ALLEGHANY CORP /DE
Form 10-Q
August 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

OR

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

COMMISSION FILE NUMBER 1-9371

ALLEGHANY CORPORATION

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER

DELAWARE

STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION

51-0283071

I.R.S. EMPLOYER IDENTIFICATION NO.

1411 BROADWAY, 34TH FLOOR, NY, NY 10018

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE

212-752-1356

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE

NOT APPLICABLE

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

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

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

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

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

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

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

15,419,347 SHARES, PAR VALUE $1.00 PER SHARE, AS OF JULY 25, 2017

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ALLEGHANY CORPORATION

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2017 (unaudited)	December 31, 2016
	($ in thousands, except share amounts)	
Assets		
Investments:		
Available-for-sale securities at fair value:		
Equity securities (cost: 2017 $2,766,455; 2016 $2,816,572)	$ 3,311,294	$ 3,109,523
Debt securities (amortized cost: 2017 $13,205,526; 2016 $12,927,103)	13,369,373	12,983,213
Short-term investments	700,798	778,410
	17,381,465	16,871,146
Commercial mortgage loans	636,537	594,878
Other invested assets	661,588	645,245
Total investments	18,679,590	18,111,269
Cash	643,685	594,091
Accrued investment income	108,997	113,763
Premium balances receivable	852,765	743,692
Reinsurance recoverables	1,193,254	1,272,219
Ceded unearned premiums	196,966	201,023
Deferred acquisition costs	469,317	448,634
Property and equipment at cost, net of accumulated depreciation and amortization	130,420	112,920
Goodwill	324,936	284,974
Intangible assets, net of amortization	465,604	378,680
Current taxes receivable	1,006	25,950
Net deferred tax assets	185,355	354,852
Funds held under reinsurance agreements	641,883	591,602
Other assets	635,710	522,922
Total assets	$ 24,529,488	$ 23,756,591
Liabilities, Redeemable Noncontrolling Interests and Stockholders Equity		

Loss and loss adjustment expenses	$ 11,060,239	$ 11,087,199
Unearned premiums	2,254,090	2,175,498
Senior Notes and other debt	1,487,475	1,476,489
Reinsurance payable	120,981	90,659
Other liabilities	1,070,759	912,081
Total liabilities	15,993,544	15,741,926
Redeemable noncontrolling interests	100,690	74,720
Common stock (shares authorized: 2017 and 2016 22,000,000; shares issued: 2017 and 2016 17,459,961)	17,460	17,460
Contributed capital	3,611,601	3,611,993
Accumulated other comprehensive income	350,357	109,284
Treasury stock, at cost (2017 2,040,614 shares; 2016 2,049,797 shares)	(809,199)	(812,840)
Retained earnings	5,265,035	5,014,048
Total stockholders equity attributable to Alleghany stockholders	8,435,254	7,939,945
Total liabilities, redeemable noncontrolling interest and stockholders equity	$ 24,529,488	$ 23,756,591

See accompanying Notes to Unaudited Consolidated Financial Statements.

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ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Three Months Ended June 30,	
	2017	2016
	($ in thousands, except per share amounts)	
Revenues		
Net premiums earned	$ 1,243,929	$ 1,261,516
Net investment income	101,656	106,860
Net realized capital gains	9,268	54,012
Other than temporary impairment losses	(3,747)	(5,728)
Other revenue	202,812	165,371
Total revenues	1,553,918	1,582,031
Costs and Expenses		
Net loss and loss adjustment expenses	734,886	815,312
Commissions, brokerage and other underwriting expenses	413,737	408,937
Other operating expenses	225,170	184,955
Corporate administration	14,405	13,459
Amortization of intangible assets	4,611	5,397
Interest expense	20,989	20,433
Total costs and expenses	1,413,798	1,448,493
Earnings before income taxes	140,120	133,538
Income taxes	37,461	56,278
Net earnings	102,659	77,260
Net earnings attributable to noncontrolling interest	848	189
Net earnings attributable to Alleghany stockholders	$ 101,811	$ 77,071
Net earnings	$ 102,659	$ 77,260
Other comprehensive income:		
Change in unrealized gains (losses), net of deferred taxes of $76,300 and $48,275 for 2017 and 2016, respectively	141,701	89,654

Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of ($1,932) and ($12,279) for 2017 and 2016, respectively		(3,589)		(22,805)
Change in unrealized currency translation adjustment, net of deferred taxes of $5,364 and $879 for 2017 and 2016, respectively		9,962		1,632
Retirement plans		98		95
Comprehensive income		250,831		145,836
Comprehensive income attributable to noncontrolling interest		848		189
Comprehensive income attributable to Alleghany stockholders	$	249,983	$	145,647
Basic earnings per share attributable to Alleghany stockholders	$	6.60	$	4.99
Diluted earnings per share attributable to Alleghany stockholders		6.60		4.99

See accompanying Notes to Unaudited Consolidated Financial Statements.

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ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings and Comprehensive Income

(unaudited)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	($ in thousands, except per share amounts)	
Revenues		
Net premiums earned	$ 2,453,117	$ 2,483,081
Net investment income	217,194	211,723
Net realized capital gains	68,919	89,905
Other than temporary impairment losses	(6,964)	(26,487)
Other revenue	354,104	302,759
Total revenues	3,086,370	3,060,981
Costs and Expenses		
Net loss and loss adjustment expenses	1,434,191	1,479,956
Commissions, brokerage and other underwriting expenses	822,252	815,670
Other operating expenses	400,308	347,119
Corporate administration	31,290	23,193
Amortization of intangible assets	8,375	8,482
Interest expense	41,924	40,702
Total costs and expenses	2,738,340	2,715,122
Earnings before income taxes	348,030	345,859
Income taxes	96,011	113,946
Net earnings	252,019	231,913
Net earnings attributable to noncontrolling interest	1,032	337
Net earnings attributable to Alleghany stockholders	$ 250,987	$ 231,576
Net earnings	$ 252,019	$ 231,913
Other comprehensive income:		
Change in unrealized gains (losses), net of deferred taxes of $143,570 and $103,256 for 2017 and 2016, respectively	266,630	191,761

Less: reclassification for net realized capital gains and other than temporary impairment losses, net of taxes of ($21,684) and ($17,576) for 2017 and 2016, respectively		(40,271)		(32,642)
Change in unrealized currency translation adjustment, net of deferred taxes of $8,083 and $11,955 for 2017 and 2016, respectively		15,011		22,203
Retirement plans		(297)		357
Comprehensive income		493,092		413,592
Comprehensive income attributable to noncontrolling interest		1,032		337
Comprehensive income attributable to Alleghany stockholders	$	492,060	$	413,255
Basic earnings per share attributable to Alleghany stockholders	$	16.28	$	14.99
Diluted earnings per share attributable to Alleghany stockholders		16.27		14.99

See accompanying Notes to Unaudited Consolidated Financial Statements.

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ALLEGHANY CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30,	
	2017	2016
	($ in thousands)	
Cash flows from operating activities		
Net earnings	$ 252,019	$ 231,913
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	69,723	74,753
Net realized capital (gains) losses	(68,919)	(89,905)
Other than temporary impairment losses	6,964	26,487
(Increase) decrease in reinsurance recoverables, net of reinsurance payable	109,287	53,007
(Increase) decrease in premium balances receivable	(109,073)	(121,075)
(Increase) decrease in ceded unearned premiums	4,057	(12,470)
(Increase) decrease in deferred acquisition costs	(20,683)	(46,276)
(Increase) decrease in funds held under reinsurance agreements	(50,281)	(244,868)
Increase (decrease) in unearned premiums	78,592	188,427
Increase (decrease) in loss and loss adjustment expenses	(26,960)	244,552
Change in unrealized foreign exchange losses (gains)	(86,834)	91,281
Other, net	45,989	(74,203)
Net adjustments	(48,138)	89,710
Net cash provided by (used in) operating activities	203,881	321,623
Cash flows from investing activities		
Purchases of debt securities	(3,313,484)	(3,578,694)
Purchases of equity securities	(1,849,990)	(999,284)
Sales of debt securities	2,193,147	3,263,695
Maturities and redemptions of debt securities	907,309	588,638
Sales of equity securities	1,972,117	1,125,114
Net (purchases) sales of short-term investments	73,725	(286,695)
Net (purchases) sales and maturities of commercial mortgage loans	(41,659)	(236,197)
(Purchases) sales of property and equipment	16,006	(9,043)
Purchases of subsidiaries, net of cash acquired	(164,528)	(122,365)
Other, net	84,585	23,037

Net cash provided by (used in) investing activities	(122,772)	(231,794)
Cash flows from financing activities		
Treasury stock acquisitions	-	(53,288)
Increase (decrease) in other debt	(26,098)	(2,520)
Other, net	(15,238)	(4,179)
Net cash provided by (used in) financing activities	(41,336)	(59,987)
Effect of exchange rate changes on cash	9,821	5,710
Net increase (decrease) in cash	49,594	35,552
Cash at beginning of period	594,091	475,267
Cash at end of period	$ 643,685	$ 510,819
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest paid	$ 41,207	$ 40,307
Income taxes paid (refund received)	31,242	15,197

See accompanying Notes to Unaudited Consolidated Financial Statements.

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ALLEGHANY CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

1. Summary of Significant Accounting Principles

(a) Principles of Financial Statement Presentation

This Quarterly Report on Form 10-Q (this Form 10-Q) should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Form 10-K) and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 of Alleghany Corporation (Alleghany).

Alleghany, a Delaware corporation, owns and manages certain operating subsidiaries and investments, anchored by a core position in property and casualty reinsurance and insurance. Through its wholly-owned subsidiary Alleghany Insurance Holdings LLC (AIHL) and its subsidiaries, Alleghany is engaged in the property and casualty insurance business. AIHL s insurance operations are principally conducted by its subsidiaries RSUI Group, Inc. (RSUI), CapSpecialty, Inc. (CapSpecialty) and Pacific Compensation Corporation (PacificComp). CapSpecialty has been a subsidiary of AIHL since January 2002, RSUI has been a subsidiary of AIHL since July 2003 and PacificComp has been a subsidiary of AIHL since July 2007. AIHL Re LLC (AIHL Re), a captive reinsurance company which provides reinsurance to Alleghany s insurance operating subsidiaries and affiliates, has been a wholly-owned subsidiary of Alleghany since its formation in May 2006. Alleghany s reinsurance operations commenced on March 6, 2012 when Alleghany consummated a merger with Transatlantic Holdings, Inc. (TransRe) and TransRe became one of Alleghany s wholly-owned subsidiaries.

Although Alleghany s primary sources of revenues and earnings are its reinsurance and insurance operations and investments, Alleghany also sources, executes, manages and monitors certain private capital investments primarily through its wholly-owned subsidiary Alleghany Capital Corporation (Alleghany Capital). Alleghany Capital s investments are included in other activities for segment reporting purposes and include:

- Stranded Oil Resources Corporation (SORC), an exploration and production company focused on enhanced oil recovery, headquartered in Golden, Colorado;

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

- R.C. Tway Company, LLC (Kentucky Trailer), a manufacturer of custom trailers and truck bodies for the moving and storage industry and other markets, headquartered in Louisville, Kentucky;

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

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

- WWSC Holdings LLC (W&W|AFCO Steel), a structural steel fabricator and erector, headquartered in Oklahoma City, Oklahoma, acquired on April 28, 2017.

On April 15, 2016, Alleghany Capital acquired an additional 50 percent of Jazwares outstanding equity, bringing its equity ownership interest to 80 percent and, as of that date, the results of Jazwares have been included in Alleghany s consolidated results. Prior to April 15, 2016, Jazwares was accounted for under the equity method of accounting.

In addition, Alleghany owns and manages properties in the Sacramento, California region through its wholly-owned subsidiary Alleghany Properties Holdings LLC (Alleghany Properties). Alleghany s public equity investments are managed primarily through Alleghany s wholly-owned subsidiary Roundwood Asset Management LLC.

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

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

The portion of stockholders equity, net earnings and 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 interests. Because all noncontrolling interests have the option to sell their ownership interests to Alleghany in the future (generally through 2024), the portion of stockholders equity that is not attributable to Alleghany stockholders is presented on the Consolidated Balance Sheets as redeemable noncontrolling interests for all periods presented. During the first six months of 2017, Bourn & Koch had approximately 11 percent noncontrolling interests outstanding, Kentucky Trailer had approximately 21 percent noncontrolling interests outstanding, IPS had approximately 16 percent noncontrolling interests outstanding and Jazwares had approximately 20 percent noncontrolling interests outstanding. W&W|AFCO Steel had approximately 20 percent noncontrolling interests outstanding from its April 28, 2017 acquisition date through June 30, 2017.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Alleghany relies on historical experience and on various other assumptions that it believes to be reasonable under the circumstances to make judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from those reported results to the extent that those estimates and assumptions prove to be inaccurate. Changes in estimates are reflected in the Consolidated Statements of Earnings and Comprehensive Income in the period in which the changes are made.

(b) Other Significant Accounting Principles

Alleghany s significant accounting principles can be found in Note 1 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 10-K.

(c) Recent Accounting Standards

Recently Adopted

In May 2015, the Financial Accounting Standards Board (the FASB) issued guidance that requires disclosures related to short-duration insurance contracts. The guidance applies to property and casualty insurance and reinsurance entities, among others, and requires the following annual disclosure related to the liability for loss and loss adjustment expenses (LAE): (i) net incurred and paid claims development information by accident year for up to ten years; (ii) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for loss and LAE; (iii) liabilities for losses that have been incurred but not yet reported by accident year and in total; (iv) a description of reserving methodologies (as well as any changes to those methodologies); (v) quantitative information about claim frequency by accident year; and (vi) the average annual percentage payout of incurred claims by age and accident year. In addition, the guidance also requires insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for loss and LAE. This guidance was effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. Alleghany adopted this guidance as of December 31, 2016 and the implementation did not have an impact on its results of operations and financial condition. See Note 5 of this Form 10-Q and Note 1(k) and Note 6 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 10-K for the new disclosures.

