Alleghany Corporation Scorecard

($ in millions, except per share amounts)

	Book Value Per Share	Book Value % Change	% Change in S&P 500 with Dividends Included	Market Price Per Share	Market Price % Change	Market Price to Ending Book Value	10-year Treasury Yield End of Year	Common Stockholders' Equity
2000	$ 141.03	15.3%	-9.1%	$ 165.28	13.0%	1.17	5.11%	$ 1,191
2001	162.36	15.1%	-11.9%	157.88	-4.5%	0.97	5.05%	1,426
2002	162.75	0.2%	-22.1%	148.52	-5.9%	0.91	3.82%	1,413
2003	182.18	11.9%	28.7%	189.90	27.9%	1.04	4.25%	1,600
2004	204.08	12.0%	10.9%	248.33	30.8%	1.22	4.22%	1,800
2005	212.80	4.3%	4.9%	252.18	1.6%	1.19	4.39%	1,894
2006	244.25	14.8%	15.8%	329.32	30.6%	1.35	4.70%	2,146
2007	281.36	15.2%	5.5%	371.39	12.8%	1.32	4.02%	2,485
2008	267.37	-5.0%	-37.0%	265.74	-28.4%	0.99	2.21%	2,347
2009	294.79	10.3%	26.4%	265.28	-0.2%	0.90	3.84%	2,718
2010	325.31	10.4%	15.1%	300.36	13.2%	0.92	3.29%	2,909
2011	342.12	5.2%	2.1%	285.29	-5.0%	0.83	1.88%	2,926
2012	379.13	10.8%	16.0%	335.42	17.6%	0.88	1.76%	6,404
2013	412.96	8.9%	32.4%	399.96	19.2%	0.97	3.03%	6,924
2014	465.51	12.7%	13.7%	463.50	15.9%	1.00	2.17%	7,473
2015	486.02	4.4%	1.4%	477.93	3.1%	0.98	2.27%	7,555
2016	515.24	6.0%	12.0%	608.12	27.2%	1.18	2.44%	7,940
2017	553.20	7.4%	21.8%	596.09	-2.0%	1.08	2.41%	8,514
CAGR								
5-years	7.9%		15.8%	12.2%				5.9%
10-years	7.0%		8.5%	4.8%				13.1%
15-years	8.5%		9.9%	9.7%				12.7%

To Our Stockholders

Alleghany's common stockholders' equity per share at year-end 2017 was $553.20, an increase of $37.96, or 7.4% from common stockholders' equity per share of $515.24 at year-end 2016. For 2017, Alleghany reported consolidated revenue growth of 4.8% and net earnings to common stockholders of $90.1 million, or $5.85 per share. Changes in the market value of our investments, foreign exchange and other items increased book value per share by $32.11.

2017 was the year of the unusual and improbable. The United States saw the first total solar eclipse in thirty-eight years; three major hurricanes made landfall in the United States; California had multiple devastating wildfires; and equity markets exploded upwards, reflecting a burst of investor optimism. Our 2017 earnings reflect solid underlying underwriting results at our insurance and reinsurance subsidiaries, but we incurred $818 million of losses from natural catastrophes. Fortunately, we were able to generate exceptionally strong investment returns which offset these losses. We also saw improved results at Alleghany Capital Corporation.

Financial asset values have been on a tear since the 2008 Financial Crisis, as central banks throughout the world injected an incremental $10 trillion into the global banking system. Since 2012, the price-earnings ratio on the S&P 500 has increased from 14.4-times to 22.5-times. Real yields remain extremely low, averaging less than 1% so far this decade, compared to 2% in the prior decade and 3-4% in the 1990s. Historically, the higher the price-earnings ratio on equities, the lower the future returns turn out to be. The relationship between financial asset values and economic return to labor is at or above prior peaks, causing many to wonder the extent to which the current paradigm can continue. Recent economic data suggests that the U.S. economy may be shifting from a slow-growth, disinflationary course to a somewhat faster growth track with moderate inflation and wage growth, which is being met with increased volatility in financial markets.

In last year's letter, I noted that we were seeing "cracks in the foundation" of the commercial property and casualty industry. A decade of price competition, especially in casualty lines, has resulted in some industry participants eroding the conservatism of their reserves, and therefore any unfavorable claims emergence will likely cause earnings shortfalls and a pricing response. Property insurance margins, *before* considering the impact of major catastrophe losses, have been shrinking. In response to this environment, our largest specialty insurer (RSUI Group) had been reducing its exposure, although this appeared to come to an end in the fourth quarter of last year. TransRe, which has a long history in specialty casualty reinsurance, has avoided the temptation to enter the race to the bottom, maintaining conservative loss reserves and forgoing underpriced growth. Meanwhile, CapSpecialty continues to find growth opportunities in the professional liability market, and has been somewhat less affected by this industry backdrop due to a focus on smaller risks.

Historically when the industry's balance sheet weakens, a pricing response soon follows. Reinsurance pricing, terms and conditions began firming in late 2017 and early 2018, and we are seeing improved market conditions in the specialty insurance marketplace. We are optimistic that these trends will continue in the year ahead.

There were several important developments in 2017 that we believe bring near- and/or longer-term benefits to Alleghany.

- The *Tax Cuts and Jobs Act of 2017* creates a more level playing field vis-à-vis off-shore (re)insurers. In addition, Alleghany will benefit from a lower effective tax rate, which we project will fall from the high-20's to the high teens. We have long been at a relative disadvantage to competitors domiciled in lower-tax jurisdictions, but this is no longer the case.

- TransRe expanded its relationship with Berkshire Hathaway's GenRe, binding over $300 million of premium on its behalf at the one-year anniversary of our strategic relationship with the company. We are optimistic that this relationship will continue to grow and be beneficial for both parties. It certainly allows TransRe to play an influential role at treaty renewals.

- On December 31, 2017 we closed on the sale of PacificComp to CopperPoint Mutual Insurance Company for total consideration of approximately $158 million, resulting in an after-tax gain of $16 million in the fourth quarter. This transaction is an excellent outcome for all involved, and we wish to thank Jan Frank and her team for a remarkable turnaround over the past five years.

- Alleghany Capital expanded its portfolio with the acquisition of a majority interest in W&W|AFCO Steel, a leading steel fabricator and erector based in Oklahoma City. The company should be a beneficiary of increased infrastructure investment in the United States, given its well-deserved reputation for on-budget and on-time delivery of essential steel components for large construction projects.

- We also acquired a 45% interest in Wilbert Funeral Services, one of the leading providers of burial vaults and related products and services. Wilbert Funeral Services has demonstrated the ability to consistently grow through acquisition and product extension. The company's management promised us at closing that "they'll be the last to let us down."

- In early 2017, we re-organized our equity investment function, splitting the equity portfolio between a concentrated, actively-managed portfolio and an allocation to passive assets. Early returns are promising. Our actively-managed portfolio returned 31.8% in 2017, outperforming the S&P 500 by almost 1,000 basis points.

