

ALLEGHANY CORP /DE

Form 10-Q

November 01, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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**(MARK ONE)**

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NUMBER 1-9371**

**ALLEGHANY CORPORATION**

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

**DELAWARE**

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

**51-0283071**

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

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

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

**212-752-1356**

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

**NOT APPLICABLE**

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT: (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED 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 SUCH FILES). YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NON-ACCELERATED FILER, A SMALLER REPORTING COMPANY, OR AN EMERGING GROWTH COMPANY. SEE THE DEFINITIONS OF LARGE ACCELERATED FILER, ACCELERATED FILER, SMALLER REPORTING COMPANY, AND EMERGING GROWTH COMPANY IN RULE 12b-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER ACCELERATED FILER EMERGING GROWTH COMPANY  
NON-ACCELERATED FILER SMALLER REPORTING COMPANY

IF AN EMERGING GROWTH COMPANY, INDICATE BY CHECK MARK IF THE REGISTRANT HAS ELECTED NOT TO USE THE EXTENDED TRANSITION PERIOD FOR COMPLYING WITH ANY NEW OR REVISED FINANCIAL ACCOUNTING STANDARDS PROVIDED PURSUANT TO SECTION 13(A) OF THE EXCHANGE ACT.

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12b-2 OF THE 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.

14,836,571 SHARES, PAR VALUE \$1.00 PER SHARE, AS OF OCTOBER 24, 2018

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**ALLEGHANY CORPORATION**

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	September 30, 2018 (unaudited)	December 31, 2017
(\$ in thousands, except share amounts)		
<b>Assets</b>		
Investments:		
Securities at fair value:		
Equity securities (cost: 2018 \$3,655,220; 2017 \$3,170,673)	\$ 5,028,578	\$ 4,099,467
Debt securities (amortized cost: 2018 \$12,179,758; 2017 \$12,536,772)	12,071,191	12,721,399
Short-term investments	690,627	578,054
	17,790,396	17,398,920
Commercial mortgage loans	695,889	658,364
Other invested assets	556,438	743,358
Total investments	19,042,723	18,800,642
Cash	646,908	838,375
Accrued investment income	98,723	105,877
Premium balances receivable	839,017	797,346
Reinsurance recoverables	1,768,841	1,746,488
Ceded unearned premiums	228,459	190,252
Deferred acquisition costs	471,282	453,346
Property and equipment at cost, net of accumulated depreciation and amortization	196,314	125,337
Goodwill	346,022	334,905
Intangible assets, net of amortization	465,830	459,037
Current taxes receivable	100,130	31,085
Net deferred tax assets	-	136,489
Funds held under reinsurance agreements	755,734	706,042
Other assets	835,901	659,096
Total assets	\$ 25,795,884	\$ 25,384,317

**Liabilities, Redeemable Noncontrolling Interests and Stockholders Equity**

Loss and loss adjustment expenses	\$	11,854,859	\$	11,871,250
Unearned premiums		2,300,788		2,182,294
Senior Notes and other debt		1,581,676		1,484,897
Reinsurance payable		160,625		156,376
Net deferred tax liabilities		6,198		-
Other liabilities		1,158,146		1,068,907
 Total liabilities		 17,062,292		 16,763,724
 Redeemable noncontrolling interests		 138,507		 106,530
Common stock (shares authorized: 2018 and 2017 22,000,000; shares issued: 2018 and 2017 17,459,961)		17,460		17,460
Contributed capital		3,612,862		3,612,109
Accumulated other comprehensive (loss) income		(220,808)		618,118
Treasury stock, at cost (2018 2,541,581 shares; 2017 2,069,461 shares)		(1,103,835)		(824,906)
Retained earnings		6,289,406		5,091,282
 Total stockholders equity attributable to Alleghany stockholders		 8,595,085		 8,514,063
 Total liabilities, redeemable noncontrolling interest and stockholders equity	\$	 25,795,884	\$	 25,384,317

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 September 30,  
2018                      2017  
(\$ in thousands, except per share amounts)

<b>Revenues</b>			
Net premiums earned	\$	1,225,346	\$ 1,239,721
Net investment income		127,329	104,663
Change in the fair value of equity securities		370,175	-
Net realized capital gains		16,230	32,921
Other than temporary impairment losses		(3)	(6,131)
Noninsurance revenue		438,338	296,309
 Total revenues		 2,177,415	 1,667,483
<b>Costs and Expenses</b>			
Net loss and loss adjustment expenses		957,703	1,491,848
Commissions, brokerage and other underwriting expenses		407,679	398,163
Other operating expenses		415,378	277,918
Corporate administration		19,094	(4,689)
Amortization of intangible assets		5,500	5,765
Interest expense		22,189	20,804
 Total costs and expenses		 1,827,543	 2,189,809
 Earnings (losses) before income taxes		 349,872	 (522,326)
Income taxes		60,413	(212,379)
 Net earnings (losses)		 289,459	 (309,947)
Net earnings attributable to noncontrolling interest		4,559	4,210
 Net earnings (losses) attributable to Alleghany stockholders	\$	 284,900	\$ (314,157)
 Net earnings (losses)	\$	 289,459	\$ (309,947)
<b>Other comprehensive income (loss):</b>			
Change in unrealized gains (losses), net of deferred taxes of (\$8,932) and \$52,766 for 2018 and		(33,601)	97,994

2017, respectively				
Less: reclassification for net realized capital gains and other than temporary impairments,				
net of taxes of (\$3,408) and (\$9,377) for 2018 and 2017, respectively	(12,819)		(17,414)	
Change in unrealized currency translation adjustment, net of deferred taxes of (\$407) and				
\$3,967 for 2018 and 2017, respectively	(1,530)		7,368	
Retirement plans	(551)		98	
Comprehensive income (loss)	240,958		(221,901)	
Comprehensive income attributable to noncontrolling interests	4,559		4,210	
Comprehensive income (loss) attributable to Alleghany stockholders	\$	236,399	\$	(226,111)
Basic earnings (losses) per share attributable to Alleghany stockholders	\$	19.07	\$	(20.38)
Diluted earnings (losses) per share attributable to Alleghany stockholders		19.07		(20.90)
See accompanying Notes to Unaudited Consolidated Financial Statements.				



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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Earnings and Comprehensive Income**

(unaudited)

	Nine Months Ended September 30,	
	2018	2017
	(\$ in thousands, except per share amounts)	
<b>Revenues</b>		
Net premiums earned	\$ 3,670,161	\$ 3,692,838
Net investment income	377,728	321,857
Change in the fair value of equity securities	512,771	-
Net realized capital gains	67,197	101,840
Other than temporary impairment losses	(514)	(13,095)
Noninsurance revenue	1,032,690	650,413
 Total revenues	 5,660,033	 4,753,853
<b>Costs and Expenses</b>		
Net loss and loss adjustment expenses	2,366,491	2,926,039
Commissions, brokerage and other underwriting expenses	1,216,057	1,220,415
Other operating expenses	1,023,440	678,226
Corporate administration	40,998	26,601
Amortization of intangible assets	16,730	14,140
Interest expense	65,997	62,728
 Total costs and expenses	 4,729,713	 4,928,149
 Earnings (losses) before income taxes	 930,320	 (174,296)
Income taxes	171,275	(116,368)
 Net earnings (losses)	 759,045	 (57,928)
Net earnings attributable to noncontrolling interest	7,454	5,242
 Net earnings (losses) attributable to Alleghany stockholders	 \$ 751,591	 \$ (63,170)
 Net earnings (losses)	 \$ 759,045	 \$ (57,928)
<b>Other comprehensive income (loss):</b>		
Change in unrealized gains (losses), net of deferred taxes of (\$56,690) and \$196.336 for 2018 and	(213,263)	364,623

2017, respectively				
Less: reclassification for net realized capital gains and other than temporary impairments,				
net of taxes of (\$4,398) and (\$31,061) for 2018 and 2017, respectively	(16,546)		(57,684)	
Change in unrealized currency translation adjustment, net of deferred taxes of (\$1,848) and				
\$12,050 for 2018 and 2017, respectively	(6,953)		22,379	
Retirement plans	(1,664)		(199)	
Comprehensive income	520,619		271,191	
Comprehensive income attributable to noncontrolling interests	7,454		5,242	
Comprehensive income attributable to Alleghany stockholders	\$ 513,165	\$	265,949	
Basic earnings (losses) per share attributable to Alleghany stockholders	\$ 49.55	\$	(4.10)	
Diluted earnings (losses) per share attributable to Alleghany stockholders	49.53		(4.10)	
See accompanying Notes to Unaudited Consolidated Financial Statements.				

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## ALLEGHANY CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

(unaudited)

Nine Months Ended  
September 30,  
2018                      2017  
(\$ in thousands)

**Cash flows from operating activities**

Net earnings (losses)	\$ 759,045	\$ (57,928)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	95,427	106,197
Change in the fair value of equity securities	(512,771)	-
Net realized capital (gains) losses	(67,197)	(101,840)
Other than temporary impairment losses	514	13,095
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	(18,104)	(413,548)
(Increase) decrease in premium balances receivable	(41,671)	(134,088)
(Increase) decrease in ceded unearned premiums	(38,207)	(7,368)
(Increase) decrease in deferred acquisition costs	(17,936)	(28,000)
(Increase) decrease in funds held under reinsurance agreements	(49,692)	(94,222)
Increase (decrease) in unearned premiums	118,494	120,456
Increase (decrease) in loss and loss adjustment expenses	(16,391)	1,369,176
Change in unrealized foreign currency exchange rate losses (gains)	63,452	(134,404)
Other, net	48,819	(211,479)
Net adjustments	(435,263)	483,975
Net cash provided by (used in) operating activities	323,782	426,047

**Cash flows from investing activities**

Purchases of debt securities	(3,206,369)	(4,181,182)
Purchases of equity securities	(678,311)	(3,218,941)
Sales of debt securities	2,279,104	2,836,272
Maturities and redemptions of debt securities	1,183,469	1,397,408
Sales of equity securities	532,864	2,970,760
Net (purchases) sales of short-term investments	(113,699)	174,501
Net (purchases) sales and maturities of commercial mortgage loans	(37,525)	(54,822)
(Purchases) sales of property and equipment	(38,866)	10,268
Purchases of affiliates and subsidiaries, net of cash acquired	(110,636)	(244,311)
Other, net	59,382	28,302

Net cash provided by (used in) investing activities	(130,587)	(281,745)
<b>Cash flows from financing activities</b>		
Treasury stock acquisitions	(282,053)	(8,549)
Increase (decrease) in other debt	50,892	(27,202)
Cash dividends paid	(153,967)	-
Other, net	7,854	(17,070)
Net cash provided by (used in) financing activities	(377,274)	(52,821)
Effect of foreign exchange rate changes on cash	(7,388)	16,269
Net increase (decrease) in cash	(191,467)	107,750
Cash at beginning of period	838,375	594,091
Cash at end of period	\$ 646,908	\$ 701,841
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during period for:		
Interest paid	\$ 59,806	\$ 58,133
Income taxes paid (refund received)	33,332	29,320
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, 2017 (the 2017 Form 10-K) and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018 of Alleghany Corporation (Alleghany).

Alleghany Corporation, a Delaware corporation, 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 Transatlantic Holdings, Inc. (TransRe), Alleghany is engaged in the property and casualty reinsurance business. TransRe has been a subsidiary of Alleghany since March 2012. Through its wholly-owned subsidiary Alleghany Insurance Holdings LLC (AIHL), Alleghany is engaged in the property and casualty insurance business. AIHL's insurance operations are principally conducted by its subsidiaries RSUI Group, Inc. (RSUI) and CapSpecialty, Inc. (CapSpecialty). RSUI has been a subsidiary of AIHL since July 2003 and CapSpecialty has been a subsidiary of AIHL since January 2002. AIHL Re LLC (AIHL Re), a captive reinsurance company which provides reinsurance to Alleghany's current and former insurance operating subsidiaries and affiliates, has been a subsidiary of Alleghany since its formation in May 2006.

