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OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
August 03, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934
for the quarterly period ended: June 30, 2012 or

Transition report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934
Commission File Number: 001-10607

OLD REPUBLIC INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

No. 36-2678171
(IRS Employer Identification No.)

307 North Michigan Avenue, Chicago,
Illinois
(Address of principal executive office)

60601
(Zip Code)

Registrant's telephone number, including area code: 312 346 8100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes: No:

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: No:

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes: No:

Class

Shares Outstanding
June 30, 2012

Common Stock / \$1 par value

259,441,153

There are 48 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / June 30, 2012

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Old Republic International Corporation and Subsidiaries
Consolidated Balance Sheets
(\$ in Millions, Except Share Data)

	(Unaudited) June 30, 2012	December 31, 2011
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$7,837.8 and \$7,884.6)	\$8,387.1	\$8,393.2
Equity securities (at fair value) (adjusted cost: \$341.4 and \$341.9)	627.7	580.8
Short term investments (at fair value which approximates cost)	1,208.5	1,476.2
Miscellaneous investments	27.3	35.3
Total	10,250.8	10,485.6
Other investments	9.5	9.8
Total investments	10,260.3	10,495.5
Other Assets:		
Cash	109.2	93.0
Securities and indebtedness of related parties	13.1	16.9
Accrued investment income	94.6	96.5
Accounts and notes receivable	1,113.7	1,039.0
Federal income tax recoverable: Current	80.4	73.5
Deferred	109.8	116.7
Prepaid federal income taxes	1.0	1.0
Reinsurance balances and funds held	219.0	210.0
Reinsurance recoverable: Paid losses	118.4	100.7
Policy and claim reserves	3,116.0	3,143.1
Deferred policy acquisition costs	179.6	197.6
Sundry assets	459.4	466.2
Total Other Assets	5,614.9	5,554.9
Total Assets	\$15,875.2	\$16,050.4
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$8,966.1	\$8,786.6
Unearned premiums	1,343.7	1,268.8
Other policyholders' benefits and funds	189.9	193.1
Total policy liabilities and accruals	10,499.7	10,248.6
Commissions, expenses, fees, and taxes	434.0	457.3
Reinsurance balances and funds	427.9	380.5
Debt	573.8	912.8
Sundry liabilities	227.3	278.4
Commitments and contingent liabilities		
Total Liabilities	12,162.8	12,277.8
Preferred Stock (1)	—	—
Common Shareholders' Equity:		

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Common stock (1)	259.4	259.3
Additional paid in capital	659.9	657.9
Retained earnings	2,348.2	2,472.4
Accumulated other comprehensive income (loss)	475.5	416.0
Unallocated ESSOP shares (at cost)	(30.7	) (33.2
Total Common Shareholders' Equity	3,712.3	3,772.5
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$15,875.2	\$16,050.4

At June 30, 2012 and December 31, 2011, there were 75,000,000 shares of \$0.01 par value preferred stock authorized, of which no shares were outstanding. As of the same dates, there were 500,000,000 shares of common (1) stock, \$1.00 par value, authorized, of which 259,441,153 and 259,328,278 were issued as of June 30, 2012 and December 31, 2011, respectively. At June 30, 2012 and December 31, 2011, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued.

See accompanying Notes to Consolidated Financial Statements.

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Old Republic International Corporation and Subsidiaries
 Consolidated Statements of Income (Unaudited)
 (\$ in Millions, Except Share Data)

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues:				
Net premiums earned	\$981.4	\$890.5	\$1,925.0	\$1,813.3
Title, escrow, and other fees	107.1	87.2	201.1	167.4
Total premiums and fees	1,088.5	977.7	2,126.1	1,980.8
Net investment income	85.0	93.1	170.9	184.6
Other income	28.3	27.0	59.9	55.5
Total operating revenues	1,201.9	1,097.9	2,357.0	2,221.0
Realized investment gains (losses):				
From sales	22.0	5.0	24.9	11.5
From impairments	—	(8.0)	—	(8.0)
Total realized investment gains (losses)	22.0	(2.9)	24.9	3.5
Total revenues	1,223.9	1,094.9	2,382.0	2,224.5
Benefits, Claims and Expenses:				
Benefits, claims and settlement expenses	713.2	687.8	1,326.7	1,327.4
Dividends to policyholders	3.1	3.7	6.1	7.2
Underwriting, acquisition, and other expenses	556.2	497.1	1,085.4	997.7
Interest and other charges	9.7	14.6	24.6	25.3
Total expenses	1,282.2	1,203.3	2,443.0	2,357.8
Income (loss) before income taxes (credits)	(58.3)	(108.3)	(60.9)	(133.3)
Income Taxes (Credits):				
Current	(3.1)	(1.4)	(2.5)	4.7
Deferred	(21.1)	(40.6)	(24.8)	(58.8)
Total	(24.2)	(42.0)	(27.3)	(54.0)
Net Income (Loss)	\$(34.0)	\$(66.3)	\$(33.5)	\$(79.2)
Net Income (Loss) Per Share:				
Basic	\$(.13)	\$(.26)	\$(.13)	\$(.31)
Diluted	\$(.13)	\$(.26)	\$(.13)	\$(.31)
Average shares outstanding:				
Basic	255,747,273	254,972,652	255,609,699	254,873,612
Diluted	255,747,273	254,972,652	255,609,699	254,873,612
Dividends Per Common Share:				
Cash	\$.1775	\$.1750	\$.3550	\$.3500

Consolidated Statements of Comprehensive Income (Unaudited)

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011

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Net Income (Loss) As Reported	\$ (34.0)	\$ (66.3)	\$ (33.5)	\$ (79.2)
Other comprehensive income (loss):								
Post-tax net unrealized gains (losses) on securities	18.6		32.2		56.1		9.2	
Net adjustment related to defined benefit plans, net of tax	1.7		1.0		3.4		2.0	
Other adjustments	(3.6	)	(2.8	)	(.2	)	1.7	
Net adjustments	16.7		30.4		59.4		13.0	
Comprehensive Income (Loss)	\$ (17.2	)	\$ (35.8	)	\$ 25.8		\$ (66.2)

See accompanying Notes to Consolidated Financial Statements.

Old Republic International Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(\$ in Millions)

	Six Months Ended	
	June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$(33.5	) \$(79.2
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred policy acquisition costs	18.0	(.4
Premiums and other receivables	(74.7	) (32.5
Unpaid claims and related items	246.7	(67.6
Unearned premiums and other policyholders' liabilities	31.5	3.0
Income taxes	(31.8	) (45.7
Prepaid federal income taxes	—	39.4
Reinsurance balances and funds	20.2	(2.9
Realized investment (gains) losses	(24.9	) (3.5
Accounts payable, accrued expenses and other	(21.0	) 36.1
Total	130.3	(153.4
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	459.0	478.6
Sales	311.1	226.1
Sales of:		
Equity securities	.5	.2
Other - net	18.5	16.0
Purchases of:		
Fixed maturity securities	(724.5	) (787.8
Equity securities	(.4) —
Other - net	(15.5	) (19.2
Net decrease (increase) in short-term investments	267.6	(104.5
Other net	(.5) —
Total	315.8	(190.5
Cash flows from financing activities:		
Issuance of debentures and notes	—	537.0
Issuance of common shares	.5	.8
Redemption of debentures and notes	(338.9	) (101.9
Dividends on common shares	(90.6	) (89.1
Other net	(.9	) (.4
Total	(430.0	) 346.4
Increase (decrease) in cash:	16.1	2.3
Cash, beginning of period	93.0	127.3
Cash, end of period	\$109.2	\$129.6

Supplemental cash flow information:

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Cash paid (received) during the period for: Interest	\$24.2	\$17.2	
Income taxes	\$4.6	\$(8.6)

See accompanying Notes to Consolidated Financial Statements.