Despite these positive developments and indicators, as well as the 7.4% increase in our book value per share, our stock price performance in 2017 was disappointing. For the two years ended 2017, however, our stock price appreciated by about 25%. We are the proverbial tortoise that, since 2008, has fallen behind the quick and fast-moving hare (the S&P 500). As one of our investment managers noted, "New and Shiny outperformed Solid and Dull" in 2017![1]

An important but under-appreciated component of the value we are creating for shareholders is our portfolio of businesses at Alleghany Capital, as GAAP accounting is somewhat punitive to acquirers of non-financial businesses in the short-run. As we have noted in the past, the growth rate in book value of Alleghany Capital understates its increase in intrinsic value because GAAP accounting requires us to recognize and amortize intangible assets related to acquisitions, thereby suppressing for a period of time the resulting earnings of acquired companies. As we continue to expand Alleghany Capital, this issue will become more significant to Alleghany. Value creation will be evidenced by underlying earnings (before amortization) and growth in cash flow from the Alleghany Capital portfolio companies, compared to the cost of capital attributable to our investment in these companies.

In early 2012, Alleghany acquired Transatlantic Holdings, Inc. for approximately $3.5 billion, or about 85% of book value. From 2012 through 2017 Alleghany's book value per share has grown by 7.9% per year and our stock price has appreciated at an annual growth rate of 12.2%. These figures trail the total return on the S&P 500 of 15.8%. The price-to-book ratio of the S&P 500 over this time period has increased from 2.14x to approximately 3.30x (a 54% increase), while our price to book ratio increased from 0.88x to 1.08x (a 23% increase). Without an increase in the price that investors are willing to pay for each dollar of earnings or book value, the market's return over the past five years would have been substantially lower. While we can never know for sure, I suspect that at least part of the market's recent performance has been a macro and liquidity-driven phenomenon. After all, Bitcoin *literally*[2] returned over 1,000% in 2017.

The equity market currently appears to reward companies with compelling long-term organic revenue growth prospects, while valuing asset-rich, slower-growing companies with less optimism. In addition to the unprecedented liquidity injection mentioned earlier, we believe this also reflects the digital industrial revolution, which is creating massive winners and losers in many industries. Add to this an environment with extremely low real interest rates, and it is not hard to see why investors are paying record multiples for companies that appear to have a long runway of profitable growth. The recent equity market valuation paradigm also appears to be closely tied to the post-financial crisis trend in the dollar, which until recently was on a one-way trip upward. A strong dollar is closely tied to the outperformance of growth stocks relative to value stocks.[3] Market trends in early 2018 suggest that this paradigm may be changing.

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[1] Jeffrey Bronchick, CFA, Cove Street Capital, *Another Lap Around the Sun*, January 2018.

[2] All Millennials…

[3] *U.S. Budget Deficits, The Falling US$, and Growth Stocks*, Gavekal Research, January 30, 2018.

We've made this point before, but it is worth restating: Alleghany's long-term value proposition is to make a reasonable return in good times, and preserve capital in bad times. The result has rewarded our long-term stockholders well (and we ***do*** mean long-term, including down markets). As the late John J. Burns, Jr.[4], our former CEO was fond of saying, "there's nothing wrong with getting rich slowly!"

The table below summarizes the change in stockholders' equity attributable to Alleghany common stockholders in 2017 ($ millions):

	2017	% of Beginning Equity
Investment income	$ 337	4.2%
Underwriting profit before catastrophe losses	326	4.1
Catastrophe losses	(532)	(6.7)
Corporate administration	(31)	(0.4)
Subsidiary long-term compensation	(47)	(0.7)
Interest expense	(54)	(0.7)
Other operating items, net	32	0.2
Operating income	$ 31	0.3%
Realized and change in unrealized gains, net of tax:		
Equity securities and other	457	5.9
Fixed income securities	75	0.9
Total	$ 532	6.8%
Share repurchases	(16)	(0.2)
Other items, net	27	0.4
Increase in common stockholders' equity	$ 574	7.2%

Exceptionally strong investment results and stable investment income were the main drivers of book value growth in 2017. (Re)insurance underwriting results were satisfactory before catastrophe losses, which fluctuate from year to year. We were pleased with how both TransRe and RSUI Group performed in a challenging catastrophe year. In the case of RSUI, the company has been reducing coastal exposure for the past several years due to inadequate industry pricing; TransRe managed its exposure to catastrophes through increased retrocessional purchases and selective underwriting. Our "tail exposure" is much less than many of our competitors', a fact that is only apparent in times of stress.

[4] John J. Burns, Jr. passed away on March 10, 2017. Please see our special tribute to a legendary leader.

As the above table illustrates, absent catastrophe losses Alleghany's book value per share would have increased by 14% in 2017. Of course, we are in the business of assuming and managing catastrophe risk, which is why we believe that our results are best evaluated over longer-term periods of time. We *can* say, however, that catastrophe losses were about twice their normal level in 2017. The table also shows the extent to which we benefitted from a strong stock market in 2017. Realized and the change in unrealized investment gains, after-tax, were $532 million in 2017, the highest ever. While this was mainly due to a strong stock market, it also reflects the performance of our specific investments, which generated meaningful excess returns. From a longer-term point of view, the returns on our equity portfolio are best thought of at least three times what can be expected on a sustained basis.

The table below summarizes our 2017 growth in book value by major operating unit ($ millions):

	TransRe	RSUI	Cap Specialty	ACC	SORC	Other	Total
Beginning Equity	$5,203	$1,602	$ 320	$ 441	$ 149	$ 225	$7,940
Net earnings (losses)[5]	(13)	45	23	46	(18)	21	104
Other Comprehensive Income	253	129	25	-	-	89	496
Capital Transactions	(225)	(75)	-	233	12	55	-
Treasury Stock Activity	-	-	-	-	-	(12)	(12)
Sub-total	$5,218	$1,701	$ 368	$ 720	$ 143	$ 378	$8,528
ACC amortization	-	-	-	(14)	-	-	(14)
Ending Equity	$5,218	$1,701	$ 368	$ 706	$ 143	$ 378	$8,514
Growth rate before amortization	4.6%	10.9%	15.0%	10.4%	-12.1%	43.6%	7.4%

"Other" includes the parent company and various other investments, net of holding company debt. At the end of 2017, we had cash and marketable invested assets of approximately $1.3 billion, and other non-public investments of approximately $350 million. Our liquidity position increased by $335 million during the year.

Included in the non-public investments are two companies where good things are happening. At the end of 2017 we had an investment convertible into a 5.9% economic interest in Ares Management, L.P., a leading alternative asset manager. Because our investment is in a private downstream partnership interest with conversion rights into the publicly-traded units of the main partnership, we have carried the investment on the equity method of accounting. At the end of last year, we carried our interest at $212.4 million. In early 2018, Ares announced its intention to be taxed as a corporation, which is expected to improve the company's valuation. Based on recent market prices, our holdings have a value above our carrying value.

[5] After noncontrolling interests, but excluding ACC amortization.

Alleghany Properties is also included in "other." As our long-term stockholders know, Alleghany Properties was formed to hold certain real estate assets following sale of Sacramento Savings Bank in 1995. As a result of an improving economy, there is significant demand for Alleghany Properties' real estate assets, and we expect several realizations of value in 2018.