Prior to December 31, 2017, AIHL's insurance operations also included Pacific Compensation Corporation (PacificComp). On September 12, 2017, AIHL signed a definitive agreement to sell PacificComp to CopperPoint Mutual Insurance Company (CopperPoint) for total cash consideration of approximately \$158 million. The transaction closed on December 31, 2017, at which time: (i) approximately \$442 million of PacificComp assets, consisting primarily of debt securities, and approximately \$316 million of PacificComp liabilities, consisting primarily of loss and loss adjustment expenses (LAE) reserves, were transferred to CopperPoint; and (ii) AIHL recorded an after-tax gain of approximately \$16 million, which included a tax benefit. In connection with the transaction, AIHL Re will continue to provide adverse development reinsurance coverage on PacificComp's pre-acquisition claims, subject to certain terms and conditions. AIHL Re's obligations, which are guaranteed by Alleghany, are subject to: (i) an aggregate limit of \$150.0 million; and (ii) a final commutation and settlement as of December 31, 2024.

Although Alleghany's primary sources of revenues and earnings are its reinsurance and insurance operations and investments, Alleghany also sources, executes, manages and monitors certain private investments primarily through its wholly-owned subsidiary Alleghany Capital Corporation (Alleghany Capital). Alleghany Capital's investments include:

Bourn & Koch, Inc. (Bourn & Koch), a manufacturer/remanufacturer of specialty machine tools and supplier of replacement parts, accessories and services for a variety of cutting technologies, headquartered in Rockford, Illinois;

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;

IPS-Integrated Project Services, LLC ( IPS ), a technical service provider focused on the global pharmaceutical and biotechnology industries, headquartered in Blue Bell, Pennsylvania;

Jazwares, LLC (together with its affiliates, Jazwares ), a global toy, entertainment and musical instrument company, headquartered in Sunrise, Florida;

WWSC Holdings, LLC ( W&WIAFCO Steel ), a structural steel fabricator and erector, headquartered in Oklahoma City, Oklahoma; and

a 45 percent equity interest in Wilbert Funeral Services, Inc. ( Wilbert ), a provider of products and services for the funeral and cemetery industries and precast concrete markets, headquartered in Overland Park, Kansas. The results of W&WIAFCO Steel have been included in Alleghany's consolidated results beginning with its acquisition by Alleghany Capital on April 28, 2017. On February 7, 2018, W&WIAFCO Steel acquired Hirschfeld Holdings, LP ( Hirschfeld ).

Wilbert is accounted for under the equity method of accounting and is included in other invested assets. The results of Wilbert have been included in Alleghany's consolidated results beginning with its acquisition by Alleghany Capital on August 1, 2017.

In addition, Alleghany owns certain other holding-company investments. Alleghany's wholly-owned subsidiary Stranded Oil Resources Corporation ( SORC ), is an exploration and production company focused on enhanced oil recovery, headquartered in Golden, Colorado. Alleghany's wholly-owned subsidiary, Alleghany Properties Holdings LLC ( Alleghany Properties ), owns and manages certain properties in the Sacramento, California region. Alleghany's public equity investments are managed primarily through Alleghany's wholly-owned subsidiary Roundwood Asset Management LLC.

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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 U.S. ( GAAP ). All material inter-company balances and transactions have been eliminated in consolidation.

The portion of stockholders' equity, net earnings and 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 interests. Because all noncontrolling interests have the option to sell their ownership interests to Alleghany in the future (generally through 2024), the portion of stockholders' equity that is not attributable to Alleghany stockholders is presented on the Consolidated Balance Sheets as redeemable noncontrolling interests for all periods presented. During the first nine months of 2018, the noncontrolling interests outstanding were approximately as follows: Bourn & Koch - 11 percent; Kentucky Trailer - 21 percent; IPS - 15 percent; Jazwares - 23 percent; and W&WIAFCO Steel - 20 percent.

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 Statements of Earnings and Comprehensive Income in the period in which the changes are made.

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

Alleghany's significant accounting principles can be found in Note 1 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K.

### ***(c) Recent Accounting Standards***

#### ***Recently Adopted***

In February 2018, the Financial Accounting Standards Board (the FASB) issued guidance on certain tax effects caused by the Tax Cuts and Jobs Act of 2017 (the Tax Act), which was signed into law on December 22, 2017. The Tax Act, among other things, reduced the U.S. corporate federal income tax rate from 35.0 percent to 21.0 percent, effective January 1, 2018 for the 2018 tax year. Under such circumstances, GAAP requires that the value of deferred tax assets and liabilities be reduced through tax expense. The new guidance provides an option to reclassify any stranded tax amounts that remain in accumulated other comprehensive income to retained earnings, either retrospectively or at the beginning of the period in which the adoption is elected. This guidance became effective in the first quarter of 2018 for public entities, with early adoption permitted in 2017. Alleghany adopted this new guidance in the first quarter of 2018 and has elected to reclassify stranded tax amounts that remain in accumulated other comprehensive income, in the amount of approximately \$135 million, to retained earnings as of January 1, 2018. See Note 7(b) of this Form 10-Q for further information on accumulated other comprehensive income, and see Note 9 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K for additional information on the Tax Act and its impact on Alleghany.

In March 2017, the FASB issued guidance that reduces the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The guidance applies specifically to noncontingent call features that are callable at a predetermined and fixed price and date. The accounting for purchased callable debt securities held at a discount is not affected. This guidance is effective in the first quarter of 2019 for public entities with early adoption permitted. Alleghany adopted this guidance in the fourth quarter of 2017 and recorded a cumulative effect reduction of approximately \$13 million directly to opening 2017 retained earnings and an offsetting increase in opening 2017 accumulated other comprehensive income. The implementation did not have a material impact on Alleghany's results of operations and financial condition. See Note 7(b) of this Form 10-Q for further information on accumulated other comprehensive income.

In May 2014, the FASB, together with the International Accounting Standards Board, issued guidance on the recognition of revenue from contracts with customers. Under this guidance, revenue is recognized as the transfer of goods and services to customers takes place and in amounts that reflect the payment or payments that are expected to be received from the customers for those goods and services. This guidance also requires new disclosures about revenue. Revenues related to insurance and reinsurance contracts and revenues from investments are not impacted by this guidance, whereas noninsurance revenues arising from the sale of manufactured goods and services is generally included within the scope of this guidance. This guidance, and all related amendments, became effective in the first quarter of 2018 for public entities, with early adoption permitted in 2017. Alleghany adopted this guidance in the first quarter of 2018 using the modified retrospective transition approach and the implementation did not have a material impact on its results of operations and financial condition. See Note 10 of this Form 10-Q for further information on Alleghany's noninsurance revenues.



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In January 2016, the FASB issued guidance that changes the recognition and measurement of certain financial instruments. This guidance requires investments in equity securities (except those accounted for under the equity method of accounting, but including partnership investments not accounted for under the equity method) to be measured at fair value with changes in fair value recognized in net earnings. For equity securities that do not have readily determinable fair values, measurement may be at cost, adjusted for any impairment and changes resulting from observable price changes for a similar investment of the same issuer. This guidance also changes the presentation and disclosure of financial instruments by: (i) requiring that financial instrument disclosures of fair value use the exit price notion; (ii) requiring separate presentation of financial assets and financial liabilities by measurement category and form, either on the balance sheet or the accompanying notes to the financial statements; (iii) requiring separate presentation in other comprehensive income for the portion of the change in a liability's fair value resulting from instrument-specific credit risk when an election has been made to measure the liability at fair value; and (iv) eliminating the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2017 for public entities, including interim periods within those fiscal years. Except for the change in presentation for instrument-specific credit risk, this guidance does not permit early adoption. Alleghany adopted this guidance in the first quarter of 2018. As of January 1, 2018, approximately \$736 million of net unrealized gains of equity securities, net of deferred taxes, were reclassified from accumulated other comprehensive income to retained earnings. Subsequently, all changes in unrealized gains or losses of equity securities, net of deferred taxes, were presented in the Consolidated Statements of Earnings rather than the Consolidated Statements of Comprehensive Income, under the caption "change in the fair value of equity securities." Results arising from partnership investments, whether accounted for under the equity method or at fair value, continue to be reported as a component of net investment income. The implementation did not have a material impact on Alleghany's financial condition. See Note 3 of this Form 10-Q for further information on Alleghany's equity securities, and Note 7(b) of this Form 10-Q for further information on accumulated other comprehensive income.

*Future Application of Accounting Standards*

In February 2016, the FASB issued guidance on leases. Under this guidance, a lessee is required to recognize lease liabilities and corresponding right-of-use assets for leases with terms of more than one year, whereas under current guidance, a lessee is only required to recognize assets and liabilities for those leases qualifying as capital leases. This guidance also requires new disclosures about the amount, timing and uncertainty of cash flows arising from leases. The accounting by lessors is to remain largely unchanged. This guidance is effective in the first quarter of 2019 for public entities, with early adoption permitted. A modified retrospective transition approach is required for all leases in existence as of, or entered into after, the beginning of the earliest comparative period presented in the financial statements. 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. See Note 12(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K for further information on Alleghany's leases.

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

with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2020 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

In January 2017, the FASB issued guidance that simplifies the subsequent measurement of goodwill. Under this guidance, if an initial qualitative assessment indicates that the fair value of an operating subsidiary may be less than its carrying amount, an impairment charge is recognized for the amount by which the carrying amount of the operating subsidiary exceeds its estimated fair value. Any resulting impairment loss recognized cannot exceed the total amount of goodwill associated with the operating subsidiary. This guidance is effective in the first quarter of 2020 for public entities, with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2020 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition. See Note 2 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K for further information on Alleghany's goodwill.

In August 2017, the FASB issued guidance that simplifies the requirements to achieve hedge accounting, better reflects the economic results of hedging in the financial statements and improves the alignment between hedge accounting and a company's risk management activities. 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.

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In August 2018, the FASB issued guidance that changes the financial statement disclosure requirements for measuring fair value. With respect to financial instruments classified as Level 3 in the fair value disclosure hierarchy, the guidance requires certain additional disclosures for public entities related to amounts included in other comprehensive income and significant unobservable inputs used in the valuation, while removing disclosure requirements related to an entity's overall valuation processes. The guidance also removes certain disclosure requirements related to transfers between financial instruments classified as Level 1 and Level 2 and provides clarification on certain other existing disclosure requirements. This guidance is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted with respect to any eliminated or modified disclosures. Alleghany will adopt this guidance in the first quarter of 2020 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

**2. Fair Value of Financial Instruments**

The following table presents the carrying value and estimated fair value of Alleghany's consolidated financial instruments as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(\$ in millions)			
<b>Assets</b>				
Investments (excluding equity method investments and loans) <sup>(1)</sup>	\$ 17,791.3	\$ 17,791.3	\$ 17,406.5	\$ 17,406.5
<b>Liabilities</b>				
Senior Notes and other debt <sup>(2)</sup>	\$ 1,581.7	\$ 1,701.8	\$ 1,484.9	\$ 1,614.6

(1) This table includes 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 below.

(2) See Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K for additional information on the senior notes and other debt.