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OLD REPUBLIC INTERNATIONAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 (\$ in Millions, Except Share Data)

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). These interim financial statements should be read in conjunction with these notes and those included in the Company's 2011 Annual Report on Form 10-K incorporated herein by reference.

Pertinent accounting and disclosure pronouncements issued from time to time by the FASB are adopted by the Company as they become effective. In October 2010, the FASB issued authoritative guidance related to the accounting for costs associated with acquiring or renewing insurance contracts. The guidance identifies those costs relating to the successful acquisition of new or renewal insurance contracts that should be capitalized. This guidance was effective for the Company for the year beginning January 1, 2012 and could be applied prospectively or retrospectively. At year-end 2011, the Company disclosed its expectation to elect retrospective application of the guidance. The Company completed its evaluation of the new guidance during the first quarter 2012 and ultimately elected to adopt the new standard on a prospective basis. The prospective adoption of the guidance resulted in pretax charges of approximately \$11 and \$22 for the second quarter and first six months of 2012, respectively. In addition, the FASB issued guidance requiring additional disclosures regarding financial instruments disclosed, but not carried, at fair value in the financial statements. The disclosures relative to all these matters are included in the pertinent notes herein.

The financial accounting and reporting process relies on estimates and on the exercise of judgment. In the opinion of management all adjustments, consisting only of normal recurring accruals necessary for a fair presentation of the results have been recorded for the interim periods. Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in millions, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

2. Common Share Data:

Earnings Per Share - Consolidated basic earnings per share excludes the dilutive effect of common stock equivalents and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares actually outstanding for the year. Diluted earnings per share are similarly calculated with the inclusion of dilutive common stock equivalents. The following table provides a reconciliation of net income (loss) and the number of shares used in basic and diluted earnings per share calculations.

	Quarters Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Numerator:				
Net income (loss)	\$(34.0)	\$(66.3)	\$(33.5)	\$(79.2)
Numerator for basic earnings per share - income (loss) available to common stockholders	(34.0)	(66.3)	(33.5)	(79.2)
Adjustment for interest expense incurred on assumed conversions of convertible senior notes	—	—	—	—
Numerator for diluted earnings per share - income (loss) available to common stockholders				

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after assumed conversions	\$ (34.0)	\$ (66.3)	\$ (33.5)	\$ (79.2)
Denominator:				
Denominator for basic earnings per share - weighted-average shares (a)	255,747,273	254,972,652	255,609,699	254,873,612
Effect of dilutive securities - stock based compensation awards	—	—	—	—
Effect of dilutive securities - convertible senior notes	—	—	—	—
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions (a)	255,747,273	254,972,652	255,609,699	254,873,612
Earnings per share: Basic	\$ (.13)	\$ (.26)	\$ (.13)	\$ (.31)
Diluted	\$ (.13)	\$ (.26)	\$ (.13)	\$ (.31)
Anti-dilutive common stock equivalents excluded from earning per share computations:				
Stock based compensation awards	15,074,960	16,361,394	15,101,326	16,384,795
Convertible senior notes	35,404,435	62,881,492	35,399,953	49,920,053
Total	50,479,395	79,242,886	50,501,279	66,304,848

(a) In calculating earnings per share, pertinent accounting rules require that common shares owned by the Company's Employee Savings and Stock Ownership Plan that are as yet unallocated to participants in the plan be excluded from the calculation. Such shares are issued and outstanding and have the same voting and other rights applicable to all other common shares.

3. Investments:

The Company may classify its invested assets in terms of those assets relative to which it either (1) has the positive intent and ability to hold until maturity, (2) has available for sale or (3) has the intention of trading. As of June 30, 2012 and December 31, 2011, substantially all the Company's invested assets were classified as "available for sale."

Fixed maturity securities classified as "available for sale" and other preferred and common stocks (equity securities) are included at fair value with changes in such values, net of deferred income taxes, reflected directly in shareholders' equity. Fair values for fixed maturity securities and equity securities are based on quoted market prices or estimates using values obtained from independent pricing services as applicable.

The Company reviews the status and fair value changes of each of its investments on at least a quarterly basis during the year, and estimates of other-than-temporary impairments ("OTTI") in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for OTTI, the Company, in addition to a security's market price history, considers the totality of such factors as the issuer's operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden fair value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Absent issuer-specific circumstances that would result in a contrary conclusion, any equity security with an unrealized investment loss amounting to a 20% or greater decline for a six month period is considered OTTI. In the event the Company's estimate of OTTI is insufficient at any point in time, future periods' net income (loss) would be adversely affected by the recognition of additional realized or impairment losses, but its financial position would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses in shareholders' equity. The Company recognized no OTTI adjustments for the quarter and six months ended June 30, 2012, whereas, \$8.0 was recognized in the quarter and six months ended June 30, 2011.

The amortized cost and estimated fair values by type and contractual maturity of fixed maturity securities are shown in the following tables. Expected maturities will differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Securities by Type:				
June 30, 2012:				
U.S. & Canadian Governments	\$1,042.0	\$72.2	\$.1	\$1,114.1
Tax-exempt	498.9	17.6	—	516.5
Corporate	6,296.8	463.4	3.8	6,756.4
	\$7,837.8	\$553.4	\$4.0	\$8,387.1
December 31, 2011:				
U.S. & Canadian Governments	\$1,104.0	\$78.3	\$.1	\$1,182.1

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Tax-exempt	597.1	23.4	—	620.5
Corporate	6,183.5	414.1	7.0	6,590.5
	\$7,884.6	\$515.9	\$7.2	\$8,393.2
			Amortized Cost	Estimated Fair Value
Fixed Maturity Securities Stratified by Contractual Maturity at June 30, 2012:				
Due in one year or less			\$1,030.0	\$1,046.9
Due after one year through five years			3,405.9	3,599.4
Due after five years through ten years			3,169.2	3,492.3
Due after ten years			232.5	248.5
			\$7,837.8	\$8,387.1

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A summary of the Company's equity securities reflecting reported adjusted cost, net of OTTI adjustments totaling \$138.5 at June 30, 2012 and December 31, 2011 follows:

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity Securities:				
June 30, 2012	\$341.4	\$286.2	\$—	\$627.7
December 31, 2011	\$341.9	\$243.5	\$4.6	\$580.8

The following table reflects the Company's gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in an unrealized loss position. Fair value and issuer's cost comparisons follow:

	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2012:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$32.4	\$.1	\$—	\$—	\$32.4	\$.1
Tax-exempt	2.4	—	—	—	2.4	—
Corporate	269.4	2.5	12.3	1.3	281.8	3.8
Subtotal	304.3	2.6	12.3	1.3	316.7	4.0
Equity Securities	4.5	—	—	—	4.5	—
Total	\$308.9	\$2.7	\$12.3	\$1.3	\$321.2	\$4.0
December 31, 2011:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$35.5	\$.1	\$—	\$—	\$35.5	\$.1
Tax-exempt	2.1	—	.6	—	2.7	—
Corporate	402.9	6.7	1.7	.2	404.7	7.0
Subtotal	440.6	7.0	2.3	.2	443.0	7.2
Equity Securities	98.4	4.5	—	—	98.5	4.6
Total	\$539.1	\$11.5	\$2.4	\$.3	\$541.5	\$11.9

At June 30, 2012, the Company held 95 fixed maturity and 3 equity securities in an unrealized loss position, representing 5.2% as to fixed maturities and 7.1% as to equity securities of the total number of such issues it held. At December 31, 2011, the Company held 131 fixed maturity and 6 equity securities in an unrealized loss position, representing 7.1% as to fixed maturities and 14.3% as to equity securities of the total number of such issues it held. Of the securities in an unrealized loss position, 5 and 4 fixed maturity securities and 1 and 1 equity securities, had been in a continuous unrealized loss position for more than 12 months as of June 30, 2012 and December 31, 2011, respectively. The unrealized losses on these securities are primarily attributable to a post-purchase rising interest rate environment and/or a decline in the credit quality of some issuers. As part of its assessment of other-than-temporary impairments, the Company considers its intent to continue to hold and the likelihood that it will not be required to sell investment securities in an unrealized loss position until cost recovery, principally on the basis of its asset and liability maturity matching procedures.

Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. A fair value hierarchy is established that prioritizes the sources ("inputs") used to measure fair value into three broad levels: inputs based on quoted market prices in active markets (Level 1); observable inputs based on corroboration with available

market data (Level 2); and unobservable inputs based on uncorroborated market data or a reporting entity's own assumptions (Level 3). Following is a description of the valuation methodologies and general classification used for financial instruments measured at fair value.

The Company uses quoted values and other data provided by a nationally recognized independent pricing source as inputs into its quarterly process for determining fair values of its fixed maturity and equity securities. To validate the techniques or models used by pricing sources, the Company's review process includes, but is not limited to: (i) initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and (ii) comparing the fair value estimates to its knowledge of the current market and to independent fair value estimates provided by the investment custodian. The independent pricing source obtains market quotations and actual transaction prices for securities that have quoted prices in active markets and uses its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing source uses observable market inputs including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, broker-dealer quotes, reported trades and sector groupings to determine a reasonable

fair value.

Level 1 securities include U.S. and Canadian Treasury notes, publicly traded common stocks, the quoted net asset value ("NAV") mutual funds, and most short-term investments in highly liquid money market instruments. Level 2 securities generally include corporate bonds, municipal bonds, and certain U.S. and Canadian government agency securities. Securities classified within Level 3 include non-publicly traded bonds, short-term investments, and common stocks. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs as of June 30, 2012 and December 31, 2011.

The following tables show a summary of assets measured at fair value segregated among the various input levels described above:

Fair value measurements as of June 30, 2012:	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$393.2	\$720.8	\$—	\$1,114.1
Tax-exempt	—	516.5	—	516.5
Corporate	—	6,725.8	30.6	6,756.4
Equity securities	624.8	—	2.8	627.7
Short-term investments	\$1,203.5	\$—	\$5.0	\$1,208.5

Fair value measurements as of December 31, 2011:

Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$389.8	\$792.2	\$—	\$1,182.1
Tax-exempt	—	620.5	—	620.5
Corporate	—	6,560.0	30.5	6,590.5
Equity securities	579.0	—	1.8	580.8
Short-term investments	\$1,471.1	\$—	\$5.0	\$1,476.2

There were no transfers between Levels 1, 2 or 3 during the quarter ended June 30, 2012.

Investment income is reported net of allocated expenses and includes appropriate adjustments for amortization of premium and accretion of discount on fixed maturity securities acquired at other than par value. Dividends on equity securities are credited to income on the ex-dividend date. Realized investment gains and losses, which result from sales or write-downs of securities, are reflected as revenues in the income statement and are determined on the basis of amortized value at date of sale for fixed maturity securities, and cost in regard to equity securities; such bases apply to the specific securities sold. Unrealized investment gains and losses, net of any deferred income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity. At June 30, 2012, the Company and its subsidiaries had no non-income producing fixed maturity securities.

The following table reflects the composition of net investment income, net realized gains or losses, and the net change in unrealized investment gains or losses for each of the periods shown.

	Quarters Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Investment income from:				
Fixed maturity securities	\$81.9	\$90.6	\$164.8	\$179.7
Equity securities	2.6	2.5	5.1	4.9
Short-term investments	.4	.3	1.0	.8
Other sources	1.3	1.3	2.4	2.4
Gross investment income	86.4	94.9	173.4	188.0
Investment expenses (a)	1.3	1.7	2.5	3.3
Net investment income	\$85.0	\$93.1	\$170.9	\$184.6
Realized gains (losses) on:				
Fixed maturity securities:				
Gains	\$16.9	\$3.9	\$18.6	\$11.6
Losses	—	(.3	) —	(1.4
Net	16.9	3.6	18.6	10.1
Equity securities & other long-term investments	5.0	(6.6	) 6.3	(6.6
Total	22.0	(2.9	) 24.9	3.5
Income taxes (credits)(b)	7.7	(1.0	) 8.7	1.2
Net realized gains (losses)	\$14.3	\$(1.9	) \$16.2	\$2.2
Changes in unrealized investment gains (losses) on:				
Fixed maturity securities	\$45.7	\$88.0	\$41.1	\$57.7
Less: Deferred income taxes (credits)	15.9	30.7	14.3	20.2
Net changes in unrealized investment gains (losses)	\$29.8	\$57.2	\$26.8	\$37.5
Equity securities & other long-term investments	\$(17.1	) \$(38.5	) \$44.9	\$(43.6
Less: Deferred income taxes (credits)	(5.9	) (13.4	) 15.6	(15.3
Net changes in unrealized investment gains (losses)	\$(11.1	) \$(25.0	) \$29.2	\$(28.2

Investment expenses consist of personnel costs and investment management and custody service fees, as well as (a) interest incurred on funds held of \$.5 for both quarters ended June 30, 2012 and 2011, and \$1.0 and \$.9 for the six months ended June 30, 2012 and 2011, respectively.

(b) Reflects primarily the combination of fully taxable realized investment gains or losses and judgments about the recoverability of deferred tax assets.

4. Pension Plans:

As of June 30, 2012, the Company has four pension plans covering a portion of its work force. The four plans are the Old Republic International Salaried Employees Restated Retirement Plan (the Old Republic Plan), the Bituminous Casualty Corporation Retirement Income Plan (the Bituminous Plan), the Old Republic National Title Group Pension Plan (the Title Plan), and the PMA Capital Corporation Pension Plan (the PMA Plan). The plans are defined benefit plans pursuant to which pension payments are based primarily on years of service and employee compensation near retirement. It is the Company's policy to fund the plans' costs as they accrue. With the exception of the PMA Plan, these plans have been closed to new participants since December 31, 2004. The PMA Plan was frozen as of December 31, 2005. Under the terms of the freeze, the plan is closed to new participants and eligible employees retained all of their rights under the plan that they had vested as of December 31, 2005 but do not accrue any additional benefits

thereafter. Plan assets are comprised principally of bonds, common stocks and short-term investments. Cash contributions of \$13.9 were made to the pension plans in the first half of 2012, and additional cash contributions of \$15.6 are expected to be made in the remaining portion of calendar year 2012.

