ALLEGHANY CORP /DE
Form 10-Q
November 04, 2013
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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 SEPTEMBER 30, 2013

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.

16,766,192 SHARES, PAR VALUE $1.00 PER SHARE, AS OF NOVEMBER 1, 2013

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2013 (unaudited)	December 31, 2012
	(in thousands, except share amounts)	
Assets		
Investments:		
Available-for-sale securities at fair value:		
Equity securities (cost: 2013 $1,743,002; 2012 $1,436,540)	**$ 2,035,188**	$ 1,424,014
Debt securities (amortized cost: 2013 $15,018,103; 2012 $15,593,278)	**15,041,110**	15,999,538
Short-term investments	**949,280**	366,044
	18,025,578	17,789,596
Other invested assets	**771,695**	537,350
Total investments	**18,797,273**	18,326,946
Cash	**414,682**	649,524
Accrued investment income	**147,395**	165,857
Premium balances receivable	**718,632**	585,195
Reinsurance recoverables	**1,376,114**	1,348,599
Ceded unearned premiums	**191,860**	154,980
Deferred acquisition costs	**342,111**	303,515
Property and equipment at cost, net of accumulated depreciation and amortization	**55,080**	34,118
Goodwill	**99,747**	83,447
Intangible assets, net of amortization	**125,808**	128,773
Current taxes receivable		79,933
Net deferred tax assets	**572,764**	532,569
Other assets	**400,285**	414,511
Total assets	**$ 23,241,751**	$ 22,807,967
Liabilities and Stockholders Equity		
Loss and loss adjustment expenses	**$ 12,030,252**	$ 12,239,766
Unearned premiums	**1,829,985**	1,705,342
Senior Notes	**1,798,709**	1,811,483
Reinsurance payable	**96,528**	67,654
Current taxes payable	**10,135**	
Other liabilities	**736,571**	579,935
Total liabilities	**16,502,180**	16,404,180
Common stock (shares authorized: 2013 and 2012 22,000,000; shares issued: 2013 17,459,961; 2012 17,478,746)	**17,460**	17,479
Contributed capital	**3,612,555**	3,619,912
Accumulated other comprehensive income	**185,554**	250,508

Treasury stock, at cost (2013 693,769 shares; 2012 588,123 shares)	**(213,911)**	(175,818)
Retained earnings	**3,114,876**	2,691,706
Total stockholders equity attributable to Alleghany stockholders	**6,716,534**	6,403,787
Noncontrolling interest	**23,037**	
Total stockholders equity	**6,739,571**	6,403,787
Total liabilities and stockholders equity	**$ 23,241,751**	$ 22,807,967

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, 2013	2012
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	**$ 1,039,908**	$ 1,092,775
Net investment income	**115,287**	90,514
Net realized capital gains	**17,762**	12,388
Other than temporary impairment losses	**(664)**	
Gain on bargain purchase		
Other income	**17,178**	33,843
Total revenues	**1,189,471**	1,229,520
Costs and Expenses		
Net loss and loss adjustment expenses	**644,493**	672,984
Commissions, brokerage and other underwriting expenses	**333,547**	253,756
Other operating expenses	**39,044**	47,432
Corporate administration	**3,703**	9,304
Amortization of intangible assets	**(815)**	73,356
Interest expense	**21,516**	21,764
Total costs and expenses	**1,041,488**	1,078,596
Earnings before income taxes	**147,983**	150,924
Income taxes	**34,610**	25,480
Net earnings	**113,373**	125,444
Net earnings attributable to noncontrolling interest	**206**	
Net earnings attributable to Alleghany stockholders	**$ 113,167**	$ 125,444
Net earnings	**$ 113,373**	$ 125,444
Other comprehensive income:		
Change in unrealized gains, net of deferred taxes of $59,683 and $92,641 for 2013 and 2012, respectively	**110,839**	172,048
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of ($7,743) and ($4,336) for 2013 and 2012, respectively	**(14,379)**	(8,052)
Change in unrealized currency translation adjustment, net of deferred taxes of $3,655 and $5,931 for 2013 and 2012, respectively	**6,787**	11,014
Retirement plans	**1,415**	(25)
Comprehensive income	**218,035**	300,429
Comprehensive income attributable to noncontrolling interest	**206**	
Comprehensive income attributable to Alleghany stockholders	**$ 217,829**	$ 300,429

Basic earnings per share attributable to Alleghany stockholders	**$**	**6.75**	$	7.41
Diluted earnings per share attributable to Alleghany stockholders		**6.75**		7.41

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,	
	2013	2012
	(in thousands, except per share amounts)	
Revenues		
Net premiums earned	**$ 3,183,236**	$ 2,622,914
Net investment income	**334,501**	234,568
Net realized capital gains	**95,641**	119,829
Other than temporary impairment losses	**(41,884)**	(2,907)
Gain on bargain purchase		494,940
Other income	**37,751**	43,434
Total revenues	**3,609,245**	3,512,778
Costs and Expenses		
Net loss and loss adjustment expenses	**1,862,418**	1,587,815
Commissions, brokerage and other underwriting expenses	**998,790**	592,809
Other operating expenses	**97,022**	97,910
Corporate administration	**25,975**	67,691
Amortization of intangible assets	**11,640**	213,393
Interest expense	**65,037**	46,584
Total costs and expenses	**3,060,882**	2,606,202
Earnings before income taxes	**548,363**	906,576
Income taxes	**124,987**	111,720
Net earnings	**423,376**	794,856
Net earnings attributable to noncontrolling interest	**206**	
Net earnings attributable to Alleghany stockholders	**$ 423,170**	$ 794,856
Net earnings	**$ 423,376**	$ 794,856
Other comprehensive income:		
Change in unrealized (losses) gains, net of deferred taxes of $(4,465) and $127,043 for 2013 and 2012, respectively	**(8,291)**	235,937
Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of ($20,573) and $(40,923) for 2013 and 2012, respectively	**(38,208)**	(75,999)
Change in unrealized currency translation adjustment, net of deferred taxes of $(10,596) and ($352) for 2013 and 2012, respectively	**(19,679)**	(653)
Retirement plans	**1,224**	(799)
Comprehensive income	**358,422**	953,342
Comprehensive income attributable to noncontrolling interest	**206**	
Comprehensive income attributable to Alleghany stockholders	**$ 358,216**	$ 953,342

