(3)</sup>	\$ 85.5	\$ (1.7)	\$ 83.8	\$ 47.0	\$ 0.4	\$ (4.5)	\$ 42.8
Net investment income							
Net realized capital gains							
Other than temporary impairment losses							
Other revenue							
Other operating expenses							
Corporate administration							
Amortization of intangible assets							
Interest expense							
Earnings (losses) before income taxes							

- (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 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 March 31, 2016, the identifiable assets of the reinsurance segment, insurance segment and other activities were \$15.8 billion, \$6.4 billion and \$0.9 billion, respectively, of which cash and invested assets represented \$13.3 billion, \$4.8 billion and \$0.4 billion, respectively. As of March 31, 2016, Alleghany's equity attributable to the reinsurance segment, insurance segment and other activities was \$5.3 billion, \$2.7 billion and (\$0.2) billion, respectively.

Included in other activities is debt associated with Alleghany Capital's operating subsidiaries. This includes \$40.4 million of borrowings by Kentucky Trailer as of March 31, 2016 related primarily to a mortgage loan, borrowings to finance small acquisitions and borrowings under its available credit facility. 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 months ended March 31, 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 March 31, 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, and

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk contain disclosures which are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can 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. These forward-looking statements are based upon our current plans or expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and our future financial condition and results. These statements are not guarantees of future performance, and we have no specific intention to update these statements. The uncertainties and risks include, but are not limited to:

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;

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

exposure to terrorist acts and acts of war;



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

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

claims development and the process of estimating reserves;

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; and changes in our plans, strategies, objectives, expectations, or intentions, which may happen at any time at our discretion. As a consequence, current plans, anticipated actions, and future financial condition and results may differ from those expressed in any forward-looking statements made by us or on our behalf. See Part I, Item 1A, "Risk Factors" of the 2015 10-K.

**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 earnings before interest, income taxes, depreciation and amortization expense, and further adjusted to exclude investment gains or losses, or Adjusted EBITDA, which are non-GAAP financial measures, as such term is defined in Item 10(e) of Regulation S-K promulgated by the Securities and Exchange Commission, or the SEC.

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. However, underwriting profit is not meant to be considered in isolation or as a substitute for earnings before income taxes or any other measures of operating performance prepared in accordance with GAAP. 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 our Alleghany Capital subsidiary. 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 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 \$154.5 million in the first quarter of 2016, compared with \$125.2 million in the first quarter of 2015.

Earnings before income taxes were \$212.3 million in the first quarter of 2016, compared with \$165.6 million in the first quarter of 2015.

Net investment income decreased by 7.5 percent in the first quarter of 2016 from the first quarter of 2015.

Net premiums written increased by 21.2 percent in the first quarter of 2016 from the first quarter of 2015.

Underwriting profit was \$150.2 million in the first quarter of 2016, compared with \$126.7 million in the first quarter of 2015.

The combined ratio for our reinsurance and insurance segments was 87.7 percent in the first quarter of 2016, compared with 87.6 percent in the first quarter of 2015.

Catastrophe losses, net of reinsurance, were \$2.6 million in the first quarter of 2016, compared with \$1.8 million in the first quarter of 2015.

Net favorable prior accident year development on loss reserves was \$85.3 million in the first quarter of 2016, compared with \$40.6 million in the first quarter of 2015.

As of March 31, 2016, we had total assets of \$23.1 billion and total stockholders' equity attributable to Alleghany stockholders of \$7.8 billion. As of March 31, 2016, we had consolidated total investments of approximately \$18.0 billion, of which \$13.6 billion was invested in debt securities, \$2.9 billion was invested in equity securities, \$0.5 billion was invested in short-term investments, \$0.3 billion was invested in commercial mortgage loans and \$0.7 billion was invested in other invested assets.

**Table of Contents****Consolidated Results of Operations**

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

	Three Months Ended March 31,	
	2016	2015
	(\$ in millions)	
<b>Revenues</b>		
Net premiums earned	\$ 1,221.5	\$ 1,017.2
Net investment income	104.9	113.4
Net realized capital gains	35.9	43.1
Other than temporary impairment losses	(20.8)	(52.3)
Other revenue	137.4	36.2
<b>Total revenues</b>	<b>1,478.9</b>	<b>1,157.6</b>
<b>Costs and Expenses</b>		
Net loss and loss adjustment expenses	664.6	546.9
Commissions, brokerage and other underwriting expenses	406.7	343.6
Other operating expenses	162.2	67.4
Corporate administration	9.7	12.7
Amortization of intangible assets	3.1	(1.7)
Interest expense	20.3	23.1
<b>Total costs and expenses</b>	<b>1,266.6</b>	<b>992.0</b>
Earnings before income taxes	212.3	165.6
Income taxes	57.7	40.2
Net earnings	154.6	125.4
Net earnings attributable to noncontrolling interest	0.1	0.2
Net earnings attributable to Alleghany stockholders	\$ 154.5	\$ 125.2

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Alleghany's segments are reported in a manner consistent with the way management evaluates the businesses. As such, Alleghany classifies its 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 months ended March 31, 2016 and 2015 are shown in the tables below:

Three Months Ended March 31, 2016	Reinsurance Segment	Segments Insurance Segment	Total Segments (\$ in millions, except ratios)	Other Activities Alleghany Capital	Corporate Activities <sup>(1)</sup>	Consolidated
Gross premiums written	\$ 1,142.4	\$ 353.9	\$ 1,496.3	\$ -	\$ (6.7)	\$ 1,489.6
Net premiums written	1,055.9	266.3	1,322.2	-	-	1,322.2
Net premiums earned	939.0	282.5	1,221.5	-	-	1,221.5
Net loss and LAE:						
Current year (excluding catastrophe losses)	597.1	150.2	747.3	-	-	747.3
Current year catastrophe losses	-	2.6	2.6	-	-	2.6
Prior years	(71.0)	(14.3)	(85.3)	-	-	(85.3)
Total net loss and LAE	526.1	138.5	664.6	-	-	664.6
Commissions, brokerage and other underwriting expenses	317.4	89.3	406.7	-	-	406.7
Underwriting profit <sup>(2)</sup>	\$ 95.5	\$ 54.7	150.2	-	-	150.2
Net investment income			102.8	(0.1)	2.2	104.9
Net realized capital gains			39.4	(0.1)	(3.4)	35.9
Other than temporary impairment losses			(20.8)	-	-	(20.8)
Other revenue			0.2	136.9	0.3	137.4
Other operating expenses			22.0	139.5	0.7	162.2
Corporate administration			0.2	-	9.5	9.7
Amortization of intangible assets			(1.0)	4.1	-	3.1
Interest expenses			6.9	0.3	13.1	20.3
Earnings (losses) before income taxes			\$ 243.7	\$ (7.2)	\$ (24.2)	\$ 212.3
Loss ratio <sup>(3)</sup> :						
Current year (excluding catastrophe losses)	63.6%	53.2%	61.2%			
Current year catastrophe losses	- %	0.9%	0.2%			
Prior years	(7.6%)	(5.1%)	(7.0%)			

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Total net loss and LAE	56.0%	49.0%	54.4%
Expense ratio <sup>(4)</sup>	33.8%	31.6%	33.3%
Combined ratio <sup>(5)</sup>	89.8%	80.6%	87.7%

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Three Months Ended March 31, 2015	Reinsurance Segment	Segments Insurance Segment	Total Segments (\$ in millions, except ratios)	Other Activities Alleghany Capital	Corporate Activities <sup>(1)</sup>	Consolidated
Gross premiums written	\$ 902.2	\$ 364.2	\$ 1,266.4	\$ -	\$ (7.5)	\$ 1,258.9
Net premiums written	828.8	262.3	1,091.1	-	-	1,091.1
Net premiums earned	746.9	270.3	1,017.2	-	-	1,017.2
Net loss and LAE:						
Current year (excluding catastrophe losses)	444.8	140.9	585.7	-	-	585.7
Current year catastrophe losses	-	1.8	1.8	-	-	1.8
Prior years	(38.4)	(2.2)	(40.6)	-	-	(40.6)
Total net loss and LAE	406.4	140.5	546.9	-	-	546.9
Commissions, brokerage and other underwriting expenses	256.7	86.9	343.6	-	-	343.6
Underwriting profit <sup>(2)</sup>	\$ 83.8	\$ 42.9	126.7	-	-	126.7
Net investment income			110.8	1.0	1.6	113.4
Net realized capital gains			48.8	(0.1)	(5.6)	43.1
Other than temporary impairment losses			(52.3)	-	-	(52.3)
Other revenue			1.4	34.6	0.2	36.2
Other operating expenses			26.6	40.2	0.6	67.4
Corporate administration			0.3	-	12.4	12.7
Amortization of intangible assets			(1.8)	0.1	-	(1.7)
Interest expenses			9.7	0.4	13.0	23.1
Earnings (losses) before income taxes			\$ 200.6	\$ (5.2)	\$ (29.8)	\$ 165.6
Loss ratio <sup>(3)</sup> :						
Current year (excluding catastrophe losses)	59.5%	52.1%	57.6%			
Current year catastrophe losses	- %	0.7%	0.2%			
Prior years	(5.1%)	(0.8%)	(4.0%)			
Total net loss and LAE	54.4%	52.0%	53.8%			
Expense ratio <sup>(4)</sup>	34.4%	32.2%	33.8%			
Combined ratio <sup>(5)</sup>	88.8%	84.2%	87.6%			

- (1) Includes elimination of minor reinsurance activity between segments.
- (2) 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 is a non-GAAP financial measure and does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. See Comment on Non-GAAP Financial Measures herein for additional detail on the presentation of our results of operations.
- (3) The loss ratio is derived by dividing the amount of net loss and LAE by net premiums earned, all as determined in accordance with GAAP.
- (4) The expense ratio is derived by dividing the amount of commissions, brokerage and other underwriting expenses by net premiums earned, all as determined in accordance with GAAP.
- (5) The combined ratio is the sum of the loss ratio and the expense ratio, all as determined in accordance with GAAP. The combined ratio represents the percentage of each premium dollar a reinsurance or an insurance company has to spend on net loss and LAE, and commissions, brokerage and other underwriting expenses.

**Table of Contents****Comparison of Three Months Ended March 31, 2016 and 2015**

**Premiums.** The following table summarizes our consolidated premiums.

	Three Months Ended		Percent Change
	2016	2015	
	March 31, (\$ in millions)		
<b>Premiums written:</b>			
Gross premiums written	\$ 1,489.6	\$ 1,258.9	18.3%
Net premiums written	1,322.2	1,091.1	21.2%
Net premiums earned	1,221.5	1,017.2	20.1%

The increase in gross premiums written in the first quarter of 2016 from the first quarter of 2015 reflects an increase at our reinsurance segment, partially offset by a decrease at our insurance segment. The increase in net premiums written in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase at our reinsurance segment. The increases in gross premiums written and net premiums written at our reinsurance segment primarily reflect \$244.8 million of premiums related to a large whole account quota share treaty entered into in the fourth quarter of 2015, partially offset by the impact of changes in foreign exchange rates. The increase in net premiums written was also partially offset by higher ceded premiums written due to an increase in retrocessional coverage purchased by TransRe. The decrease in gross premiums written at our insurance segment reflects lower premiums at RSUI, partially offset by continued growth in premiums at PacificComp and CapSpecialty.

The increase in net premiums earned in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase at our reinsurance segment for the reasons discussed above.

Premiums for the first quarter of 2016 and 2015 are more fully described in the following pages.