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A word on capital management

Alleghany has always taken the view that our capital management activities should be in the interest of the continuing stockholder, not the selling stockholder. This means that we have been willing to repurchase our stock only when we believe it is trading below our estimate of intrinsic value. For many years, this policy served us well. We were often able to repurchase shares at a discount to book value per share, a figure that we believe is highly likely to be *less* than intrinsic value. These transactions were immediately accretive to book value per share, and were clearly a "no risk" choice.

Over the past two years, as financial assets have appreciated in value, our stock has for the most part traded *above* book value per share. In 2017, we were far less active in repurchasing our stock, and as a result we have accumulated significant parent company assets. In addition to these assets, our insurance and reinsurance subsidiaries are well capitalized, in addition to their maintaining conservative loss reserve estimates.

Looking forward, as our (re)insurance subsidiaries are expected to continue to perform well and as our confidence in the outlook for Alleghany Capital's subsidiaries improves, we are likely to conclude that intrinsic value is at a premium to book value. Moreover, a review of competitor valuations would certainly suggest that this is true.

ROE vs. growth in book value

We use growth in book value, rather than return on equity, as our primary financial objective. The reason is simple: many of our assets are carried at market value, not historical cost. Over the past decade, as interest rates have fallen and equity values have soared, the industry's return on equity has declined. Unlike most industries, the equity of a (re)insurance company is primarily financial assets. In any given year, the change in the value of the firm is partly the earnings and cash flow generated by the (re)insurance company, but also the change in the value of the assets of the (re)insurance company.

Thought experiment: if interest rates were to rise significantly and the stock market were to correct by 20% or more, the equity of a typical property and casualty insurer would go down. However, future operating cash flows would be invested at higher interest rates, and earnings in the future might well go up. In such a scenario, the return on equity could be higher, but the book value might be lower. Is this good or bad? Is the firm worth more or less?

Return on assets and return on equity, which are useful metrics for industrial companies, are problematic when applied to a property and casualty company with significant total return investments carried at market value. For these reasons, we focus on two objectives: 1) underwriting profit, and 2) growth in book value. Over the long-term, a property and casualty company that consistently generates an underwriting profit and compounds book value (preferably tangible book value) at attractive rates will create a solid return for its owners.

Beginning in 2018, however, we are required to include the change in the market value of our equity portfolio in the income statement, rather than running the change through stockholders' equity. This change will make our earnings more volatile, but over time our return on equity and growth in book value will be closer aligned.

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Alleghany Capital

Alleghany Capital originates and manages our investments in non-financial companies. At the end of 2017, the carrying value of Alleghany Capital's subsidiaries and investments was $838 million, of which $695 million is represented by platform company investments and $143 million by Stranded Oil Resources Corporation. Our strategy is to offer privately or founder-owned companies in basic and durable industries a source of permanent capital and to work with them to grow their companies through investments that support organic growth and strategic acquisitions. Unlike the typical private equity fund buyer, our investment horizon is not limited to a specific time period and we generally would expect to sell only if and when our management-partners believe that it is in the best interest of their company to do so. With substantial resources and a different time horizon than most private market investors, Alleghany Corporation can provide a stable home for companies looking to execute long-term business strategies.

At the end of 2017, our six platform businesses were Bourn & Koch, Kentucky Trailer, IPS-Integrated Project Services, Jazwares, W&W|AFCO Steel, and Wilbert Funeral Services. Each of these companies has a solid business position with reasonable growth prospects. We also have one early-stage growth capital investment, Stranded Oil Resources Corporation (SORC).

Bourn & Koch

Bourn & Koch is a manufacturer and remanufacturer of precision machine tools and a supplier of related parts through its BK-Rockford division. The company is also the leading supplier of diamond orifices and consumables for the waterjet industry through its Diamond Technology Innovations (DTI) division. At the end of 2017, Alleghany owned approximately 89% of Bourn & Koch. During the first half of the year, the BK-Rockford team worked through a weak order environment for capital equipment, but this has reversed in the second half with the rebound in U.S. industrial production. BK-Rockford invested in sales infrastructure during the commodity market-driven downturn and we expect that to pay off as the market for capital equipment continues to rebound in 2018. At DTI, sales and profits have grown strongly year-over-year as the waterjet market continues to gain share versus other cutting technologies and DTI extends its industry lead by producing high quality and innovative products.

Kentucky Trailer

R.C. Tway Company (aka "Kentucky Trailer") is a manufacturer of custom trailers and truck bodies for the moving and storage, beverages and snacks, package delivery, and mobile medical imaging markets. At the end of 2017, Alleghany owned approximately 79% of the common equity of Kentucky Trailer. Kentucky Trailer's diversified manufacturing and service operation continued to show solid revenue and profit growth, though it was challenged by a tightening labor market. In contrast, the mobile medical segment, which manufactures highly technical trailers that house third-party MRI and PET/CT imaging equipment for use by healthcare facilities without on-site imaging equipment, experienced a decline in sales. This decline was driven by customer hesitancy early in the year due to the political debate on the future of the Affordable Care Act as well as a pause in demand as customers awaited a mid-year product launch by one of the leading medical imaging equipment suppliers. Despite the slow start to the year, this segment began inflecting positively late in the year as the new imaging technology was finally introduced to the market and Washington moved past the debate on healthcare. In its other markets, Kentucky Trailer continues to see solid demand as the economy improves and is also realizing the benefits of an ongoing focus on lean manufacturing.

IPS-Integrated Project Services ("IPS")

IPS is a leading provider of engineering, procurement, construction management, and validation services for the global biopharmaceutical industry. At the end of 2017, Alleghany owned approximately 84% of IPS. During the year, IPS profitably executed its sizable backlog of projects and logged over one million exposure hours without a major safety incident, a significant accomplishment. IPS's mission is to help its clients develop and create life-enhancing and life-saving products. In 2017 it worked on projects such as designing and engineering a new vaccine facility in North America, managing the construction of facilities producing novel treatments for cancer, and assisting in the achievement of Food and Drug Administration approval. IPS produced moderate profit growth in 2017 while absorbing increased spending on new domestic and international offices and personnel to support long-term growth. Global industry demand for IPS's services remains robust and returns on the company's investment in new overseas locations and talent are beginning to emerge.

Jazwares

Jazwares is a global toy, entertainment, and musical instrument company, with both a licensed and owned brand portfolio. Alleghany owned 80% of the company at year-end 2017. During the year, Jazwares successfully launched the largest slate of new licenses in company history, supplementing key existing properties such as *Peppa Pig* and *First Act*. The new *Roblox* line, in particular, has strong momentum entering 2018. Although the bankruptcy filing of Toys "R" Us negatively impacted the year, Jazwares was well-insured and capably navigated this challenging situation with revenues and profits still growing solidly year over year. Jazwares continues to invest heavily in innovation by funding the development of the JazWings platform, a unique on-line crowdsourced toy/brand incubator, with several compelling industry partnerships in the works for 2018.

W&W | AFCO Steel

W&W | AFCO Steel (W&W), an 80%-owned subsidiary, provides fabricated steel for use in large construction projects primarily in North America, including commercial, industrial, and public structures, as well as stadiums and bridges. The company also erects complex structural steel in certain markets. Past and present fabrication projects include AT&T Stadium (home of the Dallas Cowboys), the Mandalay Bay Convention Center in Las Vegas, and large manufacturing facilities for companies such as Boeing, Intel, and Tesla. W&W's steel erecting division in New York City has been busy building 30 Hudson Yards, which, when complete, will be the second-tallest office building in New York City. W&W is entering 2018 with a significant and growing backlog of projects and we look forward to supporting W&W as they enter what should be a very busy year.

