ALLEGHANY CORP /DE
Form 10-Q
August 04, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

OR

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

COMMISSION FILE NUMBER 1-9371

ALLEGHANY CORPORATION

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER

DELAWARE

STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION

51-0283071

I.R.S. EMPLOYER IDENTIFICATION NO.

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

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE

212-752-1356

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE

NOT APPLICABLE

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

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY AND POSTED ON ITS CORPORATE WEB SITE, IF ANY, EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED AND POSTED PURSUANT TO RULE 405 OF REGULATION S-T (SECTION 232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES). YES x NO ¨

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

LARGE ACCELERATED FILER	x		ACCELERATED FILER	¨
NON-ACCELERATED FILER	¨	(DO NOT CHECK IF A SMALLER REPORTING COMPANY)	SMALLER REPORTING COMPANY	¨

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT).   YES ¨   NO x

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

15,968,404 SHARES, PAR VALUE $1.00 PER SHARE, AS OF JULY 29, 2015

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ALLEGHANY CORPORATION

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2015 (unaudited)	December 31, 2014
	(in thousands, except share amounts)	
Assets		
Investments:		
Available-for-sale securities at fair value:		
Equity securities (cost: 2015 $2,701,247; 2014 $2,366,035)	**$ 3,143,572**	$ 2,815,484
Debt securities (amortized cost: 2015 $14,465,377; 2014 $14,364,430)	**14,564,927**	14,598,641
Short-term investments	**601,456**	715,553
	18,309,955	18,129,678
Other invested assets	**741,602**	705,665
Total investments	**19,051,557**	18,835,343
Cash	**647,901**	605,259
Accrued investment income	**124,034**	136,511
Premium balances receivable	**843,043**	683,848
Reinsurance recoverables	**1,395,146**	1,361,083
Ceded unearned premiums	**199,137**	184,435
Deferred acquisition costs	**385,384**	353,169
Property and equipment at cost, net of accumulated depreciation and amortization	**96,889**	88,910
Goodwill	**111,904**	111,904
Intangible assets, net of amortization	**136,089**	133,378
Current taxes receivable	**80,788**	91,202
Net deferred tax assets	**385,534**	389,597
Other assets	**470,882**	514,797
Total assets	**$ 23,928,288**	$ 23,489,436
Liabilities and Stockholders Equity		
Loss and loss adjustment expenses	**$ 11,463,561**	$ 11,597,216
Unearned premiums	**1,979,323**	1,834,184
Senior Notes	**1,762,069**	1,767,125
Reinsurance payable	**84,691**	79,100
Other liabilities	**988,261**	729,767

Total liabilities	**16,277,905**	16,007,392
Common stock (shares authorized: 2015 and 2014 22,000,000; shares issued: 2015 and 2014 17,459,961)	**17,460**	17,460
Contributed capital	**3,609,918**	3,610,717
Accumulated other comprehensive income	**252,234**	353,584
Treasury stock, at cost (2015 1,484,796 shares; 2014 1,405,638 shares)	**(544,960)**	(507,699)
Retained earnings	**4,307,053**	3,999,366
Total stockholders equity attributable to Alleghany stockholders	**7,641,705**	7,473,428
Noncontrolling interest	**8,678**	8,616
Total stockholders equity	**7,650,383**	7,482,044
Total liabilities and stockholders equity	**$ 23,928,288**	$ 23,489,436

See accompanying Notes to Unaudited Consolidated Financial Statements.