Future Application of Accounting Standards

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

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

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In February 2016, the FASB issued guidance on leases. Under this guidance, a lessee is required to recognize assets and liabilities for leases with terms of more than one year, whereas under current guidance, a lessee is only required to recognize assets and liabilities for those leases qualifying as capital leases. This guidance also requires new disclosures about the amount, timing and uncertainty of cash flows arising from leases. The accounting by lessors is to remain largely unchanged. This guidance is effective in the first quarter of 2019 for public entities, with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2019 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition. See Note 12(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 10-K for further information on Alleghany s leases.

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

In January 2017, the FASB issued guidance that simplifies the subsequent measurement of goodwill. Under this guidance, if an initial qualitative assessment indicates that the fair value of an operating subsidiary may be less than its carrying amount, an impairment charge is recognized for the amount by which the carrying amount of the operating subsidiary exceeds its estimated fair value. Any resulting impairment loss recognized cannot exceed the total amount of goodwill associated with the operating subsidiary. This guidance is effective in the first quarter of 2020 for public entities, with early adoption permitted. Alleghany will adopt this guidance in the first quarter of 2020 and does not currently believe that the implementation will have a material impact on its results of operations and financial condition.

In March 2017, the FASB issued guidance that reduces the amortization period for the premium on certain purchased callable debt securities to the earliest call date. The guidance applies specifically to noncontingent call features that are callable at a predetermined and fixed price and date. The accounting for purchased callable debt securities held at a discount is not affected. This guidance is effective in the first quarter of 2019 for public entities, with early adoption permitted. Alleghany currently intends to adopt this guidance in the fourth quarter of 2017, and will record a cumulative effect reduction directly to opening 2017 retained earnings and an offsetting increase in opening 2017 accumulated other comprehensive income at that time. 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 following table summarizes the carrying value and estimated fair value of Alleghany s consolidated financial instruments as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016

	Carrying Value	Fair Value	Carrying Value	Fair Value
	($ in millions)			
Assets				
Investments (excluding equity method investments and loans)(1)	$ 17,388.2	$ 17,388.2	$ 16,899.2	$ 16,899.2
Liabilities				
Senior Notes and other debt(2)	$ 1,487.5	$ 1,660.2	$ 1,476.5	$ 1,584.3

(1) This table includes AFS investments (debt and equity securities, as well as partnership and non-marketable equity investments carried at fair value that are included in other invested assets). This table excludes investments accounted for using the equity method and commercial mortgage loans that are carried at unpaid principal balance. The fair value of short-term investments approximates amortized cost. The fair value of all other categories of investments is discussed below.

(2) See Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 10-K for additional information on the senior notes and other debt.

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The following tables summarize Alleghany s financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of June 30, 2017 and December 31, 2016:

	Level 1	Level 2	Level 3	Total
		($ in millions)		
As of June 30, 2017				
Equity securities:				
Common stock	$ 3,307.1	$ 0.1	$ 1.9	$ 3,309.1
Preferred stock	-	-	2.2	2.2
Total equity securities	3,307.1	0.1	4.1	3,311.3
Debt securities:				
U.S. Government obligations	-	1,073.4	-	1,073.4
Municipal bonds	-	4,271.1	-	4,271.1
Foreign government obligations	-	1,098.7	-	1,098.7
U.S. corporate bonds	-	2,178.0	215.0	2,393.0
Foreign corporate bonds	-	1,229.2	37.0	1,266.2
Mortgage and asset-backed securities:				
Residential mortgage-backed securities (RMBS)[1]	-	1,004.8	5.5	1,010.3
Commercial mortgage-backed securities (CMBS)	-	570.7	1.9	572.6
Other asset-backed securities[2]	-	523.2	1,160.9	1,684.1
Total debt securities	-	11,949.1	1,420.3	13,369.4
Short-term investments	-	700.8	-	700.8
Other invested assets[3]	-	-	6.7	6.7
Total investments (excluding equity method investments and loans)	$ 3,307.1	$ 12,650.0	$ 1,431.1	$ 17,388.2
Senior Notes and other debt	$ -	$ 1,556.5	$ 103.7	$ 1,660.2

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	Level 1	Level 2	Level 3	Total
		($ in millions)		
As of December 31, 2016				
Equity securities:				
Common stock	$ 3,105.2	$ -	$ 4.3	$ 3,109.5
Preferred stock	-	-	-	-
Total equity securities	3,105.2	-	4.3	3,109.5
Debt securities:				
U.S. Government obligations	-	1,243.3	-	1,243.3
Municipal bonds	-	4,185.8	-	4,185.8
Foreign government obligations	-	1,047.1	-	1,047.1
U.S. corporate bonds	-	2,120.2	72.9	2,193.1
Foreign corporate bonds	-	1,088.4	0.4	1,088.8
Mortgage and asset-backed securities:				
RMBS(1)	-	994.5	5.9	1,000.4
CMBS	-	730.5	4.3	734.8
Other asset-backed securities(2)	-	586.1	903.8	1,489.9
Total debt securities	-	11,995.9	987.3	12,983.2
Short-term investments	-	778.4	-	778.4
Other invested assets(3)	-	-	28.1	28.1
Total investments (excluding equity method investments and loans)	$ 3,105.2	$ 12,774.3	$ 1,019.7	$ 16,899.2
Senior Notes and other debt	$ -	$ 1,491.5	$ 92.8	$ 1,584.3

(1) Primarily includes government agency pass-through securities guaranteed by a government agency or government sponsored enterprise, among other types of RMBS.
(2) Includes $1,126.4 million and $903.8 million of collateralized loan obligations as of June 30, 2017 and December 31, 2016, respectively.
(3) Includes partnership and non-marketable equity investments accounted for on an AFS basis, and excludes investments accounted for using the equity method.

In the three and six months ended June 30, 2017, Alleghany transferred $3.1 million and $7.2 million, respectively, of financial instruments out of Level 3 that were principally due to an increase in observable inputs related to the valuation of such assets and, specifically, an increase in broker quotes. Of the $7.2 million of transfers, $4.8 million related to U.S. corporate bonds and $2.4 million related to common stock.

In the three and six months ended June 30, 2017, Alleghany transferred $2.1 million and $4.7 million, respectively, of financial instruments into Level 3 that were principally due to a decrease in observable inputs related to the valuation of such assets and, specifically, a decrease in broker quotes. Of the $4.7 million of transfers, $3.0 million related to U.S. corporate bonds, $1.4 million related to common stock and $0.3 million related to foreign corporate bonds. There were no other material transfers between Levels 1, 2 or 3 in the three and six months ended June 30, 2017.

In the three and six months ended June 30, 2016, there were no material transfers of securities out of Level 3.

In the six months ended June 30, 2016, Alleghany transferred $2.7 million of financial instruments into Level 3 principally due to a decrease in observable inputs related to the valuation of such assets. Of the $2.7 million of transfers, $1.7 million related to U.S. corporate bonds and $1.0 million related to common stock. There were no other material transfers between Levels 1, 2 or 3 in the three and six months ended June 30, 2016.

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The following tables present reconciliations of the changes during the six months ended June 30, 2017 and 2016 in Level 3 assets measured at fair value:

	Equity Securities		Debt Securities						
					Mortgage and asset-backed				
onths Ended June 30, 2017	Common Stock	Preferred Stock	U.S. Corporate Bonds	Foreign Corporate Bonds	RMBS	CMBS	Other Asset-backed Securities	Other Invested Assets(1)	Tota
				($ in millions)					
ce as of January 1, 2017	$ 4.3	$ -	$ 72.9	$ 0.4	$ 5.9	$ 4.3	$ 903.8	$ 28.1	$ 1,01
alized/unrealized gains (losses) included in:									
arnings(2)	(0.1)	-	(0.3)	-	0.1	-	2.7	10.8	1
comprehensive income	0.5	-	1.5	0.4	0.2	0.1	11.9	(10.6)	
ases	-	2.4	151.4	36.0	-	-	578.0	-	76
	(1.8)	(0.2)	(4.3)	(0.1)	-	(2.2)	(19.7)	(21.6)	(4
aces	-	-	-	-	-	-	-	-	
ments	-	-	(4.4)	-	(0.7)	(0.3)	(315.8)	-	(32
fers into Level 3	1.4	-	3.0	0.3	-	-	-	-	
fers out of Level 3	(2.4)	-	(4.8)	-	-	-	-	-	(
ce as of June 30, 2017	$ 1.9	$ 2.2	$ 215.0	$ 37.0	$ 5.5	$ 1.9	$ 1,160.9	$ 6.7	$ 1,43

		Debt Securities					
			Mortgage and asset-backed				
Six Months Ended June 30, 2016	Common Stock	U.S. Corporate Bonds	RMBS	CMBS	Other Asset-backed Securities	Other Invested Assets(1)	Total
			($ in millions)				
Balance as of January 1, 2016	$ -	$ 49.8	$ 14.9	$ 20.2	$ 953.0	$ 29.9	$ 1,067.8
Net realized/unrealized gains (losses) included in:							
Net earnings(2)	(0.1)	(0.2)	0.2	-	1.5	2.3	3.7
Other comprehensive income	0.6	1.0	(0.2)	0.7	3.7	(1.7)	4.1
Purchases	0.2	1.3	-	-	19.3	-	20.8
Sales	-	(7.8)	-	(4.8)	(26.0)	(2.3)	(40.9)
Issuances	-	-	-	-	-	-	-
Settlements	-	(1.7)	(1.1)	(0.3)	(0.5)	-	(3.6)
Transfers into Level 3	1.0	1.7	-	-	-	-	2.7
Transfers out of Level 3	-	-	-	-	-	(0.3)	(0.3)
Balance as of June 30, 2016	$ 1.7	$ 44.1	$ 13.8	$ 15.8	$ 951.0	$ 27.9	$ 1,054.3

(1) Includes partnership and non-marketable equity investments accounted for on an AFS basis.
(2) There were no other than temporary impairment (OTTI) losses recorded in net earnings related to Level 3 assets still held as of June 30, 2017 and 2016.

Net unrealized losses related to Level 3 assets as of June 30, 2017 and December 31, 2016 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 2016 Form 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 June 30, 2017 and December 31, 2016 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		($ in millions)		
As of June 30, 2017				
Equity securities:				
Common stock	$ 2,764.3	$ 546.8	$ (2.0)	$ 3,309.1
Preferred stock	2.2	-	-	2.2
Total equity securities	2,766.5	546.8	(2.0)	3,311.3
Debt securities:				
U.S. Government obligations	1,085.3	2.2	(14.1)	1,073.4
Municipal bonds	4,187.5	102.1	(18.5)	4,271.1
Foreign government obligations	1,085.5	17.5	(4.3)	1,098.7
U.S. corporate bonds	2,349.1	55.9	(12.0)	2,393.0
Foreign corporate bonds	1,243.8	26.8	(4.4)	1,266.2
Mortgage and asset-backed securities:				
RMBS	1,012.1	7.5	(9.3)	1,010.3
CMBS	565.3	10.0	(2.7)	572.6
Other asset-backed securities(1)	1,676.9	9.2	(2.0)	1,684.1
Total debt securities	13,205.5	231.2	(67.3)	13,369.4
Short-term investments	700.8	-	-	700.8
Total investments	$ 16,672.8	$ 778.0	$ (69.3)	$ 17,381.5

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		($ in millions)		
As of December 31, 2016				
Equity securities:				
Common stock	$ 2,816.6	$ 332.1	$ (39.2)	$ 3,109.5
Preferred stock	-	-	-	-
Total equity securities	2,816.6	332.1	(39.2)	3,109.5

Debt securities:								
U.S. Government obligations		1,265.7		2.2		(24.6)		1,243.3
Municipal bonds		4,161.0		66.9		(42.1)		4,185.8
Foreign government obligations		1,030.9		20.2		(4.0)		1,047.1
U.S. corporate bonds		2,168.9		43.5		(19.3)		2,193.1
Foreign corporate bonds		1,068.3		27.3		(6.8)		1,088.8
Mortgage and asset-backed securities:								
RMBS		1,005.9		7.0		(12.5)		1,000.4
CMBS		728.8		9.6		(3.6)		734.8
Other asset-backed securities[(1)]		1,497.6		4.0		(11.7)		1,489.9
Total debt securities		12,927.1		180.7		(124.6)		12,983.2
Short-term investments		778.4		-		-		778.4
Total investments	$	16,522.1	$	512.8	$	(163.8)	$	16,871.1

(1) Includes $1,126.4 million and $903.8 million of collateralized loan obligations as of June 30, 2017 and December 31, 2016, respectively.

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(b) Contractual Maturity

The amortized cost or cost and estimated fair value of debt securities by contractual maturity as of June 30, 2017 are presented 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)	
As of June 30, 2017		
Short-term investments due in one year or less	$ 700.8	$ 700.8
Mortgage and asset-backed securities(1)	3,254.3	3,267.0
Debt securities with maturity dates:		
One year or less	496.1	497.5
Over one through five years	3,110.0	3,143.9
Over five through ten years	3,352.2	3,405.9
Over ten years	2,992.9	3,055.1
Total debt securities	13,205.5	13,369.4
Equity securities	2,766.5	3,311.3
Total	$ 16,672.8	$ 17,381.5

(1) 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 six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	($ in millions)			
Interest income	$ 102.5	$ 98.7	$ 201.7	$ 200.0
Dividend income	11.8	11.2	21.2	23.3
Investment expenses	(6.9)	(6.7)	(14.3)	(13.6)
Equity in results of Pillar Investments(1)	3.2	3.9	6.6	7.0
Equity in results of Ares(1)	(12.6)	0.1	(7.4)	0.5

Other investment results		3.7		(0.3)		9.4		(5.5)
Total	$	101.7	$	106.9	$	217.2	$	211.7

(1) See Note 3(g) of this Form 10-Q for discussion of the Pillar Investments and the investment in Ares, each as defined therein.