Wilbert Funeral Services Inc.

Wilbert, based in Overland Park, Kansas, is a leading provider of products and services for the funeral and cemetery industries as well as precast concrete markets (e.g., septic tanks and retaining wall blocks). The company, which dates back to 1880, operates through company-owned facilities and a broad nationwide network of nearly 200 licensees. Alleghany Capital purchased 45% of Wilbert in August 2017, with a path to majority ownership in the future. Joe Suhor, III (Chairman), Dennis Welzenbach (President and CEO), and the rest of the Wilbert team, including the large licensee network, have built a truly impressive company, nimbly adapting as their markets have evolved. An aging population in North America will be a driver of the death care industry in the decades to come, as will the increasing rates of cremation, a market in which Wilbert is a participant. We look forward to supporting the company as it pursues its organic growth and active acquisition strategy.

Stranded Oil Resources Corporation

Stranded Oil Resources Corporation is an exploration and production company focused on increasing oil production in mature fields using enhanced recovery techniques. Since its formation in 2011, SORC has acquired acreage in three producing oil fields located in Kansas, Louisiana, and Wyoming. The company is currently focused on optimizing the value of its properties in the Caddo Pine oil field in Louisiana and the Teapot Dome oil field in Wyoming. These oil fields are currently producing crude oil using conventional production methods, as they have for decades. In 2017, SORC slowed the drilling of new wells at these fields while it performed an extensive geologic and reservoir characterization review to determine which oil zones would deliver the most attractive risk-adjusted returns across the company. With this work concluding, the company is ready to progress to the development phase.

In 2017, SORC reported an after-tax loss of $18.4 million. This loss resulted from lower production year over year (as the company paused new drilling as it awaited the results of the reservoir analysis), elevated spending on geosciences and reservoir analysis, operating losses in the Kansas operation, and a $4.8 million after-tax charge associated with the sale of the Kansas operation in order to realize significant tax benefits. Achieving profitability requires a significant increase in production from current levels at low marginal cost, in order to lower the cost per barrel produced and cover fixed overheads.

U.S. oil prices have meaningfully improved since the low of $26 per barrel reached in early 2016, with prices now over $60 per barrel. World oil demand is approaching 100 million barrels per day, and supply restraint by OPEC and other producers has gradually reduced global inventories. With an improved commodity price backdrop, SORC plans to transition back to drilling new wells in 2018. The Company plans to develop its most attractive opportunities in a staged fashion, leveraging both the lessons learned from the Kansas project as well as ongoing industry-wide technological advancements.

Our payoff from SORC will come when the company is able to improve the recovery rate of original oil in place from its two remaining oil fields. A large increase in proved reserves, if realized, would meaningfully reduce the cost of each barrel produced and therefore result in better earnings.

Alleghany Capital – Summary and Outlook

In 2017 Alleghany Capital's platform companies produced $45 million of pre-tax operating earnings before non-controlling interests. Alleghany Capital is positioned for a significant increase in earnings in 2018, reflecting the organic growth prospects of our portfolio companies, a full-year of earnings from W&W|AFCO Steel and Wilbert Funeral Services, and improved results at Stranded Oil Resources Corporation. The operating earnings (before amortization) of the ACC portfolio companies now adequately cover the fixed costs that we have incurred in building the organization and accordingly, ACC should be a more significant contributor to Alleghany's earnings in the years ahead.

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2017 tested the global risk transfer system

In 2017, the global reinsurance industry dealt with natural catastrophe losses of well over $100 billion, more than twice the average level of the past decade. In last year's annual report, I discussed what could go wrong with alternative capital vehicles that are becoming an increasingly important part of the global risk transfer system. In 2017, this market was tested – and it appears to have performed well. According to Guy Carpenter, dedicated reinsurance capital increased 2% in 2017, and non-traditional sources of reinsurance capital increased by 9%.[6]

Consolidation in the commercial insurance industry has resulted in large, national insurers retaining more risk and turning to the reinsurance industry to protect them against truly significant industry loss events. Some have also used the capital markets, in the form of catastrophe bonds, to protect against the "mega event." Interestingly, in 2017 few catastrophe bonds were triggered because the losses from hurricanes Harvey, Irma and Maria were not individually large enough to trigger losses for these catastrophe bonds. So as significant as 2017's events were, they were ***not*** "the big one."

They were large enough, however, to trigger losses for insurers, reinsurers, and some capital markets facilities. Reinsurers build capacity by creating a risk portfolio that is geographically- and peril-diversified, but must protect against an event of such size that it would excessively impact a reinsurer's capital base, as well as a frequency of large events in any one year. Prior to hurricane Katrina in 2005, most retrocessional coverage was provided to the reinsurance industry by the reinsurance industry; in other words, some reinsurers specialized in writing retrocessional coverage, predominantly on a per occurrence basis. Since then, capital markets have rushed in to provide capital that backs-up the reinsurance industry through side cars and collateralized reinsurance facilities, and have often done so on an annual aggregate loss basis.

In 2017, because there were multiple large catastrophe loss events, reinsurers began to cede losses to their annual aggregate covers. Many of these facilities incurred significant losses, but the underlying investors were quick to recommit capital to trade forward. Capital markets investors are attracted to the reinsurance market because it offers an uncorrelated source of return to their portfolios. Moreover, these investors are looking for a premium over the *risk free* return, whereas reinsurers must seek a premium over their *cost of capital*. Accordingly, capital markets are a more efficient way for the economy to transfer extreme catastrophe risk than the "rated balance sheet" of a reinsurer. Rising interest rates – especially at the short-end of the curve – may make alternative capital facilities less competitive at the margin going forward.

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[6] GC CapitalIdeas.com, January 18th, 2018.

Although ILS[7] facilities absorbed losses and traded forward, the returns that they have generated for investors are quite modest relative to the potential impact of a major tail event. For example, the five-year cumulative return from the ILS Advisors Index through 2017 was 17.8%, or approximately 3.3% per year. This compares to a 37% cumulative return, or 6.5% per year on the CBOE 10-year treasury note index, and a 2.2% cumulative return, or 0.4% per year on the S&P 9-12 month treasury bill index. In the words of Carl Spackler, "So I got that going for me, which is nice.[8]" Some ILS funds lost over 25% of their net asset value in 2017, and this was by ***no means*** a "worst case."

In order to effectively utilize the capital markets, a reinsurer needs to be large and diversified, and we believe TransRe is among those companies with sufficient scale to leverage their capital with alternative reinsurance capacity. In fact, TransRe entered 2018 with more non-traditional capital support than it had the year before. A reinsurer that intelligently uses alternative capital can generate a higher return on *its* capital base than it would if it retained all of the risk itself. And while it appears unlikely that recent catastrophe losses will lead to an environment of disruptive property catastrophe reinsurance rate increases due to the presence of the alternative reinsurance markets, the downside to the industry is better protected as well because of the resilience of these markets.