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ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Three Months Ended June 30,	
	2015	2014
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	**$ 1,074,723**	$ 1,098,944
Net investment income	**103,087**	114,094
Net realized capital gains	**86,160**	41,524
Other than temporary impairment losses	**(7,317)**	(932)
Other income	**43,785**	37,586
Total revenues	**1,300,438**	1,291,216
Costs and Expenses		
Net loss and loss adjustment expenses	**595,455**	629,213
Commissions, brokerage and other underwriting expenses	**363,954**	359,604
Other operating expenses	**63,812**	66,236
Corporate administration	**9,841**	12,687
Amortization of intangible assets	**(1,051)**	(876)
Interest expense	**23,375**	21,932
Total costs and expenses	**1,055,386**	1,088,796
Earnings before income taxes	**245,052**	202,420
Income taxes	**61,905**	53,186
Net earnings	**183,147**	149,234
Net earnings attributable to noncontrolling interest	**669**	254
Net earnings attributable to Alleghany stockholders	**$ 182,478**	$ 148,980
Net earnings	**$ 183,147**	$ 149,234
Other comprehensive income:		
Change in unrealized gains, net of deferred taxes of ($58,871) and $110,976 for 2015 and 2014, respectively	**(109,332)**	206,098
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of ($27,595) and ($14,207) for 2015 and 2014, respectively	**(51,248)**	(26,385)
Change in unrealized currency translation adjustment, net of deferred taxes of $1,555 and $3,126 for 2015 and 2014, respectively	**2,888**	5,805
Retirement plans	**137**	(7)

Comprehensive income		**25,592**		334,745
Comprehensive income (losses) attributable to noncontrolling interest		**669**		254
Comprehensive income attributable to Alleghany stockholders	**$**	**24,923**	$	334,491
Basic earnings per share attributable to Alleghany stockholders	**$**	**11.41**	$	9.06
Diluted earnings per share attributable to Alleghany stockholders		**11.40**		9.06

See accompanying Notes to Unaudited Consolidated Financial Statements.

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ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Six Months Ended June 30,	
	2015	2014
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	**$ 2,091,894**	$ 2,152,941
Net investment income	**216,469**	224,677
Net realized capital gains	**129,311**	138,360
Other than temporary impairment losses	**(59,598)**	(6,152)
Other income	**79,985**	68,032
Total revenues	**2,458,061**	2,577,858
Costs and Expenses		
Net loss and loss adjustment expenses	**1,142,371**	1,240,372
Commissions, brokerage and other underwriting expenses	**707,563**	683,840
Other operating expenses	**131,217**	119,578
Corporate administration	**22,519**	22,319
Amortization of intangible assets	**(2,711)**	(2,737)
Interest expense	**46,467**	43,743
Total costs and expenses	**2,047,426**	2,107,115
Earnings before income taxes	**410,635**	470,743
Income taxes	**102,068**	116,868
Net earnings	**308,567**	353,875
Net earnings attributable to noncontrolling interest	**880**	15
Net earnings attributable to Alleghany stockholders	**$ 307,687**	$ 353,860
Net earnings	$ 308,567	$ 353,875
Other comprehensive income:		
Change in unrealized gains, net of deferred taxes of ($25,730) and $192,340 for 2015 and 2014, respectively	**(47,785)**	357,203
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of ($24,400) and ($46,273) for 2015 and 2014, respectively	**(45,313)**	(85,935)
Change in unrealized currency translation adjustment, net of deferred taxes of ($4,236) and $3,358 for 2015 and 2014, respectively	**(7,867)**	6,237
Retirement plans	**(385)**	126

Comprehensive income		**207,217**		631,506
Comprehensive income (losses) attributable to noncontrolling interest		**880**		15
Comprehensive income attributable to Alleghany stockholders	**$**	**206,337**	$	631,491
Basic earnings per share attributable to Alleghany stockholders	**$**	**19.22**	$	21.36
Diluted earnings per share attributable to Alleghany stockholders		**19.22**		21.36

See accompanying Notes to Unaudited Consolidated Financial Statements.