Basic earnings per share attributable to Alleghany stockholders	**$**	**25.20**	$	53.19
Diluted earnings per share attributable to Alleghany stockholders		**25.20**		53.14

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, 2013	2012
	(in thousands)	
Cash flows from operating activities		
Net earnings	$ **423,376**	$ 794,856
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	**196,969**	358,606
Net realized capital (gains) losses	**(95,641)**	(119,829)
Other than temporary impairment losses	**41,884**	2,907
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	**1,359**	80,965
(Increase) decrease in premium balances receivable	**(133,437)**	147,158
(Increase) decrease in ceded unearned premiums	**(36,880)**	(21,835)
(Increase) decrease in deferred acquisition costs	**(38,596)**	(215,067)
Increase (decrease) in unearned premiums	**124,643**	99,104
Increase (decrease) in loss and loss adjustment expenses	**(209,514)**	(32,443)
Change in unrealized foreign exchange (losses) gains	**41,967**	(50,523)
Gain on bargain purchase		(494,940)
Other, net	**177,005**	(114,621)
Net adjustments	**69,759**	(360,518)
Net cash provided by (used in) operating activities	**493,135**	434,338
Cash flows from investing activities		
Purchases of debt securities	**(5,828,508)**	(2,848,504)
Purchases of equity securities	**(1,946,519)**	(1,085,187)
Sales of debt securities	**4,814,360**	1,258,361
Maturities and redemptions of debt securities	**1,401,294**	1,097,258
Sales of equity securities	**1,691,224**	677,359
Net (purchase) sale in short-term investments	**(584,710)**	998,304
Purchases of property and equipment	**(8,228)**	(3,731)
Purchase of subsidiary, net of cash acquired		(477,075)
Other, net	**(156,039)**	39,388
Net cash (used in) provided by investing activities	**(617,126)**	(343,827)
Cash flows from financing activities		
Proceeds from issuance of Senior Notes		399,592
Debt issue costs paid		(3,600)
Treasury stock acquisitions	**(40,389)**	
Tax benefit on stock based compensation		295
Other, net	**(29,117)**	374
Net cash provided by (used in) financing activities	**(69,506)**	396,661
Effect of exchange rate changes on cash	**(41,345)**	(608)

Net (decrease) increase in cash		**(234,842)**		486,564
Cash at beginning of period		**649,524**		84,749
Cash at end of period	**$**	**414,682**	$	571,313

Supplemental disclosures of cash flow information				
Cash paid during the period for:				
Interest paid	**$**	**60,001**	$	50,051
Income taxes paid (refunds received)		**50,624**		150,191

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 report should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 10-K) and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013 of Alleghany Corporation, a Delaware corporation (Alleghany). Unless the context otherwise requires, references to Alleghany include Alleghany together with its subsidiaries.

Alleghany is engaged in the property and casualty reinsurance and insurance business. Reinsurance business is conducted through certain subsidiaries of Alleghany s wholly-owned subsidiary Transatlantic Holdings, Inc. (TransRe), which was acquired in a merger transaction (the merger) on March 6, 2012 (the TransRe Acquisition Date). Insurance business is conducted through certain subsidiaries of Alleghany s wholly-owned subsidiary, Alleghany Insurance Holdings LLC (AIHL).

TransRe, through its principal wholly-owned subsidiaries, Transatlantic Reinsurance Company (TRC) and TransRe Zurich Ltd. (TRZ), offers reinsurance capacity to reinsurance and insurance companies for property and casualty products. These products are distributed through brokers and on a direct basis in both the domestic and foreign markets. TransRe is headquartered in New York, New York with six other locations in the United States and has operations worldwide, including: Africa, Australia, Bermuda, Canada, three locations in Asia, three locations in Central and South America, and seven locations in the United Kingdom and Europe. TRC is licensed, accredited or authorized or can serve as a reinsurer in all 50 states and the District of Columbia in the United States and in Puerto Rico and Guam. TRC is also licensed in Bermuda, Canada, Japan, the United Kingdom, the Dominican Republic, the Hong Kong Special Administrative Region of the People s Republic of China, Germany and Australia. In addition, TRZ is licensed as a reinsurer in Switzerland.

AIHL s insurance business is conducted through its wholly-owned subsidiaries RSUI Group, Inc. (RSUI), Capitol Transamerica Corporation and Platte River Insurance Company (collectively, CATA), and Pacific Compensation Corporation (PCC). AIHL Re LLC (AIHL Re), a captive reinsurance subsidiary of AIHL, provides reinsurance to Alleghany operating units and affiliates.

Alleghany also owns and manages properties in the Sacramento, California region through its subsidiary Alleghany Properties Holdings LLC (Alleghany Properties), and owns Stranded Oil Resources Corporation (Stranded Oil), an exploration and production company focused on enhanced oil recovery. On April 26, 2012, Alleghany s majority-owned subsidiary BKH Holdings, Inc. acquired Bourn & Koch, Inc. (BKI), a manufacturer and remanufacturer/retrofitter of precision machine tools and supplier of replacement parts, headquartered in Rockford, Illinois. On August 30, 2013, Alleghany invested in 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, for a controlling equity interest. Kentucky Trailer s results have been included in Alleghany s Consolidated Financial Statements beginning August 30, 2013.