**Net loss and LAE.** The following table summarizes our consolidated net loss and LAE.

	Three Months Ended		Percent Change
	2016	2015	
	March 31, (\$ in millions, except ratios)		
<b>Net loss and LAE:</b>			
Current year (excluding catastrophe losses)	\$ 747.3	\$ 585.7	27.6%
Current year catastrophe losses	2.6	1.8	44.4%
Prior years	(85.3)	(40.6)	110.1%
<b>Total net loss and LAE</b>	<b>\$ 664.6</b>	<b>\$ 546.9</b>	<b>21.5%</b>

Loss ratio:

Current year (excluding catastrophe losses)	61.2%	57.6%
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Current year catastrophe losses	0.2%	0.2%
Prior years	(7.0%)	(4.0%)
Total net loss and LAE	54.4%	53.8%

The increase in net loss and LAE in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase at our reinsurance segment. The increase at our reinsurance segment primarily reflects higher net premiums earned, as discussed above, and higher non-catastrophe property losses in the current accident year in connection with a large whole account quota share treaty entered into in the fourth quarter of 2015, partially offset by an increase in favorable prior accident year development on loss reserves.

Net loss and LAE for the first quarter of 2016 and 2015 are more fully described in the following pages.

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**Commissions, brokerage and other underwriting expenses.** The following table summarizes our consolidated commissions, brokerage and other underwriting expenses.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions, except ratios)		
Commissions, brokerage and other underwriting expenses	\$ 406.7	\$ 343.6	18.4%
Expense ratio	33.3%	33.8%	

The increase in commissions, brokerage and other underwriting expenses in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase at our reinsurance segment. The increase at our reinsurance segment primarily reflects higher net premiums earned, as discussed above, partially offset by relatively stable employee-related costs.

Commissions, brokerage and other underwriting expenses for the first quarter of 2016 and 2015 are more fully described in the following pages.

**Underwriting profit.** The following table summarizes our consolidated underwriting profit.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions, except ratios)		
Underwriting profit	\$ 150.2	\$ 126.7	18.5%
Combined ratio	87.7%	87.6%	

The increase in underwriting profit in the first quarter of 2016 from the first quarter of 2015 reflects increases at our reinsurance segment and our insurance segment. The increases at our reinsurance and insurance segments primarily reflect more favorable prior year loss reserve development.

Underwriting profits for the first quarter of 2016 and 2015 are more fully described in the following pages.

**Investment results.** The following table summarizes our consolidated investment results.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions)		
Net investment income	\$ 104.9	\$ 113.4	(7.5%)
Net realized capital gains	35.9	43.1	(16.7%)

Other than temporary impairment losses	(20.8)	(52.3)	(60.2%)
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The decrease in net investment income in the first quarter of 2016 from the first quarter of 2015 primarily reflects lower earnings from partnership investments and equity-method investments included in other invested assets, partially offset by higher interest income from funds withheld by cedants.

The decrease in net realized capital gains in the first quarter of 2016 from the first quarter of 2015 primarily reflects lower gains from the sales of equity securities.

The decrease in other than temporary impairment losses in the first quarter of 2016 from the first quarter of 2015 reflects a significant decrease in losses on equity securities, partially offset by losses on debt securities in the first quarter of 2016.

Investment results for the first quarter of 2016 and 2015 are more fully described in the following pages.

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**Other revenue and expenses.** The following table summarizes our consolidated other revenue and expenses.

	Three Months Ended		Percent Change
	2016	2015	
	March 31,		
	(\$ in millions)		
Other revenue	\$ 137.4	\$ 36.2	279.6%
Other operating expenses	162.2	67.4	140.7%
Corporate administration	9.7	12.7	(23.6%)
Amortization of intangible assets	3.1	(1.7)	(282.4%)
Interest expense	20.3	23.1	(12.1%)

**Other revenue and Other operating expenses.** Other revenue and other operating expenses primarily include revenues and expenses associated with our Alleghany Capital subsidiary. Other operating expenses also include the long-term incentive compensation of our reinsurance segment and insurance segment, which totaled \$21.4 million and \$25.7 million in the first quarter of 2016 and 2015, respectively.

The increases in other revenue and other operating expenses in the first quarter of 2016 from the first quarter of 2015 primarily reflect the acquisition of IPS on October 31, 2015 and, to a lesser extent, growth at Kentucky Trailer.

**Corporate administration.** The decrease in corporate administration expense in the first quarter of 2016 from the first quarter of 2015 primarily reflects a decrease in aggregate annual incentive accruals and lower long-term incentive compensation expenses.

**Amortization of intangible assets.** Amortization expense in the first quarter of 2016 reflects the amortization of net intangible assets, including intangible assets related to the acquisition of IPS. Negative amortization expense in the first quarter of 2015 reflects the amortization of intangible liabilities acquired in the merger with TransRe in 2012, partially offset by the amortization of intangible assets.

**Interest expense.** The decrease in interest expense in the first quarter of 2016 from the first quarter of 2015 primarily reflects lower interest expense at TransRe resulting from the maturity and repayment of senior notes on December 14, 2015. 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 further information on the senior notes.

**Income taxes.** The following table summarizes our consolidated income tax expense.

	Three Months Ended		Percent Change
	2016	2015	
	March 31,		
	(\$ in millions, except ratios)		
Income taxes	\$ 57.7	\$ 40.2	43.5%
Effective tax rate	27.2%	24.3%	

The increase in income taxes in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase in earnings before income taxes. The increase in the effective tax rate in the first quarter of 2016 from the first quarter of 2015 primarily reflects higher taxable income, primarily from higher underwriting profits, and lower tax-exempt interest income arising from municipal bond securities.

**Earnings.** The following table summarizes our earnings.

	Three Months Ended		Percent Change
	2016	2015	
	March 31,		
	(\$ in millions)		
Earnings before income taxes	\$ 212.3	\$ 165.5	28.3%
Net earnings attributable to Alleghany stockholders	154.5	125.2	23.4%

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The increases in earnings before income taxes and net earnings attributable to Alleghany stockholders in the first quarter of 2016 from the first quarter of 2015 primarily reflects higher underwriting profits and lower OTTI losses, all as discussed above.