5. Information About Segments of Business:

The Company is engaged in the single business of insurance underwriting. It conducts its operations through a number of regulated insurance company subsidiaries organized into three major segments, namely its General Insurance Group (property and liability insurance), Title Insurance Group, and the Republic Financial Indemnity Group ("RFIG") run-off business. The results of a small life & health insurance business are included with those of the holding company parent and minor corporate services operations. Each of the Company's segments underwrites and services only those insurance coverages which may be written by it pursuant to state insurance regulations and corporate charter provisions. In late March of this year, Old Republic announced that its General Insurance Group's Consumer Credit Indemnity (CCI) division would be combined with its Mortgage Guaranty (MI) business in a renamed Republic Financial Indemnity Group,

Inc. (RFIG) run-off segment. The two operations, which offer similar insurance coverages, have been in run-off operating mode since 2008 (CCI) and August 2011 (MI), and are inactive from new business production standpoints. The combination affects the manner in which segmented results are presented. Accordingly, the segmented results below show the combination of these coverages as a single run-off book of business within the Company's consolidated operations. Prior periods' segmented information for the general insurance and RFIG run-off business segments has therefore been reclassified to provide necessary consistency in period-to-period comparisons. Segment results exclude net realized investment gains or losses and other-than-temporary impairments as these are aggregated in the consolidated totals. The contributions of the segments to consolidated totals are shown in the following table.

	Quarters Ended		Six Months Ended	
	June 30,	2011 (c)	June 30,	2011 (c)
	2012		2012	
General Insurance:				
Net premiums earned	\$564.1	\$510.5	\$1,113.1	\$1,022.0
Net investment income and other income	93.7	93.5	190.6	186.6
Total revenues before realized gains or losses	\$657.8	\$604.0	\$1,303.7	\$1,208.7
Income (loss) before taxes (credits) and realized investment gains or losses (a)	\$59.6	\$82.0	\$140.1	\$170.9
Income tax expense (credits) on above	\$16.9	\$25.1	\$42.9	\$53.5
Title Insurance:				
Net premiums earned	\$296.3	\$239.8	\$557.3	\$492.5
Title, escrow and other fees	107.1	87.2	201.1	167.4
Sub-total	403.4	327.1	758.4	659.9
Net investment income and other income	7.6	7.5	14.9	14.7
Total revenues before realized gains or losses	\$411.1	\$334.6	\$773.4	\$674.6
Income (loss) before taxes (credits) and realized investment gains or losses (a)	\$22.5	\$5.5	\$31.9	\$8.1
Income tax expense (credits) on above	\$7.9	\$1.6	\$11.3	\$2.4
RFIG Run-off Business:				
Net premiums earned	\$107.8	\$120.2	\$223.2	\$255.1
Net investment income and other income	9.6	16.6	20.3	33.8
Total revenues before realized gains or losses	\$117.5	\$136.8	\$243.5	\$289.0
Income (loss) before taxes (credits) and realized investment gains or losses(a)	\$(160.2)	\$(186.9)	\$(251.5)	\$(308.4)
Income tax expense (credits) on above	\$(56.0)	\$(65.6)	\$(87.9)	\$(108.4)
Consolidated Revenues:				
Total revenues of above Company segments	\$1,186.5	\$1,075.6	\$2,320.7	\$2,172.4
Other sources (b)	31.7	36.7	68.9	77.2
Consolidated net realized investment gains (losses)	22.0	(2.9)	24.9	3.5
Consolidation elimination adjustments	(16.3)	(14.4)	(32.5)	(28.6)
Consolidated revenues	\$1,223.9	\$1,094.9	\$2,382.0	\$2,224.5
Consolidated Income (Loss) Before Taxes (Credits):				
Total income (loss) before income taxes (credits) and realized investment gains or losses of above Company segments	\$(78.0)	\$(99.2)	\$(79.4)	\$(129.2)

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Other sources - net (b)	(2.2) (6.1) (6.5) (7.5)
Consolidated net realized investment gains (losses)	22.0	(2.9) 24.9	3.5	
Consolidated income (loss) before income taxes (credits)	\$(58.3	) \$(108.3	) \$(60.9	) \$(133.3)
Consolidated Income Tax Expense (Credits):					
Total income tax expense (credits) for above Company segments	\$(31.1	) \$(38.8	) \$(33.6	) \$(52.4)
Other sources - net (b)	(.8	) (2.2	) (2.4	) (2.8)
Income tax expense (credits) on consolidated net realized investment gains (losses)	7.7	(1.0	) 8.7	1.2	
Consolidated income tax expense (credits)	\$(24.2	) \$(42.0	) \$(27.3	) \$(54.0)

	June 30, 2012	December 31, 2011 (c)
Consolidated Assets:		
General	\$12,510.2	\$12,311.2
Title	993.5	956.2
RFIG run-off	2,090.2	2,100.7
Other assets (b)	706.3	973.4
Consolidation elimination adjustments	(425.1	) (291.2
Consolidated	\$15,875.2	\$16,050.4

(a) Income (loss) before taxes (credits) is reported net of interest charges on intercompany financing arrangements with Old Republic's holding company parent for the following segments: General - \$6.9 and \$13.8 compared to \$6.0 and \$11.4 for the quarter and six months ended June 30, 2012 and 2011, respectively; Title - \$2.0 and \$4.0 compared to \$1.3 and \$2.6 for the quarter and six months ended June 30, 2012 and 2011, respectively, and RFIG run-off - \$2.1 and \$4.2 compared to \$2.0 and \$3.8 for the quarter and six months ended June 30, 2012 and 2011, respectively.

(b) Represents amounts for Old Republic's holding company parent, minor corporate services subsidiaries, and a small life and health insurance operation.

(c) 2011 segment information for General Insurance and RFIG Run-off Business has been reclassified to conform to the 2012 presentation.

General Insurance results for the second quarter and first six months of 2012 reflect pretax charges of approximately \$11 and \$22, respectively, related to previously deferred acquisition costs ("DAC"). The DAC charge stemmed from new accounting guidance issued by the FASB which became effective as of January 1, 2012.

The Company's flagship mortgage guaranty insurance carrier, Republic Mortgage Insurance Company ("RMIC"), had been operating pursuant to a waiver of minimum state regulatory capital requirements since late 2009. This waiver expired on August 31, 2011. As a consequence, underwriting of new policies ceased and the existing book of business was placed in run-off operating mode. Afterwards, on January 19, 2012, RMIC received a Summary Order ("Order") from the North Carolina Department of Insurance ("NCDOI") placing the Company under supervision. Among other considerations, the Order instructed RMIC to reduce the cash payment on all claims by 50 percent during an initial period not to exceed one year. The remaining 50 percent deferred payment obligation ("DPO") is retained as a claim reserve to be paid at a future date as and when authorized by the NCDOI. As of June 30, 2012, the accumulated DPO claim reserve amounted to \$192.3.

6. Commitments and Contingent Liabilities:

Legal proceedings against the Company and its subsidiaries routinely arise in the normal course of business and usually pertain to claim matters related to insurance policies and contracts issued by its insurance subsidiaries. Other, non-routine legal proceedings which may prove to be material to the Company or a subsidiary are discussed below.