Alleghany also owns a minority stake in Homesite Group Incorporated (Homesite), a national, full-service, mono-line provider of homeowners insurance, which was purchased in December 2006 for cash consideration of $120.0 million. On September 4, 2013, American Family Insurance Company, a Wisconsin-based mutual insurance company, entered into a merger agreement with Homesite to purchase all of its issued and outstanding capital stock (including shares underlying options and restricted stock units) for cash consideration of $616.0 million, subject to adjustment for changes in Homesite stockholders equity between June 30, 2013 and the closing of the transaction and transaction expenses. Alleghany currently owns approximately 28 percent of the fully diluted shares of Homesite common stock. The transaction, which is subject to regulatory approvals and other closing conditions, is expected to close in the fourth quarter of 2013 or first quarter of 2014, at which time Alleghany expects to record a gain on its investment in Homesite.

In addition to Homesite, Alleghany owns approximately 38 percent of ORX Exploration, Inc. (ORX), a regional oil and gas exploration and production company. The Homesite and ORX investments are reflected in Alleghany s financial statements in other invested assets.

Alleghany manages, sources, executes and monitors its private capital investments, which include Stranded Oil, BKI, Kentucky Trailer and ORX, primarily through its wholly-owned subsidiary, Alleghany Capital Corporation. Alleghany s public equity investments, including those held by TransRe s and AIHL s operating units, are managed primarily by its indirect, wholly-owned subsidiary, Alleghany Capital Partners LLC.

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 or controlled subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant inter-company balances and transactions have been eliminated in consolidation. The results of TransRe are included starting from the TransRe Acquisition Date, the results of BKI are included beginning April 26, 2012 and the results of Kentucky Trailer are included beginning August 30, 2013.

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 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 the Notes to Consolidated Financial Statements set forth in Part II, Item 8, of the 2012 10-K.

(c) Recent Accounting Standards

Recently Adopted

In February 2013, the Financial Accounting Standards Board (the FASB) issued guidance on the amounts reclassified out of accumulated other comprehensive income. Other comprehensive income includes gains and losses that are initially excluded from net earnings for a given period, and later reclassified out of accumulated other comprehensive income into net earnings. This guidance requires companies to disclose information about reclassifications out of accumulated other comprehensive income in one place. This guidance is effective for interim and annual periods beginning after December 15, 2012. Alleghany adopted this guidance in the first quarter of 2013, and the implementation did not have an impact on its results of operations and financial condition. See Note 6(b).

In December 2011, the FASB issued guidance on disclosure requirements related to offsetting arrangements. The guidance provides for additional financial statement disclosure regarding offsetting and related arrangements to enable financial statement users to understand the effect of those arrangements on an entity s financial position. This guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013. Alleghany adopted this guidance in the first quarter of 2013, and the implementation did not have a material 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 September 30, 2013 and December 31, 2012 were as follows:

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
		(in millions)		
Assets				
Investments (excluding equity method investments)(1)	$ 18,314.7	$ 18,314.7	$ 17,831.8	$ 17,831.8
Liabilities				
Senior Notes(2)	$ 1,798.7	$ 1,908.8	$ 1,811.5	$ 1,946.7

(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. The fair value of all other categories of investments is presented below.

(2) See Note 8 to the Notes to Consolidated Financial Statements set forth in Part II, Item 8, of the 2012 10-K for additional information.

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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 September 30, 2013 and December 31, 2012 were as follows:

	Level 1	Level 2	Level 3	Total
		(in millions)		
As of September 30, 2013				
Equity securities:				
Common stock[1]	$ 2,035.2	$	$	$ 2,035.2
Preferred stock				
Total equity securities	2,035.2			2,035.2
Debt securities:				
U.S. Government obligations		1,000.5		1,000.5
Municipal bonds		5,974.9		5,974.9
Foreign government obligations		1,062.8		1,062.8
U.S. corporate bonds		2,167.9	5.6	2,173.5
Foreign corporate bonds		1,777.3		1,777.3
Mortgage and asset-backed securities:				
Residential mortgage-backed securities (RMBS[2])		1,512.8	78.9	1,591.7
Commercial mortgage-backed securities (CMBS)		782.1	76.4	858.5
Other asset-backed securities		596.9	5.0	601.9
Total debt securities		14,875.2	165.9	15,041.1
Short-term investments		949.3		949.3
Other invested assets (excluding equity method investments)[3]			289.1	289.1
Total investments (excluding equity method investments)	$ 2,035.2	$ 15,824.5	$ 455.0	$ 18,314.7
Senior Notes	$	$ 1,908.8	$	$ 1,908.8

	Level 1	Level 2	Level 3	Total
		(in millions)		
As of December 31, 2012				
Equity securities:				
Common stock[1]	$ 1,424.0	$	$	$ 1,424.0
Preferred stock				
Total equity securities	1,424.0			1,424.0
Debt securities:				
U.S. Government obligations		522.9		522.9
Municipal bonds		6,304.1		6,304.1
Foreign government obligations		816.0		816.0
U.S. corporate bonds		3,485.3	30.4	3,515.7
Foreign corporate bonds		2,198.5		2,198.5
Mortgage and asset-backed securities:				
RMBS[2]		1,602.9	59.6	1,662.5
CMBS		434.0	76.1	510.1
Other asset-backed securities		463.8	5.9	469.7
Total debt securities		15,827.5	172.0	15,999.5

Short-term investments		366.0		366.0
Other invested assets (excluding equity method investments)(3)			42.3	42.3
Total investments (excluding equity method investments)	$ 1,424.0	$ 16,193.5	$ 214.3	$ 17,831.8
Senior Notes	$	$ 1,946.7	$	$ 1,946.7

(1) Of the $2,035.2 million and $1,424.0 million of fair value as of September 30, 2013 and December 31, 2012, respectively, $347.3 million and $542.2 million, respectively, related to certain energy sector businesses.

