ALLEGHANY CORP /DE
Form 10-K
February 24, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

or

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

For the transition period from to

Commission file number 1-9371

ALLEGHANY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**51-0283071**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7 Times Square Tower, New York, New York	10036
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code:

212-752-1356

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

Not applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

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 þ 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.

Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company.

Yes ¨ No þ

The aggregate market value of voting and non-voting common shares held by non-affiliates of the registrant as of June 30, 2014 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $6,908,861,926 based on the closing sale price of the registrant s common shares on the New York

Stock Exchange on that date.

As of February 16, 2015, 16,003,568 shares of the registrant s common stock, par value $1.00 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement relating to the Annual Meeting of Stockholders of Alleghany Corporation to be held on April 24, 2015 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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ALLEGHANY CORPORATION

References in this Annual Report on Form 10-K for the year ended December 31, 2014, or this Form 10-K, to the Company, Alleghany, we, us, and our refer to Alleghany Corporation and its consolidated subsidiaries unl context otherwise requires. In addition, unless the context otherwise requires, references to

- TransRe are to our wholly-owned reinsurance holding company subsidiary Transatlantic Holdings, Inc. and its subsidiaries,
- AIHL are to our wholly-owned insurance holding company subsidiary Alleghany Insurance Holdings LLC,
- RSUI are to our wholly-owned subsidiary RSUI Group, Inc. and its subsidiaries,
- CapSpecialty are to our wholly-owned subsidiary CapSpecialty, Inc. (formerly known as Capitol Transamerica Corporation) and its subsidiaries,
- PacificComp are to our wholly-owned subsidiary Pacific Compensation Corporation and its subsidiaries,
- AIHL Re are to our wholly-owned subsidiary AIHL Re LLC,
- Roundwood are to our wholly-owned subsidiary Roundwood Asset Management LLC,
- ACC are to our wholly-owned subsidiary Alleghany Capital Corporation,
- SORC are to our wholly-owned subsidiary Stranded Oil Resources Corporation and its subsidiaries,
- Bourn & Koch are to our majority-owned subsidiary Bourn & Koch, Inc.,
- Kentucky Trailer are to our majority-owned subsidiary R.C. Tway Company, LLC, and
- Alleghany Properties are to our wholly-owned subsidiary Alleghany Properties Holdings LLC and its subsidiaries.

NOTE ON FORWARD-LOOKING STATEMENTS

This Form 10-K contains disclosures which are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words such as may, will, expect, project, esti anticipate, plan, believe, potential, should or the negative versions of those words or other comparable words. forward-looking statements are based upon our current plans or expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and our future financial condition and results. These statements are not guarantees of future performance, and we have no specific intention to update these statements. The uncertainties and risks include, but are not limited to,

- significant weather-related or other natural or man-made catastrophes and disasters;
- the cyclical nature of the property and casualty reinsurance and insurance industries;
- changes in market prices of our significant equity investments and changes in value of our debt securities portfolio;
- adverse loss development for events insured by our reinsurance and insurance subsidiaries in either the current year or prior years;
- the long-tail and potentially volatile nature of certain casualty lines of business written by our reinsurance and insurance subsidiaries;
- the cost and availability of reinsurance;
- the reliance by our reinsurance operating subsidiaries on a limited number of brokers;
- increases in the levels of risk retention by our reinsurance and insurance subsidiaries;
- exposure to terrorist acts and acts of war;

- the willingness and ability of our reinsurance and insurance subsidiaries reinsurers to pay reinsurance recoverables owed to our reinsurance and insurance subsidiaries;
- changes in the ratings assigned to our reinsurance and insurance subsidiaries;
- claims development and the process of estimating reserves;
- legal, political, judicial and regulatory changes, including the federal financial regulatory reform of the insurance industry by the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- the uncertain nature of damage theories and loss amounts;
- the loss of key personnel of our reinsurance or insurance operating subsidiaries;
- fluctuation in foreign currency exchange rates;
- the failure to comply with the restrictive covenants contained in the agreements governing our indebtedness;
- the ability to make payments on, or repay or refinance, our debt;
- risks inherent in international operations; and
- difficult and volatile conditions in the global market.

Additional risks and uncertainties include general economic and political conditions, including the effects of a prolonged U.S. or global economic downturn or recession; changes in costs; variations in political, economic or other factors; risks relating to conducting operations in a competitive environment; effects of acquisition and disposition activities, inflation rates, or recessionary or expansive trends; changes in interest rates; extended labor disruptions, civil unrest, or other external factors over which we have no control; and changes in our plans, strategies, objectives, expectations, or intentions, which may happen at any time at our discretion. As a consequence, current plans, anticipated actions, and future financial condition and results may differ from those expressed in any forward-looking statements made by us or on our behalf. See Part I, Item 1A, Risk Factors of this Form 10-K for a more detailed discussion of these risks and uncertainties.

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PART I

Item 1. Business.

Overview

We are a Delaware corporation which owns and manages certain operating subsidiaries and investments, anchored by a core position in property and casualty reinsurance and insurance. We were initially incorporated in 1929, were subsequently incorporated in 1984 under the laws of the State of Delaware and, in December 1986, we succeeded to the business of our parent company, Alleghany Corporation. Through our wholly-owned subsidiary AIHL and its subsidiaries, we are engaged in the property and casualty insurance business. AIHL s insurance operations are principally conducted by its subsidiaries RSUI, CapSpecialty and PacificComp. CapSpecialty has been a subsidiary of AIHL since January 2002, RSUI has been a subsidiary of AIHL since July 2003, and PacificComp has been a subsidiary of AIHL since July 2007. AIHL Re has been a wholly-owned subsidiary of Alleghany since its formation in May 2006. AIHL Re is a captive reinsurance company which provides reinsurance to our insurance operating subsidiaries and affiliates. On March 6, 2012, or the TransRe Acquisition Date, we consummated a merger transaction, or the merger, with TransRe, at which time TransRe became one of our wholly-owned subsidiaries and our reinsurance operations commenced. See Note 2 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K for additional detail on the merger. Our public equity investments, including those held by TransRe s and AIHL s operating subsidiaries, are managed primarily by our wholly-owned subsidiary Roundwood.

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

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

As of December 31, 2014, we had total assets of $23.5 billion and total stockholders equity attributable to Alleghany stockholders of $7.5 billion.

Our principal executive offices are located in leased office space at 7 Times Square Tower, New York, New York 10036, and our telephone number is (212) 752-1356. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our website at www.alleghany.com, as soon as reasonably practicable after we electronically file this material with, or furnish it to, the U.S. Securities and Exchange Commission, or the SEC. Reports and other information we file with the SEC may also be viewed at the SEC s website at www.sec.gov or viewed or obtained at the SEC Public Reference Room at 100 F Street, N.E., Washington, DC 20549. Our Financial Personnel Code of Ethics, Employee Code of Business Conduct and Ethics, Director Code of Business Conduct and Ethics, Corporate Governance Guidelines and the charters for our Audit,

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Compensation and Nominating and Governance Committees are also available on our website. In addition, interested parties may obtain, free of charge, copies of any of the above reports or documents upon request to the Secretary of Alleghany.

Segment Information

Our segments are reported in a manner consistent with the way management evaluates the businesses. As such, we classify our business into two reportable segments reinsurance and insurance. In addition, reinsurance and insurance underwriting activities are evaluated separately from investment and corporate activities. The primary components of corporate activities are Alleghany Properties, SORC, our investments in Homesite (prior to its sale on December 31, 2013) and ORX and other activities at the parent level. Beginning April 26, 2012, August 30, 2013 and July 31, 2014, corporate activities also includes the operating results of Bourn & Koch, Kentucky Trailer and our investment in Jazwares, respectively. See below and Note 13 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K for an analysis of our underwriting results by segment and corporate activities, and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Results of Operations.

Reinsurance Segment

General. The reinsurance segment consists of property and casualty reinsurance operations conducted by TransRe s reinsurance operating subsidiaries.

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

The reinsurance segment is reported by two major product lines, property and casualty & other.

Property. TransRe s principal lines of business within property include fire, allied lines, auto physical damage and homeowners multiple peril lines (which include property catastrophe risks). In 2014, property reinsurance accounted for approximately 33 percent of TransRe s gross premiums written.

Casualty & other. TransRe s principal lines of business within casualty & other include liability (including directors and officers liability, errors and omissions liability and general liability), medical malpractice, ocean marine and aviation, auto liability (including non-standard risks), accident and health, surety and credit. In 2014, casualty & other reinsurance accounted for approximately 67 percent of TransRe s gross premiums written.

Reinsurance contracts are generally classified as treaty or facultative contracts. TransRe offers reinsurance capacity on both a treaty and facultative basis. Treaty reinsurance is a contractual arrangement that provides for the automatic reinsuring of all or a portion of a specified class of risk underwritten by the ceding company. Facultative reinsurance is the reinsurance of individual risks. Rather than agreeing to reinsure all or a portion of a class of risk, the reinsurer separately rates and underwrites each risk. Facultative reinsurance is normally purchased for risks not covered by treaty reinsurance or for individual risks covered by reinsurance treaties that are in need of capacity beyond that provided by such treaties.

A ceding company s reinsurance program may involve pro rata and excess-of-loss reinsurance on both a treaty and facultative basis. TransRe provides pro rata and excess-of-loss reinsurance for most major lines of business. Under pro rata reinsurance (also referred to as proportional or quota share reinsurance), the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion, and such proportional sharing of losses may be subject to a predetermined limit. As pro rata business is a proportional sharing of premiums and losses between ceding company and reinsurer, generally the underwriting reinsurance results of such business more closely reflect the underwriting results of the business ceded than do the results of excess-of-loss business. In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission, which is generally based on the ceding company s cost of obtaining the business being reinsured, such as brokers and agents commissions, local taxes and administrative expenses. Under excess-of-loss reinsurance (also referred to as non-proportional reinsurance), the reinsurer indemnifies the ceding company for all or a portion of the losses in excess of a predetermined amount, usually up to a predetermined limit. Premiums paid by the ceding company to the reinsurer for excess-of-loss coverage are generally not proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. Often there is no ceding commission on excess-of-loss reinsurance and therefore the pricing mechanism used by reinsurers in those instances is a rate applicable to premiums of the individual policy or policies subject to the reinsurance agreement. Both pro rata and excess-of-loss reinsurance may provide for aggregate limits of indemnification.

As of December 31, 2014, the statutory surplus of TRC was $4.8 billion, as determined in accordance with statutory accounting principles, or SAP, and the consolidated equity of TransRe was $5.1 billion, as determined in accordance with accounting principles generally accepted in the United States, or GAAP.

Distribution. TransRe provides property and casualty reinsurance capacity through brokers as well as directly to insurance and reinsurance companies in both the domestic and foreign markets. In 2014, approximately 83 percent of TransRe s gross premiums written were written through brokers with the balance written directly. In 2014, companies controlled by Aon Corporation, Marsh & McLennan Companies, Inc. and Willis Group Holdings, plc, were TransRe s largest brokerage sources of business, accounting for 29 percent, 22 percent and 11 percent, respectively, of gross premiums written. These three international brokers dominate the reinsurance brokerage industry. Due to the substantial percentages of premiums written through these brokers, the loss of business from any one of them could have a material adverse effect on TransRe s business.

Underwriting. TransRe s underwriting process emphasizes a team approach among TransRe s underwriters, actuaries and claims staff, as appropriate. Treaties are reviewed for compliance with TransRe s underwriting guidelines and objectives, and most treaties are evaluated in part based upon actuarial analyses conducted by TransRe. TransRe s actuarial models used in such analyses are tailored in each case to the exposures and experience underlying the specific treaty and the loss experience for the risks covered. Property catastrophe exposed treaties are generally evaluated using industry standard models. These models are used as a guide for risk assessment and are continually updated. TransRe also frequently conducts underwriting and claims audits at the offices of a ceding company before and after entering into major treaties, because reinsurers, including TransRe, do not separately evaluate each of the individual risks assumed under their treaties and, consequently, are largely dependent on the original underwriting decisions made by the ceding company. Such dependence subjects TransRe, and reinsurers in general, to the possibility that the ceding companies have not adequately evaluated the risks to be reinsured and, therefore, that the premiums ceded in connection therewith may not adequately compensate the reinsurer for the risk assumed.

TransRe often seeks to lead treaty arrangements. The lead reinsurer on a treaty generally accepts one of the largest percentage shares of the treaty and takes the initiative in negotiating price, terms and conditions. TransRe believes that this strategy enables it to influence more effectively the terms and conditions of the treaties in which it participates. When TransRe does not lead a treaty, it may still suggest changes to any aspect of the treaty. TransRe may decline any treaty business offered to it based upon its assessment of all relevant factors. Such factors include type and level of risk assumed; actuarial and underwriting judgment with respect to rate adequacy; various treaty terms; prior and anticipated loss experience (including exposure to natural and man-made catastrophes) on the treaty; prior business experience with the ceding company; overall financial position; operating results; ratings from credit rating agencies of the ceding company; and social, legal, regulatory, environmental and general economic conditions affecting the risks assumed or the ceding company.

Ratings. TRC, TRL and TRZ are rated A+ by Standard & Poor s Ratings Services, or S&P, and A (Excellent) by A.M. Best Company, Inc., or A.M. Best, and TRC is rated A1 by Moody s Investors Service Inc., or Moody s, independen organizations that analyze the insurance industry and the financial positions of reinsurance and insurance subsidiaries. Additional information regarding ratings and the risks related to ratings from ratings agencies can be found on page 51 of this Form 10-K.

Insurance Segment

The insurance segment consists of property and casualty insurance operations conducted by AIHL through its insurance operating subsidiaries RSUI, headquartered in Atlanta, Georgia; CapSpecialty, headquartered in Middleton, Wisconsin; and PacificComp, headquartered in Agoura Hills, California. AIHL Re, our Vermont-domiciled captive reinsurance company, provides reinsurance to our insurance operating subsidiaries and affiliates. Unless we state otherwise, references to AIHL include the operations of RSUI, CapSpecialty, PacificComp and AIHL Re.

In 2014, property insurance accounted for approximately 47 percent, and casualty insurance accounted for approximately 53 percent, of AIHL s gross premiums written.

RSUI

General. RSUI, which includes the operations of its wholly-owned subsidiaries RSUI Indemnity Company, or RIC, Landmark American Insurance Company, or Landmark, and Covington Specialty Insurance Company, or Covington, underwrites specialty insurance coverages in the property, umbrella/excess liability, general liability, directors and officers liability and professional liability lines of business. RSUI also writes a modest amount of reinsurance business on an assumed basis, which is included in the insurance segment.

The market for specialty insurance coverages differs significantly from the market for standard insurance coverages. The specialty market provides coverage for hard-to-place risks that generally do not fit the underwriting criteria of the standard market which provides coverage for largely uniform and relatively predictable exposures and which is highly regulated with respect to rates and forms.

RSUI writes specialty business on both an admitted and non-admitted basis. Insurers may market, sell and service insurance policies in the states where they are licensed. These insurers are referred to as admitted insurers. Admitted insurers are generally required to obtain regulatory approval of their policy forms and premium rates. Non-admitted insurance markets have developed to provide insurance that is otherwise unavailable from the admitted insurance markets of a state. Non-admitted insurance is procured by either state-licensed surplus lines brokers who place risks with insurers not licensed in that state or by insureds direct procurement from non-admitted insurers. Non-admitted insurance is subject to considerably less regulation with respect to policy rates and forms.

RSUI writes specialty business in the admitted specialty market primarily through RIC, a New Hampshire-domiciled insurer, in the 50 states and the District of Columbia where RIC is licensed and subject to state form and rate regulations. Most of the risks in the admitted specialty market are unique and hard-to-place in the standard market, but must remain with an admitted insurance company for regulatory and / or marketing reasons. As an admitted carrier, RIC is subject to more state regulation than a non-admitted carrier, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as state guaranty funds and assigned risk plans.

RSUI writes business on an approved, non-admitted basis primarily through Landmark, an Oklahoma-domiciled insurer. Landmark, as a non-admitted company, is not subject to state form and rate regulations and thus has more flexibility in its rates and coverages for specialized or hard-to-place risks. This typically results in coverages that are more restrictive and expensive than coverages written by a standard insurance company. As of December 31, 2014, Landmark was approved to write business on a non-admitted basis in 49 states.

Covington, a New Hampshire-domiciled insurer, was formed in September 2007 to, among other things, support non-admitted business written primarily by RSUI s binding authority department, which writes small, specialized coverages pursuant to underwriting authority arrangements with managing general agents.

Pursuant to quota share arrangements, effective as of January 1, 2009, Landmark and Covington cede 90 percent of all their respective premiums and losses, gross of third party reinsurance, to RIC.

As of December 31, 2014, the statutory surplus of RIC was approximately $1.5 billion, the statutory surplus of Landmark was $224.4 million, the statutory surplus of Covington was $48.5 million, each as determined in accordance with SAP, and the consolidated equity of RSUI was $1.6 billion, as determined in accordance with GAAP.

Distribution. As of December 31, 2014, RSUI conducted its insurance business through approximately 124 independent wholesale insurance brokers located throughout the U.S. and 31 managing general agents. RSUI s wholesale brokers are appointed on an individual basis based on management s appraisal of expertise, premium production potential, loss history with other insurance companies that they represent, and the size and experience of the agency, and only specific locations of a wholesale broker s operations may be appointed to distribute RSUI s products. Producer agreements which stipulate premium collection, payment terms and commission arrangements are in place with each wholesale broker. No wholesale broker holds underwriting, claims or reinsurance authority. RSUI has entered into underwriting authority arrangements with 31 managing general agents for small, specialized coverages. RSUI s top five producing wholesale brokers accounted for approximately 64 percent of gross premiums written by RSUI in 2014. RSUI s top two producing wholesale brokers, CRC Insurance Services, Inc. and AmWINS Group, Inc., accounted for, in the aggregate, approximately 36 percent of AIHL s gross premiums written in 2014.

Underwriting. RSUI s underwriting philosophy is based on handling only product lines in which its underwriters have underwriting expertise. RSUI generally focuses on higher severity, lower frequency specialty risks that can be effectively desk underwritten without the need for inspection or engineering reviews. RSUI tracks underwriting results for each of its underwriters and believes that the underwriting systems and applications it has in place facilitate efficient underwriting and high productivity levels. Underwriting authority is delegated on a top-down basis ultimately to individual underwriters based on experience and expertise. This authority is in writing and addresses maximum limits, excluded classes and coverages and premium size referral. Referral to a product line manager is required for risks exceeding an underwriter s authority.

Ratings. RIC is rated A+ (Superior) by A.M. Best. Landmark and Covington are rated A+ (Superior) on a reinsured basis by A.M. Best.

CapSpecialty

General. CapSpecialty, primarily through its wholly-owned subsidiaries Capitol Indemnity Corporation, or CIC, Capitol Specialty Insurance Corporation, or CSIC, and Platte River Insurance Company, or Platte River, operates in the 50 states and the District of Columbia. CapSpecialty also includes the operations and results of Professional Risk Management Services, Inc., which was acquired from TransRe effective January 1, 2014.

CIC conducts its property and casualty insurance business on an admitted basis throughout the country, with a geographic concentration in the Midwestern and Plains states. CIC also writes surety products such as commercial surety bonds and contract surety bonds on a national basis. Commercial surety bonds include all surety bonds other than contract surety bonds and cover obligations typically required by law or regulation, such as licenses and permits. CIC offers contract surety bonds in the non-construction segment of the market which secure performance under supply, service and maintenance contracts.

