ALLEGHANY CORP /DE
Form 424B5
June 21, 2006

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Filed pursuant to Rule 424(b)(5)
Registration Statement No. 333-134996

A filing fee of $32,050, calculated in accordance with Rule 457(r), has been transmitted to the Securities and Exchange Commission in connection with the securities offered pursuant to this prospectus supplement, based on 1,132,000 shares of mandatory convertible preferred stock at a proposed maximum aggregate offering price of $299,527,000.

PROSPECTUS SUPPLEMENT
(To prospectus dated June 14, 2006)

985,000 Shares

ALLEGHANY CORPORATION

5.75% Mandatory Convertible Preferred Stock

Alleghany Corporation is offering 985,000 shares of our 5.75% mandatory convertible preferred stock (the Preferred Stock) by this prospectus supplement (the Preferred Stock Offering). The Preferred Stock will not be redeemable.

The annual dividends on each share of Preferred Stock will be $15.2144. Dividends will accrue and cumulate from the date of issuance, and, to the extent we are legally permitted to pay dividends and our board of directors, or an authorized committee of our board of directors, declares a dividend payable, we will pay dividends in cash on March 15, June 15, September 15 and December 15 of each year prior to June 15, 2009, or the following business day if such day is not a business day, and on June 15, 2009. The first quarterly dividend payment will be payable on September 15, 2006 in the amount of $3.4655 per share of Preferred Stock, which reflects the time from the date of issuance through September 14, 2006.

Each share of Preferred Stock has a liquidation preference of $264.60, plus an amount equal to accrued, cumulated and unpaid dividends. Each share of Preferred Stock will automatically convert on June 15, 2009 into between 0.8475 and 1.0000 shares of our Common Stock, subject to anti-dilution adjustments, depending on the average market price per share of our Common Stock over the 20 trading day period ending on the third trading day prior to such date. At any time prior to June 15, 2009, holders may elect to convert each share of Preferred Stock into 0.8475 shares of our Common Stock, subject to anti-dilution adjustments.

Prior to this Preferred Stock Offering, there has been no public market for our Preferred Stock. Our Common Stock is listed on the New York Stock Exchange (NYSE) under the symbol Y. The last reported sale price of our Common Stock on the NYSE on June 19, 2006 was $264.60.

Investing in our Preferred Stock involves risks. See Risk Factors beginning on page S-13 of this prospectus supplement and page 1 of the prospectus dated June 14, 2006.

	Per Share	Total
Public offering price	$264.60	$260,631,000
Underwriting discounts and commissions	$7.938	$7,818,930
Proceeds, before expenses, to us	$256.662	$252,812,070

We have granted the underwriters an option to purchase up to 147,000 additional shares of Preferred Stock from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

The Preferred Stock will be ready for delivery on or about June 23, 2006.

Merrill Lynch & Co.

Wachovia Securities

Dowling & Partners Securities

Janney Montgomery Scott LLC

The date of this prospectus supplement is June 19, 2006.

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Prospectus Supplement

Prospectus Dated June 14, 2006

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not and the underwriters have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the underwriters are making an offer to sell these securities in a jurisdiction where the offer or sale is not permitted.

The information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the dates of this prospectus supplement and the accompanying prospectus, respectively, or, in the case of the documents incorporated by reference, the dates of such documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a Registration Statement on Form S-3 that we filed with the SEC on June 14, 2006 using a shelf registration process (the Shelf Registration Statement). In this prospectus supplement, we provide you with specific information about the terms of this Preferred Stock Offering and certain other information. Both this prospectus supplement and the accompanying prospectus include important information about us, our Preferred Stock and other information you should know before investing in our Preferred Stock. This prospectus supplement and the accompanying prospectus also incorporate by reference important business and financial information about us that is not included in or delivered with these documents. You should read both this prospectus supplement and the accompanying prospectus as well as the additional information described under the heading Where You Can Find More Information below and on page 1 of the accompanying prospectus before investing in our Preferred Stock. This prospectus supplement adds, updates and changes information contained in the accompanying prospectus and the information incorporated by reference. To the extent that any statement that we make or incorporate by reference in this prospectus supplement is inconsistent with the statements made in the accompanying prospectus or the information incorporated by reference herein or therein, the statements made or incorporated by reference in the accompanying prospectus are deemed modified or superseded by the statements made or incorporated by reference in this prospectus supplement.

We own or have rights to trademarks or trade names that we use in conjunction with the operation of our business. In addition, our name, logo and web site name and address are our service marks or trademarks. Each trademark, trade name or service mark of any other company appearing in this prospectus supplement belongs to its holder.

WHERE YOU CAN FIND MORE INFORMATION

We have filed the Shelf Registration Statement with the SEC with respect to the Preferred Stock offered for sale by us pursuant to this prospectus supplement and accompanying prospectus. This prospectus supplement and the accompanying prospectus, filed as part of the Shelf Registration Statement, do not contain all of the information set forth in the Shelf Registration Statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. For further information about us and the Preferred Stock, we refer you to the Shelf Registration Statement and to its exhibits and schedules. Statements in this prospectus supplement and the accompanying prospectus about the contents of any contract, agreement or other document are not necessarily complete and, in each instance, we refer you to the copy of such contract, agreement or document filed or incorporated by reference as an exhibit to the Shelf Registration Statement, with each such statement being qualified in all respects by reference to the document to which it refers. Anyone may inspect the Shelf Registration Statement and its exhibits and schedules without charge at the public reference facilities the SEC maintains at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of these materials from the SEC upon the payment of certain fees prescribed by the SEC. You may obtain further information about the operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect these materials and other information without charge at a web site maintained by the SEC. The address of this site is http://www.sec.gov.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference in this prospectus supplement the information in other documents that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement, and information in documents that we file later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus supplement. We incorporate by reference in this prospectus supplement the documents listed below and any future filings that we may make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), prior to the termination of the offering under this prospectus supplement (except for any information contained in such documents or filings that is deemed to have been furnished and not filed in accordance with SEC rules):

Annual Report on Form 10-K for the year ended December 31, 2005;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2006; and

Current Reports on Form 8-K filed January 19, 2006, March 3, 2006 (only with respect to information filed under Item 4.02), March 14, 2006, April 21, 2006, May 19, 2006, May 23, 2006, May 24, 2006 and June 14, 2006.

You may obtain a copy of any or all of the documents referred to above which may have been or may be incorporated by reference into this prospectus supplement (excluding certain exhibits to the documents) at no cost to you by writing or telephoning us at the following address:

Alleghany Corporation
7 Times Square Tower
New York, NY 10036
Attn: Robert M. Hart
(212) 752-1356

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the documents we incorporate herein by reference may contain disclosures which are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, as amended. 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, estimate, anticipate, plan, believe, po continue or the negative versions of those words or other comparable words. These 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, risks relating to our insurance operating units such as:

- significant weather-related or other natural or human-made catastrophes and disasters;
- the cyclical nature of the property and casualty industry;
- the long-tail and potentially volatile nature of certain casualty lines of business written by our insurance operating units;
- the cost and availability of reinsurance;
- exposure to terrorist acts;
- the willingness and ability of our insurance operating units reinsurers to pay reinsurance recoverables owed to our insurance operating units;
- changes in the ratings assigned to our insurance operating units;
- claims development and the process of estimating reserves;
- legal and regulatory changes;
- the uncertain nature of damage theories and loss amounts;
- increases in the levels of risk retention by our insurance operating units; and
- adverse loss development for events insured by our insurance operating units in either the current year or prior year.

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 market prices of our significant equity investments; 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.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement. We urge you to read this entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors sections. In this prospectus supplement and the accompanying prospectus, references to the Company, Alleghany, we, us and our to Alleghany Corporation and its consolidated subsidiaries unless the context otherwise requires. AIHL refers to our insurance holding company subsidiary Alleghany Insurance Holdings LLC. RSUI refers to our subsidiary RSUI Group, Inc. and its subsidiaries. CATA refers to our subsidiary Capitol Transamerica Corporation and its subsidiaries. Darwin refers to Darwin Professional Underwriters, Inc. and its subsidiaries. Unless the context otherwise requires, references to AIHL include the operations of RSUI, CATA and Darwin. Alleghany Properties refers to our subsidiary Alleghany Properties LLC. Common Stock refers to our common stock, par value $1.00 per share. Preferred Stock refers to the 5.75% mandatory convertible preferred stock we are offering pursuant to this prospectus supplement and the accompanying prospectus.

Alleghany Corporation

Alleghany Corporation is a Delaware corporation engaged through AIHL in the property and casualty insurance business. Within AIHL, there are three separate insurance businesses, each of which underwrites specialty coverages. As of March 31, 2006, the insurance businesses represented $1.4 billion, or 70 percent, of our consolidated stockholders equity of $1.9 billion, determined on the basis of generally accepted accounting principles in the United States of America (GAAP).

We believe that underwriting profits from our core platform of property and casualty insurance companies can help us achieve our principal financial objective of growing book value per share at double-digit rates without employing excessive amounts of financial leverage or taking undue amounts of operating risk. Other means at our disposal to accomplish our objective include a balance sheet with over $3 billion of cash and invested assets, a demonstrated willingness and ability to make opportunistic acquisitions and improve the operations of acquired companies and a longstanding institutional record of successful value investing on behalf of our owners.

Our corporate headquarters are located at 7 Times Square Tower, New York, NY 10036, and our telephone number is (212) 752-1356. Our website address is www.alleghany.com. The information contained on our website is not a part of this prospectus supplement or the accompanying prospectus.

Property and Casualty Insurance Businesses

RSUI. RSUI, headquartered in Atlanta, Georgia, includes the operations of RSUI Indemnity Company, a New Hampshire domestic insurance company, and Landmark Insurance Company, an Oklahoma domestic insurance company. RSUI underwrites specialty insurance coverages in the property, umbrella/excess, general liability, directors and officers liability and professional liability lines of business. For the year ended December 31, 2005, RSUI generated $1.2 billion of gross premiums written and $618.4 million of net premiums written. As of March 31, 2006, RSUI s GAAP equity was $869.7 million.

CATA. CATA, headquartered in Middleton, Wisconsin, includes the operations of Capitol Indemnity Corporation, a Wisconsin domestic insurance company, Capitol Specialty Insurance Corporation, a Wisconsin domestic insurance company, and Platte River Insurance Company, a Nebraska domestic insurance company. CATA underwrites primarily specialty lines of property and casualty insurance for certain types of business or activities, including barber and beauty shops, bowling alleys, contractors, restaurants and taverns, as well as surety and fidelity products such as commercial surety bonds, contract surety bonds and fidelity bonds. For the year ended December 31, 2005, CATA generated $173.4 million of gross premiums written and $164.4 million of net premiums written. As of March 31, 2006, CATA s GAAP equity was $286.2 million.

Darwin. Darwin, headquartered in Farmington, Connecticut, includes the operations of Darwin National Assurance Company, a Delaware domestic insurance company, and Darwin Select Insurance Company, an Arkansas domestic insurance company. Darwin is a specialty insurer that primarily underwrites

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directors and officers, errors and omissions and medical malpractice liability insurance. For the year ended December 31, 2005, Darwin generated $165.8 million of gross premiums written and $100.6 million of net premiums written. On May 24, 2006, Darwin completed an initial public offering of its common stock for $16.00 per share. Immediately after the initial public offering, Darwin s pro forma GAAP equity was $201.1 million. Currently, we own 54.9 percent of Darwin s common stock.

