SILGAN HOLDINGS INC
Form 10-Q
August 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015
OR

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

For the transition period from ________________ to ________________

Commission file number 000-22117

SILGAN HOLDINGS INC.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	06-1269834 (I.R.S. Employer Identification No.)
4 Landmark Square Stamford, Connecticut (Address of principal executive offices)	06901 (Zip Code)

(203) 975-7110
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of July 31, 2015, the number of shares outstanding of the Registrant’s common stock, $0.01 par value, was 60,379,310.

SILGAN HOLDINGS INC.

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Part I. Financial Information
Item 1. Financial Statements
SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2015 (unaudited)	June 30, 2014 (unaudited)	Dec. 31, 2014
Assets			
Current assets:			
Cash and cash equivalents	$126,676	$133,928	$222,591
Trade accounts receivable, net	443,943	447,685	310,732
Inventories	753,335	748,227	548,765
Prepaid expenses and other current assets	58,285	61,374	75,744
Total current assets	1,382,239	1,391,214	1,157,832
Property, plant and equipment, net	1,082,712	1,103,030	1,063,631
Goodwill	620,481	649,479	630,262
Other intangible assets, net	203,863	222,328	211,770
Other assets, net	237,657	274,847	240,429
	$3,526,952	$3,640,898	$3,303,924
Liabilities and Stockholders' Equity			
Current liabilities:			
Revolving loans and current portion of long-term debt	$532,639	$463,112	$125,130
Trade accounts payable	375,037	307,113	423,905
Accrued payroll and related costs	55,086	60,407	46,242
Accrued liabilities	75,606	71,960	69,285
Total current liabilities	1,038,368	902,592	664,562
Long-term debt	1,451,450	1,554,360	1,473,833
Other liabilities	454,108	426,288	455,573
Stockholders' equity:			
Common stock	876	876	876
Paid-in capital	232,117	218,145	225,449
Retained earnings	1,368,956	1,225,877	1,313,521
Accumulated other comprehensive loss	(182,779)	(44,413)	(165,624)
Treasury stock	(836,144)	(642,827)	(664,266)
Total stockholders' equity	583,026	757,658	709,956
	$3,526,952	$3,640,898	$3,303,924

See accompanying notes.

SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net sales	$914,229	$917,336	$1,730,829	$1,773,182
Cost of goods sold	780,572	773,629	1,474,935	1,501,468
Gross profit	133,657	143,707	255,894	271,714
Selling, general and administrative expenses	54,407	56,765	108,858	115,175
Rationalization charges	959	862	1,684	2,449
Income from operations	78,291	86,080	145,352	154,090
Interest and other debt expense before loss on early extinguishment of debt	16,762	18,958	33,205	37,644
Loss on early extinguishment of debt	—	—	—	1,474
Interest and other debt expense	16,762	18,958	33,205	39,118
Income before income taxes	61,529	67,122	112,147	114,972
Provision for income taxes	19,285	23,119	36,599	39,493
Net income	$42,244	$44,003	$75,548	$75,479
Earnings per share:				
Basic net income per share	$0.70	$0.69	$1.23	$1.19
Diluted net income per share	$0.70	$0.69	$1.22	$1.18
Dividends per share	$0.16	$0.15	$0.32	$0.30
Weighted average number of shares:				
Basic	60,473	63,525	61,631	63,511
Effect of dilutive securities	255	349	268	388
Diluted	60,728	63,874	61,899	63,899

See accompanying notes.

SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income	$42,244	$44,003	$75,548	$75,479
Other comprehensive income (loss), net of tax:				
Changes in net prior service credit and actuarial losses	846	(133)	1,620	(544)
Change in fair value of derivatives	352	523	170	1,338
Foreign currency translation	11,324	3,160	(18,945)	(7,088)
Other comprehensive income (loss)	12,522	3,550	(17,155)	(6,294)
Comprehensive income	$54,766	$47,553	$58,393	$69,185

See accompanying notes.

SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2015 and 2014
(Dollars in thousands)
(Unaudited)

	2015	2014
Cash flows provided by (used in) operating activities:		
Net income	$75,548	$75,479
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	73,042	76,511
Rationalization charges	1,684	2,449
Loss on early extinguishment of debt	—	1,474
Excess tax benefit from stock-based compensation	(771)	(1,037)
Other changes that provided (used) cash:		
Trade accounts receivable, net	(140,426)	(116,359)
Inventories	(212,806)	(234,603)
Trade accounts payable	38,630	42,724
Accrued liabilities	11,577	12,966
Other, net	16,764	(22,428)
Net cash used in operating activities	(136,758)	(162,824)
Cash flows provided by (used in) investing activities:		
Purchase of business, net of cash acquired	(690)	—
Capital expenditures	(98,183)	(60,004)
Proceeds from asset sales	128	372
Net cash used in investing activities	(98,745)	(59,632)
Cash flows provided by (used in) financing activities:		
Borrowings under revolving loans	585,364	678,872
Repayments under revolving loans	(169,284)	(340,779)
Proceeds from issuance of long-term debt	3,970	732,215
Repayments of long-term debt	(5,649)	(751,509)
Debt issuance costs	—	(5,019)
Changes in outstanding checks - principally vendors	(82,801)	(86,538)
Dividends paid on common stock	(20,113)	(19,356)
Excess tax benefit from stock-based compensation	771	1,037
Repurchase of common stock under stock plan	(2,538)	(5,267)
Repurchase of common stock under share repurchase authorization	(170,132)	(7,735)
Net cash provided by financing activities	139,588	195,921
Cash and cash equivalents:		
Net decrease	(95,915)	(26,535)
Balance at beginning of year	222,591	160,463
Balance at end of period	$126,676	$133,928
Interest paid, net	$31,560	$33,762
Income taxes paid, net	18,306	25,056

See accompanying notes.

SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the six months ended June 30, 2015 and 2014
(Dollars and shares in thousands)
(Unaudited)

	Common Stock Shares Outstanding	Common Stock Par Value	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2013	63,415	$876	$212,822	$1,169,754	$(38,119)	$(631,490)	$713,843
Net income	—	—	—	75,479	—	—	75,479
Other comprehensive loss	—	—	—	—	(6,294)	—	(6,294)
Dividends declared on common stock	—	—	—	(19,356)	—	—	(19,356)
Stock compensation expense	—	—	5,951	—	—	—	5,951
Net issuance of treasury stock for vested restricted stock units, including tax benefit of $1,037	153	—	(628)	—	—	(3,602)	(4,230)
Repurchases of common stock	(158)	—	—	—	—	(7,735)	(7,735)
Balance at June 30, 2014	63,410	$876	$218,145	$1,225,877	$(44,413)	$(642,827)	$757,658
Balance at December 31, 2014	63,203	$876	$225,449	$1,313,521	$(165,624)	$(664,266)	$709,956
Net income	—	—	—	75,548	—	—	75,548
Other comprehensive loss	—	—	—	—	(17,155)	—	(17,155)
Dividends declared on common stock	—	—	—	(20,113)	—	—	(20,113)
Stock compensation expense	—	—	6,689	—	—	—	6,689
Net issuance of treasury stock for vested restricted stock units, including tax benefit of $771	82	—	(21)	—	—	(1,746)	(1,767)
Repurchases of common stock	(2,906)	—	—	—	—	(170,132)	(170,132)
Balance at June 30, 2015	60,379	$876	$232,117	$1,368,956	$(182,779)	$(836,144)	$583,026

See accompanying notes.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements of Silgan Holdings Inc., or Silgan, have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The results of operations for any interim period are not necessarily indicative of the results of operations for the full year.

The Condensed Consolidated Balance Sheet at December 31, 2014 has been derived from our audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

You should read the accompanying condensed consolidated financial statements in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recently Issued Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board, or FASB, issued an accounting standards update, or ASU, that amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue to depict the transfer of goods and services to customers at an amount that an entity expects to be entitled to in exchange for those goods or services. This amendment permits the use of one of two retrospective transition methods. In July 2015, the FASB deferred the effective date of this amendment. As a result, this amendment will be effective for us on January 1, 2018, with early adoption permitted up to one year prior to the effective date. We have not yet selected a transition method and are currently evaluating the impact of this amendment on our financial position, results of operations and cash flows.

In April 2015, the FASB issued an ASU which amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability. This amendment will be effective for us on January 1, 2016. Early adoption is permitted. Adoption of this amendment will not have a material effect on our financial position, results of operations or cash flows.

In July 2015, the FASB issued an ASU which amends existing guidance for measuring inventories. This amendment will require us to measure inventories recorded using the first-in, first-out method and the average cost method at the lower of cost and net realizable value. This amendment does not change the methodology for measuring inventories recorded using the last-in, first-out method. This amendment will be effective for us on January 1, 2017. Early adoption is permitted. We are currently evaluating the impact of this amendment on our financial position, results of operations and cash flows.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 2. Rationalization Charges

We continually evaluate cost reduction opportunities across each of our businesses, including rationalizations of our existing facilities through plant closings and downsizings. We use a disciplined approach to identify opportunities that generate attractive cash returns. Rationalization charges were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(Dollars in thousands)			
Closures	$810	$862	$1,146	$1,487
Plastic containers	149	—	538	962
	$959	$862	$1,684	$2,449

Activity in reserves for our rationalization plans for the six months ended June 30 was as follows:

	Employee Severance and Benefits	Plant Exit Costs	Non-Cash Asset Write-Down	Total
	(Dollars in thousands)			
Balance at December 31, 2014	$6,052	$316	$—	$6,368
Charged to expense	1,178	231	275	1,684
Utilized and currency translation	(3,923)	(368)	(275)	(4,566)
Balance at June 30, 2015	$3,307	$179	$—	$3,486

Rationalization reserves were included in the Condensed Consolidated Balance Sheets as accrued liabilities.

Remaining expenses and cash expenditures for our rationalization plans of $2.5 million and $6.5 million, respectively, are expected within the next twelve months.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 3. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is reported in our Condensed Consolidated Statements of Stockholders' Equity. Amounts included in accumulated other comprehensive loss, net of tax, were as follows:

	Unrecognized Net Defined Benefit Plan Costs	Change in Fair Value of Derivatives	Foreign Currency Translation	Total
	(Dollars in thousands)			
Balance at December 31, 2014	$(89,252)	$(1,198)	$(75,174)	$(165,624)
Other comprehensive loss before reclassifications	—	(701)	(18,945)	(19,646)
Amounts reclassified from accumulated other comprehensive loss	1,620	871	—	2,491
Other comprehensive loss	1,620	170	(18,945)	(17,155)
Balance at June 30, 2015	$(87,632)	$(1,028)	$(94,119)	$(182,779)

The amounts reclassified to earnings from the unrecognized net defined benefit plan costs component of accumulated other comprehensive loss for the three and six months ended June 30, 2015 were net losses of $1.3 million and $2.6 million, respectively, excluding an income tax benefit of $0.5 million and $1.0 million, respectively. For the three and six months ended June 30, 2015, these net losses consisted of $1.8 million and $3.5 million of amortization of net actuarial losses and $0.5 million and $0.9 million of amortization of net prior service credit, respectively. Amortization of net actuarial losses and net prior service credit is a component of net periodic benefit cost. See Note 8 for further information.

The amounts reclassified to earnings from the change in fair value of derivatives component of accumulated other comprehensive loss for the three and six months ended June 30, 2015 were net losses of $0.7 million and $1.4 million, respectively, excluding an income tax benefit of $0.3 million and $0.5 million, respectively. For the three and six months ended June 30, 2015, these net losses included $0.4 million and $0.8 million, respectively, related to our interest rate swap agreements which were recorded in interest and other debt expense in our Condensed Consolidated Statements of Income and $0.3 million and $0.6 million, respectively, related to our natural gas swap agreements which were recorded in cost of goods sold in our Condensed Consolidated Statements of Income. See Note 6 for further information.