Purported class action lawsuits are pending against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC"), in federal courts in two states - Pennsylvania (Markocki et al. v. ORNTIC, U.S. District Court, Eastern District, Pennsylvania, filed June 8, 2006), and Texas (Ahmad et al. v. ORNTIC, U.S. District Court, Northern District, Texas, Dallas Division, filed February 8, 2008). The plaintiffs allege that ORNTIC failed to give consumers reissue and/or refinance credits on the premiums charged for title insurance covering mortgage refinancing transactions, as required by rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulatory authorities. The Pennsylvania suit also alleges violations of the federal Real Estate

Settlement Procedures Act ("RESPA"). The Court in the Texas suit dismissed similar RESPA allegations. Classes have been certified in both actions, but the 5th Circuit Court of Appeals has granted ORNTIC's motion appealing the Texas class certification.

On March 6, 2009, a national class action suit was filed against the Company's subsidiary, Old Republic Home Protection ("ORHP"), in the California Superior Court, San Diego, (Campion v. Old Republic Home Protection) on behalf of all persons who had made a claim under an ORHP home warranty contract since March 6, 2003. The suit alleges breach of contract, breach of the implicit covenant of good faith and fair dealing, violations of certain California consumer protection laws, and misrepresentation arising out of ORHP's alleged failure to adopt and implement reasonable standards for the prompt investigation and processing of claims under its home warranty contracts. The suit seeks unspecified damages consisting of the rescission of the class members' contracts, restitution of all sums paid by the class members, punitive damages, and declaratory and injunctive relief. ORHP removed the action to the U.S. District Court for the Southern District of California on April 13, 2009. On January 6, 2011, the Court denied plaintiff's motion for class certification, and on June 25, 2012, it denied plaintiff's motion to remand the case back to state court. Plaintiff has not appealed either decision. Barring a successful appeal, this case has become an immaterial, single plaintiff claim dispute.

On January 27, 2012, a second purported national class action suit was filed in the Federal District Court, Northern District of California, Oakland Division by the same plaintiff and the same law firm. This second suit named as defendants the Company and five of its subsidiaries (Campion v. Old Republic International Corporation, Old Republic Home Protection Company, Inc., Old Republic National Title Insurance Company, Mississippi Valley Title Insurance Company, American Guaranty Title Insurance Company, Republic Mortgage Insurance Company). The suit alleged unfair, unlawful

and fraudulent business practices in violation of California's Business & Professions Code -- substantially similar to the allegations in plaintiff's suit against ORHP -- and the payment of commissions and kickbacks in violation of the California Insurance Code and RESPA. The suit sought declaratory and injunctive relief, restitution and treble damages in unspecified amounts, and costs and fees. On July 10, 2012, the Court dismissed the suit with prejudice as to all claims other than those under the California Business & Professional Code against ORHP, which were dismissed without prejudice.

On May 22, 2009, a purported national class action suit was filed in the U.S. District Court in Birmingham, Alabama (Barker v. Old Republic Home Protection Company) alleging that ORHP paid fees to real estate brokers to market its home warranty contracts and that the payment of such fees was in violation of Sections 8(a) and 8(b) of RESPA. The suit seeks unspecified damages, including treble damages under RESPA. No class has been certified, and the action is not expected to result in any material liability to the Company.

On December 19, 2008, Old Republic Insurance Company and Old Republic Insured Credit Services, Inc., ("Old Republic") filed suit against Countrywide Bank FSB, Countrywide Home Loans, Inc. ("Countrywide") and Bank of New York Mellon, BNY Mellon Trust of Delaware in the Circuit Court, Cook County, Illinois (Old Republic Insurance Company, et al. v. Countrywide Bank FSB, et al.) seeking rescission of various credit indemnity policies issued to insure home equity loans and home equity lines of credit which Countrywide had securitized or held for its own account, and a declaratory judgment and money damages based upon material misrepresentations either by Countrywide as to the credit characteristics of the loans or by the borrowers in their loan applications. Countrywide filed a counterclaim alleging a breach of contract, bad faith, and is seeking a declaratory judgment challenging the factual and procedural bases that Old Republic had relied upon to deny or rescind coverage for individual defaulted loans under those policies, as well as unspecified compensatory and punitive damages.

On November 3, 2010, Bank of America, N.A. ("B of A") filed suit against Old Republic Insurance Company ("ORIC") in the U.S. District Court for the Western District of North Carolina (Bank of America, N.A. v. Old Republic Insurance Company) alleging breach of contract, breach of the duty of good faith and fair dealing, and bad faith with respect to ORIC's handling of certain claims under a policy of credit indemnity insurance issued to B of A. The policy is not related to those issued to Countrywide, which are the subject of the above-noted separate litigation. The B of A suit seeks a declaratory judgment with respect to the interpretation of certain policy terms, B of A's compliance with certain terms and conditions of the policy, and the propriety of certain positions and procedures taken by ORIC in response to claims filed by B of A. The suit also seeks money damages in excess of \$320, pre-and post-judgment interest, and unspecified punitive damages. On January 23, 2012, ORIC filed a counterclaim seeking damages based on B of A's alleged interference with ORIC's subrogation rights.

On December 31, 2009, two of the Company's mortgage insurance subsidiaries, Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together "RMIC") filed a Complaint for Declaratory Judgment in the Supreme Court of the State of New York, County of New York, against Countrywide Financial Corporation, Countrywide Home Loans, Inc., The Bank of New York Mellon Trust Company, N.A., BAC Home Loans Servicing, LP, and Bank of America N.A. as successor in interest to Countrywide Bank, N.A. (together "Countrywide") (Republic Mortgage Insurance Company, et al. v. Countrywide Financial Corporation, et al.). The suit relates to five mortgage insurance master policies (the "Policies") issued by RMIC to Countrywide or to the Bank of New York Mellon Trust Company as co-trustee for trusts containing securitized mortgage loans that were originated or purchased by Countrywide. RMIC has rescinded its mortgage insurance coverage on over 1,500 of the loans originally covered under the Policies based upon material misrepresentations of the borrowers in their loan applications or the negligence of Countrywide in its loan underwriting practices or procedures. Each of the coverage rescissions occurred after a borrower had defaulted and RMIC reviewed the claim and loan file submitted by Countrywide. The suit seeks the Court's review and interpretation of the Policies' incontestability provisions and its validation of RMIC's investigation procedures with respect to the claims and underlying loan files.

On January 29, 2010, in response to RMIC's suit, Countrywide served RMIC with a demand for arbitration under the arbitration clauses of the same Policies. The demand raises largely the same issues as those raised in RMIC's suit against Countrywide, but from Countrywide's perspective, as well as Countrywide's and RMIC's compliance with the terms, provisions and conditions of the Policies. The demand includes a prayer for punitive, compensatory and consequential damages. RMIC filed a motion to stay the arbitration, and Countrywide filed a motion to dismiss RMIC's lawsuit and to compel the arbitration. On July 26, 2010, the Court granted Countrywide's motion, ordering the matters be submitted to arbitration and dismissing the lawsuit. The arbitration is proceeding.