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ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30,	
	2015	2014
	(in thousands)	
Cash flows from operating activities		
Net earnings	**$ 308,567**	$ 353,875
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	**86,493**	83,512
Net realized capital (gains) losses	**(129,311)**	(138,360)
Other than temporary impairment losses	**59,598**	6,152
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	**(28,472)**	21,450
(Increase) decrease in premium balances receivable	**(159,195)**	(183,310)
(Increase) decrease in ceded unearned premiums	**(14,702)**	(42,446)
(Increase) decrease in deferred acquisition costs	**(32,215)**	(46,026)
Increase (decrease) in unearned premiums	**145,139**	234,650
Increase (decrease) in loss and loss adjustment expenses	**(133,655)**	(165,208)
Change in unrealized foreign exchange losses (gains)	**106,318**	(36,915)
Other, net	**120,405**	(97,143)
Net adjustments	**20,403**	(363,644)
Net cash provided by (used in) operating activities	**328,970**	(9,769)
Cash flows from investing activities		
Purchases of debt securities	**(4,145,599)**	(3,793,880)
Purchases of equity securities	**(2,461,698)**	(1,049,749)
Sales of debt securities	**3,100,866**	3,210,911
Maturities and redemptions of debt securities	**794,611**	635,041
Sales of equity securities	**2,155,293**	512,536
Net (purchase) sale in short-term investments	**109,187**	686,893
Purchases of property and equipment	**(13,355)**	(30,091)
Purchase of subsidiary, net of cash acquired	**(47,469)**	
Other, net	**273,495**	(93,506)
Net cash (used in) provided by investing activities	**(234,669)**	78,155
Cash flows from financing activities		
Treasury stock acquisitions	**(40,546)**	(159,907)
Other, net	**259**	10,126

Net cash (used in) provided by financing activities	**(40,287)**	(149,781)
Effect of exchange rate changes on cash	**(11,372)**	2,535
Net increase (decrease) in cash	**42,642**	(78,860)
Cash at beginning of period	**605,259**	498,315
Cash at end of period	**$ 647,901**	$ 419,455
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest paid	**$ 51,283**	$ 51,824
Income taxes paid (refunds received)	**31,036**	155,054

See accompanying Notes to Unaudited Consolidated Financial Statements.

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, 2014 (the 2014 10-K) and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 of Alleghany Corporation (Alleghany).

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

Although Alleghany s primary sources of revenues and earnings are its reinsurance and insurance operations and investments, Alleghany also manages, sources, executes and monitors certain private capital investments primarily through its wholly-owned subsidiary Alleghany Capital Corporation (ACC). ACC s private capital investments are included in corporate activities for segment reporting purposes and include: (i) Stranded Oil Resources Corporation (SORC), an exploration and production company focused on enhanced oil recovery, headquartered in Golden, Colorado; (ii) Bourn & Koch, Inc. (Bourn & Koch), a manufacturer and remanufacturer/retrofitter of precision machine tools and supplier of replacement parts, headquartered in Rockford, Illinois; (iii) R.C. Tway Company, LLC (Kentucky Trailer), a manufacturer of custom trailers and truck bodies for the moving and storage industry and other markets, headquartered in Louisville, Kentucky; (iv) an approximately 40 percent equity interest in ORX Exploration, Inc. (ORX), a regional oil and gas exploration and production company, headquartered in New Orleans, Louisiana; and (v) a 30 percent equity interest in Jazwares, LLC (Jazwares), a toy and consumer electronics company, headquartered in Sunrise, Florida, which interest was acquired on July 31, 2014 for $60.3 million. ORX and Jazwares are accounted for under the equity method of accounting. In addition, Alleghany owns and manages properties in the Sacramento, California region through its wholly-owned subsidiary Alleghany Properties Holdings LLC (Alleghany Properties).

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

The financial statements contained in this Form 10-Q are unaudited, but reflect all adjustments that, in the opinion of management, are necessary for a fair statement of results of the interim periods covered thereby. All adjustments are of a normal and recurring nature except as described herein.

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

The portion of stockholders equity, net earnings and accumulated other comprehensive income that is not attributable to Alleghany stockholders is presented on the Consolidated Balance Sheets and the Consolidated Statements of Earnings and Comprehensive Income as noncontrolling interest. Bourn & Koch and Kentucky Trailer each had approximately 20 percent noncontrolling interests outstanding during the first six months of 2015 and 2014.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Alleghany relies on historical experience and on various other assumptions that it believes to be reasonable under the circumstances to make judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from those reported results to the extent that those estimates and assumptions prove to be inaccurate. Changes in estimates are reflected in the consolidated statement of earnings and comprehensive income in the period in which the change is made. The results of operations for any interim period are not necessarily indicative of results for the full year.

(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 2014 10-K.