As of June 30, 2017, non-income producing invested assets were immaterial.

(d) Realized Gains and Losses

The proceeds from sales of AFS securities were $1.5 billion and $1.9 billion for the three months ended June 30, 2017 and 2016, respectively, and $4.2 billion and $4.4 billion for the six months ended June 30, 2017 and 2016, respectively.

Realized capital gains and losses for the three and six months ended June 30, 2017 primarily reflect sales of equity securities. Realized capital gains in the first six months of 2017 include the sale of certain equity securities resulting from a partial restructuring of the equity portfolio. Realized capital gains and losses for the three and six months ended June 30, 2016 primarily reflect sales of equity and debt securities. In addition, Alleghany Capital recognized a gain of $13.2 million on April 15, 2016 in connection with the acquisition of an additional 50 percent equity ownership in Jazwares, when its pre-existing 30 percent equity ownership was remeasured at estimated fair value (the Jazwares Remeasurement Gain).

The amounts of gross realized capital gains and gross realized capital losses for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	($ in millions)			
Gross realized capital gains	$ 34.0	$ 102.6	$ 142.7	$ 185.1
Gross realized capital losses	(24.7)	(48.6)	(73.8)	(95.2)
Net realized capital gains	$ 9.3	$ 54.0	$ 68.9	$ 89.9

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

(e) OTTI Losses

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

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

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

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

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

OTTI losses in the first six months of 2017 reflect $7.0 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the $7.0 million of OTTI losses, $6.8 million related to equity securities, primarily in the retail sector, and $0.2 million related to debt securities. The determination that unrealized losses on equity and debt securities were other than temporary was primarily due to the duration of the decline in the fair value of equity and debt securities relative to their costs. Of the $7.0 million of OTTI losses, $3.8 million was incurred in the second quarter of 2017.

OTTI losses in the first six months of 2016 reflect $26.5 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the $26.5 million of OTTI losses, $7.3 million related to equity securities, primarily in the financial services, technology and chemical sectors, and $19.2 million related to debt securities, primarily in the energy sector. The determination that unrealized losses on equity and debt securities were other than temporary was primarily due to the severity and duration of the decline in the fair value of equity and debt securities relative to their costs. Of the $26.5 million of OTTI losses, $5.7 million was incurred in the second quarter of 2016.

Upon the ultimate disposition of the securities for which OTTI losses have been recorded, a portion of the loss may be recoverable depending on market conditions at the time of disposition. After adjusting the cost basis of securities for the recognition of OTTI losses, the remaining gross unrealized investment losses for debt and equity securities as of June 30, 2017 were deemed to be temporary, based on, among other factors: (i) the duration of time and the relative magnitude to which the fair value of these investments had been below cost were not indicative of an OTTI loss; (ii) the absence of compelling evidence that would cause Alleghany to call into question the financial condition or near-term business prospects of the issuer of the security; and (iii) Alleghany s ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery.

Alleghany may ultimately record a realized loss after having originally concluded that the decline in value was temporary. Risks and uncertainties are inherent in the methodology. Alleghany s methodology for assessing other than temporary declines in value contains inherent risks and uncertainties which could include, but are not limited to, incorrect assumptions about financial condition, liquidity or future prospects, inadequacy of any underlying collateral and unfavorable changes in economic conditions or social trends, interest rates or credit ratings.

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(f) Aging of Gross Unrealized Losses

As of June 30, 2017 and December 31, 2016, gross unrealized losses and related fair values for equity securities and debt securities, grouped by duration of time in a continuous unrealized loss position, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			($ in millions)			
As of June 30, 2017						
Equity securities:						
Common stock	$ 104.1	$ 2.0	$ -	$ -	$ 104.1	$ 2.0
Preferred stock	-	-	-	-	-	-
Total equity securities	104.1	2.0	-	-	104.1	2.0
Debt securities:						
U.S. Government obligations	749.1	11.1	80.3	3.0	829.4	14.1
Municipal bonds	778.4	14.3	81.1	4.2	859.5	18.5
Foreign government obligations	505.3	4.3	-	-	505.3	4.3
U.S. corporate bonds	648.9	11.7	30.0	0.3	678.9	12.0
Foreign corporate bonds	371.1	4.4	0.5	-	371.6	4.4
Mortgage and asset-backed securities:						
RMBS	563.7	8.2	47.6	1.1	611.3	9.3
CMBS	76.7	0.5	56.5	2.2	133.2	2.7
Other asset-backed securities	389.9	1.0	135.4	1.0	525.3	2.0
Total debt securities	4,083.1	55.5	431.4	11.8	4,514.5	67.3
Total temporarily impaired securities	$ 4,187.2	$ 57.5	$ 431.4	$ 11.8	$ 4,618.6	$ 69.3

	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, 2016						
Equity securities:						
Common stock	$ 619.4	$ 39.2	$ -	$ -	$ 619.4	$ 39.2

Preferred stock		-		-		-		-		-	-
Total equity securities		619.4		39.2		-		-		619.4	39.2
Debt securities:											
U.S. Government obligations		975.0		24.6		-		-		975.0	24.6
Municipal bonds		1,464.5		39.7		41.6		2.4		1,506.1	42.1
Foreign government obligations		238.3		4.0		-		-		238.3	4.0
U.S. corporate bonds		727.9		18.1		52.6		1.2		780.5	19.3
Foreign corporate bonds		331.0		6.6		4.1		0.2		335.1	6.8
Mortgage and asset-backed securities:											
RMBS		652.0		11.4		43.4		1.1		695.4	12.5
CMBS		148.9		1.4		117.7		2.2		266.6	3.6
Other asset-backed securities		334.7		1.6		550.4		10.1		885.1	11.7
Total debt securities		4,872.3		107.4		809.8		17.2		5,682.1	124.6
Total temporarily impaired securities	$	5,491.7	$	146.6	$	809.8	$	17.2	$	6,301.5	$ 163.8

As of June 30, 2017, Alleghany held a total of 1,192 debt securities and equity securities that were in an unrealized loss position, of which 81 securities, all debt securities, were in an unrealized loss position continuously for 12 months or more. The unrealized losses associated with these debt securities consisted primarily of losses related to municipal bonds, U.S. Government obligations, CMBS, RMBS and other asset-backed securities.

As of June 30, 2017, the vast majority of Alleghany s debt securities were rated investment grade, with 6.1 percent of debt securities having issuer credit ratings that were below investment grade or not rated, compared with 5.1 percent as of December 31, 2016.

(g) Investments in Certain Other Invested Assets

In December 2012, TransRe obtained an ownership interest in Pillar Capital Holdings Limited (Pillar Holdings), a Bermuda-based insurance asset manager focused on collateralized reinsurance and catastrophe insurance-linked securities. Additionally, TransRe invested $175.0 million and AIHL invested $25.0 million in limited partnership funds managed by Pillar Holdings (the Funds). The objective of the Funds is to create portfolios with attractive risk-reward characteristics and low correlation with other asset classes, using the extensive reinsurance and capital market experience of the principals of Pillar Holdings. Alleghany has concluded that both Pillar Holdings and the Funds (collectively, the Pillar Investments) represent variable interest entities and that Alleghany is not the primary beneficiary, as it does not have the ability to direct the activities that most significantly impact each entity s economic performance. Therefore, the Pillar Investments are not consolidated and are accounted for under the equity method of accounting. Alleghany s potential maximum loss in the Pillar Investments is limited to its cumulative net investment. As of June 30, 2017, Alleghany s carrying value in the Pillar Investments, as determined under the equity method of accounting, was $226.5 million, which is net of returns of capital received from the Pillar Investments.

In July 2013, AIHL invested $250.0 million in Ares Management LLC (Ares), an asset manager, in exchange for a 6.25 percent equity stake in Ares, with an agreement to engage Ares to manage up to $1.0 billion in certain investment strategies. In May 2014, Ares completed an initial public offering of its common units. Upon completion of the initial public offering, Alleghany s equity investment in Ares converted to limited partner interests in certain Ares subsidiaries that are convertible into an aggregate 5.9 percent interest in Ares common units. These interests may be converted at any time at Alleghany s discretion. Until Alleghany determines to convert its limited partner interests into Ares common units, Alleghany classifies its investment in Ares as a component of other invested assets and accounts for its investment using the equity method of accounting. As of June 30, 2017, AIHL s carrying value in Ares was $210.5 million, which is net of returns of capital received from Ares.

(h) Investments in Commercial Mortgage Loans

As of June 30, 2017, the carrying value of Alleghany s commercial mortgage loan portfolio was $636.5 million, representing the unpaid principal balance on the loans. As of June 30, 2017, there was no allowance for loan losses. The commercial mortgage loan portfolio consists primarily of first mortgages on commercial properties in major metropolitan areas in the U.S. The loans earn interest at fixed- and floating-rates, mature in two to ten years from loan origination and the principal amounts of the loans were no more than approximately two-thirds of the property s appraised value at the time the loans were made.

4. Reinsurance Ceded

(a) Overview

Alleghany s reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite in order to reduce the effect of individual or aggregate exposure to losses, manage capacity, protect capital resources, reduce volatility in specific lines of business, improve risk-adjusted portfolio returns and enable them to increase gross premium writings and risk capacity without requiring additional capital. Alleghany s reinsurance and insurance subsidiaries purchase reinsurance and retrocessional coverages from highly-rated third-party reinsurers. If the assuming reinsurers are unable or unwilling to meet the obligations assumed under the applicable reinsurance agreements, Alleghany s reinsurance and insurance subsidiaries would remain liable for such reinsurance portion not paid by these reinsurers. As such, funds, trust agreements and letters of credit are held to collateralize a portion of Alleghany s reinsurance recoverables and Alleghany s reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite or assume with multiple reinsurance programs.

(b) Significant Reinsurance Contracts

As discussed in Note 5(d) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 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 and property per risk reinsurance program run on an annual basis from May 1 to the following April 30 and portions expired on April 30, 2017. Both programs were renewed on May 1, 2017 with substantially similar terms as the expired programs.

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5. Liability for Loss and LAE

(a) Liability Rollforward

Activity in liability for loss and LAE in the six months ended June 30, 2017 and 2016 is summarized as follows:

	Six Months Ended June 30,	
	2017	2016
	($ in millions)	
Reserves as of January 1	$ 11,087.2	$ 10,799.2
Less: reinsurance recoverables[1]	1,236.2	1,169.3
Net reserves as of January 1	9,851.0	9,629.9
Incurred loss and LAE, net of reinsurance, related to:		
Current year	1,545.6	1,655.3
Prior years	(111.4)	(175.3)
Total incurred loss and LAE, net of reinsurance	1,434.2	1,480.0
Paid loss and LAE, net of reinsurance, related to:[2]		
Current year	242.7	115.0
Prior years	1,190.1	1,123.0
Total paid loss and LAE, net of reinsurance	1,432.8	1,238.0
Foreign exchange effect	55.4	20.8
Net reserves as of June 30	9,907.8	9,892.7
Reinsurance recoverables as of June 30[1]	1,152.4	1,151.1
Reserves as of June 30	$ 11,060.2	$ 11,043.8

(1) Reinsurance recoverables in this table include only ceded loss and LAE reserves.
(2) Includes paid losses, net of reinsurance, related to commutations.

Gross loss and LAE reserves as of June 30, 2017 decreased slightly from December 31, 2016, primarily reflecting a decrease at the insurance segment due to favorable prior accident year loss reserve development and the impact of lower net premiums earned at RSUI, partially offset by the impact of higher net premiums earned at PacificComp and CapSpecialty.

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(b) Liability Development

The (favorable) unfavorable prior accident year loss reserve development for the three and six months ended June 30, 2017 and 2016 is summarized as follows:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	
	($ in millions)			
Reinsurance Segment				
Property:				
Catastrophe events	$ (4.0)(1)	$ (6.7)(2)	$ (4.4)(1)	$
Non-catastrophe	(18.9)(3)	(28.6)(4)	(50.0)(3)	
Total property	(22.9)	(35.3)	(54.4)	
Casualty & other:				
Malpractice Treaties(5)	(2.0)	(2.0)	(2.0)	
Ogden rate impact(6)	-	-	24.4	
Other	(27.7)(7)	(40.7)(8)	(58.9)(7)	
Total casualty & other	(29.7)	(42.7)	(36.5)	
Total Reinsurance Segment	(52.6)	(78.0)	(90.9)	
Insurance Segment				
RSUI:				
Casualty	(9.5)(10)	(10.4)(11)	(21.6)(10)	
Property and other	(0.8)	(0.8)(12)	2.9(13)	
Total RSUI	(10.3)	(11.2)	(18.7)	
CapSpecialty:				
Asbestos-related illness and environmental impairment liability	-	-	-	
Other	(0.2)(14)	(0.8)(15)	(0.8)(14)	
Total CapSpecialty	(0.2)	(0.8)	(0.8)	
PacificComp	(0.5)(16)	-	(1.0)(16)	
Total incurred related to prior years	$ (63.6)	$ (90.0)	$ (111.4)	$

(1) Reflects favorable prior accident year loss reserve development from several catastrophes that occurred in the 2010 through 2016 accident years.
(2) Reflects favorable prior accident year loss reserve development from several catastrophes that occurred in the 2010 through 2015 accident years.
(3) Reflects favorable prior accident year loss reserve development primarily related to the 2013 through 2016 accident years.
(4) Reflects favorable prior accident year loss reserve development primarily related to the 2014 and 2015 accident years.
(5) Represents certain medical malpractice treaties pursuant to which the increased underwriting profits created by the favorable prior accident year loss reserve development are largely retained by the cedants. As a result, the favorable prior accident year loss reserve development is largely offset by an increase in profit commission expense incurred when such favorable prior accident year loss reserve development occurs.
(6) Represents unfavorable prior accident year loss reserve development arising from the U.K. Ministry of Justice s decision to significantly reduce the discount rate, referred to as the Ogden rate, used to calculate lump-sum bodily injury payouts in personal injury insurance claims in the U.K. As of March 20, 2017, the Ogden rate changed from +2.50 percent to (0.75) percent.
(7) Primarily reflects favorable prior accident year loss reserve development in longer-tailed U.S. professional liability business related to the 2005 through 2014 accident years, partially offset by net adverse development in shorter-tailed casualty lines in the 2015 accident year in the U.S. and the U.K.
(8) Generally reflects favorable prior accident year loss reserve development in a variety of casualty & other lines of business primarily from the 2009, 2013 and 2015 accident years.
(9) Generally reflects favorable prior accident year loss reserve development in a variety of casualty & other lines of business primarily from the 2009 and 2015 accident years.
(10) Primarily reflects favorable prior accident year loss reserve development in the umbrella/excess line of business related to the 2005 through 2011 accident years.
(11) Primarily reflects favorable prior accident year loss reserve development in the umbrella/excess, general liability and professional liability lines of business related to the 2006 through 2012 accident years.
(12) Primarily reflects favorable prior accident year loss reserve development in the non-catastrophe property lines of business in recent accident years.
(13) Primarily reflects unfavorable prior accident year property loss reserve development in the binding authority lines of business primarily related to the 2015 and 2016 accident years.