CSIC conducts substantially all of its business on an approved, non-admitted basis on a national basis and writes primarily specialty lines of property and casualty insurance, including the professional lines of business.

Platte River is licensed in the 50 states and the District of Columbia and operates in conjunction with CIC primarily by providing surety products and offering pricing flexibility in those jurisdictions where both CIC and Platte River are licensed.

Effective January 1, 2014, CapSpecialty was recapitalized pursuant to a series of transactions which included the exchange by AIHL of its common stock in CapSpecialty for Series A Convertible Preferred Stock

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carrying a seven percent preference, or the Preferred Stock, and the subsequent sale by AIHL to TransRe of 24.9 percent of the Preferred Stock for a cash purchase price based on CapSpecialty s December 31, 2013 GAAP book value. At the same time, CapSpecialty reserved shares of restricted common stock, or the Restricted Stock, which are subordinate to the Preferred Stock, for issuance to the management of CapSpecialty pursuant to a restricted stock plan. To the extent all preferences on the Preferred Stock are satisfied, and all shares of Restricted Stock are vested and issued, the Restricted Stock will represent 20 percent of the capital stock of CapSpecialty on a fully diluted basis.

As of December 31, 2014, the statutory surplus of CIC was $221.9 million, which included the statutory surplus of CSIC of $53.5 million and the statutory surplus of Platte River of $41.5 million, each as determined in accordance with SAP. As of December 31, 2014, the consolidated equity of CapSpecialty was $309.0 million, as determined in accordance with GAAP.

Distribution. CapSpecialty conducts its insurance business through independent and general insurance agents located throughout the U.S. As of December 31, 2014, CapSpecialty had approximately 146 independent agents and 73 general agents licensed to write property and casualty and surety coverages, approximately 112 agents specializing in professional liability coverages and approximately 311 independent agents licensed only to write surety coverages. The general agents write very little surety business and have full quoting and binding authority within the parameters of their agency contracts with respect to the property and casualty business that they write. Certain independent agents have binding authority for specific business owner policy products, including property and liability coverages, and non-contract surety products. No agent of CapSpecialty had writings in excess of 6.4 percent of CapSpecialty s gross premiums written in 2014.

Underwriting. Elements of CapSpecialty s underwriting process include prudent risk selection, appropriate pricing and coverage customization. All accounts are reviewed on an individual basis to determine underwriting acceptability. CapSpecialty is a subscriber to the Insurance Service Organization, or ISO, and the Surety and Fidelity Association of America, or SFAA, insurance reference resources recognized by the insurance industry. CapSpecialty s underwriting procedures, rates and contractual coverage obligations are based on procedures and data developed by the ISO for property and casualty lines and by the SFAA for surety lines. Underwriting acceptability is determined by type of business, claims experience, length of time in business and business experience, age and condition of premises occupied and financial stability. Information is obtained from, among other sources, agent applications, financial reports and on-site loss control surveys. If an account does not meet pre-determined acceptability parameters, coverage is declined. If an in-force policy becomes unprofitable due to extraordinary claims activity or inadequate premium levels, a non-renewal notice is issued in accordance with individual state statutes and rules.

Ratings. CIC, CSIC and Platte River are rated A (Excellent) on a reinsured basis by A.M. Best.

PacificComp

General. Prior to June 2009, PacificComp s main business was workers compensation insurance, which was conducted on a direct basis through its wholly-owned subsidiary Pacific Compensation Insurance Company, or PCIC. In June 2009, PacificComp determined that it was unable to write business at rates it deemed adequate due to the state of the California workers compensation market. As a result, PacificComp ceased soliciting new or renewal business on a direct basis commencing August 1, 2009, and took corresponding expense reduction steps, including staff reductions. During the 2009 third quarter, PacificComp sold the renewal rights of its directly placed workers compensation insurance policies and certain other assets and rights to an independent insurance brokerage.

As part of a strategic repositioning effort, effective April 12, 2010, PacificComp changed its name from Employers Direct Corporation and changed the name of its wholly-owned insurance subsidiary from Employers Direct Insurance

Company to PCIC and took steps to emerge as a writer, through PCIC, of workers compensation insurance distributed through independent insurance brokers. PacificComp began writing a modest amount of new business through brokers during 2011. This business increased in 2012, 2013 and 2014 reflecting PacificComp s distribution initiatives and increased market acceptance of PacificComp s product offerings. PCIC is currently licensed in California and six additional states.

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In the second quarter of 2013, AIHL Re and PCIC entered into an intercompany reinsurance contract, effective January 1, 2013, pursuant to which AIHL Re provides PCIC with coverage for adverse development on net loss and allocated loss adjustment expenses in excess of PCIC s carried reserves at December 31, 2012 and accident year stop-loss coverage for any net losses and allocated loss adjustment expenses in excess of 75.0 percent of net premiums earned for PCIC for accident years 2013, 2014 and 2015. AIHL Re s commitments also are intended to cover the statutory collateral requirements at PCIC, if and when necessary. AIHL Re s obligations are subject to an aggregate limit of $100.0 million. See Note 5(e) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K for additional detail on the reinsurance contract.

As of December 31, 2014, the statutory surplus of PCIC was $92.5 million, as determined in accordance with SAP, and the consolidated equity of PacificComp was $97.7 million, as determined in accordance with GAAP.

Rating. PCIC is rated A- (Excellent) by A.M. Best.

Reserves

Each of our reinsurance and insurance subsidiaries establishes reserves on its balance sheet for unpaid loss and loss adjustment expense, or LAE, related to its property and casualty reinsurance and insurance contracts. The reserves for loss and LAE represent management s best estimate of the ultimate cost of all reported and unreported losses incurred through the balance sheet date. The process of estimating these reserves is inherently difficult and involves a considerable degree of judgment, especially in view of changing legal and economic environments that impact the development of loss reserves. Therefore, quantitative techniques have to be supplemented by subjective considerations and managerial judgment. In addition, conditions and trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates for additional detail on our critical accounting estimates.

The following table shows changes in historical net loss and LAE reserves for our reinsurance and insurance subsidiaries for each year since 2004.

The first line of the upper portion of the table shows the net reserves as of December 31 of each of the indicated years, representing the estimated amounts of net outstanding loss and LAE for claims arising during that year and in all prior years that are unpaid, including losses that have been incurred but not yet reported, or IBNR, to our reinsurance and insurance subsidiaries. The upper (paid) portion of the table shows the cumulative net amounts paid as of December 31 of successive years with respect to the net reserve liability for each year.

The lower portion of the table shows the re-estimated amount of the previously recorded net reserves for each year based on experience as of the end of each succeeding year. The estimate changes as more information becomes known about claims for individual years. In evaluating the information in the table, it should be noted that a reserve amount reported in any period includes the effect of any subsequent change in such reserve amount. For example, if a loss was first reserved in 2005 at $100,000 and was determined in 2014 to be $150,000, the $50,000 deficiency would be included in the Cumulative (Deficiency) Redundancy row shown below for each of the years 2005 through 2013.

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Conditions and trends that have affected development of the ultimate liability in the past may not be indicative of future developments. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on this table.

Changes in Historical Net Reserves for Loss and LAE

	Year Ended December 31,										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	20
	(in millions)										
bility as of year	$ 639.0	$ 952.9	$ 1,127.5	$ 1,412.9	$ 1,570.3	$ 1,573.3	$ 1,481.3	$ 1,481.2	$ 10,933.9	$ 10,650.4	$ 10
tive amount ability paid											
ar later	239.4	172.7	243.3	296.1	355.6	388.7	345.7	369.5	2,251.4	2,178.7	
ars later	310.8	356.1	421.7	515.0	659.5	642.2	616.4	623.9	3,867.7		
ears later	365.2	493.2	529.6	708.5	848.9	841.9	797.1	818.8			
ars later	413.6	572.2	648.6	820.6	990.1	976.2	934.7				
ars later	446.9	664.7	697.9	909.2	1,070.2	1,066.0					
rs later	465.4	703.0	732.3	963.7	1,135.0						
years later	475.0	725.8	766.2	1,011.5							
ears later	486.5	748.3	794.9								
ears later	492.0	762.8									
rs later	502.8										
bility nated as of:											
ar later	631.8	943.2	1,115.4	1,370.0	1,552.4	1,539.6	1,455.5	1,468.9	10,730.9	10,435.2	
ars later	620.1	941.2	1,047.9	1,341.9	1,526.5	1,506.7	1,457.2	1,498.5	10,522.6		
ears later	593.3	899.7	1,012.5	1,306.7	1,486.0	1,497.8	1,482.5	1,469.4			
ars later	584.1	873.0	976.7	1,263.2	1,465.4	1,502.7	1,447.7				
ars later	566.7	858.8	933.0	1,241.9	1,462.2	1,478.2					
rs later	554.0	832.7	919.2	1,240.3	1,439.2						
years later	537.6	826.7	919.7	1,224.0							
ears later	539.5	835.8	911.3								
ears later	540.8	831.6									
rs later	541.6										
tive ncy) ancy	$ 97.4	$ 121.3	$ 216.2	$ 188.9	$ 131.1	$ 95.1	$ 33.6	$ 11.8	$ 411.3	$ 215.2	$
ability - year	$ 1,246.4	$ 2,571.9	$ 2,228.9	$ 2,379.7	$ 2,578.6	$ 2,521.0	$ 2,328.7	$ 2,313.0	$ 12,239.8	$ 11,952.5	$ 11
einsurance able	607.4	1,619.0	1,101.4	966.8	1,008.3	947.7	847.4	831.8	1,305.9	1,302.1	1

bility - end	$ 639.0	$ 952.9	$ 1,127.5	$ 1,412.9	$ 1,570.3	$ 1,573.3	$ 1,481.3	$ 1,481.2	$ 10,933.9	$ 10,650.4	$ 10
e-estimated - latest	$ 1,116.4	$ 2,314.1	$ 1,824.0	$ 1,991.5	$ 2,294.1	$ 2,288.9	$ 2,214.5	$ 2,275.8	$ 11,966.4	$ 11,789.6	$ 11
mated able - latest	574.8	1,482.5	912.7	767.5	854.9	810.7	766.8	806.4	1,443.8	1,354.4	1
estimated latest	$ 541.6	$ 831.6	$ 911.3	$ 1,224.0	$ 1,439.2	$ 1,478.2	$ 1,447.7	$ 1,469.4	$ 10,522.6	$ 10,435.2	$ 10
umulative ncy) ancy	$ 130.0	$ 257.8	$ 404.9	$ 388.2	$ 284.5	$ 232.1	$ 114.2	$ 37.2	$ 273.4	$ 162.9	$

The net cumulative redundancies since 2004 primarily reflect favorable casualty reserve development at RSUI for the 2004 through 2010 accident years, and favorable prior accident year property-related and casualty-related development in 2013 and 2014 at TransRe, partially offset by unfavorable prior accident year catastrophe-related development at RSUI in 2006 and 2007, unfavorable reserve development at PacificComp in each year from 2008 through 2014, and net unfavorable reserve development at CapSpecialty in each year from 2011 through 2013 related primarily to a discontinued line of business. Prior accident year reserve development is discussed on pages 93 and 94 of this Form 10-K.

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The reconciliation between the aggregate net loss and LAE reserves of our reinsurance and insurance subsidiaries reported in the annual statements filed with state insurance departments prepared in accordance with SAP and those reported in our consolidated financial statements prepared in accordance with GAAP for the last three years is shown below:

Reconciliation of Reserves for Loss and LAE from SAP Basis to GAAP Basis

	As of December 31,		
	2014	2013	2012
		(in millions)	
Statutory reserves	$ 9,886.9	$ 10,206.3	$ 10,475.2
Net reserves of non-U.S. subsidiaries[1]	420.9	444.1	459.1
Reinsurance recoverables[2]	1,289.4	1,302.1	1,305.9
Purchase accounting adjustment			(0.4)
GAAP reserves	$ 11,597.2	$ 11,952.5	$ 12,239.8

(1) TransRe s non-U.S. subsidiaries do not file annual statements with state insurance departments in the U.S.

(2) Reinsurance recoverables in this table include only unpaid ceded loss and LAE reserves. Amounts reflected under the caption Reinsurance recoverables on our consolidated balance sheets set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K also include paid loss recoverables.

The reconciliation of beginning and ending aggregate reserves for unpaid loss and LAE of our reinsurance and insurance subsidiaries for the last three years is shown below:

Reconciliation of Reserves for Loss and LAE

	Year Ended December 31,		
	2014	2013	2012
		(in millions)	
Reserves as of January 1	$ 11,952.5	$ 12,239.8	$ 2,313.0
Less: reinsurance recoverables[1]	1,302.1	1,305.9	831.8
Net reserves	10,650.4	10,933.9	1,481.2
Reserves acquired[2]	56.9		9,156.1
Incurred loss, net of reinsurance, related to:			
Current year[3]	2,709.7	2,682.3	2,642.6
Prior years	(215.2)	(203.0)	(12.3)
Total incurred loss and LAE, net of reinsurance	2,494.5	2,479.3	2,630.3

Paid loss, net of reinsurance, related to:			
Current year	520.8	518.5	1,950.5
Prior years	2,178.1	2,236.8	369.5
Total paid loss and LAE, net of reinsurance	2,698.9	2,755.3	2,320.0
Foreign exchange effect	(195.1)	(7.5)	(13.7)
Reserves, net of reinsurance recoverables, as of December 31	10,307.8	10,650.4	10,933.9
Reinsurance recoverables as of December 31[1]	1,289.4	1,302.1	1,305.9
Reserves, gross of reinsurance recoverables, as of December 31	$ 11,597.2	$ 11,952.5	$ 12,239.8

(1) Reinsurance recoverables in this table include only unpaid ceded loss and LAE reserves. Amounts reflected under the caption Reinsurance recoverables on our consolidated balance sheets set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K also include paid loss recoverables.

(2) For 2014, represents reserves acquired in connection with a loss portfolio transfer transaction. For 2012, represents the carrying value of TransRe s net reserves acquired in the merger. As of the TransRe Acquisition Date, gross loss and LAE reserves were $9,627.8 million and ceded loss and LAE reserves were $471.7 million.

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(3) 2012 includes amounts for TransRe from the TransRe Acquisition Date through December 31, 2012, including $87.8 million of favorable prior accident year development on loss and LAE reserves acquired.

Asbestos-Related Illness and Environmental Impairment Reserves

Our reinsurance and insurance subsidiaries reserves for loss and LAE include amounts for risks relating to asbestos-related illness and environmental impairment. The reserves carried for such claims, including the IBNR portion, are based upon known facts and current law at the respective balance sheet dates. However, significant uncertainty exists in determining the amount of ultimate liability for asbestos-related illness and environmental impairment losses, particularly for those occurring in 1985 and prior, which represents the majority of TransRe s asbestos-related illness and environmental impairment reserves. This uncertainty is due to inconsistent and changing court resolutions and judicial interpretations with respect to underlying policy intent and coverage and uncertainties as to the allocation of responsibility for resultant damages, among other reasons. Further, possible future changes in statutes, laws, regulations, theories of liability and other factors could have a material effect on these liabilities and, accordingly, future earnings. Although we are unable at this time to determine whether additional reserves, which could have a material adverse effect upon our results of operations, may be necessary in the future, we believe that our asbestos-related illness and environmental impairment reserves are adequate as of December 31, 2014.

As of December 31, 2014 and 2013, gross and net loss and LAE reserves for asbestos-related illness and environmental impairment liabilities were as follows:

	December 31, 2014		December 31, 2013	
	Gross	Net	Gross	Net
		(in millions)		
TransRe	$ 593.5	$ 438.3	$ 583.8	$ 431.9
CapSpecialty	9.2	9.1	10.4	10.3
Total	$ 602.7	$ 447.4	$ 594.2	$ 442.2

As of December 31, 2014, the reserves for asbestos-related illness liabilities were approximately 12 times the average paid claims for the prior three year period, compared with 11 times as of December 31, 2013. The reserves for environmental impairment liabilities were approximately 10 times the average paid claims for the prior three year period, compared with 9 times as of December 31, 2013.

The reconciliation of the beginning and ending gross reserves for unpaid loss and LAE related to asbestos related illness and environmental impairment claims of our reinsurance and insurance subsidiaries for the years 2012 through 2014 is shown below:

Reconciliation of Asbestos-Related Illness Claims Reserves for Loss and LAE

	2014	2013	2012
		(in millions)	
Reserves as of January 1	$ 425.2	$ 371.3	$ 11.0
Reserves acquired[1]			340.0
Loss and LAE incurred	58.2	78.9	40.8

Paid losses[2]	(39.1)	(25.0)	(20.5)
Reserves as of December 31	$ 444.3	$ 425.2	$ 371.3
Type of reserves			
Case	$ 229.1	$ 172.8	$ 148.6
IBNR	215.2	252.4	222.7
Total	$ 444.3	$ 425.2	$ 371.3

(1) Represents the carrying value of TransRe s reserves acquired in the merger.
(2) Paid losses include commutations and legal settlements as well as regular paid losses.

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Reconciliation of Environmental Impairment Claims Reserves for Loss and LAE

	2014	2013	2012
		(in millions)	
Reserves as of January 1	$ 169.0	$ 154.6	$ 2.7
Reserves acquired[1]			150.1
Loss and LAE incurred	15.4	26.9	15.4
Paid losses[2]	(26.0)	(12.5)	(13.6)
Reserves as of December 31	$ 158.4	$ 169.0	$ 154.6
Type of reserves			
Case	$ 38.7	$ 43.3	$ 37.0
IBNR	119.7	125.7	117.6
Total	$ 158.4	$ 169.0	$ 154.6

(1) Represents the carrying value of TransRe s reserves acquired in the merger.
(2) Paid losses include commutations and legal settlements as well as regular paid losses.

Catastrophe Risk Management

The business of our reinsurance and insurance subsidiaries exposes them to losses from various catastrophe events. In a catastrophe event, losses from many insureds across multiple lines of business may result directly or indirectly from such single occurrence. The extent of losses caused by catastrophes is a function of the amount and type of insured exposure in the area affected by the event, as well as the severity of the event, potentially mitigated by any reinsurance coverage purchased by our reinsurance and insurance subsidiaries. Our reinsurance and insurance subsidiaries take certain measures to mitigate the impact of catastrophe events through various means including considering catastrophe risks in their underwriting and pricing decisions, purchasing reinsurance, monitoring and modeling accumulated exposures and managing exposure in key geographic zones and product lines that are prone to catastrophe events.

Natural disasters such as hurricanes, other windstorms, earthquakes and other catastrophes have the potential to materially and adversely affect our operating results. Other risks, such as an outbreak of a pandemic disease, a major terrorist event, the bankruptcy of a major company, or a marine or an aviation disaster, could also have a material adverse effect on our operating results.

We evaluate catastrophe events and assess the probability of occurrence and magnitude through the use of industry recognized models and other techniques. In addition, our reinsurance and insurance subsidiaries use modeled loss scenarios to set risk retention levels and help structure their reinsurance programs in an effort to ensure that the aggregate amount of catastrophe exposures conform to established risk tolerances and fit within the existing exposure portfolio. We supplement these models by judgmentally interpreting and adjusting when appropriate the modeled output and by monitoring the exposure risks of our operations. There is no single standard methodology to project possible losses from catastrophe exposures. Further, there are no industry standard assumptions used in projecting these losses, and the form and quality of the data obtained, including data obtained from insureds and ceding companies, and used in these models are not uniformly compatible with the data requirements of all models.