The following tables present Alleghany's financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of September 30, 2018 and December 31, 2017:

Level 1	Level 2	Level 3	Total
(\$ in millions)			

**As of September 30, 2018**

## Equity securities:

Common stock	\$ 5,016.7	\$ 3.5	\$ -	\$ 5,020.2
Preferred stock	-	-	8.4	8.4
<b>Total equity securities</b>	<b>5,016.7</b>	<b>3.5</b>	<b>8.4</b>	<b>5,028.6</b>

## Debt securities:

U.S. Government obligations	-	1,028.6	-	1,028.6
Municipal bonds	-	2,604.3	-	2,604.3
Foreign government obligations	-	902.0	-	902.0
U.S. corporate bonds	-	2,040.7	403.0	2,443.7
Foreign corporate bonds	-	1,310.4	108.4	1,418.8
Mortgage and asset-backed securities:				
Residential mortgage-backed securities ( RMBS <sup>(1)</sup> )	-	1,115.6	-	1,115.6
Commercial mortgage-backed securities ( CMBS )	-	523.9	-	523.9
Other asset-backed securities <sup>(2)</sup>	-	654.4	1,379.9	2,034.3

<b>Total debt securities</b>	<b>-</b>	<b>10,179.9</b>	<b>1,891.3</b>	<b>12,071.2</b>
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<b>Short-term investments</b>	<b>-</b>	<b>690.6</b>	<b>-</b>	<b>690.6</b>
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<b>Other invested assets<sup>(3)</sup></b>	<b>-</b>	<b>-</b>	<b>0.9</b>	<b>0.9</b>
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<b>Total investments (excluding equity method investments and loans)</b>	<b>\$ 5,016.7</b>	<b>\$ 10,874.0</b>	<b>\$ 1,900.6</b>	<b>\$ 17,791.3</b>
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<b>Senior Notes and other debt</b>	<b>\$ -</b>	<b>\$ 1,504.1</b>	<b>\$ 197.7</b>	<b>\$ 1,701.8</b>
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	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
As of December 31, 2017				
Equity securities:				
Common stock	\$ 4,090.7	\$ 3.8	\$ -	\$ 4,094.5
Preferred stock	-	3.1	1.9	5.0
Total equity securities	4,090.7	6.9	1.9	4,099.5
Debt securities:				
U.S. Government obligations	-	948.0	-	948.0
Municipal bonds	-	3,682.1	-	3,682.1
Foreign government obligations	-	1,006.6	-	1,006.6
U.S. corporate bonds	-	2,173.0	260.0	2,433.0
Foreign corporate bonds	-	1,424.6	75.2	1,499.8
Mortgage and asset-backed securities:				
RMBS <sup>(1)</sup>	-	833.8	161.8	995.6
CMBS	-	550.1	1.6	551.7
Other asset-backed securities <sup>(2)</sup>	-	503.3	1,101.3	1,604.6
Total debt securities	-	11,121.5	1,599.9	12,721.4
Short-term investments	-	578.1	-	578.1
Other invested assets <sup>(3)</sup>	-	-	7.5	7.5
Total investments (excluding equity method investments and loans)				
	\$ 4,090.7	\$ 11,706.5	\$ 1,609.3	\$ 17,406.5
Senior Notes and other debt	\$ -	\$ 1,513.6	\$ 101.0	\$ 1,614.6

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

(2) Includes \$1,368.9 million and \$1,101.3 million of collateralized loan obligations as of September 30, 2018 and December 31, 2017, respectively.

(3) Includes partnership and non-marketable equity investments accounted for at fair value, and excludes investments accounted for using the equity method.

As further described in Note 3(h), on March 15, 2018, most of AIHL's limited partnership interests in certain subsidiaries of Ares Management LLC ( "Ares" ) were converted into Ares common units. As a result of the conversion, as of March 15, 2018, \$208.2 million of Ares common units, classified as equity securities, was transferred into Level 1, and \$58.7 million of Ares limited partner interests, classified as other invested assets, was transferred into Level 3. On September 24, 2018, AIHL's remaining \$56.9 million of Ares limited partner interests were converted into Ares common units and, as a result, was transferred from Level 3 other invested assets into Level 1 common stocks.

Aside from the \$56.9 million of Ares-related other invested assets transferred out of Level 3, in the nine months ended September 30, 2018, Alleghany transferred out of Level 3 an additional \$153.7 million of financial instruments, principally due to an increase in observable inputs related to the valuation of such assets. Specifically, during the first nine months of 2018, there was a decrease in the weight given to non-binding broker quotes, and as such, there was a corresponding increase in quoted prices for similar assets in active markets. Of the \$153.7 million of transfers, \$150.6 million related to RMBS, \$1.6 million related to CMBS, \$1.3 million related to U.S. corporate bonds and \$0.2 million related to foreign corporate bonds.

In addition to the \$58.7 million of Ares-related other invested assets transferred into Level 3, in the nine months ended September 30, 2018, Alleghany transferred into Level 3 \$5.6 million of financial instruments, principally due to a decrease in observable inputs related to the valuation of such assets and, specifically, a decrease in broker quotes. Of the \$5.6 million of transfers, \$4.4 million related to preferred stock and \$1.2 million related to U.S. corporate bonds. There were no other material transfers between Levels 1, 2 or 3 in the three and nine months ended September 30, 2018.

In the nine months ended September 30, 2017, Alleghany transferred out of Level 3 \$7.2 million of financial instruments, principally due to an increase in observable inputs related to the valuation of such assets and, specifically, an increase in broker quotes. Of the \$7.2 million of transfers, \$4.8 million related to U.S. corporate bonds and \$2.4 million related to common stock. There were no transfers of financial instruments out of Level 3 in the third quarter of 2017.

In the three and nine months ended September 30, 2017, Alleghany transferred into Level 3 \$0.8 million and \$5.5 million, respectively, of financial instruments, principally due to a decrease in observable inputs related to the valuation of such assets and, specifically, a decrease in broker quotes. Of the \$5.5 million of transfers, \$3.8 million related to U.S. corporate bonds, \$1.4 million related to common stock and \$0.3 million related to foreign corporate bonds. There were no other material transfers between Levels 1, 2 or 3 in the three and nine months ended September 30, 2017.

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The following tables present reconciliations of the changes during the nine months ended September 30, 2018 and 2017 in Level 3 assets measured at fair value:

Nine Months Ended September 30, 2018	Debt Securities							Total
	Preferred Stock	U.S. Corporate Bonds	Foreign Corporate Bonds	Mortgage and asset-backed		Other Asset-backed Securities	Other Invested Assets <sup>(1)</sup>	
				RMBS	CMBS			
				(\$ in millions)				
Balance as of January 1, 2018	\$ 1.9	\$ 260.0	\$ 75.2	\$ 161.8	\$ 1.6	\$ 1,101.3	\$ 7.5	\$ 1,609.3
Net realized/unrealized gains (losses) included in:								
Net earnings <sup>(2)</sup>	-	-	(0.1)	(0.3)	-	1.5	1.2	2.3
Other comprehensive income (loss)	0.2	(7.4)	(2.5)	(5.3)	-	(10.3)	(4.0)	(29.3)
Purchases	2.0	153.7	38.9	-	-	705.3	-	899.9
Sales	(0.1)	-	-	-	-	(56.7)	(5.6)	(62.4)
Issuances	-	-	-	-	-	-	-	-
Settlements	-	(3.2)	(2.9)	(5.6)	-	(361.2)	-	(372.9)
Transfers into Level 3	4.4	1.2	-	-	-	-	58.7	64.3
Transfers out of Level 3	-	(1.3)	(0.2)	(150.6)	(1.6)	-	(56.9)	(210.6)
Balance as of September 30, 2018	\$ 8.4	\$ 403.0	\$ 108.4	\$ -	\$ -	\$ 1,379.9	\$ 0.9	\$ 1,900.6

Months Ended September 30, 2017	Equity Securities				Debt Securities						Total
	Common Stock	Preferred Stock	Foreign Government Obligations	U.S. Corporate Bonds	Foreign Corporate Bonds	Mortgage and asset-backed		Other Asset-backed Securities	Other Invested Assets <sup>(1)</sup>		
						RMBS	CMBS				
(\$ in millions)											
Balance as of January 1, 2017	\$ 4.3	\$ -	\$ -	\$ 72.9	\$ 0.4	\$ 5.9	\$ 4.3	\$ 903.8	\$ 28.1	\$ 1,019.7	
Realized/unrealized gains (losses) included in:											
Earnings <sup>(2)</sup>	0.2	(0.2)	-	(0.2)	-	0.2	-	3.9	10.8	14.7	
Other comprehensive income	-	0.2	-	3.2	0.8	0.3	0.1	15.0	(8.9)	21.6	
Net changes	-	5.6	4.7	220.4	38.6	-	9.6	746.7	-	1,020.6	
	(2.6)	(0.6)	-	(10.2)	(0.2)	-	(2.2)	(59.5)	(21.6)	(96.3)	
Net increases	-	-	-	-	-	-	-	-	-	-	
Net payments	-	-	-	(6.3)	-	(1.0)	(0.4)	(427.4)	-	(435.1)	
Transfers into Level 3	1.4	-	-	3.8	0.3	-	-	-	-	5.5	
Transfers out of Level 3	(2.4)	-	-	(4.8)	-	-	-	-	-	(7.2)	
Balance as of September 30, 2017	\$ 0.9	\$ 5.0	\$ 4.7	\$ 278.8	\$ 39.9	\$ 5.4	\$ 11.4	\$ 1,182.5	\$ 8.4	\$ 1,566.0	

(1) Includes partnership and non-marketable equity investments accounted for at fair value.



(2) There were no other than temporary impairment ( OTTI ) losses recorded in net earnings related to Level 3 assets still held as of September 30, 2018 and 2017.

Net unrealized losses related to Level 3 assets as of September 30, 2018 and December 31, 2017 were not material.

The increase in Senior Notes and other debt included in Level 3 for the first nine months of 2018 primarily reflects increased borrowings at W&WIAFCO Steel, including its acquisition of Hirschfeld.

See Note 1(c) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K for Alleghany's accounting policy on fair value.

**Table of Contents****3. Investments*****(a) Unrealized Gains and Losses***

The following tables present the amortized cost or cost and the fair value of AFS securities as of September 30, 2018 and December 31, 2017:

	Amortized Cost or Cost	Gross Unrealized Gains (\$ in millions)	Gross Unrealized Losses (\$ in millions)	Fair Value
<b>As of September 30, 2018</b>				
Debt securities:				
U.S. Government obligations	\$ 1,069.4	\$ 0.1	\$ (40.9)	\$ 1,028.6
Municipal bonds	2,591.2	37.3	(24.2)	2,604.3
Foreign government obligations	905.8	5.5	(9.3)	902.0
U.S. corporate bonds	2,464.8	19.4	(40.5)	2,443.7
Foreign corporate bonds	1,428.7	10.6	(20.5)	1,418.8
Mortgage and asset-backed securities:				
RMBS	1,147.8	3.0	(35.2)	1,115.6
CMBS	530.7	2.3	(9.1)	523.9
Other asset-backed securities <sup>(1)</sup>	2,041.4	2.9	(10.0)	2,034.3
Total debt securities	12,179.8	81.1	(189.7)	12,071.2
Short-term investments	690.6	-	-	690.6
Total investments	\$ 12,870.4	\$ 81.1	\$ (189.7)	\$ 12,761.8

	Amortized Cost or Cost	Gross Unrealized Gains (\$ in millions)	Gross Unrealized Losses (\$ in millions)	Fair Value
<b>As of December 31, 2017</b>				
Equity securities:				
Common stock	\$ 3,165.8	\$ 932.5	\$ (3.8)	\$ 4,094.5
Preferred stock	4.9	0.1	-	5.0
Total equity securities	3,170.7	932.6	(3.8)	4,099.5
Debt securities:				
U.S. Government obligations	963.9	1.7	(17.6)	948.0
Municipal bonds	3,578.9	109.8	(6.6)	3,682.1
Foreign government obligations	1,000.1	11.2	(4.7)	1,006.6

U.S. corporate bonds	2,381.1	61.6	(9.7)	2,433.0
Foreign corporate bonds	1,481.8	24.5	(6.5)	1,499.8
Mortgage and asset-backed securities:				
RMBS	993.9	6.3	(4.6)	995.6
CMBS	545.0	9.0	(2.3)	551.7
Other asset-backed securities <sup>(1)</sup>	1,592.1	13.8	(1.3)	1,604.6
Total debt securities	12,536.8	237.9	(53.3)	12,721.4
Short-term investments	578.1	-	-	578.1
Total investments	\$ 16,285.6	\$ 1,170.5	\$ (57.1)	\$ 17,399.0

(1) Includes \$1,368.9 million and \$1,101.3 million of collateralized loan obligations as of September 30, 2018 and December 31, 2017, respectively.