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(14) Primarily reflects favorable prior accident year loss reserve development in the casualty lines of business related to the 2015 and 2010 accident years.
(15) Primarily reflects favorable prior accident year loss reserve development in the surety lines of business related to the 2015 accident year.
(16) Primarily reflects favorable prior accident year loss reserve development related to the 2013 and prior accident years.

6. Income Taxes

The effective tax rate on earnings before income taxes for the first six months of 2017 was 27.6 percent, compared with 32.9 percent for the first six months of 2016. The decrease in the effective tax rate in the first six months of 2017 from the first six months of 2016 primarily reflects prior period income tax adjustments in the first six months of 2016, which include $19.7 million of out-of-period reductions to current and deferred TransRe tax assets recorded as of June 30, 2016 that relate primarily to periods prior to Alleghany s March 6, 2012 merger with TransRe.

Alleghany believes that, as of June 30, 2017, it had no material uncertain tax positions. Interest and penalties relating to unrecognized tax expenses (benefits) are recognized in income tax expense, when applicable. There were no material liabilities for interest or penalties accrued as of June 30, 2017.

7. Stockholders Equity

(a) Common Stock Repurchases

In July 2014, the Alleghany Board of Directors authorized the repurchase of shares of common stock of Alleghany, par value $1.00 per share (Common Stock), at such times and at prices as management determines to be advisable, up to an aggregate of $350.0 million (the 2014 Repurchase Program). In November 2015, the Alleghany Board of Directors authorized the repurchase, upon the completion of the 2014 Repurchase Program, of additional shares of Common Stock, at such times and at prices as management determines to be advisable, up to an aggregate of $400.0 million (the 2015 Repurchase Program). In the first quarter of 2016, Alleghany completed the 2014 Repurchase Program and subsequent repurchases have been made pursuant to the 2015 Repurchase Program. As of June 30, 2017, Alleghany had $379.2 million remaining under its share repurchase authorization.

Pursuant to the 2014 Repurchase Program and the 2015 Repurchase Program, as applicable, Alleghany repurchased shares of Common Stock in the three and six months ended June 30, 2017 and 2016 as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Shares repurchased	-	-	-	113,100
Cost of shares repurchased (in millions)	$ -	$ -	$ -	$ 53.3
Average price per share repurchased	$ -	$ -	$ -	$ 471.15

(b) Accumulated Other Comprehensive Income

The following tables present a reconciliation of the changes during the six months ended June 30, 2017 and 2016 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, 2017	$ 232.2	$ (111.2)	$ (11.7)	$ 109.3
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications	266.7	15.0	(0.3)	281.4
Reclassifications from accumulated other comprehensive income	(40.3)	-	-	(40.3)
Total	226.4	15.0	(0.3)	241.1
Balance as of June 30, 2017	$ 458.6	$ (96.2)	$ (12.0)	$ 350.4

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	Unrealized Appreciation of Investments	Unrealized Currency Translation Adjustment	Retirement Plans	Total
		($ in millions)		
Balance as of January 1, 2016	$ 231.9	$ (104.0)	$ (11.6)	$ 116.3
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications	191.7	22.2	0.4	214.3
Reclassifications from accumulated other comprehensive income	(32.6)	-	-	(32.6)
Total	159.1	22.2	0.4	181.7
Balance as of June 30, 2016	$ 391.0	$ (81.8)	$ (11.2)	$ 298.0

Reclassifications out of accumulated other comprehensive income attributable to Alleghany stockholders during the three and six months ended June 30, 2017 and 2016 were as follows:

Accumulated Other Comprehensive Income Component	Line in Consolidated Statement of Earnings	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
			($ in millions)		
Unrealized appreciation of investments:	Net realized capital gains[(1)]	$ (9.3)	$ (40.8)	$ (68.9)	$ (76.7)
	Other than temporary impairment losses	3.8	5.7	7.0	26.5
	Income taxes	1.9	12.3	21.6	17.6
Total reclassifications:	Net earnings	$ (3.6)	$ (22.8)	$ (40.3)	$ (32.6)

(1) Net realized capital gains for the three and six months ended June 30, 2016 exclude the Jazwares Remeasurement Gain of $13.2 million.

8. 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 six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	($ in millions, except share amounts)			
Net earnings available to Alleghany stockholders	$ 101.8	$ 77.1	$ 251.0	$ 231.6
Effect of dilutive securities	-	-	-	-
Income available to common stockholders for diluted earnings per share	$ 101.8	$ 77.1	$ 251.0	$ 231.6
Weighted average common shares outstanding applicable to basic earnings per share	15,419,034	15,438,859	15,416,366	15,445,525
Effect of dilutive securities	-	-	5,703	-
Adjusted weighted average common shares outstanding applicable to diluted earnings per share	15,419,034	15,438,859	15,422,069	15,445,525

75,035 and 70,738 contingently issuable shares were potentially available during the first six months of 2017 and 2016, respectively, but were not included in the diluted earnings per share computations because the impact was anti-dilutive to the earnings per share calculation.

9. Commitments and Contingencies

(a) Legal Proceedings

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

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(b) Leases

Alleghany and its subsidiaries lease certain facilities, furniture and equipment under long-term lease agreements. Additional information about leases can be found in Note 12(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 10-K.

(c) Energy Holdings

As of June 30, 2017, Alleghany had holdings in energy sector businesses of $506.5 million, comprised of $313.0 million of debt securities, $47.5 million of equity securities and $146.0 million of Alleghany s equity attributable to SORC.

10. Segments of Business

(a) Overview

Alleghany s segments are reported in a manner consistent with the way management evaluates the businesses. As such, Alleghany classifies its business into two reportable segments reinsurance and insurance. Other activities include Alleghany Capital and corporate activities. In addition, reinsurance and insurance underwriting activities are evaluated separately from investment and other activities. Net realized capital gains and OTTI losses are not considered relevant in evaluating investment performance on an annual basis. Segment accounting policies are described in Note 1 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 10-K.

The reinsurance segment consists of property and casualty reinsurance operations conducted by TransRe s reinsurance operating subsidiaries and is further reported through two major product lines property and casualty & other. TransRe provides property and casualty reinsurance to insurers and reinsurers through brokers and on a direct basis to ceding companies. TransRe also writes a modest amount of insurance business, which is included in the reinsurance segment. Over one-third of the premiums earned by TransRe s operations are generated by offices located in Canada, Europe, Asia, Australia, Africa and those serving Latin America and the Caribbean. Although the majority of the premiums earned by these offices typically relate to the regions where they are located, a significant portion may be derived from other regions of the world, including the U.S. In addition, although a significant portion of the assets and liabilities of these foreign offices generally relate to the countries where ceding companies and reinsurers are located, most investments are located in the country of domicile of these offices.

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

The components of other activities are Alleghany Capital and corporate activities. Alleghany Capital consists of manufacturing and service operations, oil and gas operations and corporate operations and investments at the Alleghany Capital level. Manufacturing and service operations are conducted through Bourn & Koch, Kentucky Trailer, IPS, Jazwares and, beginning April 28, 2017, W&W|AFCO Steel. Oil and gas operations are conducted through SORC.

On April 28, 2017, Alleghany Capital acquired approximately 80 percent of the equity in W&W|AFCO Steel for $164.5 million, including $163.9 million in cash paid on May 1, 2017 and $0.6 million of estimated purchase price adjustments. In connection with the acquisition, Alleghany recorded $39.9 million, $25.3 million and $70.0 million of goodwill, indefinite-lived intangible assets and finite-lived intangible assets, respectively. Indefinite-lived intangible assets relate to trade name and finite-lived intangible assets relate to customer relationships. The customer relationship asset is estimated to have a useful life of ten years.

On April 15, 2016, Alleghany Capital acquired an additional 50 percent of Jazwares outstanding equity, bringing its equity ownership interest to 80 percent and, as of that date, the results of Jazwares have been included in Alleghany s consolidated results. Prior to April 15, 2016, Jazwares was accounted for under the equity method of accounting.

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

In addition, corporate activities include interest expense associated with the senior notes issued by Alleghany, whereas interest expense associated with senior notes issued by TransRe is included in Total Segments and interest expense associated with other debt is included in Alleghany Capital. Information related to the senior notes and other debt can be found in Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2016 Form 10-K.

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(b) Results

Results for Alleghany s two reportable segments and for other activities for the three and six months ended June 30, 2017 and 2016 are shown in the tables below:

	Reinsurance Segment			Insurance Segment			
Three Months ended June 30, 2017	Property	Casualty & Other[1]	Total	RSUI	Cap Specialty	Pacific Comp	Total
						($ in millions)	
Gross premiums written	$ 369.1	$ 676.3	$ 1,045.4	$ 295.1	$ 73.3	$ 41.9	$ 410.3
Net premiums written	317.2	661.6	978.8	204.6	68.4	41.3	314.3
Net premiums earned	270.5	686.9	957.4	178.5	64.1	43.9	286.5
Net loss and LAE	122.9	450.1	573.0	93.8	35.6	32.5	161.9
Commissions, brokerage and other underwriting expenses	87.9	234.3	322.2	53.0	27.2	11.3	91.5
Underwriting profit[3]	$ 59.7	$ 2.5	$ 62.2	$ 31.7	$ 1.3	$ 0.1	$ 33.1
Net investment income							
Net realized capital gains							
Other than temporary impairment losses							
Other revenue							
Other operating expenses							
Corporate administration							
Amortization of intangible assets							
Interest expense							
Earnings (losses) before income taxes							

	Reinsurance Segment			Insurance Segment			
Three Months ended June 30, 2016	Property	Casualty & Other[1]	Total	RSUI	Cap Specialty	Pacific Comp	Total

						($ in millions)	
Gross premiums written	$ 389.9	$ 712.4	$ 1,102.3	$ 307.7	$ 70.0	$ 34.0	$ 411.7
Net premiums written	315.1	695.4	1,010.5	224.5	65.7	33.6	323.8
Net premiums earned	290.2	689.9	980.1	188.3	58.6	34.5	281.4
Net loss and LAE	201.3	448.1	649.4	109.1	30.9	25.9	165.9
Commissions, brokerage and other underwriting expenses	92.2	226.5	318.7	54.7	25.9	9.6	90.2
Underwriting profit (loss)[3]	$ (3.3)	$ 15.3	$ 12.0	$ 24.5	$ 1.8	$ (1.0)	$ 25.3
Net investment income							
Net realized capital gains							
Other than temporary impairment losses							
Other revenue							
Other operating expenses							
Corporate administration							
Amortization of intangible assets							
Interest expense							
Earnings (losses) before income taxes							

Six Months ended June 30, 2017	Reinsurance Segment			Insurance Segment			
	Property	Casualty & Other[1]	Total	RSUI	Cap Specialty	Pacific Comp	Total
						($ in millions)	
Gross premiums written	$ 744.5	$ 1,356.6	$ 2,101.1	$ 559.6	$ 138.8	$ 82.6	$ 781.0
Net premiums written	602.4	1,325.8	1,928.2	387.2	129.4	81.4	598.0
Net premiums earned	557.3	1,326.2	1,883.5	361.2	126.2	82.2	569.6
Net loss and LAE	244.7	885.4	1,130.1	174.4	68.7	61.0	304.1
Commissions, brokerage and other underwriting expenses	178.7	459.0	637.7	107.9	54.9	21.7	184.5

Underwriting profit (loss)[3]	$	133.9	$	(18.2)	$	115.7	$	78.9	$	2.6	$	(0.5)	$	81.0
Net investment income														
Net realized capital gains														
Other than temporary impairment losses														
Other revenue														
Other operating expenses														
Corporate administration														
Amortization of intangible assets														
Interest expense														
Earnings (losses) before income taxes														

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Six Months ended June 30, 2016	Reinsurance Segment Property	Casualty & Other[(1)]	Total	Insurance Segment RSUI	Cap Specialty	Pacific Comp	Total
					($ in millions)		
Gross premiums written	$ 773.1	$ 1,471.6	$ 2,244.7	$ 564.6	$ 132.9	$ 68.1	$ 765.6
Net premiums written	624.6	1,441.9	2,066.5	398.1	124.5	67.4	590.0
Net premiums earned	543.3	1,375.8	1,919.1	380.6	114.2	69.2	564.0
Net loss and LAE	297.3	878.2	1,175.5	194.2	57.9	52.4	304.5
Commissions, brokerage and other underwriting expenses	170.2	465.9	636.1	107.9	52.4	19.3	179.6
Underwriting profit (loss)[(3)]	$ 75.8	$ 31.7	$ 107.5	$ 78.5	$ 3.9	$ (2.5)	$ 79.9
Net investment income							
Net realized capital gains							
Other than temporary impairment losses							
Other revenue							
Other operating expenses							
Corporate administration							
Amortization of intangible assets							
Interest expense							
Earnings (losses) before income taxes							

(1) Primarily consists of the following assumed reinsurance lines of business: directors and officers liability; errors and omissions liability; general liability; medical malpractice; ocean marine and aviation; auto liability; accident and health; surety; and credit.
(2) Includes elimination of minor reinsurance activity between segments.
(3) Underwriting profit represents net premiums earned less net loss and LAE and commissions, brokerage and other underwriting expenses, all as determined in accordance with GAAP, and does not include net investment income, net realized capital gains, OTTI losses, other revenue, other operating expenses, corporate administration, amortization of intangible assets or interest expense. Underwriting profit does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. Rather, Alleghany believes that

underwriting profit enhances the understanding of its segments operating results by highlighting net earnings attributable to their underwriting performance. Earnings before income taxes may show a profit despite an underlying underwriting loss. Where underwriting losses persist over extended periods, a reinsurance or an insurance company s ability to continue as an ongoing concern may be at risk. Therefore, Alleghany views underwriting profit as an important measure in the overall evaluation of performance.