Therefore, the use of different methodologies and assumptions could materially change the projected losses. Finally, these modeled losses may not be comparable with estimates made by other companies. Our reinsurance and insurance subsidiaries also use reinsurance to further limit their exposure to catastrophes, as is discussed in more detail under Reinsurance Protection below.

Reinsurance Protection

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 of business, 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 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.

To a limited extent, TransRe enters into retrocession arrangements, including property catastrophe retrocession arrangements, in order to reduce the effect of individual or aggregate exposure to losses, reduce volatility in specific lines of business, improve risk-adjusted portfolio returns and increase gross premium writings and risk capacity without requiring additional capital.

RSUI reinsures its property lines of business through a program consisting of surplus share treaties, facultative placements, per risk and catastrophe excess-of-loss treaties. RSUI s catastrophe reinsurance program (which covers catastrophe risks including, among others, windstorms and earthquakes) and per risk reinsurance program run on an annual basis from May 1 to the following April 30 and thus expired on April 30, 2014.

RSUI placed its catastrophe reinsurance program for the 2014 to 2015 period on May 1, 2014. The 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.

With respect to potential losses arising from acts of terrorism, the Terrorism Risk Insurance Act of 2002, as extended and amended by the Terrorism Risk Insurance Extension Act of 2005, and the Terrorism Risk Insurance Program Reauthorization Act of 2007, which we collectively refer to as the Terrorism Act, established a program to provide federal assistance to the insurance industry in order to meet the needs of commercial insurance policyholders for coverages against losses due to certain acts of terrorism. The Terrorism Act expired on December 31, 2014.

On January 12, 2015, President Barack H. Obama signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2015 to extend the Terrorism Act. The Terrorism Act fixes the insurer deductible at 20 percent of an insurer s direct earned premium of the preceding calendar year and the federal share of compensation at 85 percent of insured losses that exceed insurer deductibles, but only until January 1, 2016, at which time the federal share shall decrease by 1 percentage point per calendar year until equal to 80 percent. The Terrorism Act is administered by the U.S. Secretary of the Treasury.

The Terrorism Act applies to foreign or domestic acts of terrorism occurring within the U.S. (including in the U.S. territorial sea and the Outer Continental Shelf), at U.S. missions abroad or on U.S. flag vessels or aircraft. In return for requiring insurers writing certain lines of property and casualty insurance to offer coverage to commercial insurance policyholders against specified acts of terrorism, the Terrorism Act requires the U.S. Federal government to reimburse such insurers for the federal share (initially set at 85 percent, as described above) of insured losses during a program year resulting from such acts of terrorism above a statutorily-defined deductible. In addition, federal reimbursement will only be paid under the Terrorism Act if the aggregate industry insured losses resulting from the covered act of terrorism exceed $100.0 million for insured losses occurring in 2015, but no payment will be made for any portion of aggregate industry insured losses that exceeds $100.0 billion in 2015. The $100.0 million threshold gradually increases to $200.0 million by 2020.

It is not clear whether coverage under the Terrorism Act will extend retroactively to December 31, 2014, or whether the period between December 31, 2014 and January 12, 2015 is left uncovered. While we understand that federal agencies are working to provide guidance on this question, there can be no assurance of the impact of a gap in coverage, if any.

The coverage provided by the Terrorism Act does not apply to reinsurers. In general, TransRe does not provide coverage for certified acts of terrorism, as defined by the Terrorism Act, but it is exposed to potential losses from uncertified acts of terrorism in the U.S. or elsewhere. In addition, TransRe offers terrorism-specific treaty coverages to ceding companies on a limited basis. With respect to other lines of business, TransRe assumes terrorism risk in marine, aviation and other casualty treaties after careful underwriting consideration and, in many cases, with limitations. Potential losses from acts of terrorism could be material depending on the nature and location of the act.

Approximately 3 percent of all policies and approximately 12.5 percent of property policies written by RSUI in 2014 contained coverage for domestic and foreign acts of terrorism. RSUI uses various underwriting strategies to mitigate its exposure to terrorism losses. In addition, its casualty reinsurance programs provide coverage for domestic and foreign acts of terrorism. The cost of property reinsurance for acts of terrorism has increased significantly in recent years and capacity is limited. RSUI s property reinsurance programs provide coverage only for domestic acts of terrorism and, as a result, RSUI is liable for losses under property policies that provide coverage for foreign acts of terrorism, subject to potential Terrorism Act reimbursement.

We have established a Reinsurance Security Committee, which includes certain of our officers and the chief financial officers of each of our reinsurance and insurance subsidiaries, who meet to track, analyze and manage the use of reinsurance by our reinsurance and insurance subsidiaries. The Reinsurance Security Committee considers and oversees the limits on the maximum amount of unsecured reinsurance recoverables that should be outstanding from any particular reinsurer, the lines of business that should be ceded to a particular reinsurer and, where applicable, the types of collateral that should be posted by reinsurers.

As of December 31, 2014, our reinsurance and insurance subsidiaries had total reinsurance recoverables of $1,361.1 million, consisting of $1,289.4 million of ceded outstanding loss and LAE and $71.7 million of recoverables on paid losses. The reinsurance purchased by our reinsurance and insurance subsidiaries does not relieve them from their obligations to their policyholders and cedants, and therefore, the financial strength of their reinsurers is important. Approximately 96 percent of our reinsurance recoverables balance as of December 31, 2014 was due from reinsurers having an A.M. Best financial strength rating of A (Excellent) or higher. Our reinsurance and insurance subsidiaries had no allowance for uncollectible reinsurance as of December 31, 2014. Information related to concentration of reinsurance recoverables can be found in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Reinsurance of this Form 10-K and Note 5(b) to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K. Information regarding the risks faced by our reinsurance and insurance subsidiaries with respect to their use of reinsurance can be found on page 50 of this Form 10-K.

Competition

The reinsurance and insurance industry is highly competitive, and industry consolidation has created an even more competitive business environment. Competition in the businesses of our reinsurance and insurance subsidiaries is based on many factors, including the perceived financial strength of the company, premium charges, other terms and conditions offered, services provided, commissions paid to producers, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines of business to be written.

Our reinsurance and insurance subsidiaries compete with a large number of major U.S. and non-U.S. reinsurers and insurers in their selected lines of business, including regional companies, mutual companies, specialty insurance companies, underwriting agencies, government-owned or subsidized facilities, European underwriting syndicates and diversified financial services companies. In our reinsurance segment, TransRe s property and casualty businesses compete on a worldwide basis. In our insurance segment, RSUI s property and

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casualty businesses, and CapSpecialty s admitted property and casualty businesses and surety and non-admitted specialty businesses, compete on a national basis, and PacificComp s workers compensation insurance business competes primarily in California. Some of these competitors have significantly more premiums, capital and resources than our reinsurance and insurance subsidiaries.

In addition to competition from the reinsurance industry, TransRe faces competition from the capital markets, as well as some traditional reinsurers, which from time to time produce alternative products or reinsurance vehicles (such as collateralized reinsurance, reinsurance securitizations, catastrophe bonds and various derivatives, such as swaps and sidecars) that may compete with certain types of reinsurance, such as property catastrophe. Hedge funds may also provide reinsurance and retrocessional protections through captive companies or other alternative transactions on a fully collateralized basis for property and energy catastrophe business. Over time, these initiatives could significantly affect supply, pricing and competition in the reinsurance industry.

A discussion of the risks faced by our reinsurance and insurance subsidiaries due to competition within, and the cyclicality of, the reinsurance and insurance business can be found on pages 49 and 50 of this Form 10-K.

Employees

As of December 31, 2014, we employed a total of 2,067 persons, with 16 persons employed at the parent company, 623 persons employed at TransRe, 812 persons employed at our insurance operating subsidiaries and 616 persons employed at our other subsidiaries.

Regulation

General

Our reinsurance and insurance subsidiaries are subject to extensive supervision and regulation in the jurisdictions in which they operate and are required to comply with a wide range of laws and regulations applicable to insurance and reinsurance companies, although the degree and type of regulation varies from jurisdiction to jurisdiction. We expect the scope and extent of regulation globally, as well as regulatory oversight generally, to continue to increase.

U.S. Regulation

Our reinsurance and insurance subsidiaries are regulated in all U.S. jurisdictions in which they are licensed to conduct business. The extent of this regulation varies, but state insurance laws and regulations generally govern the market conduct and financial condition of reinsurers and insurers, including standards of solvency, types and concentrations of permissible investments, establishment and maintenance of reserves, credit for reinsurance and requirements of capital adequacy. In addition, state insurance laws and regulations govern the business conduct of insurers, including marketing and sales practices and claims handling, and require the approval of nearly all rates, policy forms and related materials for lines of insurance.

Through state credit for reinsurance laws, our reinsurance companies are indirectly subject to the effects of regulatory requirements imposed by the states in which their ceding insurers are domiciled and / or licensed. In general, an insurer that obtains reinsurance from a reinsurer that is licensed, accredited, authorized or approved by the state in which the insurer files statutory financial statements is permitted to take a credit on its statutory financial statements in an aggregate amount equal to all of the reinsurance recoverable on paid losses and the liabilities for unearned premiums and loss and LAE reserves ceded to the reinsurer, subject to certain limitations. Additionally, certain states allow credit to be taken for the amount ceded to a non-U.S. reinsurer domiciled in a country recognized as a qualified jurisdiction (based upon an assessment of the strength of such jurisdiction s supervisory structure) that is designated by the state as a certified reinsurer. In such instances the ceding company is permitted to take a credit on its statutory financial statements in an aggregate amount equal to all of the reinsurance recoverable on paid losses and the liabilities for unearned premiums and loss and LAE reserves ceded to the reinsurer, subject to certain limitations provided the reinsurer posts acceptable security in

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an amount that varies in proportion to the reinsurer s ratings (A.M. Best, S&P, Moody s and / or Fitch Ratings Inc.). Finally, credit for reinsurance ceded to reinsurers that are not licensed, accredited, authorized, approved or certified in the ceding company s jurisdiction must agree to post 100 percent qualified security, either in the form of a deposit, trust or letter of credit, in order that the ceding insurer be allowed to take full credit on its statutory financial statements in an aggregate amount equal to all or a portion of the reinsurance recoverable on paid losses and the liabilities for unearned premiums and loss and LAE reserves ceded to such reinsurers.

Insurance Holding Company Regulation. As an insurance holding company, we and our reinsurance and insurance subsidiaries are subject to regulation under the insurance holding company laws enacted in those states where our reinsurance and insurance subsidiaries are domiciled or where they conduct business. These laws generally require an insurance holding company and its reinsurer and insurer subsidiaries to register with their respective insurance regulators and to file with those regulators certain reports, including information concerning their capital structure, ownership, financial condition, certain intercompany transactions, including dividends and distributions, and general business operations. The insurance holding company laws of some states, including with respect to the payment of dividends and distributions, may be more restrictive than the insurance holding company laws of other states.

Under the insurance holding company laws and regulations, our reinsurance and insurance subsidiaries may not pay an extraordinary dividend or distribution, or pay a dividend except out of earned surplus, without the approval of state insurance regulators. In general, an extraordinary dividend or distribution is defined as a dividend or distribution that, together with other dividends and distributions made within the preceding 12 months, exceeds the greater (or, in some jurisdictions, the lesser) of (i) 10 percent of the insurer s statutory surplus as of the end of the prior calendar year, and (ii) the adjusted statutory net investment income during the prior calendar year.

In addition, insurance holding company laws and regulations to which we and our reinsurance and insurance subsidiaries are subject generally require prior notification and approval or non-disapproval by the applicable insurance regulators of certain other significant transactions, including sales, loans, reinsurance agreements and service agreements between an insurer subsidiary, on the one hand, and its holding company or other subsidiaries of the holding company, on the other hand.

The insurance holding company laws and regulations of the states in which our reinsurance and insurance subsidiaries are domiciled also generally require that, before a person can acquire direct or indirect control of a reinsurer or an insurer domiciled in the state, prior written approval must be obtained from the insurer s domiciliary state insurance regulator. The state insurance regulators are required to consider various factors, including the financial strength of the acquirer, the integrity and management experience of the acquirer s board of directors and executive officers, and the acquirer s plans for the future operations of the reinsurer or insurer. Pursuant to applicable laws and regulations, control over a reinsurer or an insurer is generally presumed to exist if any person, directly or indirectly, owns, controls, holds the power to vote or holds proxies representing, 10 percent or more of the voting securities of that reinsurer or insurer. Indirect ownership includes ownership of the shares of the ultimate controlling person s common stock.

The acquisition of control laws described above may discourage potential acquisition proposals and may delay, deter or prevent an acquisition of control of us, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

NAIC Solvency Modernization Initiative. During the past few years, the National Association of Insurance Commissioners, or the NAIC, engaged in a Solvency Modernization Initiative focused on updating the U.S. insurance regulatory framework regarding solvency issues, including capital requirements, governance and risk management, group supervision, accounting and financial reporting and credit for reinsurance. As part of this initiative, in

December 2010, the NAIC adopted amendments to the Model Insurance Holding Company System Regulatory Act and Regulation, or the Amended Model Act and Regulation. The Amended Model Act and Regulation introduces, among other things, the concept of enterprise risk within an insurance holding company system. The Amended Model Act and Regulation imposes more extensive informational requirements on the

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ultimate controlling person of the reinsurer or insurer with the purpose of protecting such reinsurer or insurer from enterprise risk, including requiring an annual enterprise risk report by the ultimate controlling person of the reinsurer or insurer that identifies the material risks within the insurance holding company system that could pose enterprise risk to the reinsurer or insurer. The Amended Model Act and Regulation must be adopted by the individual states, and specifically the states in which our reinsurance and insurance subsidiaries are domiciled, for the new requirements to apply. It is not clear when all U.S. states will adopt these changes; however, the Amended Model Act and Regulation must be adopted by an individual state in order for the new requirements to apply to reinsurers and insurers domiciled in that state. As of December 31, 2014, most U.S. states had adopted such legislation, including most of the states where our reinsurance and insurance subsidiaries are domiciled. Because the NAIC has identified certain provisions of the Amended Model Act and Regulation which will be required to be adopted by the states in order for them to maintain NAIC accreditation, it is expected that the Amended Model Act and Regulation will be adopted in full or substantial part by all or almost all of the states by January 1, 2016.

Risk Management and ORSA. In September 2012, the NAIC adopted the Risk Management and Own Risk and Solvency Model Act, or the ORSA Model Act. The ORSA Model Act requires reinsurers and insurers that exceed specified premium thresholds to maintain a framework for managing the risks associated with their entire holding company group, including non-insurance companies. In addition, at least annually, the reinsurer or insurer must prepare a summary report, or the ORSA Report, regarding its internal assessment of risk management and capital adequacy for the entire holding company group. The ORSA Report will be filed, on a confidential basis, with the insurance holding company group s lead regulator and made available to other domiciliary regulators within the holding company group. The ORSA Model Act provides that the first filing of the ORSA Report shall be in 2015. As of December 31, 2014, the ORSA Model Act has been adopted in approximately 21 states, including some of the states where our reinsurance and insurance subsidiaries are domiciled, and legislation was pending or under consideration in several other states. Because the NAIC is seeking to require that the provisions of the ORSA Model Act be adopted by the states in order for them to maintain their NAIC accreditation, the ORSA Model Act is expected to be adopted in full or substantial part by all or most of the states over the next several years.

Recent NAIC Initiatives. The NAIC continues to adopt new model laws and regulations that began as part of the NAIC s Solvency Modernization Initiative. In November 2014, the NAIC adopted the Corporate Governance Annual Disclosure Model Act and the Corporate Governance Annual Disclosure Model Regulation, which, following enactment at the state level, will require insurers and reinsurers to disclose detailed information regarding their governance practices. In December 2014, the NAIC also adopted further amendments to the Amended Model Act and Regulation, which, following enactment at the state level, would authorize U.S. regulators to, among other items, lead or participate in the group-wide supervision of certain international insurance groups.

Rates and Policy Forms. Our insurance companies policy forms and various premium rates and rates for property or casualty or surety insurance policies are subject to regulation in every state in which they conduct business. In many states, rates and policy forms must be filed with the applicable insurance regulator prior to their use, and in some states, rates and forms must be affirmatively approved by the applicable insurance regulator prior to use.

The rates and coverage terms of reinsurance agreements with non-affiliates are generally not subject to regulation by any governmental authority. As a practical matter, however, the rates charged by primary insurers and the policy terms of primary insurance agreements may affect the rates charged and the policy terms under associated reinsurance agreements.

Market Conduct Examinations. The insurance laws and regulations to which our insurance companies are subject govern their marketplace activities, affecting the form and content of disclosure to consumers, product illustrations, advertising, product replacement, sales and underwriting practices and complaint and claims

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handling. These provisions are generally enforced through periodic market conduct examinations. Such insurance laws and regulations also govern the licensing of insurance companies and agents and regulate trade practices.

Periodic Financial Reporting and Risk-Based Capital. Reinsurance and insurance companies in the U.S. are required to report their financial condition and results of operations in accordance with SAP prescribed or permitted by state insurance regulators in conjunction with the NAIC. State insurance regulators also prescribe the form and content of statutory financial statements, perform periodic financial examinations of reinsurers and insurers, set minimum reserve and loss ratio requirements, establish standards for permissible types and amounts of investments and require minimum capital and surplus levels. These statutory capital and surplus requirements include risk-based capital, or RBC, rules promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in a reinsurance or an insurance company s business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company s RBC requirements are calculated and compared with its total adjusted capital to determine whether the company may be undercapitalized, and whether regulatory intervention is warranted. As of December 31, 2014, the total adjusted capital of our U.S. domiciled reinsurance and insurance companies exceeded the minimum levels required under RBC rules, and each had excess capacity to write additional premiums in relation to these requirements. Specifically, as of December 31, 2014, the amount of statutory capital and surplus necessary to satisfy regulatory requirements was not significant in relation to actual statutory capital and surplus.

The NAIC annually calculates certain statutory financial ratios for most reinsurance and insurance companies in the U.S. These calculations are known as the Insurance Regulatory Information System, or IRIS, ratios. There presently are thirteen IRIS ratios, with each ratio having an established usual range of results. The IRIS ratios assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. A ratio falling outside the usual range is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. The NAIC reports the ratios to state insurance departments who may then contact a company if four or more of its ratios fall outside the NAIC s usual ranges. Based upon calculations as of December 31, 2014, PCIC had four of its ratios falling outside the NAIC s usual ranges, due primarily to PCIC s premium growth and underwriting loss.

Guarantee Associations and Similar Arrangements. Certain U.S. insurance companies are required under the guaranty fund laws of most states in which they transact business to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. Our U.S. insurance companies also are required to participate in various involuntary pools, principally involving workers compensation and windstorms.

Statutory Accounting Principles. State insurance regulators have developed SAP as a basis of accounting used to monitor and regulate the solvency of insurers. SAP is primarily concerned with measuring an insurer s surplus to policyholders. Accordingly, SAP focuses on valuing assets and liabilities of an insurer at financial reporting dates in accordance with applicable insurance laws and regulations in the state in which such insurer is domiciled. SAP determines, among other things, the amount of statutory surplus and statutory net income of our reinsurance and insurance subsidiaries and thus determines, in part, the amount of funds they have available to pay as dividends.

GAAP is concerned with a company s solvency, but it is also concerned with other financial measurements, such as income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management s stewardship of assets than does SAP. Due to differences in methodology between SAP and GAAP, the values for assets, liabilities and equity reflected in financial statements prepared in accordance with GAAP are materially different from those reflected in financial statements prepared under SAP.