Corporate Activities

At the corporate level, we had $780.9 million of assets as of March 31, 2006, including $502.4 million of equity securities and $99.0 million of debt and short-term securities. The equity securities include 6.0 million shares of common stock of Burlington Northern Santa Fe Corporation, a railroad holding company (Burlington Northern), which had a fair market value of $427.5 million at June 12, 2006.

In addition to equity and debt securities, we also own improved and unimproved commercial land and commercial and residential lots in the City of Sacramento, California. Our real estate investments are owned and managed by Alleghany Properties. As of June 1, 2006, the book value for our real estate investments was $22.6 million.

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Operating Unit Pre-Tax Results

	Years Ended December 31,		
	2005	2004	2003
	(In thousands, except for share and per share amounts)		
Revenues from continuing operations			
AIHL insurance group			
Net premiums earned			
RSUI	$ 605,873	$ 609,360	$ 293,380
CATA	159,082	149,964	132,960
Darwin	84,698	46,093	4,115
	849,653	805,417	430,914
Interest, dividend and other income	70,600	43,200	25,672
Total insurance group	920,053	848,617	456,586
Corporate activities	27,257	20,088	30,258
Net gain on investments	148,446	86,870	151,842
Total	$ 1,095,956	$ 955,575	$ 638,686
Earnings from continuing operations, before income taxes			
AIHL insurance group			
Underwriting (loss) profit			
RSUI	$ (132,940)	$ 83,198	$ 91,778
CATA	15,552	(8,971)	(21,424)
Darwin	2,277	(36)	(3,330)
	(115,111)	74,191	67,024
Interest, dividend and other income	70,600	43,200	25,672
Net gain on investments	31,638	84,478	54,945
Other expenses	26,180	28,492	12,847
	(39,053)	173,377	134,794
Corporate activities	140,797	18,803	122,416
	101,744	192,180	257,210
Interest expense	3,474	2,417	2,911
Corporate expense	38,451	40,865	34,678
Total	$ 59,819	$ 148,898	$ 219,621
Balance Sheet			
Total assets	$ 5,913,731	$ 4,420,417	$ 3,518,498 5

Debt	$	80,000	$	80,000	$	88,000
Common stockholders equity	$	1,868,327	$	1,773,416	$	1,573,579
Common stockholders equity per share of common stock	$	231.72	$	226.06	$	197.86

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RECENT DEVELOPMENTS

On May 24, 2006, Darwin closed the initial public offering of its common stock. In the offering, Darwin sold 6.0 million shares of common stock for net proceeds of $86.3 million. All of the net proceeds of the initial public offering were used to reduce our equity interest in Darwin by redeeming Darwin preferred stock held by us. Upon completion of the offering, all remaining unredeemed shares of Darwin preferred stock automatically converted to shares of Darwin common stock. Upon completion of the offering, we received $86.3 million of cash proceeds, and we continue to own 54.9 percent of the total outstanding shares of common stock of Darwin (with no preferred stock outstanding).

On May 26, 2006, Alleghany Properties completed the sale of 59 acres of real property consisting of unimproved land located in Rocklin County, California for $29.3 million, resulting in an estimated net pre-tax gain to us of $23.1 million.

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CAPITALIZATION

The following table sets forth our cash and investments and our capitalization as of March 31, 2006 on an actual basis and as adjusted to reflect the issuance of the Preferred Stock being offered hereby assuming net proceeds of approximately $290.4 million and based on a public offering price of $264.60 per share of Preferred Stock, after deducting assumed underwriting discounts and commissions and expenses payable by us and assuming the exercise in full of the underwriters overallotment option. This presentation should be read in conjunction with our unaudited consolidated financial statements and related notes included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, which is incorporated herein by reference.

	As of March 31, 2006		
	Actual	Adjustment for the Preferred Stock Offered Hereby	Pro Forma
	($ in thousands)		
Cash and investments	$ 3,302,573	$ 290,441	$ 3,593,014
Subsidiaries debt	80,000		80,000
Stockholders equity			
Mandatory convertible preferred stock		299,527	299,527
Common stock (shares authorized: 2006 and 2005 22,000,000; issued and outstanding 2006 8,081,095; 2005 8,062,977)	7,925		7,925
Contributed capital	613,444	(9,086)	604,358
Accumulated other comprehensive income (including unearned compensation)	284,407		284,407
Treasury stock, at cost (2006 138,495 shares; 2005 none)	(39,186)		(39,186)
Retained earnings	1,074,067		1,074,067
Total stockholders equity	1,940,657	290,441	2,231,098
Total capitalization(1)	$ 2,020,657	$ 290,441	$ 2,311,098
Book value per share of common stock	$ 244.33		$ 243.19(2)

(1) Total capitalization is comprised of stockholders equity and total debt.

(2) Represents total stockholders equity less mandatory convertible preferred stock, divided by shares of common stock outstanding as of March 31, 2006.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth certain selected financial data of the Company as of and for the three months ended March 31, 2006 and 2005 and as of and for each of the five years ended December 31, 2005. The data for the Company as of March 31, 2006 and for the three months ended March 31, 2006 and 2005 were derived from the Company s unaudited consolidated financial statements. The data for the Company as of and for each of the five years ended December 31, 2005 were derived from the Company s audited consolidated financial statements. You should read the selected financial data in conjunction with the Company s unaudited consolidated financial statements as of March 31, 2006 and for the three months ended March 31, 2006 and 2005 and the related Management s Discussion and Analysis of Financial Condition and Results of Operations in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, which is incorporated herein by reference, as well as the Company s audited consolidated financial statements as of and for each of the five years ended December 31, 2005 and the related Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005, which is also incorporated herein by reference.

The consolidated financial statements as of and for the three months ended March 31, 2006 and 2005 are unaudited and include adjustments management considers necessary for a fair presentation under GAAP. The results of operations for any interim period are not necessarily indicative of results for the full year.

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Alleghany Corporation and Subsidiaries(1)

	Three Months Ended March 31,		Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001(2)
	(In thousands, except for share and per share amounts)						
Operating Data							
Revenues from continuing operations	$ 268,815	$ 278,380	$ 1,095,956	$ 955,575	$ 638,686	$ 430,552	$ 68,532
Earnings from continuing operations	$ 59,206	$ 61,223	$ 45,977	$ 102,698	$ 152,866	$ 41,237	$ 7,872
Earnings (loss) from discontinued operations	$	$ (352)	$ 6,357	$ 14,998	$ 9,512	$ 13,576	$ 216,358
Net earnings	$ 59,206	$ 60,871	$ 52,334	$ 117,696	$ 162,378	$ 54,813	$ 224,230
Basic earnings (losses) per share of common stock(3)							
Continuing operations	$ 7.37	$ 7.63	$ 5.72	$ 12.87	$ 19.33	$ 5.22	$ .99
Discontinued operations	$	$ (.04)	$ 0.79	$ 1.88	$ 1.20	$ 1.72	$ 27.11
Net earnings	$ 7.37	$ 7.59	$ 6.51	$ 14.75	$ 20.53	$ 6.94	$ 28.10
Average number of shares of common stock(3)	8,032,883	8,022,502	8,043,732	7,977,591	7,906,663	7,903,938	7,979,257
Balance Sheet							
Total assets	$ 5,882,212	$ 4,584,151	$ 5,913,731	$ 4,420,417	$ 3,518,498	$ 2,216,035	$ 1,953,916
Debt	$ 80,000	$ 80,000	$ 80,000	$ 80,000	$ 88,000	$ 96,000	$ 104,000
Common stockholders equity	$ 1,940,657	$ 1,827,788	$ 1,868,327	$ 1,773,416	$ 1,573,579	$ 1,386,851	$ 1,400,077
Common stockholders equity per share of common stock(3)	$ 244.33	$ 227.25	$ 231.72	$ 222.06	$ 197.86	$ 176.38	$ 175.98

(1) We sold Alleghany Asset Management, Inc. in February 2001 and Alleghany Underwriting Holdings Ltd. in November 2001, and as a result, both of these businesses have been classified as discontinued operations for the year ended 2001. AIHL purchased CATA and Platte River Insurance Company in January 2002. In March 2003, AIHL established Darwin and acquired RSUI in July 2003. On July 1, 2003, AIHL completed the acquisition of Resurgens Specialty which became a subsidiary of RSUI. In connection with the acquisition of Resurgens Specialty, on June 30, 2003, RSUI acquired RSUI Indemnity Company. On September 2, 2003, RSUI Indemnity Company purchased Landmark Insurance Company. In 2004, AIHL acquired Darwin National Assurance Company and in 2005, Darwin National Assurance Company acquired Darwin Select Insurance Company. We sold Heads & Threads International LLC in December 2004. Heads & Threads International LLC has been classified as discontinued operations for the four years ended 2004. We sold World Minerals, Inc. on July 14, 2005. World Minerals, Inc. has been classified as discontinued operations for the five years presented.

(2) In 2004, we restated the operating results in this table for 2001 to correctly classify the net gain on sale of subsidiaries as part of discontinued operations. The 2001 financial statements we included in our 2003 Annual Report to Stockholders incorrectly classified the net gain on sale of subsidiaries as part of revenues from continuing operations. Previously, we reported revenues from continuing operations of $958,851, earnings from continuing operations of $430,563 and losses from discontinued operations of $206,333. The error in classification of the net gain on sale of subsidiaries in 2001 had no impact on net earnings or any balance sheet item.

(3) Amounts have been adjusted for subsequent common stock dividends through February 2006.

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Net Earnings Contributions Per Share(1)

Years Ended December 31	AIHL	Corporate Activities	Total from Continuing Operations	Discontinued Operations(2)	Total
2005					
Operations	$ (5.03)	$ (1.25)	$ (6.28)	$ 0.79	$ (5.49)
Security gains	2.56	9.44	12.00		12.00
Total	$ (2.47)	$ 8.19	$ 5.72	$ 0.79	$ 6.51
2004					
Operations	$ 7.37	$ (1.58)	$ 5.79	$ 1.88	$ 7.67
Security gains	6.88	.20	7.08		7.08
Total	$ 14.25	$ (1.38)	$ 12.87	$ 1.88	$ 14.75
2003					
Operations	$ 7.09	$ (0.24)	$ 6.85	$ 1.20	$ 8.05
Security gains	4.52	7.97	12.48		12.48
Total	$ 11.60	$ 7.73	$ 19.33	$ 1.20	$ 20.53

(1) Basic earnings per share amounts have been adjusted for subsequent common stock dividends though February 2006.

(2) Discontinued operations consist of the operations of World Minerals, Inc. prior to its disposition in July 2005 and Heads & Threads International LLC prior to its disposition in December 2004.

