

ALLEGHANY CORP /DE  
Form 10-Q  
November 03, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014**

**OR**

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

**COMMISSION FILE NUMBER 1-9371**

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

**DELAWARE**

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

**51-0283071**

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

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

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

**212-752-1356**

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

**NOT APPLICABLE**

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

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

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

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

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

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

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

16,105,747 SHARES, PAR VALUE \$1.00 PER SHARE, AS OF OCTOBER 26, 2014

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
ITEM 1. <u>Financial Statements</u>	1
<u>Consolidated Balance Sheets as of September 30, 2014 (unaudited) and December 31, 2013</u>	1
<u>Consolidated Statements of Earnings and Comprehensive Income for the three and nine months</u>	
<u>ended September 30, 2014 and 2013 (unaudited)</u>	2
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and</u>	
<u>2013 (unaudited)</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	5
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	46
ITEM 4. <u>Controls and Procedures</u>	48
<b>PART II OTHER INFORMATION</b>	
ITEM 1. <u>Legal Proceedings</u>	48
ITEM 1A. <u>Risk Factors</u>	48
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
ITEM 4. <u>Mine Safety Disclosures</u>	49
ITEM 6. <u>Exhibits</u>	49
<u>SIGNATURES</u>	50
<u>EXHIBIT INDEX</u>	51

**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements.****ALLEGHANY CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

	<b>September 30, 2014</b>	December 31, 2013
	(unaudited)	
	(in thousands, except share amounts)	
<b>Assets</b>		
Investments:		
Available-for-sale securities at fair value:		
Equity securities (cost: 2014 \$2,480,172; 2013 \$1,804,698)	\$ 2,895,272	\$ 2,229,453
Debt securities (amortized cost: 2014 \$14,556,802; 2013 \$14,875,750)	14,766,235	14,802,890
Short-term investments	791,961	1,317,895
	<b>18,453,468</b>	18,350,238
Other invested assets	701,875	641,924
Total investments	<b>19,155,343</b>	18,992,162
Cash	607,605	498,315
Accrued investment income	137,658	146,381
Premium balances receivable	731,542	675,255
Reinsurance recoverables	1,370,942	1,363,707
Ceded unearned premiums	207,736	173,148
Deferred acquisition costs	378,662	334,740
Property and equipment at cost, net of accumulated depreciation and amortization	86,646	58,974
Goodwill	99,897	99,747
Intangible assets, net of amortization	131,307	127,284
Current taxes receivable	84,206	13,049
Net deferred tax assets	373,436	469,787
Other assets	564,486	408,539
Total assets	<b>\$ 23,929,466</b>	\$ 23,361,088
<b>Liabilities and Stockholders Equity</b>		
Loss and loss adjustment expenses	\$ 11,707,093	\$ 11,952,541
Unearned premiums	1,974,924	1,765,550
Senior Notes	2,079,170	1,794,407
Reinsurance payable	95,061	90,562
Other liabilities	658,751	810,507

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Total liabilities	<b>16,514,999</b>	16,413,567
Common stock (shares authorized: 2014 and 2013 22,000,000; shares issued: 2014 17,459,961; 2013 17,459,961)	<b>17,460</b>	17,460
Contributed capital	<b>3,611,519</b>	3,613,151
Accumulated other comprehensive income	<b>346,030</b>	186,930
Treasury stock, at cost (2014 1,223,100 shares; 2013 693,769 shares)	<b>(429,666)</b>	(213,911)
Retained earnings	<b>3,860,302</b>	3,320,127
Total stockholders equity attributable to Alleghany stockholders	<b>7,405,645</b>	6,923,757
Noncontrolling interest	<b>8,822</b>	23,764
Total stockholders equity	<b>7,414,467</b>	6,947,521
Total liabilities and stockholders equity	<b>\$ 23,929,466</b>	\$ 23,361,088

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Table of Contents****ALLEGHANY CORPORATION AND SUBSIDIARIES****Consolidated Statements of Earnings and Comprehensive Income**

(unaudited)