**Reinsurance Segment Underwriting Results**

The reinsurance segment is comprised of TransRe's property and casualty & other lines of business. TransRe also writes a modest amount of property and casualty insurance business, which is included in the reinsurance segment. For a more detailed description of our reinsurance segment, see Part I, Item 1, "Business Segment Information - Reinsurance Segment" of the 2015 10-K.

The underwriting results of the reinsurance segment are presented below.

Three Months Ended March 31, 2016	Property	Casualty & other <sup>(1)</sup>	Total
	(\$ in millions, except ratios)		
Gross premiums written	\$ 383.2	\$ 759.2	\$ 1,142.4
Net premiums written	309.5	746.4	1,055.9
Net premiums earned	253.1	685.9	939.0
Net loss and LAE:			
Current year (excluding catastrophe losses)	129.3	467.8	597.1
Current year catastrophe losses	-	-	-
Prior years	(33.2)	(37.8)	(71.0)
Total net loss and LAE	96.1	430.0	526.1
Commissions, brokerage and other underwriting expenses	77.9	239.5	317.4
Underwriting profit <sup>(2)</sup>	\$ 79.1	\$ 16.4	\$ 95.5
Loss ratio <sup>(3)</sup> :			
Current year (excluding catastrophe losses)	51.1%	68.2%	63.6%
Current year catastrophe losses	- %	- %	- %
Prior years	(13.1%)	(5.5%)	(7.6%)
Total net loss and LAE	38.0%	62.7%	56.0%
Expense ratio <sup>(4)</sup>	30.8%	34.9%	33.8%
Combined ratio <sup>(5)</sup>	68.8%	97.6%	89.8%

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Three Months Ended March 31, 2015	Property	Casualty & other <sup>(1)</sup>	Total
	(\$ in millions, except ratios)		
Gross premiums written	\$ 271.6	\$ 630.6	\$ 902.2
Net premiums written	210.1	618.7	828.8
Net premiums earned	215.6	531.3	746.9
Net loss and LAE:			
Current year (excluding catastrophe losses)	75.2	369.6	444.8
Current year catastrophe losses	-	-	-
Prior years	(12.0)	(26.4)	(38.4)
Total net loss and LAE	63.2	343.2	406.4
Commissions, brokerage and other underwriting expenses	66.9	189.8	256.7
Underwriting profit (loss) <sup>(2)</sup>	\$ 85.5	\$ (1.7)	\$ 83.8
Loss ratio <sup>(3)</sup> :			
Current year (excluding catastrophe losses)	34.9%	69.6%	59.5%
Current year catastrophe losses	- %	- %	- %
Prior years	(5.6%)	(5.0%)	(5.1%)
Total net loss and LAE	29.3%	64.6%	54.4%
Expense ratio <sup>(4)</sup>	31.0%	35.7%	34.4%
Combined ratio <sup>(5)</sup>	60.3%	100.3%	88.8%

- (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) Underwriting profit (loss) 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 is a non-GAAP financial measure and does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. See Comment on Non-GAAP Financial Measures herein for additional detail on the presentation of our results of operations.
- (3) The loss ratio is derived by dividing the amount of net loss and LAE by net premiums earned, all as determined in accordance with GAAP.
- (4) The expense ratio is derived by dividing the amount of commissions, brokerage and other underwriting expenses by net premiums earned, all as determined in accordance with GAAP.
- (5) The combined ratio is the sum of the loss ratio and the expense ratio, all as determined in accordance with GAAP. The combined ratio represents the percentage of each premium dollar a reinsurance or an insurance company has

to spend on net loss and LAE, and commissions, brokerage and other underwriting expenses.

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**Reinsurance Segment: Premiums.** The following table summarizes premiums for the reinsurance segment.

	Three Months Ended		Percent Change
	March 31, 2016	2015	
(\$ in millions)			
<b>Property</b>			
Premiums written:			
Gross premiums written	\$ 383.2	\$ 271.6	41.1%
Net premiums written	309.5	210.1	47.3%
Net premiums earned	253.1	215.6	17.4%
<b>Casualty &amp; other</b>			
Premiums written:			
Gross premiums written	\$ 759.2	\$ 630.6	20.4%
Net premiums written	746.4	618.7	20.6%
Net premiums earned	685.9	531.3	29.1%
<b>Total</b>			
Premiums written:			
Gross premiums written	\$ 1,142.4	\$ 902.2	26.6%
Net premiums written	1,055.9	828.8	27.4%
Net premiums earned	939.0	746.9	25.7%

*Property.* The increase in gross premiums written in the first quarter of 2016 from the first quarter of 2015 primarily reflects \$110.5 million of property-related premiums in connection with a large whole account quota share treaty entered into in the fourth quarter of 2015, partially offset by the impact of changes in foreign exchange rates. Excluding the impact of changes in foreign exchange rates, gross premiums written increased 43.0 percent in the first quarter of 2016 from the first quarter of 2015.

The increase in net premiums earned in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase in gross premiums written in recent quarters, partially offset by higher ceded premiums earned due to an increase in retrocessional coverage purchased in 2016 and the impact of changes in foreign exchange rates. Excluding the impact of changes in foreign exchange rates, net premiums earned increased 18.3 percent in the first quarter of 2016 from the first quarter of 2015.

*Casualty & other.* The increase in gross premiums written in the first quarter of 2016 from the first quarter of 2015 primarily reflects \$134.3 million of casualty-related premiums in connection with a large whole account quota share treaty entered into in the fourth quarter of 2015, partially offset by the impact of changes in foreign exchange rates. Excluding the impact of changes in foreign exchange rates, gross premiums written increased 21.8 percent in the first quarter of 2016 from the first quarter of 2015.

The increase in net premiums earned in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase in gross premiums written in recent quarters, partially offset by the impact of changes in foreign exchange

rates. Excluding the impact of changes in foreign exchange rates, net premiums earned increased 30.6 percent in the first quarter of 2016 from the first quarter of 2015.