(c) Recent Accounting Standards

Recently Adopted

In April 2014, the Financial Accounting Standards Board (the FASB) issued guidance that changed the criteria for reporting discontinued operations. Under the new guidance, only disposals that represent a strategic shift in operations qualify as discontinued operations. In addition, the new guidance requires expanded disclosure about discontinued operations. This guidance was effective in the first quarter of 2015. Alleghany adopted this guidance in the first quarter of 2015 and the implementation did not have an impact on its results of operations and financial condition.

Future Application of Accounting Standards

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

In February 2015, the FASB issued guidance that amended the analysis that must be performed to determine whether an entity should consolidate certain types of legal entities. Under the new guidance, the evaluation of whether limited partnerships and similar entities are variable interest entities or voting interest entities is modified, the presumption that general partners should consolidate limited partnerships is eliminated and the process to determine the primary beneficiary of a variable interest entity is modified. This guidance is effective in the first quarter of 2016 for public entities, with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2016 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

In April 2015, the FASB issued guidance that requires debt issuance costs related to debt liabilities be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, which is consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. This guidance is effective in the first quarter of 2016 for public entities, with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2016 and does not currently believe that the implementation will have an impact on its results of operations and financial condition.

In May 2015, the FASB issued guidance that requires disclosures related to short-duration insurance contracts. The guidance applies to property and casualty insurance and reinsurance entities, among others, and requires the following annual disclosure related to the liability for loss and loss adjustment expenses (LAE): (i) net incurred and paid claims development information by accident year for up to ten years; (ii) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for loss and LAE;

(iii) incurred-but-not-reported liabilities by accident year and in total; (iv) a description of reserving methodologies (as well as any changes to those methodologies); (v) quantitative information about claim frequency by accident year; and (vi) the average annual percentage payout of incurred claims by age by accident year. In addition, the guidance requires insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for loss and LAE. This guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. Alleghany will adopt this guidance as of December 31, 2016 and does not currently believe that the implementation will have an impact on its results of operations and financial condition.

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2. Fair Value of Financial Instruments

The carrying values and estimated fair values of Alleghany s consolidated financial instruments as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Assets				
Investments (excluding equity method investments)[1]	$ 18,341.3	$ 18,341.3	$ 18,153.8	$ 18,153.8
Liabilities				
Senior Notes[2]	$ 1,762.1	$ 1,886.6	$ 1,767.1	$ 1,948.6

(1) This table includes available-for-sale (AFS) investments (debt and equity securities as well as partnership and non-marketable equity investments carried at fair value that are included in other invested assets). This table excludes investments accounted for using the equity method and certain loans receivable that are carried at cost, all of which are included in other invested assets. The fair value of short-term investments approximates amortized cost. Fair value for all other categories of investments is discussed in Note 1(c) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2014 10-K.

(2) See Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2014 10-K.

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Alleghany s financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of June 30, 2015 and December 31, 2014 were as follows:

	Level 1	Level 2	Level 3	Total
		(in millions)		
As of June 30, 2015				
Equity securities:				
Common stock	$ 3,135.2	$ 8.4	$	$ 3,143.6
Preferred stock				
Total equity securities	3,135.2	8.4		3,143.6
Debt securities:				
U.S. Government obligations		781.5		781.5
Municipal bonds		4,981.5		4,981.5
Foreign government obligations		900.4		900.4
U.S. corporate bonds		2,116.0	25.2	2,141.2
Foreign corporate bonds		1,436.1	0.7	1,436.8
Mortgage and asset-backed securities:				
Residential mortgage-backed securities (RMBS)[1]		1,588.6	16.6	1,605.2
Commercial mortgage-backed securities (CMBS)		1,147.8	21.0	1,168.8
Other asset-backed securities[2]		600.5	949.0	1,549.5
Total debt securities		13,552.4	1,012.5	14,564.9
Short-term investments		601.5		601.5
Other invested assets[3]			31.3	31.3
Total investments (excluding equity method investments)	$ 3,135.2	$ 14,162.3	$ 1,043.8	$ 18,341.3
Senior Notes	$	$ 1,886.6	$	$ 1,886.6