(c) Identifiable assets and equity

As of June 30, 2017, the identifiable assets of the reinsurance segment, insurance segment and other activities were $16.0 billion, $6.8 billion and $1.7 billion, respectively, of which cash and invested assets represented $13.4 billion, $5.3 billion and $0.6 billion, respectively. As of June 30, 2017, Alleghany s equity attributable to the reinsurance segment, insurance segment and other activities was $5.4 billion, $2.8 billion and $0.2 billion, respectively.

Included in other activities is debt associated with Alleghany Capital s operating subsidiaries, which totaled $103.7 million as of June 30, 2017. The $103.7 million includes $31.3 million of borrowings by Jazwares under its available credit facility, $26.5 million of borrowings by W&W|AFCO Steel under its available credit facility and term loans, $18.9 million of debt at Kentucky Trailer related primarily to a mortgage loan, borrowings to finance small acquisitions and borrowings under its available credit facility, $17.4 million of term loans at Bourn & Koch related to borrowings to finance an acquisition, and $9.6 million of borrowings by IPS under its available credit facility. None of these liabilities are guaranteed by Alleghany or Alleghany Capital.

11. Credit Agreement

On July 31, 2017, Alleghany entered into a five-year credit agreement (the Credit Agreement) with certain lenders party thereto, which provides for an unsecured revolving credit facility in an aggregate principal amount of up to $300.0 million. The credit facility is scheduled to expire on July 31, 2022, unless earlier terminated. Borrowings under the Credit Agreement will be available for working capital and general corporate purposes, including permitted acquisitions and repurchases of Common Stock. Borrowings under the Credit Agreement bear a floating rate of interest based in part on Alleghany s credit rating, among other factors. The Credit Agreement contains representations, warranties and covenants customary for bank loan facilities of this nature. There were no borrowings under the Credit Agreement from July 31, 2017 through August 3, 2017.

The Credit Agreement replaced Alleghany s previous four-year credit agreement (the Prior Credit Agreement), which provided for an unsecured revolving credit facility in an aggregate principal amount of up to $200.0 million. The Prior Credit Agreement was terminated on July 31, 2017 in advance of its scheduled October 15, 2017 expiration date. There were no borrowings under the Prior Credit Agreement in the six months ended June 30, 2017 and there were no outstanding borrowings under the Prior Credit Agreement as of June 30, 2017.

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

The following is a discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2017 and 2016. This discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, or this Form 10-Q, and our audited consolidated financial statements and Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the Annual Report on Form 10-K for the year ended December 31, 2016, or the 2016 Form 10-K.

References in this Form 10-Q to the Company, Alleghany, we, us, and our refer to Alleghany Corporation and it consolidated subsidiaries unless the context otherwise requires. In addition, unless the context otherwise requires, references to

TransRe are to our wholly-owned reinsurance holding company subsidiary Transatlantic Holdings, Inc. and its subsidiaries;

AIHL are to our wholly-owned insurance holding company subsidiary Alleghany Insurance Holdings LLC;

RSUI are to our wholly-owned subsidiary RSUI Group, Inc. and its subsidiaries;

CapSpecialty are to our wholly-owned subsidiary CapSpecialty, Inc. and its subsidiaries;

PacificComp are to our wholly-owned subsidiary Pacific Compensation Corporation and its subsidiary;

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

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

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

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

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

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

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

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

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

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

Note on Forward-Looking Statements

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

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

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

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

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

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

the cost and availability of reinsurance;

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

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legal, political, judicial and regulatory changes;

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

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

claims development and the process of estimating reserves;

exposure to terrorist acts and acts of war;

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

the uncertain nature of damage theories and loss amounts;

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

fluctuation in foreign currency exchange rates;

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

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

risks inherent in international operations; and

difficult and volatile conditions in the global market.

Additional risks and uncertainties include general economic and political conditions, including the effects of a prolonged U.S. or global economic downturn or recession; changes in costs; variations in political, economic or other factors; risks relating to conducting operations in a competitive environment; effects of acquisition and disposition activities, inflation rates, or recessionary or expansive trends; changes in interest rates; extended labor disruptions, civil unrest, or other external factors over which we have no control; changes in our plans, strategies, objectives, expectations, or intentions, which may happen at any time at our discretion; and other factors discussed in the 2016 Form 10-K and subsequent filings with the Securities and Exchange Commission, or the SEC. All forward-looking statements speak only as of the date they are made and are based on information available at that time. Alleghany does not undertake any obligation to update or revise any forward-looking statements to reflect subsequent circumstances or events. See Part I, Item 1A, Risk Factors of the 2016 Form 10-K for additional information.

Comment on Non-GAAP Financial Measures

Throughout this Form 10-Q, our analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the U.S., or GAAP. Our results of operations have been presented in the way that we believe will be the most meaningful and useful to investors, analysts, rating agencies and others who use financial information in evaluating our performance. This presentation includes the use of underwriting profit and Adjusted EBITDA, which are non-GAAP financial measures, as such term is defined in Item 10(e) of Regulation S-K promulgated by the SEC. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. These measures may also be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. A discussion of our calculation and use of these financial measures is provided below.

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

Adjusted EBITDA is a non-GAAP financial measure for our non-insurance operating subsidiaries and investments held by Alleghany Capital. Adjusted EBITDA represents other revenue less certain other expenses and does not include: (i) depreciation expense (a component of other operating expenses); (ii) amortization of intangible assets; (iii) interest expense; (iv) net realized capital gains; (v) OTTI losses; and (vi) income taxes. Because Adjusted EBITDA excludes interest, income taxes, net realized capital gains, OTTI losses, depreciation and amortization, it provides an indication of economic performance that is not affected by levels of debt, interest rates, effective tax rates or levels of depreciation and amortization resulting from purchase accounting. We use Adjusted

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EBITDA as a supplement to earnings before income taxes, the most comparable GAAP financial measure, to evaluate the performance of certain of our non-insurance operating subsidiaries and investments. A reconciliation of Adjusted EBITDA to earnings before income taxes is presented within Consolidated Results of Operations.

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Overview

The following overview does not address all of the matters covered in the other sections of Management s Discussion and Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to our stockholders or the investing public. This overview should be read in conjunction with the other sections of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Net earnings attributable to Alleghany stockholders were $101.8 million in the second quarter of 2017, compared with $77.1 million in the second quarter of 2016, and $251.0 million in the first six months of 2017, compared with $231.6 million in the first six months of 2016.

Earnings before income taxes were $140.1 million in the second quarter of 2017, compared with $133.5 million in the second quarter of 2016, and $348.0 million in the first six months of 2017, compared with $345.9 million in the first six months of 2016.

Net investment income decreased by 4.9 percent in the second quarter of 2017 from the second quarter of 2016, and increased by 2.6 percent in the first six months of 2017 from the first six months of 2016.

Net premiums written decreased by 3.1 percent and 4.9 percent in the second quarter and first six months of 2017, respectively, from the corresponding 2016 periods.

Underwriting profit was $95.3 million in the second quarter of 2017, compared with $37.3 million in the second quarter of 2016, and $196.7 million in the first six months of 2017, compared with $187.4 million in the first six months of 2016.

The combined ratio for our reinsurance and insurance segments was 92.4 percent in the second quarter of 2017, compared with 97.0 percent in the second quarter of 2016, and 92.0 percent in the first six months of 2017, compared with 92.4 percent in the first six months of 2016.

Catastrophe losses, net of reinsurance, were $11.4 million in the second quarter of 2017, compared with $124.8 million in the second quarter of 2016, and $15.4 million in the first six months of 2017, compared with $127.5 million in the first six months of 2016.

Net favorable prior accident year loss reserve development was $63.6 million in the second quarter of 2017, compared with $90.0 million in the second quarter of 2016, and $111.4 million in the first six months of 2017, compared with $175.3 million in the first six months of 2016.

Sales revenues for Alleghany Capital were $195.4 million in the second quarter of 2017, compared with $161.8 million in the second quarter of 2016, and $342.6 million in the first six months of 2017, compared with $298.7 million in the first six months of 2016.

Losses before income taxes for Alleghany Capital were $8.8 million in the second quarter of 2017, compared with earnings before income taxes of $3.5 million in the second quarter of 2016, and losses before income taxes were $17.0 million in the first six months of 2017, compared with $3.6 million in the first six months of 2016. Adjusted EBITDA was $2.4 million in the second quarter of 2017, compared with $2.3 million in the second quarter of 2016, and $4.3 million in the first six months of 2017, compared with $4.6 million in the first six months of 2016.

As of June 30, 2017, we had total assets of $24.5 billion and total stockholders equity attributable to Alleghany stockholders of $8.4 billion. As of June 30, 2017, we had consolidated total investments of approximately $18.7 billion, consisting of $13.4 billion invested in debt securities, $3.3 billion invested in equity securities, $0.7 billion invested in short-term investments, $0.6 billion invested in commercial mortgage loans and $0.7 billion invested in other invested assets.

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Consolidated Results of Operations

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	($ in millions)			
Revenues				
Net premiums earned	$ 1,243.9	$ 1,261.5	$ 2,453.1	$ 2,483.1
Net investment income	101.7	106.9	217.2	211.7
Net realized capital gains	9.3	54.0	68.9	89.9
Other than temporary impairment losses	(3.8)	(5.7)	(7.0)	(26.5)
Other revenue	202.8	165.4	354.1	302.8
Total revenues	1,553.9	1,582.1	3,086.3	3,061.0
Costs and Expenses				
Net loss and loss adjustment expenses	734.9	815.3	1,434.2	1,480.0
Commissions, brokerage and other underwriting expenses	413.7	408.9	822.2	815.7
Other operating expenses	225.2	185.0	400.3	347.1
Corporate administration	14.4	13.5	31.3	23.2
Amortization of intangible assets	4.6	5.4	8.4	8.4
Interest expense	21.0	20.5	41.9	40.7
Total costs and expenses	1,413.8	1,448.6	2,738.3	2,715.1
Earnings before income taxes	140.1	133.5	348.0	345.9
Income taxes	37.4	56.2	96.0	114.0
Net earnings	102.7	77.3	252.0	231.9
Net earnings attributable to noncontrolling interest	0.9	0.2	1.0	0.3
Net earnings attributable to Alleghany stockholders	$ 101.8	$ 77.1	$ 251.0	$ 231.6

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Alleghany s segments are reported in a manner consistent with the way management evaluates the businesses. As such, we classify our businesses into two reportable segments reinsurance and insurance. Other activities include Alleghany Capital and corporate activities. See Note 10 to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional detail on our segments and other activities. The results for our segments and for other activities for the three and six months ended June 30, 2017 and 2016 are summarized in the tables below:

	Segments			Other Activities		
Three Months Ended June 30, 2017	Reinsurance Segment	Insurance Segment	Total Segments	Alleghany Capital	Corporate Activities(1)	Consolidated
			($ in millions)			
Gross premiums written	$ 1,045.4	$ 410.3	$ 1,455.7	$ -	$ (5.7)	$ 1,450.0
Net premiums written	978.8	314.3	1,293.1	-	-	1,293.1
Net premiums earned	957.4	286.5	1,243.9	-	-	1,243.9
Net loss and LAE:						
Current year (excluding catastrophe losses)	625.6	161.5	787.1	-	-	787.1
Current year catastrophe losses	-	11.4	11.4	-	-	11.4
Prior years	(52.6)	(11.0)	(63.6)	-	-	(63.6)
Total net loss and LAE	573.0	161.9	734.9	-	-	734.9
Commissions, brokerage and other underwriting expenses	322.2	91.5	413.7	-	-	413.7
Underwriting profit(2)	$ 62.2	$ 33.1	95.3	-	-	95.3
Net investment income			98.0	0.2	3.5	101.7
Net realized capital gains			9.2	0.2	(0.1)	9.3
Other than temporary impairment losses			(3.8)	-	-	(3.8)
Other revenue			3.3	195.4	4.1	202.8
Other operating expenses			25.9	198.6	0.7	225.2
Corporate administration			0.8	-	13.6	14.4
Amortization of intangible assets			(0.4)	5.0	-	4.6
Interest expense			6.8	1.0	13.2	21.0
Earnings (losses) before income taxes			$ 168.9	$ (8.8)	$ (20.0)	$ 140.1
Loss ratio(3):						
Current year (excluding catastrophe losses)	65.4%	56.3%	63.3%			
Current year catastrophe losses	- %	4.0%	0.9%			

Prior years	(5.5%)	(3.8%)	(5.1%)
Total net loss and LAE	59.9%	56.5%	59.1%
Expense ratio[4]	33.6%	31.9%	33.3%
Combined ratio[5]	93.5%	88.4%	92.4%