	Three Months Ended September 30,	
	2014	2013
	(in thousands, except per share amounts)	
<b>Revenues</b>		
Net premiums earned	\$ 1,136,215	\$ 1,039,908
Net investment income	118,284	115,287
Net realized capital gains	59,368	17,762
Other than temporary impairment losses	(720)	(664)
Other income	38,769	17,178
<b>Total revenues</b>	<b>1,351,916</b>	<b>1,189,471</b>
<b>Costs and Expenses</b>		
Net loss and loss adjustment expenses	623,132	644,493
Commissions, brokerage and other underwriting expenses	372,291	333,547
Other operating expenses	59,622	39,044
Corporate administration	9,455	3,703
Amortization of intangible assets	(1,142)	(815)
Interest expense	22,671	21,516
<b>Total costs and expenses</b>	<b>1,086,029</b>	<b>1,041,488</b>
Earnings before income taxes	265,887	147,983
Income taxes	79,547	34,610
Net earnings	186,340	113,373
Net earnings attributable to noncontrolling interest	25	206
Net earnings attributable to Alleghany stockholders	\$ 186,315	\$ 113,167
Net earnings	\$ 186,340	\$ 113,373
Other comprehensive income:		
Change in unrealized gains, net of deferred taxes of (\$29,255) and \$59,683 for 2014 and 2013, respectively	(54,330)	110,839
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of (\$20,527) and (\$7,743) for 2014 and 2013, respectively	(38,121)	(14,379)
Change in unrealized currency translation adjustment, net of deferred taxes of (\$14,039) and \$3,655 for 2014 and 2013, respectively	(26,073)	6,787
Retirement plans	(6)	1,415

Comprehensive income	<b>67,810</b>	218,035
Comprehensive income attributable to noncontrolling interest	<b>25</b>	206
Comprehensive income attributable to Alleghany stockholders	<b>\$ 67,785</b>	<b>\$ 217,829</b>
Basic earnings per share attributable to Alleghany stockholders	<b>\$ 11.40</b>	<b>\$ 6.75</b>
Diluted earnings per share attributable to Alleghany stockholders	<b>11.40</b>	<b>6.75</b>

See accompanying Notes to Unaudited Consolidated Financial Statements.



**Table of Contents****ALLEGHANY CORPORATION AND SUBSIDIARIES****Consolidated Statements of Earnings and Comprehensive Income**

(unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(in thousands, except per share amounts)	
<b>Revenues</b>		
Net premiums earned	\$ 3,289,156	\$ 3,183,236
Net investment income	342,961	334,501
Net realized capital gains	197,728	95,641
Other than temporary impairment losses	(6,872)	(41,884)
Other income	106,801	37,751
<b>Total revenues</b>	<b>3,929,774</b>	<b>3,609,245</b>
<b>Costs and Expenses</b>		
Net loss and loss adjustment expenses	1,863,504	1,862,418
Commissions, brokerage and other underwriting expenses	1,056,131	998,790
Other operating expenses	179,200	97,022
Corporate administration	31,774	25,975
Amortization of intangible assets	(3,879)	11,640
Interest expense	66,414	65,037
<b>Total costs and expenses</b>	<b>3,193,144</b>	<b>3,060,882</b>
Earnings before income taxes	736,630	548,363
Income taxes	196,415	124,987
Net earnings	540,215	423,376
Net earnings attributable to noncontrolling interest	40	206
Net earnings attributable to Alleghany stockholders	\$ 540,175	\$ 423,170
Net earnings	\$ 540,215	\$ 423,376
Other comprehensive income:		
Change in unrealized gains, net of deferred taxes of \$163,086 and (\$4,465) for 2014 and 2013, respectively	302,873	(8,291)
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of (\$66,800) and (\$20,573) for 2014 and 2013, respectively	(124,056)	(38,208)
Change in unrealized currency translation adjustment, net of deferred taxes of (\$10,681) and (\$10,596) for 2014 and 2013, respectively	(19,836)	(19,679)
Retirement plans	120	1,224

Comprehensive income	<b>699,316</b>	358,422
Comprehensive income attributable to noncontrolling interest	<b>40</b>	206
Comprehensive income attributable to Alleghany stockholders	<b>\$ 699,276</b>	<b>\$ 358,216</b>
Basic earnings per share attributable to Alleghany stockholders	<b>\$ 32.74</b>	<b>\$ 25.20</b>
Diluted earnings per share attributable to Alleghany stockholders	<b>32.74</b>	<b>25.20</b>