	Level 1	Level 2	Level 3	Total
		(in millions)		
As of December 31, 2014				
Equity securities:				
Common stock	$ 2,805.3	$ 10.2	$	$ 2,815.5
Preferred stock				
Total equity securities	2,805.3	10.2		2,815.5
Debt securities:				
U.S. Government obligations		541.1		541.1
Municipal bonds		5,197.5		5,197.5
Foreign government obligations		900.4		900.4

U.S. corporate bonds		2,118.1	36.7	2,154.8
Foreign corporate bonds		1,497.7	6.0	1,503.7
Mortgage and asset-backed securities:				
RMBS[(1)]		1,637.7	18.2	1,655.9
CMBS		1,102.0	23.3	1,125.3
Other asset-backed securities[(2)]		586.8	933.1	1,519.9
Total debt securities		13,581.3	1,017.3	14,598.6
Short-term investments		715.6		715.6
Other invested assets[(3)]			24.1	24.1
Total investments (excluding equity method investments)	$ 2,805.3	$ 14,307.1	$ 1,041.4	$ 18,153.8
Senior Notes	$	$ 1,948.6	$	$ 1,948.6

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

(2) Includes $935.6 million and $900.7 million of collateralized loan obligations as of June 30, 2015 and December 31, 2014, respectively.

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(3) Includes partnership and non-marketable equity investments accounted for on an AFS basis, and excludes investments accounted for using the equity method and certain loans receivable that are carried at cost.

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

In the three and six months ended June 30, 2015, there were transfers of $9.6 million of securities into Level 3 that were principally due to a decrease in observable inputs related to the valuation of such assets. Of the $9.6 million of transfers, $5.0 million related to other invested assets, $3.9 million related to U.S. corporate bonds and $0.7 million related to foreign corporate bonds.

In the six months ended June 30, 2014, there were transfers of $238.1 million of other invested assets out of Level 3. Of the $238.1 million, $232.9 million related to the conversion of an equity interest held by AIHL in the second quarter of 2014. As further described in Note 3(g), AIHL s investment in Ares Management L.P. (Ares) converted to limited partner interests in certain Ares subsidiaries during the second quarter of 2014, at which time the investment ceased to qualify as a financial instrument measured at fair value. No gain or loss was recognized upon the conversion.

In the six months ended June 30, 2014, there were transfers of $38.1 million of primarily other asset-backed securities (specifically, collateralized loan obligations) into Level 3 that were principally due to a decrease in observable inputs related to the valuation of such securities during the first quarter of 2014. There were no other significant transfers between Levels 1, 2 or 3 in the three and six months ended June 30, 2014.

The following tables present reconciliations of the changes in Level 3 assets measured at fair value during the six months ended June 30, 2015 and 2014:

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

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	Debt Securities						
			Mortgage and asset-backed				
	U.S. Corporate Bonds	Foreign Corporate Bonds	RMBS	CMBS	Other Asset-backed Securities	Other Invested Assets[1]	Total
	(in millions)						
Balance as of January 1, 2014	$ 27.5	$ 1.0	$ 78.8	$ 60.8	$ 258.4	$ 282.0	$ 708.5
Net realized/unrealized gains (losses) included in:							
Net earnings[2]	(0.1)		2.2	(0.2)	(0.3)	(0.1)	1.5
Other comprehensive income	0.1		0.8	0.1	(0.4)	1.2	1.8
Purchases	12.0	1.9		14.0	581.2		609.1
Sales	(7.7)	(1.1)		(1.0)	(52.7)		(62.5)
Issuances							
Settlements	(4.6)		(6.2)	(26.7)	(7.7)	(20.9)	(66.1)
Transfers into Level 3	9.0				29.1		38.1
Transfers out of Level 3						(238.1)	(238.1)
Balance as of June 30, 2014	$ 36.2	$ 1.8	$ 75.6	$ 47.0	$ 807.6	$ 24.1	$ 992.3

(1) Includes partnership and non-marketable equity investments accounted for on an AFS basis.
(2) There were no other than temporary impairment (OTTI) losses recorded in net earnings related to Level 3 investments still held as of June 30, 2015 and 2014.

Net unrealized losses related to Level 3 investments as of June 30, 2015 and December 31, 2014 were not material.

See Note 1(c) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2014 10-K for Alleghany s accounting policy on fair value.