**(b) Contractual Maturity**

The following table presents the amortized cost or cost and estimated fair value of debt securities by contractual maturity as of September 30, 2018. 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.

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	Amortized Cost or Cost	Fair Value
	(\$ in millions)	
<b>As of September 30, 2018</b>		
Short-term investments due in one year or less	\$ 690.6	\$ 690.6
Mortgage and asset-backed securities <sup>(1)</sup>	3,719.9	3,673.8
Debt securities with maturity dates:		
One year or less	230.8	230.4
Over one through five years	3,011.7	2,987.0
Over five through ten years	3,029.1	2,991.9
Over ten years	2,188.3	2,188.1
Total debt securities	\$ 12,179.8	\$ 12,071.2

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

**(c) Net Investment Income**

The following table presents net investment income for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(\$ in millions)			
Interest income	\$ 106.4	\$ 104.6	\$ 313.2	\$ 306.3
Dividend income	16.2	6.7	54.9	27.9
Investment expenses	(6.8)	(5.8)	(25.4)	(20.1)
Pillar Investments <sup>(1)</sup>	(0.8)	(9.4)	1.2	(2.9)
Limited partnership interests in certain subsidiaries of Ares <sup>(1)</sup>	7.0	6.9	20.2	(0.4)
Other investment results	5.3	1.7	13.6	11.1

Total	\$	127.3	\$	104.7	\$	377.7	\$	321.9
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(1) See Note 3(h) of this Form 10-Q for discussion of the Pillar Investments, as defined therein, and limited partnership interests in certain subsidiaries of Ares.

As of September 30, 2018, non-income producing invested assets were immaterial.

***(d) Change in the Fair Value of Equity Securities***

In the first quarter of 2018, Alleghany adopted new investment accounting guidance, which requires changes in the fair value of equity securities, except those accounted for under the equity method, to be recognized in net earnings. In earlier periods, equity securities were considered to be AFS and were included in the analysis of OTTI. See Note 1(c) of this Form 10-Q for additional information regarding Alleghany's adoption of this new guidance.

The following table presents increases in the fair value of equity securities for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
			(\$ in millions)	
Change in the fair value of equity securities sold during the period	\$	7.3	\$	23.3
Change in the fair value of equity securities held at the end of the period		362.9		489.5
Change in the fair value of equity securities	\$	370.2	\$	512.8

***(e) Realized Gains and Losses***

The proceeds from sales of debt and equity securities were \$0.9 billion and \$1.6 billion for the three months ended September 30, 2018 and 2017, respectively, and \$2.8 billion and \$5.8 billion for the nine months ended September 30, 2018 and 2017, respectively.

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Realized capital gains and losses for the first nine months of 2018 primarily reflect a \$45.7 million gain on AIHL's conversion of its limited partnership interests in certain subsidiaries of Ares into Ares common units. See Note 3(h) of this Form 10-Q for additional information on this conversion. Realized capital gains and losses for the three and nine months ended September 30, 2018 also reflect the sale of debt securities.

Realized capital gains and losses for the three and nine months ended September 30, 2017 primarily reflect the sale of equity securities and certain exchange traded funds. Realized capital gains for the first nine months of 2017 include the sale of certain equity securities resulting from a partial restructuring of the equity portfolio.

The following table presents amounts of gross realized capital gains and gross realized capital losses for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
		2017	2018	2017
	(\$ in millions)			
Gross realized capital gains	\$ 16.9	\$ 47.0	\$ 83.3	\$ 189.7
Gross realized capital losses	(0.7)	(14.1)	(16.1)	(87.9)
Net realized capital gains	\$ 16.2	\$ 32.9	\$ 67.2	\$ 101.8

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

***(f) OTTI Losses***

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

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

If Alleghany intends to sell, or it is more likely than not that Alleghany will sell, a debt security before recovery of its amortized cost basis, the total amount of the unrealized loss position is recognized as an OTTI loss in earnings. To the extent that a debt security that is in an unrealized loss position is not impaired based on the preceding, Alleghany will consider a debt security to be impaired when it believes it to be probable that Alleghany will not be able to collect the entire amortized cost basis. For debt securities in an unrealized loss position as of the end of each quarter, Alleghany develops a best estimate of the present value of expected cash flows. If the results of the cash flow analysis indicate

that 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, which 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 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, underlying collateral (if any), 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 nine months of 2018 reflect \$0.5 million of unrealized losses on debt securities that were deemed to be other than temporary and, as such, were required to be charged against earnings.

OTTI losses in the first nine months of 2017 reflect \$13.1 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the \$13.1 million of OTTI losses, \$11.8 million related to equity securities, primarily in the retail sector, and \$1.3 million related to debt securities. The determination that unrealized losses on the securities were other than temporary was primarily due to the duration of the decline in the fair value of equity and debt securities relative to their costs. Of the \$13.1 million of OTTI losses, \$6.1 million was incurred in the third quarter of 2017.

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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. After adjusting the amortized cost basis of securities for the recognition of OTTI losses, the remaining gross unrealized investment losses for debt securities as of September 30, 2018 were deemed to be temporary, based on, among other factors: (i) the duration of time and the relative magnitude to which the fair value of these investments had been below cost were not indicative of an OTTI loss; (ii) the absence of compelling evidence that would cause Alleghany to call into question the financial condition or near-term business prospects of the issuer of the security; and (iii) Alleghany's ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery.

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

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

The following tables present gross unrealized losses and related fair values for Alleghany's AFS securities, grouped by duration of time in a continuous unrealized loss position, as of September 30, 2018 and December 31, 2017:

	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 September 30, 2018						
Debt securities:						
U.S. Government obligations	\$ 389.9	\$ 7.8	\$ 611.1	\$ 33.1	\$ 1,001.0	\$ 40.9
Municipal bonds	695.0	12.2	261.7	12.0	956.7	24.2
Foreign government obligations	414.6	2.9	192.4	6.4	607.0	9.3
U.S. corporate bonds	1,238.9	27.0	294.9	13.5	1,533.8	40.5
Foreign corporate bonds	665.3	11.3	288.1	9.2	953.4	20.5
Mortgage and asset-backed securities:						
RMBS	891.7	28.1	130.3	7.1	1,022.0	35.2
CMBS	273.5	5.3	46.3	3.8	319.8	9.1
Other asset-backed securities	1,260.4	8.5	68.6	1.5	1,329.0	10.0
Total temporarily impaired securities						
	\$ 5,829.3	\$ 103.1	\$ 1,893.4	\$ 86.6	\$ 7,722.7	\$ 189.7



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	Less Than 12 Months		12 Months or More		Total	
	Gross		Gross		Gross	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
		Losses		Losses		Losses
	(\$ in millions)					
As of December 31, 2017						
Equity securities:						
Common stock	\$ 145.7	\$ 3.8	\$ -	\$ -	\$ 145.7	\$ 3.8
Preferred stock	-	-	-	-	-	-
Total equity securities	145.7	3.8	-	-	145.7	3.8
Debt securities:						
U.S. Government obligations	447.8	4.4	416.6	13.2	864.4	17.6
Municipal bonds	240.0	1.5	267.3	5.1	507.3	6.6
Foreign government obligations	321.9	2.7	72.2	2.0	394.1	4.7
U.S. corporate bonds	568.8	6.1	207.3	3.6	776.1	9.7
Foreign corporate bonds	417.4	3.0	159.4	3.5	576.8	6.5
Mortgage and asset-backed securities:						
RMBS	284.2	1.6	131.5	3.0	415.7	4.6
CMBS	112.2	0.5	34.7	1.8	146.9	2.3
Other asset-backed securities	211.1	0.9	65.7	0.4	276.8	1.3
Total debt securities	2,603.4	20.7	1,354.7	32.6	3,958.1	53.3
Total temporarily impaired securities	\$ 2,749.1	\$ 24.5	\$ 1,354.7	\$ 32.6	\$ 4,103.8	\$ 57.1

As of September 30, 2018, Alleghany held a total of 2,289 debt securities that were in an unrealized loss position, of which 617 securities were in an unrealized loss position continuously for 12 months or more. The unrealized losses associated with these debt securities consisted of losses related primarily to U.S. Government obligations, municipal bonds, U.S. corporate bonds, foreign corporate bonds and RMBS.

As of September 30, 2018, the vast majority of Alleghany's debt securities were rated investment grade, with 4.2 percent of debt securities having issuer credit ratings that were below investment grade or not rated, compared with 5.3 percent as of December 31, 2017.

**(h) 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 September 30, 2018, Alleghany's carrying value in the Pillar Investments, as determined under the equity method of accounting, was \$201.3 million, which is net of returns of capital received from the Pillar Investments.

In July 2013, AIHL invested \$250.0 million in 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 into limited partner interests in certain Ares subsidiaries that were convertible into Ares common units. On March 15, 2018, most of AIHL's limited partner interests were converted into Ares common units. As a result of the conversion and with respect to the limited partnership interests that were converted into Ares common units, AIHL: (i) reclassified its converted interests from other invested assets to equity securities; (ii) increased its carrying value to \$208.2 million to reflect the fair value of Ares common units; and (iii) recorded the \$45.7 million increase in carrying value as a realized capital gain as of March 15, 2018. As a result of the conversion and with respect to the unconverted limited partnership interests, AIHL: (i) changed its accounting from the equity method to fair value; (ii) increased its carrying value to \$58.7 million to reflect the fair value of Ares limited partnership interests; and (iii) recorded the \$12.9 million increase in carrying value as a component of net investment income as of March 15, 2018. On September 24, 2018, AIHL's remaining Ares limited partner interests were converted into Ares common units and, as a result, AIHL reclassified the remaining \$56.9 million of its converted interests from other invested assets to equity securities.

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

As of September 30, 2018, the carrying value of Alleghany's commercial mortgage loan portfolio was \$695.9 million, representing the unpaid principal balance on the loans. As of September 30, 2018, there was no allowance for loan losses. The commercial mortgage loan portfolio consists primarily of first mortgages on commercial properties in major metropolitan areas in the U.S. The loans earn interest at fixed- and floating-rates, mature in two to ten years from loan origination and the principal amounts of the loans were no more than approximately two-thirds of the property's appraised value at the time the loans were made.

**4. Reinsurance Ceded**

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 recoverables and Alleghany's reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite or assume with multiple reinsurance programs.

TransRe enters into retrocession arrangements, including property catastrophe retrocession arrangements, in order to reduce the effect of individual or aggregate exposure to losses, reduce volatility in specific lines of business, improve risk-adjusted portfolio returns and increase gross premium writings and risk capacity without requiring additional capital.