Foreign currency (losses) gains related to our net investment hedges included in the foreign currency translation component of accumulated other comprehensive loss for the three and six months ended June 30, 2015 were $(10.8) million and $19.1 million, respectively, excluding an income tax (benefit) provision of $(4.0) million and $7.1 million, respectively. See Note 6 which includes a discussion of derivative instruments and hedging activities.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 4. Inventories

Inventories consisted of the following:

	June 30, 2015	June 30, 2014	Dec. 31, 2014
	(Dollars in thousands)		
Raw materials	$204,195	$190,546	$184,714
Work-in-process	121,144	123,557	115,308
Finished goods	516,931	517,897	338,562
Other	14,086	12,807	13,541
	856,356	844,807	652,125
Adjustment to value inventory at cost on the LIFO method	(103,021)	(96,580)	(103,360)
	$753,335	$748,227	$548,765

Note 5. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2015	June 30, 2014	Dec. 31, 2014
	(Dollars in thousands)		
Bank debt			
Bank revolving loans	$407,000	$350,924	$—
U.S. term loans	365,000	365,000	365,000
Canadian term loans	53,493	65,506	60,235
Euro term loans	246,994	300,410	266,156
Other foreign bank revolving and term loans	111,602	135,632	107,572
Total bank debt	1,184,089	1,217,472	798,963
5½% Senior Notes	300,000	300,000	300,000
5% Senior Notes	500,000	500,000	500,000
Total debt	1,984,089	2,017,472	1,598,963
Less current portion	532,639	463,112	125,130
	$1,451,450	$1,554,360	$1,473,833

At June 30, 2015, amounts expected to be repaid within one year consisted of $437.6 million of bank revolving and term loans under our senior secured credit facility, or the Credit Agreement, and $95.0 million of foreign bank revolving and term loans.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 6. Financial Instruments

The financial instruments recorded in our Condensed Consolidated Balance Sheets include cash and cash equivalents, trade accounts receivable, trade accounts payable, debt obligations and swap agreements. Due to their short-term maturity, the carrying amounts of trade accounts receivable and trade accounts payable approximate their fair market values. The following table summarizes the carrying amounts and estimated fair values of our other financial instruments at June 30, 2015:

	Carrying Amount	Fair Value
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$126,676	$126,676
Liabilities:		
Bank debt	$1,184,089	$1,184,089
5½% Senior Notes	300,000	311,436
5% Senior Notes	500,000	511,250
Interest rate swap agreements	1,280	1,280
Natural gas swap agreements	367	367

Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). GAAP classifies the inputs used to measure fair value into a hierarchy consisting of three levels. Level 1 inputs represent unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs represent unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs represent unobservable inputs for the asset or liability. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial Instruments Measured at Fair Value

The financial assets and liabilities that were measured on a recurring basis at June 30, 2015 consisted of our cash and cash equivalents, interest rate swap agreements and natural gas swap agreements. We measured the fair value of cash and cash equivalents using Level 1 inputs. We measured the fair value of the swap agreements using the income approach. The fair value of the swap agreements reflects the estimated amounts that we would pay or receive based on the present value of the expected cash flows derived from market interest rates and prices. As such, these derivative instruments were classified within Level 2.

Financial Instruments Not Measured at Fair Value

Our bank debt, 5½% Senior Notes due 2022, or the 5½% Notes, and 5% Senior Notes due 2020, or the 5% Notes, were recorded at historical amounts in our Condensed Consolidated Balance Sheets, as we have not elected to

measure them at fair value. We measured the fair value of our variable rate bank debt using the market approach based on Level 2 inputs. Fair values of the 5½% Notes and the 5% Notes were estimated based on quoted market prices, a Level 1 input.

Derivative Instruments and Hedging Activities

Our derivative financial instruments were recorded in the Condensed Consolidated Balance Sheets at their fair values. Changes in fair values of derivatives are recorded in each period in earnings or comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

We utilize certain derivative financial instruments to manage a portion of our interest rate and natural gas cost exposures. We limit our use of derivative financial instruments to interest rate and natural gas swap agreements. We do not engage in trading or other speculative uses of these financial instruments. For a financial instrument to qualify as a hedge, we must be exposed to interest rate or price risk, and the financial instrument must reduce the exposure and be designated as a hedge. Financial instruments qualifying for hedge accounting must maintain a high correlation between the hedging instrument and the item being hedged, both at inception and throughout the hedged period.

We utilize certain internal hedging strategies to minimize our foreign currency exchange rate risk. Net investment hedges that qualify for hedge accounting result in the recognition of foreign currency gains or losses, net of tax, in accumulated other comprehensive (loss) income. We generally do not utilize external derivative financial instruments to manage our foreign currency exchange rate risk.

Our interest rate and natural gas swap agreements are accounted for as cash flow hedges. During the first six months of 2015, our hedges were fully effective. The fair value of our outstanding swap agreements in effect at June 30, 2015 was recorded in our Condensed Consolidated Balance Sheet as a net liability of $1.7 million, of which $1.4 million was included in accrued liabilities and $0.3 million was included in other liabilities.

The amounts reclassified to earnings from the change in fair value of derivatives component of accumulated other comprehensive loss for the three and six months ended June 30, 2015 were losses, net of income taxes, of $0.4 million and $0.9 million, respectively. We estimate that we will reclassify losses of $0.9 million, net of income taxes, from the change in fair value of derivatives component of accumulated other comprehensive loss to earnings during the next twelve months. The actual amount that will be reclassified to earnings will vary from this amount as a result of changes in market conditions.

Interest Rate Swap Agreements

We have entered into U.S. dollar interest rate swap agreements to manage a portion of our exposure to interest rate fluctuations. At June 30, 2015, the aggregate notional principal amount of our outstanding interest rate swap agreements was $100.0 million. The difference between amounts to be paid or received on our interest rate swap agreements is recorded in interest and other debt expense in our Condensed Consolidated Statements of Income. For the three and six months ended June 30, 2015, net payments under our interest rate swap agreements were $0.4 million and $0.8 million, respectively. These agreements are with financial institutions which are expected to fully perform under the terms thereof.

Natural Gas Swap Agreements

We have entered into natural gas swap agreements with a major financial institution to manage a portion of our exposure to fluctuations in natural gas prices. At June 30, 2015, the aggregate notional principal amount of our natural gas swap agreements was 896,000 MMBtu of natural gas with fixed prices ranging from $2.77 to $3.24 per MMBtu, which hedged approximately 21 percent of our estimated twelve month exposure to fluctuations in natural gas prices. The difference between amounts to be paid or received on our natural gas swap agreements is recorded in cost of goods sold in our Condensed Consolidated Statements of Income. For the three and six months ended June 30, 2015, net payments under our natural gas swap agreements were $0.3 million and $0.6 million, respectively. These agreements are with a financial institution which is expected to fully perform under the terms thereof.

Foreign Currency Exchange Rate Risk

In an effort to minimize foreign currency exchange rate risk, we have financed acquisitions of foreign operations primarily with loans borrowed under our senior secured credit facilities denominated in Euros and Canadian dollars. In addition, where available, we have borrowed funds in local currency or implemented certain internal hedging strategies to minimize our foreign currency exchange rate risk related to foreign operations. We have designated substantially all of our Euro denominated borrowings under the Credit Agreement as net investment hedges. Foreign currency (losses) gains related to our net investment hedges included in accumulated other comprehensive loss for the three and six months ended June 30, 2015 were $(10.8) million and $19.1 million, respectively.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 7. Commitments and Contingencies

A competition authority in Germany commenced an antitrust investigation involving the industry association for metal packaging in Germany and its members, including our metal container and closures subsidiaries in Germany. Given the early stage of the investigation, we cannot reasonably assess what actions may result from the investigation or estimate what costs we may incur as a result of the investigation.

We are a party to other legal proceedings, contract disputes and claims arising in the ordinary course of our business, none of which is expected to have a material adverse effect on our business or financial condition.

Note 8. Retirement Benefits

The components of the net periodic pension benefit costs were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(Dollars in thousands)			
Service cost	$3,951	$3,316	$8,001	$6,771
Interest cost	7,142	7,419	14,291	14,849
Expected return on plan assets	(15,698)	(14,333)	(31,353)	(28,688)
Amortization of prior service cost	268	334	514	619
Amortization of actuarial losses	1,833	217	3,666	434
Net periodic benefit credit	$(2,504)	$(3,047)	$(4,881)	$(6,015)

The components of the net periodic other postretirement benefits costs were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(Dollars in thousands)			
Service cost	$136	$126	$279	$264
Interest cost	349	417	709	825
Amortization of prior service credit	(736)	(714)	(1,472)	(1,428)
Amortization of actuarial gains	(63)	(86)	(127)	(171)
Net periodic benefit credit	$(314)	$(257)	$(611)	$(510)

Note 9. Income Taxes

Silgan and its subsidiaries file U.S. Federal income tax returns, as well as income tax returns in various states and foreign jurisdictions. The Internal Revenue Service, or IRS, has commenced its review of the tax years 2012 through 2014, and we have been accepted into the Compliance Assurance Program for the 2014 and 2015 tax years which provides for the review by the IRS of tax matters relating to our tax return prior to filing. We do not expect a material

change to our unrecognized tax benefits within the next twelve months.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 10. Treasury Stock

On February 9, 2015, we commenced a "modified Dutch auction" tender offer to purchase up to $200.0 million of our common stock. Pursuant to the tender offer, which expired on March 10, 2015, we purchased 2,766,354 shares of our common stock from our stockholders on March 17, 2015 at a price of $58.50 per share, for a total purchase price of $161.8 million, exclusive of $0.7 million of fees and expenses. During the three months ended June 30, 2015, we repurchased an additional 139,421 shares of our common stock at an average price per share of $54.71, for a total purchase price of $7.6 million. As a result, at June 30, 2015, we had $106.0 million remaining under an authorization from our Board of Directors for the repurchase of our common stock from time to time through and including December 31, 2019.

During the first six months of 2015, we issued 125,846 treasury shares which had an average cost of $6.30 per share for restricted stock units that vested during the period. In accordance with the Silgan Holdings Inc. 2004 Stock Incentive Plan, we repurchased 44,122 shares of our common stock at an average cost of $57.53 to satisfy minimum employee withholding tax requirements resulting from the vesting of such restricted stock units.

We account for treasury shares using the first-in, first-out (FIFO) cost method. As of June 30, 2015, 27,176,938 shares of our common stock were held in treasury.

Note 11. Stock-Based Compensation

We currently have one stock-based compensation plan in effect, under which we have issued options and restricted stock units to our officers, other key employees and outside directors. During the first six months of 2015, 158,946 restricted stock units were granted to certain of our officers, other key employees and outside directors. The fair value of these restricted stock units at the grant date was $9.1 million, which is being amortized ratably over the respective vesting period from the grant date.

At our annual meeting of stockholders held on May 26, 2015, our stockholders approved the Silgan Holdings Inc. Amended and Restated 2004 Stock Incentive Plan, or the 2004 Stock Incentive Plan, which, among other things, increased the number of shares of our common stock available for awards under the 2004 Stock Incentive Plan by an additional 3,000,000 shares. The total number of shares of our common stock available for issuance under the 2004 Stock Incentive Plan as of June 30, 2015 was 3,620,968.

SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Note 12. Business Segment Information

Reportable business segment information for the three and six months ended June 30 was as follows:

	Metal Containers	Closures	Plastic Containers	Corporate	Total
	(Dollars in thousands)				
Three Months Ended June 30, 2015					
Net sales	$553,698	$207,156	$153,375	$—	$914,229
Depreciation and amortization[1]	17,464	9,175	8,659	31	35,329
Rationalization charges	—	810	149	—	959
Segment income from operations	48,300	24,584	9,414	(4,007)	78,291
Three Months Ended June 30, 2014					
Net sales	$518,684	$232,232	$166,420	$—	$917,336
Depreciation and amortization[1]	17,192	10,748	9,073	32	37,045
Rationalization charges	—	862	—	—	862
Segment income from operations[2]	50,900	25,228	12,974	(3,022)	86,080
Six Months Ended June 30, 2015					
Net sales	$1,012,596	$405,235	$312,998	$—	$1,730,829
Depreciation and amortization[1]	34,655	18,902	17,350	63	70,970
Rationalization charges	—	1,146	538	—	1,684
Segment income from operations	88,967	46,159	18,625	(8,399)	145,352
Six Months Ended June 30, 2014					
Net sales	$987,089	$446,029	$340,064	$—	$1,773,182
Depreciation and amortization[1]	34,571	21,552	18,208	63	74,394
Rationalization charges	—	1,487	962	—	2,449
Segment income from operations[2]	91,353	42,993	25,818	(6,074)	154,090

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(1) Depreciation and amortization excludes amortization of debt issuance costs of $1.0 million and $1.1 million for the three months ended June 30, 2015 and 2014, respectively, and $2.1 million in each of the six months ended June 30, 2015 and 2014.

(2) Income from operations of the closures segment includes losses from operations in Venezuela of $2.9 million and $3.4 million for the three and six months ended June 30, 2014, respectively. The manufacturing facility in Venezuela ceased operations at the end of 2014.

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SILGAN HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2015 and 2014 and for the
three and six months then ended is unaudited)

Total segment income from operations is reconciled to income before income taxes as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(Dollars in thousands)			
Total segment income from operations	$78,291	$86,080	$145,352	$154,090
Interest and other debt expense	16,762	18,958	33,205	39,118
Income before income taxes	$61,529	$67,122	$112,147	$114,972

Sales and income from operations of our metal container business and part of our closures business are dependent, in part, upon fruit and vegetable harvests. The size and quality of these harvests varies from year to year, depending in large part upon the weather conditions in applicable regions. Because of the seasonality of the harvests, we have historically experienced higher unit sales volume in the third quarter of our fiscal year and generated a disproportionate amount of our annual income from operations during that quarter.

Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q that are not historical facts are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and Securities Exchange Act of 1934, as amended. Such forward-looking statements are made based upon management’s expectations and beliefs concerning future events impacting us and therefore involve a number of uncertainties and risks, including, but not limited to, those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and in our other filings with the Securities and Exchange Commission. As a result, the actual results of our operations or our financial condition could differ materially from those expressed or implied in these forward-looking statements.

General

We are a leading manufacturer of rigid packaging for shelf-stable food and other consumer goods products. We currently produce steel and aluminum containers for human and pet food and general line products; metal, composite and plastic closures for food and beverage products; and custom designed plastic containers, tubes and closures for personal care, food, health care, pharmaceutical, household and industrial chemical, pet care, agricultural, automotive and marine chemical products. We are a leading manufacturer of metal containers in North America and Europe, a leading worldwide manufacturer of metal, composite and plastic closures for food and beverage products and a leading manufacturer of plastic containers in North America for a variety of markets, including the personal care, food, health care, household and industrial chemical markets.

Our objective is to increase shareholder value by efficiently deploying capital and management resources to grow our business, reduce operating costs and build sustainable competitive positions, or franchises, and to complete acquisitions that generate attractive cash returns. We have grown our net sales and income from operations over the years, largely through acquisitions but also through internal growth, and we continue to evaluate acquisition opportunities in the consumer goods packaging market. If acquisition opportunities are not identified over a longer period of time, we may use our cash flow to repay debt, repurchase shares of our common stock or increase dividends to our stockholders or for other permitted purposes.

RESULTS OF OPERATIONS

The following table sets forth certain unaudited income statement data expressed as a percentage of net sales for the periods presented:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net sales				
Metal containers	60.6 %	56.6 %	58.5 %	55.7 %
Closures	22.6	25.3	23.4	25.1
Plastic containers	16.8	18.1	18.1	19.2
Consolidated	100.0	100.0	100.0	100.0
Cost of goods sold	85.4	84.3	85.2	84.7
Gross profit	14.6	15.7	14.8	15.3
Selling, general and administrative expenses	5.9	6.2	6.3	6.5
Rationalization charges	0.1	0.1	0.1	0.1
Income from operations	8.6	9.4	8.4	8.7
Interest and other debt expense	1.9	2.1	1.9	2.2
Income before income taxes	6.7	7.3	6.5	6.5
Provision for income taxes	2.1	2.5	2.1	2.2
Net income	4.6 %	4.8 %	4.4 %	4.3 %

Summary unaudited results of operations are provided below.

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net sales				
Metal containers	$553.7	$518.7	$1,012.6	$987.1
Closures	207.1	232.2	405.2	446.0
Plastic containers	153.4	166.4	313.0	340.1
Consolidated	$914.2	$917.3	$1,730.8	$1,773.2
Income from operations				
Metal containers	$48.3	$50.9	$89.0	$91.4
Closures [1]	24.6	25.2	46.2	43.0
Plastic containers [2]	9.4	13.0	18.6	25.8
Corporate	(4.0)	(3.0)	(8.4)	(6.1)
Consolidated	$78.3	$86.1	$145.4	$154.1

[1] Includes rationalization charges of $0.8 million and $0.9 million for the three months ended June 30, 2015 and 2014, respectively, and $1.1 million and $1.5 million for the six months ended June 30, 2015 and 2014, respectively. Includes losses from operations in Venezuela of $2.9 million and $3.4 million for the three and six months ended June 30, 2014, respectively.

[2] Includes rationalization charges of $0.2 million for the three months ended June 30, 2015 and $0.5 million and $1.0 million for the six months ended June 30, 2015 and 2014, respectively.

Three Months Ended June 30, 2015 Compared with Three Months Ended June 30, 2014

Overview. Consolidated net sales were $914.2 million in the second quarter of 2015, representing a 0.3 percent decrease as compared to the second quarter of 2014 primarily as a result of the impact of unfavorable foreign currency translation of $40.7 million, the pass through of lower resin costs in the closures and plastic container businesses, the unfavorable financial impact from recent longer-term customer contract renewals and lower volumes in the plastic container business, partially offset by unit volume increases in the metal container and closures businesses. Income from operations for the second quarter of 2015 of $78.3 million decreased by $7.8 million, or 9.1 percent, as compared to the same period in 2014 primarily due to higher manufacturing costs and the inclusion of the less efficient recently acquired operations of Van Can Company, or Van Can, in the metal container business, the unfavorable financial impact from recent longer-term customer contract renewals and manufacturing inefficiencies in the plastic container business, a less favorable mix of products sold in the metal container business, the impact of unfavorable foreign currency translation, a reduction in inventory as compared to an inventory build in the prior year period in the closures business and lower volumes in the plastic container business. These decreases were partially offset by higher unit volumes in the metal container and closures businesses and an operational loss in Venezuela in the second quarter of 2014. Rationalization charges were $1.0 million for the second quarter of 2015 as compared to $0.9 million for the same period in 2014. Net income for the second quarter of 2015 was $42.2 million as compared to $44.0 million for the same period in 2014. Net income per diluted share for the second quarter of 2015 was $0.70 as compared to $0.69 for the same period in 2014.

Net Sales. The $3.1 million decrease in consolidated net sales in the second quarter of 2015 as compared to the second quarter of 2014 was the result of lower net sales in the closures and plastic container businesses, mostly offset by higher net sales in the metal container business.

Net sales for the metal container business increased $35.0 million, or 6.7 percent, in the second quarter of 2015 as compared to the same period in 2014. This increase was primarily the result of higher unit volumes of approximately 11 percent due principally to volumes associated with the recent acquisition of the Van Can operations, an earlier start to the midwest vegetable pack in the U.S. and stronger volume levels in Europe, partially offset by the impact of unfavorable foreign currency translation of approximately $17.5 million.

Net sales for the closures business decreased $25.1 million, or 10.8 percent, in the second quarter of 2015 as compared to the same period in 2014. This decrease was primarily the result of the impact of unfavorable foreign currency translation of approximately $18.8 million and the pass through of lower resin costs, partially offset by an increase in unit volumes of approximately 1 percent.

Net sales for the plastic container business decreased $13.0 million, or 7.8 percent, in the second quarter of 2015 as compared to the same period in 2014. This decrease was principally due to the pass through of lower raw material costs, the impact of unfavorable foreign currency translation of approximately $4.4 million, the unfavorable financial impact from recent longer-term customer contract renewals and lower volume of approximately 2 percent primarily due to weaker demand in certain markets.

Gross Profit. Gross profit margin decreased 1.1 percentage points to 14.6 percent in the second quarter of 2015 as compared to the same period in 2014 for the reasons discussed below in "Income from Operations."

Selling, General and Administrative Expenses. Selling, general and administrative expenses as a percentage of consolidated net sales decreased 0.3 percentage points to 5.9 percent for the second quarter of 2015 as compared to 6.2 percent for the same period in 2014. Selling, general and administrative expenses decreased $2.4 million to $54.4 million for the second quarter of 2015 as compared to $56.8 million for the same period in 2014 primarily due to the

impact from changes in foreign currency rates.

Income from Operations. Income from operations for the second quarter of 2015 decreased by $7.8 million, or 9.1 percent, as compared to the second quarter of 2014, and operating margin decreased to 8.6 percent from 9.4 percent over the same periods.

Income from operations of the metal container business for the second quarter of 2015 decreased $2.6 million, or 5.1 percent, as compared to the same period in 2014, and operating margin decreased to 8.7 percent from 9.8 percent over the same periods. The decrease in income from operations was primarily due to higher manufacturing costs due largely to logistical challenges from changes in customer demand patterns, the inclusion of the less efficient Van Can operations, a less favorable mix of products sold and the impact of unfavorable foreign currency translation, partially offset by higher unit volumes.

Income from operations of the closures business for the second quarter of 2015 decreased $0.6 million, or 2.4 percent, as compared to the same period in 2014, while operating margin increased to 11.9 percent from 10.9 percent over the same periods. The decrease in income from operations was primarily due to the impact of unfavorable foreign currency translation and a reduction in inventory in the current year quarter as compared to an inventory build in the prior year period, partially offset by operational losses of $2.9 million in the second quarter of 2014 in Venezuela and higher unit volumes.

- Corporate
Activities[(1)] Consolidated (in millions, except ratios)

Gross premiums written

$2,642.9 $1,126.7 $3,769.6 $(17.5) $3,752.1

Net premiums written

2,499.4 786.5 3,285.9 3,285.9

Net premiums earned

2,481.4 701.8 3,183.2 3,183.2

Net loss and LAE

1,473.3 389.1 1,862.4 1,862.4

Commissions, brokerage and other underwriting expenses

760.2 238.6 998.8 998.8

Underwriting profit[2]

$247.9 $74.1 322.0 322.0

Net investment income

295.5 39.0 334.5

Net realized capital gains

109.5 (13.9) 95.6

Other than temporary impairment losses

(41.9) (41.9)

Other income

	3.9	33.9	37.8
Other operating expenses			
	57.0	40.0	97.0
Corporate administration			
		26.0	26.0
Amortization of intangible assets			
	11.6		11.6
Interest expense			
	37.1	27.9	65.0
Earnings (losses) before income taxes			
	$583.3	$(34.9)	$548.4

Loss ratio(3)	59.4%	55.4%	58.5%
Expense ratio(4)	30.6%	34.0%	31.4%
Combined ratio(5)	90.0%	89.4%	89.9%

(1) Total Segments excludes elimination of minor reinsurance activity between segments which is reported in corporate activities.

(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 income, other operating expenses, corporate administration, amortization of intangible assets or 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 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.

Total revenues increased by 13.7 percent for the third quarter of 2014 from the third quarter of 2013, due primarily to increases in net premiums earned. Increases in net realized capital gains, other income and, to a lesser extent, net investment income contributed to the increase in total revenues. Net premiums earned, which were up 9.3 percent, increased at both our reinsurance and insurance segments. The increase in net investment income primarily reflects higher interest income from more favorable reinvestment rates for TransRe and our increased allocation to investment-grade and below investment-grade credit instruments managed through our investment management relationship with Ares Management LLC or Ares, partially offset by the absence of earnings from Homesite in the third quarter of 2014, which were present in the third quarter of 2013.

As more fully described in the following pages, our earnings before income taxes in the third quarter of 2014 increased from the third quarter of 2013, primarily reflecting improvements in both our underwriting results and investment performance, partially offset by an increase in corporate administration expense. The improved investment performance was due primarily to an increase in net realized capital gains and, to a lesser extent, an increase in net investment income, as discussed above. The increase in our underwriting profit reflects a decrease in our combined ratio and, to a lesser extent, an increase in net premiums earned, as discussed above. Our combined ratio decreased to 87.6 percent in the third quarter of 2014 from 94.1 percent in the third quarter of 2013, reflecting a lower loss ratio partially offset by an increase in our expense ratio. The lower loss ratio is primarily due to lower catastrophe losses. The higher expense ratio is due primarily to an increase in commissions, brokerage and other underwriting expenses primarily reflecting the impact of higher commission rates at our reinsurance segment. The higher corporate administration expense primarily reflects the absence of a one-time $8.8 million reduction in expenses from the freezing of pension benefits in the third quarter of 2013.

Total revenues increased by 8.9 percent for the first nine months of 2014 from the first nine months of 2013, due to increases in net premiums earned, net realized capital gains, other income and, to a lesser extent, increases in net investment income, and a decrease in OTTI losses. The increase in net realized capital gains includes a $34.0 million gain from the sales of long-dated U.S. Treasury Strip debt securities April 2014. Net premiums earned increased at our insurance segment and, to a lesser extent, at our reinsurance segment. The increase in net investment income primarily reflects higher interest income from more favorable reinvestment rates for TransRe and our increased allocation to investment-grade and below investment-grade credit instruments managed through our investment management relationship with Ares, partially offset by the absence of earnings from Homesite in the first nine months of 2014, which were present in the first nine months of 2013.

As more fully described in the following pages, our earnings before income taxes in the first nine months of 2014 increased from the first nine months of 2013, primarily reflecting improvements in both our underwriting results and investment performance and, to a lesser extent, a decrease in amortization of intangible assets. The improved investment performance was due to an increase in net realized capital gains, lower OTTI losses and, to a lesser extent, an increase in net investment income, as discussed above. The increase in our underwriting profit reflects a decrease in our combined ratio and, to a lesser extent, an increase in net premiums earned, as discussed above. Our combined ratio decreased to 88.8 percent in the first nine months of 2014 from 89.9 percent in the first nine months of 2013, reflecting a lower loss ratio partially offset by an increase in our expense ratio. The lower loss ratio is primarily due to lower catastrophe losses. The higher expense ratio is due to an increase in commissions, brokerage and other

underwriting expenses primarily reflecting the impact of higher commission rates at our reinsurance segment. The decrease in amortization of intangible assets reflects a lack of amortization expense related to certain TransRe intangible assets in the first nine months of 2014, which were present in the first nine months of 2013.