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

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

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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 table presents a reconciliation of the changes during the nine months ended September 30, 2013 in Level 3 assets measured at fair value:

	Debt Securities					
		Mortgage and asset-backed				
Nine Months Ended September 30, 2013	U.S. Corporate Bonds	RMBS	CMBS	Other Asset-backed Securities	Other Invested Assets[1]	Total
			(in millions)			
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[2]	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[3]			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[4]		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 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, 2013.
(3) Principally due to an investment in Ares Management LLC (Ares); See Note 3(g) for a more detailed description of this investment.
(4) Principally due to a decrease in observable inputs related to the valuation of such investments.

Net unrealized losses related to Level 3 investments as of September 30, 2013 and December 31, 2012 were not material.

See Note 1(c) to the Notes to Consolidated Financial Statements set forth in Part II, Item 8, of the 2012 10-K for Alleghany s accounting policy on fair value.

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3. Investments

(a) Unrealized Gains and Losses

The amortized cost or cost and the fair value of AFS securities as of September 30, 2013 and December 31, 2012 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
As of September 30, 2013				
Equity securities:				
Common stock*	$ 1,743.0	$ 311.7	$ (19.5)	$ 2,035.2
Preferred stock				
Total equity securities	1,743.0	311.7	(19.5)	2,035.2
Debt securities:				
U.S. Government obligations	1,000.7	5.0	(5.2)	1,000.5
Municipal bonds	6,003.0	73.8	(101.9)	5,974.9
Foreign government obligations	1,061.3	7.8	(6.3)	1,062.8
U.S. corporate bonds	2,163.2	30.5	(20.2)	2,173.5
Foreign corporate bonds	1,749.2	32.1	(4.0)	1,777.3
Mortgage and asset-backed securities:				
RMBS	1,585.9	38.8	(33.0)	1,591.7
CMBS	854.4	13.1	(9.0)	858.5
Other asset-backed securities	600.4	2.8	(1.3)	601.9
Total debt securities	15,018.1	203.9	(180.9)	15,041.1
Short-term investments	949.3			949.3
Total	$ 17,710.4	$ 515.6	$ (200.4)	$ 18,025.6

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
As of December 31, 2012				
Equity securities:				
Common stock*	$ 1,436.5	$ 90.3	$ (102.8)	$ 1,424.0
Preferred stock				
Total equity securities	1,436.5	90.3	(102.8)	1,424.0
Debt securities:				
U.S. Government obligations	514.9	8.1	(0.1)	522.9
Municipal bonds	6,122.6	185.9	(4.4)	6,304.1
Foreign government obligations	800.9	15.6	(0.5)	816.0
U.S. corporate bonds	3,448.1	69.7	(2.1)	3,515.7
Foreign corporate bonds	2,137.7	61.1	(0.3)	2,198.5
Mortgage and asset-backed securities:				
RMBS	1,617.4	50.8	(5.7)	1,662.5
CMBS	486.6	26.1	(2.6)	510.1
Other asset-backed securities	465.1	4.6		469.7

Total debt securities	15,593.3		421.9	(15.7)	15,999.5
Short-term investments	366.0				366.0
Total	$ 17,395.8	$	512.2	$ (118.5)	$ 17,789.5

* Of the $2,035.2 million and $1,424.0 million of fair value as of September 30, 2013 and December 31, 2012, respectively, $347.3 million and $542.2 million, respectively, related to certain energy sector businesses.

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(b) Contractual Maturity

The amortized cost and estimated fair value of debt securities as of September 30, 2013 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	$ 949.3	$ 949.3
Mortgage and asset-backed securities*	3,040.7	3,052.1
Debt securities with maturity dates:		
One year or less	578.3	580.8
Over one through five years	4,058.8	4,102.0
Over five through ten years	3,866.3	3,892.0
Over ten years	3,474.0	3,414.2
Total debt securities	15,018.1	15,041.1
Equity securities	1,743.0	2,035.2
Total	$ 17,710.4	$ 18,025.6

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

(c) Net Investment Income

Net investment income for the three and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Interest income	$ 88.4	$ 88.2	$ 257.7	$ 218.2
Dividend income	13.3	8.3	41.1	14.5
Investment expenses	(5.3)	(3.7)	(15.6)	(11.6)
Equity results of Homesite	7.7	(2.9)	32.2	9.5
Equity results of ORX	(2.3)	(0.9)	(1.9)	(4.2)
Equity results of Pillar Investments*	9.4		13.7	
Investment in Ares*	2.9		2.9	
Other investment results	1.2	1.5	4.4	8.2
Total	$ 115.3	$ 90.5	$ 334.5	$ 234.6

* See Note 3(g) for discussion of the Pillar Investments and the investment in Ares.

As of September 30, 2013, non-income producing invested assets were insignificant.

(d) Realized Gains and Losses

The proceeds from sales of AFS securities were $1.9 billion and $0.6 billion for the three months ended September 30, 2013 and 2012, respectively, and $6.5 billion and $1.9 billion for the nine months ended September 30, 2013 and 2012, respectively.