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THE OFFERING

Issuer	Alleghany Corporation
Securities Offered	985,000 shares of our 5.75% mandatory convertible preferred stock (plus up to an additional 147,000 shares of 5.75% mandatory convertible preferred stock that may be issuable upon exercise in full of the underwriters overallotment option).
Initial Offering Price	$264.60 for each share of Preferred Stock.
Dividends	The dividend payable on each share of Preferred Stock will be $15.2144 per year. Dividends will accrue and cumulate from the date of issuance, and, to the extent we are legally permitted to pay dividends and our board of directors, or an authorized committee of our board of directors, declares a dividend payable, we will pay dividends in cash on each dividend payment date. The first quarterly dividend payment will be payable on September 15, 2006 in the amount of $3.4655 per share of Preferred Stock, which reflects the time from the date of issuance through September 14, 2006. The dividend payable on each subsequent quarterly dividend payment date will be $3.8036 per share of Preferred Stock.
Dividend Payment Dates	March 15, June 15, September 15 and December 15 of each year (or the following business day if such day is not a business day) prior to the Mandatory Conversion Date (as defined below), and on the Mandatory Conversion Date.
Record Dates	The record dates for the payment of dividends on our Preferred Stock will be the first day (or the following business day if such day is not a business day) of the calendar month in which the applicable dividend payment date falls.
Redemption	Our Preferred Stock will not be redeemable.
Mandatory Conversion Date	June 15, 2009, which we call the Mandatory Conversion Date.
Mandatory Conversion	On the Mandatory Conversion Date, each share of Preferred Stock will automatically convert into a number of shares of our Common Stock calculated based upon the conversion rate as described below. Holders of our Preferred Stock on the Mandatory Conversion Date will have the right to receive the cash dividend due on such date (including any accrued, cumulated and unpaid dividends on our Preferred Stock as of the Mandatory Conversion Date) to the extent we have sufficient lawful funds to pay such dividends at such time. To the extent that any accrued, cumulated and unpaid dividends are not paid upon mandatory conversion because we lack sufficient lawful funds to make such payment, holders of

Preferred Stock will receive, upon such conversion, additional shares of Common Stock per share of Preferred Stock equal to the value of such accrued, cumulated and unpaid dividends not paid in cash.

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Conversion Rate

The conversion rate on the Mandatory Conversion Date for each share of Preferred Stock will be not more than one share of Common Stock and not less than 0.8475 shares Common Stock, depending on the applicable market value of our Common Stock, as described below.

The applicable market value of our Common Stock means the arithmetic average of the daily volume-weighted average price per share of Common Stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the applicable conversion date. It will be calculated as described under Description of the Mandatory Convertible Preferred Stock Mandatory Conversion.

The following table illustrates the conversion rate per share of Preferred Stock.

Applicable Market Value on Conversion Date	Conversion Rate
less than or equal to $264.60	1
between $264.60 and $312.23	1 to 0.8475
equal to or greater than $312.23	0.8475

The conversion rate is subject to certain adjustments, as described under Description of the Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

Early Conversion at the Option of the Holder

At any time prior to the Mandatory Conversion Date, each holder of our Preferred Stock may elect to convert each of their shares of Preferred Stock at the conversion rate of 0.8475 shares of Common Stock for each share of Preferred Stock. This conversion rate is subject to certain adjustments as described under Description of the Mandatory Convertible Preferred Stock Anti-dilution Adjustments. Upon any such conversion, holders of our Preferred Stock generally will be entitled to payment for accrued, cumulated and unpaid dividends, but not for any dividends payable in the future.

Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount

If we are the subject of specified cash acquisitions on or prior to June 15, 2009, under certain circumstances, we will (1) permit conversion of our Preferred Stock during the period beginning on the date that is 15 days prior to the anticipated effective date of the applicable cash acquisition and ending on the date that is 15 days after the actual effective date at a specified conversion rate determined by reference to the price per share of our Common Stock paid in such cash acquisition and (2) pay converting holders an amount equal to the sum of any accumulated and unpaid dividends on shares of our Preferred Stock that are converted plus the present value of all remaining dividend payments on such shares through and including June 15, 2009, as described under Description of the Mandatory Convertible Preferred Stock Conversion Upon Cash

Acquisition; Cash Acquisition Dividend Make-Whole Amount. The applicable conversion rate will be determined based on the date such transaction becomes effective and the price paid per share of our Common Stock in such transaction. However, if such transaction constitutes a public acquirer change of control, in lieu of providing for conversion and paying the dividend amount, we may elect to adjust our conversion obligation such that upon conversion of the Preferred Stock, we will deliver acquirer common stock as described under Description of the Mandatory Convertible Preferred Stock Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount.

Anti-dilution Adjustments

The conversion rate and the number of shares of Common Stock to be delivered upon conversion may be adjusted in the event of, among other things, cash or share dividends or subdivisions, splits and combinations of our Common Stock. See Description of the Mandatory Convertible Preferred Stock Anti-dilution Adjustments.

Liquidation Preference

$264.60 per share of Preferred Stock, plus an amount equal to the sum of all accrued, cumulated and unpaid dividends.

Voting Rights

Generally, holders of our Preferred Stock will not be entitled to any voting rights, except as required by Delaware law and as described under Description of the Mandatory Convertible Preferred Stock Voting Rights.

For purposes of any vote by the holders of the Preferred Stock voting as a separate class, each holder of Preferred Stock will have one vote for each share of Preferred Stock held. In any case, where the holders of our Preferred Stock are entitled to vote as a class with holders of any class or series of Voting Parity Securities, each class or series shall have the number of votes proportionate to the aggregate liquidation preference of its outstanding shares.

Ranking

Our Preferred Stock will rank as to payment of dividends and distributions of assets upon our dissolution, liquidation or winding-up:

junior to any class or series of our capital stock the terms of which provide that such class or series will rank senior to our Preferred Stock;

junior to all of our existing and future indebtedness;

senior to our Common Stock and any other class or series of our capital stock the terms of which provide that such class or series will rank junior to our Preferred Stock; and

on a parity with any other class or series of our capital stock (the Parity Securities);

in each case, whether now outstanding or to be issued in the future.

Currently, we have no preferred stock outstanding.

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Use of Proceeds	The net proceeds to us from the Preferred Stock Offering (assuming the exercise in full of the underwriters overallotment option) will be approximately $290.4 million (based on a public offering price of $264.60 per share of Preferred Stock, and after deducting underwriting discounts and commissions and expenses payable by us). We expect to use the net proceeds from the Preferred Stock Offering to make contributions to the capital and surplus of our insurance operating units, including contributions to support RSUI s commercial property operations, and for general corporate purposes. See Use of Proceeds.
Trading	Prior to this Preferred Stock Offering, there has been no public market for our Preferred Stock. Our Common Stock is traded on the NYSE under the symbol Y.
Risk Factors	See Risk Factors and other information included in this prospectus supplement and the accompanying prospectuses for a discussion of factors you should carefully consider before deciding to invest in our Preferred Stock.
Certain U.S. Federal Income Tax Considerations	For a discussion of the U.S. federal income tax treatment of the conversion as well as the purchase, ownership and disposition of our Preferred Stock, see Certain U.S. Federal Income Tax Considerations in this prospectus supplement.
ERISA Considerations	See ERISA Considerations herein regarding the eligibility of the Preferred Stock for acquisition by employee benefit plans subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (ERISA), plans subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the Code), and plans subject to any provisions under any federal, state, local, non-U.S. or other laws or regulations substantively similar to the foregoing provisions of ERISA or the Code.

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RISK FACTORS

An investment in our Preferred Stock is subject to significant risks inherent in our business. Before purchasing our Preferred Stock, you should carefully consider the risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated herein by reference, the risks and uncertainties described below and the other information included in this prospectus supplement and the accompanying prospectus. If any of the events described occur, our business and financial results could be adversely affected in a material way. This could cause the trading price of our Preferred Stock and our Common Stock to decline, perhaps significantly.

This prospectus supplement and accompanying prospectus also contain forward-looking statements about our business and results of operations that could be impacted by various risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including the risks and uncertainties described below and elsewhere in this prospectus supplement and accompanying prospectus. See Special Note Regarding Forward-Looking Statements in this prospectus supplement and in the accompanying prospectus.

We face risks from our property and casualty and surety and fidelity insurance businesses and our investments in debt and equity securities. Some of what we believe are our more significant risks are discussed below; however, they are not the only risks that we face. Our businesses may also be adversely affected by risks and uncertainties not currently known to us or that we currently deem immaterial.

The reserves for losses and loss adjustment expenses of our insurance operating units are estimates and may not be adequate, which would require them to establish additional reserves.

Gross reserves for losses and loss adjustment expenses (LAE) reported on our balance sheet as of March 31, 2006 were approximately $2.5 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 claims that have occurred, whether known or unknown. The major assumptions about anticipated loss emergence patterns are subject to unanticipated fluctuation. These reserve estimates, which generally involve actuarial projections, are based on management s assessment of facts and circumstances currently known and 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. In periods with increased economic volatility, it becomes more difficult to accurately predict claim costs. 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 insurance operating units 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 in the future.

Because our insurance operating units are property and casualty insurers, we face losses from natural and human-made catastrophes.

Property and casualty 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 have had a significant impact on our results. For example, pre-tax catastrophe losses, net of reinsurance and reinsurance reinstatement premiums, at our insurance operating units were $304.6 million in 2005, $153.3 million in 2004 and $18.7 million in 2003. RSUI s 2005 results were impacted by $287.3 million of pre-tax losses from the 2005 hurricanes, net of reinsurance recoverables and reinsurance reinstatement premiums of $26.2 million. Several states (or underwriting organizations of which our insurance operating units are required to be members) may increase their mandatory assessments as result of these recent catastrophes and other events, and we may not be able to fully recoup these increased costs.

Catastrophes can be caused by various events, including hurricanes, other windstorms, earthquakes and floods, as well as terrorist activities. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, other windstorms, earthquakes and floods may produce significant damage in areas that are heavily populated. The geographic distribution of AIHL s insurance operating units subjects them to catastrophe exposure in the United States principally from hurricanes in the Gulf coast regions, Florida, the Mid-Atlantic, and Northeast, from other windstorms in the Midwest and Southern regions, and earthquakes in California, the Pacific Northwest region and along the New Madrid fault line in the Midwest region. Catastrophes can cause losses in a variety of our property and casualty lines, and most of our past catastrophe-related claims have resulted from severe storms. It is therefore possible that a catastrophic event or multiple catastrophic events could produce significant losses and have a material adverse effect on our financial condition and results of operations.

With respect to terrorism, to the extent that reinsurers have excluded coverage for terrorist acts or have priced this coverage at rates that are not practical, our insurance operating units, particularly RSUI, do not have reinsurance protection and are exposed to potential losses as a result of any terrorist acts. To the extent an act of terrorism is certified by the U.S. Secretary of Treasury, we may be covered under the Terrorism Risk Insurance Act of 2002, as extended and amended by the Terrorism Risk Insurance Extension Act of 2005 (which we collectively refer to as the Terrorism Act); however, the Terrorism Act provides for annual reductions in coverage with the termination of federal government participation in the terrorism insurance market on December 31, 2007. Information regarding the Terrorism Act and its impact on our insurance operating units can be found on pages S-28 and S-29 of this prospectus supplement.

RSUI attempts to manage its exposure to catastrophe risk partially through the use of catastrophe modeling software. The failure of this software to accurately gauge and/or price the catastrophe-exposed risks RSUI writes could have a material adverse effect on our financial condition and results of operations.