The increases in other income and other operating expenses for the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect our inclusion of the results of Kentucky Trailer beginning August 30, 2013.

The effective tax rate on earnings before income taxes for the first nine months of 2014 was 26.7 percent, compared with 22.8 percent for the first nine months of 2013. The higher effective tax rate in the first nine months of 2014 primarily reflects higher taxable income in the first nine months of 2014, relative to a fairly steady level of tax-exempt interest income arising from municipal bond securities.

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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 2013 10-K.

The underwriting results of the reinsurance segment are presented below.

	Property	Casualty & Other[1]	Total
		(in millions, except ratios)	
Three Months Ended September 30, 2014			
Gross premiums written	$ 324.8	$ 597.9	$ 922.7
Net premiums written	286.1	580.6	866.7
Net premiums earned	$ 278.2	$ 581.0	$ 859.2
Net loss and LAE	113.4	361.0	474.4
Commissions, brokerage and other underwriting expenses	87.5	197.1	284.6
Underwriting profit[2]	$ 77.3	$ 22.9	$ 100.2
Loss ratio[3]	40.8%	62.1%	55.2%
Expense ratio[4]	31.5%	33.9%	33.1%
Combined ratio[5]	72.3%	96.0%	88.3%
Three Months Ended September 30, 2013			
Gross premiums written	$ 288.7	$ 550.1	$ 838.8
Net premiums written	248.6	541.5	790.1
Net premiums earned	$ 246.1	$ 546.7	$ 792.8
Net loss and LAE	77.8	409.1	486.9
Commissions, brokerage and other underwriting expenses	82.3	167.6	249.9
Underwriting profit (loss)[2]	$ 86.0	$ (30.0)	$ 56.0
Loss ratio[3]	31.6%	74.8%	61.4%
Expense ratio[4]	33.4%	30.7%	31.5%
Combined ratio[5]	65.0%	105.5%	92.9%

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	Property	Casualty & Other[1]	Total
		(in millions, except ratios)	
Nine Months Ended September 30, 2014			
Gross premiums written	$ 933.7	$ 1,877.4	$ 2,811.1
Net premiums written	808.0	1,828.5	2,636.5
Net premiums earned	$ 771.4	$ 1,713.1	$ 2,484.5
Net loss and LAE	296.5	1,124.5	1,421.0
Commissions, brokerage and other underwriting expenses	233.6	564.9	798.5
Underwriting profit[2]	$ 241.3	$ 23.7	$ 265.0
Loss ratio[3]	38.4%	65.6%	57.2%
Expense ratio[4]	30.3%	33.0%	32.1%
Combined ratio[5]	68.7%	98.6%	89.3%
Nine Months Ended September 30, 2013			
Gross premiums written	$ 873.3	$ 1,769.6	$ 2,642.9
Net premiums written	756.3	1,743.1	2,499.4
Net premiums earned	$ 748.1	$ 1,733.3	$ 2,481.4
Net loss and LAE	232.4	1,240.9	1,473.3
Commissions, brokerage and other underwriting expenses	220.7	539.5	760.2
Underwriting profit (loss)[2]	$ 295.0	$ (47.1)	$ 247.9
Loss ratio[3]	31.1%	71.6%	59.4%
Expense ratio[4]	29.5%	31.1%	30.6%
Combined ratio[5]	60.6%	102.7%	90.0%

(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 income, other operating expenses, corporate administration, amortization of intangible assets or 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 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 Property. Gross premiums written in the third quarter of 2014 increased by 12.5 percent from the third quarter of 2013, primarily reflecting the impact of certain expanded treaty participations with existing long-term clients. Excluding the impact of changes in foreign currency rates, gross premiums written in the third quarter of 2014 increased from the third quarter of 2013 by 13.0 percent. Gross premiums written in the first nine months of 2014 increased by 6.9 percent from the first nine months of 2013, primarily reflecting the impact of certain expanded treaty participations with existing long-term clients, partially offset by reductions in pricing for property reinsurance contracts as the market became increasingly price competitive. Excluding the impact of changes in foreign currency rates, gross premiums written in the first nine months of 2014 increased from the first nine months of 2013 by 7.3 percent.

Net premiums earned in the third quarter of 2014 increased by 13.0 percent from the third quarter of 2013. Net premiums earned in the first nine months of 2014 increased by 3.1 percent from the first nine months of 2013. These increases reflect premiums earned on certain expanded treaty participations with existing long-term clients.

The increases in net loss and LAE in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect less favorable prior accident year development on loss reserves, higher non-catastrophe losses incurred, partially offset by lower catastrophe losses. Catastrophe losses, net of reinsurance, were $18.8 million and $47.0 million in the third quarter of

2014 and 2013, respectively, and $36.4 million and $92.1 million in first nine months of 2014 and 2013, respectively. Catastrophe losses for the third quarter and first nine months of 2014 include $9.0 million and $26.6 million of losses, respectively, resulting from severe snowstorms across northeast Japan in February 2014. In addition, catastrophe losses for the third quarter and first nine months of 2014 include $9.8 million of losses resulting from wind and hailstorm Ela, which struck Europe in June 2014. The $47.0 million of catastrophe losses in the third quarter of 2013 primarily reflects net losses from hurricanes in Mexico in September 2013, flooding in Canada in June 2013 and hailstorms in Germany and Canada in July 2013. In addition to the $47.0 million of catastrophe losses incurred in the third quarter of 2013, catastrophe losses in the first nine months of 2013 primarily reflect net losses from flooding in Germany and Central Europe in May 2013 and June 2013, respectively, and, to a lesser extent, flooding in Canada.

Net loss and LAE in the third quarter and first nine months of 2014 and 2013 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Catastrophe events	$ (10.0)(1)	$ (55.9)(2)	$ (34.3)(3)	$ (111.7)(4)
Non-catastrophe	(3.3)	2.8	(30.3)(5)	(20.7)(6)
Total	$ (13.3)	$ (53.1)	$ (64.6)	$ (132.4)

(1) Includes favorable development of ($9.6) million from Super Storm Sandy in 2012 and ($0.4) million from other catastrophe losses.
(2) Includes favorable development of ($34.9) million from Super Storm Sandy in 2012, and ($21.0) million from other catastrophe losses related primarily to the Tohoku earthquake in Japan in 2011.
(3) Includes favorable development of ($18.5) million from Super Storm Sandy in 2012 and ($15.8) million of net favorable development from other catastrophes. The ($15.8) million primarily reflects favorable development from several catastrophes that occurred primarily in the 2013 and 2011 accident years, partially offset by unfavorable development from the New Zealand earthquake in 2010.
(4) Includes favorable development of ($67.9) million from Super Storm Sandy in 2012, and ($43.8) million from other catastrophe losses related primarily to the Tohoku earthquake in Japan in 2011.
(5) Reflects favorable development related primarily to the 2011 and 2012 accident years.
(6) Reflects favorable development related primarily to the 2012 accident year.

The favorable development in the third quarter and first nine months of 2014 and 2013 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable development in the first nine months of 2014 did not impact assumptions used in estimating TransRe s loss and LAE liabilities for business earned in 2014.

The increases in commissions, brokerage and other underwriting expenses in the third quarter and first nine months of 2014 compared with the corresponding 2013 periods primarily reflect higher employee-related costs and, for the first nine months of 2014 period only, the lack of favorable impact arising from the acquisition method of accounting, which was present in the first nine months of 2013.

The decreases in property underwriting profit in the third quarter and first nine months of 2014 from the corresponding 2013 periods reflect increases in net loss and LAE and, to a lesser extent, increases in commissions, brokerage and other underwriting expenses, partially offset by increases in net premiums earned, all as discussed above.

Reinsurance Segment Casualty & Other. Gross premiums written in the third quarter of 2014 increased by 8.7 percent from the third quarter of 2013. Gross premiums written in the first nine months of 2014 increased by 6.1 percent from the first nine months of 2013. Excluding the impact of changes in foreign currency rates, gross premiums written in the third quarter and first nine months of 2014 increased from the corresponding 2013 periods by 8.4 percent and 5.1 percent, respectively. The increase in gross premiums written in the third quarter of 2014 was primarily due to increases in premiums written for the general liability and guaranty lines of business. The increase in gross premiums written in the first nine months of 2014 was primarily due to increases in premiums written for the general liability, auto liability and guaranty lines of business, partially offset by decreases in the directors and officers liability, errors and omission liability and accident and health lines of business. These changes in premiums reflect the impact of new or expanded treaties, tempered by the impact of an increasingly competitive casualty reinsurance market and a decreasing amount of risk premium being ceded by insurers.

Net premiums earned in the third quarter of 2014 increased by 6.3 percent from the third quarter of 2013. The increase in net premiums earned in the third quarter of 2014 from the third quarter of 2013 primarily reflects an increase in gross premiums written in recent quarters, partially offset by an increase in ceded premiums earned. Net premiums earned in the first nine months of 2014 decreased 1.2 percent from the first nine months of 2013. The decrease in net premiums earned in the first nine months of 2014 from the first nine months of 2013 reflects a decrease in gross premiums written in earlier periods and an increase in ceded premiums earned.

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The decreases in net loss and LAE in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect more favorable prior accident year development on loss reserves in the 2014 periods, and lower losses incurred in the current accident year and, for the first nine months of 2014 only, the impact of lower net premiums earned.

Net loss and LAE in the third quarter and first nine months of 2014 and 2013 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
The Malpractice Treaties[1]	$	$ (5.9)	$ (12.7)	$ (29.7)
Other	(40.1)[2]	(5.8)[3]	(63.0)[2]	(14.6)[3]
Total	$ (40.1)	$ (11.7)	$ (75.7)	$ (44.3)

(1) Represents certain medical malpractice treaties pursuant to which the increased underwriting profits created by the favorable development are retained by the cedants, or the Malpractice Treaties. As a result, TransRe records an offsetting increase in profit commission expense incurred when such favorable development occurs.
(2) Generally reflects favorable development in a variety of casualty & other lines of business primarily from the 2003 through 2013 accident years, partially offset by unfavorable development relating to the 2002 and prior accident years.
(3) Generally reflects favorable development in a variety of casualty & other lines of business primarily from the 2002 through 2012 accident years, partially offset by unfavorable development relating to the 2001 and prior accident years.

The favorable development in the third quarter and first nine months of 2014 and 2013 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable development in the first nine months of 2014 did not impact assumptions used in estimating TransRe s loss and LAE liabilities for business earned in 2014.

The increases in commissions, brokerage and other underwriting expenses in the third quarter and first nine months of 2014 compared with the corresponding 2013 periods are due primarily to an increase in commission rates being demanded by cedants in 2014, partially offset by a decrease in profit commissions related to the Malpractice Treaties. The increase in commissions, brokerage and other underwriting expenses in the first nine months of 2014 compared with the first nine months of 2013 is also due to the absence of the favorable impact arising from the acquisition method of accounting, which was present in the first nine months of 2013.

The casualty & other underwriting profit in the third quarter of 2014, compared with an underwriting loss in the third quarter of 2013, reflects an increase in net premiums earned and a decrease in net loss and LAE, partially offset by an increase in commissions, brokerage and other underwriting expenses, all as discussed above. The underwriting profit in the first nine months of 2014, compared with an underwriting loss in the first nine months of 2013, reflects a decrease in net loss and LAE, partially offset by a decrease in net premiums earned and an increase in commissions, brokerage and other underwriting expenses, all 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 2013 10-K.

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The underwriting results of the insurance segment are presented below.