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Realized capital gains and losses in the three and nine months ended September 30, 2013 and 2012 arose primarily from the sales of equity securities. Realized capital losses include a $5.0 million non-cash impairment charge related to certain finite-lived intangible assets at CATA. The amount of gross realized capital gains and gross realized capital losses in the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Gross realized capital gains	$ 63.7	$ 18.2	$ 165.5	$ 132.1
Gross realized capital losses	(45.9)	(5.8)	(69.9)	(12.3)
Net realized capital gains	$ 17.8	$ 12.4	$ 95.6	$ 119.8

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 that relates to debt securities that is believed to arise from factors other than credit is recorded as a component of other comprehensive income, rather than charged against earnings.

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

To the extent that an equity security in an unrealized loss position is not impaired based on the initial review described above, Alleghany then further evaluates such equity security and deems it to be other-than-temporarily impaired if it has been in an 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 company, 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 for the first nine months of 2013 reflect $41.9 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 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 $41.9 million of OTTI losses, $40.5 million related to equity securities, primarily in the chemical and energy sectors, and $1.4 million related to debt securities. The determination that unrealized losses on such securities were other than temporary was primarily based on the duration of the decline in fair value of such securities relative to their cost as of the balance sheet date. Of the $41.9 million of OTTI losses, $0.7 million was incurred in the third quarter of 2013.

OTTI losses for the first nine months of 2012 reflect $2.9 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the $2.9 million of OTTI losses, $1.7 million related to equity securities, primarily in the energy sector, and $1.2 million related to debt securities. The determination that unrealized losses on such securities were other than temporary was primarily based on the duration of the decline in fair value of such securities relative to their cost as of the balance sheet date. No OTTI losses were incurred in the third quarter of 2012.

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 September 30, 2013 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 September 30, 2013); (ii) the absence of compelling evidence that would cause Alleghany to call into question the financial condition or near-term 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.

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(f) Aging of Gross Unrealized Losses

As of September 30, 2013 and December 31, 2012, 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 September 30, 2013						
Equity securities:						
Common stock	$ 318.9	$ 19.5	$	$	$ 318.9	$ 19.5
Preferred stock						
Total equity securities	318.9	19.5			318.9	19.5
Debt securities:						
U.S. Government obligations	386.6	4.8	4.9	0.4	391.5	5.2
Municipal bonds	2,832.2	97.9	81.2	4.0	2,913.4	101.9
Foreign government obligations	412.6	6.1	6.6	0.2	419.2	6.3
U.S. corporate bonds	552.0	19.9	10.9	0.3	562.9	20.2
Foreign corporate bonds	303.2	4.0	1.6		304.8	4.0
Mortgage and asset-backed securities:						
RMBS	756.5	30.6	11.1	2.4	767.6	33.0
CMBS	320.6	8.9	4.5	0.1	325.1	9.0
Other asset-backed securities	213.4	1.3	0.4		213.8	1.3
Total debt securities	5,777.1	173.5	121.2	7.4	5,898.3	180.9
Total temporarily impaired securities	$ 6,096.0	$ 193.0	$ 121.2	$ 7.4	$ 6,217.2	$ 200.4

	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, 2012						
Equity securities:						
Common stock	$ 796.1	$ 102.8	$	$	$ 796.1	$ 102.8
Preferred stock						
Total equity securities	796.1	102.8			796.1	102.8
Debt securities:						
U.S. Government obligations	7.1	0.1			7.1	0.1
Municipal bonds	1,006.6	4.4	0.5		1,007.1	4.4
Foreign government obligations	102.3	0.5			102.3	0.5
U.S. corporate bonds	404.4	2.1			404.4	2.1
Foreign corporate bonds	111.4	0.3			111.4	0.3
Mortgage and asset-backed securities:						
RMBS	291.4	5.7	0.6		292.0	5.7
CMBS	50.2	1.3	7.8	1.3	58.0	2.6

Other asset-backed securities	2.2		0.9		3.1	
Total debt securities	1,975.6	14.4	9.8	1.3	1,985.4	15.7
Total temporarily impaired securities	$ 2,771.7	$ 117.2	$ 9.8	$ 1.3	$ 2,781.5	$ 118.5

As of September 30, 2013, Alleghany held a total of 845 debt securities and equity securities that were in an unrealized loss position, of which 24 securities, all debt securities, were in an unrealized loss position continuously for 12 months or more. The unrealized losses associated with 24 debt securities consisted primarily of losses related to municipal bonds and RMBS.

As of September 30, 2013, substantially all of Alleghany s debt securities were rated investment grade, with approximately 0.8 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 (the Funds), which are managed by Pillar Holdings. In February 2013, TransRe invested an additional $25.0 million in the Funds. In July 2013, TransRe redeemed $25.0 million of its investment in 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 investment. As of September 30, 2013, Alleghany s carrying value in the Pillar Investments, as determined under the equity method of accounting, was $213.0 million, which is reported in other invested assets on its consolidated balance sheets.

In July 2013, AIHL invested $250.0 million in Ares, a privately-held asset manager, in exchange for a 6.25 percent equity stake in Ares, with commitments to engage Ares to manage up to $1.0 billion in certain investment strategies. As of September 30, 2013, AIHL s carrying value in the investment in Ares was $250.0 million, which is reported in other invested assets on Alleghany s consolidated balance sheets.

4. Reinsurance Ceded

(a) Overview

Alleghany s reinsurance and insurance operating units 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, improve risk-adjusted portfolio returns, and enable them to increase gross premium writings and risk capacity without requiring additional capital. If the assuming reinsurers are unable or unwilling to meet the obligations assumed under the applicable reinsurance agreements, Alleghany s reinsurance and insurance operating units would remain liable for such reinsurance portion not paid by their reinsurers.