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**Reinsurance Segment: Net loss and LAE.** The following table summarizes net loss and LAE for the reinsurance segment.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions, except ratios)		
<b>Property</b>			
Net loss and LAE:			
Current year (excluding catastrophe losses)	\$ 129.3	\$ 75.2	71.9%
Current year catastrophe losses	-	-	-
Prior years	(33.2)	(12.0)	176.7%
Total net loss and LAE	\$ 96.1	\$ 63.2	52.1%
Loss ratio:			
Current year (excluding catastrophe losses)	51.1%	34.9%	
Current year catastrophe losses	- %	- %	
Prior years	(13.1%)	(5.6%)	
Total net loss and LAE	38.0%	29.3%	
<b>Casualty &amp; other</b>			
Net loss and LAE:			
Current year (excluding catastrophe losses)	\$ 467.8	\$ 369.6	26.6%
Current year catastrophe losses	-	-	-
Prior years	(37.8)	(26.4)	43.2%
Total net loss and LAE	\$ 430.0	\$ 343.2	25.3%
Loss ratio:			
Current year (excluding catastrophe losses)	68.2%	69.6%	
Current year catastrophe losses	- %	- %	
Prior years	(5.5%)	(5.0%)	
Total net loss and LAE	62.7%	64.6%	
<b>Total</b>			
Net loss and LAE:			
Current year (excluding catastrophe losses)	\$ 597.1	\$ 444.8	34.2%
Current year catastrophe losses	-	-	-
Prior years	(71.0)	(38.4)	84.9%

Total net loss and LAE	\$ 526.1	\$ 406.4	29.5%
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Loss ratio:			
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Current year (excluding catastrophe losses)	63.6%	59.5%	
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Current year catastrophe losses	- %	- %	
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Prior years	(7.6%)	(5.1%)	
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Total net loss and LAE	56.0%	54.4%	
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*Property.* The increase in net loss and LAE in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of higher net premiums earned and higher non-catastrophe property losses in the current accident year in connection with a large whole account quota share treaty entered into in the fourth quarter of 2015, partially offset by more favorable prior accident year development on loss reserves. There were no catastrophe losses in the first quarter of 2016 or 2015.

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Net loss and LAE in the first quarter of 2016 and 2015 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below.

	Three Months Ended March 31,	
	2016	2015
	(\$ in millions)	
Catastrophe events	\$ (1.0) <sup>(1)</sup>	\$ 2.9 <sup>(2)</sup>
Non-catastrophe	(32.2) <sup>(3)</sup>	(14.9) <sup>(4)</sup>
<b>Total</b>	<b>\$ (33.2)</b>	<b>\$ (12.0)</b>

(1) Reflects favorable prior accident year development from several catastrophes that occurred in the 2010 through 2015 accident years.

(2) Primarily reflects unfavorable prior accident year development from the New Zealand earthquake in 2010, partially offset by favorable prior accident year development from several catastrophes that occurred in the 2011 through 2013 accident years.

(3) Reflects favorable prior accident year development primarily related to the 2014 and 2015 accident years.

(4) Reflects favorable prior accident year development primarily related to the 2012 and 2014 accident years.

The favorable prior accident year development on loss reserves in the first quarter of 2016 and 2015 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year development on loss reserves in the first quarter of 2016 did not impact assumptions used in estimating TransRe's loss and LAE liabilities for business earned in the first quarter of 2016.

*Casualty & other.* The increase in net loss and LAE in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of higher net premiums earned, partially offset by the impact of a lower casualty loss ratio in the current accident year and more favorable prior accident year development on loss reserves.

Net loss and LAE in the first quarter of 2016 and 2015 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below.

	Three Months Ended March 31,	
	2016	2015
	(\$ in millions)	
The Malpractice Treaties <sup>(1)</sup>	\$ (6.9)	\$ (5.4)
Other	(30.9) <sup>(2)</sup>	(21.0) <sup>(3)</sup>
<b>Total</b>	<b>\$ (37.8)</b>	<b>\$ (26.4)</b>

- (1) Represents certain medical malpractice treaties pursuant to which the increased underwriting profits created by the favorable prior accident year development on loss reserves are largely retained by the cedants, or the Malpractice Treaties. As a result, the favorable prior accident year development is largely offset by an increase in profit commission expense incurred when such favorable prior accident year development occurs.
  - (2) Generally reflects favorable development in a variety of casualty & other lines of business primarily from the 2009, 2014 and 2015 accident years, partially offset by unfavorable development from the 2013 accident year.
  - (3) Generally reflects favorable development in a variety of casualty & other lines of business primarily from the 2009 through 2014 accident years, partially offset by unfavorable development from the 2002 and prior accident years.
- The favorable prior accident year development on loss reserves in the first quarter of 2016 and 2015 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year development on loss reserves in the first quarter of 2016 did not impact assumptions used in estimating TransRe's loss and LAE liabilities for business earned in the first quarter of 2016.

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**Reinsurance Segment: Commissions, brokerage and other underwriting expenses.** The following table summarizes commissions, brokerage and other underwriting expenses for the reinsurance segment.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions, except ratios)		
<b>Property</b>			
Commissions, brokerage and other underwriting expenses	\$ 77.9	\$ 66.9	16.4%
Expense ratio	30.8%	31.0%	
<b>Casualty &amp; other</b>			
Commissions, brokerage and other underwriting expenses	\$ 239.5	\$ 189.8	26.2%
Expense ratio	34.9%	35.7%	
<b>Total</b>			
Commissions, brokerage and other underwriting expenses	\$ 317.4	\$ 256.7	23.6%
Expense ratio	33.8%	34.4%	

*Property.* The increase in commissions, brokerage and other underwriting expenses in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of higher net premiums earned, partially offset by relatively stable employee-related costs.

*Casualty & other.* The increase in commissions, brokerage and other underwriting expenses in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of higher net premiums earned, partially offset by relatively stable employee-related costs.