3. Investments

(a) Unrealized Gains and Losses

The amortized cost or cost and the fair value of AFS securities as of June 30, 2015 and December 31, 2014 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
As of June 30, 2015				
Equity securities:				
Common stock	$ 2,701.3	$ 482.2	$ (39.9)	$ 3,143.6

Preferred stock				
Total equity securities	2,701.3	482.2	(39.9)	3,143.6
Debt securities:				
U.S. Government obligations	790.7	2.4	(11.6)	781.5
Municipal bonds	4,913.5	96.1	(28.1)	4,981.5
Foreign government obligations	885.1	17.3	(2.0)	900.4
U.S. corporate bonds	2,139.1	28.6	(26.5)	2,141.2
Foreign corporate bonds	1,417.2	30.4	(10.8)	1,436.8
Mortgage and asset-backed securities:				
RMBS	1,611.0	13.5	(19.3)	1,605.2
CMBS	1,159.1	15.0	(5.3)	1,168.8
Other asset-backed securities[1]	1,549.6	5.1	(5.2)	1,549.5
Total debt securities	14,465.3	208.4	(108.8)	14,564.9
Short-term investments	601.5			601.5
Total	$ 17,768.1	$ 690.6	$ (148.7)	$ 18,310.0

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	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
As of December 31, 2014				
Equity securities:				
Common stock	$ 2,366.0	$ 530.3	$ (80.8)	$ 2,815.5
Preferred stock				
Total equity securities	2,366.0	530.3	(80.8)	2,815.5
Debt securities:				
U.S. Government obligations	541.2	3.4	(3.5)	541.1
Municipal bonds	5,067.3	139.3	(9.1)	5,197.5
Foreign government obligations	876.7	23.7		900.4
U.S. corporate bonds	2,136.5	39.5	(21.2)	2,154.8
Foreign corporate bonds	1,460.5	47.7	(4.5)	1,503.7
Mortgage and asset-backed securities:				
RMBS	1,646.9	20.7	(11.7)	1,655.9
CMBS	1,104.2	22.5	(1.4)	1,125.3
Other asset-backed securities(1)	1,531.2	2.2	(13.5)	1,519.9
Total debt securities	14,364.5	299.0	(64.9)	14,598.6
Short-term investments	715.6			715.6
Total	$ 17,446.1	$ 829.3	$ (145.7)	$ 18,129.7

(1) Includes $935.6 million and $900.7 million of collateralized loan obligations as of June 30, 2015 and December 31, 2014, respectively.

(b) Contractual Maturity

The amortized cost and estimated fair value of debt securities as of June 30, 2015 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost or Cost	Fair Value
	(in millions)	
Short-term investments due in one year or less	$ 601.5	$ 601.5
Mortgage and asset-backed securities(1)	4,319.7	4,323.5
Debt securities with maturity dates:		

One year or less	553.2	556.6
Over one through five years	3,131.3	3,160.3
Over five through ten years	2,975.6	3,002.1
Over ten years	3,485.5	3,522.4
Total debt securities	14,465.3	14,564.9
Equity securities	2,701.3	3,143.6
Total	$ 17,768.1	$ 18,310.0

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

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(c) Net Investment Income

Net investment income for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Interest income	$ 92.5	$ 97.4	$ 187.2	$ 192.7
Dividend income	11.9	19.8	26.4	33.3
Investment expenses	(6.1)	(7.4)	(13.3)	(14.4)
Equity in results of Pillar Investments[1]	1.0	3.6	7.6	7.5
Equity in results of Ares[1]	3.3	3.0	5.6	3.1
Equity in results of ORX	(3.7)	(1.1)	(4.7)	(0.7)
Other investment results	4.2	(1.2)	7.7	3.2
Total	$ 103.1	$ 114.1	$ 216.5	$ 224.7

(1) See Note 3(g) for discussion of the Pillar Investments as defined therein and the investment in Ares.
As of June 30, 2015, non-income producing invested assets were insignificant.

(d) Realized Gains and Losses

The proceeds from sales of AFS securities were $2.5 billion and $1.7 billion for the three months ended June 30, 2015 and 2014, respectively, and $5.3 billion and $3.7 billion for the six months ended June 30, 2015 and 2014, respectively.