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The NAIC has indicated it will consider policy positions regarding the new International Financial Reporting Standard, or IFRS, and its inclusion or exclusion from the U.S. framework of insurance solvency regulation and on the regulatory impacts of non-regulatory uses of statutory financial statements after completion of the insurance contracts joint project of the International Accounting Standards Board and the Financial Accounting Standards Board, or the FASB, and the SEC has made a decision regarding IFRS as a U.S. accounting standard for public companies. The potential outcomes identified by the NAIC include but are not limited to the replacement of SAP with GAAP with statutory adjustments or adoption of IFRS without adjustments. We will continue to monitor these developments and the impact they may have on our reinsurance and insurance subsidiaries.

Legislative and Regulatory Initiatives. As discussed in more detail under Reinsurance Protection above, the Terrorism Act established a federal assistance program to help the commercial property and casualty insurance industry cover claims arising from terrorism-related losses and regulates the terms of insurance relating to the terrorism coverage provided by our insurance companies.

On July 21, 2010, President Barack H. Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. The Dodd-Frank Act made extensive changes to the laws regulating financial services firms and requires various federal agencies to adopt a broad range of new implementing rules and regulations. In addition to introducing sweeping reform of the U.S. financial services industry, the Dodd-Frank Act adopts certain changes to U.S. insurance regulation in general, and to non-admitted insurance and reinsurance in particular. While the Dodd-Frank Act does not result in the federal regulation of insurance, it does establish federal measures that will impact the reinsurance and insurance business and preempt certain state insurance measures. For example, the Dodd-Frank Act incorporates the Non-Admitted and Reinsurance Reform Act, or the NRRA, which became effective on July 21, 2011. Among other things, the NRRA established national uniform standards on how states may regulate and tax surplus lines insurance (and also sets national standards concerning the regulation of reinsurance). In particular, the NRRA gives regulators in the state where an insurer is domiciled exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer s state of domicile are given the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables. At the present time, it is unclear what effect the NRRA changes specific to non-admitted insurance and reinsurance will have on our reinsurance and insurance subsidiaries, and there is still significant uncertainty as to how these and other provisions of the Dodd-Frank Act will be implemented in practice.

The Dodd-Frank Act created the Financial Stability Oversight Council, or FSOC, to identify and respond to risks to the financial stability of the U.S. and to promote market discipline. FSOC is authorized to designate a nonbank financial company as systemically significant if its material financial distress could threaten the financial stability of the U.S. In 2013, FSOC designated three nonbank financial companies, including two insurance groups, as systemically significant and in 2014, FSOC designated a third insurance group as systemically significant. Those designated entities will be subject to supervision by the Board of Governors of the Federal Reserve System as well as enhanced prudential standards, including stress tests, liquidity requirements, annual resolution plans or living wills, and enhanced public disclosures. FSOC s potential recommendation of measures to address systemic risk in the insurance industry could affect our insurance and reinsurance operations as could a determination that we or our counterparties are systemically significant.

The Dodd-Frank Act also created the Federal Insurance Office, or the FIO, within the U.S. Department of Treasury, which is designed to promote national coordination within the insurance sector and which has the authority, in part, to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of reinsurers and insurers that could contribute to a systemic crisis in the insurance industry or the U.S. financial system. Although the FIO is intended principally to exercise a monitoring and information gathering role, it does have the authority to enter into Covered Agreements with regulatory authorities outside the U.S. with respect to certain agreements with foreign governments regarding the supervision and regulation of the global reinsurance and insurance markets. In implementing such international agreements, the FIO has the authority to preempt state law if it is determined that state law is inconsistent with the agreement and treats a

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non-U.S. reinsurer or insurer less favorably than a U.S. reinsurer or insurer. The FIO has publicly stated its willingness to enter into a covered agreement with other jurisdictions, possibly to facilitate mutual recognition between the U.S. and other jurisdictions.

In December 2013, as required by the Dodd-Frank Act, the FIO released a report regarding the modernization and improvement of the U.S. insurance regulatory system. While noting that the current state-based system of insurance regulation is inherently limited in its ability to regulate uniformly and efficiently, the report expresses the FIO s view that, in the short term, U.S. insurance regulation can be modernized and improved by a combination of steps to be taken by the states in order to increase consistency and transparency of regulation, and certain federal actions, particularly directed to representing U.S. interests in discussions and proceedings with foreign regulators concerning global insurance issues. However, the report also cautions that if the states do not act expeditiously to regulate matters on a more consistent and cooperative basis, there will be a greater role for federal regulation.

In December 2014, FIO delivered its report to the U.S. Congress describing the global reinsurance market and its critical role in supporting the U.S. insurance system. The report does not assess whether reinsurance or any particular reinsurer could be systemically important. However, noting the importance of the global reinsurance market to U.S. reinsurers, the report notes that the U.S. Treasury Department and the United States Trade Representative are considering a covered agreement with respect to collateral requirements for reinsurers. It is possible FIO will, in the future, issue recommendations in respect of the reinsurance market that would, if enacted, potentially impact negatively our business.

Federal agencies have been given significant discretion in drafting the rules and regulations that will implement the Dodd-Frank Act. In addition, the Dodd-Frank Act mandated multiple studies and reports for the U.S. Congress, including the FIO reports described above, which could in some cases result in additional legislative or regulatory action. We cannot predict the requirements of the regulations ultimately adopted under the Dodd-Frank Act or any related additional legislation, the additional costs resulting from compliance with such regulations or legislation or any changes to our operations that may be necessary to comply with the Dodd-Frank Act.

In addition, a number of legislative and regulatory initiatives currently under consideration may significantly affect our reinsurance and insurance business in a variety of ways. These measures include, among other things, tort reform, consumer privacy requirements and proposals for the establishment of state or federal catastrophe funds. The impact of Super Storm Sandy, which caused widespread property damage and flooding to large areas of the East Coast and the Northeastern U.S. in October 2012, has resulted in increased calls for state and federal legislative and regulatory intervention in the reinsurance and insurance business, especially in catastrophe prone areas. We are not able to assess the impact that any such future legislative or regulatory changes may have upon our reinsurance and insurance business.

International Regulation

General. TransRe is regulated in various foreign jurisdictions where it conducts business. In certain jurisdictions, TransRe operates through branches or representative offices of TRC and in other jurisdictions, TransRe has local reinsurance or insurance subsidiaries. TransRe s subsidiaries, TRL in the U.K. and TRZ in Switzerland, comprise the largest component of TransRe s international operations.

The extent of the regulation varies by foreign jurisdiction, but generally governs licensing requirements, solvency, currency, amount and type of security deposits, amount and type of reserves and amount and type of local investments. International operations and assets held abroad may be materially and adversely affected by economic, political and other developments in foreign countries, including possible changes in foreign and U.S. laws and regulations, nationalization and changes in regulatory policy, unexpected financial restrictions that foreign governments may impose and potential costs and difficulties in complying with a wide variety of foreign laws and regulations, as well as by the consequences of international hostilities and unrest. The risks of such occurrences and their overall effect upon us vary from country to country and cannot easily be predicted. Further, regulations governing technical reserves and remittance of balances in some countries may hinder remittance of profits and repatriation of assets.

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U.K. Regulation. Prior to December 2013, TransRe s operations in the U.K. were conducted through a branch of TRC. Since December 2013, TransRe s operations in the U.K. have been conducted by TRL and TRC s branch operations in the U.K. TRL and TRC s branch operations in the U.K. are supervised by the Prudential Regulatory Authority, or the PRA, which is responsible, among other things, for regulating the solvency of insurance and reinsurance companies, and the Financial Conduct Authority, or the FCA, which is responsible, among other things, for regulating market conduct. The PRA and FCA have extensive powers to intervene in the affairs of a regulated entity, including the power to enforce and take disciplinary measures in respect of breaches of its rules by authorized firms and approved persons. TRL and TRC s branch operations in the U.K. are required to maintain a margin of solvency at all times in respect of the business conducted in accordance with PRA and FCA rules. The calculation of the margin of solvency depends on the type and amount of reinsurance business written.

Swiss Regulation. TRZ is licensed to carry on reinsurance business in Switzerland. As a result, TRZ is required to comply with the Federal Insurance Supervision Act, the Federal Insurance Supervision Ordinance and the regulations and guidance issued by the Swiss Financial Market Supervisory Authority, or FINMA. Some of the significant aspects of the Swiss regulatory framework include complying with capital and solvency, corporate governance, risk management and internal control requirements. In addition, TRZ is subject to annual reporting requirements enacted by FINMA.

Branch Regulation. TRC operates in a number of other jurisdictions through a series of foreign branches, including branches in Australia, Bermuda, Canada, France, Germany, Japan, the Hong Kong Special Administrative Region of the People s Republic of China, the U.K., Switzerland and Singapore, and TRZ operates in Dubai through a branch. As a result, TRC and TRZ are required, among other things, to meet local licensing, reserve, currency, investment and capital requirements for these branches.

Legislative and Regulatory Initiatives. Within the European Union, or the EU, the EU Reinsurance Directive of November 2005, or the Reinsurance Directive, requires EU member states, or Member States, to adopt common standards for authorizing and supervising reinsurance companies that are head-quartered in a Member State. TRC operates within the EU as a Third Country Reinsurer under the Reinsurance Directive through a series of foreign branches and on a cross-border basis. Each branch of TRC in the EU is separately authorized by the relevant regulator in the Member State in which it is established. Currently, TRC continues to conduct business within the EU through its foreign branches with no significant impact on its operations. However, TransRe could be materially and adversely affected by rules adopted by a Member State relating to Third Country Reinsurers. For example, TRC may be required to post additional collateral in EU countries or may need to consider restructuring its business in order to comply with the rules adopted in EU countries relating to Third Country Reinsurers.

In addition to the Reinsurance Directive, an EU directive known as Solvency II was adopted by the European Parliament in April 2009. Solvency II is a fundamental revision to the current European regulatory regime that seeks to enhance transparency and risk management and encourage a proactive approach to company solvency. It is built on a risk-based approach to setting capital requirements for reinsurers and insurers. The implementation of Solvency II is dependent upon the adoption of a second directive, known as Omnibus II, the purpose of which is to provide for transitional arrangements for the introduction of the new regulatory regime, and to facilitate the adoption of rules for the implementation of the principles set out in Solvency II. After several delays, Omnibus II was adopted in March 2014 and Solvency II will be effective as of January 1, 2016. TransRe could be materially impacted by the implementation of Solvency II depending on the costs associated with implementation by each EU country, any increased capitalization requirements and any costs associated with adjustments to TransRe s corporate operating structure. The implementation of Solvency II could also materially impact Alleghany on a group-wide basis, since Solvency II affects the calculation of the solvency of international groups which, like Alleghany, conduct reinsurance and insurance operations both inside and outside of the EU.

In Argentina, Brazil, Ecuador, People s Republic of China and India, emerging markets where TransRe underwrites business on a cross-border basis, local regulations have recently been adopted that may operate to limit, restrict or increase the costs of TransRe s access to these markets. If this trend continues to spread to other jurisdictions, TransRe s ability to operate globally may be materially and adversely affected.

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In addition to regulation within the U.S., by the EU and by the various jurisdictions outside the U.S. where TransRe operates, we may be affected by regulatory policies adopted by the International Association of Insurance Supervisors, or the IAIS. Regulators in more than 200 jurisdictions and approximately 140 countries, representing both established and emerging markets, are working with the IAIS to consider changes to reinsurer and insurer solvency standards and group supervision of companies in a holding company system, including non-insurance companies. Current IAIS initiatives include development of a Common Framework for the Supervision of Internationally Active Insurance Groups, or ComFrame, which has been in progress since 2010. ComFrame is intended to provide a framework of basic standards for internationally active insurance groups, or IAIGs, and a process for supervisors to cooperate in the supervision of IAIGs. A fourth draft of ComFrame was published during 2014, to be followed by field testing. Since the field testing is expected to result in further modifications to ComFrame, IAIS currently anticipates that ComFrame will be adopted in 2018 and implemented in 2019. In October 2013, IAIS announced that it intends to develop a risk-based group-wide global insurance capital standard which will be included within ComFrame. When adopted and implemented, ComFrame may impose additional and duplicative supervisory and regulatory costs on our reinsurance and insurance companies.

Regulatory Convergence

Regulators within and outside the U.S. are increasingly coordinating the regulation of multinational insurers by conducting a supervisory college. A supervisory college, as defined by the IAIS, is a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervisor of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group. We are continuing to assess the impact, if any, such coordination may have on insurance regulation and our reinsurance and insurance subsidiaries.

Corporate Activities

Parent Company Operations

At the parent level, we seek out attractive investment opportunities, including strategic investments in operating companies, delegate responsibilities to competent and motivated managers at the operating business level, set goals for our operating businesses, assist managers in the achievement of these goals, define risk parameters and appropriate incentives for our operating businesses, and monitor progress against their long-term objectives.

Roundwood. Our public equity investments, including those held by TransRe s and AIHL s operating subsidiaries, are managed primarily by our indirect, wholly-owned subsidiary Roundwood. For a discussion of our reinsurance and insurance subsidiaries investment results, see pages 84 and 85 of this Form 10-K.

ACC. We manage, source, execute and monitor our private capital investments, which include SORC, Bourn & Koch and Kentucky Trailer, primarily through our wholly-owned subsidiary ACC. ACC s private capital investments include:

SORC. In June 2011, we formed SORC, an exploration and production company focused on enhanced oil recovery, headquartered in Austin, Texas. From formation through December 31, 2014, we have invested $155.7 million in SORC.

Bourn & Koch. On April 26, 2012, we acquired Bourn & Koch, a manufacturer and remanufacturer/retrofitter of precision machine tools and supplier of replacement parts, headquartered in Rockford, Illinois. The results of Bourn & Koch have been included in our consolidated results beginning April 26, 2012.

Kentucky Trailer. On August 30, 2013, we invested in Kentucky Trailer, a manufacturer of custom trailers and truck bodies for the moving and storage industry and other markets, headquartered in Louisville, Kentucky, for a controlling equity interest. On January 2, 2014, we exercised our option to

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increase our common equity interest in Kentucky Trailer to 80 percent as well as increase our preferred equity interest, for an additional investment. The results of Kentucky Trailer have been included in our consolidated results beginning August 30, 2013.

ACC also owns approximately 40 percent of ORX, a regional gas and oil exploration and production company, headquartered in New Orleans, Louisiana, and 30 percent of Jazwares, a toy and consumer electronics company, headquartered in Sunrise, Florida. Our ORX and Jazwares investments are reflected in our financial statements in other invested assets.

Alleghany Properties. We own and manage properties in the Sacramento, California region through our wholly-owned subsidiary Alleghany Properties. These properties include primarily improved and unimproved commercial land, as well as residential lots. As of December 31, 2014, Alleghany Properties owned approximately 320 acres of property in various land use categories ranging from multi-family residential to commercial. In late 2010, Alleghany Properties began making investments in California low income housing tax credit limited liability companies. As of December 31, 2014, Alleghany Properties held investments in three such companies.

Item 1A. Risk Factors.

We face risks from our property and casualty reinsurance and insurance businesses, our investments in debt and equity securities, and our credit agreement and senior notes, among others. Discussed below are significant risks that our businesses face. If any of the events or circumstances described as risks below actually occurs, our business, results of operations or financial condition could be materially and adversely affected. Our businesses may also be materially and adversely affected by risks and uncertainties not currently known to us or that we currently consider immaterial. In addition to other information provided in this report, the following risk factors should be considered when evaluating an investment in our securities.

Risk Factors Relating to our Business

The reserves for loss and LAE of our reinsurance and insurance subsidiaries are estimates and may not be adequate, which would require our reinsurance and insurance subsidiaries to establish additional reserves. Gross reserves for loss and LAE reported on our balance sheet as of December 31, 2014 were approximately $11.6 billion. These loss and LAE reserves reflect our best estimates of the cost of settling all claims and related expenses with respect to insured events that have occurred. Reserves do not represent an exact calculation of liability, but rather an estimate of what management expects the ultimate settlement and claims administration will cost for events that have occurred, whether known or unknown. These reserve estimates, which generally involve actuarial projections, are based on management s assessment of facts and circumstances currently known and assumptions about anticipated loss emergence patterns, including expected future trends in claims severity and frequency, inflation, judicial theories of liability, reinsurance coverage, legislative changes and other factors.

The inherent uncertainties of estimating reserves are greater for certain types of liabilities, where long periods of time elapse before a definitive determination of liability is made and settlement is reached. Our liabilities for loss and LAE can generally be categorized into two distinct groups, short-tail business and long-tail business. Short-tail business refers to lines of business, such as property, for which losses are usually known and paid relatively soon after the loss actually occurs. Long-tail business describes lines of business for which specific losses may not be known and reported for some period and losses take much longer to emerge. Given the time frame over which long-tail exposures are ultimately settled, there is greater uncertainty and volatility in these lines than in short-tail lines of business. Our long-tail coverages consist of most casualty lines of business including professional liability, directors and officers liability, general liability, umbrella/excess liability and certain workers compensation exposures. Some factors that contribute to the uncertainty and volatility of long-tail casualty business, and thus require a significant degree of judgment in the reserving process, include the inherent uncertainty as to the length of reporting and payment development patterns, the possibility of judicial interpretations or legislative changes that might impact future loss experience relative to prior loss experience and the potential lack of comparability of the underlying data used in performing loss reserve analyses. In general, reinsurance business for any particular line of business is longer-tailed and, by its nature, losses are more difficult to estimate than they are for comparable insurance business.

In periods with increased economic volatility, it becomes more difficult to accurately predict claims costs. It is especially difficult to estimate the impact of inflation on loss reserves given the current economic environment and related government actions. Reserve estimates are continually refined in an ongoing process as experience develops and further claims are reported and settled. Adjustments to reserves are reflected in the results of the periods in which the adjustments are made. Because setting reserves is inherently uncertain, we cannot assure you that our current reserves will prove adequate in light of subsequent events. Should our reinsurance and insurance subsidiaries need to increase their reserves, our pre-tax income for the period would decrease by a corresponding amount. Although current reserves reflect our best estimate of the costs of settling claims, we cannot assure you that our reserve estimates will not need to be increased, perhaps by a material amount, in the future.

Because our reinsurance and insurance subsidiaries are property and casualty reinsurers and insurers, we face losses from natural and man-made catastrophes. Property and casualty reinsurers and insurers are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophe losses, or the absence thereof, have historically had a significant impact on our results.

Natural or man-made catastrophes can be caused by various events, including hurricanes, other windstorms, earthquakes and floods, as well as terrorist activities. The frequency and severity of catastrophes in any short period of time are inherently unpredictable. The extent of gross losses from a catastrophe event is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event, potentially mitigated by any reinsurance coverage purchased by our reinsurance and insurance subsidiaries. Most catastrophes are restricted to limited geographic areas; however, hurricanes, other windstorms, earthquakes and floods may produce significant damage when those areas are heavily populated. It is therefore possible that a catastrophe event or multiple catastrophe events could produce significant losses and have a material adverse effect on our financial condition and results of operations.

In addition, longer-term natural catastrophe trends may be changing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, and includes effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain and snow. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events such as hurricanes, other windstorms and tornado activity. To the extent climate change increases the frequency and severity of such weather events, our reinsurance and insurance subsidiaries, particularly TransRe and RSUI, may face increased claims, particularly with respect to properties located in coastal areas. Our reinsurance and insurance subsidiaries take certain measures to mitigate the impact of such events by considering these risks in their underwriting and pricing decisions, including their management of aggregate exposure levels and through the purchase of reinsurance. To the extent broad environmental factors, exacerbated by climate change or otherwise, lead to increases in insured losses, particularly if those losses exceed the expectations of our insurance subsidiaries, our financial condition and results of operations could be materially and adversely affected.