**Reinsurance Segment: Underwriting profit.** The following table summarizes our underwriting profit for the reinsurance segment.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions, except ratios)		
<b>Property</b>			
Underwriting profit	\$ 79.1	\$ 85.5	(7.5%)
Combined ratio	68.8%	60.3%	
<b>Casualty &amp; other</b>			
Underwriting profit (loss)	\$ 16.4	\$ (1.7)	(1,065%)

Combined ratio	97.6%	100.3%
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**Total**

Underwriting profit	\$ 95.5	\$ 83.8	14.0%
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Combined ratio	89.8%	88.8%
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*Property.* The decrease in underwriting profit in the first quarter of 2016 from the first quarter of 2015 primarily reflects higher non-catastrophe property losses in the current accident year, partially offset by more favorable prior accident year development on loss reserves and the impact of higher net premiums earned.

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*Casualty & other.* The underwriting profit in the first quarter of 2016 compared to the underwriting loss in the first quarter of 2015 primarily reflects the impact of higher net premiums earned and more favorable prior accident year development on loss reserves.

**Insurance Segment Underwriting Results**

The insurance segment is comprised of AIHL's RSUI, CapSpecialty and PacificComp operating subsidiaries. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment. For a more detailed description of our insurance segment, see Part I, Item 1, Business Segment Information Insurance Segment of the 2015 10-K.

The underwriting results of the insurance segment are presented below.

Three Months Ended March 31, 2016	RSUI	CapSpecialty	PacificComp	Total
	(\$ in millions, except ratios)			
Gross premiums written	\$ 256.9	\$ 62.9	\$ 34.1	\$ 353.9
Net premiums written	173.6	58.9	33.8	266.3
Net premiums earned	192.3	55.4	34.8	282.5
Net loss and LAE:				
Current year (excluding catastrophe losses)	96.2	27.5	26.5	150.2
Current year catastrophe losses	1.7	0.9	-	2.6
Prior years	(12.8)	(1.5)	-	(14.3)
Total net loss and LAE	85.1	26.9	26.5	138.5
Commissions, brokerage and other underwriting expenses	53.2	26.4	9.7	89.3
Underwriting profit (loss) <sup>(1)</sup>	\$ 54.0	\$ 2.1	\$ (1.4)	\$ 54.7
Loss ratio <sup>(2)</sup> :				
Current year (excluding catastrophe losses)	50.1%	49.7%	76.1%	53.2%
Current year catastrophe losses	0.9%	1.6%	- %	0.9%
Prior years	(6.7%)	(2.7%)	- %	(5.1%)
Total net loss and LAE	44.3%	48.6%	76.1%	49.0%
Expense ratio <sup>(3)</sup>	27.7%	47.6%	27.9%	31.6%
Combined ratio <sup>(4)</sup>	72.0%	96.2%	104.0%	80.6%

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Three Months Ended March 31, 2015	RSUI	CapSpecialty	PacificComp	Total
	(\$ in millions, except ratios)			
Gross premiums written	\$ 288.2	\$ 54.5	\$ 21.5	\$ 364.2
Net premiums written	190.5	50.6	21.2	262.3
Net premiums earned	203.1	47.6	19.6	270.3
Net loss and LAE:				
Current year (excluding catastrophe losses)	102.4	23.2	15.3	140.9
Current year catastrophe losses	1.0	0.8	-	1.8
Prior years	(2.6)	0.4	-	(2.2)
Total net loss and LAE	100.8	24.4	15.3	140.5
Commissions, brokerage and other underwriting expenses	55.3	22.8	8.8	86.9
Underwriting profit (loss) <sup>(1)</sup>	\$ 47.0	\$ 0.4	\$ (4.5)	\$ 42.9
Loss ratio <sup>(2)</sup> :				
Current year (excluding catastrophe losses)	50.4%	48.8%	78.3%	52.1%
Current year catastrophe losses	0.5%	1.7%	- %	0.7%
Prior years	(1.3%)	0.8%	- %	(0.8%)
Total net loss and LAE	49.6%	51.3%	78.3%	52.0%
Expense ratio <sup>(3)</sup>	27.2%	47.8%	45.3%	32.2%
Combined ratio <sup>(4)</sup>	76.8%	99.1%	123.6%	84.2%

(1) Underwriting profit (loss) 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 is a non-GAAP financial measure and does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. See Comment on Non-GAAP Financial Measures herein for additional detail on the presentation of our results of operations.

(2) The loss ratio is derived by dividing the amount of net loss and LAE by net premiums earned, all as determined in accordance with GAAP.

(3) The expense ratio is derived by dividing the amount of commissions, brokerage and other underwriting expenses by net premiums earned, all as determined in accordance with GAAP.

(4) The combined ratio is the sum of the loss ratio and the expense ratio, all as determined in accordance with GAAP. The combined ratio represents the percentage of each premium dollar a reinsurance or an insurance company has to spend on net loss and LAE, and commissions, brokerage and other underwriting expenses.



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**Insurance Segment: Premiums.** The following table summarizes premiums for the insurance segment.

	Three Months Ended March 31,		Percent Change
	2016	2015	
(\$ in millions)			
<b>RSUI</b>			
Premiums written:			
Gross premiums written	\$ 256.9	\$ 288.2	(10.9%)
Net premiums written	173.6	190.5	(8.9%)
Net premiums earned	192.3	203.1	(5.3%)
<b>CapSpecialty</b>			
Premiums written:			
Gross premiums written	\$ 62.9	\$ 54.5	15.4%
Net premiums written	58.9	50.6	16.4%
Net premiums earned	55.4	47.6	16.4%
<b>PacificComp</b>			
Premiums written:			
Gross premiums written	\$ 34.1	\$ 21.5	58.6%
Net premiums written	33.8	21.2	59.4%
Net premiums earned	34.8	19.6	77.6%
<b>Total</b>			
Premiums written:			
Gross premiums written	\$ 353.9	\$ 364.2	(2.8%)
Net premiums written	266.3	262.3	1.5%
Net premiums earned	282.5	270.3	4.5%

*RSUI.* The decrease in gross premiums written in the first quarter of 2016 from the first quarter of 2015 primarily reflects declines in the property line of business and, to a lesser extent, declines in RSUI's other lines of business, all due to an increase in competition and a reduction in pricing. The decrease in net premiums earned in the first quarter of 2016 from the first quarter of 2015 primarily reflects a decrease in gross premiums written in recent quarters, partially offset by a decrease in ceded premiums earned due to the reduction in property premiums.