Alleghany's principal objective in the insurance and reinsurance business is to produce an underwriting profit. While our quarterly and annual underwriting results can be volatile – mostly due to the absence or occurrence of catastrophe events – we aim to average a reasonable underwriting profit over time. This allows us as an organization to be a reliable and financially strong business partner for our customers, while pursuing our primary business objective of long-term book value growth and in turn generating a fair return for our stockholders.

In 2017 our insurance and reinsurance subsidiaries collectively recorded an underwriting *loss* of $316 million, primarily due to an active hurricane season. It is tempting to dismiss our and the industry's significant underwriting losses as an anomaly that was the consequence of abnormal weather. And while it is true that 2017 was a much more active and severe hurricane season than most years since 2005, from a long-term point of view we dismiss recent activity at our peril.

The chart on the following page shows the history of landfalling hurricanes in the United States since 1851 based on a study that was done by the National Oceanic and Atmospheric Administration[9], which we have updated through 2017's events. The blue bars show the number of U.S. landfalling category 1 and 2 hurricanes by decade, while the green bars show the number of major hurricanes (category 3 and above) making landfall in the U.S. What is surprising about this chart is not how active 2017 was, but rather how benign the period from 2007-2016 was – there were no major hurricanes making landfall in the U.S. during this time period. In fact, in 13 of the 16 prior decades ending in 2010, at least one category 3 or worse hurricane made landfall in the U.S. every two years, on average.

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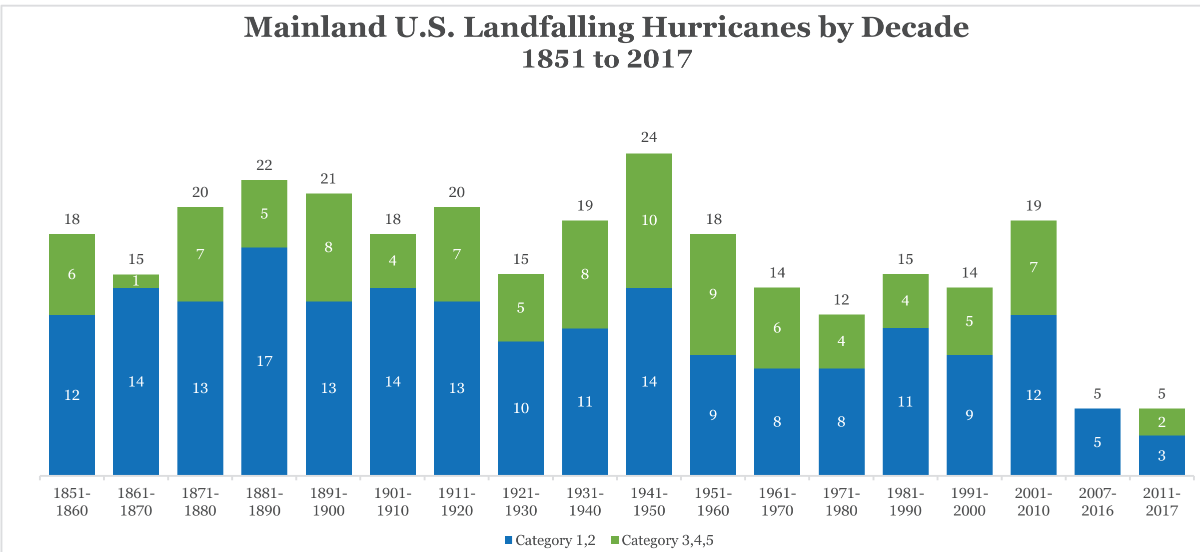
[7] Insurance-Linked Securities.

[8] Bill Murray in *Caddyshack*.

[9] *The Deadliest, Costliest, and Most Intense United States Hurricanes from 1851 to 2010 (And Other Frequently Requested Hurricane Facts)* by Eric S. Blake, Christopher W. Landsea, and Ethan J. Gibney.

By contrast, the ten-year period from 2007 to 2016 was a period in which only five hurricanes, none of them major, made landfall in the United States. During this period, non-traditional sources of reinsurance capital entered the markets in a big way and enjoyed an unusually favorable period of hurricane activity. In addition, the populations and economies of Florida and Texas grew significantly, with much of the growth in coastal areas. This growth in exposure allowed insurers and reinsurers to maintain premium volume by writing ***more*** business at ***lower*** prices, and because there were no major landfalling hurricanes, underwriting results appeared satisfactory.

Because of the influx of reinsurance capacity and related pressure on pricing, the watchword for long-term catastrophe insurers and reinsurers has been discipline. That means in order to best protect our capital and reward stockholders, we have focused on selectivity and careful aggregate management often at the expense of growth in net written premium. This strategy has served us well, particularly in light of recent events.



Although our catastrophe losses were significant, we are generally pleased with how our underwriting businesses performed in 2017 relative to the events that occurred, and we were able to grow our capital base despite elevated catastrophe losses. This outcome is the result of our underwriters maintaining their discipline as prices declined and coverage terms broadened in recent years, and our decision to lower PMLs as a percent of equity. Given the occurrence of multiple major events as we saw in the year just ended, clear conditions exist for pricing and terms to reset to reflect the newly refreshed realities of the historic risk levels that govern catastrophe insurance markets. While not dispositive, early indications are that reinsurance industry pricing is responding to 2017's catastrophe loss activity.

2017 and Climate Change

Much has been written about the extreme weather events of 2017 and the extent to which they are a result of climate change. It is important in considering this issue to distinguish between weather events and climate. Weather events are highly variable and unpredictable over the short-term. It is only with the passage of a significant amount of time that scientists can observe and model a changing climate.

Our focus as a business is to set appropriate pricing for both insurance and reinsurance that will, over time, produce an underwriting profit. Because for the most part we reset prices annually, it is highly unlikely that climate change would ***not*** be captured in pricing, which is already adjusting to 2017's experience. If the cost of risk is rising, it is our job to raise the price of insurance to meet our profit-making objectives. In this sense, higher pricing also ensures that the market receives the correct signal as to the cost of risk.

Moreover, two of the larger and more catastrophe-exposed states in the United States – Florida and Texas – also happen to be rapidly-growing economies, with populations that are far larger than they were decades ago. With larger populations come increased insured exposure, so a replay of the same meteorological events that occurred 25 years ago will produce significantly larger losses to society today.

TransRe

TransRe celebrated its 40-year anniversary in 2017, and its 5-year anniversary as part of Alleghany Corporation. Reinsurers come, and reinsures go, but TransRe endures! Since acquiring TransRe in early 2012, the company has added $2.7 billion to Alleghany's stockholders' equity.

Faced with a highly competitive industry backdrop, TransRe continued its strategy of protecting capital by selectively underwriting accounts and emphasizing profitability over growth. Gross premiums written finished the year at $4.2 billion, down slightly from the $4.3 billion recorded in 2016. Net premiums written finished the year at $3.8 billion, compared to $4.0 billion in 2016. TransRe's reported underwriting loss of $263.4 million included $581.1 million of net catastrophe losses. The combined ratio was 106.9% in 2017, but was 91.6% excluding net catastrophe losses.