With respect to terrorism, to the extent that reinsurers have excluded coverage for certain terrorist acts or have priced this coverage at rates that make purchasing such coverage uneconomic, our reinsurance and insurance subsidiaries will not have reinsurance protection and are exposed to potential losses as a result of any acts of terrorism. To the extent an act of terrorism is certified by the U.S. Secretary of the Treasury, we may be covered under the Terrorism Act. This coverage under the Terrorism Act does not apply to reinsurers. Information regarding the Terrorism Act and its impact on our insurance subsidiaries can be found on pages 37 and 38 of this Form 10-K.

In general, TransRe does not provide coverage for acts of terrorism, as defined by the Terrorism Act, but it is exposed to potential losses from uncertified acts of terrorism in the U.S. or elsewhere, such as from terrorism-

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specific treaty coverages to ceding companies on a limited basis, and with respect to other lines of business from the assumption of terrorism risk in marine, aviation and other casualty treaties. Although TransRe assumes such terrorism risk after careful underwriting consideration and, in many cases, with limitations, a major terrorist event could have a material adverse impact on TransRe and us.

Finally, other catastrophes, such as an outbreak of a pandemic disease, the bankruptcy of a major company or a marine or aviation disaster, could also have a materially adverse effect on our business and operating results.

Significant competitive pressures may prevent our reinsurance and insurance subsidiaries from retaining existing business or writing new business at adequate rates. Our reinsurance and insurance subsidiaries compete with a large number of other companies in their selected lines of business. They compete, and will continue to compete, with major U.S. and non-U.S. reinsurers and insurers, other regional companies, mutual companies, specialty insurance companies, underwriting agencies, government-owned or subsidized facilities, European underwriting syndicates and diversified financial services companies. Many competitors have considerably greater financial resources and greater experience and may offer more products or services than do our reinsurance and insurance subsidiaries. Except for regulatory considerations, there are virtually no barriers to entry into the reinsurance and insurance industry.

Additionally, the reinsurance and insurance industry continues to consolidate and, accordingly, competition for customers will continue to increase. As a result, our reinsurance and insurance subsidiaries may incur greater customer retention and acquisition expense, which would affect the profitability of existing and new business. Further, as the industry continues to consolidate, reinsurance and insurance companies that merge could have increased market size and capital resources with which to negotiate price reductions and retain more risk, decreasing pricing and demand for reinsurance.

Competition in the businesses of our reinsurance and insurance subsidiaries is based on many factors, including the perceived financial strength of a company, premium charges, other terms and conditions offered, services provided, commissions paid to producers, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines to be written. Such competition could cause the supply or demand for insurance to change, which could affect the ability of our reinsurance and insurance subsidiaries to price their products at adequate rates. If our reinsurance and insurance subsidiaries are unable to retain existing business or write new business at adequate rates, our results of operations could be materially and adversely affected.

In addition to competition from the reinsurance industry, TransRe faces competition from the capital markets, as well as some traditional reinsurers, which from time to time produce alternative products or reinsurance vehicles (such as collateralized reinsurance, reinsurance securitizations, catastrophe bonds and various derivatives, such as swaps and sidecars) that may compete with certain types of reinsurance, such as property catastrophe. Hedge funds may also provide reinsurance and retrocessional protections through captive companies or other alternative transactions on a fully collateralized basis for property and energy catastrophe business. Over time, these initiatives could significantly affect supply, pricing and competition in the reinsurance industry.

Our results may fluctuate as a result of many factors, including cyclical changes in the reinsurance and insurance industries. Historically, the performance of the property and casualty reinsurance and insurance industries has tended to fluctuate in cyclical periods of price competition and excess underwriting capacity, followed by periods of high premium rates and shortages of underwriting capacity. Although an individual reinsurance and insurance company s performance is dependent on its own specific business characteristics, the profitability of most property and casualty reinsurance and insurance companies tends to follow this market cycle. Further, this cyclical market pattern can be more pronounced in the reinsurance market in which TransRe competes and in the excess and surplus market in which RSUI primarily competes than in the standard insurance market. In addition, compared with historical cyclical periods, a cycle of increased price competition and excess underwriting capacity may continue for a prolonged period of time as new and existing reinsurance and insurance market participants and products continue to enter the reinsurance and insurance markets. Unfavorable market conditions may affect the ability of our reinsurance and insurance subsidiaries to write business at rates they consider appropriate relative to the risk assumed. If we cannot write business at appropriate rates, our business would be significantly and adversely affected.

When premium rates are high and there is a shortage of capacity in the standard insurance market, growth in the excess and surplus market can be significantly more rapid than growth in the standard insurance market. Similarly, when there is price competition and excess underwriting capacity in the standard insurance market, many customers that were previously driven into the excess and surplus market may return to the standard insurance market, exacerbating the effects of price competition.

Demand for reinsurance is influenced significantly by underwriting and investment results in both the standard insurance and the excess and surplus markets and market conditions. The supply of reinsurance is related to prevailing prices, the levels of insured losses and the levels of reinsurance industry surplus, among other factors, that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the reinsurance industry. In addition, the supply of reinsurance is affected by a reinsurer s confidence in its ability to accurately assess the probability of expected underwriting outcomes, particularly with respect to catastrophe losses.

Since cyclicality is due in large part to the collective actions of insurers, reinsurers and general economic conditions and the occurrence of unpredictable events, we cannot predict the timing or duration of changes in the market cycle. These cyclical patterns cause our revenues and net earnings to fluctuate. In addition, our results may fluctuate as a result of changes in economic, legal, political and social factors, among others.

We cannot guarantee that the reinsurers used by our reinsurance and insurance subsidiaries will pay in a timely fashion, if at all, and, as a result, we could experience losses even if reinsured. As part of their overall risk and capacity management strategy, our reinsurance and insurance subsidiaries purchase reinsurance by transferring or ceding part of the risk that they have underwritten to a reinsurance company in exchange for part of the premium received by our operating subsidiaries in connection with that risk. Although reinsurance makes the reinsurer liable to our reinsurance and insurance subsidiaries to the extent the risk is transferred or ceded to the reinsurer, our reinsurance and insurance subsidiaries remain liable for amounts not paid by a reinsurer. Reinsurers may not pay the reinsurance recoverables that they owe to our operating subsidiaries or they may not pay these recoverables on a timely basis. This risk may increase significantly if these reinsurers experience financial difficulties as a result of catastrophes, investment losses or other events. Accordingly, we bear credit risk with respect to our reinsurance and insurance subsidiaries reinsurers, and if they fail to pay, our financial results would be adversely affected. As of December 31, 2014, the amount due from reinsurers reported on our balance sheet was $1.4 billion.

If market conditions cause reinsurance to be more costly or unavailable, our reinsurance and insurance subsidiaries may be required to bear increased risks or reduce the level of their underwriting commitments. As part of their overall risk management strategy, our reinsurance and insurance subsidiaries purchase reinsurance for certain amounts of risk underwritten by them, including catastrophe risks. The reinsurance programs purchased by our operating subsidiaries are generally subject to annual renewal. Market conditions beyond their control determine the availability and cost of the reinsurance protection they purchase, which may affect the level of their business written and thus their profitability. If our reinsurance and insurance subsidiaries are unable to renew their expiring facilities or to obtain new reinsurance facilities, which could result as the number of companies offering reinsurance coverage declines due to industry consolidation, either their net exposures on future policies or reinsurance contracts would increase, which could increase the volatility of their results or, if they are unwilling or unable to bear an increase in net exposures, they would have to reduce the level of their underwriting commitments, especially catastrophe-exposed risks, which may reduce their revenues and net earnings. In certain reinsurance contracts, a cedant, to the extent it exhausts its original coverage under a reinsurance contract during a single coverage period (typically a single twelve-month period), can pay a reinsurance reinstatement premium to restore coverage during such coverage period. If our reinsurance and insurance subsidiaries exhaust their original and, if applicable, reinstated coverage under their third-party reinsurance contracts during a single coverage period, they will not have any reinsurance coverage available for losses incurred as a result of additional loss events during that coverage period. The exhaustion of such reinsurance coverage could have a material adverse effect on the profitability of our reinsurance and insurance subsidiaries in any given period and on our results of operations.

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TransRe and RSUI attempt to manage their exposure to catastrophe risk partially through the use of catastrophe modeling software. The failure of this software to accurately gauge the catastrophe-exposed risks they write could have a material adverse effect on our financial condition, results of operations and cash flows. As part of their approach to managing catastrophe risk, TransRe and RSUI use a number of tools, including third-party catastrophe modeling software, to help evaluate potential losses. TransRe and RSUI use modeled loss scenarios and internal analyses to set their level of risk retention and help structure their reinsurance programs. Modeled loss estimates, however, have not always accurately predicted their ultimate losses with respect to catastrophe events. Accordingly, they periodically review their catastrophe exposure management approach, which may result in the implementation of new monitoring tools and a revision of their underwriting guidelines and procedures. However, these efforts may not be successful in sufficiently mitigating risk exposures and losses resulting from future catastrophes.

Our reinsurance and insurance subsidiaries are rated by rating agencies and a decline in these ratings could affect the standings of these units in the reinsurance and insurance industries and cause their premium volume and earnings to decrease. Ratings have become an increasingly important factor in establishing the competitive positions of reinsurance and insurance companies. Some of our reinsurance and insurance subsidiaries are rated by A.M. Best, S&P and / or Moody s, which we collectively refer to as the Rating Agencies. The Rating Agencies financial strength ratings reflect their opinions of a reinsurance or an insurance company s financial strength, operating performance, strategic position and ability to meet its obligations to policyholders, and are neither an evaluation directed to investors of a security nor a recommendation to buy, sell or hold a security. These ratings are subject to periodic review, and we cannot assure you that any of our reinsurance or insurance companies will be able to retain their current ratings. If the ratings of our reinsurance or insurance companies are reduced from their current levels by the Rating Agencies, their competitive positions could suffer and it would be more difficult for them to market their products. A significant downgrade could result in a substantial loss of business as customers move to other companies with higher financial strength ratings.

In addition, in general, if the financial strength ratings of TransRe s operating subsidiaries from the Rating Agencies fall below A-, certain rating agency triggers in a significant portion of TransRe s operating subsidiaries s contracts would allow customers to elect to take a number of actions such as terminating the contracts on a run-off or cut-off basis, requiring TransRe s operating subsidiaries to post collateral for all or a portion of the obligations or requiring commutation under the contracts. Some of these contracts, however, contain dual triggers, such as requiring both a ratings downgrade below A- and a significant decline in the statutory surplus of TransRe s operating subsidiaries before such cancellation or collateralization rights would be exercisable. Contracts may contain one or both of the aforementioned contractual provisions, or certain other collateralization or cancellation triggers. Whether a ceding company would exercise any of these cancellation rights would depend on, among other factors, the reason and extent of such downgrade or surplus reduction, the prevailing market conditions and the pricing and availability of replacement reinsurance coverage. We cannot predict the extent to which these contractual rights would be exercised, if at all, or what effect such exercises would have on our financial condition or future operations, but such effect potentially could be materially adverse to us.

TransRe may also enter into agreements with ceding companies that require it to provide collateral for its obligations, including where TransRe s obligations to these ceding companies exceed negotiated thresholds. These thresholds may vary depending on the ratings of TransRe s operating subsidiaries, and a ratings downgrade or a failure to achieve a certain rating may increase the amount of collateral TransRe is required to provide. TransRe may provide the collateral by delivering letters of credit to the ceding company, depositing assets into a trust for the benefit of the ceding company or permitting the ceding company to withhold funds that would otherwise be delivered to TransRe under the reinsurance contract. The amount of collateral TransRe is required to provide typically represents all or a portion of the obligations TransRe may owe a ceding company, often including estimates made by a ceding company of IBNR claims. Since TransRe may be required to provide collateral based on a ceding company s estimate, TransRe may be obligated to provide collateral that exceeds TransRe s estimate of the ultimate liability to such ceding company. An increase in the amount of collateral TransRe is obligated to provide to secure its obligations may have an adverse impact on, among other things, TransRe s ability to write additional reinsurance.

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A limited number of brokers account for a large portion of TransRe s premiums; the loss of all or a substantial portion of the business provided by them may have an adverse effect on us. The great majority of TransRe s premiums are written through brokers. Three large international brokers dominate the reinsurance brokerage industry, and TransRe derives a significant portion of its premiums from these brokers. Further, TransRe may become increasingly reliant on these brokers due to continued consolidation in the broker sector. The loss of all or a substantial portion of the business provided by these brokers could have a material adverse effect on us.

Difficult and volatile conditions in the global capital and credit markets and in the overall economy could materially and adversely affect the results of our reinsurance and insurance subsidiaries. Disruption and volatility in the global capital and credit markets and in the overall economy affects our business in a number of ways, including the following:

- disruption in the capital and credit markets may increase claims activity in our reinsurance business, such as directors and officers liability, errors and omissions liability and trade credit lines;

- volatility in the capital and credit markets makes it more difficult to access those markets, if necessary, to maintain or improve financial strength and credit ratings of our reinsurance and insurance subsidiaries or to generate liquidity;

- disruption in the overall economy may reduce demand for reinsurance and insurance products; and

- increases in inflation could result in higher losses on reinsurance contracts, particularly in longer-tailed lines of business, increased operating costs and a decrease in the fair value of our investment portfolio.

It is difficult to predict when and how long these types of conditions may exist and how our markets, business and investments will be adversely affected. Accordingly, these conditions could have a material adverse effect on our consolidated financial condition or results of operations in future periods.

The businesses of our reinsurance and insurance subsidiaries are heavily regulated, and changes in regulation may reduce their profitability and limit their growth. Our reinsurance and insurance operating subsidiaries are subject to extensive regulation and supervision in the jurisdictions in which they conduct business, both in the U.S. and other countries. This regulation is generally designed to protect the interests of policyholders and not necessarily the interests of insurers, their stockholders or other investors. The regulation relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of a reinsurance and insurance company s business.

Virtually all states in which our insurance operating subsidiary companies conduct their business require them, together with other insurers licensed to do business in that state, to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. In addition, in various states, our insurance operating subsidiary companies must participate in mandatory arrangements to provide various types of insurance coverage to individuals or other entities that otherwise are unable to purchase that coverage from private insurers. A few states require our insurance operating subsidiary companies to purchase reinsurance from a mandatory reinsurance fund. Such reinsurance funds can create a credit risk for insurers if not adequately funded by the state and, in some cases, the existence of a reinsurance fund could affect the prices charged for the policies issued by our reinsurance and insurance subsidiaries. The effect of these and similar arrangements could reduce the profitability of our insurance operating subsidiaries in any given period or limit their ability to grow their business.

In recent years, the state insurance regulatory framework has come under increased scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators are continually reexamining existing laws and regulations, specifically focusing on modifications to statutory accounting principles, interpretations of existing laws and the development of new laws and regulations. On the federal level, the Dodd-Frank Act, signed into law on July 2010, mandated significant changes to the regulation of U.S. insurance effective as of July 21, 2011. We cannot predict the requirements of the regulations ultimately adopted under the Dodd-Frank Act or the impact such regulations will have on our business. These regulations, and any proposed or future state or federal legislation or NAIC initiatives, if adopted, may be more restrictive on the ability of our reinsurance and insurance subsidiaries to conduct business than current regulatory requirements or may result in higher costs. Information regarding the impact of regulation and current regulatory changes on our reinsurance and insurance operating subsidiaries can be found on pages 39 through 46 of this Form 10-K.

TransRe s offices that operate in jurisdictions outside the U.S. are subject to certain limitations and risks that are unique to foreign operations. TransRe s international operations are also regulated in various jurisdictions with respect to licensing requirements, solvency, currency, amount and type of security deposits, amount and type of reserves, amount and type of local investments and other matters. International operations and assets held abroad are subject to significant legal, market, operational, compliance and regulatory risks, including risks related to:

- economic, political and other developments in foreign countries;
- changes in foreign or U.S. tax laws;
- nationalization and changes in regulatory policy;
- unexpected financial restrictions that foreign governments may impose;
- the potential costs and difficulties in complying with a wide variety of foreign laws and regulations; and
- the consequences of international hostilities and unrest.

The risks of such occurrences and their overall effect upon us vary from country to country and cannot be predicted. In addition, our results of operations and net unrealized currency translation gain or loss (a component of accumulated other comprehensive income) are subject to volatility as the value of the foreign currencies fluctuate relative to the U.S. dollar. Further, regulations governing technical reserves and remittance balances in some countries may hinder remittance of profits and repatriation of assets.

TransRe s international operations are also subject to risks related to complying, or monitoring compliance, with the requirements of anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, and the economic and trade sanctions laws of the U.S., including but not limited to the regulations administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury, and sanctions laws implemented by other countries in which TransRe operates. The international and U.S. laws and regulations that are applicable to TransRe s operations are complex and may increase the costs of regulatory compliance, limit or restrict TransRe s reinsurance business or subject TransRe to regulatory actions or proceedings in the future. While TransRe attempts to comply with all applicable laws and regulations and to seek licenses to undertake various activities where appropriate, there can be no assurance that TransRe is, or will be, in full compliance with all applicable laws and regulations, or interpretations of these laws and regulations, at all times. In addition, it is TransRe s policy to continually monitor compliance with, and voluntarily report to appropriate regulatory authorities any potential violations of, all applicable laws and regulations where it is deemed appropriate, including anti-corruption and trade sanction laws and any failure to comply with any such laws and regulations may subject TransRe to investigations, sanctions or other remedies, including fines, injunctions, increased scrutiny or oversight by regulatory authorities. The cost of compliance or the consequences of non-compliance, including reputational damage, could have a material adverse effect on our consolidated financial condition or results of operations in future periods.

With regards to TransRe s operations within the EU, TRC operates within the EU as a Third Country Reinsurer under the Reinsurance Directive through a series of foreign branches and on a cross-border basis. Each branch of TRC in the EU is separately authorized by the relevant regulator in the Member State in which it is established. Currently, TRC continues to conduct business within the EU through its foreign branches with no significant impact on its operations. However, TransRe could be materially and adversely affected by rules adopted by a Member State relating to Third Country Reinsurers. For example, TRC may be required to post additional collateral in EU countries or may need to consider further restructuring its business in order to comply with the rules adopted in EU countries relating to Third Country Reinsurers.

In addition to the Reinsurance Directive, an EU directive known as Solvency II was adopted by the European Parliament in April 2009. Solvency II is a fundamental revision to the current European regulatory regime that seeks to enhance transparency and risk management, and encourage a proactive approach to company solvency. It is built on a risk-based approach to setting capital requirements for reinsurers and insurers. TransRe could be materially impacted by the implementation of Solvency II depending on the costs associated with implementation by each EU country, any increased capitalization requirements and any costs associated with adjustments to TransRe s corporate operating structure. The implementation of Solvency II could also materially impact Alleghany on a group-wide basis. Information regarding Solvency II and its impact on our operations can be found on page 45 of this Form 10-K.

In Brazil, Argentina and India, three emerging markets where TransRe underwrites business on a cross-border basis, local regulations have recently been adopted that may operate to limit, restrict or increase the costs of TransRe s access to these markets. If this trend continues to spread to other jurisdictions, TransRe s ability to operate globally may be materially and adversely affected.