RSUI reinsures its property lines of business through a program consisting of surplus share treaties, facultative placements, per risk and catastrophe excess of loss treaties. RSUI's catastrophe reinsurance program and property per risk reinsurance program run on an annual basis from May 1 to the following April 30 and portions expired on April 30, 2018. Both programs were renewed on May 1, 2018 with substantially similar terms as the expired programs.

**Table of Contents****5. Liability for Loss and LAE*****(a) Liability Rollforward***

The following table presents the activity in the liability for loss and LAE in the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30, 2018                      2017 (\$ in millions)	
Reserves as of January 1	\$ 11,871.3	\$ 11,087.2
Less: reinsurance recoverables <sup>(1)</sup>	1,650.1	1,236.2
Net reserves as of January 1	10,221.2	9,851.0
Other adjustments	1.2	(0.7)
Incurred loss and LAE, net of reinsurance, related to:		
Current year	2,579.3	3,099.0
Prior years	(212.8)	(173.0)
Total incurred loss and LAE, net of reinsurance	2,366.5	2,926.0
Paid loss and LAE, net of reinsurance, related to: <sup>(2)</sup>		
Current year	444.9	390.6
Prior years	1,928.9	1,743.2
Total paid loss and LAE, net of reinsurance	2,373.8	2,133.8
Foreign currency exchange rate effect	(77.0)	120.5
Net reserves as of September 30	10,138.1	10,763.0
Reinsurance recoverables as of September 30 <sup>(1)</sup>	1,716.8	1,693.4
Reserves as of September 30	\$ 11,854.9	\$ 12,456.4

(1) Reinsurance recoverables in this table include only ceded loss and LAE reserves.

(2) Includes paid losses, net of reinsurance, related to commutations.

Gross loss and LAE reserves as of September 30, 2018 decreased from December 31, 2017, primarily reflecting payments on catastrophe losses incurred in 2017 and favorable prior accident year loss reserve development, partially offset by catastrophe losses in September 2018. Such 2018 catastrophe losses, net of reinsurance, include \$87.7 million related to Typhoon Jebi, \$80.2 million related to Hurricane Florence and \$38.5 million related to Typhoon Trami.

**Table of Contents****(b) Liability Development**

The following table presents the (favorable) unfavorable prior accident year loss reserve development for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(\$ in millions)			
Reinsurance Segment				
Property:				
Catastrophe events	\$ 9.6 <sup>(1)</sup>	\$ (7.8) <sup>(2)</sup>	\$ (15.6) <sup>(3)</sup>	\$ (12.2) <sup>(2)</sup>
Non-catastrophe	(12.4) <sup>(4)</sup>	(0.3)	(42.2) <sup>(4)</sup>	(50.4) <sup>(5)</sup>
Total property	(2.8)	(8.1)	(57.8)	(62.6)
Casualty & other:				
Malpractice Treaties <sup>(6)</sup>	-	-	(3.4)	(2.0)
Ogden rate impact <sup>(7)</sup>	-	-	-	24.4
Other	(38.7) <sup>(8)</sup>	(41.7) <sup>(9)</sup>	(102.5) <sup>(10)</sup>	(100.6) <sup>(11)</sup>
Total casualty & other	(38.7)	(41.7)	(105.9)	(78.2)
Total Reinsurance Segment	(41.5)	(49.8)	(163.7)	(140.8)
Insurance Segment				
RSUI:				
Casualty	(4.3) <sup>(12)</sup>	(6.9) <sup>(13)</sup>	(16.8) <sup>(12)</sup>	(28.5) <sup>(13)</sup>
Property and other	(27.7) <sup>(14)</sup>	(1.7) <sup>(15)</sup>	(27.7) <sup>(14)</sup>	1.2 <sup>(16)</sup>
Total RSUI	(32.0)	(8.6)	(44.5)	(27.3)
CapSpecialty	(1.5) <sup>(17)</sup>	(2.3) <sup>(18)</sup>	(4.6) <sup>(17)</sup>	(3.1) <sup>(18)</sup>
PacificComp	-	(0.8) <sup>(19)</sup>	-	(1.8) <sup>(19)</sup>
Total incurred related to prior years	\$ (75.0)	\$ (61.5)	\$ (212.8)	\$ (173.0)

- (1) Primarily reflects unfavorable prior accident year loss reserve development related to Hurricanes Maria and Irma in the 2017 accident year.
- (2) Primarily reflects favorable prior accident year loss reserve development related to several catastrophes in the 2010 through 2016 accident years.
- (3) Primarily reflects favorable prior accident year loss reserve development related to Hurricane Harvey in the 2017 accident year and catastrophes in the 2016 accident year, partially offset by unfavorable prior accident year loss reserve development related to Hurricanes Maria and Irma in the 2017 accident year.
- (4) Primarily reflects favorable prior accident year loss reserve development in the 2017 accident year.
- (5) Primarily reflects favorable prior accident year loss reserve development in the 2013 through 2016 accident years.
- (6) Represents certain medical malpractice treaties pursuant to which the increased underwriting profits created by the favorable prior accident year loss reserve development are largely retained by the cedants. As a result, the favorable prior accident year loss reserve development is largely offset by an increase in profit commission expense incurred when such favorable prior accident year loss reserve development occurs.
- (7) Represents unfavorable prior accident year loss reserve development related to the U.K. Ministry of Justice's reduction in the discount rate, referred to as the Ogden rate, used to calculate lump-sum bodily injury payouts in personal injury insurance claims in the U.K. to negative 0.75 percent as of March 20, 2017 from 2.50 percent.
- (8) Primarily reflects favorable prior accident year loss reserve development in the longer-tailed casualty lines of business in the 2007 and earlier accident years, partially offset by unfavorable prior accident year loss reserve development in the longer-tailed casualty lines of business in the 2014 through 2016 accident years.
- (9) Primarily reflects favorable prior accident year loss reserve development in the longer-tailed U.S. professional liability lines of business related to older accident years and shorter-tailed casualty lines of business in the U.K. related to recent accident years.
- (10) Primarily reflects favorable prior accident year loss reserve development in the shorter-tailed casualty lines of business in the 2016 and 2017 accident years and in the longer-tailed casualty lines of business in the 2010 and earlier accident years, partially offset by unfavorable prior accident year loss reserve development in the longer-tailed casualty lines of business in the 2014 accident year.
- (11) Primarily reflects favorable prior accident year loss reserve development in longer-tailed U.S. professional liability lines of business in the 2005 through 2014 accident years, partially offset by unfavorable prior accident year loss reserve development in shorter-tailed casualty lines of business in the 2015 accident year in the U.S. and the U.K.
- (12) Primarily reflects favorable prior accident year loss reserve development in the umbrella/excess lines of business in the 2005 through 2012 accident years, partially offset by unfavorable prior accident year loss reserve development in the directors' and officers' liability lines of business in the 2009, 2012 and 2016 accident years.
- (13) Primarily reflects favorable prior accident year loss reserve development in the umbrella/excess lines of business in the 2005 through 2011 accident years.
- (14) Primarily reflects favorable prior accident year loss reserve development related to Hurricane Irma in the 2017 accident year and, to a lesser extent, Hurricane Matthew that occurred in the 2016 accident year, as well as various other losses not classified as catastrophes in recent accident years.

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- (15) Primarily reflects favorable unallocated LAE development.
- (16) Primarily reflects unfavorable prior accident year property loss reserve development related to the binding authority lines of business in the 2015 and 2016 accident years, partially offset by favorable prior accident year catastrophe loss reserve development in the 2016 accident year.
- (17) Primarily reflects favorable prior accident year loss reserve development related to the surety lines of business in the 2016 and 2017 accident years.
- (18) Primarily reflects favorable prior accident year loss reserve development related to the casualty lines of business in the 2010, 2014, 2015 and 2016 accident years.
- (19) Primarily reflects favorable prior accident year loss reserve development in the 2013 and prior accident years.

**6. Income Taxes**

The effective tax rate on earnings before income taxes for the first nine months of 2018 was 18.4 percent, compared with 66.8 percent for the first nine months of 2017. The 66.8 percent effective tax rate for the first nine months of 2017 was calculated based on actual results through September 30, 2017 because management was not able to reliably estimate the annual effective tax rate in light of the significant catastrophe losses incurred in the third quarter of 2017. The decrease in the effective tax rate in the first nine months of 2018 from the first nine months of 2017 primarily reflects the decrease in the U.S. corporate federal income tax rate from 35.0 percent to 21.0 percent due to the Tax Act and losses before income taxes in the first nine months of 2017, which magnified the impact of certain tax adjustments, partially offset by new limitations on certain deductions as a result of the Tax Act. There continues to be a degree of uncertainty as to how certain provisions of the Tax Act will be interpreted and implemented in practice in the future.

Alleghany believes that, as of September 30, 2018, it had no material uncertain tax positions. Interest and penalties related 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 September 30, 2018.

**7. Stockholders Equity****(a) Common Stock Repurchases**

In November 2015, the Alleghany Board of Directors authorized the repurchase of shares of common stock of Alleghany, par value \$1.00 per share ( 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 June 2018, the Alleghany Board of Directors authorized, upon the completion of the 2015 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. As of September 30, 2018, Alleghany had \$481.1 million remaining under both share repurchase authorization programs.

The following table presents the shares of Common Stock that Alleghany repurchased in the three and nine months ended September 30, 2018 and 2017 pursuant to the 2015 Repurchase Program:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Shares repurchased	76,299	15,916	479,922	15,916
Cost of shares repurchased (in millions)	\$ 46.0	\$ 8.5	\$ 282.1	\$ 8.5



Average price per share repurchased	\$	602.24	\$	537.14	\$	587.70	\$	537.14
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**Table of Contents****(b) Accumulated Other Comprehensive Income (Loss)**

The following tables presents a reconciliation of the changes during the nine months ended September 30, 2018 and 2017 in accumulated other comprehensive income (loss) attributable to Alleghany stockholders:

	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment (\$ in millions)	Retirement Plans	Total
Balance as of January 1, 2018	\$ 718.2	\$ (84.6)	\$ (15.5)	\$ 618.1
Cumulative effect of adoption of new accounting pronouncements <sup>(1)</sup> :				
Reclassification of net unrealized gains on equity securities, net of tax	(735.6)	-	-	(735.6)
Reclassification of stranded taxes	156.6	(18.2)	(3.3)	135.1
Total	(579.0)	(18.2)	(3.3)	(600.5)
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications	(213.3)	(6.9)	(1.7)	(221.9)
Reclassifications from accumulated other comprehensive income	(16.5)	-	-	(16.5)
Total	(229.8)	(6.9)	(1.7)	(238.4)
Balance as of September 30, 2018	\$ (90.6)	\$ (109.7)	\$ (20.5)	\$ (220.8)

	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment (\$ in millions)	Retirement Plans	Total
Balance as of January 1, 2017	\$ 232.2	\$ (111.2)	\$ (11.7)	\$ 109.3

Cumulative effect of adoption of new accounting pronouncements <sup>(1)</sup>	12.9	-	-	12.9
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications	364.6	22.4	(0.2)	386.8
Reclassifications from accumulated other comprehensive income	(57.7)	-	-	(57.7)
Total	306.9	22.4	(0.2)	329.1
Balance as of September 30, 2017	\$ 552.0	\$ (88.8)	\$ (11.9)	\$ 451.3

(1) See Note 1(c) of this Form 10-Q for additional information regarding Alleghany's adoption of new investment accounting guidance and new guidance on certain tax effects caused by the Tax Act.