After its First Amended Complaint was dismissed on May 4, 2011, on July 19, 2011, J.P. Morgan Chase Bank, N.A. ("Chase") filed a Second Amended Complaint against RMIC in the U.S. District Court for the District of New Jersey arising out of RMIC's rescissions of coverage on approximately 377 mortgage loans. (J.P. Morgan Chase Bank, N.A. v. Republic Mortgage Insurance Company). The new lawsuit abandons the earlier claim, which the Court dismissed, that RMIC could not unilaterally rescind coverage. Instead, Chase alleges that RMIC's rescissions were improper either because the coverage had become incontestable; or the rescissions relied upon evidence that was either improperly obtained or insufficient, unreliable or immaterial; or the rescissions were not permitted by applicable law. Based on these allegations, Chase asserts claims for breach of contract, breach of good faith and fiduciary duties, negligence and violations of Colorado and Louisiana insurance laws and seeks declaratory relief and unspecified compensatory, treble and punitive damages. On September 26, 2011, RMIC filed a motion for entry of an order dismissing various claims in the Second Amended Complaint with prejudice and requiring Chase to provide a more definitive statement of any remaining claims. That motion is awaiting the Court's actions.

Eight purported class action suits alleging RESPA violations have been filed in the Federal District Courts, one in the Central District of California, one in the Eastern District of California, four in the Eastern District of Pennsylvania, and two in the Western District of Pennsylvania, respectively, between December 9, 2011 and May 31, 2012. The suits target J.P. Morgan Chase Bank, N.A., the PNC Financial Services Group, Inc. as successor to National City Bank, N.A., Citibank, N.A., HSBC Bank USA, N.A., Bank of America, N.A., Fifth Third Bank, N.A., Flagstar Bank, FSB, and First Tennessee Bank, N.A., each of their wholly-owned captive insurance subsidiaries and most or all of the mortgage guaranty insurance companies, including RMIC. (Samp, Komarchuk, Whitaker v. J.P. Morgan Chase Bank, N.A., et al.; White, Hightower v. The PNC Financial Services Group, Inc., et al.; Menichino v. Citibank, N.A., et al.; McCarn v. HSBC Bank USA, N.A., et al.; Riddle v. Bank of America, et al.; Manners v. Fifth Third Bank, et al.; Hill, et al. v. Flagstar Bank, FSB. et al.; and Barlee v. First Tennessee Bank, N.A., et al.) The lawsuits, filed by the same law firms, are substantially identical in alleging that the mortgage guaranty insurers had reinsurance arrangements with the defendant banks' captive insurance subsidiaries under which payments were made in violation of the anti-kickback and fee splitting prohibitions of Sections 8(a) and 8(b) of RESPA. Each of the suits seeks unspecified damages, costs, fees and the return of the allegedly improper payments. A class has not been certified in any of the suits.

Under GAAP, an estimated loss is accrued only if the loss is probable and reasonably estimable. The Company and its subsidiaries have defended and intend to continue defending vigorously against each of the aforementioned actions. The Company does not believe it probable that any of these actions will have a material adverse effect on its consolidated financial position, results of operations, or cash flows, though there can be no assurance in those regards. Nor is the Company able to make a reasonable estimate or range of estimates of any potential liability under these lawsuits, the counterclaim, and the arbitration, all of which seek unquantified damages, attorneys' fees, and expenses. It is also unclear what effect, if any, the run-off operations of RMIC and the depletion of its capital will have in the actions against it.

7. Debt:

Consolidated debt of Old Republic and its subsidiaries is summarized below:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.75% Convertible Senior Notes due 2018	\$550.0	\$519.2	\$550.0	\$489.5
8.0% Convertible Senior Notes due 2012	—	—	316.2	320.9
ESSOP debt with an average yield of 3.75% and 3.73%, respectively	20.8	20.8	23.4	23.4
Junior subordinated debt due 2037 with an average yield of 8.29%	—	—	20.0	20.0
Other miscellaneous debt	2.9	2.9	3.1	3.1
Total debt	\$573.8	\$543.1	\$912.8	\$857.0

On May 15, 2012, the 8.0% Convertible Senior Notes were redeemed at their par value of \$316.2. On June 15, 2012, the junior subordinated debt due 2037 was redeemed.

The Company's \$550.0 aggregate principal amount of Convertible Senior Notes ("the Notes") bear interest at a rate of 3.75% per year, mature on March 15, 2018, and are convertible at any time prior to maturity by the holder into 64.3407 shares (subject to periodic adjustment under certain circumstances) of common stock per one thousand dollar note.

The Company's 3.75% Convertible Senior Notes contain provisions defining certain events of default, among them a court ordered proceeding due to the insolvency of a Significant Subsidiary. The Notes define Significant Subsidiary in accordance with the paragraph (w) of Rule 1-02 of the SEC's Regulation S-X. The Company's flagship mortgage guaranty insurance carrier, RMIC qualifies as a Significant Subsidiary for purposes of the Notes. If RMIC were to become statutorily impaired, its insolvency could trigger a receivership proceeding which, in turn could ultimately result in an event of default. If this were to occur, the outstanding principal of the Notes could become immediately due and payable.

As previously noted, RMIC is operating under the supervision of the NCDOJ pursuant to the Order. Supervision is an administrative proceeding under North Carolina law. It gives the NCDOJ more oversight and control with the objective of allowing the insurer to develop a corrective plan subject to the Department's approval. It is unlike receivership which involves rehabilitation or liquidation of a company pursuant to a formal, court-ordered proceeding. Receivership results in a company's assets and management passing to a receiver who is overseen by a court. Moreover, supervision, unlike receivership, does not constitute an event of default by RMIC or its parent holding company with regard to the Notes. Management believes the Order makes RMIC's statutory insolvency less likely. However, the Order could be amended or withdrawn by the NCDOJ at any time or allowed to lapse after a year's time. There is therefore no assurance that the Order will preclude RMIC from becoming statutorily impaired at a later date and being placed in receivership by the NCDOJ.

At June 30, 2012, the Company had sufficient liquid resources available to redeem a substantial portion of the 3.75% Notes. Management is exploring a number of options to address its liquidity needs in the circumstance that an event of

default was to occur at a future date. These potential plans include an amendment to the 3.75% Notes removing RMIC from the definition of a Significant Subsidiary, an additional capital raise through issuance of new straight or convertible debt, or the utilization of intra system dividend and financing capacity. While Management is confident that an event of default can be stemmed, there is no assurance that its impact could be addressed through execution of these plans.

Fair Value Measurements - The Company utilizes indicative market prices, which incorporate recent actual market transactions and current bid/ask quotations to estimate the fair value of outstanding debt securities that are classified within Level 2 of the fair value hierarchy as presented below. The Company uses an internally generated interest yield market matrix table, which incorporates maturity, coupon rate, credit quality, structure and current market conditions to estimate the fair value of its outstanding debt securities that are classified within Level 3.