With over $5 billion of equity capital and significant third-party capital resources, TransRe is well-positioned to support its clients in managing risk. In 2017 approximately two-thirds of the company's net written premium was in North America, with one-third in Europe, the United Kingdom, Latin America, and Asia Pacific. About 32% of the company's net premiums written related to property exposures, while 68% was accounted for by casualty and other non-property risks.

For most of 2017, pricing was under pressure in the global reinsurance market. Following the major catastrophe losses of the third and fourth quarter, prices stopped declining and began increasing modestly. TransRe used this environment to reposition its portfolio, selectively achieving improved pricing and terms.

TransRe continues to develop multiple third-party capital partnerships. TransRe's property sidecar facility and other third party capital sources bring over $1.5 billion of limit to TransRe's capacity, the vast majority of which is collateralized. In addition, Pillar Capital Management Limited, jointly owned by TransRe and Pillar management, significantly outperformed its peers in 2017 and is rapidly approaching $1 billion of assets under management writing property catastrophe reinsurance.

TransRe's relationship with Berkshire Hathaway's GenRe entered its second year in late 2017. TransRe has shared a diversified portfolio of risks for the company and we believe this relationship has strengthened TransRe's presence in the broker reinsurance market.

In 2017 TransRe also made significant progress in leveraging its mortgage guaranty underwriting expertise through the development of its mortgage guaranty MGA, which underwrites mortgage risk for third party insurers. This initiative further grows and diversifies TransRe's fee income earnings stream.

Despite a slightly declining top-line in the year just ended, TransRe produced positive net cash from operations of $167.6 million, paid Alleghany $225 million of dividends, and grew its invested asset base. We continue to view TransRe as a franchise reinsurer whose business model has stood the test of time. We expect that the company will capitalize on opportunities that should emerge from a reinsurance market in transition.

RSUI Group

RSUI Group had an underwriting loss in 2017, the second such loss since Alleghany acquired the company in 2003. Our initial investment in the company of $628 million on July 1, 2003 has produced $949 million of net dividends and a $1,073 million increase in RSUI's book value, for a total gain in book value of $2.0 billion since inception.

After three quarters of retrenchment in 2017, RSUI saw a 5.9% increase in gross premiums written in the fourth quarter and finished the year with $1.1 billion of gross premiums written, just about flat for the year. RSUI's underwriting loss of $57.1 million reflected $232.4 million of net catastrophe losses. The combined ratio of 107.9% was burdened by 32.2%-points of catastrophe losses, without which it would have been 75.7%.

The table below summarizes 2017 gross premiums written by product line ($ million):

Management Liability	$ 149	14%
Professional Liability	133	13
General Liability	41	4
Umbrella/Excess Liability	174	16
Liability Total	$ 496	47%
Property	362	34%
Binding Authority	143	14%
Alternative Structures	56	5%
Total	$ 1,057	100%

In 2017, Casualty lines were profitable, but Property, Binding Authority, and Alternative Structures product lines all reported underwriting losses, mostly due to catastrophe losses. About 36% of Binding Authority is property exposure, mostly in the Southeast, and Alternative Structures includes some assumed reinsurance, which has historically diversified RSUI's catastrophe risk.

CapSpecialty

CapSpecialty performed well in 2017, producing its second annual underwriting profit since Stephen Sills joined the company and we embarked upon a new strategy. CapSpecialty's goal is to be the preferred specialty insurance and surety company for small and mid-sized businesses in the U.S. Gross premiums written finished the year at $290.2 million, an increase of 8.9% over the $266.5 million written in 2016. CapSpecialty has been growing by expanding its professional liability business, as shown below ($ millions):

	2015	2016	2017	'16-'17 % chg
Traditional Property and Casualty	$ 115.6	$ 115.7	$ 116.7	0.9%
Surety	46.7	47.8	49.3	3.1%
Subtotal	$ 162.3	$ 163.5	$ 166.0	1.5%
Professional liability	74.3	103.0	124.2	20.6%
Total company	$ 236.6	$ 266.5	$ 290.2	8.9%

CapSpecialty's professional liability business has been built by recruiting new underwriting talent to the company and refining the company's distribution strategy. Major new lines include errors and omissions coverage, healthcare, environmental and other specialty casualty lines.

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Economic outlook

The year just ended marked the end of an eight-year period of rapidly-expanding central bank balance sheets. It also marked the eighth year of economic expansion, one of the longest-running expansions in U.S. history. With the stock market at all-time highs at the end of 2017 and interest rates still low, one could easily conclude that prospective returns relative to potential risks are unattractive in the investment landscape.

In 2017 the U.S. economy generated 2.1 million new jobs; the unemployment rate fell to 4.0% (although the so-called "underemployment rate" stands at 8.1%); and average hourly earnings increased at a steady 2.5%. GDP growth was 2.3%, and inflation remained modest (~2% currently). Although we now appear to be in a self-sustaining economic expansion, there are many reasons why this may not be the case. Even though the economy grew in 2017, the Federal Government deficit expanded as a percentage of GDP. With the prime working-age (25-54) employment-to-population ratio approaching 80%, continued employment growth may require higher wages, which could have a negative effect on corporate profit margins. Moreover, there is some evidence that a better employment market and high levels of consumer confidence are supporting increased borrowing, which can provide a temporary acceleration in economic activity. Consumer credit, for example, has increased as a percentage of disposable personal income from a low of just under 22% to over 26% currently.

As mentioned earlier, real interest rates remain extremely low by historical standards. Scholarly studies have demonstrated the demographic factors – increased life expectancy and slowing population growth in particular – can be linked to low levels of real interest rates[10]. Moreover, these demographic forces will not change over the next decade. Accordingly, our best guess is that even if inflation increases modestly from current levels due to the stimulative nature of fiscal policy, nominal interest rates are likely to remain fairly low as secular forces will continue to keep real interest rates low for quite some time.

The lack of significant capital investment in the economy and the effects of eight years of expanding central bank balance sheets have likely contributed to very modest productivity growth. Add to this a very slow growing population and you get an economy that grows ~2% a year on a secular basis absent any major shock. Economist A. Gary Shilling has noted that the prime U.S. workforce (age 25-54) is projected to grow about 0.5% per year for the next decade. In order to achieve 2% real growth, therefore, productivity must average 1.5% per year, compared to the 0.5% per year registered so far this decade.

[10] *Demographics and Real Interest Rates: Inspecting the Mechanism* by Carlos Carvalho, Andrea Ferrero and Fernanda Nechio. Federal Reserve Bank of San Francisco Working Paper 2016-05, March 2016.

All of the above argues for more of the same: continued employment growth of two million jobs per year, modest inflation, and historically low (but modestly rising) interest rates. With this environment as the backdrop, the Federal Reserve is considering gradually raising short-term interest rates and slowly unwinding the massive balance sheet built up since the financial crisis, which some have called “Quantitative Tightening”[11]. Given the highly-leveraged nature of the economy, the actions of the Federal Reserve introduce a degree of risk and uncertainty into this otherwise rosy scenario.

The Tax Cuts and Jobs Act of 2017 introduces an additional complexity. As one of our advisors has noted, the limitations on the tax deductibility of interest and immediate expensing of capital investment are powerful incentives that may shift the balance toward productive investment and away from financial engineering.[12] This may result in a rebalancing of the real economy vis-à-vis the financial economy. Such a rebalancing could cause risk assets to decline in price, especially if the Federal Reserve drains liquidity too quickly.