The following table presents reclassifications out of accumulated other comprehensive income attributable to Alleghany stockholders during the three and nine months ended September 30, 2018 and 2017:

		Three Months Ended		Nine Months Ended	
Accumulated Other Comprehensive Income Component	Line in Consolidated Statement of Earnings	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(\$ in millions)					
Accumulated depreciation of investments:	Net realized capital gains <sup>(1)</sup>	\$ (16.2)	\$ (32.9)	\$ (21.5)	\$ (32.9)
	Other than temporary impairment losses	-	6.1	0.5	-
	Income taxes	3.4	9.4	4.5	-
Reclassifications:	Net earnings	\$ (12.8)	\$ (17.4)	\$ (16.5)	\$ (17.4)

(1) For the nine month period ended September 30, 2018, excludes a \$45.7 million pre-tax gain from AIHL's conversion of its limited partnership interests in certain subsidiaries of Ares into Ares common units. See Note 3(h) of this Form 10-Q for additional information.

**(c) Special Dividend**

In February 2018, the Alleghany Board of Directors declared a special dividend of \$10 per share for stockholders of record on March 5, 2018. On March 15, 2018, Alleghany paid dividends to stockholders totaling \$154.0 million.

**Table of Contents****8. Earnings Per Share of Common Stock**

The following table presents a reconciliation of the earnings and share data used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(\$ in millions, except share amounts)			
Net earnings (losses) available to Alleghany stockholders	\$ 284.9	\$ (314.2)	\$ 751.6	\$ (63.2)
Effect of dilutive securities	-	(8.9)	-	-
Income (loss) available to common stockholders for diluted earnings per share	\$ 284.9	\$ (323.1)	\$ 751.6	\$ (63.2)

Weighted average common shares outstanding applicable to basic earnings per share

	14,937,135	15,416,014	15,168,831	15,416,249
Effect of dilutive securities	-	42,310	4,849	-

Adjusted weighted average common shares outstanding applicable to diluted earnings per share

	14,937,135	15,458,324	15,173,680	15,416,249
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61,285 and 63,567 contingently issuable shares were potentially available during the first nine months of 2018 and 2017, respectively, but were not included in the diluted earnings per share computations because the impact was anti-dilutive to the earnings per share calculation.

**9. 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, and management does not believe that any pending litigation will have a material adverse effect on Alleghany's consolidated results of operations, financial position or cash flows.

***(b) Leases***

Alleghany and its subsidiaries lease certain facilities, furniture and equipment under long-term lease agreements. Additional information about leases can be found in Note 12(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K.

***(c) Energy Holdings***

As of September 30, 2018, Alleghany had holdings in energy sector businesses of \$896.8 million, comprised of \$294.0 million of debt securities, \$483.5 million of equity securities and \$119.3 million of Alleghany's equity attributable to SORC.

**10. Segments of Business**

***(a) Overview***

Alleghany's segments are reported in a manner consistent with the way management evaluates the business. As such, Alleghany classifies its business into three reportable segments—reinsurance, insurance and Alleghany Capital. Alleghany determined that Alleghany Capital qualified as a reportable segment in the first quarter of 2018, reflecting the increased significance of Alleghany Capital's business to Alleghany and its projected growth.

Reinsurance and insurance underwriting activities are evaluated separately from investment and other activities. 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 2017 Form 10-K.

The reinsurance segment consists of property and casualty reinsurance operations conducted by TransRe's reinsurance operating subsidiaries and is further reported through two major product lines—property and casualty & other. TransRe provides property and casualty reinsurance to insurers and reinsurers through brokers and on a direct basis to ceding companies. TransRe also writes a modest amount of insurance business, which is included in the reinsurance segment. A significant portion 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

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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, prior to its sale on December 31, 2017, PacificComp. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment.

The Alleghany Capital segment consists of industrial operations, non-industrial operations and corporate operations at the Alleghany Capital level. Industrial operations are conducted through Bourn & Koch, Kentucky Trailer, W&WIAFCO Steel beginning April 28, 2017 (the date on which Alleghany Capital acquired approximately 80 percent of the equity thereof), and a 45 percent equity interest in Wilbert, beginning August 1, 2017 (the date on which Alleghany Capital acquired a 45 percent equity interest therein). Non-industrial operations are conducted through IPS and Jazwares.

On February 7, 2018, W&WIAFCO Steel acquired the outstanding equity of Hirschfeld, a fabricator of steel bridges and structural steel for stadiums, airports and other large commercial and industrial projects, for \$111.3 million, consisting of \$96.6 million in cash and \$14.7 million of incremental debt. The acquisition-date consideration transferred and purchase price allocation to the acquired assets and assumed liabilities of Hirschfeld were based on estimated fair values that have not been finalized. As a result, the fair value recorded for these items is a provisional estimate and may be subject to adjustment. Once completed, any adjustment resulting from the valuations may impact the individual amounts recorded for acquired assets and assumed liabilities, as well as the residual goodwill. The acquisition accounting for Hirschfeld is expected to be finalized later in 2018.

Corporate activities are not classified as a segment. The primary components of corporate activities are Alleghany Properties, SORC and activities at the Alleghany parent company.

In addition, corporate activities include interest expense associated with the senior notes issued by Alleghany, whereas interest expense associated with senior notes issued by TransRe is included in Total Segments and interest expense associated with other debt is included in Alleghany Capital. Information related to the senior notes and other debt 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 2017 Form 10-K.

**(b) Results**

The following tables present the results for Alleghany's three reportable segments and for corporate activities for the three and nine months ended September 30, 2018 and 2017:

Property	Reinsurance Segment		Insurance Segment			Subtotal	Alleghany Capital	Total Segments	Corporate Activities
	Casualty & Other <sup>(1)</sup>	Total	RSUI	Cap Specialty	Total (\$ in millions)				
\$ 451.4	\$ 685.9	\$ 1,137.3	\$ 260.8	\$ 83.9	\$ 344.7	\$ 1,482.0	\$ -	\$ 1,482.0	\$ -
331.1	654.1	985.2	176.0	77.9	253.9	1,239.1	-	1,239.1	-

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326.5	635.0	961.5	190.6	73.3	263.9	1,225.4	-	1,225.4
387.6	421.4	809.0	107.0	41.7	148.7	957.7	-	957.7
113.3	211.6	324.9	52.8	30.0	82.8	407.7	-	407.7
\$ (174.4)	\$ 2.0	\$ (172.4)	\$ 30.8	\$ 1.6	\$ 32.4	(140.0)	-	(140.0)
						122.5	0.7	123.2
of equity						373.9	-	373.9
						16.2	-	16.2
ppairment						-	-	-
						6.2	407.5	413.7
						23.6	382.5	406.1
						1.3	-	1.3
le assets						(0.3)	5.8	5.5
						6.7	2.6	9.3
income						\$ 347.5	\$ 17.3	\$ 364.8
								\$

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ended 2017	Reinsurance Segment			RSUI	Insurance Segment			Subtotal	Alleghany Capital	Total Segments	Corpor Activiti
	Property	Casualty & Other <sup>(1)</sup>	Total		Cap Specialty	Pacific Comp	Total (\$ in millions)				
s	\$ 445.5	\$ 681.1	\$ 1,126.6	\$ 234.6	\$ 74.3	\$ 41.6	\$ 350.5	\$ 1,477.1	\$ -	\$ 1,477.1	\$ (5.
	329.0	649.5	978.5	170.8	69.5	41.5	281.8	1,260.3	-	1,260.3	-
earned	310.8	642.4	953.2	179.0	66.1	41.4	286.5	1,239.7	-	1,239.7	-
E	659.9	459.3	1,119.2	305.4	37.0	30.3	372.7	1,491.9	-	1,491.9	-
ther											
	105.2	203.7	308.9	50.3	28.4	10.6	89.3	398.2	-	398.2	-
ross)	\$ (454.3)	\$ (20.6)	\$ (474.9)	\$ (176.7)	\$ 0.7	\$ 0.5	\$ (175.5)	(650.4)	-	(650.4)	-
								101.4	1.6	103.0	1.
air value of								-	-	-	-
ital								21.5	0.7	22.2	10.
orary es								(6.1)	-	(6.1)	-
								4.7	289.3	294.0	2.
								8.3	260.0	268.3	9.
								(1.5)	-	(1.5)	(3.
								(0.3)	6.0	5.7	-
								6.6	1.2	7.8	13.
s)											
axes								\$ (542.0)	\$ 24.4	\$ (517.6)	\$ (4.

ended 2018	Reinsurance Segment			Insurance Segment			Subtotal	Alleghany Capital	Total Segments	Corpor Activiti
	Property	Casualty & Other <sup>(1)</sup>	Total	RSUI	Cap Specialty	Total (\$ in millions)				
\$	\$ 1,193.7	\$ 2,130.9	\$ 3,324.6	\$ 854.2	\$ 247.1	\$ 1,101.3	\$ 4,425.9	\$ -	\$ 4,425.9	\$(19.
	912.1	2,046.8	2,958.9	579.8	229.6	809.4	3,768.3	-	3,768.3	-



earned	893.7	2,009.3	2,903.0	556.2	211.0	767.2	3,670.2	-	3,670.2	-	
DE	637.7	1,304.3	1,942.0	309.6	114.9	424.5	2,366.5	-	2,366.5	-	
ther											
	301.2	663.6	964.8	160.0	91.2	251.2	1,216.0	-	1,216.0	-	
ross)	\$ (45.2)	\$ 41.4	\$ (3.8)	\$ 86.6	\$ 4.9	\$ 91.5	87.7	-	87.7	-	
air value of							362.0	3.7	365.7	12.3	
s							506.7	-	506.7	6.1	
ital							66.8	0.6	67.4	(0.1)	
orary							(0.5)	-	(0.5)	-	
es							16.7	979.2	995.9	36.1	
							60.6	937.0	997.6	25.1	
							1.8	-	1.8	39.1	
s							(0.2)	17.0	16.8	-	
							20.5	6.1	26.6	39.1	
s)											
axes							\$ 956.7	\$ 23.4	\$ 980.1	\$ (49.1)	
ended	Reinsurance Segment			Insurance Segment			Total (\$ in millions)	Subtotal	Alleghany Capital	Total Segments	Corpor
017	Property	Casualty & Other <sup>(1)</sup>	Total	RSUI	Cap Specialty	Pacific Comp					
s	\$ 1,190.0	\$ 2,037.7	\$ 3,227.7	\$ 794.1	\$ 213.2	\$ 124.2	\$ 1,131.5	\$ 4,359.2	\$ -	\$ 4,359.2	\$ (16.1)
	931.4	1,975.3	2,906.7	558.0	198.9	122.9	879.8	3,786.5	-	3,786.5	-
earned	868.1	1,968.7	2,836.8	540.3	192.2	123.5	856.0	3,692.8	-	3,692.8	-
DE	904.6	1,344.7	2,249.3	479.7	105.7	91.3	676.7	2,926.0	-	2,926.0	-
ther											
	283.7	662.9	946.6	158.3	83.3	32.2	273.8	1,220.4	-	1,220.4	-
	\$ (320.2)	\$ (38.9)	\$ (359.1)	\$ (97.7)	\$ 3.2	\$ -	\$ (94.5)	(453.6)	-	(453.6)	-

loss)

	311.7	2.1	313.8	8.
air value of	-	-	-	-
ital	90.8	0.9	91.7	10.
orary	(13.1)	-	(13.1)	-
es	10.5	626.8	637.3	13.
	57.4	591.0	648.4	29.
	0.2	-	0.2	26.
	(1.2)	15.4	14.2	-
	20.2	3.0	23.2	39.
s) before income	\$ (130.3)	\$ 20.4	\$ (109.9)	\$ (64.

- (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, change in the fair value of equity securities, net realized capital gains, OTTI losses, noninsurance 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 reinsurance and insurance segments

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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 reinsurance 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.