The following table shows a summary of financial liabilities disclosed, but not carried, at fair value, segregated among the various input levels described in Note 3 above:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Liabilities:					
Debt:					
June 30, 2012	\$573.8	\$543.1	\$—	\$519.2	\$23.8
December 31, 2011	\$912.8	\$857.0	\$—	\$810.4	\$46.6

8. Income Taxes:

Tax positions taken or expected to be taken in a tax return by the Company are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. To the best of management's knowledge, there are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period. The Company views its income tax exposures as primarily consisting of timing differences whereby the ultimate deductibility of a taxable amount is highly certain but the timing of its deductibility is uncertain. Such differences relate principally to the timing of deductions for loss and premium reserves. As in prior examinations, the Internal Revenue Service ("IRS") could assert that claim reserve deductions were overstated thereby reducing the Company's statutory taxable income in any particular year. The Company believes that it establishes its reserves fairly and consistently at each balance sheet date, and that it would succeed in defending its tax position in these regards. Because of the impact of deferred tax accounting, the possible accelerated payment of tax to the IRS would not necessarily affect the annual effective tax rate. The IRS is currently examining the Company's 2008 consolidated Federal income tax return, along with the Company's amended returns for the years 2005 through 2007 relative to a claim for recovery of taxes previously paid. The Company's consolidated 2006 Federal income tax return has been examined and no significant adjustments have been identified. The Company classifies interest and penalties as income tax expense in the consolidated statement of income.

OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Six Months Ended June 30, 2012 and 2011

(\$ in Millions, Except Share Data)

OVERVIEW

This management analysis of financial position and results of operations pertains to the consolidated accounts of Old Republic International Corporation ("Old Republic", "ORI", or "the Company"). The Company conducts its operations through three major regulatory segments, namely, its General (property and liability), Title, and the RFIG (mortgage guaranty and consumer credit indemnity) run-off business. A small life and health insurance business, accounting for 1.5% of consolidated operating revenues for the six months ended June 30, 2012 and 1.5% of consolidated assets as of that date, is included within the corporate and other caption of this report.

The consolidated accounts are presented in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). As a publicly held company, Old Republic utilizes GAAP largely to comply with the financial reporting requirements of the Securities and Exchange Commission ("SEC"). From time to time the FASB and the SEC issue various releases most of which require additional financial statement disclosures and provide related application guidance. Of particular relevance to the Company's financial statements is new guidance issued by the FASB relative to the calculation of deferred acquisition costs incurred by insurance entities which is discussed further in Note 1 of the Notes to Consolidated Financial Statements.

As a state regulated financial institution vested with the public interest, however, business of the Company's insurance subsidiaries is managed pursuant to the laws, regulations, and accounting practices of the various states in the U.S. and those of a small number of other jurisdictions outside the U.S. in which they operate. In comparison with GAAP, the statutory accounting practices reflect greater conservatism and comparability among insurers, and are intended to address the primary financial security interests of policyholders and their beneficiaries. Additionally, these practices also affect a significant number of important factors such as product pricing, risk bearing capacity and capital adequacy, the determination of Federal income taxes payable currently among ORI's tax-consolidated entities, and the upstreaming of dividends by insurance subsidiaries to the parent holding company. The major differences between these statutory financial accounting practices and GAAP are summarized in Note 1(a) to the consolidated financial statements included in Old Republic's 2011 Annual Report on Form 10-K.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance products are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance and expiration of a policy. This basic fact casts Old Republic as a risk-taking enterprise managed for the long run. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over cycles, and on the maintenance of financial soundness in support of the insurance subsidiaries' long-term obligations to insurance beneficiaries. To achieve these objectives, adherence to insurance risk management principles is stressed, and asset diversification and quality are emphasized.

In addition to income arising from Old Republic's basic underwriting and related services functions, significant investment income is earned from invested funds generated by those functions and from shareholders' capital. Investment management aims for stability of income from interest and dividends, protection of capital, and sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not objectives. The investment philosophy is therefore best characterized as emphasizing value, credit quality, and relatively long-term holding periods. The Company's ability to hold both fixed maturity and equity securities for long periods of time is in turn enabled by the scheduling of maturities in

contemplation of an appropriate matching of assets and liabilities.

In light of the above factors, the Company's affairs are necessarily managed for the long run and without significant regard to the arbitrary strictures of quarterly or even annual reporting periods that American industry must observe. In Old Republic's view, such short reporting time frames do not comport well with the long-term nature of much of its business. Management believes that the Company's operating results and financial condition can best be evaluated by observing underwriting and overall operating performance trends over succeeding five to ten year intervals. Such extended periods can encompass one or two economic and/or underwriting cycles, and thereby provide appropriate time frames for such cycles to run their course and for reserved claim costs to be quantified with greater finality and effect.

This management analysis should be read in conjunction with the consolidated financial statements and the footnotes appended to them.

EXECUTIVE SUMMARY

In late March of this year, the Company announced that its General Insurance Group's Consumer Credit Indemnity (CCI) division would be combined with its Mortgage Guaranty (MI) business in a renamed Republic Financial Indemnity Group, Inc. ("RFIG") run-off segment. The two operations, which offer similar insurance coverages, have been in run-off operating mode since 2008 (CCI) and August 2011 (MI), and are inactive from new business production standpoints.

The combination affects the manner in which segmented results are presented. Accordingly, beginning with this second quarter 2012 report the segmented results show the combination of these coverages as a single run-off book of business within ORI's consolidated operations. Prior periods' segmented information for the general insurance and RFIG run-off business segments has therefore been reclassified to provide necessary consistency in period-to-period comparisons. The following table provides highlights of this segmentation.

	Financial Highlights Quarters Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Operating Revenues:						
Excluding run-off business	\$ 1,084.4	\$ 961.0	12.8 %	\$ 2,113.4	\$ 1,932.0	9.4 %
RFIG run-off business	117.5	136.8	(14.1)	243.5	289.0	(15.7)
Total	\$ 1,201.9	\$ 1,097.9	9.5 %	\$ 2,357.0	\$ 2,221.0	6.1 %
Net Operating Income (Loss):						
Excluding run-off business	\$ 55.7	\$ 56.8	(1.9)%	\$ 113.7	\$ 118.4	(4.0)%
RFIG run-off business	(104.1)	(121.2)	14.1	(163.5)	(199.9)	18.2
Total	\$ (48.3)	\$ (64.3)	24.8 %	\$ (49.7)	\$ (81.5)	38.9 %
Net Income (Loss):						
Excluding run-off business	\$ 61.4	\$ 53.8	14.1 %	\$ 121.3	\$ 118.6	2.3 %
RFIG run-off business	(95.5)	(120.2)	20.5	(154.8)	(197.9)	21.8
Total	\$ (34.0)	\$ (66.3)	48.6 %	\$ (33.5)	\$ (79.2)	57.6 %
Diluted Earnings Per Share:						
Net Operating Income (Loss)						
Excluding run-off business	\$ 0.22	\$ 0.23	(4.3)%	\$ 0.44	\$ 0.46	(4.3)%
RFIG run-off business	(0.41)	(0.48)	14.6	(0.63)	(0.78)	19.2
Total	\$ (0.19)	\$ (0.25)	24.0 %	\$ (0.19)	\$ (0.32)	40.6 %
Net Income (Loss)						
Excluding run-off business	\$ 0.24	\$ 0.21	14.3 %	\$ 0.47	\$ 0.47	— %
RFIG run-off business	(0.37)	(0.47)	21.3	(0.60)	(0.78)	23.1
Total	\$ (0.13)	\$ (0.26)	50.0 %	\$ (0.13)	\$ (0.31)	58.1 %
Cash Dividends Per Share	\$ 0.1775	\$ 0.1750	1.4 %	\$ 0.3550	\$ 0.3500	1.4 %
Ending Book Value Per Share				\$ 14.50	\$ 15.56	(6.8)%

Old Republic's consolidated results in both 2012 and 2011 periods were affected most adversely by continuing losses in the combined RFIG run-off business. In ORI's active segments, 2012 general insurance profitability, most notably in this year's second quarter, declined as a result of higher claim costs among the Company's three largest liability

insurance coverages. On the other hand, Title Insurance operations reflected continued improvements in operating margins.