The loss of key personnel at our reinsurance and insurance subsidiaries could adversely affect our results of operations, financial condition and cash flows. We rely upon the knowledge and talent of the employees of our reinsurance and insurance subsidiaries to successfully conduct their business. A loss of key personnel, especially the loss of underwriters or underwriting teams, could have a material adverse effect on our results of operations, financial condition and cash flows in future periods. Our success has depended, and will continue to depend in substantial part, upon our ability to attract and retain teams of underwriters in various business lines at our reinsurance and insurance subsidiaries. The loss of key services of any members of current underwriting teams at our reinsurance and insurance subsidiaries may adversely affect our business and results of operations.

There are significant hazards associated with oil exploration and production activities, some of which may not be fully covered by insurance. The business of exploring for, producing, storing and transporting oil is subject to risks and hazards, including environmental hazards, construction risks, industrial accidents, the encountering of unusual or unexpected geological formations, cave-ins, blowouts, fires, explosions, craterings, pipeline ruptures and spills, and flooding, earthquakes and other natural disasters. These occurrences could result in personal injury or death, environmental damage, damage to, or destruction of, mineral properties or production facilities or other physical assets, monetary losses and possible legal liability. Although we maintain insurance against some of these risks, insurance fully covering many of these risks is not generally available to us or if it is, we may elect not to obtain it due to the high premium costs or commercial impracticality. Any liabilities that we may incur for these risks and hazards could be significant and could have a material adverse effect on our reputation, financial condition and results of operations.

We are subject to cybersecurity risks and may incur increasing costs in an effort to minimize those risks. Our reinsurance and insurance subsidiaries depend on the proper functioning and availability of their information technology platforms, including communications and data processing systems, in operating their business. These systems consist of software programs that are integral to the efficient operation of the business of our reinsurance and insurance subsidiaries, including programs for proprietary pricing and exposure management, processing payments and claims, filing and making changes to records and providing customer support. Our reinsurance and insurance subsidiaries are also required to effect electronic transmissions with third parties including brokers, clients, vendors and others with whom they do business. Security breaches could expose them to a risk of loss or misuse of their information, litigation and potential liability. In addition, cyber incidents that impact the availability, reliability, speed, accuracy or other proper functioning of these systems could have a significant impact on the operations of our reinsurance and insurance subsidiaries, and potentially on their results. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. A significant cyber incident, including system failure, security breach, disruption by malware or other damage could interrupt or delay the operations of our reinsurance and insurance subsidiaries, result in a violation of applicable privacy and other laws, damage their reputation, cause a loss of customers or give rise to monetary fines and other penalties, which could be significant.

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Risk Factors Relating to our Investments and Assets

The valuation of our investments includes methodologies, estimates and assumptions which are subject to differing interpretations or judgments; a change in interpretations or judgments could result in changes to investment valuations that may adversely affect our results of operations or financial condition. The vast majority of our investments are measured at fair value using methodologies, estimates and assumptions which are subject to differing interpretations or judgments. Financial instruments with quoted prices in active markets generally have more price observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Investments recorded at fair value in the consolidated balance sheet are classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs available in the market used to measure the fair values.

Securities that are less liquid are more difficult to value and trade. During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of the securities in our investment portfolio if trading becomes less frequent or market data becomes less observable. Certain asset classes in active markets with significant observable data may become illiquid due to changes in the financial environment. In such cases, valuing these securities may require more subjectivity and judgment. In addition, prices provided by third-party pricing services and broker quotes can vary widely even for the same security.

As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated, thereby resulting in values which may be greater or less than the value at which the investments may be ultimately sold. Further, rapidly changing or strained credit and equity market conditions could materially impact the value of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

A substantial amount of our assets is invested in debt securities and is subject to market fluctuations. A substantial portion of our investment portfolio consists of debt securities. As of December 31, 2014, our investment in debt securities was approximately $14.6 billion, or 77.5 percent of our total investment portfolio. The fair value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. A rise in interest rates would decrease unrealized gains and / or increase unrealized losses on our debt securities portfolio and potentially produce a net unrealized loss position, offset by our ability to earn higher rates of return on reinvested funds. Conversely, a decline in interest rates would increase unrealized gains and / or decrease unrealized losses on our debt securities portfolio, offset by lower rates of return on reinvested funds. Based upon the composition and duration of our investment portfolio as of December 31, 2014, a 100 basis point increase in interest rates would result in an approximate $569.3 million decrease in the fair value of our debt securities portfolio. In addition, some debt securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk, or the risk that principal will be returned more rapidly or slowly than expected, as a result of interest rate fluctuations.

Defaults, downgrades or other events impairing the value of our debt securities portfolio may reduce our earnings. We are subject to the risk that the issuers of debt securities we own may default on principal and interest payments they owe us. The occurrence of a major economic downturn, acts of corporate malfeasance, widening risk spreads or other events that adversely affect the issuers of these debt securities could cause the value of our debt securities portfolio and our net earnings to decline and the default rate of the debt securities in our investment portfolio to increase. In addition, with economic uncertainty, the credit quality of issuers could be adversely affected and a ratings downgrade of the issuers of the debt securities we own could also cause the value of our debt securities portfolio and our net earnings to decrease. Any event reducing the value of these securities other than on a temporary basis could have a material adverse effect on our business, results of operations and financial condition. We continually monitor the difference between cost and the estimated fair value of our investments in debt securities. If a decline in the value of a particular debt security is deemed to be temporary, we record the decline as an unrealized loss in stockholders equity. If the decline is deemed to be other than temporary, we write it down to the carrying value of the investment and record an other than temporary impairment loss in our statement of earnings, which may be material to our operating results.

We invest some of our assets in equity securities, which are subject to fluctuations in market value. We invest a portion of our investment portfolio in equity securities, which are subject to fluctuations in market value. As of December 31, 2014, our investments in equity securities had a fair value of approximately $2.8 billion, which represented 14.9 percent of our investment portfolio. We hold our equity securities as available-for-sale, and any changes in the fair value of these securities, net of tax, would be reflected directly in stockholders equity or in the statement of earnings. If there is an increase in value or if a decline in the value of a particular equity security is deemed to be temporary, we record the change as an unrealized gain or loss in stockholders equity. If the decline is deemed to be other than temporary, we write its cost-basis down to the fair value of the security and record an other than temporary impairment loss in our statement of earnings, which may be material to our operating results. A severe or prolonged downturn in equity markets could give rise to significant impairment charges.

Changes in foreign currency exchange rates could impact the value of our assets and liabilities denominated in foreign currencies. A principal exposure to foreign currency risk is our obligation to settle claims denominated in foreign currencies in the subject foreign currencies. The possibility exists that we may incur foreign currency exchange gains or losses when we ultimately settle these claims. To mitigate this risk, we maintain investments denominated in certain foreign currencies in which the claims payments will be made. To the extent we do not seek to hedge our foreign currency risk or our hedges prove ineffective, the resulting impact of a movement in foreign currency exchange rates could materially and adversely affect our results of operations or financial condition. For example, stockholders equity attributable to Alleghany stockholders was reduced by $39.9 million during 2014 from the impact of changes in foreign currency exchange rates.

If any of our businesses do not perform well, we may be required to recognize an impairment of our goodwill or other intangible assets or to establish a valuation allowance against the deferred income tax asset, which could adversely affect our results of operations or financial condition. Goodwill represents the excess of the amount we paid to acquire subsidiaries and other businesses over the fair value of their net assets as of the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the operating subsidiary to which the goodwill relates. The fair value of the operating subsidiary is impacted by the performance of the business. The performance of our businesses may be adversely impacted by prolonged market declines. If we determine the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net earnings. Such write-downs could have a material adverse effect on our results of operations or financial position. A decrease in the expected future earnings of an operating subsidiary could lead to an impairment of some or all of the goodwill or other long-lived intangible assets associated with such operating subsidiaries in future periods.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are recoverable. Factors in management s determination include the performance of the business including the ability to generate capital gains. If it is more likely than not that the deferred income tax asset will not be realized based on available information then a valuation allowance must be established with a corresponding charge to net earnings. Such charges could have a material adverse effect on our results of operations or financial position. Deterioration of financial market conditions could result in the impairment of long-lived intangible assets and the establishment of a valuation allowance on our deferred income tax assets.

Risks Relating to our Senior Notes and the Credit Agreement

Our failure to comply with restrictive covenants contained in the indentures governing the Senior Notes (as defined on page 102 of this Form 10-K) or any other indebtedness, including indebtedness under our revolving credit facility and any future indebtedness, could trigger prepayment obligations, which could adversely affect our business, financial condition and results of operations. The indentures governing the Senior Notes contain covenants that impose restrictions on Alleghany and TransRe with respect to, among other things, the incurrence of liens on the capital stock of certain of our subsidiaries. In addition, the indentures governing the Senior Notes contain certain other covenants, including covenants to timely pay principal and interest, and the Credit Agreement (as defined on page 99 of this Form 10-K) also requires us to comply with certain covenants. Our failure to comply with such covenants could result in an event of default under the indentures, under the Credit Agreement or under any other debt agreement we may enter into in the future, which could, if not cured or waived, result in us being required to repay the Senior Notes, the indebtedness under the Credit Agreement or any other future indebtedness. As a result, our business, financial condition, results of operations and liquidity could be adversely affected.

To service our debt, we will require a significant amount of cash, which may not be available to us. Our ability to make payments on, or repay or refinance, our debt, including the Senior Notes, will depend largely upon the future performance and use of our investment portfolio and our future operating performance, including the operating performance of our subsidiaries. Our future performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds in the future will depend on the satisfaction of the covenants in the indentures governing the Senior Notes, in the Credit Agreement and in other debt agreements we may enter into in the future. Under the Credit Agreement, we also need to maintain certain financial ratios. We cannot assure you that our business, including the operating performance of our subsidiaries, will generate sufficient cash flow from operations or that future borrowings will be available to us under the Credit Agreement or from other sources in an amount sufficient to enable us to pay our debt, including the Senior Notes, or to fund our other liquidity needs.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The principal executive offices of Alleghany, ACC and Roundwood are located in leased office space in New York, New York. TransRe leases office space in New York, New York for its headquarters and office space in almost all of its locations around the world. RSUI leases office space in Atlanta, Georgia for its headquarters and office space in Sherman Oaks, California. CapSpecialty leases office space in Middleton, Wisconsin for its headquarters. PacificComp leases office space in Agoura Hills, California. Bourn & Koch and Kentucky Trailer own their principal offices and manufacturing facilities, which are located in Rockford, Illinois and Louisville, Kentucky, respectively. SORC leases office space in Austin, Texas for its headquarters. Alleghany Properties leases office space in Sacramento, California. Management considers its facilities suitable and adequate for the current level of operations.

Item 3. 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.

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-K.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information, Holders and Dividends

Our common stock trades on the New York Stock Exchange under the symbol Y . The following table indicates quarterly high and low closing prices per share of our common stock, as reported on the New York Stock Exchange Composite Index, during the periods indicated.

	2014		2013	
Quarter Ended:	High	Low	High	Low
March 31	$ 407.38	$ 363.60	$ 395.92	$ 337.67
June 30	438.12	401.34	403.36	366.99
September 30	443.51	413.85	420.89	379.10
December 31	482.00	412.74	413.58	388.00

As of February 16, 2015, there were approximately 829 holders of record of our common stock. This figure does not represent the actual number of beneficial owners of our common stock because such stock is frequently held in street name by securities dealers and others for the benefit of individual owners who may vote the shares.

Our Board of Directors determined not to declare a dividend for 2014 or 2013. Any future determination to pay dividends to holders of our common stock will be at the discretion of our Board of Directors and will be dependent upon many factors, including our earnings, financial condition, business needs and growth objectives, capital and surplus requirements of our reinsurance and insurance subsidiaries, regulatory restrictions, rating agency considerations and other factors.

Repurchases of Equity Securities

The following table summarizes our common stock repurchases in the quarter ended December 31, 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)
October 1 to October 31	146,798	$ 421.65	146,798	$ 307.5
November 1 to November 30	14,041	454.94	14,041	301.1

December 1 to December 31	21,699	449.22	21,699	291.4
Total	182,538	427.49	182,538	

(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. As of December 31, 2014, we had completed the 2012 repurchase program and had begun repurchasing shares under the new program.

Performance Graph

The following information is not deemed to be soliciting material or to be filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act, and the information shall not be deemed to be incorporated by reference in any filing by us under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

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The following graph compares (i) the cumulative total stockholder return on our common stock; (ii) the cumulative total return on the Standard & Poor s 500 Stock Index, or the S&P 500 Index; and (iii) the cumulative total return on the Standard & Poor s 500 Property and Casualty Insurance Index, or the P&C Index, for the five year period beginning on December 31, 2009 through December 31, 2014. The graph assumes that the value of the investment was $100.00 on December 31, 2009.

	Base	INDEXED RETURNS				
	Period	Year Ending				
Company / Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Alleghany	$100.00	$113.22	$107.54	$126.44	$150.77	$174.72
S&P 500 Index	$100.00	$115.06	$117.49	$136.30	$180.44	$205.14
P&C Index	$100.00	$108.94	$108.67	$130.52	$180.50	$208.91

The graph above is based on the following assumptions: (i) cash dividends are reinvested on the ex-dividend date in respect of such dividend; and (ii) the two percent stock dividends we paid in each of 2010 and 2011 are included in the cumulative total stockholder return on our common stock.

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Item 6. Selected Financial Data.

Alleghany Corporation and Subsidiaries[1]

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in millions, except per share and share amounts)				
Operating Data					
Revenue	$ 5,231.8	$ 4,971.7	$ 4,753.2	$ 981.8	$ 985.4
Net earnings[3]	$ 679.2	$ 628.4	$ 702.2	$ 143.3	$ 198.5
Basic earnings per share of common stock[2][3]	$ 41.40	$ 37.44	$ 45.48	$ 16.26	$ 21.85
Average number of shares of common stock[2]	16,405,388	16,786,608	15,441,578	8,807,487	9,081,535

	As of December 31,				
	2014	2013	2012	2011	2010
	(in millions, except per share amounts)				
Balance Sheet					
Total assets	$ 23,489.4	$ 23,361.1	$ 22,808.0	$ 6,478.1	$ 6,431.7
Senior Notes	$ 1,767.1	$ 1,794.4	$ 1,811.5	$ 299.0	$ 298.9
Common stockholders equity[3]	$ 7,473.4	$ 6,923.8	$ 6,403.8	$ 2,925.7	$ 2,908.9
Common stockholders equity per share of common stock[2][3]	$ 465.51	$ 412.96	$ 379.13	$ 342.12	$ 325.31

(1) On August 30, 2013, we acquired Kentucky Trailer; on April 26, 2012, we acquired Bourn & Koch; and on March 6, 2012, we acquired TransRe.
(2) Amounts have been adjusted for subsequent common stock dividends.
(3) Attributable to Alleghany stockholders.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion and analysis of our financial condition and results of operations for the twelve months ended December 31, 2014, 2013 and 2012. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties and that are not historical facts, including statements about our beliefs and expectations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and particularly under the headings Risk Factors, Business and Note on Forward-Looking Statements contained in Item 1A, Item 1, and Part I of this Form 10-K, respectively.

Comment on Non-GAAP Financial Measures

Throughout this Form 10-K, our analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with GAAP. Our results of operations have been presented in the way that we believe will be the most meaningful and useful to investors, analysts, rating agencies and others who use financial information in evaluating our performance. This presentation includes the use of underwriting profit, which is a non-GAAP financial measure, as such term is defined in Item 10(e) of Regulation S-K promulgated by the SEC. 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, other than temporary impairment, or OTTI, losses, gain on bargain purchase, other income, other operating expenses, corporate administration, amortization of intangible assets or interest expense. We consistently use underwriting profit as a supplement to earnings before income taxes, the most comparable GAAP financial measure, to evaluate the performance of our segments and believe that underwriting profit provides useful additional information to investors because it highlights net earnings attributable to a segment s underwriting performance. Earnings before income taxes may show a profit despite an underlying underwriting loss, and when underwriting losses persist over extended periods, a reinsurance or an insurance company s ability to continue as an ongoing concern may be at risk. However, underwriting profit is not meant to be considered in isolation or as a substitute for earnings before income taxes or any other measures of operating performance prepared in accordance with GAAP. A reconciliation of underwriting profit to earnings before income taxes is presented within Consolidated Results of Operations.

Overview

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

- Net earnings attributable to Alleghany stockholders were $679.2 million in 2014, compared with $628.4 million in 2013 and $702.2 million in 2012.

- Earnings before income taxes were $931.9 million in 2014, compared with $855.2 million in 2013 and $719.3 million in 2012.

Net investment income decreased by 1.2 percent in 2014 over 2013, and increased by 48.8 percent in 2013 over 2012.

Net premiums written increased by 4.9 percent in 2014 over 2013, and increased by 15.1 percent in 2013 over 2012.

Underwriting profit was $494.8 million in 2014, compared with $420.7 million in 2013 and $220.3 million in 2012.

The combined ratio for our reinsurance and insurance segments was 88.8 percent in 2014, compared with 90.1 percent in 2013 and 94.1 percent in 2012.

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Catastrophe losses, net of reinsurance, were $95.2 million in 2014, compared with $150.9 million in 2013 and $470.1 million in 2012.

Net favorable prior accident year development on loss and LAE reserves was $215.2 million in 2014, compared with $203.0 million in 2013 and $12.3 million in 2012. The 2012 figure excludes $87.8 million of favorable prior accident year development on loss and LAE reserves acquired in the merger, which is included in TransRe s current year net loss and LAE.

As of December 31, 2014, we had total assets of $23.5 billion and total stockholders equity attributable to Alleghany stockholders of $7.5 billion. As of December 31, 2014, we had consolidated total investments of approximately $18.8 billion, of which $14.6 billion was invested in debt securities, $2.8 billion was invested in equity securities, $0.7 billion was invested in short-term investments and $0.7 billion was invested in other invested assets.

Consolidated Results of Operations

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

	Year Ended December 31,		
	2014	2013	2012
		(in millions)	
Revenues			
Net premiums earned	$ 4,410.6	$ 4,239.2	$ 3,733.0
Net investment income	459.9	465.7	313.0
Net realized capital gains	247.1	232.1	157.9
Other than temporary impairment losses	(36.3)	(44.0)	(2.9)
Gain on bargain purchase			494.9
Other income	150.5	78.7	57.3
Total revenues	5,231.8	4,971.7	4,753.2
Costs and Expenses			
Net loss and LAE	2,494.5	2,479.3	2,630.3
Commissions, brokerage and other underwriting expenses	1,421.3	1,339.2	882.4
Other operating expenses	252.7	164.9	123.7
Corporate administration	47.1	36.1	75.8
Amortization of intangible assets	(5.7)	10.2	253.3
Interest expense	90.0	86.8	68.4
Total costs and expenses	4,299.9	4,116.5	4,033.9
Earnings before income taxes	931.9	855.2	719.3
Income taxes	251.8	225.9	17.1
Net earnings	680.1	629.3	702.2

Net earnings attributable to noncontrolling interest	0.9	0.9	
Net earnings attributable to Alleghany stockholders	$ 679.2	$ 628.4	$ 702.2
Revenues:			
Total reinsurance and insurance segments	$ 5,057.2	$ 4,809.9	$ 4,191.6
Corporate activities(1)	174.6	161.8	561.6
Earnings (losses) before income taxes:			
Total reinsurance and insurance segments	$ 1,013.7	$ 848.3	$ 295.6
Corporate activities(1)	(81.8)	6.9	423.7

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(1) Consist of Alleghany Properties, SORC, our investments in Homesite (prior to its sale on December 31, 2013), and ORX and corporate activities at the parent level. In addition, beginning April 26, 2012, August 30, 2013 and July 31, 2014, corporate activities include the operating results of Bourn & Koch, Kentucky Trailer and our investment in Jazwares, respectively. Corporate activities also include interest expense associated with the senior notes issued by Alleghany, whereas interest expense associated with the senior notes issued by TransRe is included in total reinsurance and insurance segments. Information related to the senior notes can be found in Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K.