An environment of continuing moderate economic growth, modest inflation, and low real interest rates has the following implications to Alleghany:

1. Our investment portfolio will generate relatively low (by historical standards) total returns, but these returns can be enhanced by our allocation to equity securities and selected illiquid fixed income assets such as commercial mortgages and private placements.

2. A benign inflation environment is conducive to moderate claims cost trends in our (re)insurance businesses, and is not supportive of significantly higher industry pricing.

3. Alternative reinsurance markets will remain the destination of choice for extreme natural catastrophe risks, and TransRe intends to continue to expand its use of these markets.

4. Our investments at Alleghany Capital position us to participate in the industrial renaissance that is emerging in the US economy following changes to tax and trade policy.

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[11] Van R. Hoisington and Lacy H. Hunt, Ph.D., *Quarterly Review and Outlook, Fourth Quarter 2017*, Hoisington Investment Management Company.

[12] *Tax Reform, Capex and Financial Engineering*, Gavekal Research, Charles Gave, January 4, 2018.

Investments

Our investment performance in 2017 was exceptionally strong. Our actively-managed equity portfolio (78% of the total) returned 31.8%, and all of our fixed income portfolios outperformed their indices. The equity portfolio in total produced realized and unrealized gains of over $700 million, offsetting most of the catastrophe losses that we incurred. Our fixed income portfolios also performed well, producing total returns in excess of the portfolio yield, despite an environment of modestly rising interest rates on the front end of the yield curve. While we are pleased with the investment performance of 2017, we would quickly add that it is unlikely to be repeated in 2018.

Our largest individual positions at year-end are shown in the following table ($ millions):

Shares	Company	Cost	Value
3,440,000	Chevron Corp.	$ 399.3	$ 430.7
317,000	Alphabet Inc.	249.0	333.9
2,360,000	VISA Inc.	149.2	269.1
3,000,000	Microsoft Corp.	163.5	256.6
4,285,000	CSX Corp.	149.2	235.7
900,000	Roper Technologies Inc.	138.4	233.1
1,799,178	JP Morgan Chase	112.1	192.4
3,935,808	Comcast Corp.	135.7	157.6
635,000	Cigna Corp.	80.5	129.0
419,000	Mohawk Industries	93.7	115.6
	Total	$1,670.6	$2,353.7

Our equity investment strategy is to invest in businesses with sustainable market positions and reasonable long-term growth prospects. We supplement this strategy with an allocation to passive equity vehicles in order to capture the broad returns of equity markets on a tax efficient basis.

At the end of 2017, we had approximately $4.1 billion allocated to equity securities out of a total portfolio (including cash) of $19.6 billion, or 21%. The investment portfolio is approximately 2.3-times the size of our equity base. If the equity portfolio were to return 8% prospectively, and the rest of the portfolio were to return 2% prospectively, the entire portfolio would return approximately 3.25%, which represents a 7.5% return on our equity. On an after-tax basis under the new tax regime, this now equates to a 5.9% return after-tax.

Our fixed income portfolios also performed well in 2017. Despite rising interest rates, which helped the book yield of the portfolio, we were able to increase the size of our net unrealized gains on fixed income securities, as our exposure to the long-end of the curve was sufficient to offset rising interest rates on the shorter-end of the curve. An allocation to floating rate securities also helped.

Over the past several years, we have diversified our fixed income exposure, adding participations in commercial mortgage loans and private placements to our marketable portfolio mix. Our outside managers all did their job in 2017, producing returns that exceeded the custom benchmarks that we have created for them.

For the past five years, our fixed income assets have been overseen by Roger Gorham, our Senior Vice President of Fixed Income and Treasurer. Over the past thirteen years Roger has been a key part of the Alleghany executive team, including building our finance team during the seven years he was CFO. Roger has decided that the allure of mountain air is calling, and will be retiring from Alleghany next month. We wish Roger a happy and healthy retirement as he watches the moose walk across the back yard of his Jackson Hole home.

* * * * * *

Outlook

Although the year just ended was challenging due to elevated natural catastrophe losses, we believe that we made significant progress in the strategic development of Alleghany Corporation. All of our insurance and reinsurance subsidiaries are now performing well, and Alleghany Capital has achieved "critical mass" that should support improved returns going forward. Our investment functions are performing at a high level, and we are no longer burdened by a tax regime that puts us at a disadvantage relative to competitors that are domiciled offshore.

We continue to have work to do on Stranded Oil Resources Corporation, but believe that this business has value that has yet to emerge in the financial statements, and it is among our highest priorities to ensure that we maximize the value of this asset. We also see significant opportunities to realize value at Alleghany Properties, as the strong economy in Sacramento has led to renewed development activity.

With improving market conditions in the reinsurance and specialty insurance markets, and with Alleghany Capital positioned for improved earnings, we are optimistic that we can continue to compound book value per share consistent with our goal of 7-10% per year over the long-term.

Yours sincerely,

Weston M. Hicks
President

Alleghany Corporation
Operating Principles

1. Created in 1929, Alleghany was originally a family-owned business. Although this is no longer the case, that legacy remains an essential part of our culture and is important to how we conduct ourselves. We expect our executives and managers to treat employees fairly and equitably, and to be responsible to the communities in which they operate and the constituencies that they serve. And we endeavor to custody shareholder capital as if it were our own.

2. Throughout most of Alleghany's history we have been investors in the insurance and reinsurance industries. These businesses provide an essential public function in helping organizations and individuals protect their assets. They also help the economy to allocate resources effectively by accurately pricing risk.

3. Because our insurance and reinsurance companies collect premiums before they pay claims, they accumulate substantial reserves. Reserves are a form of "leverage" that enhance our returns on capital, and there is no cost to the reserves unless we generate underwriting losses (see below). In part because of this inherent leverage, we do not believe that it is appropriate for us to use excessive amounts of *financial* leverage at the Alleghany corporate level.

4. Our insurance and reinsurance companies seek to earn an underwriting profit. This is essential to being reliable, secure counterparties that make good on their promises to pay.

5. Our core businesses operate, for the most part, in mature sectors. We believe that insurance markets, which are highly competitive, establish the price of risk; our choice is to write more business or less business at prevailing prices. The industry has a history of capacity dislocations, and when this happens we are prepared to grow more rapidly. Conversely, when excess capacity produces insufficient prices, we are prepared to reduce our risk exposure.

6. As the owner of insurance and reinsurance companies, Alleghany Corporation itself is, to a significant degree, an asset management company. Like a closed-end fund, the corporation retains most of its profits and reinvests those profits on behalf of its stockholders.

7. Given fluctuations in supply and demand for insurance and reinsurance, we can at times become overcapitalized. When this happens, we may invest our excess capital in risk assets, make acquisitions at Alleghany Capital, or build excess liquidity for a time when it may be more attractively valued. We also return excess capital to stockholders, including through share repurchases when we believe our stock price is trading below intrinsic value.