	RSUI	CapSpecialty	PacificComp[1]	Total
		(in millions, except ratios)		
Three Months Ended September 30, 2014				
Gross premiums written	$ 282.0	$ 52.8	$ 19.4	$ 354.2
Net premiums written	193.4	48.2	19.2	260.8
Net premiums earned	$ 210.9	$ 48.0	$ 18.1	$ 277.0
Net loss and LAE	106.9	25.8	16.0	148.7
Commissions, brokerage and other underwriting expenses	56.5	23.0	8.2	87.7
Underwriting profit (loss)[2]	$ 47.5	$ (0.8)	$ (6.1)	$ 40.6
Loss ratio[3]	50.7%	53.8%	88.4%	53.7%
Expense ratio[4]	26.8%	48.0%	45.4%	31.7%
Combined ratio[5]	77.5%	101.8%	133.8%	85.4%
Three Months Ended September 30, 2013				
Gross premiums written	$ 281.0	$ 49.0	$ 11.5	$ 341.5
Net premiums written	185.9	46.3	11.1	243.3
Net premiums earned	$ 197.2	$ 39.9	$ 10.0	$ 247.1
Net loss and LAE	121.6	21.5	14.5	157.6
Commissions, brokerage and other underwriting expenses	55.4	20.0	8.3	83.7
Underwriting profit (loss)[2]	$ 20.2	$ (1.6)	$ (12.8)	$ 5.8
Loss ratio[3]	61.7%	53.7%	145.5%	63.8%
Expense ratio[4]	28.1%	50.2%	82.9%	33.9%
Combined ratio[5]	89.8%	103.9%	228.4%	97.7%

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	RSUI	CapSpecialty	PacificComp[1]	Total
	(in millions, except ratios)			
Nine Months Ended September 30, 2014				
Gross premiums written	$ 961.7	$ 158.8	$ 50.9	$ 1,171.4
Net premiums written	641.3	143.0	50.2	834.5
Net premiums earned	$ 620.5	$ 136.1	$ 48.1	$ 804.7
Net loss and LAE	324.4	79.5	38.7	442.6
Commissions, brokerage and other underwriting expenses	165.8	68.1	23.7	257.6
Underwriting profit (loss)[2]	$ 130.3	$ (11.5)	$ (14.3)	$ 104.5
Loss ratio[3]	52.3%	58.4%	80.4%	55.0%
Expense ratio[4]	26.7%	50.0%	49.4%	32.0%
Combined ratio[5]	79.0%	108.4%	129.8%	87.0%
Nine Months Ended September 30, 2013				
Gross premiums written	$ 962.1	$ 134.6	$ 30.0	$ 1,126.7
Net premiums written	630.8	126.4	29.3	786.5
Net premiums earned	$ 560.3	$ 114.4	$ 27.1	$ 701.8
Net loss and LAE	302.2	57.2	29.7	389.1
Commissions, brokerage and other underwriting expenses	155.1	60.9	22.6	238.6
Underwriting profit (loss)[2]	$ 103.0	$ (3.7)	$ (25.2)	$ 74.1
Loss ratio[3]	53.9%	50.0%	109.6%	55.4%
Expense ratio[4]	27.7%	53.2%	83.4%	34.0%
Combined ratio[5]	81.6%	103.2%	193.0%	89.4%

(1) Includes underwriting results of AIHL Re.

(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 income, other operating expenses, corporate administration, amortization of intangible assets or 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 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 commission, brokerage and other underwriting expenses.

RSUI. Gross premiums written in the third quarter and first nine months of 2014 approximated those from the corresponding periods in 2013, reflecting declines in the property line of business due to an increase in competition and a decrease in rates being offset by generally favorable market conditions in most other lines of business, particularly for the binding authority and directors and officers liability lines of business. The increases in net premiums earned in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect an increase in gross premiums written in prior quarters and, to a lesser extent, lower ceded premiums written.

The decrease in net loss and LAE in the third quarter of 2014 from the third quarter of 2013 primarily reflects favorable prior accident year development on loss reserves in the third quarter of 2014 compared with unfavorable development on loss reserves in the third quarter of 2013, and a decrease in catastrophe losses, partially offset by the impact of higher net premiums earned. The increase in net loss and LAE in the first nine months of 2014 from the first nine months of 2013 primarily reflects the impact of higher net premiums earned, partially offset by a decrease in catastrophe losses and more favorable prior accident year development on loss reserves.

Catastrophe losses, net of reinsurance, were $7.4 million in the third quarter of 2014 compared with $22.4 million of catastrophe losses in the third quarter of 2013. Catastrophe losses in the third quarter of 2014 primarily reflect hail storms and flooding in the Midwestern United States. Catastrophe losses in the third quarter of 2013 primarily reflect net losses from the floods in Colorado in September 2013.

Catastrophe losses, net of reinsurance, were $35.7 million in the first nine months of 2014 compared with $51.8 million of catastrophe losses in the first nine months of 2013. Catastrophe losses in the first nine months of 2014 primarily reflect the impact of nationwide severe winter weather in the United States in January and February and hail storms in the spring and summer. Catastrophe losses in the first nine months of 2013 primarily reflect net losses from the floods in Colorado in September 2013 and severe weather in the Midwestern United States, including tornados in Oklahoma, in May 2013.

Net loss and LAE in the third quarter and first nine months of 2014 and 2013 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Casualty	$ (8.2)(1)	$ (6.2)(3)	$ (22.2)(1)	$ (21.3)(3)
Property and other	(3.3)(2)	15.1 (4)	(5.6)(2)	6.7 (4)
Total	$ (11.5)	$ 8.9	$ (27.8)	$ (14.6)

(1) Primarily reflects favorable development in the professional liability, general liability and umbrella/excess lines of business, and primarily related to the 2006 through 2010 accident years.
(2) Primarily reflects favorable development on unallocated LAE reserves and prior year catastrophe reserves from recent accident years.
(3) Primarily reflects favorable development in the umbrella/excess liability, professional liability and general liability lines of business, and primarily related to the 2005 through 2009 accident years.
(4) Includes $8.5 million of unfavorable development in the third quarter of 2013 from Hurricane Katrina, which resulted from a significant claim that settled for more than previously estimated due to an adverse court ruling.

The favorable development in the third quarter and first nine months of 2014 and 2013 reflect favorable loss emergence compared with loss emergence patterns assumed in earlier periods. Specifically relating to the favorable development in the first nine months of 2014, actual losses relating to prior accident years for such lines of business, which include both loss payments and case reserves, were lower than expected through September 30, 2014. The amount of lower actual losses than expected, expressed as a percentage of carried loss and LAE reserves at the beginning of the year, was 1.3 percent. The favorable development in the first nine months of 2014 did not impact assumptions used in estimating RSUI s loss and LAE liabilities for business earned in 2014.

The increases in commissions, brokerage and other underwriting expenses in the third quarter and first nine months of 2014 compared with the corresponding 2013 periods are due primarily to the impact of higher net premiums earned.

The increase in RSUI s underwriting profit in the third quarter of 2014 compared with the third quarter of 2013 reflects the impact of an increase in net premiums earned and a decrease in net loss and LAE, partially offset by an increase in commissions, brokerage and other underwriting expenses, all as discussed above. The increase in RSUI s underwriting profit in the first nine months of 2014 compared with the first nine months of 2013 reflects the impact of an increase in net premiums earned, partially offset by increases in net loss and LAE and commissions, brokerage and other underwriting expenses, all as discussed above.

As discussed in Part I, Item 1, Business Reinsurance Protection of the 2013 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 per risk reinsurance program run on an annual basis from May 1 to the following April 30 and thus expired on April 30, 2014.

RSUI placed its catastrophe reinsurance program for the 2014 to 2015 period on May 1, 2014. The new catastrophe reinsurance program provides coverage in three layers for $600.0 million of losses in excess of a $200.0 million net retention after application of the surplus share treaties and facultative reinsurance. The first layer provides coverage for $300.0 million of losses, subject to a 5.0 percent co-participation by RSUI, in excess of $200.0 million, the second layer provides coverage for $100.0 million of losses in excess of $500.0 million, with no co-participation by RSUI, and the third layer provides coverage for $200.0 million of losses in excess of $600.0 million, with no co-participation by RSUI. In addition, RSUI s property per risk reinsurance program for the 2014 to 2015 period provides RSUI with coverage for $90.0 million of losses, subject to a 10.0 percent co-participation by RSUI, in excess of a $10.0 million net retention per risk after application of the surplus share treaties and facultative reinsurance.

On April 2, 2014, A.M. Best Company, Inc. upgraded the financial strength rating to A+ (Superior) from A (Excellent) for RSUI s wholly-owned subsidiaries, RSUI Indemnity Company, Landmark American Insurance Company and Covington Specialty Insurance Company, with the latter two companies being rated on a reinsured basis.

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CapSpecialty. The increase in gross premiums written in the third quarter of 2014 from the third quarter of 2013 reflects growth in the professional lines of business, partially offset by declines in other property and casualty lines of business and the surety lines of business. The increase in gross premiums written in the first nine months of 2014 from the first nine months of 2013 reflects growth in property and casualty lines of business writings, including strong growth in the professional lines. Net premiums earned increased in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflecting an increase in gross premiums written in recent quarters, partially offset by higher ceded premiums earned arising from an increase in reinsurance coverage.

The increases in net loss and LAE in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect the impact of higher net premiums earned and higher property losses, partially offset by favorable prior accident year development on loss reserves in 2014 compared with unfavorable development on loss reserves in 2013. Higher property losses in 2014 arose from fire and weather-related losses. Net loss and LAE for the first nine months of 2014 reflect high property losses from severe winter weather.

Net loss and LAE in the third quarter and first nine months of 2014 and 2013 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Ongoing lines of business	$ (1.3)[(2)]	$ 1.6[(3)]	$ (0.6)[(4)]	$ 1.6[(3)]
Terminated Program[(1)]				4.3
Asbestos-related illness and environmental impairment liability				(4.0)
Total	$ (1.3)	$ 1.6	$ (0.6)	$ 1.9

(1) Represents certain specialty classes of business written through a program administrator in connection with a terminated program.
(2) Primarily reflects favorable development in the casualty and surety lines of business primarily related to the 2012 accident year.
(3) Primarily reflects unfavorable development in certain casualty lines of business.
(4) Primarily reflects favorable development in the surety lines of business primarily in the 2013 and 2012 accident years, partially offset by net unfavorable development in the casualty lines of business.

The favorable development in the third quarter and first nine months of 2014 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable development in the first nine months of 2014 did not impact assumptions used in estimating CapSpecialty s loss and LAE liabilities for business earned in 2014.

The increases in commissions, brokerage and other underwriting expenses in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect the impact of higher net premiums earned.

The decrease in CapSpecialty s underwriting loss in the third quarter of 2014 from the third quarter of 2013 reflects an increase in net premiums earned, partially offset by an increase in net loss and LAE and commissions, brokerage and other underwriting expenses, all as discussed above. The increase in CapSpecialty s underwriting loss in the first nine months of 2014 from the first nine months of 2013 reflects an increase in net loss and LAE and commissions, brokerage and other underwriting expenses, partially offset by an increase in net premiums earned, all as discussed above.

PacificComp. The increases in gross premiums written and net premiums earned in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect PacificComp s distribution initiatives and increased market acceptance of PacificComp s product offerings.

The increases in net loss and LAE in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily reflect the impact of higher net premiums earned. Net loss and LAE includes $2.6 million and $6.5 million of unfavorable prior accident year development on loss reserves in the third quarter of 2014 and 2013, respectively, and $3.5 million and $8.0 million of unfavorable prior accident year development on loss reserves in the first nine months of 2014 and 2013, respectively, relating primarily to the 2009 and prior accident years.

PacificComp reported an underwriting loss of $6.1 million and $12.8 million in the third quarter of 2014 and 2013, respectively, and $14.3 million and $25.2 million in the first nine months of 2014 and 2013, respectively. The underwriting losses are primarily due to PacificComp s ongoing expenses relative to comparatively low premiums earned and unfavorable prior accident year development on loss reserves. The decreases in underwriting losses in the third quarter and first nine months of 2014 compared with the corresponding 2013 periods are primarily due to increases in PacificComp s net premiums earned and less unfavorable prior accident year development on loss reserves.

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Total Reinsurance and Insurance Segments Investment Results

Following is information relating to segment investment results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Net investment income	$ 113.0	$ 106.1	$ 334.7	$ 295.5
Net realized capital gains	56.3	30.8	173.2	109.5
Other than temporary impairment losses	(0.7)	(0.7)	(6.9)	(41.9)

Net Investment Income. The increases in net investment income for the reinsurance and insurance segments in the third quarter and first nine months of 2014 from the corresponding 2013 periods are due primarily to more favorable reinvestment rates at TransRe as well as an increased allocation of our debt securities portfolio to higher yielding securities. The higher yielding securities relate primarily to an increased allocation to investment-grade and below investment-grade credit instruments managed through our investment management relationship with Ares.

Net Realized Capital Gains. Net realized capital gains for the three and nine months ended September 30, 2014 and 2013 generally reflect sales of equity securities. In addition, net realized capital gains for the nine months ended September 30, 2014 include a realized capital gain of $34.0 million from the sales of long-dated U.S. Treasury Strip debt securities in April 2014, and some additional realized capital gains taken on debt securities in the third quarter and first nine months of 2014. Net realized capital gains for the three and nine months ended September 30, 2013 include a $5.0 million non-cash impairment charge related to certain finite-lived intangible assets at CapSpecialty.

Other Than Temporary Impairment Losses. OTTI losses for the first nine months of 2014 reflect $6.9 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Upon the ultimate disposition of the securities for which OTTI losses have been recorded, a portion of the loss may be recoverable depending on market conditions at the time of disposition. Of the $6.9 million of OTTI losses, $5.3 million related to equity securities and $1.6 million related to debt securities. The determination that unrealized losses on such securities were other than temporary was primarily based on the fact that we lacked the intent to hold the securities for a period of time sufficient to allow for an anticipated recovery. Of the $6.9 million of OTTI losses, $0.7 million was incurred in the third quarter of 2014.