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Consolidated Results - The major components of Old Republic's consolidated results and other data for the periods reported upon are shown below.

	Quarters Ended June 30,		Six Months Ended June 30,		
	2012	2011	2012	2011	
Operating revenues:					
General insurance	\$ 657.8	\$ 604.0	\$ 1,303.7	\$ 1,208.7	
Title insurance	411.1	334.6	773.4	674.6	
Corporate and other	15.4	22.3	36.3	48.6	
Subtotal	1,084.4	961.0	2,113.4	1,932.0	
RFIG run-off business	117.5	136.8	243.5	289.0	
Total	\$ 1,201.9	\$ 1,097.9	\$ 2,357.0	\$ 2,221.0	
Pretax operating income (loss):					
General insurance	\$ 59.6	\$ 82.0	\$ 140.1	\$ 170.9	
Title insurance	22.5	5.5	31.9	8.1	
Corporate and other	(2.2)	(6.1)	(6.5)	(7.5)	
Subtotal	79.8	81.5	165.5	171.6	
RFIG run-off business	(160.2)	(186.9)	(251.5)	(308.4)	
Total	(80.3)	(105.4)	(85.9)	(136.8)	
Realized investment gains (losses):					
From sales	22.0	5.0	24.9	11.5	
From impairments	—	(8.0)	—	(8.0)	
Net realized investment gains (losses)	22.0	(2.9)	24.9	3.5	
Consolidated pretax income (loss)	(58.3)	(108.3)	(60.9)	(133.3)	
Income taxes (credits)	(24.2)	(42.0)	(27.3)	(54.0)	
Net income (loss)	\$ (34.0)	\$ (66.3)	\$ (33.5)	\$ (79.2)	
Consolidated underwriting ratio:					
Including RFIG run-off business:					
Benefits and claim ratio	65.8	% 70.7	% 62.7	% 67.4	%
Expense ratio	48.1	47.7	47.8	47.2	
Composite ratio	113.9	% 118.4	% 110.5	% 114.6	%
Excluding RFIG run-off business:					
Benefits and claim ratio	45.9	% 45.4	% 45.6	% 45.2	%
Expense ratio	52.5	52.2	52.2	52.0	
Composite ratio	98.4	% 97.6	% 97.8	% 97.2	%
Diluted earnings per share:					
Net operating income (loss)	\$ (0.19)	\$ (0.25)	\$ (0.19)	\$ (0.32))
Net realized investment gains (losses)	0.06	(0.01)	0.06	0.01)
Net income (loss)	\$ (0.13)	\$ (0.26)	\$ (0.13)	\$ (0.31))
Cash dividends paid per share	\$ 0.1775	\$ 0.1750	\$ 0.3550	\$ 0.3500	
Components of diluted earnings per share:					
Net operating income (loss):					
General insurance	\$ 0.17	\$ 0.22	\$ 0.38	\$ 0.46	
Title insurance	0.06	0.02	0.08	0.02	
Corporate and other	(0.01)	(0.01)	(0.02)	(0.02))
Subtotal	0.22	0.23	0.44	0.46	
RFIG run-off business	(0.41)	(0.48)	(0.63)	(0.78))

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Total	(0.19)	(0.25)	(0.19)	(0.32)
Net realized investment gains (losses)	0.06	(0.01)	0.06	0.01
Net income (loss)	\$ (0.13)	\$ (0.26)	\$ (0.13)	\$ (0.31)

The preceding tables show both operating and net income or loss to highlight the effects of realized investment gain or loss recognition on period-to-period comparisons. The recognition of realized investment gains or losses can be highly discretionary and arbitrary due to such factors as the timing of individual securities sales, recognition of estimated losses from write-downs of impaired securities, tax-planning considerations, and changes in investment

management judgments relative to the direction of securities markets or the future prospects of individual investees or industry sectors. Likewise, non-recurring items which may emerge from time to time can distort the comparability of the Company's results from period to period. Accordingly, management uses net operating income, a non-GAAP financial measure, to evaluate and better explain operating performance, and believes its use enhances an understanding of Old Republic's core business results. Operating income, however, does not replace net income determined in accordance with GAAP as a measure of total profitability. The composition of realized gains or losses follows:

	Quarters Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Realized gains (losses) from sales of previously impaired securities:				
Actual tax basis (loss) on sales	\$ —	\$ —	\$ —	\$ —
Accounting adjustment for impairment charges taken in prior periods	—	—	—	.4
Net amount included herein	—	—	—	.4
Realized gains from sales of all other securities	22.0	5.0	24.9	11.1
Gain (loss) from actual sales	22.0	5.0	24.9	11.5
Realized losses from impairments	—	(8.0)	—	(8.0)
Realized investment gains (losses) reported herein	\$ 22.0	\$ (2.9)	\$ 24.9	\$ 3.5

General Insurance Results - Operating earnings, with or without the CCI run-off business were lower in this year's second quarter and first six months. Key indicators of year-over-year performance are shown in the following table.

	General Insurance Group			Six Months Ended June 30,		
	Quarters Ended June 30, 2012	2011	Change	2012	2011	Change
A. Prior to reclassification/ Including CCI run-off business:						
Net premiums earned	\$ 575.6	\$ 519.0	10.9 %	\$ 1,136.7	\$ 1,051.4	8.1 %
Net investment income	66.7	68.2	(2.2)	133.3	134.6	(0.9)
Benefits and claim costs	471.5	372.1	26.7	871.7	764.7	14.0
Pretax operating income (loss)	\$ 9.7	\$ 71.0	(86.3)%	\$ 80.8	\$ 139.5	(42.1)%
Claim ratio	81.9 %	71.7 %		76.7 %	72.7 %	
Expense ratio	26.5	26.2		26.3	25.2	
Composite ratio	108.4 %	97.9 %		103.0 %	97.9 %	
B. All CCI run-off business reclassification(*):						
Net premiums earned	\$ 11.5	\$ 8.5	35.3 %	\$ 23.6	\$ 29.4	(19.7)%
Net investment income	—	—	—	—	—	—
Benefits and claim costs	60.4	18.3	230.1	80.7	58.4	38.2
Pretax operating income (loss)	\$ (49.8)	\$ (11.0)	(352.7)%	\$ (59.3)	\$ (31.3)	(89.5)%
Claim ratio	524.6 %	215.1 %		341.9 %	198.8 %	
Expense ratio	8.3	14.7		9.5	7.9	
Composite ratio	532.9 %	229.8 %		351.4 %	206.7 %	
C. After reclassification/ Total Excluding all CCI run-off business:						
Net premiums earned	\$ 564.1	\$ 510.5	10.5 %	\$ 1,113.1	\$ 1,022.0	8.9 %
Net investment income	66.6	68.2	(2.3)	133.3	134.6	(0.9)

Benefits and claim costs	411.0	353.7	16.2	791.0
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