*CapSpecialty.* The increase in gross premiums written in the first quarter of 2016 from the first quarter of 2015 primarily reflects strong growth in the professional lines of business and, to a lesser extent, an increase in the surety lines of business. The increase in net premiums earned in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase in gross premiums written in recent quarters.

*PacificComp.* The increase in gross premiums written and net premiums earned in the first quarter of 2016 from the first quarter of 2015 primarily reflects premium growth due to PacificComp's distribution initiatives and growth in

desirable segments of the California workers compensation market.

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**Insurance Segment: Net loss and LAE.** The following table summarizes net loss and LAE for the insurance segment.

	Three Months Ended		Percent Change
	2016	2015	
(\$ in millions, except ratios)			
<b>RSUI</b>			
Net loss and LAE:			
Current year (excluding catastrophe losses)	\$ 96.2	\$ 102.4	(6.1%)
Current year catastrophe losses	1.7	1.0	70.0%
Prior years	(12.8)	(2.6)	392.3%
Total net loss and LAE	\$ 85.1	\$ 100.8	(15.6%)
Loss ratio:			
Current year (excluding catastrophe losses)	50.1%	50.4%	
Current year catastrophe losses	0.9%	0.5%	
Prior years	(6.7%)	(1.3%)	
Total net loss and LAE	44.3%	49.6%	
<b>CapSpecialty</b>			
Net loss and LAE:			
Current year (excluding catastrophe losses)	\$ 27.5	\$ 23.2	18.5%
Current year catastrophe losses	0.9	0.8	12.5%
Prior years	(1.5)	0.4	(475.0%)
Total net loss and LAE	\$ 26.9	\$ 24.4	10.2%
Loss ratio:			
Current year (excluding catastrophe losses)	49.7%	48.8%	
Current year catastrophe losses	1.6%	1.7%	
Prior years	(2.7%)	0.8%	
Total net loss and LAE	48.6%	51.3%	
<b>PacificComp</b>			
Net loss and LAE:			
Current year (excluding catastrophe losses)	\$ 26.5	\$ 15.3	73.2%
Current year catastrophe losses	-	-	-
Prior years	-	-	-
Total net loss and LAE	\$ 26.5	\$ 15.3	73.2%

Loss ratio:		
Current year (excluding catastrophe losses)	76.1%	78.3%
Current year catastrophe losses	- %	- %
Prior years	- %	- %
<b>Total net loss and LAE</b>	<b>76.1%</b>	<b>78.3%</b>

**Total**

Net loss and LAE:			
Current year (excluding catastrophe losses)	\$ 150.2	\$ 140.9	6.6%
Current year catastrophe losses	2.6	1.8	44.4%
Prior years	(14.3)	(2.2)	550.0%
<b>Total net loss and LAE</b>	<b>\$ 138.5</b>	<b>\$ 140.5</b>	<b>(1.4%)</b>

Loss ratio:		
Current year (excluding catastrophe losses)	53.2%	52.1%
Current year catastrophe losses	0.9%	0.7%
Prior years	(5.1%)	(0.8%)
<b>Total net loss and LAE</b>	<b>49.0%</b>	<b>52.0%</b>

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*RSUI*. The decrease in net loss and LAE in the first quarter of 2016 from the first quarter of 2015 primarily reflects more favorable prior accident year development on loss reserves and the impact of lower net premiums earned.

Net loss and LAE in the first quarter of 2016 and 2015 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below.

	Three Months Ended March 31,	
	2016	2015
	(\$ in millions)	
Casualty	\$ (9.8) <sup>(1)</sup>	\$ (1.1) <sup>(2)</sup>
Property and other	(3.0) <sup>(3)</sup>	(1.5) <sup>(4)</sup>
<b>Total</b>	<b>\$ (12.8)</b>	<b>\$ (2.6)</b>

- (1) Primarily reflects favorable prior accident year development on loss reserves in the general liability, umbrella/excess and professional liability lines of business related to the 2006 through 2012 accident years.
- (2) Primarily reflects favorable prior accident year development on loss reserves in the umbrella/excess, general liability and professional liability lines of business related to the 2006 through 2011 accident years, partially offset by unfavorable development in the directors and officers liability line of business related to the 2011 through 2013 accident years.
- (3) Primarily reflects favorable prior accident year development on loss reserves in non-catastrophe property lines of business in recent accident years.
- (4) Primarily reflects favorable development in the professional liability, umbrella/excess and general liability lines of business related to the 2005 through 2010 accident years, partially offset by unfavorable development in the directors and officers liability line of business in the 2011 accident year.

The favorable prior accident year development on loss reserves in the first quarter of 2016 and 2015 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year development on loss reserves in the first quarter of 2016 did not impact assumptions used in estimating *RSUI*'s loss and LAE liabilities for business earned in the first quarter of 2016.

*CapSpecialty*. The increase in net loss and LAE in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of higher net premiums earned, partially offset by favorable prior accident year development on loss reserves in the first quarter of 2016, compared with unfavorable prior accident year development on loss reserves in the first quarter of 2015.

Net loss and LAE in the first quarter of 2016 include favorable prior accident year development on loss reserves primarily related to *CapSpecialty*'s legacy asbestos-related illness and environmental impairment liabilities. The favorable prior accident year development on loss reserves in the first quarter of 2016 reflects net favorable loss emergence compared with loss emergence patterns assumed in earlier periods. Net loss and LAE in the first quarter of 2015 include unfavorable prior accident year development on loss reserves primarily from the casualty line of business.

*PacificComp.* The increase in net loss and LAE in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of higher net premiums earned.