Segment results for our two reportable segments and for corporate activities for 2014, 2013 and 2012 are shown in the tables below:

Year Ended December 31, 2014	Reinsurance Segment	Insurance Segment	Total Segments[1]	Corporate Activities[1]	Consolidated
	(in millions, except ratios)				
Premiums written:					
Gross	$ 3,600.1	$ 1,525.3	$ 5,125.4	$ (28.8)	$ 5,096.6
Net	3,410.1	1,087.4	4,497.5		4,497.5
Net premiums earned	3,330.7	1,079.9	4,410.6		4,410.6
Net loss and LAE:					
Current year (excluding catastrophe losses)	2,044.8	569.7	2,614.5		2,614.5
Current year catastrophe losses	46.8	48.4	95.2		95.2
Prior years	(182.4)	(32.8)	(215.2)		(215.2)
Total net loss and LAE	1,909.2	585.3	2,494.5		2,494.5
Commissions, brokerage and other underwriting expenses	1,076.5	344.8	1,421.3		1,421.3
Underwriting profit[2]	$ 345.0	$ 149.8	494.8		494.8
Net investment income			448.9	11.0	459.9
Net realized capital gains			230.0	17.1	247.1
Other than temporary impairment losses			(36.3)		(36.3)
Gain on bargain purchase					
Other income			4.0	146.5	150.5
Other operating expenses			85.7	167.0	252.7
Corporate administration			1.3	45.8	47.1
Amortization of intangible assets			(6.1)	0.4	(5.7)
Interest expense			46.8	43.2	90.0
Earnings (losses) before income taxes			$ 1,013.7	$ (81.8)	$ 931.9

Loss ratio[3]:			
Current year (excluding catastrophe losses)	61.4%	52.8%	59.3%
Current year catastrophe losses	1.4%	4.5%	2.2%
Prior years	-5.5%	-3.1%	-4.9%
Total net loss and LAE	57.3%	54.2%	56.6%
Expense ratio[4]	32.3%	31.9%	32.2%
Combined ratio[5]	89.6%	86.1%	88.8%

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Year Ended December 31, 2013	Reinsurance Segment	Insurance Segment	Total Segments[1]	Corporate Activities[1]	Consolidated
			(in millions, except ratios)		
Premiums written:					
Gross	$ 3,423.0	$ 1,486.4	$ 4,909.4	$ (23.1)	$ 4,886.3
Net	3,248.0	1,039.4	4,287.4		4,287.4
Net premiums earned	3,278.7	960.5	4,239.2		4,239.2
Net loss and LAE:					
Current year (excluding catastrophe losses)	2,058.4	473.0	2,531.4		2,531.4
Current year catastrophe losses	92.1	58.8	150.9		150.9
Prior years	(224.1)	21.1	(203.0)		(203.0)
Total net loss and LAE	1,926.4	552.9	2,479.3		2,479.3
Commissions, brokerage and other underwriting expenses	1,018.3	320.9	1,339.2		1,339.2
Underwriting profit[2]	$ 334.0	$ 86.7	420.7		420.7
Net investment income			415.2	50.5	465.7
Net realized capital gains			197.7	34.4	232.1
Other than temporary impairment losses			(44.0)		(44.0)
Gain on bargain purchase					
Other income			1.8	76.9	78.7
Other operating expenses			83.7	81.2	164.9
Corporate administration				36.1	36.1
Amortization of intangible assets			10.0	0.2	10.2
Interest expense			49.4	37.4	86.8
Earnings before income taxes			$ 848.3	$ 6.9	$ 855.2
Loss ratio[3]:					
Current year (excluding catastrophe losses)	62.8%	49.3%	59.7%		
Current year catastrophe losses	2.8%	6.1%	3.6%		
Prior years	-6.8%	2.2%	-4.8%		
Total net loss and LAE	58.8%	57.6%	58.5%		
Expense ratio[4]	31.1%	33.4%	31.6%		
Combined ratio[5]	89.9%	91.0%	90.1%		

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Year Ended December 31, 2012	Reinsurance Segment	Insurance Segment	Total Segments[1]	Corporate Activities[1]	Consolidated
	(in millions, except ratios)				
Premiums written:					
Gross	$ 2,940.2	$ 1,300.9	$ 4,241.1	$ (18.2)	$ 4,222.9
Net	2,840.7	883.2	3,723.9		3,723.9
Net premiums earned	2,915.9	817.1	3,733.0		3,733.0
Net loss and LAE:					
Current year (excluding catastrophe losses)	1,779.7	392.8	2,172.5		2,172.5
Current year catastrophe losses	278.4	191.7	470.1		470.1
Prior years[6]		(12.3)	(12.3)		(12.3)
Total net loss and LAE	2,058.1	572.2	2,630.3		2,630.3
Commissions, brokerage and other underwriting expenses	591.1	291.3	882.4		882.4
Underwriting profit (loss)[2]	$ 266.7	$ (46.4)	220.3		220.3
Net investment income			317.5	(4.5)	313.0
Net realized capital gains			117.9	40.0	157.9
Other than temporary impairment losses			(2.9)		(2.9)
Gain on bargain purchase				494.9	494.9
Other income			26.1	31.2	57.3
Other operating expenses			89.2	34.5	123.7
Corporate administration				75.8	75.8
Amortization of intangible assets			253.3		253.3
Interest expense			40.8	27.6	68.4
Earnings before income taxes			$ 295.6	$ 423.7	$ 719.3
Loss ratio[3]:					
Current year (excluding catastrophe losses)	61.0%	48.1%	58.2%		
Current year catastrophe losses	9.6%	23.4%	12.6%		
Prior years	0.0%	-1.5%	-0.3%		
Total net loss and LAE	70.6%	70.0%	70.5%		
Expense ratio[4]	20.3%	35.7%	23.6%		
Combined ratio[5]	90.9%	105.7%	94.1%		

(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, gain on bargain purchase, 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.

(6) $87.8 million of favorable prior accident year on loss and LAE reserves acquired in the merger is included in current year net loss and LAE.

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Comparison of 2014, 2013 and 2012

A comparison of our consolidated results for 2014 compared with 2013, and for 2013 compared with 2012 follows. Our results for 2013 compared with 2012 reflect certain impacts that arose from the merger. These impacts primarily relate to the gain on bargain purchase of $494.9 million in 2012, due diligence, legal, investment banking and other merger-related costs, or Transaction Costs, (a component of corporate administration expense) of $33.8 million in 2012, and the write-off of deferred acquisition costs of TransRe as of the TransRe Acquisition Date, as well as the establishment of an intangible asset roughly approximating the amount of deferred acquisition costs. This intangible asset was amortized over an approximate one year period, similar to how deferred acquisition costs are amortized, but is shown as part of amortization of intangible assets as opposed to part of commissions, brokerage and other underwriting expenses. This amortization was largely completed as of March 6, 2013, the one year anniversary of the TransRe Acquisition Date. In addition, as the merger closed on March 6, 2012, comparative amounts for 2013 reflect activity for the entire year while amounts for 2012 reflect activity at TransRe only for the 300 day period from the TransRe Acquisition Date to December 31, 2012. Information related to the merger can be found in Note 2 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K.

Premiums. The following table summarizes our consolidated premiums.

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions)				
Premiums written:					
Gross	$ 5,096.6	$ 4,886.3	$ 4,222.9	4.3%	15.7%
Net	4,497.5	4,287.4	3,723.9	4.9%	15.1%
Net premiums earned	4,410.6	4,239.2	3,733.0	4.0%	13.6%

2014 vs 2013. The increases in gross premiums written and net premiums written in 2014 from 2013 reflect increases at our reinsurance segment and, to a lesser extent, at our insurance segment. The increase at our reinsurance segment primarily reflects certain expanded treaty participations with existing long-term clients. The increase at our insurance segment reflects significant growth at CapSpecialty and PacificComp. The increases in net premiums earned in 2014 from 2013 reflect increases at our insurance segment and, to a lesser extent, at our reinsurance segment.

2013 vs 2012. The increases in gross premiums written, net premiums written and net premiums earned in 2013 from 2012 primarily reflect increases at our reinsurance segment due to the merger impacts discussed above.

Premiums for 2014, 2013 and 2012 are more fully described in the following pages.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions, except ratios)				
Net loss and LAE:					

Current year (excluding catastrophe losses)	$ 2,614.5	$ 2,531.4	$ 2,172.5	3.3%	16.5%
Current year catastrophe losses	95.2	150.9	470.1	-36.9%	-67.9%
Prior years	(215.2)	(203.0)	(12.3)	6.0%	1550.4%
	$ 2,494.5	$ 2,479.3	$ 2,630.3	0.6%	-5.7%
Net loss and LAE ratio:					
Current year (excluding catastrophe losses)	59.3%	59.7%	58.2%		
Current year catastrophe losses	2.2%	3.6%	12.6%		
Prior years	-4.9%	-4.8%	-0.3%		
	56.6%	58.5%	70.5%		

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2014 vs 2013. The increase in net loss and LAE in 2014 from 2013 primarily reflects the impact of increased net premiums earned at our insurance segment, as discussed above, and lower net favorable prior year loss and LAE reserve development at our reinsurance segment, partially offset by lower catastrophe losses at our reinsurance and insurance segments, and net favorable prior year loss and LAE reserve development in 2014 compared to net adverse prior year loss and LAE reserve development in 2013 at our insurance segment. By contrast, our loss ratio was lower in 2014 from 2013, primarily reflecting lower catastrophe losses at our reinsurance and insurance segments.

2013 vs 2012. The decrease in net loss and LAE in 2013 from 2012 primarily reflects lower catastrophe losses at our reinsurance and insurance segments and higher net favorable prior year loss and LAE reserve development at our reinsurance segment, partially offset by the merger impacts discussed above. 2012 catastrophe losses include significant losses from Super Storm Sandy. The 2012 net loss and LAE figure related to prior years excludes $87.8 million of favorable prior accident year development on loss and LAE reserves acquired in the merger, which is included in TransRe s current year net loss and LAE.

Net loss and LAE for 2014, 2013 and 2012 are more fully described in the following pages.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions, except ratios)				
Commissions, brokerage and other underwriting expenses	$ 1,421.3	$ 1,339.2	$ 882.4	6.1%	51.8%
Expense ratio	32.2%	31.6%	23.6%		

2014 vs 2013. The increase in commissions, brokerage and other underwriting expenses in 2014 from 2013 primarily reflects the impact of increased net premiums earned at our reinsurance and insurance segments, as discussed above, and higher commission rates at our reinsurance segment.

2013 vs 2012. The increase in commissions, brokerage and other underwriting expenses in 2013 from 2012 primarily reflects the merger impacts discussed above.

Commissions, brokerage and other underwriting expenses for 2014, 2013 and 2012 are more fully described in the following pages.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions, except ratios)				
Underwriting profit	$ 494.8	$ 420.7	$ 220.3	17.6%	91.0%
Combined ratio	88.8%	90.1%	94.1%		

2014 vs 2013. The increase in underwriting profit in 2014 from 2013 primarily reflects lower catastrophe losses at our reinsurance and insurance segments.

2013 vs 2012. The increase in underwriting profit in 2013 from 2012 primarily reflects lower catastrophe losses at our reinsurance and insurance segments, higher net favorable prior year loss and LAE reserve development at our reinsurance segment and the merger impacts discussed above. 2012 catastrophe losses include significant losses from Super Storm Sandy.

Underwriting profits for 2014, 2013 and 2012 are more fully described in the following pages.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
		(in millions)			
Net investment income	$459.9	$465.7	$313.0	-1.2%	48.8%
Net realized capital gains	247.1	232.1	157.9	6.5%	47.0%
Other than temporary impairment losses	(36.3)	(44.0)	(2.9)	-17.5%	1417.2%

2014 vs 2013. The decrease in net investment income in 2014 from 2013 primarily reflects the absence in 2014 of earnings from Homesite (which was sold on December 31, 2013), compared with $42.9 million of earnings from Homesite in 2013 and, to a lesser extent, the impact of changes in foreign currency exchange rates, partially offset by higher interest income from more favorable reinvestment rates for our reinsurance segment and our increased allocation to investment-grade and below investment-grade credit instruments managed through our investment management relationship with Ares Management, L.P., or Ares. Absent earnings from Homesite, our net investment income would have increased in 2014.

2013 vs 2012. The increase in net investment income in 2013 from 2012 primarily reflects the merger impacts discussed above.

Investment results for 2014, 2013 and 2012 are more fully described in the following pages.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
		(in millions)			
Gain on bargain purchase	$	$	$494.9		-100.0%
Other income	150.5	78.7	57.3	91.2%	37.3%
Other operating expenses	252.7	164.9	123.7	53.2%	33.3%
Corporate administration	47.1	36.1	75.8	30.5%	-52.4%
Amortization of intangible assets	(5.7)	10.2	253.3	-155.9%	-96.0%
Interest expense	90.0	86.8	68.4	3.7%	26.9%

Gain on bargain purchase. The gain on bargain purchase in 2012 reflects the merger impacts discussed above.

Other income and other operating expenses. Other income and other operating expenses include revenues and expenses associated with our non-insurance operations. Other operating expenses also includes the long-term incentive compensation of our reinsurance segment and insurance segment, which totaled $83.5 million, $80.1 million and $84.9 million for 2014, 2013 and 2012, respectively (see Note 14 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of this Form 10-K for additional information).

The increases in other income and other operating expenses in 2014 from 2013 and 2013 from 2012 primarily reflect the acquisition of Kentucky Trailer on August 30, 2013 and Bourn & Koch on April 26, 2012 and, to a lesser extent, increased expenses at SORC.

Corporate administration. The increase in corporate administration expense in 2014 from 2013 primarily reflects the absence of a one-time reduction in expenses of $8.8 million from the freezing of pension benefits at the parent level in 2013. The decrease in corporate administration expense in 2013 from 2012 primarily reflects the Transaction Costs of the merger as discussed above.

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Amortization of intangible assets. Amortization of intangible assets in 2012 and 2013 primarily reflect the merger impacts discussed above. Amortization of intangible assets in 2014 reflects the amortization of net intangible liabilities arising from the merger.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions, except ratios)				
Income taxes	$251.8	$225.9	$17.1	11.5%	1221.1%
Effective tax rate	27.0%	26.4%	2.4%		

2014 vs 2013. The slightly higher effective tax rate in 2014 compared with 2013 primarily reflects higher taxable income in 2014 relative to a fairly steady level of tax-exempt interest income arising from municipal bond securities.

2013 vs 2012. The higher effective tax rate in 2013 compared with 2012 primarily reflects the absence of a gain on bargain purchase, which had a significant impact in 2012. The gain on bargain purchase resulted in a significant increase in earnings before income taxes without a corresponding increase in income taxes. The impact of the gain on bargain purchase on the effective tax rate in 2012 was partially offset by the impact of certain non-deductible Transaction Costs in 2012, which resulted in losses before income taxes without a corresponding decrease in income taxes.

Earnings. The following table summarizes our earnings.

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions)				
Earnings before income taxes	$931.9	$855.2	$719.3	9.0%	18.9%
Net earnings attributable to Alleghany stockholders	679.2	628.4	702.2	8.1%	-10.5%

2014 vs 2013. The increases in earnings before income taxes and net earnings attributable to Alleghany stockholders in 2014 from 2013 primarily reflect higher underwriting profits at our reinsurance and insurance segments.

2013 vs 2012. Earnings before income taxes increased in 2013 from 2012, whereas net earnings attributable to Alleghany stockholders decreased in 2013 from 2012. These variances primarily reflect the merger impacts discussed above, especially the gain on bargain purchase, which resulted in a significant increase in earnings before income taxes without a corresponding increase in income taxes. These variances also reflect substantially lower catastrophe losses in 2013.

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 this Form 10-K.

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The underwriting results of the reinsurance segment are presented below.

Year Ended December 31, 2014	Property	Casualty & other[1]	Total
	(in millions, except ratios)		
Premiums written:			
Gross	$ 1,205.4	$ 2,394.7	$ 3,600.1
Net	1,073.4	2,336.7	3,410.1
Net premiums earned	1,048.6	2,282.1	3,330.7
Net loss and LAE:			
Current year (excluding catastrophe losses)	449.5	1,595.3	2,044.8
Current year catastrophe losses	46.8		46.8
Prior years	(73.1)	(109.3)	(182.4)
Total net loss and LAE	423.2	1,486.0	1,909.2
Commissions, brokerage and other underwriting expenses	319.3	757.2	1,076.5
Underwriting profit[2]	$ 306.1	$ 38.9	$ 345.0
Loss ratio[3]:			
Current year (excluding catastrophe losses)	42.9%	69.9%	61.4%
Current year catastrophe losses	4.5%	0.0%	1.4%
Prior years	-7.0%	-4.8%	-5.5%
Total net loss and LAE	40.4%	65.1%	57.3%
Expense ratio[4]	30.5%	33.2%	32.3%
Combined ratio[5]	70.9%	98.3%	89.6%

Year Ended December 31, 2013	Property	Casualty & other[1]	Total
	(in millions, except ratios)		
Premiums written:			
Gross	$ 1,129.9	$ 2,293.1	$ 3,423.0
Net	988.4	2,259.6	3,248.0
Net premiums earned	989.2	2,289.5	3,278.7
Net loss and LAE:			
Current year (excluding catastrophe losses)	409.1	1,649.3	2,058.4
Current year catastrophe losses	92.1		92.1

Prior years	(184.7)	(39.4)	(224.1)
Total net loss and LAE	316.5	1,609.9	1,926.4
Commissions, brokerage and other underwriting expenses	293.3	725.0	1,018.3
Underwriting profit (loss)[2]	$ 379.4	$ (45.4)	$ 334.0
Loss ratio[3]:			
Current year (excluding catastrophe losses)	41.4%	72.0%	62.8%
Current year catastrophe losses	9.3%	0.0%	2.8%
Prior years	-18.7%	-1.7%	-6.8%
Total net loss and LAE	32.0%	70.3%	58.8%
Expense ratio[4]	29.7%	31.7%	31.1%
Combined ratio[5]	61.7%	102.0%	89.9%

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Year Ended December 31, 2012	Property	Casualty & other[1]	Total
	(in millions, except ratios)		
Premiums written:			
Gross	$ 966.2	$ 1,974.0	$ 2,940.2
Net	896.9	1,943.8	2,840.7
Net premiums earned	900.9	2,015.0	2,915.9
Net loss and LAE:			
Current year (excluding catastrophe losses)	314.2	1,465.5	1,779.7
Current year catastrophe losses	252.2	26.2	278.4
Prior years[6]			
Total net loss and LAE	566.4	1,491.7	2,058.1
Commissions, brokerage and other underwriting expenses	191.1	400.0	591.1
Underwriting profit[2]	$ 143.4	$ 123.3	$ 266.7
Loss ratio[3]:			
Current year (excluding catastrophe losses)	34.9%	72.7%	61.0%
Current year catastrophe losses	28.0%	1.3%	9.6%
Prior years	0.0%	0.0%	0.0%
Total net loss and LAE	62.9%	74.0%	70.6%
Expense ratio[4]	21.2%	19.9%	20.3%
Combined ratio[5]	84.1%	93.9%	90.9%

(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, gain on bargain purchase, 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.