As part of its approach to managing catastrophe risk, RSUI has historically used a number of tools, including third party catastrophe modeling software, to help model potential losses. RSUI has used modeled loss scenarios to set its level of risk retention and help structure its reinsurance programs. Modeled loss estimates, however, have not accurately predicted RSUI s ultimate losses with respect to recent hurricane activity. In the case of Hurricane Katrina, the modeled estimates significantly underestimated RSUI s current estimate of ultimate losses due to a number of factors, the most significant of which was higher than expected damage to inland located risks. Accordingly, in an effort to better manage its accumulations of risk such that its loss exposure conforms to its established risk tolerances and fits within its reinsurance programs, RSUI reviewed its catastrophe exposure management approach, resulting in the implementation of new modeling tools and a revision of its underwriting guidelines and procedures. However, these efforts may not be successful in sufficiently mitigating risk exposures and losses resulting from future catastrophes.

If market conditions cause reinsurance to be more costly or unavailable, our insurance operating units may be required to bear increased risks or reduce the level of their underwriting commitments.

As part of our overall risk and capacity management strategy, our insurance operating units purchase reinsurance for certain amounts of risk underwritten by them, especially catastrophe risks. The reinsurance facilities of our insurance operating units 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 businesses and profitability. If our insurance operating units are unable to renew their expiring facilities or to obtain new reinsurance facilities, either their net exposures would increase, which could increase the volatility of their results or, if they are unwilling 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 income.

RSUI s catastrophe and per risk reinsurance treaties expired on April 30, 2006. Recent catastrophes and other events have limited the availability of, and have increased the cost of, reinsurance coverage for catastrophe exposed property risks. As of June 1, 2006, RSUI had placed approximately half of its current catastrophe reinsurance program ($425.0 million of net losses (compared with $360.0 million under the expired program) in excess of a $75.0 million net retention (compared with a net retention of $40.0 million under the expired program)); thus RSUI will be co-participating for half of all losses in excess of its $75.0 million net retention with respect to non-earthquake catastrophe losses (compared with 5 percent of losses under the expired program). We currently intend to provide capital support to RSUI in respect of this coverage shortfall, which may be provided through a wholly-owned Vermont captive reinsurance company that we are in the process of forming, or in some other manner. Regardless of the manner through which such support is provided, our consolidated group retains the overall exposure.

In accordance with industry practice, catastrophe reinsurance contracts generally provide coverage for only two catastrophic events during a single coverage period, which is typically one year, and only for the second event if the insured pays a reinsurance reinstatement premium to restore coverage after the first event. If our insurance operating units use their catastrophic reinsurance contracts for two catastrophic events during a single coverage period, they will not have any reinsurance coverage available for losses incurred as a result of additional catastrophic events during that coverage period.

We cannot guarantee that the reinsurers used by our insurance operating units will pay in a timely fashion, if at all, and, as a result, we could experience losses.

Our insurance operating units 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 insurance operating units in connection with that risk. Although reinsurance makes the reinsurer liable to our insurance operating units to the extent the risk is transferred or ceded to the reinsurer, it does not relieve our insurance operating units of their liability to their policyholders. Reinsurers may not pay the reinsurance recoverables that they owe to our insurance operating units 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 natural catastrophes and other events. Underwriting results and investment returns of some of the reinsurers used by our insurance operating units may affect their future ability to pay claims. Accordingly, we bear credit risk with respect to our insurance operating units reinsurers, and if they fail to pay, our financial results would be adversely affected. As of March 31, 2006, the amount due from reinsurers reported on our balance sheet was $1.5 billion, with $1.4 billion attributable to RSUI s reinsurers.

If RSUI s Hurricane Katrina losses are greater than currently estimated, RSUI will not have reinsurance coverage for such losses.

Based on RSUI s current estimate of losses related to Hurricane Katrina, RSUI has exhausted its catastrophe reinsurance protection with respect to this event, meaning that it has no further catastrophe reinsurance coverage available should its Hurricane Katrina losses prove to be greater than currently estimated.

Our insurance operating units are rated by A.M. Best Company, Inc. and a decline in these ratings could affect the standing of our insurance operating units in the insurance industry and cause their premium volume and earnings to decrease.

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. Some of our insurance operating units are rated by A.M. Best Company, Inc., an independent organization that analyzes the insurance industry (A.M. Best). A.M. Best s ratings reflect its opinion of an insurance company s financial strength, operating performance, strategic position and ability to meet its obligations to policyholders. These ratings are subject to periodic review, and we cannot assure you that any of our insurance operating units will be able to retain those ratings. If the ratings of our insurance operating units are reduced from their current levels by A.M. Best, their competitive positions in the insurance industry 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 policyholders move to other companies with higher claims-paying and financial strength ratings.

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The property and casualty insurance business is cyclical in nature, which may affect our financial performance.

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical periods of price competition and excess underwriting capacity (known as a soft market) followed by periods of high premium rates and shortages of underwriting capacity (known as a hard market). Although an individual insurance company s financial performance is dependent on its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern. Further, this cyclical market pattern can be more pronounced in the excess and surplus market in which RSUI and Darwin primarily compete, than in the admitted insurance market. When the admitted insurance market hardens, the excess and surplus market hardens, and growth in the excess and surplus market can be significantly more rapid than growth in the standard insurance market. Similarly, when conditions begin to soften, many customers that were previously driven into the excess and surplus market may return to the admitted insurance market, exacerbating the effects of rate decreases. Since cyclicality is due in large part to the actions of our insurance operating units competitors and general economic factors, we cannot predict the timing or duration of changes in the market cycle. These cyclical patterns cause our revenues and net income to fluctuate.

A significant amount of our assets is invested in debt securities and is subject to market fluctuations.

Our investment portfolio consists substantially of debt securities. As of March 31, 2006, our investment in debt securities was approximately $1.8 billion, or 55.7 percent of our total investment portfolio. The fair market value of these assets and the investment income from these assets fluctuate depending on general economic and market conditions. The fair market value of debt securities generally decreases as interest rates rise but investment income earned from future investments in debt securities will be higher. Conversely, if interest rates decline, investment income earned from future investments in debt securities will be lower but their fair market value will generally rise. 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. Based upon the composition and duration of our investment portfolio at March 31, 2006, a 100 basis point increase in interest rates would result in a decrease in the fair value of our investments of approximately $77.8 million.

The value of our investments in debt securities, and particularly investments in debt securities that are non-rated or rated below Baa/BBB, is subject to impairment as a result of deterioration in the credit-worthiness of the issuer. Although we attempt to manage this risk by diversifying our portfolio and emphasizing preservation of principal, our investments are subject to losses as a result of a general decrease in commercial and economic activity for an industry sector in which we invest, as well as risks inherent in particular securities.

We invest some of our assets in equity securities, which may decline in value.

We invest a portion of our investment portfolio in equity securities which are subject to fluctuations in market value. As of March 31, 2006, our investments in equity securities were approximately $629.4 million, or 19.2 percent of our investment portfolio. We hold our equity securities as available for sale, and any changes in the fair value in these securities, net of tax, would be reflected in our accumulated other comprehensive income as a component of stockholders equity.

As of March 31, 2006, our equity portfolio had investment concentrations in the common stock of Burlington Northern and in certain energy sector businesses. As of March 31, 2006, our Burlington Northern common stock holdings had a fair market value of $500.0 million, which represented 61.7 percent of our equity portfolio, and our energy sector equity holdings had an aggregate fair market value of $226.0 million, which represented 27.9 percent of our equity portfolio. (As of June 12, 2006, our Burlington Northern common stock holdings had a fair market value of $427.5 million.) These investment concentrations may lead to higher levels of short-term price volatility and variability in the level of unrealized investment gains or losses.

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Purchasers of Preferred Stock may incur dilution.

Persons purchasing our Preferred Stock who convert their Preferred Stock into Common Stock may incur immediate net tangible book value dilution. In addition, the terms of our Preferred Stock do not restrict our ability to offer a new series of preferred stock that is on parity with the Preferred Stock in the future or to engage in other transactions that could dilute our Preferred Stock.

A holder of our Preferred Stock assumes the risk of a decline in the market value of our Common Stock.

The market value of our Common Stock on June 15, 2009 may be less than our current Common Stock price, which, as of June 19, 2006, was $264.60 per share. If the market value of our Common Stock on June 15, 2009 is less than $264.60 per share, then holders of the Preferred Stock will receive Common Stock on June 15, 2009 with a per share market value that is less than the $264.60 initial public offering price per share of our Preferred Stock. Accordingly, a holder of Preferred Stock assumes the entire risk that the market value of our Common Stock may decline. Any decline in the market value of our Common Stock may be substantial.

Our issuance of additional series of preferred stock could adversely affect holders of our Common Stock and our Preferred Stock.

Our board of directors is authorized to issue additional series of preferred stock that are on a parity with or junior to our Preferred Stock without requiring any action or consent on the part of our shareholders, including holders of our Preferred Stock. Our board of directors also has the power, without shareholder approval, to set the terms of any such series of preferred stock that may be issued, including voting rights, dividend rights, preferences over Common Stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue preferred stock in the future that have preference over our Common Stock or Preferred Stock with respect to the payment of dividends or upon our liquidation, dissolution or winding-up, or if we issue preferred stock with voting rights that dilute the voting power of our Common Stock or Preferred Stock, the rights of holders of our Common Stock or Preferred Stock or the market price of our Common Stock or Preferred Stock could be adversely affected.

The opportunity for equity appreciation provided by an investment in the Preferred Stock is less than that provided by a direct investment in our Common Stock.

The number of shares of Common Stock that are issuable upon conversion on the Mandatory Conversion Date of a share of Preferred Stock will decrease as the applicable market value per share of our Common Stock increases to $312.23. Therefore, the opportunity for equity appreciation provided by an investment in our Preferred Stock is less than that provided by a direct investment in our Common Stock. The market value per share of our Common Stock on the Mandatory Conversion Date must exceed the threshold appreciation price of $312.23 before a holder of our Preferred Stock will realize any equity appreciation.

Our Preferred Stock has never been publicly traded and may never be publicly traded.

Prior to this Preferred Stock Offering, there has been no public market for our Preferred Stock. We do not currently intend to apply for listing of our Preferred Stock on any national securities exchange or for quotation of our Preferred Stock on any automated dealer quotation system. An active trading market for our Preferred Stock may not develop or be sustained after this Preferred Stock Offering. Although the underwriters have advised us that they intend to facilitate secondary market trading by making a market in our Preferred Stock, they are not obligated to make a market in our Preferred Stock and may discontinue market making activities at any time.

The market price of our Preferred Stock will be directly affected by the market price of our Common Stock, which may be volatile, and other factors.

To the extent there is a secondary market for our Preferred Stock, we believe that the market price of our Preferred Stock will be significantly affected by the market price of our Common Stock. We cannot predict how our Common Stock will trade. This may result in greater volatility in the market price of the

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Preferred Stock than would be expected for nonconvertible preferred stock. From January 1, 2004 through June 19, 2006, the reported high and low sales prices for our Common Stock ranged from a low of $207.07 per share to a high of $315.20 per share.

Our Preferred Stock provides limited conversion rate adjustments.