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Three Months Ended June 30, 2016	Reinsurance Segment	Segments Insurance Segment	Total Segments ($ in millions)	Other Activities Alleghany Capital	Corporate Activities[1]	Consolidated
Gross premiums written	$ 1,102.3	$ 411.7	$ 1,514.0	$ -	$ (4.7)	$ 1,509.3
Net premiums written	1,010.5	323.8	1,334.3	-	-	1,334.3
Net premiums earned	980.1	281.4	1,261.5	-	-	1,261.5
Net loss and LAE:						
Current year (excluding catastrophe losses)	631.6	148.9	780.5	-	-	780.5
Current year catastrophe losses	95.8	29.0	124.8	-	-	124.8
Prior years	(78.0)	(12.0)	(90.0)	-	-	(90.0)
Total net loss and LAE	649.4	165.9	815.3	-	-	815.3
Commissions, brokerage and other underwriting expenses	318.7	90.2	408.9	-	-	408.9
Underwriting profit[2]	$ 12.0	$ 25.3	37.3	-	-	37.3
Net investment income			105.1	-	1.8	106.9
Net realized capital gains			41.0	13.0	-	54.0
Other than temporary impairment losses			(5.7)	-	-	(5.7)
Other revenue			3.3	161.8	0.3	165.4
Other operating expenses			19.5	164.9	0.6	185.0
Corporate administration			0.5	-	13.0	13.5
Amortization of intangible assets			(0.7)	6.1	-	5.4
Interest expense			6.9	0.3	13.3	20.5
Earnings (losses) before income taxes			$ 154.8	$ 3.5	$ (24.8)	$ 133.5
Loss ratio[3]:						
Current year (excluding catastrophe losses)	64.5%	52.9%	61.9%			
Current year catastrophe losses	9.8%	10.3%	9.9%			
Prior years	(8.0%)	(4.3%)	(7.2%)			
Total net loss and LAE	66.3%	58.9%	64.6%			
Expense ratio[4]	32.5%	32.1%	32.4%			
Combined ratio[5]	98.8%	91.0%	97.0%			

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Six Months Ended June 30, 2017	Segments Reinsurance Segment	Insurance Segment	Total Segments	Other Activities Alleghany Capital	Corporate Activities[1]	Consolidated
			($ in millions)			
Gross premiums written	$ 2,101.1	$ 781.0	$ 2,882.1	$ -	$ (11.2)	$ 2,870.9
Net premiums written	1,928.2	598.0	2,526.2	-	-	2,526.2
Net premiums earned	1,883.5	569.6	2,453.1	-	-	2,453.1
Net loss and LAE:						
Current year (excluding catastrophe losses)	1,221.0	309.2	1,530.2	-	-	1,530.2
Current year catastrophe losses	-	15.4	15.4	-	-	15.4
Prior years	(90.9)	(20.5)	(111.4)	-	-	(111.4)
Total net loss and LAE	1,130.1	304.1	1,434.2	-	-	1,434.2
Commissions, brokerage and other underwriting expenses	637.7	184.5	822.2	-	-	822.2
Underwriting profit[2]	$ 115.7	$ 81.0	196.7	-	-	196.7
Net investment income			210.3	0.5	6.4	217.2
Net realized capital gains			69.4	0.1	(0.6)	68.9
Other than temporary impairment losses			(7.0)	-	-	(7.0)
Other revenue			5.8	342.6	5.7	354.1
Other operating expenses			49.1	349.1	2.1	400.3
Corporate administration			1.6	-	29.7	31.3
Amortization of intangible assets			(0.9)	9.3	-	8.4
Interest expense			13.6	1.8	26.5	41.9
Earnings (losses) before income taxes			$ 411.8	$ (17.0)	$ (46.8)	$ 348.0
Loss ratio[3]:						
Current year (excluding catastrophe losses)	64.8%	54.3%	62.4%			
Current year catastrophe losses	- %	2.7%	0.6%			
Prior years	(4.8%)	(3.6%)	(4.5%)			
Total net loss and LAE	60.0%	53.4%	58.5%			
Expense ratio[4]	33.9%	32.4%	33.5%			
Combined ratio[5]	93.9%	85.8%	92.0%			

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Six Months Ended June 30, 2016	Reinsurance Segment	Segments Insurance Segment	Total Segments	Other Activities Alleghany Capital	Corporate Activities[1]	Consolidated
			($ in millions)			
Gross premiums written	$ 2,244.7	$ 765.6	$ 3,010.3	$ -	$ (11.5)	$ 2,998.8
Net premiums written	2,066.5	590.0	2,656.5	-	-	2,656.5
Net premiums earned	1,919.1	564.0	2,483.1	-	-	2,483.1
Net loss and LAE:						
Current year (excluding catastrophe losses)	1,228.7	299.1	1,527.8	-	-	1,527.8
Current year catastrophe losses	95.8	31.7	127.5	-	-	127.5
Prior years	(149.0)	(26.3)	(175.3)	-	-	(175.3)
Total net loss and LAE	1,175.5	304.5	1,480.0	-	-	1,480.0
Commissions, brokerage and other underwriting expenses	636.1	179.6	815.7	-	-	815.7
Underwriting profit[2]	$ 107.5	$ 79.9	187.4	-	-	187.4
Net investment income			207.8	-	3.9	211.7
Net realized capital gains			80.4	12.9	(3.4)	89.9
Other than temporary impairment losses			(26.5)	-	-	(26.5)
Other revenue			3.5	298.7	0.6	302.8
Other operating expenses			41.5	304.4	1.2	347.1
Corporate administration			0.6	-	22.6	23.2
Amortization of intangible assets			(1.8)	10.2	-	8.4
Interest expense			13.8	0.6	26.3	40.7
Earnings (losses) before income taxes			$ 398.5	$ (3.6)	$ (49.0)	$ 345.9
Loss ratio[3]:						
Current year (excluding catastrophe losses)	64.0%	53.1%	61.5%			
Current year catastrophe losses	5.0%	5.6%	5.1%			
Prior years	(7.7%)	(4.7%)	(7.0%)			
Total net loss and LAE	61.3%	54.0%	59.6%			
Expense ratio[4]	33.1%	31.8%	32.8%			
Combined ratio[5]	94.4%	85.8%	92.4%			

(1) Includes elimination of minor reinsurance activity between segments.

(2) Underwriting profit represents net premiums earned less net loss and LAE and commissions, brokerage and other underwriting expenses, all as determined in accordance with GAAP, and does not include net investment income, net realized capital gains, OTTI losses, other revenue, other operating expenses, corporate administration, amortization of intangible assets and interest expense. Underwriting profit is a non-GAAP financial measure and does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. See Comment on Non-GAAP Financial Measures herein for additional detail on the presentation of our results of operations.

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

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

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

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Comparison of the Three and Six Months Ended June 30, 2017 and 2016

Premiums. The following table summarizes our consolidated premiums.

	Three Months Ended June 30, 2017	2016	Percent Change	Six Months Ended June 30, 2017	2016	Percent Change
	($ in millions)					
Premiums written:						
Gross premiums written	$ 1,450.0	$ 1,509.3	(3.9%)	$ 2,870.9	$ 2,998.8	(4.3%)
Net premiums written	1,293.1	1,334.3	(3.1%)	2,526.2	2,656.5	(4.9%)
Net premiums earned	1,243.9	1,261.5	(1.4%)	2,453.1	2,483.1	(1.2%)

The decreases in gross and net premiums written in the second quarter and first six months of 2017 from the corresponding 2016 periods are mainly attributable to decreases at our reinsurance segment, primarily reflecting cancellations, non-renewals and reduced participations in certain international treaties, the impact of rate pressures and increased retentions by cedants and, to a lesser extent, the impact of changes in foreign currency exchange rates. The decrease at our reinsurance segment in gross and net premiums written in the first six months of 2017 from the first six months of 2016 also reflects lower premiums related to a large whole account quota share treaty, or the Quota Share Treaty. Premiums related to the Quota Share Treaty were $183.9 million and $180.0 million in the second quarter of 2017 and 2016, respectively, and $374.1 million and $424.8 million in the first six months of 2017 and 2016, respectively. Premiums related to the Quota Share Treaty in the first six months of 2016 reflect elevated premiums written in the first quarter of 2016 due to differences between initial premium estimates at contract inception, which were recorded in the fourth quarter of 2015, and actual data subsequently reported. As a consequence of this change in estimate, premiums written in the fourth quarter of 2015 were understated and premiums written in the first quarter of 2016 were correspondingly increased. In general, when actual data has not been reported by ceding companies, premiums written are estimated based on historical patterns and other relevant factors. Any differences between these estimates and actual data subsequently reported are recorded in the period when actual data becomes available.

The decreases in net premiums earned in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect decreases at our reinsurance segment.

A comparison of premiums by segment for the second quarter and first six months of 2017 and 2016 is more fully described in the following pages.

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

	Three Months Ended June 30, 2017	2016	Percent Change	Six Months Ended June 30, 2017	2016	Percent Change

	($ in millions)					
Net loss and LAE:						
Current year (excluding catastrophe losses)	$ 787.1	$ 780.5	0.8%	$ 1,530.2	$ 1,527.8	0.2%
Current year catastrophe losses	11.4	124.8	(90.9%)	15.4	127.5	(87.9%)
Prior years	(63.6)	(90.0)	(29.3%)	(111.4)	(175.3)	(36.5%)
Total net loss and LAE	$ 734.9	$ 815.3	(9.9%)	$ 1,434.2	$ 1,480.0	(3.1%)
Loss ratio:						
Current year (excluding catastrophe losses)	63.3%	61.9%		62.4%	61.5%	
Current year catastrophe losses	0.9%	9.9%		0.6%	5.1%	
Prior years	(5.1%)	(7.2%)		(4.5%)	(7.0%)	
Total net loss and LAE	59.1%	64.6%		58.5%	59.6%	

The decreases in net loss and LAE in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect decreases in catastrophe losses at our reinsurance segment, partially offset by decreases in favorable prior accident year loss reserve development at our reinsurance segment. The catastrophe losses in the second quarter and first six months of 2016 related primarily to wildfire losses in Alberta, Canada and earthquake losses in Japan and Ecuador. Net loss and LAE in the first six months of 2017 for the reinsurance segment includes $24.4 million of unfavorable prior accident year loss reserve development arising from the U.K. Ministry of Justice s decision to significantly reduce the discount rate, referred to as the Ogden rate, used to calculate lump-sum bodily injury payouts in personal injury insurance claims in the U.K.

A comparison of net loss and LAE by segment for the second quarter and first six months of 2017 and 2016 is more fully described in the following pages.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
			($ in millions)			
Commissions, brokerage and other underwriting expenses	$ 413.7	$ 408.9	1.2%	$ 822.2	$ 815.7	0.8%
Expense ratio	33.3%	32.4%		33.5%	32.8%	

The increases in commissions, brokerage and other underwriting expenses in the second quarter and first six months of 2017 from the corresponding 2016 periods reflect modest increases in such expenses at our reinsurance segment due to an increase in commission rates on certain international treaties, and at our insurance segment primarily due to higher net premiums earned at CapSpecialty and PacificComp.

A comparison of commissions, brokerage and other underwriting expenses for the second quarter and first six months of 2017 and 2016 is more fully described in the following pages.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
			($ in millions)			
Underwriting profit	$ 95.3	$ 37.3	155.5%	$ 196.7	$ 187.4	5.0%
Combined ratio	92.4%	97.0%		92.0%	92.4%	

The increase in underwriting profit in the second quarter of 2017 from the second quarter of 2016 is mainly due to an increase in underwriting profit at our reinsurance segment, primarily reflecting the lack of catastrophe losses compared with significant catastrophe losses in the second quarter of 2016, partially offset by less favorable prior accident year loss reserve development, all as discussed above. The increase in underwriting profit in the first six months of 2017 from the first six months of 2016 is mainly due to an increase in underwriting profit at our reinsurance segment, primarily reflecting the lack of catastrophe losses compared with catastrophe losses in the first six months of 2016, largely offset by substantially less favorable prior accident year loss reserve development, all as discussed above.

A comparison of underwriting profit for the second quarter and first six months of 2017 and 2016 is more fully described in the following pages.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
	($ in millions)					
Net investment income	$ 101.7	$ 106.9	(4.9%)	$ 217.2	$ 211.7	2.6%
Net realized capital gains	9.3	54.0	(82.8%)	68.9	89.9	(23.4%)
Other than temporary impairment losses	(3.8)	(5.7)	(33.3%)	(7.0)	(26.5)	(73.6%)

The decrease in net investment income in the second quarter of 2017 from the second quarter of 2016 primarily relates to a $12.6 million charge on our equity investment in Ares Management LLC, or Ares, partially offset by higher income from partnerships and higher bond interest income. The increase in net investment income in the first six months of 2017 from the first six months of 2016 primarily relates to higher income from partnerships and higher bond interest income, partially offset by the $12.6 million charge on our

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equity investment in Ares. The charge on our equity investment in Ares reflects our share of a one-time payment recorded by Ares related to an acquisition by its affiliated entity. In connection with this acquisition, Ares agreed to make certain transaction support payments to the sellers of the acquired entity. Ares expects to receive future management fees derived from the assets under management of the acquired entity.

The decreases in net realized capital gains in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect lower gains for the equity and bond portfolio and a one-time $13.2 million realized gain recorded on April 15, 2016 by Alleghany Capital, as more fully described in the following pages.

The decreases in OTTI losses in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect decreases in OTTI losses related to debt securities.

A comparison of investment results for the second quarter and first six months of 2017 and 2016 is more fully described in the following pages.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
	($ in millions)					
Other revenue	$ 202.8	$ 165.4	22.6%	$ 354.1	$ 302.8	16.9%
Other operating expenses	225.2	185.0	21.7%	400.3	347.1	15.3%
Corporate administration	14.4	13.5	6.7%	31.3	23.2	34.9%
Amortization of intangible assets	4.6	5.4	(14.8%)	8.4	8.4	- %
Interest expense	21.0	20.5	2.4%	41.9	40.7	2.9%

Other revenue and Other operating expenses. Other revenue and other operating expenses primarily include sales revenues and expenses associated with Alleghany Capital. Other operating expenses also include the long-term incentive compensation of our reinsurance and insurance segments, which totaled $23.6 million and $18.1 million in the second quarter of 2017 and 2016, respectively, and $45.0 million and $39.5 million in the first six months of 2017 and 2016, respectively. The increases in long-term incentive compensation at our reinsurance and insurance segments in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect improved underwriting and investment results at TransRe and RSUI.