**(c) Identifiable Assets and Equity**

The following table presents identifiable assets, the portion of identifiable assets related to cash and invested assets, and equity attributable to Alleghany, for Alleghany's reportable segments and for corporate activities as of September 30, 2018:

	Identifiable Assets	Invested Assets and Cash (\$ in millions)	Equity Attributable to Alleghany
Reinsurance segment	\$ 16,740.1	\$ 13,461.2	\$ 5,167.6
Insurance segment	7,056.8	5,586.2	3,092.8
Subtotal	23,796.9	19,047.4	8,260.4
Alleghany Capital	1,476.6	195.4	855.8
Total segments	25,273.5	19,242.8	9,116.2
Corporate activities	522.4	446.8	(521.1)
Consolidated	\$ 25,795.9	\$ 19,689.6	\$ 8,595.1

Included in Alleghany Capital is debt associated with its operating subsidiaries, which totaled \$197.7 million as of September 30, 2018. The \$197.7 million includes \$102.3 million of borrowings by W&WIAFCO Steel under its available credit facility and term loans (including borrowings incurred and assumed from its acquisition of Hirschfeld), \$43.0 million of borrowings by Jazwares under its available credit facility, \$21.5 million of term loans at Kentucky Trailer primarily related to borrowings to finance small acquisitions and borrowings under its available credit facility, \$16.5 million of borrowings by IPS under its available credit facility, and \$14.4 million of term loans at Bourn & Koch related to borrowings to finance an acquisition and borrowings under its available credit facility. None of these liabilities are guaranteed by Alleghany or Alleghany Capital.

**(d) Alleghany Capital Noninsurance Revenue**

For Alleghany Capital's industrial and non-industrial operations, noninsurance revenue consists of the sale of manufactured goods and services. The following table presents noninsurance revenue for the Alleghany Capital segment for the three and nine months ended September 30, 2018 and 2017:

Three Months Ended                      Nine Months Ended

	September 30,		September 30,	
	2018	2017	2018	2017
	(\$ in millions)			
Industrial <sup>(1)</sup>	\$ 224.2	\$ 137.9	\$ 591.6	\$ 254.2
Non-Industrial <sup>(2)</sup>	183.7	150.9	387.9	372.1
Corporate & other	(0.4)	0.5	(0.3)	0.5
Alleghany Capital	\$ 407.5	\$ 289.3	\$ 979.2	\$ 626.8

- (1) For the three and nine months ended September 30, 2018, the vast majority of noninsurance revenues were recognized as goods and services transferred to customers over time. For the three and nine months ended September 30, 2017, approximately 77 percent and 67 percent, respectively, of noninsurance revenues were recognized as services were transferred to customers over time, with the remainder recognized as goods transferred at a point in time. See Note 1(c) of this Form 10-Q for additional information regarding Alleghany's adoption of new revenue recognition accounting guidance effective in the first quarter of 2018.
- (2) For the three and nine months ended September 30, 2018, approximately 60 percent and 65 percent, respectively, of noninsurance revenues were recognized as services transferred to customers over time, with the remainder recognized as goods transferred at a point in time. For the three and nine months ended September 30, 2017, approximately 56 percent and 69 percent, respectively, of noninsurance revenues were recognized as services were transferred to customers over time, with the remainder recognized as goods were transferred at a point in time. See Note 1(c) of this Form 10-Q for additional information regarding Alleghany's adoption of new revenue recognition accounting guidance effective in the first quarter of 2018.

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

The following is a discussion and analysis of our financial condition and results of operations for the three and nine months ended September 30, 2018 and 2017. 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, or 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, 2017, or the 2017 Form 10-K.

References in 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 former wholly-owned subsidiary Pacific Compensation Corporation and its subsidiary, which were sold on December 31, 2017;

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

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

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

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

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

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

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

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

W&WIAFCO Steel are to our majority-owned subsidiary WWSC Holdings, LLC and its subsidiaries; and

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

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**Note on Forward-Looking Statements**

Certain statements contained in this Form 10-Q may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as may, will, expect, project, estimate, anticipate, plan, believe, potential, should or the use of those words or other comparable words. Forward-looking statements do not relate solely to historical or current facts, rather they are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time. These statements are not guarantees of future performance. These forward-looking statements are based upon Alleghany's current expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and Alleghany's future financial condition and results. Factors that could cause these forward-looking statements to differ, possibly materially, from that currently contemplated include:

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

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

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

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

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

the cost and availability of reinsurance;

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

legal, political, judicial and regulatory changes;

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

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

claims development and the process of estimating reserves;

exposure to terrorist acts and acts of war;

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

the uncertain nature of damage theories and loss amounts;

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

fluctuation in foreign currency exchange rates;

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

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

risks inherent in international operations; and

difficult and volatile conditions in the global market.

Additional risks and uncertainties include general economic and political conditions, including the effects of a prolonged U.S. or global economic downturn or recession; changes in costs; variations in political, economic or other factors; risks relating to conducting operations in a competitive environment; effects of acquisition and disposition activities, inflation rates, or recessionary or expansive trends; changes in interest rates; extended labor disruptions, civil unrest, or other external factors over which we have no control; changes in our plans, strategies, objectives, expectations, or intentions, which may happen at any time at our discretion; and other factors discussed in the 2017 Form 10-K and subsequent filings with the Securities and Exchange Commission, or the SEC. All forward-looking statements speak only as of the date they are made and are based on information available at that time. Alleghany does not undertake any obligation to update or revise any forward-looking statements to reflect subsequent circumstances or events. See Part I, Item 1A, "Risk Factors" of the 2017 Form 10-K for additional information.



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### **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 U.S., 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 operating earnings before income taxes, which are non-GAAP financial measures, as such term is defined in Item 10(e) of Regulation S-K promulgated by the SEC. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. These measures may also be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. A discussion of our calculation and use of these financial measures is provided below.

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

Operating earnings before income taxes is a non-GAAP financial measure for our noninsurance operating subsidiaries and investments in the Alleghany Capital segment. Operating earnings before income taxes represents noninsurance revenue less all operating expenses, and does not include: (i) amortization of intangible assets; (ii) change in the fair value of equity securities; (iii) net realized capital gains; (iv) OTTI losses; and (v) income taxes. Because operating earnings before income taxes excludes amortization of intangible assets, change in the fair value of equity securities, net realized capital gains, OTTI losses and income taxes, it provides an indication of economic performance that is not affected by investment activity, levels of effective tax rates or levels of amortization resulting from acquisition accounting. We use operating earnings before income taxes as a supplement to earnings before income taxes, the most comparable GAAP financial measure, to evaluate the performance of certain of our noninsurance operating subsidiaries and investments. A reconciliation of operating earnings before income taxes to earnings before income taxes is presented within Consolidated Results of Operations.

In prior filings, we have used Adjusted EBITDA as a non-GAAP financial measure for our noninsurance operating subsidiaries held by Alleghany Capital. We believe that operating earnings before income taxes is a more useful non-GAAP financial measure, as it reflects: (i) ongoing capital expenditures through the inclusion of depreciation expense (a component of other operating expenses); and (ii) ongoing levels of debt through the inclusion of interest expense.

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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 \$284.9 million in the third quarter of 2018, compared with net losses attributable to Alleghany stockholders of \$314.2 million in the third quarter of 2017, and net earnings attributable to Alleghany stockholders were \$751.6 million in the first nine months of 2018, compared with net losses attributable to Alleghany stockholders of \$63.2 million in the first nine months of 2017.

Net investment income increased by 21.6 percent and 17.3 percent in the third quarter and first nine months of 2018, respectively, from the corresponding 2017 periods.

Net premiums written decreased by 1.7 percent and 0.5 percent in the third quarter and first nine months of 2018, respectively, from the corresponding 2017 periods.

Underwriting loss was \$140.0 million in the third quarter of 2018, compared with \$650.4 million in the third quarter of 2017, and underwriting profit was \$87.7 million in the first nine months of 2018, compared with underwriting loss of \$453.6 million in the first nine months of 2017.

The combined ratio for our reinsurance and insurance segments was 111.5 percent in the third quarter of 2018, compared with 152.4 percent in the third quarter of 2017, and 97.6 percent in the first nine months of 2018, compared with 112.2 percent in the first nine months of 2017.

Catastrophe losses, net of reinsurance, were \$237.8 million in the third quarter of 2018, compared with \$792.5 million in the third quarter of 2017, and \$256.2 million in the first nine months of 2018, compared with \$807.9 million in the first nine months of 2017.

Net favorable prior accident year loss reserve development was \$75.0 million in the third quarter of 2018, compared with \$61.5 million in the third quarter of 2017, and \$212.8 million in the first nine months of 2018, compared with \$173.0 million in the first nine months of 2017.

Noninsurance revenues for Alleghany Capital were \$407.5 million in the third quarter of 2018, compared with \$289.3 million in the third quarter of 2017, and \$979.2 million in the first nine months of 2018, compared with \$626.8 million in the first nine months of 2017.

Earnings before income taxes for Alleghany Capital were \$17.3 million in the third quarter of 2018, compared with \$24.4 million in the third quarter of 2017, and \$23.4 million in the first nine months of 2018, compared with \$20.4 million in the first nine months of 2017. Operating earnings before income taxes were \$23.1 million in the third quarter of 2018, compared with \$29.7 million in the third quarter of 2017, and \$39.8 million in the first nine months of 2018, compared with \$34.9 million in the first nine months of 2017.

As of September 30, 2018, we had total assets of \$25.8 billion and total stockholders' equity attributable to Alleghany stockholders of \$8.6 billion. As of September 30, 2018, we had consolidated total investments of approximately \$19.0 billion, consisting of \$12.1 billion invested in debt securities, \$5.0 billion invested in equity securities, \$0.7 billion invested in short-term investments, \$0.7 billion invested in commercial mortgage loans and \$0.5 billion invested in other invested assets.

We incurred catastrophe losses in the third quarter of 2018, primarily from Hurricane Florence, which caused widespread property damage and flooding in September 2018, primarily in the State of North Carolina, and Typhoons Jebi and Trami, each of which caused widespread property damage and flooding in September 2018, primarily in Japan. We incurred significant catastrophe losses in the third quarter of 2017, primarily arising from three major hurricanes. Hurricane Harvey caused widespread property damage and flooding in August 2017, primarily in the State of Texas. Hurricane Irma caused widespread property damage and flooding in September 2017, primarily in the State of Florida. Hurricane Maria caused widespread property damage and flooding in September 2017, primarily in the Commonwealth of Puerto Rico. Our loss estimates for all of these catastrophes were based on information available at the time, including an analysis of reported claims, an underwriting review of in-force contracts, estimates of losses resulting from wind and other perils, including storm surge and flooding to the extent covered by applicable policies, and other factors requiring considerable judgment.

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The following tables present the impact of our catastrophe losses, net of reinsurance, for the three months ended September 30, 2018 and 2017:

	Reinsurance Segment	Insurance Segment (\$ in millions)	Total Segments
<b>Three Months Ended September 30, 2018</b>			
Net loss and LAE:			
Typhoon Jebi	\$ 87.7	\$ -	\$ 87.7
Hurricane Florence	46.2	34.0	80.2
Typhoon Trami	38.5	-	38.5
Other	23.4 <sup>(1)</sup>	8.0 <sup>(2)</sup>	31.4
Total net loss and LAE	195.8	42.0	237.8
Net reinstatement premiums (earned) <sup>(3)</sup>	(10.8)	-	(10.8)
Losses before income taxes	185.0	42.0	227.0
Income taxes	38.9	8.8	47.7
Net losses attributable to Alleghany stockholders	\$ 146.1	\$ 33.2	\$ 179.3
<b>Three Months Ended September 30, 2017</b>			
Net loss and LAE:			
Hurricane Harvey	\$ 181.0	\$ 83.6	\$ 264.6
Hurricane Irma	208.3	103.7	312.0
Hurricane Maria	156.0	14.3	170.3
Other	30.7 <sup>(4)</sup>	14.9	45.6
Total net loss and LAE	576.0	216.5	792.5
Net reinstatement premiums (earned) <sup>(3)</sup>	(37.1)	-	(37.1)
Losses before income taxes	538.9	216.5	755.4
Income taxes	188.6	75.8	264.4
Net losses attributable to Alleghany stockholders	\$ 350.3	\$ 140.7	\$ 491.0

(1) Relates to several severe weather events in East Asia.