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Table of Contents****ALLEGHANY CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
<b>Cash flows from operating activities</b>		
Net earnings	\$ 540,215	\$ 423,376
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	132,280	196,969
Net realized capital (gains) losses	(197,728)	(95,641)
Other than temporary impairment losses	6,872	41,884
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	(2,736)	1,359
(Increase) decrease in premium balances receivable	(56,287)	(133,437)
(Increase) decrease in ceded unearned premiums	(34,588)	(36,880)
(Increase) decrease in deferred acquisition costs	(43,922)	(38,596)
Increase (decrease) in unearned premiums	209,374	124,643
Increase (decrease) in loss and loss adjustment expenses	(245,448)	(209,514)
Change in unrealized foreign exchange (losses) gains	83,397	41,967
Other, net	(185,652)	177,005
Net adjustments	(334,438)	69,759
Net cash provided by (used in) operating activities	205,777	493,135
<b>Cash flows from investing activities</b>		
Purchases of debt securities	(5,120,358)	(5,828,508)
Purchases of equity securities	(1,235,381)	(1,946,519)
Sales of debt securities	4,141,811	4,814,360
Maturities and redemptions of debt securities	1,115,943	1,401,294
Sales of equity securities	655,862	1,691,224
Net (purchase) sale in short-term investments	522,274	(584,710)
Purchases of property and equipment	(37,333)	(8,228)
Other, net	(232,058)	(156,039)
Net cash (used in) provided by investing activities	(189,240)	(617,126)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of Senior Notes	297,942	
Debt issue costs paid	(3,625)	
Treasury stock acquisitions	(222,445)	(40,389)
Other, net	24,849	(29,117)

Net cash provided by (used in) financing activities	<b>96,721</b>	(69,506)
Effect of exchange rate changes on cash	<b>(3,968)</b>	(41,345)
Net increase (decrease) in cash	<b>109,290</b>	(234,842)
Cash at beginning of period	<b>498,315</b>	649,524
Cash at end of period	<b>\$ 607,605</b>	\$ 414,682

**Supplemental disclosures of cash flow information**

Cash paid during the period for:

Interest paid	<b>\$ 60,423</b>	\$ 60,001
Income taxes paid (refunds received)	<b>251,434</b>	50,624

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Table of Contents****ALLEGHANY CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****1. Summary of Significant Accounting Principles*****(a) Principles of Financial Statement Presentation***

This report should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 10-K ) and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014 of Alleghany Corporation ( Alleghany ), a Delaware corporation. Unless the context otherwise requires, references to Alleghany include Alleghany together with its subsidiaries.

Alleghany owns and manages operating subsidiaries and investments, anchored by a core position in property and casualty reinsurance and insurance. Alleghany was incorporated in 1984 under the laws of the State of Delaware and in December 1986, it succeeded to the business of its parent company, Alleghany Corporation, which was incorporated in 1929. Prior to March 6, 2012, Alleghany was primarily engaged, through its wholly-owned subsidiary Alleghany Insurance Holdings LLC ( AIHL ) and its subsidiaries, in the property and casualty insurance business. AIHL's insurance operations are principally conducted by its subsidiaries RSUI Group, Inc. ( RSUI ), CapSpecialty, Inc. ( CapSpecialty ), formerly known as Capitol Transamerica Corporation, 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 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 by 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 manages, sources, executes and monitors certain private capital investments primarily through its wholly-owned subsidiary Alleghany Capital Corporation ( ACC ). ACC's private capital investments include: (i) Stranded Oil Resources Corporation ( SORC ), an exploration and production company focused on enhanced oil recovery, headquartered in Austin, Texas; (ii) Bourn & Koch, Inc. ( BKI ), 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 39 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, acquired on July 31, 2014 for \$60.3 million. Jazwares is accounted for under the equity-method of accounting and is included in corporate activities for segment reporting purposes. In addition, Alleghany owns and manages properties in the Sacramento, California region through its wholly-owned subsidiary Alleghany Properties Holdings LLC ( Alleghany Properties ).

Alleghany owned a minority stake in Homesite Group Incorporated ( Homesite ), a national, full-service, mono-line provider of homeowners insurance, until its sale to American Family Insurance Company, a Wisconsin-based mutual insurance company, on December 31, 2013.