(b) Significant Reinsurance Contracts

As discussed in Part I, Item 1, Business Reinsurance of the 2012 10-K, RSUI reinsures its property lines of business through a program consisting of surplus share treaties, facultative placements, per risk, and catastrophe excess of loss treaties. RSUI s catastrophe reinsurance program (which covers catastrophe risks including, among others, windstorms and earthquakes) and per risk reinsurance program run on an annual basis from May 1 to the following April 30 and thus expired on April 30, 2013. RSUI placed its catastrophe reinsurance program for the 2013-2014 period, and the new program is similar to the expired program.

The new catastrophe reinsurance program provides coverage in three layers for $500.0 million of losses in excess of a $100.0 million net retention after application of the surplus share treaties, facultative reinsurance and per risk covers. The first layer provides coverage for $100.0 million of losses, before a 60.0 percent co-participation by RSUI, in excess of the $100.0 million net retention, the second layer provides coverage for $300.0 million of losses, before a 5.0 percent co-participation by RSUI, in excess of $200.0 million and the third layer provides coverage for $100.0 million of losses in excess of $500.0 million, with no co-participation by RSUI. In addition, RSUI s property per risk reinsurance program for the 2013-2014 period provides RSUI with coverage for $90.0 million of losses, before a 10.0 percent co-participation by RSUI, in excess of a $10.0 million net retention per risk after application of the surplus share treaties and facultative reinsurance.

(c) Intercompany Reinsurance Contracts

In the second quarter of 2013, AIHL Re and PCC s wholly-owned subsidiary, Pacific Compensation Insurance Company (PCIC), entered into an intercompany reinsurance contract, effective January 1, 2013, pursuant to which AIHL Re provides PCIC with coverage for adverse development on net loss and allocated loss adjustment expenses in excess of PCIC s carried reserves at December 31, 2012 and accident year stop-loss coverage for any net losses and allocated loss adjustment expenses in excess of 75.0 percent of net earned premiums for PCIC for accident years 2013, 2014 and 2015. AIHL Re s commitments also are intended to cover the statutory collateral requirements at PCIC, if and when necessary. AIHL Re s obligations are subject to an aggregate limit of $100.0 million. In connection with such intercompany reinsurance agreement, Alleghany and AIHL Re entered into a contract whereby Alleghany will guarantee the recoverable balances owed to PCIC from AIHL Re up to $100.0 million. Subsequent to the entry into the above agreements, A.M. Best Company upgraded PCIC s rating to A- (Excellent) from B++ (Good). The above agreements had no impact on Alleghany s consolidated results of operations and financial condition. From a segment reporting perspective, the financial results of AIHL Re, which are substantially attributable to its intercompany contract with PCIC, have been included in the results of PCC, with all intercompany balances eliminated.

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5. Income Taxes

The effective tax rate for the first nine months of 2013 was 22.8 percent, compared with 12.3 percent for the first nine months of 2012. The higher effective tax rate in the first nine months of 2013 primarily reflects the absence of a gain on bargain purchase, which had a significant impact in the first nine months of 2012. The gain on bargain purchase resulted in a significant increase in earnings before income taxes without a corresponding increase in income taxes. The impact of the gain on bargain purchase on the effective tax rate in the first nine months of 2012 was partially offset by the impact of certain non-deductible transaction costs in the first nine months of 2012, which resulted in losses before income taxes without a corresponding decrease in income taxes. As a result of these non-recurring, merger-related items, the effective tax rate for the first nine months of 2012 was reduced by a net 10.2 percentage points.

Alleghany believes that, as of September 30, 2013, it had no material uncertain tax positions. Interest and penalties relating to unrecognized tax expenses (benefits) are recognized in income tax expense, when applicable. There was no liability for interest or penalties accrued as of September 30, 2013.

6. Stockholders Equity

(a) Common Stock Repurchases

In October 2012, Alleghany s Board of Directors authorized the repurchase of shares of common stock, at such times and at prices as management determines advisable, up to an aggregate of $300.0 million. Pursuant to this authorization, in the first nine months of 2013, Alleghany repurchased an aggregate of 113,160 shares of its common stock in the open market for $40.4 million, at an average price per share of $356.92. No shares were repurchased in the third quarter of 2013.

(b) Accumulated Other Comprehensive Income

The following table presents a reconciliation of the changes during the nine months ended September 30, 2013 in accumulated other comprehensive income attributable to Alleghany stockholders:

	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment	Retirement Plans	Total
		(in millions)		
Balance as of January 1, 2013	$ 263.3	$ (13.4)	$ 0.6	$ 250.5
Other comprehensive income, net of tax:				
Other comprehensive income before reclassifications	(8.3)	(19.6)	1.2	(26.7)
Reclassifications from accumulated other comprehensive income	(38.2)			(38.2)
Total	(46.5)	(19.6)	1.2	(64.9)
Balance as of September 30, 2013	$ 216.8	$ (33.0)	$ 1.8	$ 185.6

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Reclassifications out of accumulated other comprehensive income attributable to Alleghany stockholders during the three and nine months ended September 30, 2013 were as follows:

Accumulated Other Comprehensive Income Component	Line in Consolidated Statement of Earnings	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
		(in millions)	
Unrealized appreciation of investments:	Net realized capital gains(1)	$ 22.8	$ 100.6
	Other than temporary impairment losses	(0.7)	(41.9)
	Income taxes	(7.7)	(20.5)
Total reclassifications:	Net earnings	$ 14.4	$ 38.2

(1) Excludes a realized capital loss that was recorded in the third quarter of 2013 relating to a $5.0 million non-cash impairment charge related to certain finite-lived intangible assets at CATA, as this loss not reclassified out of accumulated other comprehensive income.