The number of shares of Common Stock that you are entitled to receive on the Mandatory Conversion Date, or as a result of early conversion of Preferred Stock, is subject to adjustment for certain events, including stock splits and combinations, cash and stock dividends on our stock and certain other actions that modify our capital stock structure. See Description of the Mandatory Convertible Preferred Stock Anti-dilution Adjustments. We will not adjust the conversion rate for other events, including offerings of our Common Stock or preferred stock for cash or in connection with acquisitions or employee benefit plans. As a result, an event that adversely affects the value of our Preferred Stock, but does not result in an adjustment to the conversion rate, may occur. Further, we are not restricted from issuing additional Common Stock or securities convertible into Common Stock during the term of the Preferred Stock and, except as required by law, have no obligation to consider your interests for any reason. If we issue additional Common Stock, it may materially and adversely affect the price of our Common Stock and, because of the relationship of the number of shares of Common Stock to be received on the Mandatory Conversion Date to the price of our Common Stock, such events may adversely effect the trading price of our Preferred Stock.

Holders of our Preferred Stock will have limited voting rights.

Holders of our Preferred Stock will have no voting rights with respect to most matters that generally require the approval of voting shareholders. Holders of our Preferred Stock will have limited voting rights, under certain circumstances, in the event that dividends are not paid on such stock or certain actions that would vary the rights of our Preferred Stock are to be taken or as otherwise required by applicable state law. Our Preferred Stock places no restrictions on our business or operations, on our ability to incur indebtedness or issue securities that rank pari passu with our Preferred Stock, or engage in any transactions which may adversely affect the holders of our Preferred Stock, subject only to the limited voting rights referred to above. See Description of the Mandatory Convertible Preferred Stock Voting Rights.

You may be required to recognize income upon an adjustment of the conversion rate.

In general, any adjustment to the conversion rate that increases the interest of the holders who hold Preferred Stock in our assets or earnings and profits will result in a constructive dividend distribution to such holders, and such holders will be subject to tax on this constructive dividend distribution to the extent of our earnings and profits even though no money will have actually been distributed. An exception to this rule provides that changes in the conversion rate made solely to avoid dilution of the interests of holders who hold Preferred Stock will not result in a constructive dividend, but this exception specifically does not cover conversion rate adjustments that are made to compensate the holders of our Preferred Stock for taxable cash or property distributions to other shareholders. As a result, some of the possible circumstances that could result in an adjustment to the conversion rate with respect to our Preferred Stock are not covered by this exception. For example, an increase in the conversion rate in the event of distributions of cash, indebtedness or assets by us will generally result in deemed dividend treatment to holders of our Preferred Stock to the extent of our applicable earnings and profits.

The conversion rate and payment the holder of shares of our Preferred Stock may receive in respect of shares of our Preferred Stock converted in connection with certain cash acquisitions of us may not adequately compensate the holder for the lost option time value of such holder s Preferred Stock as a result of such change.

If certain cash acquisitions of us occur on or prior to June 15, 2009, under certain circumstances, we will (1) permit conversion of our Preferred Stock during the period beginning on the date that is 15 days prior to the anticipated effective date of the applicable cash acquisition and ending on the date that is 15 days after the actual effective date and (2) pay converting holders an amount equal to the sum of any accumulated and unpaid dividends on shares of our Preferred Stock that are converted plus the present value of all remaining

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dividend payments on such shares through and including June 15, 2009, as described under Description of the Mandatory Convertible Preferred Stock Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount. The applicable conversion rate will be determined based on the date on which the transaction becomes effective and the price paid per share of our common stock in such transaction as described under Description of Mandatory Convertible Preferred Stock Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount. While the conversion rate adjustment and the additional payment amount are designed to compensate the holder for the lost option time value of such holder s Preferred Stock and lost dividends resulting from such holder s decision to convert early as a result of such transaction, the amount of the make-whole premium is only an approximation of such lost value and may not adequately compensate the holder for such loss.

The shares of our Preferred Stock are equity and are subordinate to our existing and future indebtedness.

The shares of our Preferred Stock are equity interests and do not constitute indebtedness. As such, our Preferred Stock will rank junior to all of our existing and future indebtedness and other non-equity claims against us with respect to assets available to satisfy such claims, including in a liquidation. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of preferred securities like our Preferred Stock, dividends are payable only if and as declared by our board of directors, and only to the extent funds are legally available therefor.

Our Preferred Stock will rank junior to all of our and our subsidiaries liabilities in the event of a bankruptcy, liquidation or winding-up of our assets.

In the event of bankruptcy, liquidation or winding-up, our assets will be available to pay obligations on our Preferred Stock only after all of our liabilities have been paid. In addition, our Preferred Stock will effectively rank junior to all existing and future liabilities of our subsidiaries, including the reinsurance obligations of our subsidiaries. The rights of holders of our Preferred Stock to participate in the assets of our subsidiaries upon any liquidation or reorganization of any subsidiary will rank junior to the prior claims of that subsidiary s creditors and equity holders. As of March 31, 2006, we had total consolidated liabilities of $3.9 billion. In the event of bankruptcy, liquidation or winding-up due to losses incurred by us or otherwise, there may not be sufficient assets remaining, after paying our and our subsidiaries liabilities, to pay amounts due on any or all of our Preferred Stock then issued and outstanding.

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USE OF PROCEEDS

The net proceeds to us from the Preferred Stock Offering (assuming the exercise in full of the underwriters overallotment option) will be approximately $290.4 million (based on a public offering price of $264.60 per share of Preferred Stock, and after deducting underwriting discounts and commissions and expenses payable by us). We expect to use the net proceeds from the Preferred Stock Offering to make contributions to the capital and surplus of our insurance operating units, including contributions to benefit RSUI s commercial property operations, and for general corporate purposes.

PRICE RANGE OF COMMON STOCK

Our Common Stock is listed on the NYSE under the symbol Y. The following table shows the high and low per share sale prices of our Common Stock, as reported on the NYSE for the periods indicated (and as adjusted for stock dividends):

	High	Low
2004		
First Quarter	$ 240.05	$ 207.07
Second Quarter	$ 281.14	$ 237.22
Third Quarter	$ 289.09	$ 241.26
Fourth Quarter	$ 280.57	$ 257.60
2005		
First Quarter	$ 280.00	$ 254.24
Second Quarter	$ 297.06	$ 261.76
Third Quarter	$ 303.91	$ 276.96
Fourth Quarter	$ 315.20	$ 272.59
2006		
First Quarter	$ 293.43	$ 273.53
Second Quarter (through June 19, 2006)	$ 293.87	$ 264.00

On June 19, 2006, the last reported sale price of our Common Stock on the NYSE was $264.60. As of May 31, 2006, there were approximately 1,204 holders of record of our Common Stock.

DIVIDEND POLICY ON COMMON STOCK

In 2006, 2005 and 2004, our board of directors declared, as our dividend on our Common Stock for that year, a stock dividend consisting of one share of our common stock for every fifty shares outstanding. Payments of dividends (other than stock dividends) by us to our stockholders are limited by the terms of our revolving credit agreement, which provides that we can pay dividends up to the sum of cumulative net earnings after December 31, 2003, proceeds from the issuance of stock after December 31, 2003, and $50.0 million, provided that we maintain certain financial ratios as defined in the agreement. At December 31, 2005, the agreement permitted the payment of cash dividends aggregating approximately $223.8 million.

The declaration and payment of dividends is at the discretion of the board of directors. Accordingly, there is no assurance that dividends will be declared or paid in the future.

AIHL s insurance operating units are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent companies without prior approval of insurance regulatory authorities. In 2005, a maximum amount of $73.9 million, $20.1 million and $11.5 million was available without prior approval of the New Hampshire, Wisconsin and Oklahoma insurance departments, respectively. In 2005, no dividends were available to be paid without regulatory authority approval in Delaware, Nebraska and Arkansas.

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Unless all accrued, cumulated and unpaid dividends on our Preferred Stock for all past quarterly dividend periods shall have been paid in full, or shall have been declared and a sum sufficient for the payment thereof set aside, we are not permitted to declare or pay any dividend or make any distribution of assets on our Common Stock, other than dividends or distributions in Common Stock and cash solely in lieu of fractional shares in connection with any such dividend or distribution.

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BUSINESS

General

We were incorporated in 1984 under the laws of the State of Delaware. In December 1986, we succeeded to the business of our parent company, Alleghany Corporation, a Maryland corporation incorporated in 1929, upon its liquidation. AIHL is the holding company for our insurance operations. Within the AIHL group, there are three insurance businesses, each of which underwrites specialty insurance coverages. As of March 31, 2006, the insurance business represented $1.4 billion, or 70 percent, of our consolidated stockholders equity of $1.9 billion, determined on a GAAP basis. We also own and manage properties in the Sacramento, California region through our subsidiary Alleghany Properties, and conduct corporate investment and other activities at the parent level, including the holding of strategic equity investments which are available to support the internal growth of subsidiaries and for acquisitions of, and substantial investments in, operating companies.

We were engaged in the industrial minerals business through World Minerals, Inc. and its subsidiaries, (World Minerals) until July 14, 2005, when we sold that business to Imerys USA, Inc. We were also engaged, through our subsidiary Heads & Threads International LLC (Heads & Threads) in the steel fastener importing and distribution business until December 31, 2004 when Heads & Threads was merged with an acquisition vehicle formed by a private investor group led by Heads & Threads management and Capital Partners, Inc. As a result of our disposition of World Minerals and Heads & Threads, these businesses have been classified as discontinued operations in our consolidated financial statements, and we no longer have any foreign operations.

In 2005, we studied a number of potential acquisitions. We intend to continue to expand our operations through internal growth at our subsidiaries as well as through possible operating company acquisitions and investments. At June 1, 2006, we had 700 employees, with 685 at our subsidiaries and 15 at the parent level. Our principal executive offices are located in leased office space of approximately 14,200 square feet at 7 Times Square Tower, New York, NY 10036 and our telephone number is (212) 752-1356.

Our Corporate Goal

Our 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 seek to create shareholder value through the ownership and management of a small group of operating businesses and investments, anchored by our core competency in property and casualty insurance.

Property and Casualty Insurance Businesses

AIHL is our holding company for our property and casualty insurance operations, which are conducted through RSUI, headquartered in Atlanta, Georgia, CATA, headquartered in Middleton, Wisconsin, and Darwin, headquartered in Farmington, Connecticut. In addition, surety and fidelity operations are conducted through CATA.

In general, property insurance protects an insured against financial loss arising out of loss of property or its use caused by an insured peril. Casualty insurance protects the insured against financial loss arising out of the insured s obligation to others for loss or damage to persons or property. In 2005, property insurance accounted for approximately 42.4 percent and casualty insurance accounted for approximately 55.0 percent of AIHL s gross premiums written. Surety bonds, both commercial and contract, are three-party agreements in which the issuer of the bond (the surety) joins with a second party (the principal) in guaranteeing to a third party (the owner/obligee) the fulfillment of some obligation on the part of the principal to the owner/obligee. Fidelity bonds cover losses arising from employee dishonesty. In 2005, surety bonds accounted for approximately 2.4 percent and fidelity bonds 0.2 percent of AIHL s gross premiums written.

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RSUI

General. RSUI, which includes the operations of its operating subsidiaries RSUI Indemnity Company (RIC) and Landmark American Insurance Company (Landmark) underwrites specialty insurance coverages in the property, umbrella/excess, general liability, directors and officers liability and professional liability lines of business. RSUI writes business on an admitted basis primarily through RIC in the 47 states and the District of Columbia where RIC is licensed and subject to form and rate regulations. RSUI writes business on an approved, non-admitted basis primarily through Landmark, which, 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. As of December 31, 2005, Landmark was approved to write business on a non-admitted basis in 49 states and on an admitted basis in Oklahoma. RSUI also owns Resurgens Specialty Underwriting, Inc. (Resurgens Specialty) a wholesale specialty underwriting agency.