(6) $56.6 million, $31.2 million and $87.8 million of favorable prior accident year development on loss and LAE reserves acquired in the merger for property, casualty & other and total, respectively, are included in current year net loss and LAE.

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

	Year Ended December 31, 2014	2013 (in millions)	2012	Percent Change 2014 vs 2013	2013 vs 2012
Property					
Premiums written:					
Gross	$ 1,205.4	$ 1,129.9	$ 966.2	6.7%	16.9%
Net	1,073.4	988.4	896.9	8.6%	10.2%
Net premiums earned	1,048.6	989.2	900.9	6.0%	9.8%
Casualty & other					
Premiums written:					
Gross	$ 2,394.7	$ 2,293.1	$ 1,974.0	4.4%	16.2%
Net	2,336.7	2,259.6	1,943.8	3.4%	16.2%
Net premiums earned	2,282.1	2,289.5	2,015.0	-0.3%	13.6%
Total					
Premiums written:					
Gross	$ 3,600.1	$ 3,423.0	$ 2,940.2	5.2%	16.4%
Net	3,410.1	3,248.0	2,840.7	5.0%	14.3%
Net premiums earned	3,330.7	3,278.7	2,915.9	1.6%	12.4%

Property. Gross premiums written increased 6.7 percent in 2014 from 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 and the impact of changes in foreign currency rates. Excluding the impact of changes in foreign currency rates, gross premiums written increased 8.0 percent in 2014 from 2013. Net premiums earned in 2014 increased by 6.0 percent from 2013. The increase in net premiums earned reflects certain expanded treaty participations with existing long-term clients, partially offset by the impact of changes in foreign currency rates. Excluding the impact of changes in foreign currency rates, net premiums earned increased 7.5 percent in 2014 from 2013.

The increases in gross premiums written and net premiums earned in 2013 from 2012 primarily reflect the merger impacts discussed above, specifically related to the inclusion of operations from TransRe for the entire 2013 year, compared with the 300 day period subsequent to the TransRe Acquisition Date for 2012.

Absent the impact of the merger, gross premiums written and net premiums earned would have decreased in 2013 from 2012. The decrease in gross premiums written reflects an increasingly competitive reinsurance market, which expanded its capacity despite the lack of market need, as well as decisions made by TransRe in recent years to non-renew or reduce participation on certain potentially less profitable treaties and to shift certain business from proportional to potentially more profitable non-proportional exposure. The decrease in net premiums earned primarily reflects a decrease in gross premiums written in earlier quarters. In addition, the decrease in both gross premiums written and net premiums earned reflects the absence of significant assumed reinstatement premiums. $29.8 million of gross premiums written and $25.3 million of net premiums earned were recorded in 2012 related to Super Storm Sandy.

Casualty & other. The increase in gross premiums written in 2014 from 2013 primarily reflects 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 include 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 2014 approximated those in 2013, primarily reflecting a decrease in gross premiums written in the latter half of 2013 and an increase in ceded premiums earned, offset by the increase in gross premiums written in 2014.

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The increases in gross premiums written and net premiums earned in 2013 from 2012 primarily reflect the merger impacts discussed above, specifically related to the inclusion of operations from TransRe for the entire 2013 year, compared with the 300 day period subsequent to the TransRe Acquisition Date for 2012.

Absent the impact of the merger, gross premiums written and net premiums earned would have decreased in 2013 from 2012. The decrease in gross premiums written reflects an increasingly competitive reinsurance market and a decreasing amount of risk premium being ceded by insurers, as well as decisions made by TransRe in recent years to non-renew or reduce participation on certain potentially less profitable treaties and shift certain business from proportional to potentially more profitable non-proportional exposure. The decrease in net premiums earned primarily reflects a decrease in gross premiums written in recent quarters.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
Property	(in millions, except ratios)				
Net loss and LAE:					
Current year (excluding catastrophes)	$ 449.5	$ 409.1	$ 314.2	9.9%	30.2%
Current catastrophe losses	46.8	92.1	252.2	-49.2%	-63.5%
Prior years[1]	(73.1)	(184.7)		-60.4%	
	$ 423.2	$ 316.5	$ 566.4	33.7%	-44.1%
Net loss and LAE ratio:					
Current year (excluding catastrophes)	42.9%	41.4%	34.9%		
Current catastrophe losses	4.5%	9.3%	28.0%		
Prior years	-7.0%	-18.7%	0.0%		
	40.4%	32.0%	62.9%		
Casualty & other					
Net loss and LAE:					
Current year (excluding catastrophes)	$ 1,595.3	$ 1,649.3	$ 1,465.5	-3.3%	12.5%
Current catastrophe losses			26.2		
Prior years[1]	(109.3)	(39.4)		177.4%	
	$ 1,486.0	$ 1,609.9	$ 1,491.7	-7.7%	7.9%
Net loss and LAE ratio:					
Current year (excluding catastrophes)	69.9%	72.0%	72.7%		
Current catastrophe losses	0.0%	0.0%	1.3%		
Prior years	-4.8%	-1.7%	0.0%		

	65.1%	70.3%	74.0%		
Total					
Net loss and LAE:					
Current year (excluding catastrophes)	$ 2,044.8	$ 2,058.4	$ 1,779.7	-0.7%	15.7%
Current catastrophe losses	46.8	92.1	278.4	-49.2%	-66.9%
Prior years[1]	(182.4)	(224.1)		-18.6%	
	$ 1,909.2	$ 1,926.4	$ 2,058.1	-0.9%	-6.4%
Net loss and LAE ratio:					
Current year (excluding catastrophes)	61.4%	62.8%	61.0%		
Current catastrophe losses	1.4%	2.8%	9.6%		
Prior years	-5.5%	-6.8%	0.0%		
	57.3%	58.8%	70.6%		

(1) $56.6 million, $31.2 million and $87.8 million of favorable prior accident year development on loss and LAE reserves acquired in the merger for property, casualty & other and total, respectively, are included in current year net loss and LAE in 2012.

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Property. The increase in net loss and LAE in 2014 from 2013 primarily reflects less favorable prior accident year development on loss reserves and higher non-catastrophe losses incurred, partially offset by lower catastrophe losses. Catastrophe losses, net of reinsurance, were $46.8 million and $92.1 million in 2014 and 2013, respectively. Catastrophe losses for 2014 reflect losses from severe snowstorms across northeast Japan in February 2014 and from wind and hailstorm Ela, which struck Europe in June 2014. The $92.1 million of catastrophe losses in 2013 primarily reflect net losses from flooding in Germany in May 2013, flooding in Central Europe and Canada in June 2013, hurricanes in Mexico in September 2013 and hailstorms in Germany and Canada in July 2013.

The decrease in net loss and LAE in 2013 from 2012 primarily reflects a decrease in catastrophe losses and an increase in favorable prior accident year development on loss reserves, partially offset by the inclusion of operations from TransRe for the entire 2013 year, compared with the 300 day period subsequent to the TransRe Acquisition Date for 2012. Net loss and LAE includes catastrophe losses, net of reinsurance, of $92.1 million in 2013, compared with $252.2 million of catastrophe losses in 2012 related to Super Storm Sandy.

Net loss and LAE include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below:

	Year Ended December 31,		
	2014	2013	2012[(1)]
		(in millions)	
Catastrophe events	$ (17.3)[(2)]	$ (109.3)[(3)]	$
Non-catastrophe	(55.8)[(4)]	(75.4)[(5)]	
Total	$ (73.1)	$ (184.7)	$

(1) $56.6 million of favorable prior accident year development on loss and LAE reserves acquired in the merger are included in current year net loss and LAE.
(2) Includes favorable development of $1.6 million from Super Storm Sandy in 2012 and $15.7 million of net favorable development from other catastrophes. The $15.7 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.
(3) Includes favorable development of $73.7 million from Super Storm Sandy in 2012 and $35.6 million from other catastrophe losses, principally flooding that took place in Thailand in 2011 and the Tohoku earthquake in Japan in 2011, partially offset by unfavorable development from the New Zealand earthquake in 2010.
(4) Reflects favorable development primarily related to the 2012 accident year and, to a lesser extent, the 2011 accident year.
(5) Reflects favorable development primarily related to the 2011 and 2012 accident years.

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

Casualty & other. The decrease in net loss and LAE in 2014 from 2013 primarily reflects more favorable prior accident year development on loss reserves in 2014 and lower losses incurred for the current accident year. The increase in net loss and LAE in 2013 from 2012 primarily reflects the inclusion of operations from TransRe for the entire 2013 year, compared with the 300 day period subsequent to the TransRe Acquisition Date for 2012, partially offset by a lower loss ratio in the current accident year including an absence of catastrophe losses in 2013, compared with $26.2 million of catastrophe losses, net of reinsurance, incurred in 2012 related to Super Storm Sandy.

Net loss and LAE in 2014, 2013 and 2012 include (favorable) unfavorable prior accident year development on loss reserves as shown in the table below:

	Year Ended December 31,		
	2014	2013	2012[1]
		(in millions)	
The Malpractice Treaties[2]	$ (12.7)	$ (35.7)	$
Other	(96.6)[3]	(3.7)[4]	
Total	$ (109.3)	$ (39.4)	$

(1) $31.2 million of favorable development on loss and LAE reserves acquired in the merger are included in current year net loss and LAE.
(2) 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.
(3) Generally reflects favorable development in a variety of casualty & other lines of business primarily from the 2003 through 2007 and 2010 through 2011 accident years, partially offset by unfavorable development from the 2013 accident year and the 2002 and prior accident years.
(4) Generally reflects favorable development in a variety of casualty & other lines of business.

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

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions, except ratios)				
Property					
Commissions, brokerage and other underwriting expenses	$ 319.3	$ 293.3	$ 191.1	8.9%	53.5%
Expense ratio	30.5%	29.7%	21.2%		
Casualty & other					
Commissions, brokerage and other underwriting expenses	$ 757.2	$ 725.0	$ 400.0	4.4%	81.3%
Expense ratio	33.2%	31.7%	19.9%		
Total					
Commissions, brokerage and other underwriting expenses	$ 1,076.5	$ 1,018.3	$ 591.1	5.7%	72.3%
Expense ratio	32.3%	31.1%	20.3%		

For both the property and the casualty & other lines of business, applying the acquisition method of accounting for the merger had a favorable impact on the expense ratio for 2012 because deferred acquisition costs were written off at the TransRe Acquisition Date. As of March 6, 2013, the application of the acquisition method of accounting no longer had a significant impact on the expense ratio. Excluding the impact of the application of the acquisition method of accounting, the estimated expense ratio for the reinsurance segment would have been approximately 29 percent for 2012.

Property. The increase in commissions, brokerage and other underwriting expenses in 2014 from 2013 primarily reflects higher employee-related costs and the lack of favorable impact arising from the acquisition method of accounting, which was present in part of 2013. The increase in commissions, brokerage and other underwriting expenses in 2013 from 2012 primarily reflects the diminished favorable impact arising from the acquisition method of accounting, as described above.

Casualty & other. The increase in commissions, brokerage and other underwriting expenses in 2014 from 2013 primarily reflects 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 2014 from 2013 also reflects the absence of the favorable impact arising from the acquisition method of accounting, which was present in part of 2013. The increase in commissions, brokerage and other underwriting expenses in 2013 from 2012 primarily reflects the diminished favorable impact arising from the acquisition method of accounting, as explained above, and to a lesser extent, the $35.7 million of profit commission expense incurred related to the Malpractice Treaties, as described above.

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

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions, except ratios)				
Property					
Underwriting profit	$ 306.1	$ 379.4	$ 143.4	-19.3%	164.6%
Combined ratio	70.9%	61.7%	84.1%		
Casualty & other					
Underwriting profit (loss)	$ 38.9	$ (45.4)	$ 123.3	-185.7%	-136.8%
Combined ratio	98.3%	102.0%	93.9%		
Total					
Underwriting profit	$ 345.0	$ 334.0	$ 266.7	3.3%	25.2%
Combined ratio	89.6%	89.9%	90.9%		

Property. The decrease in underwriting profit in 2014 from 2013 primarily reflects the 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. The increase in underwriting profit in 2013 from 2012 primarily 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.

Casualty & other. The underwriting profit in 2014 compared with the underwriting loss in 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. The underwriting loss in 2013 compared to an underwriting profit in 2012 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.

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 this Form 10-K.

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The underwriting results of the insurance segment are presented below.

Year Ended December 31, 2014	RSUI	CapSpecialty	PacificComp[1]	Total
		(in millions, except ratios)		
Premiums written:				
Gross	$ 1,242.1	$ 212.7	$ 70.5	$1,525.3
Net	825.5	192.4	69.5	1,087.4
Net premiums earned	828.2	184.4	67.3	1,079.9
Net loss and LAE:				
Current year (excluding catastrophe losses)	418.3	98.8	52.6	569.7
Current year catastrophe losses	44.4	4.0		48.4
Prior years	(35.4)	0.2	2.4	(32.8)
Total net loss and LAE	427.3	103.0	55.0	585.3
Commissions, brokerage and other underwriting expenses	220.8	92.0	32.0	344.8
Underwriting profit (loss)[2]	$ 180.1	$ (10.6)	$ (19.7)	$ 149.8
Loss ratio[3]:				
Current year (excluding catastrophe losses)	50.5%	53.6%	78.2%	52.8%
Current year catastrophe losses	5.4%	2.2%	0.0%	4.5%
Prior years	-4.3%	0.1%	3.5%	-3.1%
Total net loss and LAE	51.6%	55.9%	81.7%	54.2%
Expense ratio[4]	26.7%	49.9%	47.6%	31.9%
Combined ratio[5]	78.3%	105.8%	129.3%	86.1%

Year Ended December 31, 2013	RSUI	CapSpecialty	PacificComp[1]	Total
		(in millions, except ratios)		
Premiums written:				
Gross	$ 1,261.6	$ 182.8	$ 42.0	$1,486.4
Net	827.2	171.4	40.8	1,039.4
Net premiums earned	764.0	157.6	38.9	960.5
Net loss and LAE:				
Current year (excluding catastrophe losses)	363.3	78.7	31.0	473.0
Current year catastrophe losses	58.8			58.8
Prior years	(17.9)	25.8	13.2	21.1
Total net loss and LAE	404.2	104.5	44.2	552.9

Commissions, brokerage and other underwriting expenses	208.9	84.1	27.9	320.9
Underwriting profit (loss)[2]	$ 150.9	$ (31.0)	$ (33.2)	$ 86.7
Loss ratio[3]:				
Current year (excluding catastrophe losses)	47.5%	49.9%	79.7%	49.3%
Current year catastrophe losses	7.7%	0.0%	0.0%	6.1%
Prior years	-2.3%	16.4%	33.9%	2.2%
Total net loss and LAE	52.9%	66.3%	113.6%	57.6%
Expense ratio[4]	27.3%	53.4%	71.7%	33.4%
Combined ratio[5]	80.2%	119.7%	185.3%	91.0%

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Year Ended December 31, 2012	RSUI	CapSpecialty	PacificComp[1]	Total
		(in millions, except ratios)		
Premiums written:				
Gross	$ 1,123.4	$ 158.1	$ 19.4	$ 1,300.9
Net	715.1	149.1	19.0	883.2
Net premiums earned	655.8	144.6	16.7	817.1
Net loss and LAE:				
Current year (excluding catastrophe losses)	305.6	72.7	14.5	392.8
Current year catastrophe losses	191.7			191.7
Prior years	(31.1)	13.2	5.6	(12.3)
Total net loss and LAE	466.2	85.9	20.1	572.2
Commissions, brokerage and other underwriting expenses	184.3	79.2	27.8	291.3
Underwriting profit (loss)[2]	$ 5.3	$ (20.5)	$ (31.2)	$ (46.4)
Loss ratio[3]:				
Current year (excluding catastrophe losses)	46.6%	50.3%	86.7%	48.1%
Current year catastrophe losses	29.2%	0.0%	0.0%	23.4%
Prior years	-4.7%	9.1%	33.3%	-1.5%
Total net loss and LAE	71.1%	59.4%	120.0%	70.0%
Expense ratio[4]	28.1%	54.8%	166.5%	35.7%
Combined ratio[5]	99.2%	114.2%	286.5%	105.7%

(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, gain on bargain purchase, 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.

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Insurance Segment: Premiums. The following table summarizes premiums for the insurance segment.

	Year Ended December 31,			Percent Change	
	2014	2013 (in millions)	2012	2014 vs 2013	2013 vs 2012
RSUI					
Premiums written:					
Gross	$ 1,242.1	$ 1,261.6	$ 1,123.4	-1.5%	12.3%
Net	825.5	827.2	715.1	-0.2%	15.7%
Net premiums earned	828.2	764.0	655.8	8.4%	16.5%
CapSpecialty					
Premiums written:					
Gross	$ 212.7	$ 182.8	$ 158.1	16.4%	15.6%
Net	192.4	171.4	149.1	12.3%	15.0%
Net premiums earned	184.4	157.6	144.6	17.0%	9.0%
PacificComp					
Premiums written:					
Gross	$ 70.5	$ 42.0	$ 19.4	67.9%	116.5%
Net	69.5	40.8	19.0	70.3%	114.7%
Net premiums earned	67.3	38.9	16.7	73.0%	132.9%
Total					
Premiums written:					
Gross	$ 1,525.3	$ 1,486.4	$ 1,300.9	2.6%	14.3%
Net	1,087.4	1,039.4	883.2	4.6%	17.7%
Net premiums earned	1,079.9	960.5	817.1	12.4%	17.5%

RSUI. The decrease in gross premiums written in 2014 from 2013 reflects declines in the property line of business due to an increase in competition and a decrease in rates, partially 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 increase in gross premiums written in 2013 from 2012 primarily reflects some improvements in market conditions in most lines of business, particularly for the umbrella, directors and officers liability, professional liability and binding authority lines of business, evidenced by favorable renewal retention rates and strong new business submissions. The increase in net premiums earned in 2014 from 2013 primarily reflects an increase in gross premiums written in early 2014 and late 2013 and, to a lesser extent, lower ceded premiums written due primarily to declines in the heavily-reinsured property line of business. The increase in net premiums earned in 2013 from 2012 primarily reflects an increase in gross premiums written.

CapSpecialty. The increase in gross premiums written in 2014 from 2013 reflects growth in the property and casualty lines of business, including strong growth in the professional lines of business. The increase in gross premiums written in 2013 from 2012 primarily reflects growth in the property and casualty lines of business and, to a lesser extent, the surety lines of business. Net premiums earned increased in 2014 from 2013 primarily reflecting an increase in gross premiums written, partially offset by higher ceded premiums earned arising from an increase in reinsurance coverage. Net premiums earned increased in 2013 from 2012 primarily reflecting an increase in gross premiums written.

PacificComp. The increases in gross premiums written and net premiums earned in 2014 from 2013 and in 2013 from 2012 primarily reflect PacificComp s distribution initiatives and increased market acceptance of PacificComp s product offerings.

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Insurance Segment: Net loss and LAE. The following table summarizes net loss and LAE for the insurance segment.

	Year Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
	(in millions, except ratios)				
RSUI					
Net loss and LAE:					
Current year (excluding catastrophes)	$ 418.3	$ 363.3	$ 305.6	15.1%	18.9%
Current catastrophe losses	44.4	58.8	191.7	-24.5%	-69.3%