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**Insurance Segment: Commissions, brokerage and other underwriting expenses.** The following table summarizes commissions, brokerage and other underwriting expenses for the insurance segment.

	Three Months Ended		Percent Change
	2016	2015	
	(\$ in millions, except ratios)		
<b>RSUI</b>			
Commissions, brokerage and other underwriting expenses	\$ 53.2	\$ 55.3	(3.8%)
Expense ratio	27.7%	27.2%	
<b>CapSpecialty</b>			
Commissions, brokerage and other underwriting expenses	\$ 26.4	\$ 22.8	15.8%
Expense ratio	47.6%	47.8%	
<b>PacificComp</b>			
Commissions, brokerage and other underwriting expenses	\$ 9.7	\$ 8.8	10.2%
Expense ratio	27.9%	45.3%	
<b>Total</b>			
Commissions, brokerage and other underwriting expenses	\$ 89.3	\$ 86.9	2.8%
Expense ratio	31.6%	32.2%	

*RSUI.* The decrease in commissions, brokerage and other underwriting expenses in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of lower net premiums earned.

*CapSpecialty.* The increase in commissions, brokerage and other underwriting expenses in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of growth in net premiums earned.

*PacificComp.* The increase in commissions, brokerage and other underwriting expenses in the first quarter of 2016 from the first quarter of 2015 primarily reflects the impact of growth in net premiums earned, partially offset by the commencement of deferring certain acquisition costs for new business in the first quarter of 2016.

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**Insurance Segment: Underwriting profit.** The following table summarizes our underwriting profit for the insurance segment.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions, except ratios)		
<b>RSUI</b>			
Underwriting profit	\$ 54.0	\$ 47.0	14.9%
Combined ratio	72.0%	76.8%	
<b>CapSpecialty</b>			
Underwriting profit	\$ 2.1	\$ 0.4	425.0%
Combined ratio	96.2%	99.1%	
<b>PacificComp</b>			
Underwriting (loss)	\$ (1.4)	\$ (4.5)	(68.9%)
Combined ratio	104.0%	123.6%	
<b>Total</b>			
Underwriting profit	\$ 54.7	\$ 42.9	27.5%
Combined ratio	80.6%	84.2%	

*RSUI.* The increase in underwriting profit in the first quarter of 2016 from the first quarter of 2015 primarily reflects an increase in favorable prior accident year development on loss reserves, partially offset by the impact of lower net premiums earned, all as discussed above.

*CapSpecialty.* The increase in underwriting profit in the first quarter of 2016 from the first quarter of 2015 primarily reflects favorable prior accident year development on loss reserves in the first quarter of 2016, compared with unfavorable prior accident year development on loss reserves in the first quarter of 2015, all as discussed above.

*PacificComp.* PacificComp reported underwriting losses in the first quarter 2016 and 2015, primarily as a result of its ongoing expenses relative to comparatively low premiums earned. The decrease in underwriting losses in the first quarter of 2016 from the first quarter of 2015 primarily reflects the beneficial impact of growing net premiums earned, as discussed above.

**Total Reinsurance and Insurance Segments Investment Results**

The following table summarizes the investment results for our reinsurance and insurance segments.

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(\$ in millions)		
Net investment income	\$ 102.8	\$ 110.8	(7.2%)
Net realized capital gains	39.4	48.8	(19.3%)
Other than temporary impairment losses	(20.8)	(52.3)	(60.2%)

**Net Investment Income.** The decrease in net investment income in the first quarter of 2016 from the first quarter of 2015 primarily reflects lower earnings from partnership investments and equity-method investments included in other invested assets, partially offset by higher interest income from funds withheld by cedants.

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***Net Realized Capital Gains.*** The decrease in net realized capital gains in the first quarter of 2016 from the first quarter of 2015 primarily reflects lower gains from the sales of equity securities.

***Other Than Temporary Impairment Losses.*** OTTI losses in the first quarter of 2016 reflect \$20.8 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 \$20.8 million of OTTI losses, \$5.3 million related to equity securities, primarily in the financial services, technology and chemical sectors, and \$15.5 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.

OTTI losses in the first quarter of 2015 reflect \$52.3 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. All of the OTTI losses incurred in the first quarter of 2015 related to equity securities, primarily in the energy and gaming sectors. The determination that unrealized losses on such 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.

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 March 31, 2016 were deemed to be temporary, based on, among other factors: (i) the duration of time and the relative magnitude to which the fair values of these securities had been below cost were not indicative of an OTTI loss (for example, no equity security was in a continuous unrealized loss position for 12 months or more as of March 31, 2016); (ii) the absence of compelling evidence that would cause us to call into question the financial condition or near-term business prospects of the issuers of the securities; and (iii) our ability and intent to hold the securities for a period of time sufficient to allow for any anticipated recovery.

See Note 3 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 gross unrealized investment losses for debt and equity securities as of March 31, 2016.

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Alleghany Capital consists of: (i) manufacturing and service operations conducted through Bourn & Koch, Kentucky Trailer, IPS, beginning October 31, 2015, and Alleghany Capital's investment in Jazwares, LLC ( Jazwares ); (ii) oil and gas operations conducted through SORC and Alleghany Capital's investment in ORX Exploration, Inc. ( ORX ); and (iii) corporate operations and investments at the Alleghany Capital parent level. ORX and Jazwares are accounted for under the equity method of accounting. On April 15, 2016, Alleghany Capital acquired an additional 50 percent equity interest in Jazwares, bringing its equity interest in Jazwares to 80 percent, and as of that date, the results of Jazwares will be included in our consolidated results.

The results of Alleghany Capital are presented below.

	Three Months Ended March 31,							
	2016				2015			
	Mfg. & Svcs.	Oil & Gas	Corp. & other	Total	Mfg. & Svcs.	Oil & Gas	Corp. & other	Total
	(\$ in millions)							
Net investment income	\$ -	\$ -	\$ (0.1)	\$ (0.1)	\$ 1.8	\$ (0.9)	\$ 0.1	\$ 1.0
Net realized capital gains (losses)								