RIC and Landmark entered into a quota share arrangement, effective as of September 1, 2003, whereby Landmark cedes 90 percent of all premiums and losses, net of third party reinsurance, to RIC. As of December 31, 2005, the statutory surplus of RIC was approximately $738.6 million and the statutory surplus of Landmark was $114.6 million. RIC is rated A (Excellent) by A.M. Best and Landmark is rated A (Excellent) on a reinsured basis by A.M. Best. RSUI leases approximately 115,000 square feet of office space in Atlanta, Georgia for its headquarters and approximately 34,000 square feet of office space in Sherman Oaks, California.

Distribution. At December 31, 2005, RSUI conducted its insurance business through approximately 149 independent wholesale insurance brokers located throughout the United States and three managing general agents. RSUI s wholesale brokers are appointed on an individual basis based on management s appraisal of expertise and experience, 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, with the exception of underwriting authority arrangements with three wholesale brokers for small, specialized coverages. RSUI s top five producing wholesale brokers accounted for approximately 50 percent of gross premiums written by RSUI in 2005. RSUI s top two producing wholesale brokers, Swett & Crawford Group and CRC Insurance Services, accounted for approximately 30 percent of AIHL s gross premiums written in 2005, with Swett & Crawford accounting for 16 percent and CRC accounting for 14 percent.

Underwriting. RSUI s underwriting philosophy is based on handling only product lines in which its underwriters have strong 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.

CATA

General. CATA, primarily through its operating subsidiaries Capitol Indemnity Corporation (Capitol Indemnity) and Capitol Specialty Insurance Corporation (CSIC) operates in 49 states and the District of Columbia, with a geographic concentration in the Midwestern and Plains states. Capitol Indemnity conducts its property and casualty insurance business on an admitted basis except in California where it operates as an approved, non-admitted insurer. Capitol Indemnity also writes surety and fidelity products such as commercial surety bonds, contract surety bonds and fidelity 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 license and permit coverage. Capitol Indemnity offers contract surety bonds in the non-construction segment of the market which secure performance under supply, service and maintenance contracts and developer subdivision bonds. Fidelity bonds cover losses arising from employee dishonesty. CSIC conducts its business on an approved, non-admitted basis and writes primarily specialty lines of property and casualty insurance for certain types of businesses or activities, including barber and beauty shops, bowling alleys, contractors, restaurants and taverns. Platte River Insurance Company (Platte River) is licensed in 50 states and the District of Columbia and operates in conjunction with Capitol Indemnity by providing surety and fidelity products. Platte River also offers pricing flexibility in those jurisdictions where both Capitol Indemnity and Platte River are licensed. The property and casualty business of CATA accounted for approximately 77 percent of its gross premiums written in 2005, while the surety and fidelity business accounted for the remainder.

CATA continuously evaluates its lines of business and adjusts its product offerings as appropriate. In January 2005, CATA decided to exit the construction segment of the contract surety line of business upon completion of a strategic review and since then has not issued additional contract surety bonds in the construction segment, except to the extent required under applicable law or in certain other limited circumstances. CATA continues to manage the run-off from this business line and is obligated to pay losses incurred on the construction segment of the contract surety business written by CATA prior to exit.

As of December 31, 2005, the statutory surplus of Capitol Indemnity was approximately $171.9 million and the statutory surplus of Platte River was approximately $33.5 million. Capitol Indemnity and Platte River are rated A (Excellent) on a pooled basis by A.M. Best. CSIC, which is party to a quota share arrangement with its parent Capitol Indemnity, is rated A (Excellent) on a reinsured basis by A.M. Best. CATA leases approximately 55,000 square feet of office space in Middleton, Wisconsin for its and Platte River s headquarters.

Distribution. CATA conducts its insurance business through independent and general insurance agents located throughout the United States, with a concentration in the Midwestern and Plains states. At December 31, 2005, CATA had approximately 450 independent agents and 40 general agents licensed to write property and casualty and surety and fidelity coverages, as well as approximately 280 independent agents licensed only to write surety coverages. The general agents write very little surety and fidelity 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. Local agents have binding authority for certain business owner policy products, including workers compensation, and non-contract surety products. No agent of CATA had writings in excess of 10 percent of AIHL s gross premiums written in 2005.

Underwriting. CATA s underwriting strategy emphasizes underwriting profitability. Key elements of this strategy are prudent risk selection, appropriate pricing and coverage customization. All accounts are reviewed on an individual basis to determine underwriting acceptability. CATA is a subscriber to the Insurance Service Organization (ISO) and Surety Association of America (SAA) insurance reference resources recognized by the insurance industry. 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 SAA 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 predetermined 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.

Darwin

General. Darwin is a specialty property and casualty insurance group focused on three broad professional liability market lines of business: directors and officers, errors and omissions and medical malpractice liability. Darwin was initially formed in March 2003 as an underwriting manager for CATA. On May 3, 2004, AIHL acquired U.S. AEGIS Energy Insurance Company, subsequently renamed Darwin National Assurance Company (DNA) an admitted insurance company domiciled in Delaware, from Aegis Holding Inc. On May 2, 2005, DNA purchased Ulico Indemnity Company, subsequently renamed Darwin Select

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Insurance Company (Darwin Select) an excess and surplus lines insurance company domiciled in Arkansas, from Ulico Casualty Company. These acquisitions were intended to support future business underwritten by Darwin. As of December 31, 2005, DNA was licensed to write business in 47 states and the District of Columbia, and Darwin Select was licensed on an admitted basis to write business in its state of domicile and authorized to write business on a surplus lines basis in 40 additional states. At December 31, 2005, DNA s statutory surplus was approximately $173.6 million.

As part of our effort to transition Darwin to a stand-alone insurance underwriting group, in November 2005 we contributed $135 million to Darwin, which in turn contributed this amount to DNA. This capital infusion resulted in total capitalization for the Darwin insurance carriers of approximately $200 million and enabled them to obtain an independent rating of A- (Excellent) from A.M. Best. In addition, effective October 1, 2005, DNA assumed all the risk and exposure on the specialty liability insurance policies produced by Darwin and issued by CATA since the formation of Darwin in March 2003. Finally, effective as of January 1, 2006, we reorganized Darwin by combining DNA and Darwin Select under the underwriting manager Darwin Professional Underwriters. After giving effect to the reorganization, Darwin was owned 90 percent by us and 10 percent by Darwin management through a restricted share program. On May 24, 2006, Darwin closed the initial public offering of its common stock. In the offering, Darwin sold 6.0 million shares of common stock for net proceeds of $86.3 million. All of the net proceeds of the initial public offering were used to reduce our equity interest in Darwin by redeeming Darwin preferred stock held by us. Upon completion of the offering, all remaining unredeemed shares of Darwin s preferred stock automatically converted to shares of Darwin common stock. Upon completion of the offering, we received $86.3 million of cash proceeds, and we continue to own 54.9 percent of the total outstanding shares of common stock of Darwin (with no preferred stock outstanding). Darwin leases approximately 36,000 square feet of office space in Farmington, Connecticut for its headquarters.

Distribution. Darwin is highly selective in establishing relationships with distribution partners. Its business development staff is responsible for selecting brokers and agents, training them to market and sell Darwin s products and monitoring their operations to ensure compliance with Darwin s production and profitability standards. Currently, Darwin sells its products through approximately 150 distribution partners, including two program administrators, one of which is in Darwin s municipal entity and public officials errors and omissions class of business and the other of which is in Darwin s psychiatrists medical malpractice liability class of business. Darwin s selection criteria for distribution partners and program administrators include profitability, reputation, and shared values with Darwin. Authority to bind policies is delegated carefully, audits by Darwin are regular and Darwin retains responsibility for claims administration. Darwin s distribution partners produce business through traditional channels as well as through i-Bind, its web-based underwriting system. No Darwin distribution partner had writings in excess of 10 percent of AIHL s gross premiums written in 2005.

Underwriting. Darwin s underwriting approach focuses on disciplined analysis, appropriate pricing based on the actual risk and attachment level and the granting of appropriate coverage, accompanied by underwriting and actuarial reviews of accounts. Formal rating strategies and plans have been adopted for each line of business. Darwin determines underwriting acceptability by type of business, company experience, claims experience, experience of the insured s management team, financial stability and other relevant factors. Information is obtained from, among other sources, application forms, underlying insurance coverage (if any), company policies and procedures, loss experience, financial condition, public disclosures and interviews with the insured s management team. If an account does not meet acceptability parameters, coverage is declined. In connection with renewal, claims activity is reviewed to ensure that profitability assessments were correct and the information obtained during the prior underwriting of the insured is updated.

Underwriting Performance

AIHL Insurance Operating Unit Ratios

	RSUI	CATA	Darwin	AIHL
Three Months Ended March 31, 2006				
Loss ratio(1)	51.7%	47.5%	70.6%	53.1%
Expense ratio(2)	19.6%	44.5%	26.5%	24.9%
Combined ratio(3)	71.3%	92.0%	97.1%	78.0%
Year Ended December 31, 2005				
Loss ratio(1)	101.4%	47.1%	69.2%	88.0%
Expense ratio(2)	20.5%	43.1%	28.1%	25.5%
Combined ratio(3)	121.9%	90.2%	97.3%	113.5%(4)
Year Ended December 31, 2004				
Loss ratio(1)	69.5%	58.4%	63.6%	67.1%
Expense ratio(2)	16.8%	47.5%	36.5%	23.7%
Combined ratio(3)	86.3%	105.9%	100.1%	90.8%
Year Ended December 31, 2003				
Loss ratio(1)	51.1%	73.4%	60.8%	58.1%
Expense ratio(2)	17.7%	42.7%	120.1%	26.4%
Combined ratio(3)	68.8%	116.1%	180.9%	84.5%

(1) Loss and loss adjustment expenses divided by net premiums earned, all as determined in accordance with GAAP.

(2) Underwriting expenses divided by net premiums earned, all as determined in accordance with GAAP.

(3) The sum of the loss ratio and expense ratio, all as determined in accordance with GAAP, representing the percentage of each premium dollar an insurance company has to spend on losses (including loss adjustment expenses) and underwriting expenses.

(4) Includes $287.3 million of losses from 2005 hurricane activity, including Hurricane Katrina. Losses incurred due to 2005 hurricane activity increased the combined ratio by 33.8%.

Loss Reserves

Each of our insurance operating units establishes reserves on its balance sheet for unpaid losses and LAE related to its property and casualty insurance and surety and fidelity contracts. As of any balance sheet date, historically there have been claims that have not yet been reported, and some claims may not be reported for many years after the date a loss occurs. As a result of this historical pattern, the liability for unpaid losses and LAE includes significant estimates for claims incurred but not yet reported, known as IBNR. Additionally, reported claims are in various stages of the settlement process. Each claim is settled individually based upon its merits, and certain claims may take years to settle, especially if legal action is involved. As a result, the liabilities for unpaid losses and LAE include significant judgments, assumptions and estimates made by management relating to the ultimate losses that will arise from the claims. Due to the inherent uncertainties in the process of establishing these liabilities, the actual ultimate loss from a claim is likely to differ, perhaps materially, from the liability initially recorded and could be material to the results of our operations.