OTTI losses for the first nine months of 2013 reflect $41.9 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the $41.9 million of OTTI losses, $40.5 million related to equity securities, primarily in the chemical and energy sectors, and $1.4 million related to debt securities. The determination that unrealized losses on such securities were other than temporary was primarily based on the duration of the decline in fair value of such securities relative to their cost as of the balance sheet date. Of the $41.9 million of OTTI losses, $0.7 million was incurred in the third quarter of 2013.

After adjusting the cost basis of securities for the recognition of OTTI losses, the remaining gross unrealized investment losses for debt and equity securities as of September 30, 2014 were deemed to be temporary, based on, among other factors: (i) the duration of time and the relative magnitude to which the fair values of these securities had been below cost were not indicative of an OTTI loss (for example, no equity security was in a continuous unrealized loss position for 12 months or more as of September 30, 2014); (ii) the absence of compelling evidence that would cause us to call into question the financial condition or near-term business prospects of the issuers of the securities;

and (iii) our ability and intent to hold the securities for a period of time sufficient to allow for any anticipated recovery.

See Note 3 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 gross unrealized investment losses for debt and equity securities as of September 30, 2014.

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Corporate Activities Operating Results

The operating results of corporate activities are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Net premiums earned	$	$	$	$
Net investment income	5.3	9.2	8.3	39.0
Net realized capital gains	3.1	(13.0)	24.5	(13.9)
Other than temporary impairment losses				
Other income	37.9	15.1	104.0	33.9
Total revenues	46.3	11.3	136.8	59.0
Net loss and LAE				
Commissions, brokerage and other underwriting expenses				
Other operating expenses	41.2	20.0	115.6	40.0
Corporate administration	9.4	3.7	31.4	26.0
Amortization of intangible assets	0.1		0.3	
Interest expense	10.5	9.1	29.7	27.9
Losses before income taxes	$ (14.9)	$ (21.5)	$ (40.2)	$ (34.9)

In July 2014, ACC acquired a 30 percent equity interest in Jazwares, a toy and consumer electronics company, headquartered in Sunrise, Florida for $60.3 million. Jazwares is accounted for under the equity-method of accounting and is included in corporate activities for segment reporting purposes.

Corporate activities results include the results of Kentucky Trailer beginning August 30, 2013. Other income and other operating expenses increased in the third quarter and first nine months of 2014 from the corresponding 2013 periods primarily as a result of Kentucky Trailer.

Corporate administration expense increased in the third quarter and first nine months of 2014 from the corresponding 2013 periods due primarily to the absence of a one-time reduction in expenses from the freezing of pension benefits at the parent-level, which was significant in 2013. On July 16, 2013, our Board of Directors decided to: (i) freeze the benefits associated with our unfunded, noncontributory defined benefit pension plan for parent-level executives, effective December 31, 2013; and (ii) terminate our two retiree health plans for parent-level executives and employees, effective September 30, 2013. As a result of these decisions, we recorded a pre-tax $8.8 million reduction to corporate administration expense in the third quarter of 2013.

Net investment income decreased in the third quarter and first nine months of 2014 from the corresponding 2013 periods due primarily to the absence of income from Homesite, partially offset by an increase in interest, dividends and other-net, which includes our equity share of results in Jazwares, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Homesite[1]	$	$ 7.7	$	$ 32.2
ORX	0.1	(2.3)	(0.6)	(1.9)
Interest, dividends and other - net	5.2	3.8	8.9	8.7
Net investment income	$ 5.3	$ 9.2	$ 8.3	$ 39.0

(1) Homesite was sold on December 31, 2013. The Homesite gain in the first nine months of 2013 primarily reflects favorable tax-related adjustments, favorable levels of weather-related claims and favorable development on Homesite s loss and LAE reserves.

The decrease in net losses before income taxes in the third quarter of 2014 from the third quarter of 2013 primarily reflects increases in other income and net realized capital gains for the third quarter of 2014 compared with net realized capital losses for the

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third quarter of 2013, partially offset by increases in other operating expenses and corporate administration expense, and a decrease in net investment income. The increase in net losses before income taxes in the first nine months of 2014 from the first nine months of 2013 primarily reflects increases in other operating expenses and corporate administration expense, and a decrease in net investment income, partially offset by an increase in other income and net realized capital gains for the first nine months of 2014 compared with net realized capital losses for the first nine months of 2013.

Reserve Review Process

Our reinsurance and insurance subsidiaries analyze, at least quarterly, liabilities for unpaid loss and LAE established in prior years and adjust their expected ultimate cost, where necessary, to reflect favorable or unfavorable development in loss experience and new information, including, for certain catastrophic events, revised industry estimates of the magnitude of a catastrophe. Adjustments to previously recorded liabilities for unpaid loss and LAE, both favorable and unfavorable, are reflected in our financial results in the periods in which these adjustments are made and are referred to as prior accident year loss reserve development. The following table presents the reserves established in connection with the loss and LAE of our reinsurance and insurance subsidiaries on a gross and net basis by line of business. These reserve amounts represent the accumulation of estimates of ultimate loss (including for incurred but not reported losses) and LAE.

	As of September 30, 2014			As of December 31, 2013		
	Gross Loss and LAE Reserves	Reinsurance Recoverables on Unpaid Losses	Net Loss and LAE Reserves	Gross Loss and LAE Reserves	Reinsurance Recoverables on Unpaid Losses	Net Loss and LAE Reserves
	(in millions)					
Reinsurance Segment						
Property	$ 1,021.9	$ (52.0)	$ 969.9	$ 1,109.4	$ (47.2)	$ 1,062.2
Casualty & other[1]	8,171.7	(422.0)	7,749.7	8,363.7	(406.9)	7,956.8
	9,193.6	(474.0)	8,719.6	9,473.1	(454.1)	9,019.0
Insurance Segment						
Property	316.1	(134.0)	182.1	384.9	(176.3)	208.6
Casualty[2]	1,904.7	(672.8)	1,231.9	1,827.5	(648.9)	1,178.6
Workers Compensation	162.3	(3.7)	158.6	156.4	(3.8)	152.6
All other[3]	186.4	(76.6)	109.8	165.5	(73.9)	91.6
	2,569.5	(887.1)	1,682.4	2,534.3	(902.9)	1,631.4
Eliminations	(56.0)	56.0		(54.9)	54.9	
Total	$ 11,707.1	$ (1,305.1)	$ 10,402.0	$ 11,952.5	$ (1,302.1)	$ 10,650.4

(1)

Primarily consists of the following 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; asbestos-related illness and environmental impairment liability; and credit.

(2) Primarily consists of direct: umbrella/excess; directors and officers liability; professional liability; and general liability.

(3) Primarily consists of commercial multi-peril, surety and loss and LAE reserves for terminated lines of business and loss reserves acquired in connection with prior acquisitions for which the sellers provided loss reserve guarantees.

Changes in Gross and Net Loss and LAE Reserves between September 30, 2014 and December 31, 2013. Gross and net loss and LAE reserves as of September 30, 2014 decreased from December 31, 2013, reflecting a decrease in our reinsurance segment loss and LAE reserves, partially offset by an increase in our insurance segment loss and LAE reserves. The decrease in gross and net loss and LAE reserves in the reinsurance segment primarily reflects favorable prior accident year loss reserve development, loss payments including amounts related to catastrophic events occurring in prior years, and the impact of changes in foreign currency exchange rates. The increase in gross and net loss and LAE reserves in the insurance segment primarily reflects the impact of increasing net premiums earned.

Reinsurance Recoverables

Our 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, improve risk-adjusted portfolio returns, and enable them to increase gross premium writings and risk capacity without requiring additional capital. Our 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, our

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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 our reinsurance and insurance subsidiaries reinsurance recoverables, and our reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite or assume with multiple reinsurance programs.

As of September 30, 2014, our reinsurance and insurance subsidiaries had total reinsurance recoverables of $1,370.9 million, consisting of $1,305.1 million of ceded outstanding loss and LAE and $65.8 million of recoverables on paid losses. See Part I, Item 1, Business Reinsurance Protection of the 2013 Form 10-K for additional information on the reinsurance purchased by our reinsurance and insurance subsidiaries.

Information regarding concentration of our reinsurance recoverables and the ratings profile of our reinsurers as of September 30, 2014 is as follows:

Reinsurer[1]	Rating[2]	Amount (dollars in millions)	Percentage
Swiss Reinsurance Company	A+ (Superior)	$ 155.7	11.4%
American International Group, Inc.	A (Excellent)	145.1	10.6
PartnerRe Ltd.	A+ (Superior)	108.9	7.9
Platinum Underwriters Holdings, Ltd.	A (Excellent)	96.5	7.0
Syndicates at Lloyd s of London	A (Excellent)	90.1	6.6
W.R. Berkley Corporation	A+ (Superior)	84.1	6.1
Chubb Corporation	A++ (Superior)	74.9	5.5
Ace Ltd.	A++ (Superior)	53.3	3.9
Munich Reinsurance	A+ (Superior)	40.8	3.0
HCC Insurance Holdings Inc.	A+ (Superior)	32.0	2.3
All other reinsurers		489.5	35.7
Total reinsurance recoverables[3]		$ 1,370.9	100.0%
Secured reinsurance recoverables[4]		$ 128.4	9.4%

(1) Reinsurance recoverables reflect amounts due from one or more reinsurance subsidiaries of the listed company.
(2) Represents the A.M. Best Company, Inc. financial strength rating for the applicable reinsurance subsidiary or subsidiaries from which the reinsurance recoverable is due.
(3) Approximately 95 percent of our reinsurance recoverables balance as of September 30, 2014 was due from reinsurers having an A.M. Best Company, Inc. financial strength rating of A (Excellent) or higher.
(4) Represents reinsurance recoverables secured by funds held, trust agreements and letters of credit.

We had no allowance for uncollectible reinsurance as of September 30, 2014.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that directly affect our reported financial condition and operating performance. More specifically, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. We rely on historical experience and on various other assumptions that we believe 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 reported results to the extent that estimates and assumptions prove to be inaccurate.

We believe our most critical accounting estimates are those with respect to the liability for unpaid loss and LAE reserves, fair value measurements of certain financial assets, OTTI losses on investments, goodwill and other intangible assets, and reinsurance premium revenues, as they require management s most significant exercise of judgment on both a quantitative and qualitative basis. The accounting estimates that result require the use of assumptions about certain matters that are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our financial condition, results of operations, and cash flows would be affected, possibly materially.

See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates of the 2013 10-K for a more complete description of our critical accounting estimates.

Financial Condition

Parent Level

General. In general, we follow a policy of maintaining a relatively liquid financial condition at our unrestricted holding companies. This policy has permitted us to expand our operations through internal growth at our subsidiaries and through acquisitions of, or substantial investments in, operating companies. As of September 30, 2014, we held total marketable securities and cash of $1,270.1 million, compared with $840.0 million as of December 31, 2013. The increase during the first nine months of 2014 primarily reflects the net proceeds from our recent debt issuance, which was subsequently used to redeem existing TransRe debt on October 15, 2014, as further described below, as well as the receipt of dividends from TransRe and RSUI, partially offset by repurchases of shares of our common stock, as further disclosed below. The $1,270.1 million is comprised of $583.2 million at the parent company, $483.8 million at AIHL and $203.1 million at the TransRe holding company. We believe that we have and will have adequate internally generated funds, cash resources and unused credit facilities to provide for the currently foreseeable needs of our business, and we had no material commitments for capital expenditures as of September 30, 2014.

Stockholders equity attributable to Alleghany stockholders was approximately $7.4 billion as of September 30, 2014, compared with approximately $6.9 billion as of December 31, 2013. The increase in stockholders equity in the first nine months of 2014 primarily reflects net earnings and an increase in unrealized appreciation on our debt securities portfolio, due to a modest decrease in longer-term interest rates that occurred in the first nine months of 2014, partially offset by repurchases of our common stock. As of September 30, 2014, we had 16,236,861 shares of our common stock outstanding, compared with 16,766,192 shares of our common stock outstanding as of December 31, 2013.

Debt. On September 9, 2014, we completed a public offering of $300.0 million aggregate principal amount of our 4.90% senior notes due on September 15, 2044, or the 2044 Senior Notes. The 2044 Senior Notes are unsecured and unsubordinated general obligations of Alleghany. Interest on the 2044 Senior Notes is payable semi-annually on March 15 and September 15 of each year. The terms of the 2044 Senior Notes permit redemption prior to their maturity. The indenture under which the 2044 Senior Notes were issued contains covenants that impose conditions on our ability to create liens on, or engage in sales of, the capital stock of AIHL, TransRe or RSUI. The 2044 Senior Notes were issued at approximately 99.3 percent of par, resulting in proceeds after underwriting discount, commissions and other expenses of $294.3 million, and an effective yield of approximately 5.0 percent. Approximately $3.6 million of underwriting discount, commissions and other expenses were recorded as deferred charges, which are amortized over the life of the 2044 Senior Notes.