7. Earnings Per Share of Common Stock

The following is a reconciliation of the earnings and share data used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in millions, except share amounts)			
Net earnings available to Alleghany stockholders	$ 113.2	$ 125.4	$ 423.2	$ 794.9
Effect of dilutive securities				0.2
Income available to common stockholders for diluted earnings per share	$ 113.2	$ 125.4	$ 423.2	$ 795.1
Weighted average common shares outstanding applicable to basic earnings per share	16,766,192	16,931,811	16,792,733	14,943,160
Effect of dilutive securities				19,855
Adjusted weighted average common shares outstanding applicable to diluted earnings per share	16,766,192	16,931,811	16,792,733	14,963,015

Contingently issuable shares of 67,573 and 52,627 were potentially available during the first nine months of 2013 and 2012, respectively, but were not included in the computations of diluted earnings per share because the impact was anti-dilutive to the earnings per share calculation.

8. Commitments and Contingencies

(a) Legal Proceedings

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

(b) Indemnification Obligations

On July 14, 2005, Alleghany completed the sale of its worldwide industrial minerals business. Pursuant to the terms of the sale, Alleghany undertook certain indemnification obligations, including a general indemnification for breaches of representations and warranties, and a special indemnification related to products liability claims arising from events that occurred during pre-closing periods, including the period of Alleghany ownership, that will expire on July 31, 2016. Additional information about these indemnification obligations can be found in Note 12(b) to the Notes to Consolidated Financial Statements set forth in Part II, Item 8, of the 2012 10-K.

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(c) Leases

Alleghany leases certain facilities, furniture and equipment under long-term lease agreements. Additional information about leases can be found in Note 12(c) to the Notes to Consolidated Financial Statements set forth in Part II, Item 8, of the 2012 10-K.

(d) Asbestos and Environmental Impairment Exposure

Loss and loss adjustment expenses (LAE) include amounts for risks relating to asbestos-related illnesses and environmental impairment. As of September 30, 2013 and December 31, 2012, such gross and net reserves were as follows:

	September 30, 2013		December 31, 2012	
	Gross	Net	Gross	Net
	(in millions)			
TransRe	$ 539.7	$ 413.2	$ 512.4	$ 394.5
CATA	10.5	10.5	13.5	13.5
Total	$ 550.2	$ 423.7	$ 525.9	$ 408.0

The reserves carried for such claims, including the incurred but not reported portion, are based upon known facts and current law at the respective balance sheet dates. However, significant uncertainty exists in determining the amount of ultimate liability for asbestos-related illnesses and environmental impairment losses, particularly for those occurring in 1985 and prior, which represents the majority of TransRe s asbestos-related illnesses and environmental impairment reserves. This uncertainty is due to inconsistent court resolutions and judicial interpretations with respect to underlying policy intent and coverage and uncertainties as to the allocation of responsibility for resultant damages, among other reasons. Further, possible changes in statutes, laws, regulations, theories of liability and other factors could have a material effect on these liabilities and, accordingly, future earnings.

(e) Equity Holdings Concentration

As of September 30, 2013 and December 31, 2012, Alleghany had a concentration of market risk in its AFS equity securities portfolio with respect to certain energy sector businesses of $347.3 million and $542.2 million, respectively.

9. Segments of Business

(a) Overview

Alleghany s segments are reported in a manner consistent with the way management evaluates the businesses. As such, Alleghany classifies its business into two reportable segments reinsurance and insurance. In addition, reinsurance and insurance underwriting activities are evaluated separately from investment and corporate activities. Net realized capital gains and OTTI losses are not considered relevant in evaluating investment performance on an annual basis. Segment accounting policies are described in Note 1 to the Notes to Consolidated Financial Statements set forth in Part II, Item 8, of the 2012 10-K.

The reinsurance segment consists of property and casualty reinsurance operations conducted by TransRe s reinsurance operating units and is further reported by major product lines property and casualty & other. TransRe provides property and casualty reinsurance to insurers and reinsurers through brokers and on a direct basis to ceding companies. TransRe also writes a modest amount of insurance business, which is included in the reinsurance segment. Approximately half of the premiums earned by TransRe s operations are generated by offices located in Canada, Europe, Asia, Australia, Africa and those serving Latin America and the Caribbean. Although the majority of the premiums earned by these offices typically relate to the regions where they are located, a significant portion may be derived from other regions of the world, including the United States. 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 by AIHL through RSUI, CATA and PCC. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment.

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The primary components of corporate activities are Alleghany Properties, Stranded Oil, Alleghany s investments in Homesite and ORX and other activities at the parent level. Beginning April 26, 2012 and August 30, 2013, corporate activities also includes the operating results of BKI and Kentucky Trailer, respectively. On August 30, 2013, Alleghany invested $24.9 million in Kentucky Trailer, a manufacturer of custom trailers and truck bodies for the moving and storage industry and other markets, headquartered in Louisville, Kentucky, for a controlling equity interest, consisting of a preferred equity interest and a 35.4 percent common equity interest. In this transaction, Alleghany also received an option to purchase additional equity interests in Kentucky Trailer to increase Alleghany s common equity interest to 80.0 percent.

In addition, corporate activities includes interest expense associated with senior notes issued by Alleghany, whereas interest expense associated with senior notes issued by TransRe is included in Total Segments. Information related to Alleghany s and TransRe s senior notes can be found in Note 8 to the Notes to Consolidated Financial Statements set forth in Part II, Item 8, of the 2012 10-K.