Our loss reserve review processes use actuarial methods and underlying assumptions that vary by company and line of business and produce ranges from which the carried reserve for each class of business is selected. The actuarial methods used by our insurance operating units include the Incurred Development method, Paid Development method, Bornhuetter-Ferguson method for both paid and incurred, Balanced Incurred method and Ultimate Incurred times Ultimate Claims method. Because of the high level of

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uncertainty regarding the setting of liabilities for unpaid losses and LAE, it is the practice of each of our insurance operating units to engage, at least annually, an outside actuary to evaluate, and opine on, the reasonableness of these liabilities. Although we are unable at this time to determine whether additional reserves, which could have a material impact upon our financial condition, results of operations and cash flows, may be necessary in the future, we believe that the reserves for unpaid losses and LAE established by our insurance operating units are adequate as of December 31, 2005.

Our insurance operating units continually evaluate the potential for changes, both positive and negative, in their estimates of these liabilities and use the results of these evaluations to adjust both recorded liabilities and underwriting criteria. With respect to liabilities for unpaid losses and LAE established in prior years, these liabilities are periodically analyzed and their expected ultimate cost adjusted, where necessary, to reflect positive or negative development in loss experience and new information, including, for certain catastrophic events, revised industry estimates of the magnitude of a catastrophe. Adjustments to previously recorded liabilities for unpaid losses and LAE, both positive and negative, are reflected in our financial results in the periods in which these adjustments are made and are referred to as prior year reserve development.

The reconciliation of beginning and ending aggregate reserves for unpaid losses and LAE of AIHL for the last three years is shown below:

Reconciliation of Reserves for Losses and LAE

	2005	2004 (In thousands)	2003
Reserves as of January 1	$ 1,232,337	$ 437,994	$ 258,471
Reserves acquired			14,573
Less: reinsurance recoverables	591,417	162,032	159,766
Net reserves	640,920	275,962	113,278
Incurred loss, net of reinsurance, related to:			
Current year	755,180	547,868	229,519
Prior years	(7,213)	(7,299)	20,683
Total incurred loss, net of reinsurance	747,967	540,569	250,202
Paid loss, net of reinsurance, related to:			
Current year	109,431	103,033	40,122
Prior years	239,652	72,578	47,396
Total paid loss, net of reinsurance	349,083	175,611	87,518
Reserves, net of reinsurance recoverables, as of December 31	1,039,804	640,920	275,962
Reinsurance recoverables, as of December 31(1)	1,541,237	591,417	162,032
Reserves, gross of reinsurance recoverables, as of December 31	$ 2,581,041	$ 1,232,337	$ 437,994

(1) Reinsurance recoverables in this table include only ceded loss reserves. Amounts reflected under the caption Reinsurance recoverables on our consolidated balance sheets set forth in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2005 also include ceded unearned premium reserves and paid loss recoverables.

Catastrophe Risk Management

AIHL s insurance operating units, particularly RSUI, expose AIHL to losses on claims arising out of natural or human-made catastrophes. Catastrophes can be caused by various events, but losses are principally driven by hurricanes, other windstorms, earthquakes and floods. The incidence and severity of catastrophes are inherently unpredictable and may materially reduce AIHL s profitability or produce losses in a given period. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the affected area and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, other windstorms, earthquakes and floods may produce significant damage, especially in areas that are heavily populated. The geographic distribution of AIHL s insurance operating units subjects them to catastrophe exposure in the United States principally from hurricanes in the Gulf coast regions, Florida, the Mid-Atlantic, and Northeast, from other windstorms in the Midwest and Southern regions and earthquakes in California, the Pacific Northwest region and along the New Madrid fault line in the Midwest region.

AIHL s insurance operating units use underwriting controls and systems, including catastrophe modeling, in an effort to attempt to ensure that the aggregate amount of catastrophe exposures conform to established risk tolerances and fit within the existing exposure portfolio. RSUI also relies on reinsurance to limit its exposure to catastrophes, which is discussed in more detail under *Reinsurance* below. Additional information regarding the risks faced by AIHL s insurance operating units, particularly RSUI, with respect to managing their catastrophe exposure risk can be found on pages S-13 and S-14 of this prospectus supplement.

Directly written rates for catastrophe-exposed property risks have recently increased, and RSUI is benefiting from such rate increases subject to meeting its risk guidelines and exposure mitigation criteria. In addition, RSUI continues to take actions it commenced during the 2005 fourth quarter that it believes will reduce its exposed limits on a risk-by-risk basis such that its accumulations of risk will stand up to continued, heightened windstorm (primarily hurricane) activity. As part of these actions, RSUI reviewed its catastrophe exposure management approach, resulting in the implementation of new modeling tools and a revision of its underwriting guidelines and procedures. In May 2006, RSUI announced that it would no longer offer any new wind coverage for catastrophe-exposed coastal areas generally from North Carolina to Texas, or any new earthquake coverage in certain California counties. However, rate increases with respect to RSUI s catastrophe-exposed property risks may not be sufficient to absorb potential catastrophe losses, and RSUI s exposure mitigation efforts may not be successful in sufficiently mitigating risk exposures and losses resulting from future catastrophes.

Reinsurance

AIHL s insurance operating units reinsure a significant portion of the risks they underwrite in order to mitigate their exposure to losses, manage capacity and protect capital resources. In general, the insurance operating units obtain reinsurance on a treaty and facultative basis. Treaty reinsurance is based on a contract between a primary insurer or cedent and a reinsurer and covers certain classes of risk specified in the treaty. Under most treaties, the cedent is obligated to offer, and the reinsurer is obligated to accept, a specified portion of a class of risk underwritten by the cedent. Alternatively, facultative reinsurance is the reinsurance of individual risks, whereby a reinsurer separately rates and underwrites each risk and is free to accept or reject each risk offered by the cedent. Facultative reinsurance is normally purchased for risks not otherwise covered or covered only in part by reinsurance treaties, and for unusual or large risks. Treaty and facultative reinsurance can be written on a quota share, surplus share or excess of loss basis. Under a quota share reinsurance treaty, the cedent and reinsurer share the premiums as well as the losses and expenses of any single risk, or an entire group of risks. Under a surplus share reinsurance treaty, the cedent is required to transfer, and the reinsurer is required to accept, the part of every risk that exceeds a predetermined amount (commonly referred to as the cedent s retention), with the reinsurer sharing premiums and losses in the same proportion as it shares in the total policy limits of the risk written by the cedent. Under an excess of loss reinsurance treaty, a reinsurer agrees to reimburse the cedent for all or part of any losses in excess of the cedent s retention, generally up to a predetermined limit, at which point the risk of loss is assumed by another reinsurer or reverts to the cedent.

RSUI uses surplus share, quota share and excess of loss reinsurance treaties, as well as facultative reinsurance, on an extensive basis in order to build stable capacity and to provide protection against accumulations of catastrophe risk. In 2005, RSUI ceded 50 percent of its gross premiums written to reinsurers.

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Although the net amount of loss exposure retained by RSUI varies by line of business, in general, as of December 31, 2005, RSUI retained a maximum net exposure for any single property risk of $7.5 million and any single casualty risk of $8.0 million, with the exception of losses arising from acts of foreign terrorism. With respect to RSUI s property lines of business, RSUI reinsures through a program consisting of surplus share treaties, facultative placements, per risk and catastrophe excess of loss treaties. Under its surplus share treaties, RSUI is indemnified on a pro rata basis against covered property losses. The amount indemnified is based on the proportionate share of risk ceded after consideration of a stipulated dollar amount of line for RSUI to retain in relation to the entire limit written. RSUI ceded approximately 36 percent of its property gross premiums written in 2005 under these surplus share treaties.

RSUI s catastrophe and per risk reinsurance treaties expired on April 30, 2006, and reinsurance coverage for catastrophe exposed property risks has been impacted by higher prices, restrictive terms and limited capacity. As of June 1, 2006, RSUI had placed approximately half of its current catastrophe reinsurance program. Under the program, RSUI is reinsured for $425.0 million of net losses (compared with $360.0 million under the expired program) in excess of a $75.0 million net retention (compared with a net retention of $40.0 million under the expired program); thus RSUI will be co-participating for half of all losses in excess of its $75.0 million net retention with respect to non-earthquake catastrophe losses (compared with 5 percent of losses under the expired program). We currently intend to provide capital support to RSUI in respect of this coverage shortfall, which may be provided through a wholly-owned Vermont captive reinsurance company that we are in the process of forming, or in some other manner. Regardless of the manner through which such support is provided, our consolidated group retains the overall exposure. RSUI has separately purchased earthquake-only coverage under its catastrophe reinsurance program for $225.0 million of net losses in excess of its $75.0 million net retention. Under the property per risk reinsurance program, RSUI is reinsured for $90.0 million in excess of a $10.0 million net retention per risk after the application of the surplus share treaties and facultative reinsurance, providing coverage substantially similar to that of the expired program.

With respect to its other lines of business, RSUI reinsures through quota share treaties. For umbrella, its quota share treaty provides reinsurance for policies with limits up to $30.0 million, with RSUI ceding 50 percent of the premium and loss for policies with limits up to $10.0 million and ceding 75 percent of the premium and loss for policies with limits in excess of $10.0 million up to $30.0 million. For professional liability, its treaty provides reinsurance for policies with limits up to $5.0 million, with RSUI ceding 25 percent of the premium and losses for policies with limits up to $1.0 million and ceding 50 percent of the premium and loss on policies with limits greater than $1.0 million up to $5.0 million. Its primary casualty lines treaty provides reinsurance for policies with limits up to $2.0 million, with RSUI ceding 25 percent of the premium and loss. Finally, its directors and officers liability line treaty provides reinsurance for policies with limits up to $20.0 million, with RSUI ceding 40 percent of the premium and loss for all policies with limits up to $10.0 million, ceding 60 percent of the premium and loss for policies classified as for profit with limits in excess of $10.0 million up to $15.0 million, and ceding 60 percent of the premium and loss for policies classified as not for profit with limits in excess of $10.0 million up to $20.0 million.

With respect to potential losses at RSUI arising from acts of foreign terrorism, the Terrorism Act established a program under which the federal government will reimburse insurers for losses arising from certain acts of foreign terrorism. As extended, the Terrorism Act is effective for an additional two years and will automatically expire on December 31, 2007. The intent of the Terrorism Act is to provide federal assistance to the insurance industry in order to meet the needs of commercial insurance policyholders with potential exposure for losses due to acts of terrorism. Under the Terrorism Act, an act must be certified by the U.S. Secretary of Treasury for it to constitute an act of terrorism, with the definition of terrorism excluding domestic acts of terrorism and acts of terrorism committed in the course of a war declared by Congress. This law requires insurers writing certain lines of property and casualty insurance to offer coverage against certain acts of terrorism causing damage within the United States or to United States flagged vessels or aircraft. In return, the law requires the federal government to indemnify the insurers for 90 percent of insured losses for 2005 and 2006 and 85 percent of insured losses for 2007 resulting from covered acts of terrorism, subject to certain premium-based deductibles. The premium-based deductibles increased from 15 percent for 2005 to

17.5 percent for 2006, and will increase to 20 percent for 2007. In addition, federal compensation will only be paid under the Terrorism Act if (a) the aggregate industry insured losses resulting from the covered act of terrorism exceed $5.0 million for insured losses occurring prior to April 1, 2006, $50.0 million for insured losses occurring from April 1, 2006 to December 31, 2006, and $100.0 million for insured losses occurring in 2007, and (b) the aggregate industry insured losses do not exceed $100.0 billion in any year.

