November 2, 2017

To our stockholders:

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.

For the first nine months of 2017 our insurance and reinsurance subsidiaries recorded underwriting losses of $454 million, primarily due to an active hurricane season.

It is tempting to dismiss our and the industry's significant third quarter underwriting losses as an anomaly that was the consequence of abnormal weather. And while it is true that 2017 has been 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 below 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[1], which we have updated through recent 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 to 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.

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. For the five years ended December 31, 2016, we produced cumulative underwriting profits of approximately $2.0 billion, despite falling insurance and reinsurance pricing. Third quarter catastrophe events have resulted in $755 million of losses for Alleghany, net of reinstatement premiums, or almost 38% of all of the underwriting profits we made in the prior five years!

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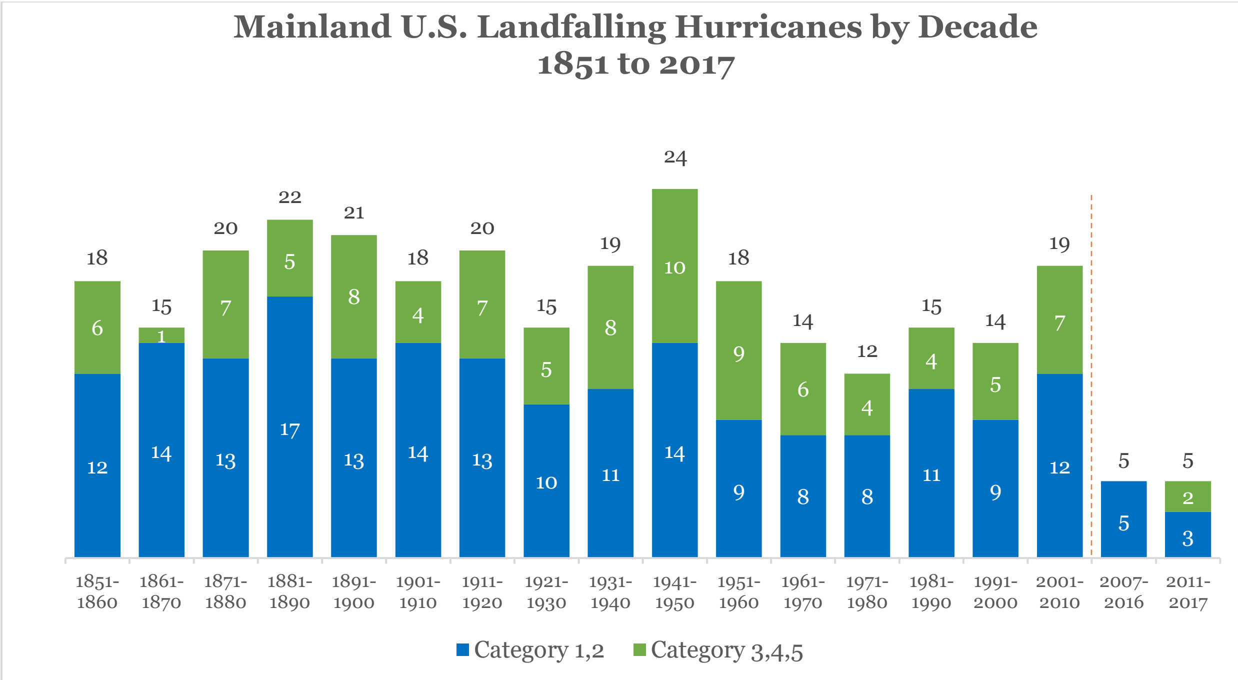
[1] *The Deadliest, Costliest, and Most Intense United States Hurricanes from 1851 to 2010 (And Other Frequently Requested Hurricane Facts)* by Eric S. Blake, Christopher W. Landsea, and Ethan J. Gibney.



Although our catastrophe losses were significant, we are generally pleased with how our underwriting businesses performed in the third quarter relative to the events that occurred, and are well positioned from a capital standpoint to trade forward should market conditions allow for profitable growth. This outcome is the result of our underwriters maintaining their discipline as prices declined and coverage terms broadened in recent years. Given the occurrence of multiple major events as we've seen in the recent quarter, 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. However, if the property and casualty industry continues to set prices which are inadequate for long-term profitable results, we will not hesitate to ask our underwriters to further reduce exposure until such time as it does.

Sincerely,

Weston M. Hicks
President