On April 28, 2017, Alleghany Capital acquired approximately 80 percent of the equity in W&W|AFCO Steel for $164.5 million, including $163.9 million in cash paid on May 1, 2017 and $0.6 million of estimated purchase price adjustments.

On April 15, 2016, Alleghany Capital acquired an additional 50 percent of Jazwares outstanding equity, bringing its equity ownership interest to 80 percent and, as of that date, the results of Jazwares have been included in our consolidated results. Prior to April 15, 2016, Jazwares was accounted for under the equity method of accounting.

The increases in other revenue and other operating expenses in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect the acquisition of W&W|AFCO Steel and the inclusion of Jazwares in our consolidated results. The increases in other operating expenses in the second quarter and first six months of 2017 from the corresponding 2016 periods also reflect an increase in long-term incentive compensation, and finders fees, legal and accounting costs and other transaction-related expenses at the Alleghany Capital level.

Corporate administration. The increase in corporate administration expense in the second quarter of 2017 from the second quarter of 2016 primarily reflects the beneficial impact of a reduction of a certain liability as of June 30, 2016 related to a one-time reversal of a contingent liability in connection with the sale of a subsidiary in prior years. The increase in corporate administration expense in the first six months of 2017 from the first six months of 2016 primarily reflects higher long-term incentive compensation expense accruals due mainly to the impact of a rise in the price per share of our common stock and the beneficial impact of the contingent liability reversal.

Amortization of intangible assets. The decrease in amortization expenses in the second quarter of 2017 from the second quarter of 2016 primarily reflects a decrease in amortization expense at IPS, as certain of IPS s intangible assets were fully amortized as of December 31, 2016, partially offset by the amortization of net intangible assets related to the acquisition of W&W|AFCO Steel and Jazwares.

Interest expense. The increases in interest expense in the second quarter and first six months of 2017 from the corresponding 2016 periods reflect new or increased borrowings at Bourn & Koch and Jazwares.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
	($ in millions)					
Income taxes	$ 37.4	$ 56.2	(33.5%)	$ 96.0	$ 114.0	(15.8%)
Effective tax rate				27.6%	32.9%	

The decreases in income taxes in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect prior period income tax adjustments in the second quarter and first six months of 2016, partially offset by the impact of higher taxable income. The decrease in the effective tax rate in the first six months of 2017 from the first six months of 2016 primarily reflects prior period income tax adjustments in the first six months of 2016, which include $19.7 million of out-of-period reductions to current and deferred TransRe tax assets recorded as of June 30, 2016 that relate primarily to periods prior to our March 6, 2012 merger with TransRe.

Earnings. The following table summarizes our consolidated earnings.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
	($ in millions)					
Earnings before income taxes	$ 140.1	$ 133.5	4.9%	$ 348.0	$ 345.9	0.6%
Net earnings attributable to Alleghany stockholders	101.8	77.1	32.0%	251.0	231.6	8.4%

The increases in earnings before income taxes in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect higher underwriting profit, partially offset by lower net realized capital gains, all as discussed above. The increases in net earnings attributable to Alleghany stockholders in the second quarter and first six months of 2017 from the corresponding 2016 periods reflect higher earnings before income taxes and lower income tax expense, all as discussed above.

Reinsurance Segment Underwriting Results

The reinsurance segment is comprised of TransRe s property and casualty & other lines of business. TransRe also writes a modest amount of property and casualty insurance business, which is included in the reinsurance segment. For a more detailed description of our reinsurance segment, see Part I, Item 1, Business Segment Information Reinsurance Segment of the 2016 Form 10-K.

The underwriting results of the reinsurance segment are presented below.

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Three Months Ended June 30, 2017	Property	Casualty & Other[1]	Total
		($ in millions)	
Gross premiums written	$ 369.1	$ 676.3	$ 1,045.4
Net premiums written	317.2	661.6	978.8
Net premiums earned	270.5	686.9	957.4
Net loss and LAE:			
Current year (excluding catastrophe losses)	145.8	479.8	625.6
Current year catastrophe losses	-	-	-
Prior years	(22.9)	(29.7)	(52.6)
Total net loss and LAE	122.9	450.1	573.0
Commissions, brokerage and other underwriting expenses	87.9	234.3	322.2
Underwriting profit[2]	$ 59.7	$ 2.5	$ 62.2
Loss ratio[3]:			
Current year (excluding catastrophe losses)	53.9%	69.9%	65.4%
Current year catastrophe losses	- %	- %	- %
Prior years	(8.5%)	(4.3%)	(5.5%)
Total net loss and LAE	45.4%	65.6%	59.9%
Expense ratio[4]	32.5%	34.1%	33.6%
Combined ratio[5]	77.9%	99.7%	93.5%

Three Months Ended June 30, 2016	Property	Casualty & Other[1]	Total
		($ in millions)	
Gross premiums written	$ 389.9	$ 712.4	$ 1,102.3
Net premiums written	315.1	695.4	1,010.5

Net premiums earned	290.2	689.9	980.1
Net loss and LAE:			
Current year (excluding catastrophe losses)	142.5	489.1	631.6
Current year catastrophe losses	94.1	1.7	95.8
Prior years	(35.3)	(42.7)	(78.0)
Total net loss and LAE	201.3	448.1	649.4
Commissions, brokerage and other underwriting expenses	92.2	226.5	318.7
Underwriting profit (loss)[2]	$ (3.3)	$ 15.3	$ 12.0
Loss ratio[3]:			
Current year (excluding catastrophe losses)	49.1%	70.9%	64.5%
Current year catastrophe losses	32.4%	0.2%	9.8%
Prior years	(12.2%)	(6.2%)	(8.0%)
Total net loss and LAE	69.3%	64.9%	66.3%
Expense ratio[4]	31.8%	32.8%	32.5%
Combined ratio[5]	101.1%	97.7%	98.8%

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Six Months Ended June 30, 2017	Property	Casualty & Other(1)	Total
		($ in millions)	
Gross premiums written	$ 744.5	$ 1,356.6	$ 2,101.1
Net premiums written	602.4	1,325.8	1,928.2
Net premiums earned	557.3	1,326.2	1,883.5
Net loss and LAE:			
Current year (excluding catastrophe losses)	299.1	921.9	1,221.0
Current year catastrophe losses	-	-	-
Prior years	(54.4)	(36.5)	(90.9)
Total net loss and LAE	244.7	885.4	1,130.1
Commissions, brokerage and other underwriting expenses	178.7	459.0	637.7
Underwriting profit (loss)(2)	$ 133.9	$ (18.2)	$ 115.7
Loss ratio(3):			
Current year (excluding catastrophe losses)	53.7%	69.5%	64.8%
Current year catastrophe losses	- %	- %	- %
Prior years	(9.8%)	(2.8%)	(4.8%)
Total net loss and LAE	43.9%	66.7%	60.0%
Expense ratio(4)	32.1%	34.6%	33.9%
Combined ratio(5)	76.0%	101.3%	93.9%

Six Months Ended June 30, 2016	Property	Casualty & Other(1)	Total
		($ in millions)	
Gross premiums written	$ 773.1	$ 1,471.6	$ 2,244.7
Net premiums written	624.6	1,441.9	2,066.5
Net premiums earned	543.3	1,375.8	1,919.1
Net loss and LAE:			
Current year (excluding catastrophe losses)	271.7	957.0	1,228.7
Current year catastrophe losses	94.1	1.7	95.8
Prior years	(68.5)	(80.5)	(149.0)
Total net loss and LAE	297.3	878.2	1,175.5
Commissions, brokerage and other underwriting expenses	170.2	465.9	636.1
Underwriting profit(2)	$ 75.8	$ 31.7	$ 107.5

Loss ratio[3]:			
Current year (excluding catastrophe losses)	50.0%	69.6%	64.0%
Current year catastrophe losses	17.3%	0.1%	5.0%
Prior years	(12.6%)	(5.9%)	(7.7%)
Total net loss and LAE	54.7%	63.8%	61.3%
Expense ratio[4]	31.3%	33.9%	33.1%
Combined ratio[5]	86.0%	97.7%	94.4%

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(1) Primarily consists of the following assumed reinsurance lines of business: directors and officers liability; errors and omissions liability; general liability; medical malpractice; ocean marine and aviation; auto liability; accident and health; surety; and credit.
(2) Underwriting profit represents net premiums earned less net loss and LAE and commissions, brokerage and other underwriting expenses, all as determined in accordance with GAAP, and does not include net investment income, net realized capital gains, OTTI losses, other revenue, other operating expenses, corporate administration, amortization of intangible assets and interest expense. Underwriting profit is a non-GAAP financial measure and does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. See Comment on Non-GAAP Financial Measures herein for additional detail on the presentation of our results of operations.
(3) The loss ratio is derived by dividing the amount of net loss and LAE by net premiums earned, all as determined in accordance with GAAP.
(4) The expense ratio is derived by dividing the amount of commissions, brokerage and other underwriting expenses by net premiums earned, all as determined in accordance with GAAP.
(5) The combined ratio is the sum of the loss ratio and the expense ratio, all as determined in accordance with GAAP. The combined ratio represents the percentage of each premium dollar a reinsurance or an insurance company has to spend on net loss and LAE, and commissions, brokerage and other underwriting expenses.

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Percent Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Percent Change
	($ in millions)					
Property						
Premiums written:						
Gross premiums written	$ 369.1	$ 389.9	(5.3%)	$ 744.5	$ 773.1	(3.7%)
Net premiums written	317.2	315.1	0.7%	602.4	624.6	(3.6%)
Net premiums earned	270.5	290.2	(6.8%)	557.3	543.3	2.6%
Casualty & other						
Premiums written:						
Gross premiums written	$ 676.3	$ 712.4	(5.1%)	$ 1,356.6	$ 1,471.6	(7.8%)
Net premiums written	661.6	695.4	(4.9%)	1,325.8	1,441.9	(8.1%)
Net premiums earned	686.9	689.9	(0.4%)	1,326.2	1,375.8	(3.6%)
Total						
Premiums written:						
Gross premiums written	$ 1,045.4	$ 1,102.3	(5.2%)	$ 2,101.1	$ 2,244.7	(6.4%)
Net premiums written	978.8	1,010.5	(3.1%)	1,928.2	2,066.5	(6.7%)
Net premiums earned	957.4	980.1	(2.3%)	1,883.5	1,919.1	(1.9%)

Property. The decreases in gross premiums written in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect cancellations, non-renewals and reduced participations in certain international treaties, the impact of rate pressures and increased retentions by cedants and the impact of changes in foreign currency exchange rates. Gross premiums written related to the Quota Share Treaty were $62.9 million and $61.4 million in the second quarter of 2017 and 2016, respectively, and $170.7 million and $171.8 million in the first six months of 2017 and 2016, respectively. Excluding the impact of changes in foreign currency exchange rates, gross premiums written decreased 4.7 percent in the second quarter of 2017 from the second quarter of 2016, and 3.1 percent in the first six months of 2017 from the first six months of 2016.

The decrease in net premiums earned in the second quarter of 2017 from the second quarter of 2016 primarily reflects decreases in international premiums earned. The increase in net premiums earned in the first six months of 2017 from the first six months of 2016 primarily reflects increased premiums earned from the Quota Share Treaty, partially offset by the impact of changes in foreign currency exchange rates. Excluding the impact of changes in foreign currency exchange rates, net premiums earned decreased 5.9 percent in the second quarter of 2017 from the second quarter of 2016, and increased 3.6 percent in the first six months of 2017 from the first six months of 2016.

Casualty & other. The decreases in gross premiums written in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect cancellations, non-renewals and reduced participations in certain international treaties, as well as the impact of rate pressures and increased retentions by cedants and the impact of changes in foreign currency exchange rates. The decrease in gross premiums written in the first six months of 2017 from the first six months of 2016 also reflects a decrease in casualty-related premiums related to the Quota Share Treaty. Gross premiums written related to the Quota Share Treaty were $121.0 million and $118.6 million in the second quarter of 2017 and 2016, respectively, and $203.4 million and $253.0 million in the first six months of 2017 and 2016, respectively. Premiums related to the Quota Share Treaty in the first six months of 2016 reflect elevated premiums written in the first quarter of 2016 due to differences between initial premium estimates at contract inception, which were recorded in the fourth quarter of 2015, and actual data subsequently reported. As a consequence of this change in estimate, premiums written in the fourth quarter of 2015 were understated and premiums written in the first quarter of 2016 were correspondingly increased. In general, when actual data has not been reported by ceding companies, premiums written are estimated based on historical patterns and other relevant factors. Any differences between these estimates and actual data subsequently reported are recorded in the period when actual data becomes available. Excluding the impact of changes in foreign currency exchange rates, gross premiums written decreased 4.0 percent in the second quarter of 2017 from the second quarter of 2016, and 6.7 percent in the first six months of 2017 from the first six months of 2016.

The decreases in net premiums earned in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect the decline in gross premiums in the first six months of 2017 and the impact of changes in foreign currency exchange rates. Excluding the impact of changes in foreign currency exchange rates, net premiums earned increased 0.8 percent in the second quarter of 2017 from the second quarter of 2016, and decreased 2.1 percent in the first six months of 2017 from the first six months of 2016.