(b) Results

Segment results for Alleghany s two reportable segments and for corporate activities for the three and nine months ended September 30, 2013 and 2012 (which include TransRe from March 6, 2012 through September 30, 2012) are shown in the tables below:

	Reinsurance Segment			Insurance Segment						
Three Months Ended September 30, 2013	Property	Casualty & Other[1]	Total	RSUI	CATA	PCC	Total	Total Segments	Corporate Activities[2]	Consolidated
						(in millions)				
Gross premiums written	$ 288.7	$ 550.1	$ 838.8	$ 281.0	$ 49.0	$ 11.5	$ 341.5	$ 1,180.3	$ (6.2)	$ 1,174.1
Net premiums written	248.6	541.5	790.1	185.9	46.3	11.1	243.3	1,033.4		1,033.4
Net premiums earned	246.1	546.7	792.8	197.2	39.9	10.0	247.1	1,039.9		1,039.9
Net loss and LAE	77.8	409.1	486.9	121.6	21.5	14.5	157.6	644.5		644.5
Commissions, brokerage and other underwriting expenses	82.3	167.6	249.9	55.4	20.0	8.3	83.7	333.6		333.6
Underwriting profit (loss)[3]	$ 86.0	$ (30.0)	$ 56.0	$ 20.2	$ (1.6)	$ (12.8)	$ 5.8	61.8		61.8
Net investment income								106.1	9.2	115.3
Net realized capital gains								30.8	(13.0)	17.8
Other than temporary impairment losses								(0.7)		(0.7)
Gain on bargain purchase										
Other income								2.1	15.1	17.2
Other operating expenses								19.0	20.0	39.0
Corporate administration									3.7	3.7
Amortization of intangible assets								(0.8)		(0.8)
Interest expense								12.4	9.1	21.5
Earnings before income taxes								$ 169.5	$ (21.5)	$ 148.0

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Three Months Ended September 30, 2012	Reinsurance Segment Property	Casualty & Other[1]	Total	Insurance Segment RSUI	CATA	PCC	Total	Total Segments	Corporate Activities[2]	Consolidated
					(in millions)					
Gross premiums written	$ 281.9	$ 604.6	$ 886.5	$ 248.9	$ 40.6	$ 6.3	$ 295.8	$ 1,182.3	$ (5.9)	$ 1,176.4
Net premiums written	248.0	594.9	842.9	155.1	38.4	6.1	199.6	1,042.5		1,042.5
Net premiums earned	264.7	616.4	881.1	169.8	37.0	4.9	211.7	1,092.8		1,092.8
Net loss and LAE	103.7	458.8	562.5	82.9	23.1	4.5	110.5	673.0		673.0
Commissions, brokerage and other underwriting expenses	55.4	125.7	181.1	46.1	19.7	6.9	72.7	253.8		253.8
Underwriting profit (loss)[3]	$ 105.6	$ 31.9	$ 137.5	$ 40.8	$ (5.8)	$ (6.5)	$ 28.5	166.0		166.0
Net investment income								90.1	0.4	90.5
Net realized capital gains								12.4		12.4
Other than temporary impairment losses										
Gain on bargain purchase										
Other income								24.2	9.6	33.8
Other operating expenses								36.3	11.1	47.4
Corporate administration									9.3	9.3
Amortization of intangible assets								73.3		73.3
Interest expense								12.5	9.3	21.8
Earnings before income taxes								$ 170.6	$ (19.7)	$ 150.9

Nine Months Ended September 30, 2013	Reinsurance Segment Property	Casualty & Other[1]	Total	Insurance Segment RSUI	CATA	PCC	Total	Total Segments	Corporate Activities[2]	Consolidated
					(in millions)					
Gross premiums written	$ 873.3	$ 1,769.6	$ 2,642.9	$ 962.1	$ 134.6	$ 30.0	$ 1,126.7	$ 3,769.6	$ (17.5)	$ 3,752.1
Net premiums written	756.3	1,743.1	2,499.4	630.8	126.4	29.3	786.5	3,285.9		3,285.9
Net premiums earned	748.1	1,733.3	2,481.4	560.3	114.4	27.1	701.8	3,183.2		3,183.2
Net loss and LAE	232.4	1,240.9	1,473.3	302.2	57.2	29.7	389.1	1,862.4		1,862.4
Commissions, brokerage and other underwriting expenses	220.7	539.5	760.2	155.1	60.9	22.6	238.6	998.8		998.8
Underwriting profit (loss)[3]	$ 295.0	$ (47.1)	$ 247.9	$ 103.0	$ (3.7)	$ (25.2)	$ 74.1	322.0		322.0
Net investment income								295.5	39.0	334.5
Net realized capital gains								109.5	(13.9)	95.6
Other than temporary impairment losses								(41.9)		(41.9)
Gain on bargain purchase										
Other income								3.9	33.9	37.8
Other operating expenses								57.0	40.0	97.0
Corporate administration									26.0	26.0
Amortization of intangible assets								11.6		11.6
Interest expense								37.1	27.9	65.0
Earnings before income taxes								$ 583.3	$ (34.9)	$ 548.4

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Nine Months Ended September 30, 2012	Reinsurance Segment Property	Casualty & Other[1]	Total	Insurance Segment RSUI	CATA	PCC	Total	Total Segments	Corporate Activities[2]	Consolidated
					(in millions)					
Gross premiums written	$ 660.8	$ 1,436.1	$ 2,096.9	$ 861.4	$ 120.8	$ 12.6	$ 994.8	$ 3,091.7	$ (12.9)	$ 3,078.8
Net premiums written	608.6 &nb									