Realized capital gains and losses for the three and six months ended June 30, 2015 and 2014 primarily reflect sales of equity securities. Realized capital gains from equity securities for the three months ended June 30, 2015 include the sales of certain equity securities as a result of a modification of Alleghany s equity investment strategy, as well as the sales of certain equity securities which had their cost basis reduced in earlier periods for the recognition of OTTI losses. Realized capital gains in the second quarter of 2014 include a realized capital gain of $34.0 million from the sales of long-dated U.S. Treasury Strip debt securities in April 2014. The amounts of gross realized capital gains and gross realized capital losses for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Gross realized capital gains	$ 101.7	$ 46.2	$ 216.1	$ 153.9

Gross realized capital losses	(15.5)	(4.7)	(86.8)	(15.5)
Net realized capital gains	$ 86.2	$ 41.5	$ 129.3	$ 138.4

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

(e) OTTI Losses

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

Management s assessment of equity securities initially involves an evaluation of all securities that are in an unrealized loss position, regardless of the duration or severity of the loss, as of the applicable balance sheet date. Such initial review consists primarily of assessing whether: (i) there has been a negative credit or news event with respect to the issuer that could indicate the existence of an OTTI; and (ii) Alleghany has the ability and intent to hold an equity security for a period of time sufficient to allow for an anticipated recovery (generally considered to be one year from the balance sheet date).

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

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

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 20 percent discount to amortized cost for an extended period of time (nine consecutive months or longer); (ii) there has been a negative credit or news event with respect to the issuer that could indicate the existence of an OTTI; or (iii) Alleghany intends to sell, or it is more likely than not that Alleghany will sell, the debt security before recovery of its amortized cost basis.

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

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

OTTI losses in the first six months of 2015 reflect $59.6 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Upon the ultimate disposition of the securities for which OTTI losses have been recorded, a portion of the loss may be recoverable depending on market conditions at the time of disposition. Of the $59.6 million of OTTI losses, $58.8 million related to equity securities, primarily in the energy, gaming and mining sectors, and $0.8 million related to debt securities, primarily in the energy sector. The determination that unrealized losses on equity and debt securities were other than temporary was primarily based on the duration of the decline in the fair value of equity securities relative to their costs. Of the $59.6 million of

OTTI losses, $7.3 million was incurred in the second quarter of 2015.

OTTI losses for the first six months of 2014 reflect $6.2 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the $6.2 million of OTTI losses, $5.3 million related to equity securities and $0.9 million related to debt securities. The determination that unrealized losses on equity and debt securities were other than temporary was primarily based on the fact that Alleghany lacked the intent to hold the securities for a period of time sufficient to allow for an anticipated recovery. Of the $6.2 million of OTTI losses, $0.9 million was incurred in the second quarter of 2014.

After adjusting the cost basis of securities for the recognition of OTTI losses, the remaining gross unrealized investment losses for debt and equity securities as of June 30, 2015 were deemed to be temporary, based on, among other factors: (i) the duration of time and the relative magnitude to which the fair value of these investments had been below cost were not indicative of an OTTI loss (for example, no equity security was in a continuous unrealized loss position for 12 months or more as of June 30, 2015); (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 investment; and (iii) Alleghany s ability and intent to hold the investment 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 uses to assess other than temporary declines in value. Risks and uncertainties could include, but are not limited to, incorrect assumptions about financial condition, liquidity or future prospects, inadequacy of any underlying collateral and unfavorable changes in economic conditions or social trends, interest rates or credit ratings.