AIHL s deductible under the Terrorism Act in 2006 will be 17.5 percent of its direct premiums earned in 2005, or approximately $266.3 million, and in 2007 will be 20 percent of its direct premiums earned in 2006. AIHL s terrorism exposure is substantially attributable to RSUI. In general, RSUI s casualty reinsurance programs provide coverage for domestic and foreign acts of terrorism, while RSUI s property reinsurance programs provide coverage only for domestic acts of terrorism. The cost of property reinsurance in the marketplace has increased significantly in recent years, and reinsurance capacity for terrorism exposures is limited and expensive. As a result, RSUI would be liable for these exposures on a net basis, subject to the Terrorism Act coverage, for property policies containing foreign terrorism coverage. Approximately 10.4 percent of all policies, and approximately 17.2 percent of all property policies, written by RSUI in 2005 contained coverage for domestic and foreign acts of terrorism. RSUI uses various underwriting strategies to mitigate its exposure to terrorism losses.

CATA uses reinsurance to protect against severity losses. In 2005, CATA reinsured individual property and casualty and contract surety risks in excess of $1.5 million with various reinsurers. The commercial surety line was reinsured for individual losses above $1.25 million. In addition, CATA purchases facultative reinsurance coverage for risks in excess of $6.0 million on property and casualty and $10.0 million on commercial surety.

In general, Darwin purchases excess of loss reinsurance on a treaty basis to stop its loss from a single occurrence on any one coverage part of any one policy. For its directors and officers and the majority of its errors and omissions liability lines of business, Darwin generally retains $2.75 million of loss on policies written at Darwin s maximum offered limit of $10.0 million. For Darwin s managed care errors and omissions line, where Darwin has written limits up to $20.0 million, Darwin generally retains $2.75 million of loss on the first $10.0 million of loss and $1.0 million of the next $10.0 million of loss. For certain of Darwin s classes of errors and omissions business (primarily public entities and psychiatrists professional liability) Darwin generally retains $250,000 to $500,000 of loss. For Darwin s medical malpractice line of business, Darwin generally retains $1.75 million of loss at its maximum offered limit of $10.0 million. Some of Darwin s reinsurance treaties contain premiums that will vary, within a range, depending upon the profitability of the underlying premium subject to the treaty. Darwin also obtains facultative reinsurance for certain business.

At December 31, 2005, AIHL had reinsurance recoverables of $1.5 billion on gross unpaid losses and LAE of $2.6 billion. The reinsurance purchased by AIHL s insurance operating units does not relieve them from their obligations to their policyholders, and therefore, the financial strength of their reinsurers is important. Approximately 97 percent of AIHL s reinsurance recoverables balance at December 31, 2005 was due from reinsurance companies having financial strength ratings of A (Excellent) or higher by A.M. Best. AIHL had no allowance for uncollectible reinsurance as of December 31, 2005. Additional information regarding the risks faced by AIHL s insurance operating units with respect to their use of reinsurance can be found on pages S-14 and S-15 of this prospectus supplement. AIHL s Reinsurance Security Committee, which includes certain of our officers and the chief financial officers of each of AIHL s insurance operating units, meets to track, analyze and manage the use of reinsurance by AIHL s insurance operating units. The Reinsurance Security Committee considers 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. Information related to concentration of reinsurance recoverables can be found in Note 5 to our consolidated financial statements set forth in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2005.

Based on reviews by management, all of the current reinsurance contracts used by AIHL s insurance operating units provide for sufficient transfer of insurance risk to qualify for reinsurance accounting treatment under GAAP. As such, AIHL s insurance operating units have no reinsurance contracts accounted for under the deposit method.

Competition

The property and casualty businesses of RSUI and Darwin, as well as the surety and fidelity businesses of CATA, compete on a national basis. CATA s property and casualty businesses compete on a regional basis with a primary focus on the Midwestern and Plains states. Competitors of each of these insurance operating units include other primary insurers and new forms of insurance such as alternative self-insurance mechanisms. Many competitors have considerably greater financial resources and greater experience in the insurance industry and offer a broader line of insurance products than do AIHL s insurance operating units. Except for regulatory considerations, there are virtually no barriers to entry into the insurance industry. Competition may be domestic or foreign, and competitors are not necessarily required to be licensed by various state insurance departments. The number of competitors within the industry is not known. The commercial property and casualty insurance and fidelity and surety insurance industries are highly competitive, competing on the basis of reliability, financial strength and stability, ratings, underwriting consistency, service, business ethics, price, performance, capacity, policy terms and coverage conditions.

Historically, insurers have experienced significant fluctuations in operating results due to competition, frequency or severity of catastrophic and other loss events, levels of capacity, general economic and social conditions and other factors. The supply of insurance is related to prevailing prices, the level of insured losses and the level of industry surplus which, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. As a result, the insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. Information regarding the risks faced by our insurance operating units due to the cyclicality of the insurance business can be found on page S-16 of this prospectus supplement.

Regulation

AIHL is subject to the insurance holding company laws of several states. In addition, dividends and distributions by an insurance subsidiary are subject to approval by the insurance department of the domiciliary state of a subsidiary. Other significant transactions between an insurance subsidiary and its holding company or other subsidiaries of the holding company may require approval by the insurance department in the domiciliary state of each of the insurance subsidiaries participating in these transactions. AIHL s insurance operating units are subject to regulation in their domiciliary states as well as in the other states in which they do business. This regulation pertains to matters such as approving policy forms and various premium rates, licensing agents, granting and revoking licenses to transact business and regulating trade practices. The majority of AIHL s insurance operating units are in states requiring prior approval by the insurance department before proposed rates for property or casualty or surety or fidelity insurance policies may be implemented. Insurance departments perform periodic examinations of an insurer s market conduct and other affairs.

Insurance companies are required to report their financial condition and results of operation in accordance with statutory accounting principles prescribed or permitted by state insurance departments in conjunction with the National Association of Insurance Commissioners (NAIC). State insurance departments also prescribe the form and content of statutory financial statements, perform periodic financial examinations of insurers, set minimum reserve and loss ratio requirements, establish standards for the types and amounts of investments, and require minimum capital and surplus levels. These statutory capital and surplus requirements include risk-based capital (RBC) rules promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in 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 to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2005, the total adjusted capital of each of AIHL s insurance operating units exceeded the minimum levels required under RBC rules and each had excess capacity to write additional premiums in relation to these requirements.

The NAIC annually calculates certain statutory financial ratios for most insurance companies in the United States. These calculations are known as the Insurance Regulatory Information System (IRIS) ratios. There presently are twelve 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 its ratios fall outside the NAIC s usual ranges. Based upon calculations as of December 31, 2005, DNA and Landmark had five of their ratios falling outside the usual ranges. In the case of DNA, the five unusual ranges were due to the $135 million contribution to DNA and other actions taken in connection with Darwin s reorganization. In the case of Landmark, three of the five unusual ranges were due to Landmark s inter-company reinsurance relationship with RIC.

AIHL s insurance operating units are required under the guaranty fund laws of most states in which they transact business to pay assessments up to prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. AIHL s insurance operating units also are required to participate in various involuntary pools, principally involving workers compensation and windstorms. In most states, the involuntary pool participation of AIHL s insurance operating units is in proportion to their voluntary writings of related lines of business in such states.

In addition to the regulatory requirements described above, a number of current and pending legislative and regulatory measures may significantly affect the insurance business in a variety of ways. These measures include, among other things, tort reform, consumer privacy requirements and financial services deregulation initiatives.

Employees

AIHL s insurance operating units employed 681 persons as of June 1, 2006, 351 of whom were at RSUI and its subsidiaries, 230 of whom were at CATA and its subsidiaries and 100 of whom were at Darwin and its subsidiaries.

Real Estate Business

Headquartered in Sacramento, California, Alleghany Properties owns and manages properties in the Sacramento region of California. These properties include improved and unimproved commercial land and commercial and residential lots. The majority of these properties are located in the City of Sacramento in the planned community of North Natomas. A considerable amount of activity from developers has occurred in the North Natomas area since 1998, including the construction of more than 12,000 single family homes, 3,400 apartment units, office buildings and several fully-leased regional retail shopping centers. Participating in this growth in North Natomas, Alleghany Properties has sold over 387 acres of residential land and 61 acres of commercial property. On May 26, 2006, Alleghany Properties completed the sale of 59 acres of real property consisting of unimproved land located in Rocklin County, California for $29.3 million, resulting in an estimated net pre-tax gain to us of $23.1 million. As of June 1, 2006, Alleghany Properties owned approximately 342 acres of property in various land use categories ranging from multi-family residential to commercial. Alleghany Properties currently has four employees.

Investments

Investments

We invest in debt and equity securities to support our operations. As of March 31, 2006, our consolidated investment portfolio had a fair market value of $3.3 billion and consisted primarily of high quality debt securities with an effective duration of 4.3 years. Effective duration measures a portfolio s sensitivity to change in interest rates; a change within a range of plus or minus 1 percent in interest rates would be expected to result in an inverse change of approximately 3.8 percent in the fair market value of the portfolio of AIHL. The overall debt securities portfolio credit quality is measured using the lower rating of either Standard & Poor s Rating Services, a division of the McGraw-Hill Companies, Inc. or Moody s Investors Service, Inc. The weighted average rating at March 31, 2006 was AAA. Our investment portfolio contains no investments of a derivative nature.

Our investment strategy seeks to preserve principal and maintain liquidity while trying to maximize its risk-adjusted, after-tax rate of return. Investment decisions are guided mainly by the nature and timing of expected liability payouts, management s forecast of cash flows and the possibility of unexpected cash demands, for example, to satisfy claims due to catastrophic losses. Our investment portfolio currently consists mainly of highly rated and liquid debt securities and equity securities listed on national securities exchanges. Our debt securities portfolio has been designed to enable management to react to investment opportunities created by changing interest rates, prepayments, tax and credit considerations or other factors, or to circumstances that could result in a mismatch between the desired duration of portfolio assets and the duration of liabilities, and, as such, is classified as available for sale.

Of our consolidated investment portfolio of $3.3 billion, AIHL comprised $2.6 billion. AIHL s positive cash flow from continuing operations reduces the need to liquidate portions of its debt securities portfolio to pay for current claims. This positive cash flow also permits AIHL, as attractive investment opportunities arise, to make investments in debt securities that have a longer duration than AIHL liabilities. This strategy, when used, is designed to grow AIHL s capital resources. When attractive investment opportunities do not arise, AIHL may maintain higher proportions of shorter duration securities to preserve its capital resources. In this regard, as of March 31, 2006 AIHL held approximately $540 million of short-term investments. AIHL anticipates modestly increasing the proportion of its debt securities portfolio held in securities with maturities of more than five years should the yields of these securities provide sufficient compensation for their increased risk. We do not believe that this strategy would reduce AIHL s ability to meet ongoing claim payments or to respond to further significant catastrophe losses.

In the event paid losses accelerate beyond the ability of AIHL s insurance operating units to f