On October 15, 2014, TransRe redeemed $300.0 million aggregate principal amount of its 5.75% senior notes due on December 14, 2015, or the 2015 Senior Notes, for $324.4 million, consisting of the $300.0 million aggregate principal amount redeemed, $18.6 million of redemption premium and $5.8 million of accrued and unpaid interest to the date of redemption. Of the $324.4 million redemption amount, $294.3 million was funded by a capital contribution from Alleghany using the net proceeds from the sale of the 2044 Senior Notes. As a result of this early extinguishment of debt, TransRe will record a realized loss, before tax, of $9.4 million in the fourth quarter of 2014.

As discussed in Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2013 10-K, on June 26, 2012, we completed a public offering of $400.0 million aggregate principal amount of our 4.95% senior notes due on June 27, 2022 and, on September 20, 2010, we completed a public offering of $300.0 million aggregate principal amount of our 5.625% senior notes due on September 15, 2020.

Credit Agreement. As discussed in Note 7 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2013 10-K, on October 15, 2013, we entered into a four-year credit agreement, or the Credit Agreement, with certain lenders, which provides for an unsecured credit facility in an aggregate principal amount of up to $200.0 million. There were no borrowings under the Credit Agreement since its inception through September 30, 2014.

Common Stock Repurchases. In October 2012, our Board of Directors authorized a program to repurchase shares of our common stock, at such times and at prices as management determines advisable, up to an aggregate of $300.0 million, or the 2012 Repurchase Program. As of September 30, 2014, we had repurchased approximately $280.6 million of shares under the 2012 Repurchase Program. In July 2014, our Board of Directors authorized the repurchase of additional shares of common stock, at such times and at prices as management may determine advisable, up to an aggregate of $350.0 million upon the completion of the 2012 Repurchase Program.

During the first nine months of 2014, we repurchased an aggregate of 549,853 shares of our common stock in the open market for $222.4 million, at an average price per share of $404.55, of which 148,231 shares were repurchased in the third quarter of 2014 for $62.5 million, at an average price per share of $421.89.

Investments in Certain Other Invested Assets. In December 2012, TransRe obtained an ownership interest in Pillar Capital Holdings Limited, or 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, or 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. We have concluded that both Pillar Holdings and the Funds, which we collectively refer to as the Pillar Investments, represent variable interest entities and that we are not the primary beneficiary, as we do 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. Our potential maximum loss in the Pillar Investments is limited to our cumulative investment. As of September 30, 2014, our carrying value in the Pillar Investments, as determined under the equity method of accounting, was $226.8 million, which is reported in other invested assets on our consolidated balance sheets.

In July 2013, AIHL invested $250.0 million in Ares, an asset manager, in exchange for a 6.25 percent equity stake in Ares, with an agreement to engage Ares to manage up to $1.0 billion in certain investment strategies. In May 2014, Ares completed an initial public offering of its common units. Upon completion of the initial public offering, our 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. At our discretion, half of these interests may be converted beginning at the end of a one-year waiting period, and the remaining half may be converted beginning at the end of a two-year waiting period. Until our limited partner interests convert into Ares common units, we classify our investment in Ares as a component of other invested assets, and we account for our investment using the equity method of accounting. As of September 30, 2014, AIHL s carrying value in Ares was $232.6 million, which is net of returns of capital received from Ares.

Subsidiaries

Financial strength is also a high priority of our subsidiaries, whose assets stand behind their financial commitments to their customers and vendors. We believe that our subsidiaries have and will have adequate internally generated funds, cash resources, and unused credit facilities to provide for the currently foreseeable needs of their businesses. Our subsidiaries had no material commitments for capital expenditures as of September 30, 2014.

The obligations and cash outflow of our reinsurance and insurance subsidiaries include claim settlements, commission expenses, administrative expenses, purchases of investments, and interest and principal payments on TransRe s 5.75% senior notes due on December 14, 2015 and 8.00% senior notes due on November 30, 2039. In addition to premium collections, cash inflow is obtained from interest and dividend income and maturities and sales of investments. Because cash inflow from premiums is received in advance of cash outflow required to settle claims, our reinsurance and insurance operating units accumulate funds which they invest pending the need for liquidity. As the cash needs of a reinsurance or an insurance company can be unpredictable due to the uncertainty of the claims settlement process, the portfolios of our reinsurance and insurance subsidiaries consist primarily of debt securities and short-term investments to ensure the availability of funds and maintain a sufficient amount of liquid securities.

Our non-insurance operating subsidiaries, particularly SORC, have largely depended on Alleghany to support their growth. From formation in 2011 through September 30, 2014, we have invested $127.2 million in SORC. In April 2014, SORC obtained a $250.0 million secured bank credit facility. As of September 30, 2014, SORC had $5.2 million of borrowings under the facility, representing its current borrowing capacity. In addition, Kentucky Trailer had $20.2 million of borrowings as of September 30, 2014 related to a mortgage loan and borrowings under its available credit facility. None of these liabilities are guaranteed by Alleghany or ACC, and they are classified as a component of

other liabilities.

Consolidated Investment Holdings

Investment Strategy and Holdings. Our investment strategy seeks to preserve principal and maintain liquidity while trying to maximize our risk-adjusted, after-tax rate of return. Our investment decisions are guided mainly by the nature and timing of expected liability payouts, management s forecast of cash flows and the possibility of unexpected cash demands, for example, to satisfy claims due to catastrophe losses. Our consolidated investment portfolio currently consists mainly of highly rated and liquid debt and equity securities listed on national securities exchanges. The overall debt securities portfolio credit quality is measured using the lowest rating of the Standard & Poor s Ratings Services, Moody s Investors Service Inc. or Fitch Ratings. In this regard, the overall weighted-average credit quality rating of our debt securities portfolio as of September 30, 2014 and December 31, 2013 was AA-. Although many of our debt securities, which consist predominantly of municipal bonds, are insured by third party financial guaranty insurance companies, the impact of such insurance was not significant to the debt securities credit quality rating as of September 30, 2014. As of September 30, 2014, the ratings of our debt securities portfolio were as follows:

	Ratings as of September 30, 2014 (dollars in millions)					
	AAA / Aaa	AA / Aa	A	BBB / Baa	Below BBB / Baa or Not-Rated[1]	Total
U.S. Government obligations	$	$ 377.7	$	$	$	$ 377.7
Municipal bonds	833.6	3,495.1	1,096.9	3.9		5,429.5
Foreign government obligations	450.0	313.5	136.6	10.4		910.5
U.S. corporate bonds	17.9	178.9	669.0	1,045.4	409.3	2,320.5
Foreign corporate bonds	170.3	386.8	702.6	263.6	90.4	1,613.7
Mortgage and asset-backed securities:						
Residential mortgage-backed securities (RMBS)	31.3	1,542.6	10.2	1.5	70.0	1,655.6
Commercial mortgage-backed securities (CMBS)	422.5	386.3	225.7	94.4	7.0	1,135.9
Other asset-backed securities	859.1	40.1	107.1	312.4	4.1	1,322.8
Total debt securities	$ 2,784.7	$ 6,721.0	$ 2,948.1	$ 1,731.6	$ 580.8	$ 14,766.2
Percentage of debt securities	18.9%	45.5%	20.0%	11.7%	3.9%	100.0%

(1) Consists of $122.7 million of securities rated BB / Ba, $305.3 million of securities rated B, $98.3 million of securities rated CCC, $16.2 million of securities rated CC, $4.8 million of securities rated below CC and $33.5 million of not-rated securities.

Our debt securities portfolio has been designed to enable management to react to investment opportunities created by changing interest rates, prepayments, tax and credit considerations or other factors, or to circumstances that could result in a mismatch between the desired duration of debt securities and the duration of liabilities, and, as such, is classified as available-for-sale (AFS).

Effective duration measures a portfolio s sensitivity to changes in interest rates. In this regard, as of September 30, 2014, our debt securities portfolio had an effective duration of approximately 3.8 years compared with 4.5 years as of December 31, 2013. The decline in duration for the first nine months of 2014 primarily reflects the sales of long-dated U.S. Treasury Strip debt securities in April 2014. As of September 30, 2014, approximately $4.2 billion, or 28.3 percent, of our debt securities portfolio represented securities with maturities of five years or less. See Note 3(b) 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 the contractual maturities of our consolidated debt securities portfolio. We may modestly increase the proportion of our debt securities portfolio held in securities with maturities of more than five years should the yields of these securities provide, in our judgment, sufficient compensation for their increased risk. We do not believe that this strategy would reduce our ability to meet ongoing claim payments or to respond to significant catastrophe losses.

In the event paid losses accelerate beyond the ability of our reinsurance and insurance subsidiaries to fund these paid losses from current cash balances, current operating cash flow, dividend and interest receipts and security maturities, we would need to liquidate a portion of our investment portfolio, make capital contributions to our reinsurance and insurance subsidiaries, and/or arrange for financing. Strains on liquidity could result from: (i) the occurrence of several significant catastrophic events in a relatively short period of time; (ii) the sale of investments into a depressed marketplace to fund these paid losses; (iii) the uncollectibility of reinsurance recoverables on these paid losses; (iv) the significant decrease in the value of collateral supporting reinsurance recoverables; or (v) a significant reduction in our net premium collections.

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We may, from time to time, make significant investments in the common stock of a public company, subject to limitations imposed by applicable regulations.

On a consolidated basis, our invested assets increased to approximately $19.2 billion as of September 30, 2014 from approximately $19.0 billion as of December 31, 2013, primarily reflecting the net proceeds from the recent issuance of the 2044 Senior Notes, the impact of an increase in unrealized appreciation on our debt securities portfolio, due to a modest decrease in longer-term interest rates that occurred in the first nine months of 2014, partially offset by the impact of repurchases of our common stock, the impact of changes in foreign currency exchange rates, and the increase in cash balances.

Fair Value. The carrying values and estimated fair values of our consolidated financial instruments as of September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Assets				
Investments (excluding equity method investments)(1)	$ 18,477.8	$ 18,477.8	$ 18,632.2	$ 18,632.2
Liabilities				
Senior Notes(2)	$ 2,079.2	$ 2,271.4	$ 1,794.4	$ 1,887.7

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

(2) See Note 10 to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q, and Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2013 10-K for additional information.

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. In addition, a three-tiered hierarchy for inputs is used in management s determination of fair value of financial instruments that emphasizes the use of observable inputs over the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are market participant assumptions based on market data obtained from sources independent of the reporting entity. Unobservable inputs are the reporting entity s own assumptions about market participant assumptions based on the best information available under the circumstances. In assessing the appropriateness of using observable inputs in making our fair value determinations, we consider whether the market for a particular security is active or not based on all the relevant facts and circumstances. A market may be considered to be inactive if there are relatively few recent transactions or if there is a significant decrease in market volume. Furthermore, we consider whether observable transactions are orderly or not. We do not consider a transaction to be orderly if there is evidence of a forced liquidation or other distressed condition, and as such, little or no weight is given to that transaction as an indicator of

fair value.

Although we are responsible for the determination of the fair value of the financial assets and the supporting methodologies and assumptions, we employ third party valuation service providers to gather, analyze and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When those providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting a quote, which is generally non-binding, from brokers who are knowledgeable about these securities or by employing widely accepted internal valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted internal valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates and other market observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date, as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector and, when applicable, collateral quality and other issue or issuer specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

The three-tiered hierarchy used in management s determination of fair value is broken down into three levels based on the reliability of inputs as follows:

Level 1: Valuations are based on unadjusted quoted prices in active markets that we have the ability to access for identical, unrestricted assets and do not involve any meaningful degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 assets include publicly traded common stocks and mutual funds (which are included on the balance sheet in equity securities), where our valuations are based on quoted market prices.

Level 2: Valuations are based on direct and indirect observable inputs other than quoted market prices included in Level 1. Level 2 inputs include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the asset, such as the terms of the security and market-based inputs. Terms of the security include coupon, maturity date and any special provisions that may, for example, enable the investor, at its election, to redeem the security prior to its scheduled maturity date. Market-based inputs include interest rates and yield curves that are observable at commonly quoted intervals and current credit rating(s) of the security. Level 2 assets generally include short-term investments and most debt securities. Our Level 2 liabilities consist of the senior notes.