(f) Aging of Gross Unrealized Losses

As of June 30, 2015 and December 31, 2014, gross unrealized losses and related fair values for equity securities and debt securities, grouped by duration of time in a continuous unrealized loss position, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
As of June 30, 2015						
Equity securities:						
Common stock	$ 705.4	$ 39.9	$	$	$ 705.4	$ 39.9
Preferred stock						
Total equity securities	705.4	39.9			705.4	39.9
Debt securities:						
U.S. Government obligations	366.3	11.5	8.2	0.1	374.5	11.6
Municipal bonds	1,317.1	22.9	97.7	5.2	1,414.8	28.1
Foreign government obligations	218.2	2.0			218.2	2.0
U.S. corporate bonds	842.4	19.5	87.5	7.0	929.9	26.5
Foreign corporate bonds	397.2	10.4	11.4	0.4	408.6	10.8
Mortgage and asset-backed securities:						
RMBS	609.4	8.5	388.8	10.8	998.2	19.3
CMBS	321.7	4.9	36.7	0.4	358.4	5.3
Other asset-backed securities	640.5	3.1	198.5	2.1	839.0	5.2
Total debt securities	4,712.8	82.8	828.8	26.0	5,541.6	108.8
Total temporarily impaired securities	$ 5,418.2	$ 122.7	$ 828.8	$ 26.0	$ 6,247.0	$ 148.7

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

			(in millions)			
As of December 31, 2014						
Equity securities:						
Common stock	$ 514.4	$ 80.8	$	$	$ 514.4	$ 80.8
Preferred stock						
Total equity securities	514.4	80.8			514.4	80.8
Debt securities:						
U.S. Government obligations	270.5	3.1	16.3	0.4	286.8	3.5
Municipal bonds	105.2	0.8	372.0	8.3	477.2	9.1
Foreign government obligations	6.1		5.7		11.8	
U.S. corporate bonds	574.7	17.2	150.7	4.0	725.4	21.2
Foreign corporate bonds	133.4	4.1	26.2	0.4	159.6	4.5
Mortgage and asset-backed securities:						
RMBS	187.9	0.5	586.4	11.2	774.3	11.7
CMBS	176.5	0.7	60.9	0.7	237.4	1.4
Other asset-backed securities	1,041.1	12.7	175.3	0.8	1,216.4	13.5
Total debt securities	2,495.4	39.1	1,393.5	25.8	3,888.9	64.9
Total temporarily impaired securities	$ 3,009.8	$ 119.9	$ 1,393.5	$ 25.8	$ 4,403.3	$ 145.7

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As of June 30, 2015, Alleghany held a total of 1,044 debt securities and equity securities that were in an unrealized loss position, of which 100 securities, all debt securities, were in an unrealized loss position continuously for 12 months or more. The unrealized losses associated with the 100 debt securities consisted primarily of losses related to RMBS, U.S. corporate bonds and municipal bonds.

As of June 30, 2015, the vast majority of Alleghany s debt securities were rated investment grade, with approximately 3.6 percent of debt securities having issuer credit ratings that were below investment grade or not rated.

(g) Investments in Certain Other Invested Assets

In December 2012, TransRe obtained an ownership interest in Pillar Capital Holdings Limited (Pillar Holdings), a Bermuda-based insurance asset manager focused on collateralized reinsurance and catastrophe insurance-linked securities. Additionally, TransRe invested $175.0 million and AIHL invested $25.0 million in limited partnership funds managed by Pillar Holdings (the Funds). The objective of the Funds is to create portfolios with attractive risk-reward characteristics and low correlation with other asset classes, using the extensive reinsurance and capital market experience of the principals of Pillar Holdings. Alleghany has concluded that both Pillar Holdings and the Funds (collectively, the Pillar Investments) represent variable interest entities and that Alleghany is not the primary beneficiary, as it does not have the ability to direct the activities that most significantly impact each entity s economic performance. Therefore, the Pillar Investments are not consolidated and are accounted for under the equity method of accounting. Alleghany s potential maximum loss in the Pillar Investments is limited to its cumulative net investment. As of June 30, 2015, Alleghany s carrying value in the Pillar Investments, as determined under the equity method of accounting, was $243.3 million, which is reported in other invested assets on Alleghany s consolidated balance sheets.

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 to limited partner interests in certain Ares subsidiaries that are convertible into an aggregate 5.9 percent interest in Ares common units. As of June 30, 2015, at Alleghany s discretion, half of these interests may be converted at any time, and the remaining half may be converted in May 2016. Until Alleghany determines to convert its limited partner interests into Ares common units, Alleghany classifies its investment in Ares as a component of other invested assets, and accounts for its investment using the equity method of accounting. As of June 30, 2015, AIHL s carrying val