(2) Includes \$7.1 million attributable to RSUI and \$0.9 million attributable to CapSpecialty.

(3) Represents an increase in net premiums earned.

(4) Attributable to earthquakes in Mexico.

Our catastrophe losses are more fully described in the following pages.



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

The following table presents our consolidated revenues, costs and expenses and earnings:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(\$ in millions)			
<b>Revenues</b>				
Net premiums earned	\$ 1,225.4	\$ 1,239.7	\$ 3,670.2	\$ 3,692.8
Net investment income	127.3	104.7	377.7	321.9
Change in the fair value of equity securities	370.2	-	512.8	-
Net realized capital gains	16.2	32.9	67.2	101.8
Other than temporary impairment losses	-	(6.1)	(0.5)	(13.1)
Noninsurance revenue	438.3	296.3	1,032.7	650.4
 Total revenues	 2,177.4	 1,667.5	 5,660.1	 4,753.8
<b>Costs and Expenses</b>				
Net loss and loss adjustment expenses	957.7	1,491.9	2,366.5	2,926.0
Commissions, brokerage and other underwriting expenses	407.7	398.2	1,216.0	1,220.4
Other operating expenses	415.3	277.9	1,023.5	678.2
Corporate administration	19.1	(4.7)	41.0	26.6
Amortization of intangible assets	5.5	5.7	16.8	14.2
Interest expense	22.2	20.8	66.0	62.7
 Total costs and expenses	 1,827.5	 2,189.8	 4,729.8	 4,928.1
 Earnings (losses) before income taxes	 349.9	 (522.3)	 930.3	 (174.3)
Income taxes	60.4	(212.3)	171.2	(116.3)
 Net earnings (losses)	 289.5	 (310.0)	 759.1	 (58.0)
Net earnings attributable to noncontrolling interests	4.6	4.2	7.5	5.2
 Net earnings (losses) attributable to Alleghany stockholders	 \$ 284.9	 \$ (314.2)	 \$ 751.6	 \$ (63.2)

Alleghany's segments are reported in a manner consistent with the way management evaluates the business. As such, Alleghany classifies its business into three reportable segments—reinsurance, insurance and Alleghany Capital. Alleghany determined that Alleghany Capital qualified as a reportable segment in the first quarter of 2018, reflecting the increased significance of Alleghany Capital's business to Alleghany and its projected growth. Corporate activities are not classified as a segment.

See Note 10 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 tables below present the results for our segments and for other activities for the three and nine months ended September 30, 2018 and 2017.

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Months Ended September 30, 2018	Reinsurance Segment	Insurance Segment	Segments Subtotal (\$ in millions)	Alleghany Capital	Total Segments	Corporate Activities <sup>(1)</sup>	Consolidated
Premiums written	\$ 1,137.3	\$ 344.7	\$ 1,482.0	\$ -	\$ 1,482.0	\$ (6.7)	\$ -
Premiums written	985.2	253.9	1,239.1	-	1,239.1	-	-
Premiums earned	961.5	263.9	1,225.4	-	1,225.4	-	-
Underwriting Loss and LAE:							
Underwriting loss (excluding catastrophe)	654.7	140.2	794.9	-	794.9	-	-
Underwriting loss catastrophe losses	195.8	42.0	237.8	-	237.8	-	-
Underwriting loss catastrophe losses	(41.5)	(33.5)	(75.0)	-	(75.0)	-	-
Underwriting loss and LAE	809.0	148.7	957.7	-	957.7	-	-
Underwriting loss, brokerage and other							
Underwriting expenses	324.9	82.8	407.7	-	407.7	-	-
Underwriting (loss) profit <sup>(2)</sup>	\$ (172.4)	\$ 32.4	(140.0)	-	(140.0)	-	-
Investment income			122.5	0.7	123.2	4.1	
Change in the fair value of equity securities			373.9	-	373.9	(3.7)	
Realized capital gains			16.2	-	16.2	-	
Realized temporary impairment losses			-	-	-	-	
Insurance revenue			6.2	407.5	413.7	24.6	
Operating expenses			23.6	382.5	406.1	9.2	
General administration			1.3	-	1.3	17.8	
Amortization of intangible assets			(0.3)	5.8	5.5	-	
Expense			6.7	2.6	9.3	12.9	
Underwriting (losses) before income taxes			\$ 347.5	\$ 17.3	\$ 364.8	\$ (14.9)	\$ -
(3):							
Underwriting loss (excluding catastrophe)	68.1%	53.1%	64.9%				
Underwriting loss catastrophe losses	20.4%	15.9%	19.4%				
Underwriting loss catastrophe losses	(4.4%)	(12.7%)	(6.1%)				
Underwriting loss and LAE	84.1%	56.3%	78.2%				
Ratio <sup>(4)</sup>	33.8%	31.4%	33.3%				
Ratio <sup>(5)</sup>	117.9%	87.7%	111.5%				





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Months Ended September 30, 2017	Segments			Alleghany Capital (\$ in millions)	Total Segments	Corporate Activities <sup>(1)</sup>	Consolidated
	Reinsurance Segment	Insurance Segment	Subtotal				
Premiums written	\$ 1,126.6	\$ 350.5	\$ 1,477.1	\$ -	\$ 1,477.1	\$ (5.3)	\$ -
Premiums written	978.5	281.8	1,260.3	-	1,260.3	-	-
Premiums earned	953.2	286.5	1,239.7	-	1,239.7	-	-
Net loss and LAE:							
Year (excluding catastrophe)	593.0	167.9	760.9	-	760.9	-	-
Year catastrophe losses	576.0	216.5	792.5	-	792.5	-	-
Reinsurance commissions	(49.8)	(11.7)	(61.5)	-	(61.5)	-	-
Net loss and LAE	1,119.2	372.7	1,491.9	-	1,491.9	-	-
Commissions, brokerage and other							
Operating expenses	308.9	89.3	398.2	-	398.2	-	-
Operating (loss) <sup>(2)</sup>	\$ (474.9)	\$ (175.5)	(650.4)	-	(650.4)	-	-
Investment income			101.4	1.6	103.0	1.7	1.7
Change in the fair value of equity securities			-	-	-	-	-
Realized capital gains			21.5	0.7	22.2	10.7	10.7
Unrealized temporary impairment losses			(6.1)	-	(6.1)	-	-
Insurance revenue			4.7	289.3	294.0	2.3	2.3
Operating expenses			8.3	260.0	268.3	9.6	9.6
General administration			(1.5)	-	(1.5)	(3.2)	(3.2)
Amortization of intangible assets			(0.3)	6.0	5.7	-	-
Other expense			6.6	1.2	7.8	13.0	13.0
(Losses) before income taxes			\$ (542.0)	\$ 24.4	\$ (517.6)	\$ (4.7)	\$ -
Income tax expense <sup>(3)</sup> :							
Year (excluding catastrophe)	62.3%	58.6%	61.4%				
Year catastrophe losses	60.4%	75.6%	63.9%				
Reinsurance commissions	(5.2%)	(4.1%)	(5.0%)				
Net loss and LAE	117.5%	130.1%	120.3%				
Operating ratio <sup>(4)</sup>	32.3%	31.2%	32.1%				
Combined ratio <sup>(5)</sup>	149.8%	161.3%	152.4%				



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Periods Ended September 30, 2018	Reinsurance Segment	Insurance Segment	Segments Subtotal	Alleghany Capital (\$ in millions)	Total Segments	Corporate Activities <sup>(1)</sup>	Cor
Premiums written	\$ 3,324.6	\$ 1,101.3	\$ 4,425.9	\$ -	\$ 4,425.9	\$ (19.2)	\$
Reinsurance written	2,958.9	809.4	3,768.3	-	3,768.3	-	
Premiums earned	2,903.0	767.2	3,670.2	-	3,670.2	-	
Underwriting Loss and LAE:							
Underwriting loss (excluding catastrophe losses)	1,909.9	413.2	2,323.1	-	2,323.1	-	
Underwriting loss catastrophe losses	195.8	60.4	256.2	-	256.2	-	
Underwriting loss	(163.7)	(49.1)	(212.8)	-	(212.8)	-	
Underwriting loss and LAE	1,942.0	424.5	2,366.5	-	2,366.5	-	
Underwriting loss, brokerage and other							
Underwriting expenses	964.8	251.2	1,216.0	-	1,216.0	-	
Underwriting (loss) profit <sup>(2)</sup>	\$ (3.8)	\$ 91.5	87.7	-	87.7	-	
Investment income			362.0	3.7	365.7	12.0	
Change in the fair value of equity securities			506.7	-	506.7	6.1	
Realized capital gains			66.8	0.6	67.4	(0.2)	
Realized temporary impairment losses			(0.5)	-	(0.5)	-	
Interest revenue			16.7	979.2	995.9	36.8	
Operating expenses			60.6	937.0	997.6	25.9	
General and administration			1.8	-	1.8	39.2	
Amortization of intangible assets			(0.2)	17.0	16.8	-	
Provision for doubtful accounts			20.5	6.1	26.6	39.4	
Operating (losses) before income taxes			\$ 956.7	\$ 23.4	\$ 980.1	\$ (49.8)	\$
Operating (losses) before income taxes:							
Operating (losses) before income taxes (excluding catastrophe losses)	65.8%	53.9%	63.3%				
Operating (losses) before income taxes catastrophe losses	6.7%	7.8%	7.0%				
Operating (losses) before income taxes	(5.6%)	(6.4%)	(5.8%)				
Operating (losses) before income taxes and LAE	66.9%	55.3%	64.5%				
Operating (losses) before income taxes ratio <sup>(4)</sup>	33.2%	32.7%	33.1%				
Operating (losses) before income taxes ratio <sup>(5)</sup>	100.1%	88.0%	97.6%				



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The Months Ended September 30, 2017	Segments						
	Reinsurance Segment	Insurance Segment	Subtotal	Alleghany Capital	Total Segments	Corporate Activities <sup>(1)</sup>	Consolidated
	(\$ in millions)						
Gross premiums written	\$ 3,227.7	\$ 1,131.5	\$ 4,359.2	\$ -	\$ 4,359.2	\$ (16.5)	\$ 4,342.7
Net premiums written	2,906.7	879.8	3,786.5	-	3,786.5	-	3,786.5
Net premiums earned	2,836.8	856.0	3,692.8	-	3,692.8	-	3,692.8
Net loss and LAE:							
Current year (excluding catastrophe losses)	1,814.1	477.0	2,291.1	-	2,291.1	-	2,291.1
Current year catastrophe losses	576.0	231.9	807.9	-	807.9	-	807.9
For years	(140.8)	(32.2)	(173.0)	-	(173.0)	-	(173.0)
Total net loss and LAE	2,249.3	676.7	2,926.0	-	2,926.0	-	2,926.0
Commissions, brokerage and other							
Underwriting expenses	946.6	273.8	1,220.4	-	1,220.4	-	1,220.4