Level 3: Valuations are based on techniques that use significant inputs that are unobservable. The valuation of Level 3 assets requires the greatest degree of judgment. These measurements may be made under circumstances in which there is little, if any, market activity for the asset. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, we consider factors specific to the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Some Level 3 valuations are based entirely on non-binding broker quotes. These securities consist primarily of mortgage-backed and asset-backed securities where reliable pool and loan level collateral information cannot be reasonably obtained. Assets classified as Level 3 principally include certain RMBS, CMBS, other asset-backed securities (primarily, collateralized loan obligations), partnership investments and non-marketable equity investments. See Note 1(c) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2013 10-K for our accounting policy on fair value.

We employ specific control processes to determine the reasonableness of the fair values of our financial assets and liabilities. Our processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied and that the assumptions are reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, we validate the reasonableness of fair values by comparing information obtained from our valuation service providers to other third party valuation sources for selected securities. We also validate prices obtained from brokers for selected securities through reviews by those who have relevant expertise and who are independent of those charged with executing investing transactions.

In addition to such procedures, we review the reasonableness of our classification of securities within the three-tiered hierarchy to ensure that the classification is consistent with GAAP.

The estimated fair values of our financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of September 30, 2014 and December 31, 2013 were as follows:

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

	Level 1	Level 2	Level 3	Total
		(in millions)		
As of December 31, 2013				
Equity securities:				
Common stock	$ 2,229.4	$	$	$ 2,229.4
Preferred stock				
Total equity securities	2,229.4			2,229.4
Debt securities:				
U.S. Government obligations		955.0		955.0
Municipal bonds		5,590.1		5,590.1
Foreign government obligations		975.4		975.4

U.S. corporate bonds		2,285.4	27.5	2,312.9
Foreign corporate bonds		1,830.7	1.0	1,831.7
Mortgage and asset-backed securities:				
RMBS[1]		1,469.0	78.8	1,547.8
CMBS		824.8	60.8	885.6
Other asset-backed securities[2]		446.0	258.4	704.4
Total debt securities		14,376.4	426.5	14,802.9
Short-term investments		1,317.9		1,317.9
Other invested assets[3]			282.0	282.0
Total investments (excluding equity method investments)	$ 2,229.4	$ 15,694.3	$ 708.5	$ 18,632.2
Senior Notes	$	$ 1,887.7	$	$ 1,887.7

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

(2) Includes $887.5 million and $237.2 million of collateralized loan obligations as of September 30, 2014 and December 31, 2013, respectively.

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

Municipal Bonds. The following table provides the fair value of our municipal bonds as of September 30, 2014, categorized by state and revenue source. Special revenue bonds are debt securities for which the payment of principal and interest is available solely from the cash flows of the related projects. As issuers of revenue bonds do not have the ability to draw from tax revenues or levy taxes to fund obligations, revenue bonds may carry a greater risk of default than general obligation bonds.

	Special Revenue										
State	Education	Hospital	Housing	Lease Revenue	Special Tax	Transit	Utilities	All Other Sources	Total Special Revenue	Total General Obligation	Total Fair Value
						(in millions)					
Texas	$ 45.2	$	$	$	$ 42.8	$ 68.2	$ 74.2	$	$ 230.4	$ 262.8	$ 493.2
New York	19.9		5.3		91.7	173.2	101.3	73.0	464.4	18.1	482.5
California	23.8	43.1		22.6		53.5	92.2	0.7	235.9	161.6	397.5
Massachusetts	21.1	24.6	3.6		34.0	61.9	7.7	0.6	153.5	132.8	286.3
North Carolina	21.5	17.3	5.8			0.6	25.6	23.1	93.9	126.3	220.2
Arizona	1.9	28.5			44.4	0.6	79.7	34.5	189.6		189.6
Illinois	15.0	30.8	1.7		15.1	36.3	11.7		110.6	48.7	159.3
Ohio	46.2	5.3	0.9	2.5		1.7	74.3		130.9	25.6	156.5
Missouri	4.7	77.2	3.6			10.2	44.6	7.0	147.3	6.4	153.7
Florida			1.3	45.2	10.2	46.6	6.2	2.8	112.3	22.1	134.4
All other states	179.6	22.7	72.8	142.5	168.9	299.1	234.4	112.3	1,232.3	486.1	1,718.4
Total	$ 378.9	$ 249.5	$ 95.0	$ 212.8	$ 407.1	$ 751.9	$ 751.9	$ 254.0	$ 3,101.1	$ 1,290.5	4,391.6
Total advance refunded / escrowed maturity bonds											1,037.9
Total municipal bonds											$ 5,429.5

Recent Accounting Standards

Future Application of Accounting Standards

In April 2014, the Financial Accounting Standards Board, or the FASB, issued guidance that changed the criteria for reporting discontinued operations. Under the new guidance, only disposals that represent a strategic shift in operations qualify as discontinued operations. In addition, the new guidance requires expanded disclosures about discontinued operations. This guidance is effective in the first quarter of 2015. We will adopt this guidance in the first quarter of 2015, and we do not currently believe that the implementation will have an impact on our results of operations and financial condition.

In May 2014, the FASB, together with the International Accounting Standards Board, issued guidance on the recognition of revenue from contracts with customers. Under the new guidance, revenue is recognized as the transfer of goods and services to customers takes place, and in amounts that reflect the payment or payments that are expected to be received from the customers for those goods and services. The new guidance also requires new disclosures about

revenue. Insurance- and reinsurance-related revenues are not impacted by this guidance. This guidance is effective in the first quarter of 2017 for public entities, with earlier adoption not permitted. We will adopt this guidance in the 2017 first quarter, and we do not currently believe that the implementation will have a material impact on our results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market risk is the risk of loss from adverse changes in market prices and rates. The primary market risk related to our debt securities is the risk of loss associated with adverse changes in interest rates. We also invest in equity securities which are subject to fluctuations in market value. We hold our equity securities and debt securities as AFS. Any changes in the fair value in these securities, net of tax, would be recorded as a component of other comprehensive income. However, if a decline in fair value relative to cost is believed to be other than temporary, a loss is generally recorded on our statement of earnings. In addition, significant portions of our assets (principally investments) and liabilities (principally loss and LAE reserves and unearned premiums) are exposed to changes in foreign currency exchange rates. The net change in the carrying value of assets and liabilities denominated in foreign currencies is generally recorded as a component of other comprehensive income.

The sensitivity analyses presented below provide only a limited, point-in-time view of the market risk of our financial instruments. The actual impact of changes in market interest rates, equity market prices and foreign currency exchange rates may differ significantly from those shown in these sensitivity analyses. The sensitivity analyses are further limited because they do not consider any actions we could take in response to actual and/or anticipated changes in equity market prices, market interest rates, or foreign currency exchange rates. In addition, these sensitivity analyses do not provide weight to risks relating to market issues such as liquidity and the credit worthiness of investments.

Interest Rate Risk

The primary market risk for our and our subsidiaries debt securities is interest rate risk at the time of refinancing. We monitor the interest rate environment to evaluate reinvestment and refinancing opportunities. We generally do not use derivatives to manage market and interest rate risks. The table below presents sensitivity analyses as of September 30, 2014 of our (i) consolidated debt securities and (ii) senior notes, which are sensitive to changes in interest rates. Sensitivity analysis is defined as the measurement of potential change in future earnings, fair values, or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates over a selected time period. In the sensitivity analysis model below, we use a +/- 300 basis point range of change in interest rates to measure the hypothetical change in fair value of the financial instruments included in the analysis. The change in fair value is determined by calculating hypothetical September 30, 2014 ending prices based on yields adjusted to reflect a +/- 300 basis point range of change in interest rates, comparing these hypothetical ending prices to actual ending prices, and multiplying the difference by the par outstanding. The selected hypothetical changes in interest rates do not reflect what could be the potential best or worst case scenarios.

Interest Rate Shifts	-300	-200	-100	0	100	200	300
				(dollars in millions)			
Assets:							
Debt securities, fair value	$ 15,668.5	$ 15,556.2	$ 15,243.2	$ 14,766.2	$ 14,196.3	$ 13,632.2	$ 13,093.2
Estimated change in fair value	$ 902.3	$ 790.0	$ 477.0	$	$ (569.9)	$ (1,134.0)	$ (1,673.0)
Liabilities:							
Senior notes, fair value	$ 2,888.2	$ 2,646.4	$ 2,445.0	$ 2,271.4	$ 2,123.4	$ 1,996.3	$ 1,886.4
Estimated change in fair value	$ 616.8	$ 375.0	$ 173.6	$	$ (148.0)	$ (275.1)	$ (385.0)

Equity Risk

Our equity securities are subject to fluctuations in market value. The table below summarizes our equity market price risk and reflects the effect of a hypothetical increase or decrease in market prices as of September 30, 2014 on the estimated fair value of our consolidated equity securities portfolio. The selected hypothetical price changes do not reflect what could be the potential best or worst case scenarios.

	As of September 30, 2014 (dollars in millions)		
Estimated Fair Value	Hypothetical Price Change	Estimated Fair Value After Hypothetical Change in Price	Hypothetical Percentage Increase (Decrease) in Stockholders Equity

$ 2,895.3	20% Increase	$ 3,474.4	5.1%
	20% Decrease	$ 2,316.2	-5.1%

In addition to debt and equity securities, we invest in several partnerships which are subject to fluctuations in market value. Our partnership investments are included in other invested assets and are accounted for as AFS or using the equity method, and had a carrying value of $293.5 million as of September 30, 2014.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the potential change in value arising from changes in foreign currency exchange rates. Our reinsurance operations located in foreign countries maintain some or all of their capital in their local currency, and conduct business in their local currency, as well as the currencies of the other countries in which they operate. The table below summarizes our foreign currency exchange rate risk and shows the effect of a hypothetical increase or decrease in foreign currency exchange rates against the U.S. dollar as of September 30, 2014 on the estimated net carrying value of our foreign currency denominated assets, net of our foreign currency denominated liabilities. The selected hypothetical changes do not reflect what could be the potential best or worst case scenarios.

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As of September 30, 2014 (dollars in millions)			
Estimated Fair Value	Hypothetical Price Change	Estimated Fair Value After Hypothetical Change in Price	Hypothetical Percentage Increase (Decrease) in Stockholders Equity
$ 321.8 (1)	20% Increase	$ 386.2	0.6%
	20% Decrease	$ 257.4	-0.6%

(1) Denotes a net asset position as of September 30, 2014.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer, or CEO, and our chief financial officer, or CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q pursuant to Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of that date to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and timely reported as specified in the SEC s rules and forms and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow for timely decisions regarding required disclosure. Our disclosure controls and procedures were designed to provide such assurance; however, we note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control Over Financial Reporting

No changes occurred during the three months ended September 30, 2014 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Certain of our 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. We believe such provisions are adequate and do not believe that any pending litigation will have a material adverse effect on our consolidated results of operations, financial position or cash flows. See Note 12(a) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2013 10-K.

Item 1A. Risk Factors.

There are no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors of the 2013 10-K. Please refer to that section for disclosures regarding what we believe are the more significant risks and uncertainties related to our businesses.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Issuer Purchases of Equity Securities.

The following table summarizes our common stock repurchases in the quarter ended September 30, 2014:

	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions)(1)
July 1 to July 31	18,877	$ 420.06	18,877	$ 423.9
August 1 to August 31	39,561	417.11	39,561	407.5
September 1 to September 30	89,793	424.38	89,793	369.4
Total	148,231	421.89	148,231	

(1) In October 2012, our Board of Directors authorized the repurchase of shares of our common stock, at such times and at prices as management determines advisable, up to an aggregate of $300.0 million. In July 2014, our Board of Directors authorized the repurchase of additional shares of common stock, at such times and at prices as management may determine advisable, up to an aggregate of $350.0 million upon the completion of the previously announced program. The additional amount of repurchases authorized in July 2014 is reflected in this table.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations or other regulatory matters required by SEC regulations is included in Exhibit 95 to this Form 10-Q.

Item 6. Exhibits.

Exhibit Number	**Description**
4.1	Third Supplemental Indenture, dated as of September 9, 2014, by and between Alleghany Corporation and the Bank of New York Mellon, as Trustee, including the form of the Senior Notes attached as Exhibit A thereto, filed as Exhibit 4.1 to Alleghany s Current Report on Form 8-K filed on September 9, 2014, is incorporated therein by reference.

31.1	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or Rule 15(d)-14(a) of the Exchange Act.
31.2	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) or Rule 15(d)-14(a) of the Exchange Act.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This exhibit shall not be deemed filed as a part of this Form 10-Q.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This exhibit shall not be deemed filed as a part of this Form 10-Q.
95	Mine Safety Disclosure required under Regulation 104 of Item S-K.
101	Interactive Data Files formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013; (ii) Consolidated Statements of Earnings and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013; and (iv) Notes to Unaudited Consolidated Financial Statements.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLEGHANY CORPORATION

(Registrant)

Date: November 3, 2014

By: /s/ John L. Sennott, Jr.
John L. Sennott, Jr.

Senior Vice President and chief financial officer

(principal financial officer)

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