The financial statements contained in this Quarterly Report on 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 results of Kentucky Trailer have been included in Alleghany s consolidated financial statements beginning August 30, 2013, the date of ACC s initial investment in Kentucky Trailer.

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.

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

**Table of Contents**

at 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 2013 10-K.

**(c) Recent Accounting Standards***Future Application of Accounting Standards*

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 disclosures about discontinued operations. This guidance is effective in the first quarter of 2015. Alleghany will adopt this guidance in the first quarter of 2015, and Alleghany does not currently believe that the implementation will have an impact on its results of operations and financial condition.

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. This guidance is effective in the first quarter of 2017 for public entities, with earlier adoption not permitted. Alleghany will adopt this guidance in the first quarter of 2017, and Alleghany does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

**2. Fair Value of Financial Instruments**

The carrying values and estimated fair values of Alleghany's consolidated financial instruments as of September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
<b>Assets</b>				
Investments (excluding equity method investments) <sup>(1)</sup>	\$ 18,477.8	\$ 18,477.8	\$ 18,632.2	\$ 18,632.2

**Liabilities**

Senior Notes <sup>(2)</sup>	\$ 2,079.2	\$ 2,271.4	\$ 1,794.4	\$ 1,887.7
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- (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 2013 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 2013 10-K and Note 10 herein for additional information.



**Table of Contents**

Alleghany's financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of September 30, 2014 and December 31, 2013 were as follows:

	Level 1	Level 2	Level 3	Total
	(in millions)			
<b>As of September 30, 2014</b>				
Equity securities:				
Common stock	\$ 2,890.8	\$	\$ 4.5	\$ 2,895.3
Preferred stock				
<b>Total equity securities</b>	<b>2,890.8</b>		<b>4.5</b>	<b>2,895.3</b>
Debt securities:				
U.S. Government obligations		377.7		377.7
Municipal bonds		5,429.5		5,429.5
Foreign government obligations		910.5		910.5
U.S. corporate bonds		2,274.2	46.3	2,320.5
Foreign corporate bonds		1,612.6	1.1	1,613.7
Mortgage and asset-backed securities:				
Residential mortgage-backed securities ( RMBS <sup>1</sup> )		1,590.7	64.9	1,655.6
Commercial mortgage-backed securities ( CMBS )		1,099.1	36.8	1,135.9
Other asset-backed securities <sup>(2)</sup>		401.1	921.7	1,322.8
<b>Total debt securities</b>		<b>13,695.4</b>	<b>1,070.8</b>	<b>14,766.2</b>
Short-term investments		792.0		792.0
Other invested assets <sup>(3)</sup>			24.3	24.3
<b>Total investments (excluding equity method investments)</b>	<b>\$ 2,890.8</b>	<b>\$ 14,487.4</b>	<b>\$ 1,099.6</b>	<b>\$ 18,477.8</b>
Senior Notes	\$	\$ 2,271.4	\$	\$ 2,271.4
	Level 1	Level 2	Level 3	Total
	(in millions)			
<b>As of December 31, 2013</b>				
Equity securities:				
Common stock	\$ 2,229.4	\$	\$	\$ 2,229.4
Preferred stock				
<b>Total equity securities</b>	<b>2,229.4</b>			<b>2,229.4</b>
Debt securities:				
U.S. Government obligations		955.0		955.0
Municipal bonds		5,590.1		5,590.1
Foreign government obligations		975.4		975.4

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U.S. corporate bonds	2,285.4	27.5	2,312.9
Foreign corporate bonds	1,830.7	1.0	1,831.7
Mortgage and asset-backed securities:			
RMBS <sup>(1)</sup>	1,469.0	78.8	1,547.8
CMBS	824.8	60.8	885.6
Other asset-backed securities <sup>(2)</sup>	446.0	258.4	704.4
Total debt securities	14,376.4	426.5	14,802.9
Short-term investments	1,317.9		1,317.9
Other invested assets <sup>(3)</sup>		282.0	282.0
Total investments (excluding equity method investments)	\$ 2,229.4	\$ 15,694.3	\$ 708.5
Senior Notes	\$	\$ 1,887.7	\$ 1,887.7

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

(2) Includes \$887.5 million and \$237.9 million of collateralized loan obligations as of September 30, 2014 and December 31, 2013, respectively.