8. Alleghany Capital Corporation is our investment subsidiary that acquires and oversees primarily non-financial companies with durable businesses. Unlike a private equity firm, we do not acquire companies with the intention to sell them in the future. Rather, we believe that we provide a stable ownership structure when the founders or other control owners need to effect a capital transition. We believe that our ownership allows our owner-manager partners to grow their company and to improve each company's results over time.

9. Our primary function in overseeing operating businesses is to provide strategic guidance, to set risk parameters, and to ensure that management incentives are appropriate. We don't "run" our subsidiaries – their executive teams do.

10. Our insurance and reinsurance businesses – and our investment operations – are intellectual capital businesses. We believe that maintaining a stable rank of professional talent, both at Alleghany Corporation and at our insurance and reinsurance businesses, is a source of competitive advantage. Accordingly, we believe it is important to provide these employees with professional growth opportunities and competitive levels of compensation that are aligned with long-term performance.

11. We support equal opportunity for all employees and prospects without regard to race, gender, ethnicity, or sexual orientation. We also support the objective of a diverse board of directors, and intend to continue to enhance the diversity of the board composition in the future.

12. Our financial objective is to generate long-term returns that exceed the general inflation rate by 5-8% per year. In the current environment, this equates to a 7-10% return. By long-term, we mean a decade or more. Because the probability of extreme events increases with time, a long-term objective is best served by a conservative risk profile.

13. We report our results quarterly and annually through press releases and required SEC Filings. We do not provide financial guidance, and do not hold quarterly earnings conference calls. In these communications, we strive to provide information that is sufficient to understand our strategic direction and operations. Additionally, management and directors are available to meet with investors to explain these communications and to hear their perspective on our business opportunities and challenges. We are not promotional with respect to our prospects, and believe that our fundamental results will drive our stockholder returns over the long-term.

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In Memorium: John J. Burns, Jr.

John J. Burns, Jr. joined Alleghany Corporation in 1968 as vice president, finance, and was an integral part of Alleghany Corporation for over four decades. He served as president and chief operating officer from 1977 to 1992, and was president and chief executive officer from 1992 until 2004. The capstone of his remarkable career was his appointment as vice chairman of the board of Alleghany Corporation from 2005 to 2007, and chairman of the board from 2007 to 2010.

John was keenly interested in the insurance and reinsurance industry, where he had many successes as an investor and owner. He was also extremely knowledgeable about the railroad and trucking industries, and put this knowledge to good use for the benefit of Alleghany.

One of John's first successes was in the property casualty insurance industry. In late 1986, John initiated an investment in a troubled mutual insurance company that was successfully rehabilitated to become Shelby Insurance Company. Shelby was sold in 1991 for a $31 million after-tax gain.

In late 1987, John initiated a 9.5% position in the stock of The St. Paul Companies, Inc., the market leader in medical malpractice insurance at the time, and subsequently announced Alleghany's intention to increase its ownership to 20%, subject to the receipt of the necessary regulatory approvals. A multi-year, state-by-state campaign to obtain these approvals ensued, but after multiple legal challenges from the issuer, Alleghany decided to sell its holdings back to The St. Paul Companies in 1990 at a significant gain.

In early November of 1989, John acquired Sacramento Savings Bank. Five years later Alleghany sold the bank to First Interstate Bank of California for another significant gain. Alleghany Properties, our current subsidiary, was formed to hold certain real estate assets that were not part of that sale.

John was instrumental in the creation and success of Burlington Northern Santa Fe, now a subsidiary of Berkshire Hathaway. In 1994, John foresaw a changing competitive dynamic in Class I railroads, established a position for Alleghany in Santa Fe Pacific Corporation, and was a driving force in the creation via merger of the Burlington Northern Santa Fe Corporation in 1995.

John oversaw the growth of Chicago Title and Trust into a leader in the title insurance industry through multiple well-timed consolidating acquisitions. In 1998 he initiated and oversaw the highly successful spin-off of Chicago Title Corporation to Alleghany stockholders, which subsequently merged with Fidelity Title and is now the dominant title insurance organization in the country.

In 2000, John took advantage of record business valuations and sold Underwriters Re to Swiss Re America Holding for $649 million in cash, resulting in a $130 million after-tax gain. John had overseen the purchase of Underwriters Re seven years earlier for $201 million. Also in 2000, Alleghany sold its asset manager, Alleghany Asset Management, to ABN AMRO North America Holding Company for $825 million, resulting in an after-tax gain of $473 million.

John's partnership with F.M. Kirby II, Alleghany's CEO from 1967-1992 and Chairman from 1967-2006, was highly successful, generating superior returns to stockholders for over 30 years. From 1980 to 1989 Alleghany's book value per share compounded at 28% per year, and from 1990 to 1999 it compounded at over 15% per year.

But beyond his accomplishments as an executive of Alleghany Corporation for over four decades, John was an amazing human being who cared deeply about his family, his colleagues, the corporation and its customers and stockholders. Somehow John was able to make all of them happy.

As John would say, it was all "butter on the donut."

Plenus annis abiit, plenus honoribus[13]

[13] John's Jesuit education provided him with a love of Latin. Translated into English, this statement from Pliny the Younger means "He is gone from us, full of years, full of honors."

Comment on Non-GAAP Financial Measures

Our analysis of our financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the U.S., or "GAAP." Our results of operations have been presented in the way that we believe will be the most meaningful and useful to investors, analysts, rating agencies and others who use financial information in evaluating our performance.

This presentation includes the use of operating income and related measures, and underwriting profit, which are "non-GAAP financial measures" as defined under regulations promulgated by the Securities and Exchange Commission. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. Also note that these measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. A discussion of our calculation and use of these financial measures is provided below.

Operating income. This presentation includes the use of operating income and related measures, which we believe are useful to help explain changes in stockholders' equity attributable to Alleghany. A reconciliation of operating income and related measures to net earnings attributable to Alleghany stockholders is presented below.

	For the Year Ended December 31, 2017	2016
	($ in millions)	
Net earnings attributable to Alleghany	$ 90.1	$ 456.9
Less: net realized capital gains, after-tax	(69.7)	(41.1)
Plus: other than temporary impairment losses, after-tax	11.0	29.4
Operating income	$ 31.4	$ 445.2

Underwriting profit. This presentation includes the use of underwriting profit, which is a non-GAAP financial measure for our reinsurance and insurance segments. Underwriting profit represents net premiums earned less net loss and loss adjustment expenses and commissions, brokerage and other underwriting expenses, all as determined in accordance with GAAP, and does not include: (i) net investment income; (ii) net realized capital gains; (iii) other than temporary impairment losses; (iv) other revenue; (v) other operating expenses; (vi) corporate administration; (vii) amortization of intangible assets; and (viii) interest expense. We use underwriting profit as a supplement to earnings before income taxes, the most comparable GAAP financial measure, to evaluate the performance of our reinsurance and insurance segments and believe that underwriting profit provides useful additional information to investors because it highlights net earnings attributable to our reinsurance and insurance segments' underwriting performance. Earnings before income taxes may show a profit despite an underlying underwriting loss, and when underwriting losses persist over extended periods, a reinsurance or an insurance company's ability to continue as an ongoing concern may be at risk. A reconciliation of underwriting profit to earnings before income taxes is presented within Note 13 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, "Financial Statements and Supplementary Data" of our Report on Form 10-K for the year ended December 31, 2017.