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Percent Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Percent Change
			($ in millions)			
Property						
Net loss and LAE:						
Current year (excluding catastrophe losses)	$ 145.8	$ 142.5	2.3%	$ 299.1	$ 271.7	10.1%
Current year catastrophe losses	-	94.1	(100.0%)	-	94.1	(100.0%)
Prior years	(22.9)	(35.3)	(35.1%)	(54.4)	(68.5)	(20.6%)
Total net loss and LAE	$ 122.9	$ 201.3	(38.9%)	$ 244.7	$ 297.3	(17.7%)
Loss ratio:						
Current year (excluding catastrophe losses)	53.9%	49.1%		53.7%	50.0%	
Current year catastrophe losses	- %	32.4%		- %	17.3%	
Prior years	(8.5%)	(12.2%)		(9.8%)	(12.6%)	
Total net loss and LAE	45.4%	69.3%		43.9%	54.7%	
Casualty & other						
Net loss and LAE:						
Current year (excluding catastrophe losses)	$ 479.8	$ 489.1	(1.9%)	$ 921.9	$ 957.0	(3.7%)
Current year catastrophe losses	-	1.7	(100.0%)	-	1.7	(100.0%)
Prior years	(29.7)	(42.7)	(30.4%)	(36.5)	(80.5)	(54.7%)
Total net loss and LAE	$ 450.1	$ 448.1	0.4%	$ 885.4	$ 878.2	0.8%
Loss ratio:						
Current year (excluding catastrophe losses)	69.9%	70.9%		69.5%	69.6%	
Current year catastrophe losses	- %	0.2%		- %	0.1%	
Prior years	(4.3%)	(6.2%)		(2.8%)	(5.9%)	
Total net loss and LAE	65.6%	64.9%		66.7%	63.8%	
Total						
Net loss and LAE:						
	$ 625.6	$ 631.6	(0.9%)	$ 1,221.0	$ 1,228.7	(0.6%)

Current year (excluding catastrophe losses)						
Current year catastrophe losses	-	95.8	(100.0%)	-	95.8	(100.0%)
Prior years	(52.6)	(78.0)	(32.6%)	(90.9)	(149.0)	(39.0%)
Total net loss and LAE	$ 573.0	$ 649.4	(11.8%)	$ 1,130.1	$ 1,175.5	(3.9%)
Loss ratio:						
Current year (excluding catastrophe losses)	65.4%	64.5%		64.8%	64.0%	
Current year catastrophe losses	- %	9.8%		- %	5.0%	
Prior years	(5.5%)	(8.0%)		(4.8%)	(7.7%)	
Total net loss and LAE	59.9%	66.3%		60.0%	61.3%	

Property. The decreases in net loss and LAE in the second quarter and first six months of 2017 from the corresponding 2016 periods primarily reflect the lack of catastrophe losses, partially offset by decreases in favorable prior accident year loss reserve development. The catastrophe losses in the second quarter and first six months of 2016 relate to $72.2 million of wildfire losses in Alberta, Canada, $15.3 million of earthquake losses in Japan and $6.6 million of earthquake losses in Ecuador.

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Net loss and LAE in the second quarter and first six months of 2017 and 2016 include (favorable) unfavorable prior accident year loss reserve development as shown in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	($ in millions)			
Catastrophe events	$ (4.0)[(1)]	$ (6.7)[(2)]	$ (4.4)[(1)]	$ (7.7)[(2)]
Non-catastrophe	(18.9)[(3)]	(28.6)[(4)]	(50.0)[(3)]	(60.8)[(4)]
Total	$ (22.9)	$ (35.3)	$ (54.4)	$ (68.5)

(1) Reflects favorable prior accident year loss reserve development from several catastrophes that occurred in the 2010 through 2016 accident years.
(2) Reflects favorable prior accident year loss reserve development from several catastrophes that occurred in the 2010 through 2015 accident years.
(3) Reflects favorable prior accident year loss reserve development primarily related to the 2013 through 2016 accident years.
(4) Reflects favorable prior accident year loss reserve development primarily related to the 2014 and 2015 accident years.

The favorable prior accident year loss reserve development in the second quarter and first six months of 2017 and 2016 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year loss reserve development in the second quarter and first six months of 2017 did not impact assumptions used in estimating TransRe s loss and LAE liabilities for business earned in the first six months of 2017.

Casualty & other. The increase in net loss and LAE in the second quarter of 2017 from the second quarter of 2016 primarily reflects less favorable prior accident year loss reserve development, partially offset by lower non-catastrophe losses in the current accident year. The increase in net loss and LAE in the first six months of 2017 from the first six months of 2016 primarily reflects less favorable prior accident year loss reserve development, partially offset by the impact of lower net premiums earned.

Net loss and LAE in the second quarter and first six months of 2017 and 2016 include (favorable) unfavorable prior accident year loss reserve development as shown in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	($ in millions)			
Malpractice Treaties[(1)]	$ (2.0)	$ (2.0)	$ (2.0)	$ (8.9)

Ogden rate impact[2]	-	-	24.4	-
Other	(27.7)[3]	(40.7)[4]	(58.9)[3]	(71.6)[5]
Total	$ (29.7)	$ (42.7)	$ (36.5)	$ (80.5)

(1) Represents certain medical malpractice treaties, or the Malpractice Treaties, pursuant to which the increased underwriting profits created by the favorable prior accident year loss reserve development are largely retained by the cedants. As a result, the favorable prior accident year loss reserve development is largely offset by an increase in profit commission expense incurred when such favorable prior accident year loss reserve development occurs.

(2) Represents unfavorable prior accident year loss reserve development arising from the U.K. Ministry of Justice s decision to significantly reduce the discount rate, referred to as the Ogden rate, used to calculate lump-sum bodily injury payouts in personal injury insurance claims in the U.K. As of March 20, 2017, the Ogden rate changed from +2.50 percent to (0.75) percent.

(3) Primarily reflects favorable prior accident year loss reserve development in longer-tailed U.S. professional liability business related to the 2005 through 2014 accident years, partially offset by net adverse development in shorter-tailed casualty lines in the 2015 accident year in the U.S. and the U.K.

(4) Generally reflects favorable prior accident year loss reserve development in a variety of casualty & other lines of business primarily from the 2009, 2013 and 2015 accident years.

(5) Generally reflects favorable prior accident year loss reserve development in a variety of casualty & other lines of business primarily from the 2009 and 2015 accident years.

The favorable prior accident year loss reserve development in the second quarter and first six months of 2017 and 2016 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year loss reserve development in the second quarter and first six months of 2017 did not impact assumptions used in estimating TransRe s loss and LAE liabilities for business earned in the first six months of 2017.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
	($ in millions)					
Property						
Commissions, brokerage and other underwriting expenses	$ 87.9	$ 92.2	(4.7%)	$ 178.7	$ 170.2	5.0%
Expense ratio	32.5%	31.8%		32.1%	31.3%	
Casualty & other						
Commissions, brokerage and other underwriting expenses	$ 234.3	$ 226.5	3.4%	$ 459.0	$ 465.9	(1.5%)
Expense ratio	34.1%	32.8%		34.6%	33.9%	
Total						
Commissions, brokerage and other underwriting expenses	$ 322.2	$ 318.7	1.1%	$ 637.7	$ 636.1	0.3%
Expense ratio	33.6%	32.5%		33.9%	33.1%	

Property. The decrease in commissions, brokerage and other underwriting expenses in the second quarter of 2017 from the second quarter of 2016 primarily reflects the impact of lower net premiums earned, partially offset by an increase in commission rates on certain international treaties. The increase in commissions, brokerage and other underwriting expenses in the first six months of 2017 from the first six months of 2016 primarily reflects the impact of higher net premiums earned and an increase in commission rates.

Casualty & other. The increase in commissions, brokerage and other underwriting expenses in the second quarter of 2017 from the second quarter of 2016 primarily reflects an increase in commission rates on certain international treaties. The decrease in commissions, brokerage and other underwriting expenses in the first six months of 2017 from the first six months of 2016 primarily reflects the impact of lower net premiums earned and a decrease in profit commissions related to the Malpractice Treaties, partially offset by an increase in commission rates on certain international treaties.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
	($ in millions)					

Property						
Underwriting profit (loss)	$ 59.7	$ (3.3)	(1,909.1%)	$ 133.9	$ 75.8	76.6%
Combined ratio	77.9%	101.1%		76.0%	86.0%	
Casualty & other						
Underwriting profit (loss)	$ 2.5	$ 15.3	(83.7%)	$ (18.2)	$ 31.7	(157.4%)
Combined ratio	99.7%	97.7%		101.3%	97.7%	
Total						
Underwriting profit	$ 62.2	$ 12.0	418.3%	$ 115.7	$ 107.5	7.6%
Combined ratio	93.5%	98.8%		93.9%	94.4%	

Property. The underwriting profit in the second quarter of 2017 compared with the underwriting loss in the second quarter of 2016, and the increase in underwriting profit in the first six months of 2017 from the first six months of 2016, primarily reflect the

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lack of catastrophe losses in the second quarter and first six months of 2017 compared with significant catastrophe losses in the corresponding 2016 periods, partially offset by decreases in favorable prior accident year loss reserve development, all as discussed above.

Casualty & other. The decrease in underwriting profit in the second quarter of 2017 from the second quarter of 2016, and the underwriting loss in the first six months of 2017 compared with an underwriting profit in the first six months of 2016, primarily reflect less favorable prior accident year loss reserve development, as discussed above.

Insurance Segment Underwriting Results

The insurance segment is comprised of AIHL s RSUI, CapSpecialty and PacificComp operating subsidiaries. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment. For a more detailed description of our insurance segment, see Part I, Item 1, Business Segment Information Insurance Segment of the 2016 Form 10-K.

The underwriting results of the insurance segment are presented below.

Three Months Ended June 30, 2017	RSUI	CapSpecialty	PacificComp	Total
		($ in millions)		
Gross premiums written	$ 295.1	$ 73.3	$ 41.9	$ 410.3
Net premiums written	204.6	68.4	41.3	314.3
Net premiums earned	178.5	64.1	43.9	286.5
Net loss and LAE:				
Current year (excluding catastrophe losses)	94.5	34.0	33.0	161.5
Current year catastrophe losses	9.6	1.8	-	11.4
Prior years	(10.3)	(0.2)	(0.5)	(11.0)
Total net loss and LAE	93.8	35.6	32.5	161.9
Commissions, brokerage and other underwriting expenses	53.0	27.2	11.3	91.5
Underwriting profit(1)	$ 31.7	$ 1.3	$ 0.1	$ 33.1
Loss ratio(2):				
Current year (excluding catastrophe losses)	52.9%	53.0%	75.2%	56.3%
Current year catastrophe losses	5.4%	2.8%	- %	4.0%
Prior years	(5.8%)	(0.3%)	(1.1%)	(3.8%)
Total net loss and LAE	52.5%	55.5%	74.1%	56.5%
Expense ratio(3)	29.7%	42.5%	25.7%	31.9%
Combined ratio(4)	82.2%	98.0%	99.8%	88.4%

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Three Months Ended June 30, 2016	RSUI	CapSpecialty	PacificComp	Total
		($ in millions)		
Gross premiums written	$ 307.7	$ 70.0	$ 34.0	$ 411.7
Net premiums written	224.5	65.7	33.6	323.8
Net premiums earned	188.3	58.6	34.5	281.4
Net loss and LAE:				
Current year (excluding catastrophe losses)	93.2	29.8	25.9	148.9
Current year catastrophe losses	27.1	1.9	-	29.0
Prior years	(11.2)	(0.8)	-	(12.0)
Total net loss and LAE	109.1	30.9	25.9	165.9
Commissions, brokerage and other underwriting expenses	54.7	25.9	9.6	90.2
Underwriting profit (loss)(1)	$ 24.5	$ 1.8	$ (1.0)	$ 25.3
Loss ratio(2):				
Current year (excluding catastrophe losses)	49.4%	50.9%	75.2%	52.9%
Current year catastrophe losses	14.4%	3.2%	- %	10.3%
Prior years	(5.9%)	(1.4%)	- %	(4.3%)
Total net loss and LAE	57.9%	52.7%	75.2%	58.9%
Expense ratio(3)	29.1%	44.2%	27.8%	32.1%
Combined ratio(4)	87.0%	96.9%	103.0%	91.0%

Six Months Ended June 30, 2017	RSUI	CapSpecialty	PacificComp	Total
		($ in millions)		
Gross premiums written	$ 559.6	$ 138.8	$ 82.6	$ 781.0
Net premiums written	387.2	129.4	81.4	598.0
Net premiums earned	361.2	126.2	82.2	569.6
Net loss and LAE:				
Current year (excluding catastrophe losses)	179.9	67.3	62.0	309.2
Current year catastrophe losses	13.2	2.2	-	15.4
Prior years	(18.7)	(0.8)	(1.0)	(20.5)
Total net loss and LAE	174.4	68.7	61.0	304.1
Commissions, brokerage and other underwriting expenses	107.9	54.9	21.7	184.5

Underwriting profit (loss)[1]	$ 78.9	$ 2.6	$ (0.5)	$ 81.0
Loss ratio[2]:				
Current year (excluding catastrophe losses)	49.8%	53.3%	75.4%	54.3%
Current year catastrophe losses	3.7%	1.7%	- %	2.7%
Prior years	(5.2%)	(0.6%)	(1.2%)	(3.6%)
Total net loss and LAE	48.3%	54.4%	74.2%	53.4%
Expense ratio[3]	29.9%	43.5%	26.4%	32.4%
Combined ratio[4]	78.2%	97.9%	100.6%	85.8%

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Six Months Ended June 30, 2016	RSUI	CapSpecialty	PacificComp	Total
		($ in millions)		
Gross premiums written	$ 564.6	$ 132.9	$ 68.1	$ 765.6
Net premiums written	398.1	124.5	67.4	590.0
Net premiums earned	380.6	114.2	69.2	564.0
Net loss and LAE:				
Current year (excluding catastrophe losses)	189.3	57.4	52.4	299.1
Current year catastrophe losses	28.9	2.8	-	31.7
Prior years	(24.0)	(2.3)	-	(26.3)