To Our Stockholders

Alleghany's common stockholders' equity per share at year-end 2006 was $266.82, an increase of 15.1% over common stockholders' equity per share of $231.72 at year-end 2005, adjusted for stock dividends. Underwriting results were excellent at all three of our insurance operating units, and net investment income rose to record levels. In contrast to 2004 and 2005, we had very low catastrophe losses, a fortuitous development that cannot be expected to recur in future periods. For the five years-ended December 31, 2006, Alleghany's common stockholders' equity per share increased at a compound annual rate of 8.7 percent, compared with a compound annual rate of return of 6.2 percent for the S&P 500 over the same time period.

Alleghany's principal financial objective is to grow book value per share at double-digit rates without employing excessive amounts of financial leverage or taking undue amounts of operating risk. We believe that we can achieve this objective through the ownership of property and casualty insurance companies that consistently produce underwriting profits, and by generating superior investment returns on a growing invested asset base. At the end of 2001, Alleghany had consolidated cash and invested assets of $1,363 million and no insurance operations. At the end of 2006, Alleghany had consolidated cash and invested assets of $4,126 million, three insurance operating units, and a significant investment in another insurance company. Roughly one-fourth of our consolidated cash and invested assets remains at the parent company or unregulated subsidiaries and is available to be redeployed in additional acquisitions or for other general purposes.

We continue to find the acquisition market extremely challenging. The growth and institutionalization of the private equity industry has fundamentally changed the opportunity set that Alleghany has as an acquirer of businesses. Being less willing to employ financial leverage to transform mediocre returns on capital into potentially attractive returns on equity, Alleghany is usually not competitive as a bidder in organized auctions. Our strategy is to remain liquid, stick to proven value investing principles, seek opportunistic investments and acquisitions, and continue to wait for a time when investors appropriately discount risk. Although we cannot predict when this may happen, our institutional experience has been that it always does happen eventually.

We made significant progress in improving the quality and risk profile of our insurance operating units in 2006.

RSUI has significantly reduced its gross exposure to infrequent but potentially severe natural catastrophes. According to the most recent catastrophe models, RSUI's exposure has decreased by approximately 60 percent since the fall of 2005. Since our purchase of RSUI in July of 2003, the company has produced cumulative underwriting profits of approximately $240 million. In addition, the company's investment portfolio has more than tripled in size. At the end of 2006, RSUI had stockholder's equity of just over $1 billion.

Since our acquisition of Capitol Transamerica in 2002, Capitol Transamerica has expanded its distribution system, shifted emphasis to specialty classes of business, and significantly improved its underwriting results. Also, in 2006, the company's profitable commercial surety business continued to grow rapidly. We are especially pleased with Capitol Transamerica's combined ratio in 2006, which fell below 90 percent for the first time under Alleghany's ownership, and Capitol Transamerica's improving top-line momentum.

Darwin Professional Underwriters has grown from a start-up managing agency to a publicly-listed insurance underwriting company in less than four years, producing almost $250 million of gross written premium in 2006. In 2006, Darwin's earnings benefited by $4.0 million as a result of favorable claims emergence on prior accident years and an associated adjustment to ceded reinsurance premiums. The company is emerging as an innovative force in the specialty insurance marketplace, and we believe it has excellent long-term prospects.

On December 29, 2006, we completed a $120 million investment in Homesite Group Incorporated, a national, full-service, mono-line provider of homeowners insurance, and now own approximately 33 percent of its outstanding common stock. We are excited to be an investor in Homesite and believe that it will become an increasingly important force in the personal homeowners insurance marketplace.

The performance of our investment portfolios in 2006 was fair. In the aggregate, our fixed income portfolios produced moderate, positive total returns that were slightly better than the Lehman Intermediate Aggregate Index. Our equity portfolios trailed the exceptionally strong returns of the S&P 500 owing to our concentration of holdings in Burlington Northern Santa Fe and a basket of energy stocks. On this point, we like our exposure to both railroad transportation and energy for several reasons. First, we continue to believe that the long-term prospects for both industries remain above average. Second, the pro-cyclical nature of these industries is a natural hedge to our large and growing bond portfolio. Finally, we believe that energy is negatively correlated with our property underwriting results, and over the past three years this has indeed been the case.

Although we are pleased with our ability to produce strong growth in common stockholders' equity per share in 2006, we recognize that we are most likely at the "peak" in the property and casualty underwriting cycle and that growth and underwriting profits will be more difficult to achieve over the next several years. Additionally, we cannot expect the unusually low levels of catastrophe loss activity that we experienced in 2006 to repeat. Also, we believe that the broad investment markets offer prospective returns that are low by historical standards. On the other hand, we believe that the risk profile of our major insurance operating units has been significantly reduced, and we are well positioned to take advantage of emerging investment opportunities.

In 2006, we had a few changes to our Board of Directors. Roger Noall retired in April, and we welcomed two new directors: Raymond Wong, an experienced investment banker who has a longstanding relationship with Alleghany, and Jefferson Kirby, a former employee and son of F.M. Kirby. I look forward to the advice and counsel of these two new Board members.

Lastly, at the end of 2006, Mr. F.M. Kirby retired as Chairman of Alleghany, a position he held for forty years. Over that time frame, Alleghany produced superior returns for its stockholders, in no small part due to Mr. Kirby's leadership and unwavering dedication to Alleghany's stockholders. Mr. Kirby has been succeeded by John J. Burns, Jr., who joined Alleghany in 1968 and retired as CEO at the end of 2004.

Yours sincerely,

Weston M. Hicks
President

February 27, 2007