(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.

**Table of Contents**

In the nine months ended September 30, 2014, there were transfers of \$238.1 million of other invested assets out of Level 3, of which \$232.9 million related to a 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 LLC (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 three and nine months ended September 30, 2014, there were transfers of \$6.3 million and \$44.4 million, respectively, of debt securities out of Level 2 into Level 3 that were principally due to a decrease in observable inputs related to the valuation of such securities. Of the \$44.4 million, \$29.1 million related to other asset-backed securities (specifically, collateralized loan obligations), \$15.0 million related to U.S. corporate bonds, and \$0.3 million related to foreign corporate bonds. There were no other transfers between Levels 1, 2 or 3 for the three and nine months ended September 30, 2014.

In the three and nine months ended September 30, 2013, there was a transfer of \$100.0 million of other invested assets out of Level 3 into common stocks in Level 1 as a previously non-marketable equity investment became publicly traded in an active market that Alleghany has the ability to access. In addition, in the nine months ended September 30, 2013, there was a transfer of \$21.7 million of primarily RMBS securities out of Level 2 into Level 3 that was principally due to a decrease in observable inputs related to the valuation of such securities. There were no other transfers between Levels 1, 2 or 3 for the three and nine months ended September 30, 2013.

The following tables present reconciliations of the changes during the nine months ended September 30, 2014 and 2013 in Level 3 assets measured at fair value:

Nine Months Ended September 30, 2014	Debt Securities							Total
	Common stock	U.S. Corporate Bonds	Foreign Corporate Bonds	RMBS	Mortgage and asset-backed CMBS	Other Asset-backed Securities	Other Invested Assets <sup>(1)</sup>	
Balance as of January 1, 2014	\$	\$ 27.5	\$ 1.0	\$ 78.8	\$ 60.8	\$ 258.4	\$ 282.0	\$ 708.5
Net realized/unrealized (losses) gains included in:								
Net earnings <sup>(2)</sup>		(0.9)		4.1	(0.3)	0.5	0.2	3.6
Other comprehensive income		(0.3)		2.5	(1.3)	(6.9)	1.4	(4.6)
Purchases	4.5	21.6	2.5		22.0	730.5		781.1
Sales		(9.0)	(1.2)	(12.2)	(3.0)	(78.7)	(0.2)	(104.3)
Issuances								
Settlements		(7.6)	(1.5)	(8.3)	(41.4)	(11.2)	(21.0)	(91.0)
Transfers into Level 3		15.0	0.3			29.1		44.4
Transfers out of Level 3							(238.1)	(238.1)
Balance as of September 30, 2014	\$ 4.5	\$ 46.3	\$ 1.1	\$ 64.9	\$ 36.8	\$ 921.7	\$ 24.3	\$ 1,099.6



**Table of Contents**

Nine Months Ended September 30, 2013	Debt Securities						Total
	U.S. Corporate Bonds	Foreign Corporate Bonds	Mortgage and asset-backed RMBS	CMBS	Other Asset-backed Securities	Other Invested Assets <sup>(1)</sup>	
Balance as of January 1, 2013	\$ 30.4	\$	\$ 59.6	\$ 76.1	\$ 5.9	\$ 42.3	\$ 214.3
Net realized/unrealized gains (losses) included in:							
Net earnings <sup>(2)</sup>	0.3		1.6	0.1	0.1	0.2	2.3
Other comprehensive income	(0.6)		4.2	0.1	(0.3)	3.6	7.0
Purchases				20.3	1.2	350.0	371.5
Sales	(23.8)			(10.8)			(34.6)
Issuances							
Settlements	(0.7)		(7.8)	(9.5)	(2.2)	(7.0)	(27.2)
Transfers into Level 3			21.3	0.1	0.3		21.7
Transfers out of Level 3						(100.0)	(100.0)
Balance as of September 30, 2013	\$ 5.6	\$	\$ 78.9	\$ 76.4	\$ 5.0	\$ 289.1	\$ 455.0

(1) Includes partnership and certain 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 September 30, 2014 and 2013.

Net unrealized losses related to Level 3 investments as of September 30, 2014 and December 31, 2013 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 2013 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 September 30, 2014 and December 31, 2013 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>As of September 30, 2014</b>				

(in millions)